Microsoft

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How *Microsoft* and *Accenture* Transformed Global Finance Operations

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Introduction

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 under a new kind of outsourcing agreement known as Vested Outsourcing. Under the agreement, both parties are incented to improve performance and deliver increased value year-over-year and share in the risks and rewards of doing so. This innovative outsourcing relationship symbiotically vests Microsoft and Accenture in each other's success. They are most successful when they are both successful.

In February 2007, Microsoft signed an outsourcing agreement with Accenture, with an original contract term of seven years at a value of $185 million. The contract spanned their entire back-office finance processes spanning three major areas:

AP - Expense reports & invoices

Requisition to Purchase Order process

General accounting

Twenty-eight months later, based on a proven platform of success, they extended the agreement to 2018, at a total contract value of $278 million. In the summer of 2009, the scope of the contract was expanded to include Accounts Payable and Buy Center processes for the United States, increasing the contract value to $330 million. Also, Accenture can work on transformational projects with Microsoft, thereby adding value for both parties.

In 2008, the Outsourcing Center, Everest Consulting's research center, awarded the OneFinance contract the Most Strategic Outsourcing Contract for 2007 (http://www.outsourcingjournal.com/aug2008-moststrategic.html). In March 2010, the Shared Services Outsourcing Network awarded the Microsoft-Accenture outsourcing relationship as the Best Mature Outsourced Service Delivery Operation.

This case study shares Microsoft's journey and how they are achieving transformational changes through Vested Outsourcing principles. The case study was written to be a teaching aid to help outsourcing and procurement professionals understand how the Microsoft OneFinance team challenged conventional approaches to outsourcing and established an outsourcing agreement designed to drive innovation and transformation, creating a contract and relationship where Microsoft and Accenture are vested in each other's success.

Changing the Game

The catalyst for change at Microsoft was simple. Microsoft's global finance operations were inefficient and not as effective or standardized as expected. Microsoft had grown as an entrepreneurial enterprise, and along the way had cobbled together finance processes on a country-by-country basis. These patchwork processes were floundering under their own weight, threatening future efficiencies.

An internal review of its processes was sobering. Microsoft found that:

- They used 77,000 active procurement vendors.
- Inefficient processes were costly and negatively affecting quality. For instance, finance operations spent 370,000 hours each year just producing reports.
- Microsoft's financial transactions were in the fourth quartile measured in terms of cost.
- 34% of journal entries were merely "correcting entries."

Valuable human resources were focused on non-strategic activities. Financial controllers, for example, spent over 75% of their resources supporting transactions, compliance activities and local reporting – some 530,000 hours annually worldwide. This left little time for higher-value activities such as developing business insight or strategy.

The high variation of processes across countries meant that it was difficult to drive an effective and efficient global controls and compliance environment.

It was time for Microsoft to go to the drawing board and find a better way to manage its financial operations.

This meant exploring the realm of possibilities with other market leaders. To get an idea of what world-class finance processes looked like and to understand the direction these companies were taking to get there, Microsoft studied several leading service providers. Not only was Microsoft a laggard, Procurement and Finance Operations had no processes that were considered best practices. Microsoft's research showed that some of the best practices included:

- Procurement activities aligned into a single global Procurement organization
- Finance operations aligned into a single global shared services organization
- Centralized transactional accounting, standard processes and systems with a high degree of automation made accessible by robust, simplified controls

Also, Microsoft's senior management had long believed that outsourcing would help it improve its quality and cost structure. Microsoft's Chairman and Founder Bill Gates had been a long-time proponent of outsourcing non-core activities.[1] But Microsoft wanted more than simply shifting their "mess for less"; they wanted a world-class Finance operation. Microsoft's vision was to shift the focus from transactional accounting to a more strategic approach leveraging

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[1] M. M. Sathyanarayan, *Offshoring Development: Proven Strategies and Tactics for Success* (Cupertino, CA: Globaldev Publishing, 2003)

"business insight." They also had a deep desire to transform the work to be done to achieve consistency and standardization worldwide.

Figure 1: Vision for the OneFinance Team

Microsoft now faced a common paradox in strategic outsourcing. How could they outsource broken processes and, at the same time, work with the service provider to transform each process to be more effective and efficient? If Microsoft invested to transform the processes to best practices, what would be the advantage of outsourcing? If they outsourced the current processes, what motivation would there be for the service provider to make substantial transformational changes? After all, more transactions and headcount needed meant more revenue for the service provider. What Microsoft needed was an unconventional approach that was not simply about outsourcing the work – but about outsourcing the *transformation* of the work.

Laying the Foundation

The OneFinance Core Team began by spending significant time whiteboarding their thinking about how to best proceed. They felt creating an outsourcing business model whereby the supplier was vested in Microsoft's long-term success would be optimal. To do so, Microsoft began laying a foundation for future success.

First, the OneFinance team broke with tradition and created a core cross-functional team with participation from the subsidiaries, the corporate office, procurement, technology and Finance to define the strategic direction to organize its Finance Operations.

Second, Microsoft spent a great deal of time thinking about the outcome of the work before proceeding to outsource the work. The emphasis was on developing a picture of how the team wanted the outsourcing relationship to work years down the line. One team member described the early days as "refreshing," explaining that the whiteboarding sessions gave the team time and permission to see the bigger picture and understand the flaws with conventional outsourcing approaches.

Third, the team worked on developing the outcomes they hoped to achieve through the outsourcing process. While cutting costs was important, Microsoft – with over $58 billion in sales in 2009 – really wanted to create world-class financial processes and infrastructure that would help them to face the challenges of the 21st century. The team wanted a single, global finance solution with effective, consistent processes across the world. Microsoft wanted to focus on optimizing resources, improving service to employees and responsiveness to partners and clients, enable strategic sourcing worldwide, and establish a robust controls environment.

"It would be incorrect to say Microsoft did not think of cost, but what became a core driver for the team was to create an outsourcing model aimed at improving the efficiency and effectiveness of executing Microsoft's financial processes," explained Srini Krishna, a management consultant on the team, who later joined Microsoft and now manages the OneFinance outsourcing business model and relationship with Accenture.

The second key driver was in the area of control and compliance. Microsoft wanted to increase their confidence in the processes themselves, improving overall quality and satisfaction to the business groups to enable them to better manage their businesses.

With this as a foundation, the team set out to find an outsource partner that would explore a better way to outsource, where the provider would be vested in achieving Microsoft's transformational objectives, creating a true win-win solution.

WIIFWe

History has consequences. One of the key challenges Microsoft faced was its reputation; they had long been known in the marketplace as the proverbial 800-pound gorilla. Microsoft had effectively used what Nobel Prize-winning economist Oliver Williamson calls a classic "muscle" approach in the marketplace.

> *"Muscular buyers not only use their suppliers, but they often 'use up' their suppliers and discard them. The muscular approach to outsourcing of goods and services is myopic and inefficient."*[2]

The team rightly understood that using this approach would not work if they wanted to get their outsource provider to invest heavily in improving Microsoft's business.

Microsoft was used to winning, but they knew they would have to change their definition of "winning" as well as change how they worked with their outsource provider if they were to achieve transformational change. Creating a true win-win mentality would mean changing the rules of the game whereby both Microsoft and its provider would share in the risk and reward associated with the transformation efforts. Instead of thinking about "What's In It For Me" (WIIFMe), it was time to think about "What's In It For We" (WIIFWe).

[2] Williamson, Oliver, "Outsourcing: Transaction Cost Economics and Supply Chain Management," Journal of Supply Chain Management, Vol. 44, No. 2, April 2008, page 10.

Playing by the Rules

The OneFinance project has been a success since its inception. In fact, it has exceeded expectations, as we will discuss below. The reason for this success lies in both Microsoft and Accenture rigorously adhering to an outsourcing business model that follows five key rules – or tenets. These rules are:

1. Focus on outcomes, not transactions
2. Focus on the WHAT, not the HOW
3. Clearly defined and measurable desired outcomes
4. Pricing model with incentives to optimize cost/service tradeoff
5. Governance structure based on insight, not oversight

This case study captures the essence of how the Microsoft OneFinance team "played by the rules" when developing their outsourcing agreement with Accenture. Each rule is discussed to demonstrate how the OneFinance agreement applies each rule.

Rule Number 1: Focus on outcomes, not transactions

"It would be incorrect to say Microsoft did not think of cost, but what became a core driver for the team was to create an outsourcing model aimed at improving the efficiency and effectiveness of executing Microsoft's financial processes."

Srini Krishna

As discussed above, the OneFinance Core Team spent significant time white-boarding their thinking about the outcomes they wanted to achieve. While cutting costs was important, Microsoft really wanted to create world-class financial processes and an infrastructure that would serve them as they continued to grow. The team wanted a single, global finance solution with effective, consistent processes across the world. They wanted to focus on optimizing resources, improve service to employees and responsiveness to partners and clients, enable strategic sourcing worldwide, and establish a robust controls environment. Normally a firm may look at three basic outsourcing approaches and pick one. In contrast, the OneFinance team considered three basic outsourcing approaches and picked the best parts out of each.

Option 1: Conventional Resource and Transaction-Based Models

Most early outsourcing arrangements are built around a resource-based (pay for headcount) business model. The OneFinance team felt a conventional resource-based model would not incentivize the service provider to automate and drive transformation changes needed were they being paid by headcount. Further, Microsoft felt the use of a resource-based model posed a risk to large global transnational corporations like Microsoft due to the changing legal landscape around co-employment laws.

Microsoft's OneFinance team initially considered a transaction-based model for many reasons. First, the procurement group liked it because of its "on-demand" approach of pushing costs to a completely variable cost structure. They wanted to drive outsourced services to a "commodity" status, as they felt this carried the least risk for Microsoft. Second, it appealed to others because of the perceived "control" Microsoft would maintain over the provider; no transactions, no payments. Finally, a transaction-based model would also help protect the company against any legal implications of a supplier's employees claiming to be a Microsoft employee by default.

At a conceptual level, transaction-based business models can make sense. This is especially true when the processes are already maximized for efficiency, and there is little room for productivity gains. The model typically yields a great deal of predictability for the customer, as a service provider only gets paid when they execute a transaction. While a transaction-based approach provided the least risk for Microsoft, it transferred most of the risk onto the service provider.

The conventional transaction-based business model had two fatal flaws from the perspective of Microsoft. First and foremost, it provided no economic incentive for the service provider to improve the process. If the provider was paid for each transaction, then reducing transactions would reduce their revenue. Microsoft's early learning showed that the end-to-end procure-to-pay process had been cobbled together on a country-by-country basis and many of the transactions were being performed because of upstream inefficiencies. Microsoft knew there was a tremendous opportunity to drive out nonvalue added transactions, and they wanted to create an outsourced business model that would encourage this.

Microsoft's observations followed classic lean-value stream mapping in that a process review often uncovers 80-90% of all activities to be non-value-added activities. Microsoft knew if they focused their outsourcing efforts on the transactions, they would not achieve the transformational results for which they were striving.

This realization was driven home by some of Microsoft's subsidiaries that had already outsourced Accounts Payable. The outsourcing had been done inconsistently and the market evaluation showed that the accounts payable work could be further streamlined and consolidated. Microsoft wanted more than just a way to outsource their transactions; they wanted to transform the processes.

The second fatal flaw was the nature of the work itself. While transaction pricing was one way to manage co-employment risks, all activities being considered for outsourcing did not lend themselves to a transaction-based model. Because of these two flaws in the conventional outsourcing approaches, the OneFinance team challenged themselves to press on and explore alternative approaches.

Option 2: Managed Services

A second approach debated was the managed services model. Microsoft's benchmarking efforts had uncovered that many organizations were moving to a managed services business model. Under a typical managed services arrangement, the service provider agrees to a price to manage a given book of business for a client; competition drives the price for a set book of business. While this approach almost always leads to a reduced cost structure, the ability to achieve a predictable budget, and agreed-upon outcomes, all of the gains realized in the transformation of the work drop to the service provider's bottom line. For this reason, the provider typically determines which processes to work on next for improvement. The OneFinance team felt strongly that they needed to have a greater degree of control in deciding the transformation projects.

The team also explored holding the service provider accountable to a particular target against a set of SLAs (service level agreements) within the managed service model. While this is good in theory, further analysis revealed that Microsoft would remain responsible for some of the critical tasks within the processes. They simply could not outsource every single item. Microsoft realized it would not be fair to hold their service provider accountable for an end-to-end process when they were not responsible for (or getting paid for) the entire process. Accountability without authority is not a winning combination.

Finally, the team questioned the appropriateness of the traditional managed services model since they lacked a solid baseline and a clear understanding of the existing cost structure. Potential suppliers would be pricing a book of business against an unknown baseline. Because of this, the team knew potential suppliers would increase their prices to cover the risk associated with too many unknowns. Unknowns drive up costs, a situation Microsoft was unwilling to accept.

Option 3: Vested Outsourcing

Microsoft pressed on with their white-boarding, challenging themselves to create a better way to craft their outsourcing relationship that would promote the efficiencies and drive the transformation Microsoft wanted. The team's solution was to flip the conventional outsourcing approaches on their heads; Microsoft would focus much of the efforts of its outsource business model around contracting for transformation instead of contracting for the day-to-day work under a transaction-based or managed services agreement. The solution? Develop a business model aimed at contracting for outcomes, and rely on the service provider to determine the best way to achieve those outcomes. Microsoft believed linking the service provider's pay to achieving the desired outcomes would best meet Microsoft's need to drive transformational changes in how the work was done, while still allowing Microsoft to have some control over the transformational efforts.

In short, Microsoft would create a relationship where the service provider would have a *vested interest* in achieving Microsoft's desired outcomes. They would shift the economics of the model to a performance-based approach whereby Microsoft would *buy desired outcomes, not individual transactions* or service levels for a set book of business. The service provider would be paid based on its ability to achieve these mutually agreed-upon outcomes. For Microsoft, some of the biggest outcomes were around achieving a single, global finance solution with effective, consistent processes across the world.

Microsoft felt the best approach would be to do a "lift and shift" where the service provider would quickly determine a clear and accurate baseline which they would be expected to improve with Microsoft. The service provider would then be highly compensated for achieving transformational results.

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

"We wanted some creativity around the solution. More than achieving the economics and process rigor, we wanted to create strategic value out of our outsourcing relationships."

Taylor Hawes,
General Manager & Controller, Finance Operations, Microsoft

When a company outsources, it is usually difficult for many of the personnel to accept one key fact –the company is outsourcing for a reason because it has deemed itself as not being the experts. The OneFinance core team internalized this early on. If they were going to achieve their desired outcomes, they would have to have faith that their partner would help them transform the work.

This was a hard concept for Microsoft to accept – as Microsoft employees are not used to admitting they might not be the smartest people! But the team realized a trap that the University of Tennessee calls "the Outsourcing Paradox," which happens when a company decides to outsource – yet tells the supplier how to do the work!

A key component for Microsoft was to focus on the *WHAT* – not the *HOW.* Microsoft set this tone in three important ways:

1) Taxonomy for Clear Understanding of Roles and Standard Global Processes

Microsoft purposely did not dictate to Accenture how the work would be done. Instead, they focused on creating a taxonomy for each of the three areas outsourced (Record, Accounts Payable and Buy Centers). Creating the taxonomy would lead to a mutual learning journey 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.

A sample of the taxonomy and role accountability can be found in Table 1 and Table 2. Table 2 illustrates the example of the employee setup and maintenance process.

Table 1: Level 4 Standard Global Processes

High Level Process	Level 4 Process	High Level Process	Level 4 Process
Fixed Assets accounting services	Acquisitions	General Ledger Accounting	Journal Entries
	Depreciation		Payroll Accounting
	Transfers (Intra-Co)		Local Billing
	Transfers (Inter-Co)	Close Accounting	Close Management Services
	Asset Disposal		Open PO Accruals
	Physical Audit		Open PO Fixed Assets Accrual
	Adjustments		Standard and One Time Accruals
Inter-company Accounting	Intercompany Account Reconcilation		Prepayment and Deferred Expenses
	Intercompany Commissions		Account Reconciliations
	Non In House Cash Center (IHCC) Foreign Exchange		Balance Sheet and Profit & Loss Review
	Intercompany Dividends		Business Rule Violations
	Intercompany Cross Charges		Allocated Cost Pools
	Intercompany Interest & Loans	Statutory & Report Preparation Accounting	Financial Filing Preparation
	Netting & Settlement		Statutory Fixed Assets Register
	Microsoft Global Resources - Locally Paid Items (MGR-LPI)		Direct Tax
	MGR - Subsidiary Leasing Fee		Indirect Tax
Treasury Accounting	Cash Forecasting		Other Taxes
	Bank Administration		Statistical Reporting
	Posting Bank Transactions		Audit support
SOX & SODA	User Access & Segregation of Duties		
	SOX 302		
	SOX 404		

Table 2: Process Steps for Employee Set Up and Maintenance

Process Steps	Accenture	Microsoft
Microsoft initiates employee add/change request according to Microsoft procedure and policy.		✓
Business Process Outsourcing (BPO) Vendor validates that request is complete and in accordance with Microsoft procedures and policy and takes action to set up a record.	✓	
If the request is not complete or is missing required information, BPO Vendor returns the request to the request originator. The request originator will provide the missing information and send back to BPO Vendor for processing.		✓
BPO Vendor will perform reviews/reconciliation of data between SAP and Microsoft HR solutions to ensure terminated employee payee records are blocked/deleted on a timely basis per Microsoft procedures and policy.	✓	
End Process		

Focusing on a clearly defined work taxonomy and role clarity saved Microsoft tremendous time in their ramp-up. Accenture employees worked with Microsoft to learn the existing processes and migrate them over to the standardized global process as quickly as possible. Rather than documenting the existing “As-Is” state at a detailed level, the focus was on getting the work to Accenture quickly. The taxonomy of the global standard process provided the basis to move work over rapidly. Accenture would evaluate the work and identify ways it could be done more efficiently. This was key because Microsoft has 95 subsidiaries and each subsidiary did things differently. Special requirements of local law sometimes required a deviation from the global standard, but these were treated as exceptions and special permission was required to grant this exception. OneFinance evaluated each of these to see if it was truly necessary. Once Accenture knew their roles of the processes they were managing, they were then expected to develop desktop procedures in line with the scope of service requirements.

A key point to note about this approach is that the jointly developed standardized process became the intellectual property of Microsoft. This was an important aspect of the arrangement because at the expiry of the contract, Microsoft would own the standardized process which it could then keep and use in the case it ever changed suppliers.

2) Lift and Shift the Work – But Drive Transformation

Early on Microsoft had a clear strategy – "lift and shift" the work to Accenture quickly. The rationale? Once the work was centralized and under the roof and expertise of Accenture, Microsoft could tap into Accenture's best practices to drive dramatic improvements. The lift and shift approach allowed Accenture to pick up the work and create a baseline. From there, Microsoft placed much of the emphasis of the contract around transforming the work.

In fact, a key goal of the OneFinance program was for Accenture and Microsoft to achieve worldwide standardization of the processes that would yield transformational results. For example, when Microsoft first transitioned the work to Accenture, they had 140 different systems and field applications cobbled together to perform the key financial tasks Microsoft needed across its 95 subsidiaries. A precondition to transition a country to the global delivery model was the presence and use of the global system and toolset. This pre-condition drove the subsidiaries and Microsoft's Global Platforms Group to fast-forward the migration of all countries to the global standard. Special requirements of local law sometimes required some deviation from the global standard but these were treated as exceptions and special permission was required to grant this exception. By the time the transition was completed (over an 18-month period), nearly 75-80% standardization was achieved.

The rapid lift and shift was enabled by Accenture developing a customized Data Collection Process Framework and a Data Collection Toolset aligned with the OneFinance Taxonomy for the Record and AP processes and the global standard process. That significantly reduced implementation time, as the team had to review only instances when the standard process did not conform to local or national laws. For instance, one country required the use of a local bank and not the international partner. Due to these local changes, some SLAs were also marginally modified. The Buy Center process, being completely new, followed a slightly different approach. The team began with a blueprint that drove the establishment of the Buy Center for each country in the Delivery centers. This supported how the companies would communicate the performance of each of the key processes, as well as defining the outcomes.

3) Baseline Costs

One of the biggest challenges Microsoft had was identifying their true cost structure. Take for example the 140 different systems and field applications. The cost to manage these was mostly hidden in the field and was not systematically captured. For example, many subsidiaries maintained locally-based Access Databases. The time and effort to maintain this was burdened in headcount but not visible at the global level. By quickly lifting and shifting to Accenture, Microsoft could effectively begin with a clean slate while obtaining a baseline of the costs. Microsoft also believed that eliminating a majority of these applications would greatly reduce the costs and hopefully pay for the actual transition to Accenture. Post outsourcing, they have effectively been able to track costs on a year-over-year basis, and track the return on investment in the transformation projects.

Rule Number 3: Agree on Clearly-Defined and Measurable Outcomes

"Automating bad processes just allows you to do the wrong things faster."[3]

Bill Gates

Metrics matter. The OneFinance team knew if they were to be successful, they would need to clearly define and measure their performance against their goals. It was imperative that Microsoft and its potential partners (ultimately Accenture) agree upfront on clearly-defined and measurable desired outcomes. Yet, in reality, this wasn't the only problem.

One challenge facing the OneFinance team was understanding how the metrics were interrelated with each other, and how they could be affected by Microsoft or the service provider. There were a set of metrics that were very important to Microsoft and many of these were in the total control of Microsoft. However, the reality was that for most processes, a large part of Microsoft's success depended on Accenture – and the flip side was also true. In fact, the more they dug, the more they observed what John Muir had so wisely stated, "when you try to pick anything out by itself, we find it hitched to everything else in the universe." If the OneFinance team truly wanted to measure "big picture" performance, they would need to understand the relationship between the metrics.

The team sketched out how they would measure their success and how that would relate to Accenture's success. Microsoft wanted to develop a process that would connect the dots, create accountability for driving transformation, yet would not penalize the supplier if Microsoft failed to deliver on their part of the overall process.

To do this Microsoft created a "layered" approach to measuring the business using operating metrics, KPIs and SLAs tied to monetary performance for Accenture. Together[4], 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.

The organizations also developed a service management framework based on the following set of principles:

A comprehensive framework to measure end-to-end process performance and across processes

All Microsoft subsidiaries to be treated equally regarding service delivery from Accenture and will not be disadvantaged because of their size (to the extent there are unique

[3] Source: http://www.scdigest.com/assets/FirstThoughts/09-11-13.php

[4] It should be stressed again that Accenture and Microsoft did this ***together***. According to Henric Häggquist, "A TOGETHER OVERALL approach is the KEY to the success of this contract."

requirements of a subsidiary that creates operational difficulties in applying this principle; the framework would allow for some flexibility)

Transparent and clear allocation of responsibility and accountability for service delivery between Accenture and Microsoft

Governance protocols (including financial mechanisms) embedded in the service management framework to ensure continuous performance review, ongoing course correction and service improvement to reduce variability in service performance

Provide visibility and transparency of service performance to all stakeholders

Drive a behavior within Microsoft and Accenture to actively move service delivery towards global "best in class" performance levels over the life of the outsourcing relationship

The organizations developed a three-tier scheme for how it measured success, including the use of operating metrics, KPIs and SLAs.

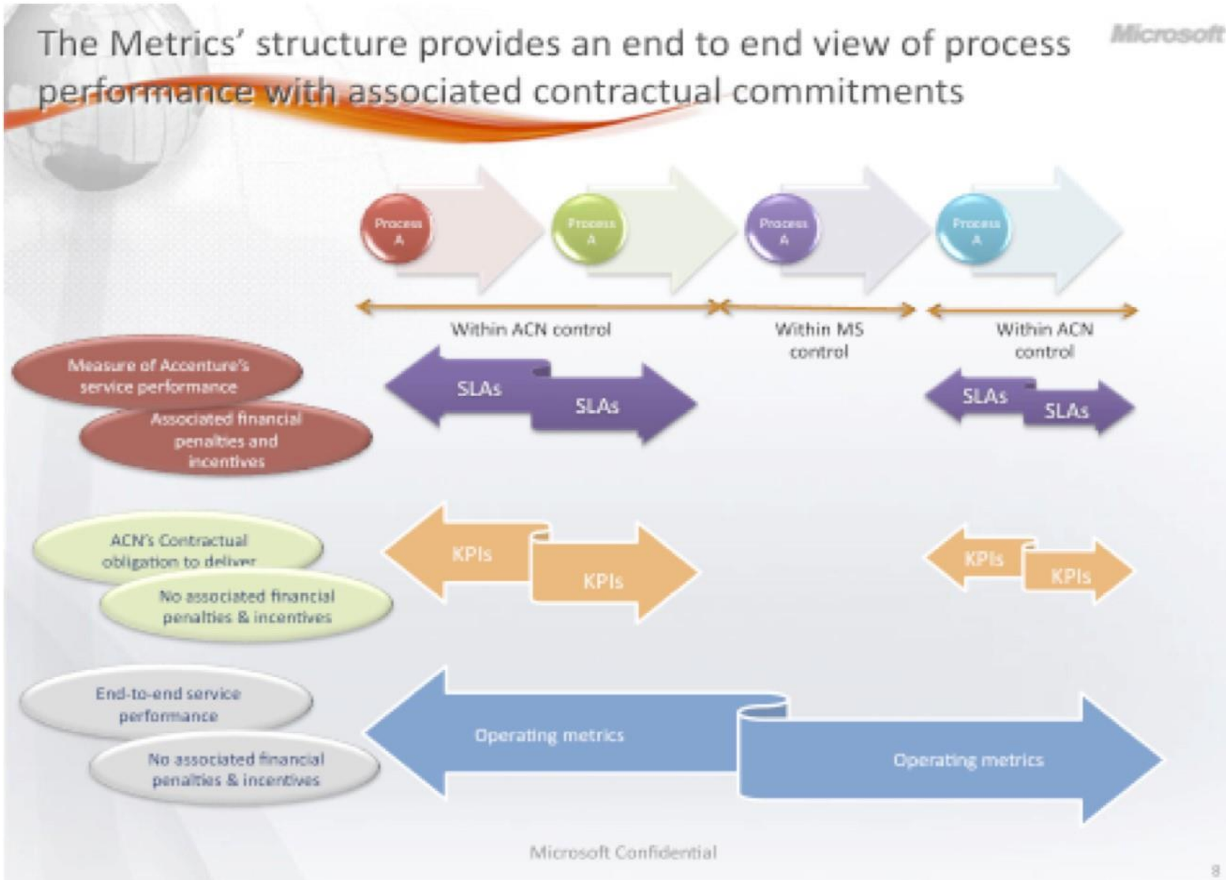
Operating metrics – these were the basic functional metrics found within the process. They were used to evaluate the performance of a process and could be seen as "early warning" metrics that fed into KPIs. No financial penalties or incentives were associated with the outcome of the metric.

KPIs – Key Performance Indicators. KPIs were an additional set of metrics that gave the OneFinance team the broader perspective. The KPIs were tracked and jointly discussed each week with the goal to understand what is limiting performance improvements. A good example is the KPI "paid within terms." A key feature of the KPIs was that while they were mutually tracked – they did not have a monetary link for Accenture. Microsoft felt strongly that since they owned a share of the work needed to achieve KPI success, they should not penalize Accenture when the KPIs were not met.

SLAs – Service Level Agreements*.* Service Level Agreements were measures of Accenture's service performance. Under the agreement, the two companies collaboratively developed specific service level agreements (SLAs) for each process outlined in the mutually agreed-upon taxonomy. Accenture's performance would be measured against these SLAs, which contained both penalties and earn backs based on overall performance. The process adopted gave Accenture a "second chance" to earn back some of the penalties they incurred by performing at a higher level in the subsequent periods.

The overarching approach to managing performance is graphically portrayed in Figure 2.

Figure 2: Metrics Structure



Once the metrics were identified, the organizations 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. The governance structure is outlined in Rule 5.

Microsoft and Accenture also invested in a portal called Governance Workplace that formed the basis for how the companies would communicate performance and govern the relationship. The Governance Workplace, built on Microsoft SharePoint and PerformancePoint technology, reinforced one of the core principles of OneFinance: providing transparency of operations to all stakeholders and driving business excellence through business insight and effective performance management.

Once Microsoft and Accenture agreed on the desired outcomes and how to measure success, the focus shifted to the big elephant in the room – pricing.

Rule Number 4: Optimize Pricing Model Incentives for Cost/Service Trade-offs

Few topics will generate as much discussion in corporate meeting rooms as pricing; this was no exception for the OneFinance team. Various approaches were debated regarding how to proceed and fairly compensate Accenture. 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. Unfortunately, but not surprisingly, the OneFinance team faced many complex challenges.

Challenges of Developing a Pricing Model

The team faced a set of challenges they inherited from over two decades of global growth in Microsoft's businesses at breakneck speed. Rapid growth across geographies and individual business lines in an entrepreneurial work environment had left a decentralized finance organization with disparate processes and systems. With the focus of the organization on growing business and tracking market trends, little focus was given to tracking the performance of transactional finance operations. Furthermore, as with most organizations, finance operations were always part of the general overheads with no associated service levels or expectations (if anything, the only expectation was that it was not good).

The on-going flux in economic, business and organizational models was only exacerbating this situation. Business models were being fine-tuned locally as the organization increasingly adapted to local market conditions while still retaining its global footprint. These challenges meant that Microsoft had a very limited ability to develop robust baseline comparisons of current costs across the multitude of countries in scope.

The OneFinance team asked themselves how they could create a pricing model that could address these questions:

> Could they have a link between the volume of work being asked of the service provider and payments without making the payments solely headcount based?
>
> How could they balance the need for a simple pricing model to drive efficiencies of a global scale for both the provider and for Microsoft while still allowing the pricing model to cover the wide scope of work that Microsoft would outsource? They knew the cost of managing disparate pricing models would render the benefits of outsourcing to naught, keeping the organization exactly where it began!
>
> How could they develop a standard global pricing model while still allowing for variations in service due to languages (upwards of 35), time zones (nearly every time zone is in scope) and regulatory and statutory requirements?
>
> How would they establish a price for the "transformational" nature of the work to be done? Microsoft needed to ask the provider to price for transformation projects that would take place in the future when it did not have a concrete scope of what the transformational projects were or their timing over the life of the contract.
>
> Could they allow for a global structure while still retaining the flexibility to adapt to local changes in business?

What would be the best way to educate individual subsidiaries of the "costs of an outsourced model"?

Microsoft knew all the future unknowns and variability in their 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 "supernormal" risk premium over and above the "normal" business risks. It was an important concept and one that Dr. Oliver Williamson stressed many years ago in his Nobel Prize-winning work on Transaction Cost Economics. Microsoft discovered through their discussions what Dr. Williamson had written about for several years – that their service provider would have to raise their price if they were forced to contract for "unknowns."

After much deliberation, the team agreed on a set of design principles that would be *sine qua non*[5] and would shape the pricing model.

A single global pricing model

Framework with sufficient built-in flexibility to address changing business conditions. The flexible framework would evolve over the life of the contract as clarity dawned on "future unknowns," avoiding the need to price all risks, known and unknown, up-front in the contract

Flexibility grounded on a set of agreed principles and operational rules that provided agreement and direction for future discussions on commercial and pricing

Understanding of the need to balance risk and reward appropriately

Fair economic returns to both sides

Pricing that would influence the service provider's behavior towards driving future improvements and transformation

Transparency that would "charge" subsidiaries for the "services consumed" by them.

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

Each of these points is discussed in the following pages.

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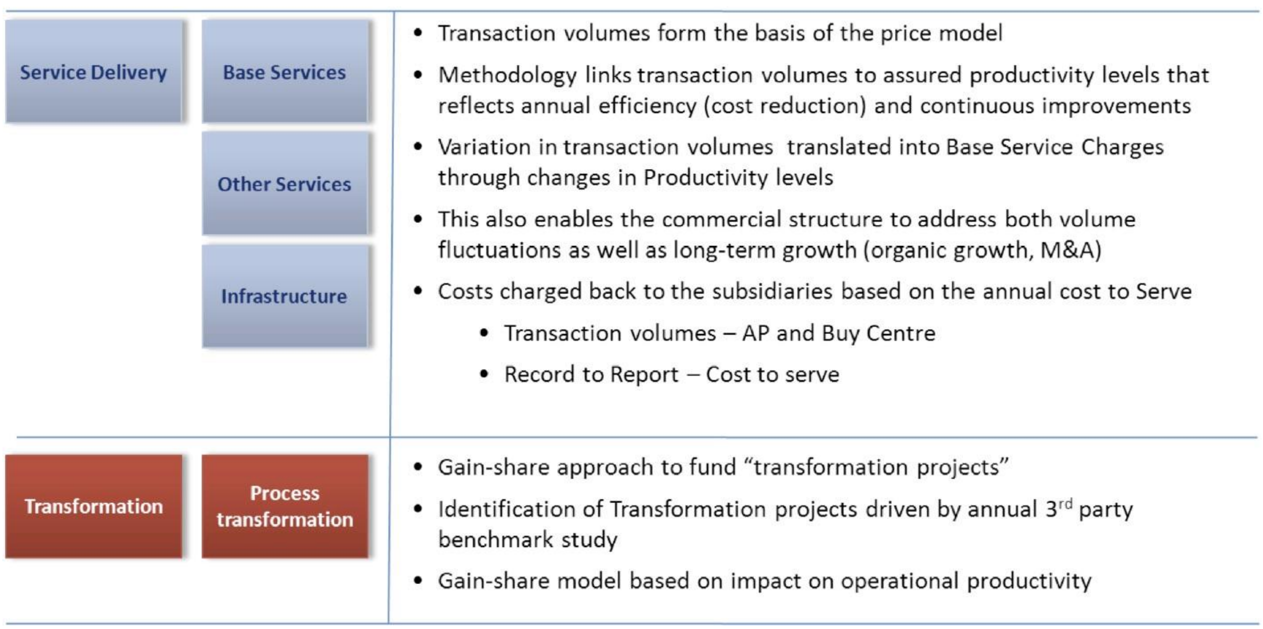
[5] Sine Qua Non is Latin for "without which there is nothing"

Hybrid Pricing Model

These fundamental and inviolable design principles led to the design of a hybrid pricing model. The model itself combined the benefits of the transactional and resource-based pricing structures while also addressing how to compensate Accenture for the transformation projects that were to be a key component of OneFinance. The pricing model provided basic "building blocks" for both the service delivery and transformation elements of OneFinance (Figure 3). These building blocks allowed both organizations the flexibility best matched to an appropriate pricing structure to the various types of work being done.

Figure 3: The Hybrid Model



Under the pricing model, Microsoft and Accenture agreed to:

The concept of a **"Productivity Index"** at each point in the contract, reflecting the productivity gains over the life of the contract

Baseline transaction volumes and resource usage transferred to Accenture at the point of transition of operations

Thresholds that would enable automatic pricing changes in response to volume movements

Base pricing for resources that were all-inclusive, including infrastructure costs and the rate card

Gain-share approach to managing all changes that affected resource productivity.

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 sets 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 undeniably impossible to contemplate or plan for. 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.

Using the building block philosophy also had a supplemental benefit on the cost of contract management—an area that typically has been a bane of outsourcing contracts. Since the fundamental building blocks were agreed upon up-front, future pricing decisions were not time-consuming and did not require energy and relationship-sapping contractual and legal negotiations. Rather, the sides would spend time focusing on designing the operational solution optimal to the given business issue. Pricing and contractual constructs would adapt to new and evolving operational solutions and not the other way around.

Global Model with Local Adjustments

The scope of countries in the contract presented unique problems from a pricing perspective. While the overall objective of having a single global pricing model was paramount, it was equally critical to recognize that differences in language and time zone had to be factored into the pricing model.

For example, two English speaking resources were different, if one was servicing Australia while the other servicing the UK, despite a common language they operated in different time zones. Similarly, a Croatian and a Slovenian resource with the same AP skills might operate from the same time zone but be entirely different from the perspective of resource deployment and their associated costs. Further, as different countries grew at different rates, the model had to support different resource requirements that reflected the time zone and language characteristics, so Accenture could continue to support contracted service levels.

To allow for these differences, the pricing model classified all in-scope countries into groups based on process skills (i.e., AP, Record and Buy Centre), time zone and language. This approach ensured a fair price for the type of resource in various types of markets.

Fee at Risk – An Incentive to Drive Continuous Improvement

A second key element of the pricing model was the use of a “fee at risk” strategy whereby Accenture would put part of their fees at risk against committed productivity gains. Microsoft wanted to ensure that Accenture was using their expertise to drive productivity improvements that would lower Microsoft’s overall cost of the contract. This flowed from one of the design principles where the pricing model was aimed to drive service provider and Microsoft behavior towards continuous improvement.

There were three distinct risk elements embedded into the contract:

1. Annual productivity gains
2. Annual volume absorption
3. Dead-band volume absorption

Each of these is discussed below.

Annual Productivity Gains: Both sides accepted the basic principle that repetitive on-going work leads to natural increases in productivity. Following this principle, Accenture committed to delivering productivity benefits on "run" services over the life of the contract. These productivity benefits were delivered through reduced charges for base services and/or volume absorption without an increase in fees. Accenture placed their fees at risk as the productivity "gains" were contractually guaranteed and monetized in the total value of the contract.

The concept of a Productivity Index was critical in delivering these productivity gains. This index measured the productivity of each Accenture resource for each process area every year of the contract, i.e., transaction volume per FTE. It was assumed that at the point of transition the productivity levels would be the same for both the Microsoft and the Accenture resources. This was achieved by transferring to Accenture on a 1:1 basis the headcount performing the work within Microsoft. For example, if five FTEs were performing the scope of work being transferred within the Microsoft subsidiary, then Accenture would create five positions in their delivery center for the same volume of work at the point of transition of services. This helped set a common baseline and a starting point to measure productivity.

Following this Accenture would deliver a guaranteed percentage increase in productivity each year of the contract. This increased productivity was translated into reduced service fees for base services each year of the contract.

Volume Absorption: A second component of the "fee at risk" strategy was the annual volume absorption by Accenture. Microsoft and Accenture set a baseline annual volume at the point of the "Go Live" transfer of operations between Microsoft and Accenture. From that point forward, Accenture agreed to absorb up to a maximum of 6% growth in transaction volumes each year of the contract. Accenture would be responsible for achieving productivity goals that would meet or exceed the 6% target or they would face a reduction in their profit margins.

Dead Band Intra-Year Volume Variations: Both Microsoft and Accenture knew they would face natural volume variations that would occur in the business. As such, they created the concept of a "dead band" to take into consideration the natural intra-year volume variations. The annual volume absorption threshold described above, actual or up to a maximum of 6% on the prior year, set the annual baseline for the year. On this baseline, Accenture would not charge additional service fees for volumes increases within a 5% "dead-band."

The three elements put together meant that each year of the contract, Accenture's fees were at risk to the extent of the committed:

Annual productivity gains
Annual volume absorption
Dead-band volume absorption

This combination of guaranteed benefits ensured Accenture is always focused on driving improvements in operations. The more improvements Accenture drove, the higher their margins. In a sense, there was an underlying element of “gain-share” built into the run pricing, too. It was just that for Microsoft the gain was known while for Accenture it was dependent on their expertise and ability to drive costs out of the process without sacrificing on their contractual service-level performance obligations. And they, Accenture, got to keep these “gains” over and above the contracted levels.

Also, since these productivity gains were guaranteed for Microsoft there was no need for periodic discussions or negotiations related to deciding annual cost reductions, the hallmark of most outsourcing contracts. Instead, both sides conducted fruitful and meaningful discussions each year to identify transformation projects to implement.

Volume Banding Philosophy – Flexibility, Leverage and Risk Mitigation

Volume fluctuations were one of the few certainties that faced the OneFinance team designing the pricing model. The commercial structure had to be adaptive to absorb these fluctuations and adjust service charges appropriately without requiring the intervention of contract discussions and negotiations.

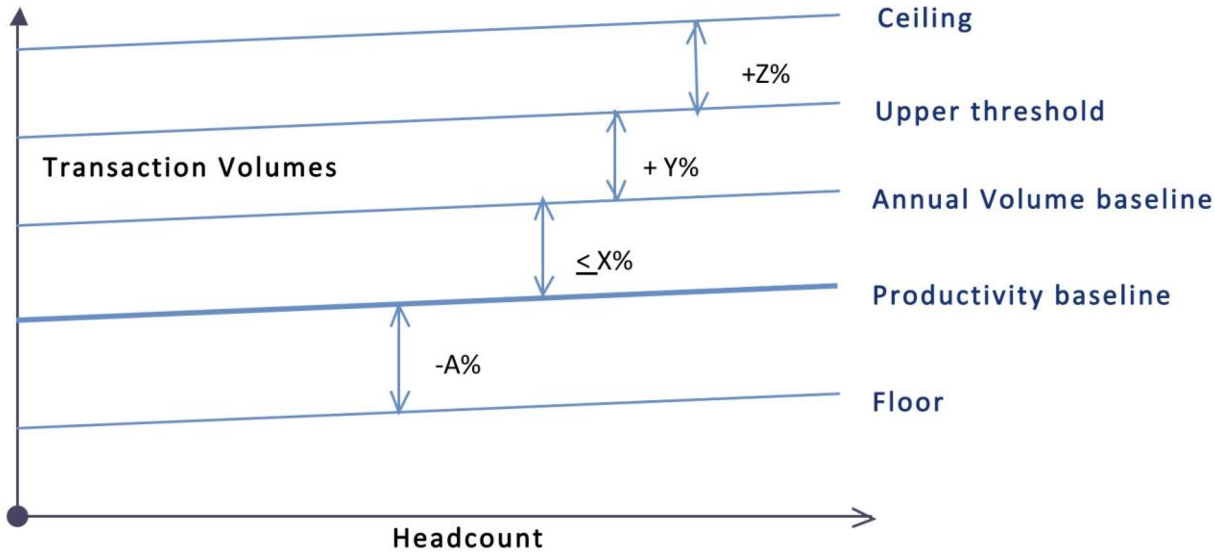
Microsoft and Accenture used a volume banding philosophy to allow flexibility in the model to meet this requirement. Within agreed volume thresholds, pricing would adjust automatically. This enabled Microsoft to manage organic growth as well as inorganic growth through mergers and acquisitions.

It was assumed that growth—either organic or inorganic—would not impact the base productivity. Consequently, with the underlying productivity index remaining the same, variations in volumes would adjust the notional resource requirements and hence the pricing. Microsoft benefited from a lower increase in charges in response to the growth in volumes. On the other hand, Accenture was compensated for the increase in volumes in a manner similar to the way if there had been a transaction pricing model.

These volume bands also enabled the management of fixed and variable costs within the operations. At levels above the dead band, increases in volumes up to a certain higher threshold were met by Accenture either by increased utilization of resources or further “deployment” of resources, the variable costs. In either case, these were paid by Microsoft through Additional Resource Charges (“ARCs”). These charges were at a discounted rate, reflecting that these volumes or “additional resources” did not result in an increase in fixed costs i.e., additional management or governance layer or infrastructure (seating). The existing fixed costs could absorb the additional variable costs. Volume increases beyond this threshold led to a re-pricing as Accenture had to bring into play additional management or infrastructure increasing its fixed costs. The ensuing “re-pricing” led to adding management and/or infrastructure at agreed-upon prices based on the rate card.

The model worked the same way were volumes to decline from the baselines. Here, the model enabled Accenture to reduce its variable costs (and, hence, lower run charges for Microsoft at discounted rates) and fixed costs if required, in which case the overall cost structure went down. This concept is graphically depicted in Figure 4.

Figure 4 – Volume Banding Thresholds



The approach of volume banding introduced an element of fair play into the system by providing both sides a natural "hedge" against pricing events that could potentially hurt each party the most. The basic model provided a level of stability and predictability to the basic contract commercials - revenues (for Accenture) and costs (for Microsoft). The contract, through its banding philosophy, provided a level of insurance to both sides against adverse movements in any of these.

For Accenture, the downward thresholds protected their revenue up to a point for declines in transaction volumes. Microsoft, on the other hand, was protected against unplanned increases in charges due to unprecedented growth in volumes by the dead band and discounted charges up to a level of nearly 20% points on the annual volume baseline. It was highly unlikely that "supernormal" growth rates would be experienced across every in-scope country. To the extent that some countries (notably among them the BRIC countries) would go through such increases, these were managed through the use of country groups described below, thereby limiting the impact of undue growth. In the same way, Accenture was protected against "abnormal" declines in volumes in any one country through the use of country groups.

In sum, the use of volume banding allowed the model to flex with changing business conditions, while still enabling both sides to meet their commercial objectives by mitigating risks.

Use of a Gain-Share Incentive Structure Would Promote "Skin in the Game" to Drive Transformational Behaviors

Transformation was at the core of Microsoft's Finance and Accounting outsourcing initiative. While a positive business case might be sufficient for many companies, for Microsoft it was not even scratching the surface. If the outsourcing journey could not transform the way Microsoft delivered Finance Operations, then the journey would not have been worth it, even if it delivered dollars along the way. This overriding pursuit for transformation has been so strong that it was grounded in the very foundation of the outsourcing relationship with Accenture. For Microsoft, transformational outsourcing was a must. They needed a service provider that would commit to transformation as the *raison d'etre* for their outsourcing program.

As the OneFinance team performed due diligence, the feedback it got was worrying. They found little was happening on the ground that could be called transformational; at best, it was playing at the edges. More concerning was that service providers and the outsourcing organization did not seem to have a common song sheet or a shared vision from which to drive transformation in any of the outsourcing relationships. Worse still, there was a lot of finger-pointing happening.

First, Microsoft explored how other organizations were addressing the innovation and transformational elements of their outsourcing agreements. Unfortunately, the team found there was little action on the ground. Most companies were complaining that service providers were not offering tangible transformation programs where benefits could be shared, instead, choosing to implement programs "on their side," which helped them keep all the benefits.

Microsoft then explored transformation with service providers and found they were not happy either. Service providers felt that most clients were not serious about driving transformation programs on the back of outsourcing contracts, suggesting "transformation" was typically used as an internal sales pitch with the senior leadership and was forgotten almost immediately after approvals were granted to outsource. And the few companies that did take any step towards transformation did not want to share the pain of transformation.

On the surface, there did not appear to be a "congenial air" in which two sides could share anything to achieve transformation. Whatever little was happening was restricted to areas such as collections where the service provider kept a share of collections subject to some threshold limits. While this was obvious, there was little intellectual drive underpinning most of these initiatives; the idea was to keep it to the basics and not push the envelope.

The analysis of the OneFinance team revealed some common themes that seemed to impact transformation programs within outsourcing contracts:

- There appeared to be a lack of shared vision on the objectives, the direction or the form of partnership to underpin transformation within an outsourced relationship.
- There was a lack of clarity on the roles of each party in this relationship; each looked to the other to be the driver.
- There was a misalignment in the expectations of each other's roles regarding driving transformation; outsourcing firms felt it was a contractual obligation and part of the "overall package" of services, while service providers felt otherwise.

While everyone spoke of gain-share, there was a lack of a formal commercial and contractual structure to facilitate this arrangement.

Most attempts at structuring gain-share were mired in constant negotiations about the extent of "sharing."

The cost of management of the transformation program, especially tracking the benefits and costs, was far in excess of the benefits, leading to an overall loss of interest for both sides.

Most attempts at driving transformation in an outsourcing relationship exacerbated mistrust and rancor between the two sides rather than fostering a sense of partnership.

While Microsoft's early learning about transformation seemed less than optimistic, the OneFinance team knew that transformation could open up, for both Microsoft and a potential service provider, a common door to take them beyond what they could individually achieve. The key would lie in getting the economics right to compensate the potential service provider for achieving transformational results beyond what was signed off in the contract.

The OneFinance team was challenged to develop a breakthrough approach to "gain-share" that would ensure that their objectives of transformation were achieved and in an environment of partnership and trust. The team realized that to achieve this, the transformation model would have to internalize the following philosophy:

Transformation would need to be embedded into the contract using a shared vision for both sides to achieve over the contract life; it would not be something that was bolted on as an afterthought.

Implementing transformation projects should entail tangible returns for both sides and should be viewed as going the extra mile to achieve an objective, not something that is routine and operational.

Incentives would be agreed up-front and determined based on the fair share of return that reflected the respective roles in the relationship and for each transformation project.

The model itself had to be simple to operate and replicable across projects to ensure ennui and fatigue did not set in and the two sides drop it by the wayside as they focused more on on-going operations.

Once the principles were set, Microsoft and Accenture worked together to develop the details of the gainshare portion of the pricing model.

Shared Intent: First, the companies developed a shared intent that would become a common bond to jointly drive transformation. The contract clearly and unequivocally articulated the joint intent to collaborate on a transformation program integral to the outsourcing arrangement and to take Microsoft's Finance processes to world-class levels as measured by a third-party benchmark.

Tangible Returns: While the shared vision was crucial to ensure both parties were aligned, the intent had to be backed by a financial model that provided both sides' commercial justification to continue investing and collaborating in this transformation partnership. They knew incentives would need to be targeted at getting both companies to go beyond the work that was signed-off in the contract in an effort to implement transformation.

The companies believed by focusing on implementing financially-viable projects that brought tangible returns they were in essence increasing the overall pie to be shared. The organizations viewed transformational incentives with the philosophy that together both sides were creating a bigger pie – unlocking financial value not being realized by either party previously. As such, incentives would be paid for successful implementation of transformation projects when value – or return on investments – were realized. Increasing the size of the pie was fundamental to enhancing the spirit of partnership. Carving the existing pie differently would only lead to conflict between the two sides.

Some might call it greed, but in this instance "greed is good." The possibility of creating more than what one already had in itself creates a significant desire to embark on this journey. For Accenture, participating in transformation through this relationship created the possibility of exploring new models within the F&A outsourcing market that could have multiplier market valuation. And there was the possibility of generating more revenue or enhancing their margins. Microsoft would gain by taking its Finance function globally to a new level of operation, assure its quality, efficiency and effectiveness, and emerge as an industry benchmark and, of course, also gaining the potential of generating more savings that would flow straight to the business case.

Upfront Agreement on Fair Share: Both companies knew that achieving transformation would be something that only the two companies could achieve together in partnership. *This meant that it was irrelevant who brought the idea to the table.* For Microsoft, the opportunity to gain the transformation benefits (just the financial benefits) was immense even after it shared a portion of the total benefits with Accenture. The benefit was not there in the first instance; it was the partnership that created it. Here, "greed was not good;" rather, the spirit of partnership and togetherness had to prevail. Also, the companies would need to agree upfront to the method of sharing the benefits. These two concepts were critical points in OneFinance's gain-share model because the two sides had removed a common source of disagreement that afflicts transformational outsourcing, differing expectations.

All transformational project ideas along with detailed business cases are discussed through the governance structure specifically created for managing the transformation program and jointly approved (the governance structure is comprehensively addressed in Rule #5 later in the document). The business case captures the total benefits (i.e. size of the pie) that would be generated through the project and the total cost to be incurred to implement the project and get it operational.

Accenture takes responsibility for implementing the entire project, except for activity that specifically falls within the purview of Microsoft (for example, technology interface). One aim of project design is to ensure that implementation costs are largely located in one place – Accenture. This is done to make the gain-share model easier, as it is only the gains (or benefits) that needed to be split between the two. Based on this, Accenture's share of benefits is computed to include:

1. Implementation cost

2. Compensation for profit margin on the revenue (represented by the benefits) lost due to implementing the project
3. Transformation incentive

Where the bulk of the implementation costs is born by Microsoft, then the incentive percentage is adjusted down through mutual discussion. Irrespective of who bears the implementation cost, the core principle adopted by Microsoft remains: Accenture would be given an incentive to partner with Microsoft to transform processes and share the ensuing benefit.

It is important to note that this approach to gain-share created consternation within Microsoft when it was first presented internally. However, the OneFinance team stuck to their philosophy that Accenture needed to be provided an incentive that exceeds their opportunity cost to join the partnership. The OneFinance's team gut was right – as Microsoft achieved eleven transformation projects that have resulted in over $30 million in contract lifetime savings for Microsoft in the first two years. In fact, Microsoft saw quantifiable benefits from the projects after a short six months from their initial investment. In other words, they have generated a payback for their business!

Simple: With productivity gains guaranteed for Microsoft in the contract and Accenture free to drive continuous improvement initiatives to drive up margins, the devolution of on-going benefits was no longer an issue. While the former was satisfied with what they had negotiated, the latter felt in control to manage operations in ways to maximize their economics if they met their service obligations. This ensured there was no longer a conflict between the two sides on sharing the existing pie; they could now focus their efforts on increasing the size of the pie through transformation with both sides benefited from the increased size of the pie.

For Microsoft, Accenture was providing not merely service it had contracted to perform per the agreed processes and procedures, but it was leveraging its experience and expertise to give Microsoft tangible financial savings through reduced year-on-year fees derived from visible productivity improvements. For Accenture, besides the association with a brand as strong as their client, the arrangement gave them the unfettered opportunity to continually improve its contract economics from day one. Microsoft would help in driving continuous improvement projects the benefits of which Accenture could keep in its entirety without the client looking at them askance. If the two sides did nothing more through the life of the contract than meeting their contracted obligations, they would be better off relative to where they began. But, at the start, both sides knew what they could achieve if both stuck to the contract.

To ensure that the transformation program always had the focus of senior leadership within both organizations, the OneFinance program created a Transformation Governance team dedicated to identifying and championing the transformation program. To ensure that each project had the requisite focus, the details including benefits and respective shares of each side were formalized into the contract through the contract change control process. The Transformation Governance team reported to the Steering Committee on the program for each fiscal year on the progress of projects and the outcome of the projects in terms of results. Details of the complete OneFinance Governance Structure are outlined in Rule #5.

Rule Number 5: Establish a Governance Structure that Provides Insight, Not Oversight.

> *"When Microsoft (or other clients) deploy excessive retained management to outsourcing arrangements, in many cases we have to put in additional resources to interface with them. This oversight adds greatly to the overhead of running the business."*
>
> Gilbert Wootton
> Accenture

Why does the contract work? In reality, successful contracts are only as good as the governance that follows the signing ceremony. It is what happens next that truly matters. If a great contract were a guarantor of a long-term relationship, why do so many fail? Developing the contract is a critical first step. But it is only the first step. It is what happens next that determines if the two will form a truly vested relationship.

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 place 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.

First, the management structure had to balance regional execution needs and corporate needs to drive standardization and transformation. Second, the communication plan had to foster peer-to-peer exchanges and encourage timely issue resolution at the lowest possible levels between Microsoft and Accenture. Some of the more important aspects of the governance structure are discussed below in greater detail:

- Aligned governance structure (management structure, governance framework)
- Encouraging communication at the lowest levels
- Governance framework
- Use of a flexible contract framework
- Balanced scorecard

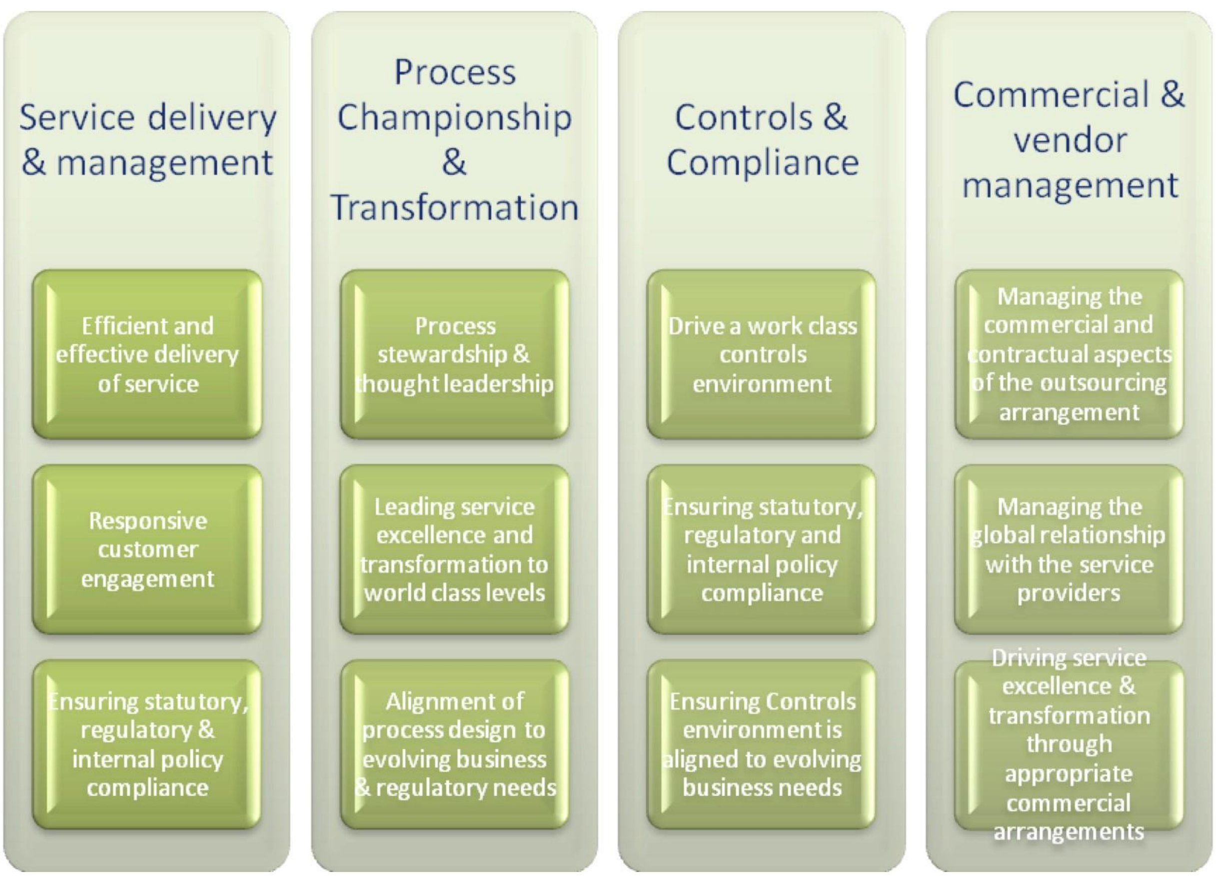
The OneFinance team strongly believed that sound governance would be crucial to the success of the program. As such, the pricing model allowed Accenture to charge for "governance" costs separate from service delivery costs. This ensured Accenture invested the appropriate resources into overall governance management.

Aligned Governance Structure

First and foremost, Microsoft wanted to develop a working relationship that would not only streamline communications but would also help promote and drive their transformational efforts. The governance structure was built around four core functions or roles. Each of the three areas is discussed below and depicted in Figure 5.

1. Service Delivery and Management: this function is responsible for the efficient and effective delivery of service, responsive customer service and ensuring service delivery is compliant with regulatory and internal policy requirements.
2. Process Championship and Transformation: this function has responsibility for process stewardship and thought leadership. The function drives service excellence through appropriate improvement and transformational initiatives to attain world-class levels and in response to changing business requirements.
3. Controls and Compliance: they are responsible for developing a robust world-class controls and compliance environment in response to evolving business needs as well as internal and local requirements.
4. Commercial and Relationship Management: This function manages the commercial and contractual aspects of the outsourcing relationship and the overall relationship across the various stakeholders in the two organizations.

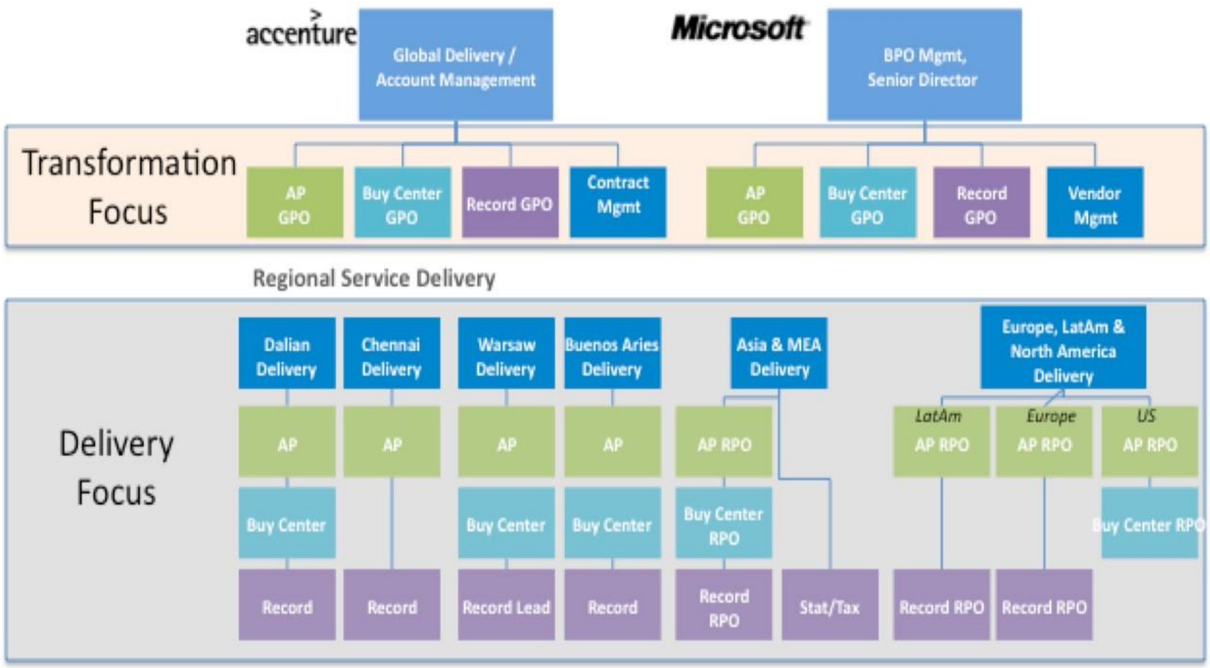
Figure 5: Governance Organization: Four Core Elements



This functional structure is layered across each hierarchical level to ensure that all governance functions are present at each level while empowering each level to execute on the outsourcing relationship.

This governance structure is design to be mirrored between Microsoft and Accenture ensuring total alignment of the governance organization. In other words, everyone has a counterpart to talk with to get issues resolved rapidly. Figure 6 shares the governance organization structure.

Figure 6: Alignment Between Accenture and Microsoft



There are three primary roles within the governance structure. Each is discussed below.

Global Head of BPO Management, Finance Operations: This role is responsible for managing overall Accenture performance under the Agreement, including the delivery of the services to Microsoft. The Microsoft *Global Head of BPO Management, Finance Operations* is the key individual from Microsoft promoting the intent and objectives of the outsourcing program over the term of this Agreement. Responsibilities include planning for long term growth and alignment between Finance Operations' activities, Accenture's services under this Agreement, and Microsoft's strategic plans and goals. Along with the Microsoft Global Process Champions, this person oversees the regional teams to drive consistency across "Process Areas" and "Regions."

Global Process Owners: For each of the three base service processes (Buy Center, AP and Record), Microsoft created a Global Process Owner. Each Global Process Owner is accountable for the end-to-end process area solution design and policy. In the early phases of the relationship, the Global Process Owners provide guidance and support during "**Transition**" and the "**Stabilization Period**" immediately following transition. Post transition, their job focus was to drive the "**Transformation Projects.**" The key purpose of Microsoft Global Process Champion is to ensure standard processes and performance metrics across the Regions.

Each of the three Microsoft Global Process Owners has these roles and responsibilities:

Driving consistency across all Regions and coordinating regional efforts towards global process standardization;

Providing oversight in the design and development of "best practices" and standard tools;

Reviewing process-specific Change Requests received from Accenture and escalating proposals to the Microsoft *Global Head of BPO Management, Finance Operations* with recommendations;

Resolving or escalating Process Area-specific Service Issues according to the "Service Issue Resolution Procedures" agreed in the contract;

Monitoring ongoing cost reductions, continuous improvement and transformation efforts and gain-sharing projects;

Providing recommendations and feedback into Accenture's selection and replacement of personnel.

Regional Service Delivery Leads: Microsoft also appointed Regional Service Delivery Managers for the five geographic regions –Europe, Latin America, North America, Asia and the Middle East and Africa. These individuals monitor end-to-end delivery of and performance levels for all in-scope services and processes for both Microsoft and Accenture in his or her respective Region. Each Microsoft Regional Service Delivery Manager serves as the first point of contact for issue escalation between Accenture and each of the local subsidiaries.

Each of the Regional Service Delivery Managers has these roles and responsibilities:

In collaboration with Microsoft Global Process Champions, leading the respective regional teams to drive consistency across Process Areas and performance metrics in the relevant Region;

Monitoring the regional performance of Services by Accenture against agreed-upon Service Level Agreements;

Coordinating implementation of consistent best practices and tools across lines of business in the Region;

Conducting periodic business reviews and providing regular reports to the Microsoft *Global Head of BPO Management, Finance Operations* and Microsoft Global Process Owners;

Resolving issues escalated from Microsoft Subsidiary Financial Controllers and Regional Procurement Managers, and escalating unresolved issues according to the Service Issue Resolution Procedures;

Reviewing Change Requests related to his or her Region and creating recommendations for approval by the Microsoft *Global Head of BPO Management, Finance Operations*;

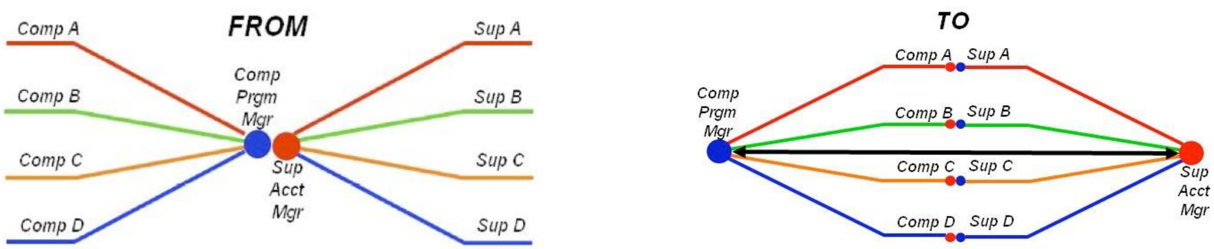
Overseeing ongoing cost-reductions, continuous improvement and transformation efforts, and gainsharing programs;

Providing recommendations and feedback into Accenture's selection and replacement of personnel related to his or her Region.

Encouraging Communication at The Lowest Levels

Part of Microsoft's vision was to have a streamlined communication model that would encourage peer-to-peer communications and timely issue resolution at the lowest possible levels. The team adopted the famed Walmart/Procter and Gamble's "reverse bow tie" model for managing relationships. Instead of firms having a single point of contact at the middle of the bowtie, the two wider ends were joined together, as illustrated in Figure 7 below. This increases communication flows between the two parties.

Figure 7: From Bowtie to Reverse Bowtie Communication Model



Source: Vested Outsourcing, 2010

Under the model, Microsoft and Accenture employees with similar responsibilities were paired together, allowing for direct peer to peer communication. This was illustrated in Figure 6 earlier.

This approach helped streamline communications because communications did not have to go through a traditional Program Manager/Account Manager. Microsoft traditionally had focused on a SPOC (Single Point of Contact) approach with a "single throat to choke." However, the OneFinance team strongly wanted to drive accountability at all levels fostered by a fast escalation and decision-making process to streamline communication, decisions, and workflow bottlenecks. This is discussed below.

Governance Framework

Regardless of how often people communicate, not all issues can be resolved at the lowest levels in the relationship. Some matters will need to be escalated. The OneFinance team knew that it would need to provide guidance – especially regarding the priorities and focus on the transformation projects. This took the form of a Governance Framework.

The Governance Framework includes a three-tiered steering group consisting of:

> A Joint Steering Group: The Joint Steering Group provides overall sponsorship, program direction, and governance oversight to assess progress, review overall performance, set strategic direction, and make decisions related to escalated issues and Change Requests if any. This Group meets semi-annually and is attended by senior executives from both Microsoft and Accenture. Some of these individuals that attend include:

- Microsoft Chief Accounting Officer
- Microsoft SMSG CFO
- Microsoft GM / Controller Finance Operations
- Microsoft GM and Chief Procurement Officer
- Microsoft Global Head of BPO Management, Finance Operations
- Accenture Head of F&A Outsourcing
- Accenture Global Account Lead
- Accenture BPO Program Director

A Joint Operations Group: The Joint Operations Group provides management oversight of global service delivery and monitors the progress of OneFinance. This group is responsible for service quality across Process Areas, Regions, and Accenture Delivery Locations and will set continuous improvement and implementation priorities. The Joint Operations Group set out to meet quarterly for the first two years of the project, and after that Microsoft and Accenture will mutually agree upon a meeting schedule.

A Regional Management Group: This group oversees day-to-day operations in each geographic region.

Even with the reverse bowtie communication model in place, and a formal communication plan, both companies knew each organization would probably identify “disconnects” over time. No outsourcing agreement can possibly be perfect from the onset. As such, the team established a formal resolution procedure to address disconnects promptly, preventing them from festering and creating negative tensions between the companies. The companies even set forth a target for resolving disputes promptly.

A “Dispute” was defined as any question or difference that arose concerning the construction or meaning, or affecting the agreement. Microsoft and Accenture used the following procedure for handling disputes:

The first instance of a dispute should be settled by the Microsoft Global Head of BPO Management, Finance Operations and the Accenture Program Director with a resolution target of fourteen (14) days after the question or difference is brought to their attention.

If not resolved, the dispute will be referred to the Joint Steering Group, which must meet within fourteen (14) days (or such other period as the Parties may agree) of the reference to attempt to resolve the dispute.

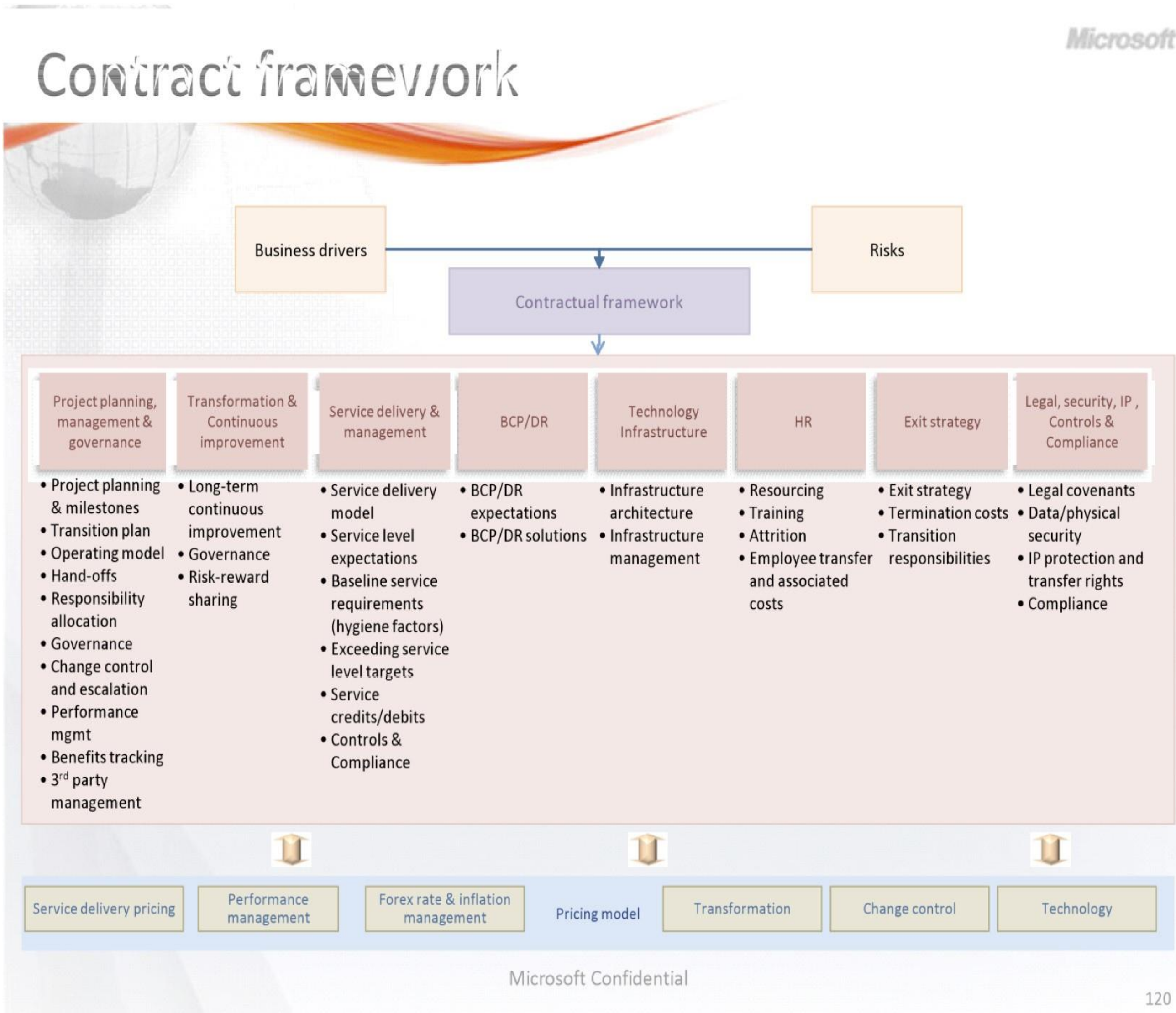
If the dispute is not resolved within such period, the escalation will continue with the same maximum time interval up to the Microsoft COO and the Accenture Outsourcing Executive.

It is worth noting that to date no disputes have been forwarded to the Joint Steering Group, as they have been settled before this step.

Use of a Flexible Contract Framework

Microsoft and Accenture wanted to have a flexible contract framework – one that would allow for changes both parties knew would be inevitable but which were not yet known. They adopted a Master Service Agreement augmented with “appendixes.” As part of the contract, the organizations agreed on a formal change management process to address how the companies would incorporate changes. Another key component was the development of a flexible pricing model (please refer to Rule 4: Pricing Model for more detail). The contract framework is shown in Figure 8.

Figure 8: Contract Framework



Transparent Fact-Based Decisions

Microsoft knew if they were to foster trust with Accenture, they would need to have a transparent relationship based on facts and the ability to "see" critical components of the business promptly.

Microsoft and Accenture agreed to use four types of fact-based mechanisms to gauge performance:

Culture of Data-Driven Continuous Improvement: Like all good outsourcing relationships, the OneFinance agreement uses a formalized operational report to track performance against targets. Under the agreement, Accenture provides Microsoft with various pre-defined service reports for each process area on a monthly, quarterly, and annual basis. However, one thing that sets the OneFinance relationship apart is its emphasis on a culture of data-driven continuous improvement. For example, if Accenture fails to achieve the agreed service level on an SLA or some selected KPIs, Accenture must perform a root cause analysis on the failure. Microsoft and Accenture then discuss the findings at the regional level, determine why the failure occurred, and who is accountable for it. Jointly, they develop and implement a plan to rectify the situation.

End to End Focus on Accountability: While Accenture performs the root cause analysis for failures, it is understood that the root cause of the failure may not reside with Accenture. Microsoft wants to ensure that Accenture is looking at failures from an end-to-end perspective and helping Microsoft identify opportunities to make their own internal improvements that might be "inputs" to Accenture.

The culture is also such that the responsible party must burden the impact of the failure. For example, where Microsoft might have caused the failure (e.g. an output of a Microsoft internal process is an input to an Accenture process), Accenture is given relief and is not held responsible for the failure. If Accenture fails to meet a Service Level Agreement (SLA), Microsoft is due a Service Level Credit, which is a penalty that reflects the offset of the failure's impact.

Annual Customer Satisfaction Survey: It was important that not just the OneFinance team be satisfied with Accenture's performance, but that they also receive direct feedback from Microsoft employees in the field that came in contact and interfaced with Accenture on a day-to-day basis. As such, a survey is administered to measure Microsoft's satisfaction with the services provided under the outsourcing agreement.

Formal Benchmarking Reports: Microsoft and Accenture built in a formal process for benchmarking performance using data developed by Accenture, as well as periodically using other external sources. The purpose of the benchmarking exercises is to monitor progress toward goals, identify successes and problems, scorecard performance, track customer satisfaction, identify new opportunity areas for improvement, and quantify the business value delivered. The benchmarking methodology helps identify and quantify the overall quality of service or total cost of service to drive continuous improvement. Beginning in Year Three of the relationship, Microsoft and Accenture agreed that it would be a shared goal to achieve first quartile performance over the life of the contract.

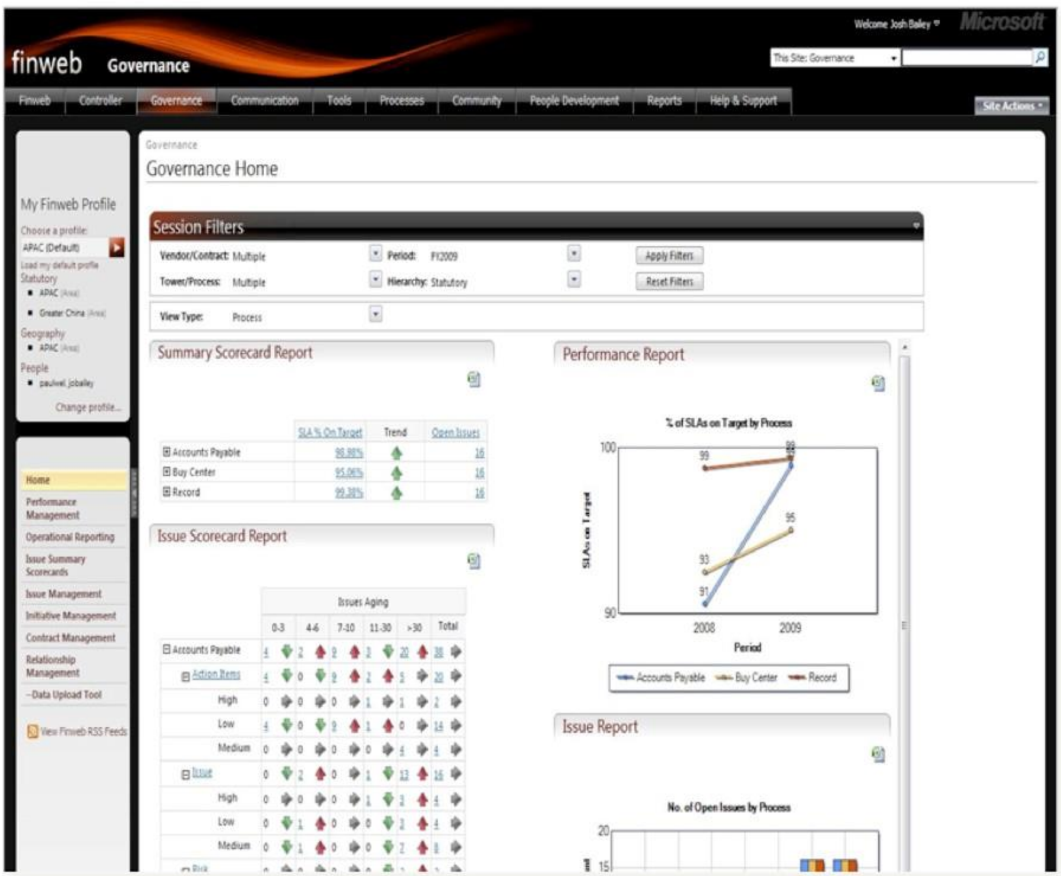
Governance Workspace: To aid in governing the outsourced relationship and activities, Microsoft and Accenture created the Governance Workspace. The Governance Workspace is an internal website portal, providing a single platform with which to manage the entire Accenture contract and giving a "single-view" of the entire program to all stakeholders. Through the Governance Workspace, Microsoft and Accenture can see all operational and performance information. The Governance Workspace enables consistent management of Accenture across the world. The workspace contains different "views" to meet the needs of the various stakeholders.

The Governance Workspace reinforces the basic principles of OneFinance – transparency of operations to all stakeholders, business insight and performance management driving business excellence. To abide by these principles, the Governance Workspace:

- enables all stakeholders to obtain information about operations – "one view of the truth,"
- brings together accountability and responsibility in an intuitive & rational way that helps MS and ACN teams forge an effective partnership, and
- extends the existing Finweb platform as a one-stop-shop for FinOps, bringing together relevant tools aggregated into one central location.

The figure below represents a screenshot of the Governance Workspace.

Figure 9: Example Governance Workspace Screen Shot



Also, the Governance Workspace portal shares frequent updates across the team and with stakeholders about transformation projects to improve transparency and build trust as the organization works to make "change a constant" within Microsoft. One of the tools used is a Monthly Update that provides the status of the business and transformation projects (depicted in Figure 10).

Figure 10: Example of the OneFinance Newsletter

http://finweb/processes/BPO/

OneFinance | ***Ongoing Transformation Update*** **FY09 Q3** | accenture

Quarterly Distribution

Record: Paul Weldon & Piotr Tarkiewicz **Accounts Payable:** Jodi Ford & James Barnes **Buy Center:** Aaron Friedman

Accenture BPO Process Excellence

Record | Accounts Payable | Buy Center

Operational and Continuous Improvement

Much has been happening over the last few months in the Transformation/Continuous Improvement efforts. I'd like to update you on the improvement activities that have transpired since our last update. The OneFinance Team has been busy quantifying the transformation opportunities recommended by the operators, management and finance operations teams. Our objective is to enhance our processes to

- Deliver increased productivity
- Increase efficiencies
- Provide better quality
- Reduce cost of service

In the past six months, 24 initiatives targeted to improve the quality, controls, and efficiencies of our processes have been completed across our three workstreams. These initiatives address issues from enhanced reporting and metrics, root cause analysis, standardizing to global processes, clean up of balance sheets and ticket types, macros to eliminate double keying, and upgrades to current tools. (Jump to details of the completed projects)

In addition, there are over 30 projects actively being worked for implementation this year. (Jump to details of the in-progress projects)

Benchmarking

Benchmarking is a cornerstone to our transformation activities. We are excited to be in the final stages of completing this study. The results will establish baselines of current performance in our Invoice Processing, Time and Expense, Record and Buy Center processes. It will also identify focus areas where we have opportunity to raise the level of our performance and drive out costs. The results will be distributed as soon as the study is finalized.

Transformation

In February and March, meetings were held to review business cases for transformation projects. These projects are those that will not only improve efficiencies and productivity but will also result in reduced costs. Eleven projects have been thoroughly reviewed across the three process areas. Initially, we plan to move forward with nine of them. The details and project plans are being currently being worked and will be communicated shortly.

Our goal continues to be to move toward world-class performance through our continuous improvement and

Balanced Scorecard

When it comes to metrics, be careful what you ask for. While the team had a layered approach for managing the metrics (SLAs, KPIs, and Operating Metrics), the team's early focus was around the SLAs with Accenture. This was an easy trap to fall into as finite tasks are easy to measure and monitor. The result? The "scorecard" that the OneFinance team put into place was all "green," yet they were not achieving the KPIs and Operating Metrics as well as they would like.

The OneFinance team knew they needed to have a more balanced approach when it came to performance metrics. Service-level agreement performance was critical, but so was the transformation process. In addition, the team knew they could not operate efficiently and effectively without employee acceptance. For that reason, customer satisfaction was also critical. The objective of creating a robust controls environment is reflected in the fourth evaluation criteria: Controls and Compliance.

To achieve these goals, the OneFinance team has evolved to have a more balanced scorecard aimed at managing the overall business. Each area had individual weights as follows:

35% Performance

20% Business Value (creative ideas, transformation success)

25% Customer Satisfaction

20% Controls and Compliance

This program focus, versus service provider SLA focus, has allowed Microsoft and Accenture to work more closely as they realize to be successful, they must work together.

Managing the Internal Financials

Many outsourcing projects prepare detailed business cases at the stage of project approval or at the time of contracting and then never look at it again. Over time, as people involved with the initial business case move on along with shifts in business conditions, there is a difficulty in taking a temporal view of the contract to determine if it indeed achieved its original stated objectives.

Savings and benefits that seemed so real and attainable at the start get blurred, leading to a dilution of accountability to drive the objectives. The OneFinance team recognized that the accountability for achieving the committed goals of the outsourcing program had to reside with this team irrespective of whether the original team stayed through the term of the contract or not. Taking ownership to deliver the committed benefits became one more of the “non-negotiable” tenets of the program.

As part of its review of other outsourcing contracts and transformation initiatives within Microsoft and by speaking with other companies, the team recognized another interesting facet of “corporate-driven” programs. Most corporate change programs follow a “push” approach leading to a lack of ownership for the outcome in the field organizations, which interestingly, are the true stakeholders of such change. Costs (and benefits) of such change get lost in “corporate overheads” and “corporate budgets” with little visibility to the field or the actual consumers of the service.

Over time this leads to what economists call the “free-rider problem,” where people take no ownership of the outcome or what they demand from the service provider as they believe “someone in Corporate” pays for it. This lack of transparency exacerbates the dilution of accountability for driving the objectives of the program over an extended period of time. This lack of accountability meant that over time no one had any incentive to drive costs down or benefits up as no one had control over these.

As part of its design, the OneFinance team was convinced that while getting the contract with the service provider right was paramount, it was equally critical to ensure that an internal financial process was in place to drive the right behaviors. Such a process would need to ensure clarity of accountability of the overall program during its lifetime was retained within Finance Operations.

Second, the consumers and subsidiaries actively had a “skin in the game” in driving the objectives and were not passive bystanders. Given the organizational history, this not just needed the design of a robust process but also called for a change in mindset within both the field organization and the corporate echelons.

The key to this existed in designing a financial statement that mirrored the “financial transactions,” which drove the program, reflecting “revenue,” “costs,” and the “savings.”

Estimating “Revenue”

The first part of the OneFinance internal financial statement was the “revenue.” Calculating the revenue came from two sources: 1) transaction revenue and 2) governance revenue.

The first step in calculating the revenue was to estimate the costs to be charged to the subsidiaries for consuming the service provided to them through the program that would be a surrogate for the program’s revenue. To ensure fairness in the process, the team started with the operations, costs and volume of work the subsidiaries were incurring on the services transitioned to Accenture. This formed the baseline cost and volume with which the subsidiaries would be burdened. Since the transition involved a one-time transfer of headcount to Accenture, this cost reflected the fair value of the cost of service for each subsidiary. (It was what they would have incurred if they had performed the work in house.)

Based on the volume of work being transitioned, the headcount cost was translated into a transaction cost. This transaction cost was to be used to compute the future costs of the subsidiary in the outsourced model. For instance, if the baseline transaction cost was $1.08 then an annual consumption of 100 transactions would entail an annual “charge-back” of $108 to the subsidiary. This, in essence, became one of the two components of the “revenue” that would be reflected in the internal financial statement. This enabled the subsidiaries to see the direct costs associated with the volume of work they consumed. While the transaction cost model worked for Accounts Payable and Buy Center services, Record continued to follow the resource-based pricing model given its peculiarities.

The second component of “revenue” came from a charge for managing or governing the program. The team recognized that the cost to the subsidiary had to include the cost of governance of the outsourced delivery model. In an insourced model, a similar cost—the cost of managing operations—would have been borne by the subsidiary, albeit buried in corporate overheads. This model provided visibility to the field leadership of the cost of governance, enabling the driving of accountability for efficient governance within Finance Operations.

The charge to the subsidiaries reflecting their consumption of services and the cost of governance was transferred to the subsidiaries through a specific line item in their budgets. This provided the subsidiaries with a clear understanding of the costs associated with the services they were receiving.

"Cost" of the Delivery Model

The "cost" component of the internal financial statement was the outsourcing charge by Accenture.

Profit or Savings

The difference between the "revenue" received from the subsidiaries and the "costs" paid to Accenture reflected the "profits" from the outsourced model. In essence, these were bottom-line savings associated with the outsourced program. The "profits" are reported each month to the field leadership and transferred to them each year. In that sense, Finance Operations becomes a zero-budget organization, where all costs and revenue belonged to the ultimate customer—the field organization. At the end of the year, the field organizations could decide on the best way to utilize the "profits" from this venture.

Savings generated from transformation projects added to the overall "profits" of the business case and funded additional transformation projects. By agreement with the field leadership team, savings from transformation projects were plowed back into the program to fund new initiatives. For example, in 2010 the field organizations directed the OneFinance team to invest in *eInvoicing* as one project that would drive additional efficiencies to the field.

This meant that new initiatives did not lead to a further budget ask from the field and the overall program became self-funding. ***This is a very important concept because one of the biggest challenges in any company is getting investment dollars to make improvements.***

Benefits of this Approach

As stated above, a key objective of the OneFinance outsourcing program was to drive financial rigor and discipline across all stakeholders to ensure the core objectives were met. Creating a rigorous financial process to manage the internal financials of the program provided transparency into the operation of the entire delivery model.

The first benefit was that of transparency. Under the program, the end customers could directly see that their dollars were buying not just sure transactional service delivery – but the governance of the program whereby they could see actual performance received. This placed adequate accountability on Finance Operations and Accenture to deliver services at the committed service levels and of the agreed quality.

The second benefit was the elimination of the free-rider problem. Subsidiaries knew the cost of their demands for additional service. This changed the way they interacted with Finance Operations (and Corporate). While they could ask for additional services, it came with a cost to them.

Third, this model kept Microsoft and Accenture true to the business case. It helped them validate that savings from transformation projects were not just paper money but were in fact realized. Reporting on the savings and using them to drive the transformation agenda forward consequently drove discipline into the process. Simply put, it kept everyone on the hook.

Also, there was another unintended benefit realized by Accenture: the model helped avert scope creep. Often in outsourcing contracts, the well-intentioned desire to please the customer and the subsidiary leads to scope creep, which typically results in additional costs. Then, such cost demands lead to arguments and disagreements between the two parties.

With this model, Accenture had clear instructions on how to manage requests from subsidiaries for additional service. Such requests would need to go through the formal contract change order process that ensured all internal expectations are managed and buy-in obtained before it was implemented. This gave Accenture a formal method enshrined in the contract to push back scope creep, often a significant driver for savings leakage.

Success from the Beginning

The OneFinance team, along with their Accenture partners, set out to create a different kind of outsourcing model. From the early days of white-boarding sessions to the inking of the contract, the team challenged conventional approaches to outsourcing. But were they successful? Has there been a payoff?

To determine success, it would be beneficial to recall the goals the OneFinance team had hoped to achieve through the outsourcing process.

Global Process Standardization Moving Forward

Microsoft's primary goal was to develop a single, global finance solution with effective, consistent processes across the world. The OneFinance project has delivered on the promise. In just two years, Microsoft was able to reduce the number of systems used to manage its finance operations from 140 to less than 40. While not perfect – it is much closer to realizing its goals of globally standardized processes in place of accounts payable, procurement and records.

Optimizing Resources

Another goal of the team was to maximize the value-added work done by employees. In other words, having Microsoft employees complete work strategic to the organization. Before the launching of OneFinance, Financial controllers, for example, spent over 75% of their resources supporting transactions, compliance activities and local reporting – some 530,000 hours annually worldwide. This left little time for higher-value activities such as developing business insight or strategy. After just the first two years of OneFinance, this statistic has dropped to 23%.

Improve Service Levels to Employees, Partners and Clients

Service levels have also increased. For example, the Accounts Payable workstream includes 10 SLAs across 95 locations. This yields 950 individual SLA instances Accenture has to meet for Accounts Payable. Out of 2,100 total Accenture SLA instances, they have only missed 9, for a miss rate of only 0.43%. This is remarkable given the complexity and scale of the Microsoft procure-to-pay process. While hitting SLAs is important, the real benefit to Microsoft comes in looking at the bigger picture. For example, Accenture delivers a 20% increase in the first-time pass on Accounts Payables.

Satisfaction levels amongst Finance Operations' customers (Finance and Procurement community) have substantially increased over the past three years. While the overall satisfaction increased, the proportion of customers either "Dissatisfied" or "Strongly Dissatisfied" moved from 33.30% in 2008 to 3.4% in 2009. Also, Microsoft has plans to launch a relationship survey to gauge how well the two organizations work together.

Improve Sarbanes Oxley (SOX) Compliance

One key to SOX compliance is an improved control environment. The OneFinance team and Accenture have been able to improve this, allowing for increased coverage of SOX compliance from just 15 "large" countries in the pre-outsourcing era to all irrespective of size or complexity following outsourcing. What's more, external auditors have been able to expand their scope without increasing the cost of compliance. In the fiscal year ending June 30, 2010, the operations outsourced under OneFinance completed the year with zero unmediated SOX 404/302 & audit control deficiencies.

Total Costs Reduction for Microsoft

While not the core driver, Microsoft has reduced its total costs in financial processes. The OneFinance project was expected to generate USD 37.9 million over seven years. Microsoft has neared a 20% reduction in the cost of the contract and the expected reductions are estimated to exceed 35% by the end of the contract.

But the cost of the contract is only one element. The bigger picture for Microsoft is reducing overall ***total*** costs through the transformation projects. These additional savings come in the form of the transformational projects. So far, the OneFinance and Accenture teams have implemented eleven transformation projects that have resulted in over $30 million in savings for Microsoft. They began seeing quantifiable benefits from the projects after a short six months from their initial investment. In other words, they have generated a payback for their business.

Increased Business and Profitability for Accenture

Based on Accenture's expertise and insight, they have taken cost out of the baseline quickly, resulting in profit margins well above-market rates.

Also, Microsoft has expanded the scope of the global finance solution contract to include the United States, adding the Accounts Payable and Buy Center operations from Microsoft's Fargo location. Today, the entire book of business is valued at $330 million and runs through 2018. Accenture has a future revenue stream as part of a long-term contract that most service providers would envy. The long-term contract reduces Accenture's cost to serve over the life of the contract because they need not do a competitive bid for the work regularly like they do for most of their clients who suffer from the "bid and transition" syndrome of constantly testing the market price.

But probably the best benefits for Accenture are intangible. The flexible agreement has allowed Accenture to be a part of key transformational projects for Microsoft – an enviable position in the marketplace. More importantly, Accenture has gained a credential in terms of scope of service, geographic spread and languages being covered and their work with Microsoft places them in a very strong position in the Finance and Accounting marketplace. There is no other contract with a similar spread that we have seen.

Other Benefits

As with most other projects of this size and complexity, other key benefits were derived from the relationship and work with Accenture. A few of these are noted below:

Clearer roles and responsibilities for each process. Confusion and cost can be minimized by knowing how processes are to work and who is responsible for them. The standardized taxonomy and clear governance structure have allowed the two partners to focus on what each does best.

Ensure that internal controls and accountability are consistent and clear. With standardized processes in place, Microsoft can lay the foundation for the next step –strategic sourcing with category managers. Microsoft has more spend data now than ever before. This will enable them to better understand what they spend, and how it spends funds. This level of visibility will enable Microsoft to better control costs.

Also, Microsoft has better control over its purchase orders. For instance, Microsoft can stop – through Accenture – issued PO's to manage spend and vendor compliance. They have greater visibility into vendor payments and can stop payments if there is a dispute (such as a vendor is not honoring Microsoft's Intellectual Property).

Deliver the "right" information at the "right" time. The Governance Workplace has enabled real-time information exchange and the streamlined governance structure ensures swift communications and dispute resolution.

What's Next?

While the OneFinance team has had successes, they are not resting on their laurels. In the spirit of transformation, the team continues to reinvent itself and push to newer heights. The Microsoft/Accenture team just embarked on a joint three-year strategic visioning plan that resulted in a host of new goals and objectives that will challenge the team to reach even higher levels with bold goals such as winning an industry award and recognition for excellence for their work to have a world-class controls and compliance process. Their vision framework is outlined in Figure 11 below.

Figure 11: Vision Framework

Summary

The OneFinance contract is, and continues to be, a vested relationship. While Microsoft believes it is on the path to achieving what it set out to achieve – they did it with the help of a business partner. Both Microsoft and Accenture are on the same journey, ***working together*** to drive out waste and create world-class financial processes and an infrastructure that will take them into the 21st century.

Henric Häggquist, Sr. Director for OneFinance, was adamant to point out that TOGETHER is indeed better when he congratulated the team for their hard work after they won the Shared Services Outsource Network's "Best Mature Outsourced Service Delivery" award.

"So why do we get these awards?
I say it is because of TOGETHER.
We face all things TOGETHER.
We win TOGETHER.
We face difficulties TOGETHER.
We never go YOU against US.
We have all seen what that leads to…
I couldn't be more proud than I am right now.
Proud TOGETHER with all of you!
Thanks for the hard work you all do!

Henric Häggquist
Sr. Director, One Finance

One key lesson? Perhaps it is knowing that saying "win-win" is much easier than acting out "win-win" when it comes to dealing with suppliers. Tim McBride, Chief Procurement Officer for Microsoft, made the following observation:

> *"Most procurement professionals are hard-wired to win. The problem is that Microsoft's conventional definition of winning means that if Microsoft wins, the supplier loses. We have learned that applying a Vested Outsourcing philosophy requires a cultural change in how we will need to work with our suppliers. For Microsoft, this means exploring Vested Outsourcing one program and one supplier at a time—working to build trust with our supply base and business units that outsource to understand that there really is a better way. The OneFinance program has given us a powerful model we can use with other strategic outsourcing programs."*

Those who challenge themselves to follow the Vested Outsourcing rules can create innovative solutions that resolve the conflicting goals so often found in conventionally outsourced business models. The rules of Vested Outsourcing should be the foundation for your outsourcing arrangement.

As you invest in your Vested Outsourcing relationships, ask yourself these questions to determine if you are really thinking about a balanced win-win contract:

> Are you willing to focus on outcomes and not transactions? Are you willing to allow the service provider to come up with the best solution?
>
> Can you describe what you want without describing how to do it?
>
> Can you define and measure the outcomes you hope to obtain? How will these measures be calculated? Who will be responsible for them?
>
> How will you develop the pricing model? Are you willing to allow the service provider to make a decent profit? Is the service provider incented to help transform Microsoft's business? Are you willing to keep them profitable, especially if they cut Microsoft's costs?
>
> Are you willing to develop a governance structure that provides insight into the relationship, instead of oversight?

Of course, not all of these questions can be answered right away. But, on the way to your Vested Outsourcing journey, they will need to be answered right.

About the Authors

Kate Vitasek is one of the world's authorities on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of seven books and a Graduate and Executive Education faculty member at the University of Tennessee Haslam College of Business, she has been lauded by World Trade Magazine as one of the "Fabulous 50+1" most influential people affecting global commerce. Vitasek is a contributor for Forbes magazine and has been featured on CNN International, Bloomberg, NPR and Fox Business News. You can reach her at kvitasek@utk.edu

Karl Manrodt serves as a Professor of Logistics at Georgia College & State University. He is also the Director of the Master of Logistics and Supply Chain Management program, an online master's program for working professionals. Dr. Manrodt served on the Board of Directors for the Council of Supply Chain Management Professionals as well as other leadership roles with WERC. Besides serving as an editor, reviewer or editorial board of numerous academic and practitioner journals, and co-author of six books, he has given over 150 presentations across the globe. He has also served the industry by leading two national studies in logistics, transportation and metrics. Dr. Manrodt was recognized as a "2004 Rainmaker" by DC Velocity Magazine. You can reach him at: Karl.Manrodt@gcsu.edu.

Srinivas Krishna is the Director of Microsoft's Finance Operations Global Vendor Management team and is responsible for managing all global outsourced relationships within Finance Operations. His corporate experience spans Fortune 100 organizations across the US, UK, Europe and the emerging markets, and he has held management consulting and leadership positions specializing in Global Sourcing Strategy, business and commercial structuring, and governance and change management.

A Sloan Fellow of the London Business School, Srinivas earned a Masters Degree in Economics from the Center for Advanced Study in Economics at the Glokhale Institute of Politics and Economics, as well as a Masters Degree in Management from the University of Mumbai in India. He has been a visiting faculty member at the Indian Institute of Management, Kozhikode, India, and his articles have been published in the *Journal of the Indian Institute of Management* and the *Outsourcing Strategist*.

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We would also like to thank the OneFinance and Accenture team members who shared their stories and made this case study possible. Their time and commitment to OneFinance's success is apparent and the results speak for themselves.

For More Information

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at www.vestedway.com/books.

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory into practice. Course content is designed to align to where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white papers and resources. For more information, contact kvitasek@utk.edu.