Vested For Success Case Study
Microsoft/Accenture OneFinance

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What happens when a world-class company discovers one of its key functions is less than world class? For software giant Microsoft, the answer is simple. They fixed it. In 2006, Microsoft embarked on a complete reengineering of its major global finance processes and operations. Called the OneFinance initiative, the effort outsourced back office finance transactions spread across 95 countries to Accenture, a global management consulting, technology services and outsourcing company. Accenture clients include 92 of the Fortune Global 100.

The course correction was more than a muscular approach to physically implement the required changes; it required Microsoft’s best brains and a shift in mindset that opened the door to a completely new way to approach outsourcing. The result was an award-winning strategic outsourcing relationship with Accenture with the goal to transform Microsoft’s entire back-office finance processes, including AP, Expense reports and invoices, the Requisition to Purchase Order process and general accounting.

The Microsoft and Accenture partnership began in early 2007, with an original contract term of seven years at a value of $185 million. The Vested contract closely follows the Vested© Five Rules of Outsourcing. Together Microsoft and Accenture have transformed Microsoft’s global finance operations, winning multiple awards from industry peers, including the Outsourcing Center, the Shared Services Outsourcing Network and the International Association for Outsourcing Professionals.

**Rule 1: Focus on Outcomes, not Transactions**

The OneFinance Core Team spent a significant amount of time white-boarding their thinking about what outcomes they wanted to achieve. While cutting costs was important, Microsoft really wanted an infrastructure that would serve it as the company continued to grow. Specifically, the team wanted to:

- Develop a single, global finance solution with effective, consistent processes across the world
- Optimize resources
- Improve service to employees
- Increase responsiveness to partners and clients
- Enable strategic sourcing worldwide, and
- Establish a robust controls environment. They wanted to improve on the conventional resource and transaction-based model, realizing it would not provide the needed economic incentive for a service provider to achieve transformation.

Realizing that a conventional transaction-based model was incapable of achieving transformation, Microsoft and Accenture developed an agreement that spoke directly to the identified objectives. They shifted the economics of the model to a performance-based approach whereby Microsoft bought *desired outcomes, not individual*
transactions. Under this approach, when Accenture delivers on achieving the mutually agreed upon objectives and transformation, it is highly compensated.

**Rule 2: Focus on the WHAT, not the HOW**

A Vested agreement demands Microsoft accept one key fact – that it is outsourcing for a reason. It has deemed itself as not being the expert. In order to achieve desired outcomes, Microsoft has to have faith that Accenture will help transform the work.

Microsoft purposely did not dictate to Accenture how the work would be done. Instead it focused on creating a taxonomy for each of the three areas that were outsourced (Record, Accounts Payable and Buy Centers). Creating the taxonomy would lead to a mutual learning journey that would be used to identify and communicate improvement efforts. The taxonomy was designed around 4 “levels” – with each high level process being segmented into more discreet processes. For instance, for Record, a high level process was General Ledger Accounting, with three Level 4 Processes: Journal Entries, Payroll Accounting, and Local Billing.

As part of the taxonomy, Microsoft and Accenture jointly spent three months developing a global standard process and controls. Each step in the process was documented and roles and responsibilities were agreed to. Once this high level standardized process was determined and each party had agreed to WHO would do what, Accenture then worked to determine the detailed HOW.

**Rule 3: Clearly Defined and Measurable Desired Outcomes**

Metrics matter. The OneFinance team knew if they were to be successful, they needed to clearly define and measure their performance against their goals. It was imperative that Microsoft and Accenture agree up front on clearly defined and measurable desired outcomes.

One challenge facing the OneFinance team was how the metrics were interrelated with each other, and how Microsoft or Accenture could impact them. Many metrics that were very important to Microsoft were in the total control of Microsoft. However, for most processes, a large part of Microsoft success depended on Accenture and the flip side was also true.

A solid Microsoft Vested contract incorporates a process that connects the dots, creates accountability for driving transformation, and yet does not penalize the supplier if customer fails to deliver on its part of the overall process. To accomplish this, Microsoft created a “layered” approach to measuring the business using operating metrics, KPIs and SLAs that were tied to monetary performance for Accenture. Together, Microsoft and Accenture worked out the details of how they would measure the success of OneFinance in a world where mutual co-dependence was the norm.
Once the metrics were identified, the organizations worked to set mutually agreed targets. The team felt one of the fairest ways to set the target was to use external benchmarks. The final contract stipulated that Accenture would reduce the gap between Microsoft’s current performance and the external benchmarks by at least 20 percent each year across the finance process areas.

**Rule 4: Pricing Model Incentives**

The pricing model was the make or break point for the OneFinance team in determining how to make their vision of creating a better way to outsource work. Microsoft knew all the future unknowns and variability in its business would spell trouble for any service provider that was going to have to price the book of business. Unknowns and variability would increase risks for the service provider that would inevitably lead to a “super normal” risk premium over and above the “normal” business risks.

They also wanted to develop a model that would “highly incentivize” Accenture when they achieved Microsoft’s Desired Outcomes. The organizations eventually agreed on a pricing model that can be distilled into five basic areas:

1) Use of a Hybrid Pricing model to match the type of work with the best pricing approach
2) Use of a Global Model with a Local Adjustment to ensure appropriate market-based fees
3) Use of Fee at Risk approach using a Productivity Index to ensure productivity gains
4) Use of volume banding philosophies to allow for flexibility and to capture the effect of volumes of fixed assets
5) Use of a gain-share incentive structure that would promote “skin in the game” to drive transformational behaviors and highly incentivize Accenture when mutually agreed Desired Outcomes were achieved.

While being grounded in underlying transaction volumes, the pricing model flowed into a resource utilization plan through the use of agreed-upon productivity levels known as a productivity index. This was easily amenable to “transactional processes” like Accounts Payable and Buy Centre, yet it enabled the OneFinance team to address the Record process that was not as transactional by providing directional guidance to future resourcing and hence pricing.

The pricing model also set the operating rules providing the requisite flexibility to adapt to future business conditions. This meant that Microsoft and Accenture did not have to plan for every conceivable contingency, a task that is undeniably impossible to contemplate. The pricing model would use the basic building blocks to construct pricing
that would be suitable for any given situation. This up-front agreement on the basic building blocks also meant that Accenture would not have to price “unknowns” based on subjective assumptions; rather they could objectively price them as they came along.

**Rule 5: Insight versus Oversight Governance Structure**

Successful contracts are only as good as the governance that follows the signing ceremony. The OneFinance team believed if they did a good job picking the right partner, a trusted expert in its field, they should be able to manage the business with a minimal headcount. A sound governance structure would be used in lieu of employees being paid to watch the vendor work. They wanted to stress insight and transformation – not oversight. Both Microsoft and Accenture strategically crafted a governance structure that would best allow for this to happen. Some of the more important aspects of the governance structure include:

- Use of a Flexible Contract Framework
- Aligned Governance Structure (management structure, governance framework)
- Encouraging Communication At The Lowest Levels
- Governance Framework
- Balanced Scorecard

Microsoft and Accenture wanted a flexible contract framework – one that allowed for inevitable, but not yet known, changes. They adopted a Master Service Agreement that was augmented with eight “appendixes.” As part of the contract the organizations agreed on a formal change management process that would allow the parties to embrace the dynamic changes of the business.

Another key feature was the emphasis on the program – versus service provider SLA -- focus. The duo created a balanced scorecard to ensure they were measuring business success, not just success against the SLAs. This program focus, as opposed to a service provider SLA focus, allows Microsoft and Accenture to concentrate on desired results and, together, realize success.

**Results**

The OneFinance team set out to create a different kind of outsourcing model. From the early days of brainstorming ideas to the inking of the contract in February 2007 – the team challenged conventional approaches to outsourcing that would transform Microsoft’s back office procure to pay processes. The bet is paying off. Microsoft’s strategic outsourcing relationship began to see paybacks after the first six months.

Within the first two years the team had reduced the number of systems used to manage finance operations from 140 to less than 40 and achieved impressive operational service levels at 99.5 percent. By year five the duo had achieved over 75 percent
standardization across all processes, yielding productivity gains of 18 percent and an additional costs savings of $63 million for Microsoft.

But the best result comes from getting to sleep at night. Together Microsoft and Accenture have conquered compliance. They increased Sarbanes Oxley compliance from just 15 large subsidiaries to all 96 subsidiaries within the first two years and are proud to report zero un-remediated S-Ox 404/302 audit control deficiencies.
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For More Information
Visit the University of Tennessee’s website dedicated to Vested Outsourcing at www.vestedoutsourcing.com where you can download white papers, watch videos, read articles and subscribe to our Vested Outsourcing blog or register for one of Vested Outsourcing classes.

We encourage you to read our other books:


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Kate Vitasek is an internationally recognized innovator in the practice of supply chain management and outsourcing. One of World Trade Magazine’s “Fab 50” people influencing global trade, Vitasek’s approaches and insights have been widely published in more than 300 articles and four books. She is a faculty member at the University of Tennessee’s Center for Executive Education.

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