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The Role of Six Sigma in Outsourced F&A Services

The positive spiral of cost and process productivity —a look at how Six Sigma discipline can help transform real-life buyers.

By Shantanu Ghosh & Monty Singh

Finance and accounting (F&A) outsourcing is one of the fastest growing and largest segments in the global sourcing space. Most *Fortune* 500 companies globally source at least a couple if not more F&A processes. Corporations leveraging global sourcing have reaped the traditional benefits of lower cost through labor arbitrage, increased core competency focus, and access to talent.

But some companies go much further. They better cash management, productivity, and controllership using Six Sigma to continuously improve outsourced F&A processes and drive them to best-in-class.

Traditional outsourcing models transition F&A processes as is, thereby transferring process defects too. Mature global sourcing vendors take a more robust approach to F&A outsourcing. They use Six Sigma to identify defects for remediation and totally re-engineer the process.

LEAN SIX-SIGMA SNAPSHOT

Six Sigma has matured during the past few years. From being a methodology to identify and reduce variations in items critical to the customer, Six Sigma is now used to achieve process transformation and business impact. To a large extent, GE is responsible for Six Sigma's maturity. It used Six Sigma tools to achieve new levels of quality improvements both for products and services. Genpact, GE's outsourcing services partner, adopted Six Sigma since inception.

Today the discipline of Six Sigma is a way of life.

In a nutshell, Six Sigma is a methodology used to reduce variation and make business processes repeatable and reliable for both internal and external customers. Lean helps to reduce waste in the process. Six Sigma uses the "define, measure, analyze, improve and control" (DMAIC) methodology to achieve business impact in business processes. Six Sigma **Defines** the customer's requirements and then **Measures** process defects for the defined requirement by collecting data. The data is **Analyzed** to determine the root cause of defects. In the **Improve** phase, solutions are created to fix and prevent defects. In the **Control** phase, improvements are institutionalized to keep the process on the new course.

As outsourcing service providers implement multiple Six-Sigma projects across F&A processes, they deliver business impact to their customers, some of which include:

- Increasing controllership through process control, including Sarbanes-Oxley (SOX) compliance;
- Improving service levels for both internal and external customers;
- Reducing accounts receivables that can cut funding costs; and
- Timely accounts payable to reduce uncertainty premiums charged by suppliers.

Examples of some real-life problems (See Fig. 1) and solutions include:

Just Do It. Problem: incomplete order sheets from sales reps cause defects in the order fulfillment process. Solution: establish dashboards by each sales rep to track defects for every order sheet and drive visibility in the



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organization.

Lean. Problem: the mortgage loan approval takes too long.

Solution: use Lean value stream mapping to identify wait time and hold time at various stations to reduce waste and improve cycle time.

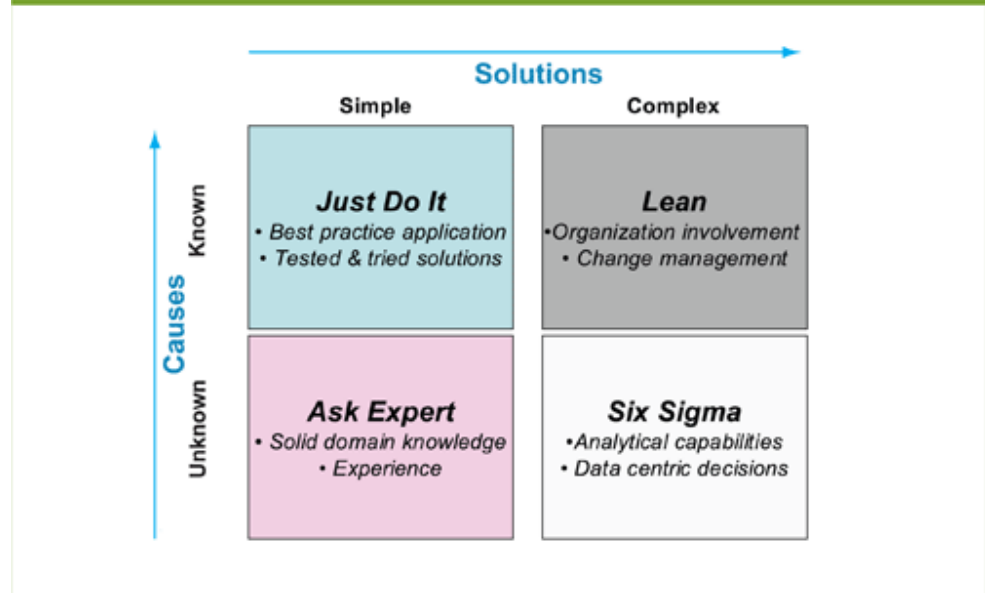
Six Sigma. Problem: poor collection efficiency.

Solution: collect historical data and run analysis on the potential drivers of variation between clients paying on time and those not on time. An imperative is to identify root cause and implement solutions.

Ask Expert. Problem: broken account reconciliation process, and it takes too long to review each line item.

Solution: check with an expert to use tools to ensure only exceptions are dealt with.

Figure 1: Need-based-custom solutions



THE QUALITY IMPERATIVE

F&A processes are non-core but reflect other underlying commercial processes of an organization. Given the fact that F&A is non-core, most organizations do not allocate substantial resources to the function. As a result, in Genpact's experience, most F&A processes have tremendous potential for improvement. F&A management can be a competitive differentiator today, given the pricing pressures. Six Sigma can improve F&A processes to accurately pay and get paid on time. Collecting on time improves cash and cuts funding costs, while paying on time results in better market reputation and pricing.

F&A must also be flawless on controllership as the tight regulatory regime of today can make an error look like fraud. Some of the issues faced by F&A processes include:

- Poor data leading to controllership challenges;
- Revenue leakages;
- Long billing cycles;
- Poor cash performance; and
- Financial restatements.

Using Six Sigma tools, outsourcing vendors identify root causes for defects and remediate them. It is difficult for buy-side organizations to get resources to run Six-Sigma projects for a non-core process such as F&A. On the other hand, F&A is core to an outsourcing service provider. As a result, they can deliver "industrial-strength processes." This essentially means that a mature service provider has the ability to use Six Sigma and leverage inherent F&A scale to deliver much more robust processes than an internal shared-services organization. Simply put, going to a doctor is better than trying home remedies.

Finally, outsourcing F&A without a Six Sigma-like ability to achieve improvements is a short-sighted strategy, since once the organization absorbs the cost advantages of global sourcing, not much more left can be achieved.

In an F&A outsourcing initiative, customers get both quick results and benefits over the long term. Quick hits are delivered using Lean Six Sigma, which easily identifies and eliminates waste.

In F&A outsourcing, Lean Six Sigma is used to create a process map that captures handoffs, workflow, value stream, and technology details. The creation of a process map identifies process deviations, gaps, and waste. On identification, these defects are rectified either before or immediately after the process is outsourced, depending on the prioritization. These improvements provide immediate benefits to an F&A process.

One of the tools used to get quick hits is the Failure Modes and Effects Analysis (FMEA). FMEA analyzes potential problems in the initial outsourcing phases when it is easier to take actions to overcome these issues. It identifies potential failure modes, their effect on the process, and identifies immediate corrective action, which de-risks the transition process.

For instance, a Genpact customer's outsourced F&A process often missed reporting deadlines. Using FMEA, Genpact found that inputs either did not reach the general ledger on time or had errors. The time taken to rectify those errors was long. To solve the problem, timelines were set for inputs to arrive, and any input after the deadline was treated as a defect. It fixed ownership and responsibility for input submission and built an escalation mechanism to resolve defects.

Benchmarking is another Six Sigma tool that provides quick fixes. A customer had high accounts receivable, and Genpact benchmarked process during the initial stages of outsourcing. Baselineing the process revealed several manual interventions, multiple handoffs, and blend of automated and paper-based process flow. Process automation and receivables tracking improved cash flow.

Outsourcing vendors handle several F&A processes across customers and can identify common defects and implement best practices quickly.

Quality Function Deployment (QFD) is another tool that provides quick results. It helps outsourcing vendors and their customers to build critical process characteristics from the viewpoints of the customers, external markets, and technology.

Lean Six Sigma quick fixes give immediate results during the initial stages of global sourcing, but more importantly, set up the process to move to the continuous improvement and best-in-class phases.

LONG-TERM BENEFITS

The real benefits of F&A outsourcing and Six Sigma are realized a couple of years after the process has been migrated and improved using the quality methodology. The process of squeezing long-term benefits from Six Sigma and outsourcing begin early during the initiative. Once the process has been shifted, the service provider uses Six Sigma to achieve the following:

- Stabilize the process;
- Continuously improve the process;
- Stay compliant with regulatory requirements; and
- Achieve process breakthrough.

In stabilizing the process, Six Sigma ensures that the F&A process stays on course by preventing a relapse. For example, Six Sigma improvements can get lost due to talent attrition. To prevent a process relapse from knowledge loss, process changes are embedded into IT systems.

This ensures that the improvements are institutionalized.

Six Sigma also ensures that processes are compliant with regulatory requirements of SOX, the Patriot Act, and Basel-2, to name a few. Compliance is achieved using SAS audits, new layers of controls and process discipline from Six Sigma, and centralized control points for easier monitoring and management.

Mature global service providers have the experience to ensure compliance, some of which include:

- SOX Section 404 Certification for multiple processes across several business lines;
- Closing and reporting certification programs for provider employees in U.S. GAAP, SOX, IFRS, eOATS, SAP, and ORACLE, to name a few. Traditionally, Six Sigma initiatives reach completion once the process is stabilized and monitored, but mature service providers don't stop at process stabilization. They continuously improve process performance to provide new breakthroughs to customers.

To achieve process breakthroughs, the discipline of Six Sigma must be a way of life and not just a set of discrete green or black belt projects aimed at bettering Sigma levels and controlling them. Six Sigma delivers several breakthroughs including better controllership; better cash through improved billing, accounts payables, and collections; and productivity increases.

BETTER CONTROLLERSHIP

Controllership is key to an F&A function. Six Sigma can be used to identify process gaps that result in poor

controllership. For instance, a Genpact customer operated in multiple countries and had a local set of books in local currencies and a U.S. reporting set of books in dollars. However, currency balances in the local and reporting books did not match. The net mismatch in the complete trail balance was \$1 billion, and the absolute amount was \$18 billion. This resulted in a cost-of-funds miscalculation and inaccurate financial statements.

Genpact used root cause analysis and captured the source of the defects to manual entries where the currency conversion amount was entered by overriding the automated system. The problem was rectified by tightening the manual entry approvals, automatically tracing local and reporting set of books, and triggering alerts to functional heads in case of a mismatch. After the Six Sigma exercise, the net mismatch was down to \$800,000, and the absolute amount was down to around \$900 million.

BETTER CASH

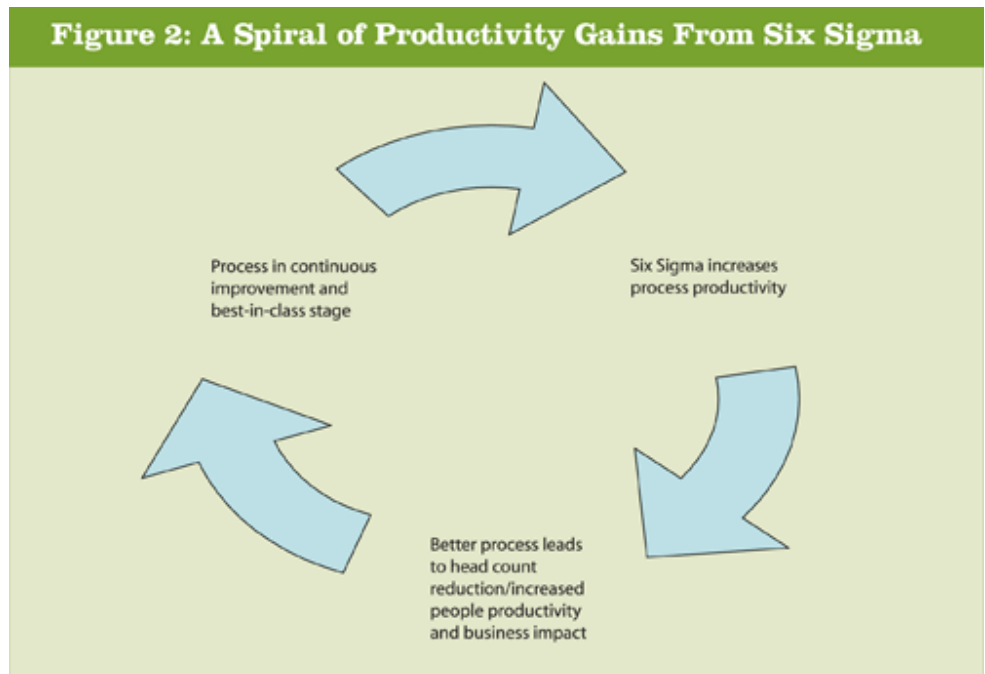
Using Six Sigma can improve billing, AP, collections, and other processes to better cash flow. An energy company had high invoicing errors and poor billing that lead to long cycle times and revenue leakages. Genpact took the following steps to solve the problem: used process mapping tools to eliminate non-value-add steps; developed templates for process standardization; created accuracy enhancer tools to reduce errors; tracked inventory; and analyzed account aging.

Billing accuracy was increased to 99.5 percent from 86 percent for 3.6 billion invoices, cycle time was cut to nine days from 21 days, and overall it delivered a positive \$3 million impact on revenue.

IMPROVED PRODUCTIVITY

A global equipment leasing company had high sales outstanding of nearly \$600 million. The outstanding stayed high as only 30 percent of the delinquents were reached due to agent capacity constraints. Using root cause analysis, Genpact found that there were two types of delinquents: "self payers" who paid late and "true delinquents." Agents focused their attention on true delinquents. As a result, delinquency was cut by \$403 million, and agent productivity went up three times.

The use of Six Sigma and global sourcing delivers two fundamental interconnected benefits: improved cost productivity and improved process productivity. (See Fig. 2)



Global sourcing of processes delivers cost productivity in the first instance through labor arbitrage. Six Sigma application to improve processes and eliminate waste cuts headcount requirement, further improving cost productivity and process productivity. Productivity is also improved as output increases from the same headcount due to better process management. Process productivity increases again through digitization and business process re-engineering by providing benefits such as better cash and lower working capital requirements among others.

The effective use of global sourcing and Six Sigma has delivered a positive spiral of benefits, which makes a compelling argument to include both in a long-term F&A strategy.

Monty Singh and Shantanu Ghosh are both senior vice presidents at Genpact. For more information visit www.genpact.com.

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