

Managing amid uncertainty

‘How the Finance & Accounting function
contributes to an agile organization.’

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For the graduation at the

University of Twente

Faculty of

Business, Public Administration and Technology

Educational programme

Industrial Engineering and Management Science

Assigned by

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Date: **24 October 2006**

Place: **Amstelveen, The Netherlands**

Preface

This thesis is the final work of my study “Industrial Engineering & Management Science”, at the faculty of “Business, Public Administration and Technology” at the University of Twente in The Netherlands.

I would like to thank Prof. Dr. P.B. Boorsma and Drs. G.C. Vergeer for supervising my work, for giving helpful advice, a critical view and being open to discussion during the progress of my thesis.

Moreover I wish to thank R. Oskamp for accompanying, helping and providing me with useful information and criticism during the progress of my research. Also I would like dedicate a word of thanks to D. Vollmer for revising my report on the English language and grammar. Besides, I would like to thank my direct colleagues at Deloitte for providing the opportunity for work-outs and relaxation moments.

Last but not least, I would like to dedicate a word of gratitude to the interviewees (in the order in which the interviews have taken place): Mr. R. van der Steeg (CFO Europe, Cognos), Mr. J. Mitchell (Vice president Finance EMEA, JohnsonDiversey), Mr. F. van Ooijen (Manager of the Shared Service Centre, Chubb), Mr. H. Naaktgeboren (CFO The Netherlands, Chubb), Mr. H. Van Wageningen (CFO The Netherlands, SareLee), Mr. H. Strikwerda (Professor of Organization and organizational change at the Business School of the University of Amsterdam/ Director, Nolan Norton & Co), Mr. J. de Rooij (Partner, Deloitte), R. van den Berg (Formal SSC manager nowadays Financial Controller, Xerox) and Mr. L. Zirnhelt (CFO, SkyEurope). Only by the given interviews, I was able to provide the research with a more practical impact, through which actual conclusions could be reached. Besides, these interviews were very interesting and motivating in the finalization phase of writing my report. These interviews not only enabled me to provide the research with a more practical impact, through which actual conclusions could be reached, but also were very interesting and motivating in the final phase of writing this report.

Additionally, everybody who listened to my story and supported me during the period I worked on this thesis deserves a letter of thanks.

Amstelveen, October 2006

Léon Poppegaai

Summary

Increasing competition, the progressive globalization of the economy caused by lowering of trade barriers, and the emergence of new market players that benefit from the significant labour costs advantage are pressing western firms to re-devise their strategies. From this it can be stated that our modern society becomes more complex and changes faster and faster: what the world will look like in a relatively short time from now is increasingly uncertain (Johnson et al, 2002; Financieel Dagblad, 2002; Deloitte Research, 2001). From this it is argued that organizations should consider flexibility as an integral part of their strategy, as only by doing so the organization can remain agile, and is thus able to cope with today's organizational requirements. This research will be only interested in how the Finance & Accounting (F&A) function can contribute to the flexibility focus of the organization, this demarcation is made given the timeframe for this report. Although it is argued that the other processes within the organization have to be flexible, as the agility of the organization is determined by the sum of the flexibility in all processes.

In the business world, shared services, outsourcing, etcetera are considered to be a panacea for every organizational situation (Deloitte Research, 2005). But often the organizational structure model decision is not that clear, many aspects play a major role in the choice for the organizational structure model, which determines in the end the success of the organization. From here the object of this report is formulated as 'how flexibility within the F&A function can be organized, by which it contributes to a more agile organization'.

According to Strikwerda (2005) the consumer demand is increasingly volatile, forcing organizations to be flexible and act swiftly in rapid changing environments. From here it is argued that the 'capacity flexibility' of the F&A function appears to be of importance. Changes in the capacity of the F&A function, and the ability to change, are linked directly to the cost structure of the F&A function. From here it is substantiated in this research that the 'F&A function creates flexibility through converting the fixed cost structure to a more variable cost structure'. This process emerged to be very relevant, as is argued that the costs of the F&A function are predominantly fixed. By the shift in the cost structure the F&A function will become more flexible to respond on changes in its required capacity, by which the agility of the organization will be increased. Next to this it appeared that the costs of the F&A function are susceptible to 'sticky' behaviour, what implies that costs are unnecessary 'managed fixed', by which unnecessary capacity is maintained and so (financial) resources wasted. For this reason is this concept further included in the research.

The decision model, which is formulated to provide further understanding in this research, is predominantly formulated by the consultation of literature, internal documents of Deloitte and by the consultation process of professionals within Deloitte. First of all a number of F&A processes are selected given their process characteristics. The selected processes are further modularized/ broken down in sub processes, this to be able to investigate flexibility in the F&A function more accurate and profound. From here a number of decision attributes were formulated and the scope of the F&A function was further

demarcated. After the complementation of the decision model, the results were linked to the formulated profiles of the possible solutions, from which a series of outcomes could be formulated. Successively, the outcomes of this process were extensively discussed during a series of interviews with practical experts from the business world. From here a number of conclusions were reached about the suitability of the F&A processes to be customized and how to exploit these characteristics.

From here it was concluded and recommended that the 'procure to pay' process should be organized in an outsourcing relation, especially given the indicated stickiness in this process. Important for the outsourcing relation is that the relations should be based upon a variable contract. The 'general accounting and close' process should be organized in an outsourcing or Shared Service Centre (SSC) approach, or a combination of these models. In the report is argued that a SSC should be based upon a variable recompense system, as otherwise the relation doesn't fit the flexibility definition which is set for this report. The 'analyze & support business performance' and 'support compensation' processes should be performed in a SSC approach, especially given the close link with the organization, which is needed to perform the processes successfully. The 'set business performance measurement' and 'define management reporting requirements' processes should be organized in the own business unit, and in some cases with external help. This given that the scale of the processes is considered to be low and as these processes have a large impact on the strategy of the organization. The 'stakeholder management' processes should be organized partly in the business unit and partly in the headquarters. For the 'order to cash', 'cost accounting' and 'tax & compliance' processes no conclusion could be reached, as no clear statement could be formulated from the theory in relation to the interviews. Only by organizing the F&A function by these organizational structure models, the F&A function will be able to respond in a flexible way to changes in its environment, from which the F&A function contributes to the agility of the organization.

Aside from this conclusion, it should be observed that the F&A functions should be flexible on a scale of aspects, e.g. reporting flexibility; given the timeframe for writing this report only the above described flexibility form is included. Next to this, there are a number of additional effects discussed that result from the initiation of a SSC or outsourcing relation, that can have far-reaching implications for the organization. And therefore these implications have to be extensively investigated in case an outsourcing or SSC operational structure model will be implemented.

Samenvatting

Toenemende concurrentie, de progressieve globalisatie van de economie welke wordt veroorzaakt door het vervagen van de handelsgrenzen, en de opkomst van nieuwe marktspelers welke het voordeel van lagere loonkosten hebben. Hieruit kan afgeleid worden dat de westerse bedrijven hun strategie moeten bijstellen. Men kan hieruit concluderen dat onze moderne maatschappij steeds complexer wordt en dat veranderingen elkaar steeds sneller opvolgen; hoe de wereld er zal uitzien over een betrekkelijk korte termijn wordt steeds moeilijker te voorspellen (Johnson et al, 2002; Financieel Dagblad, 2002; Deloitte Research, 2001). In dit onderzoek wordt beargumenteerd dat organisaties het flexibeliteit vraagstuk als een integraal deel van de strategie moeten beschouwen, aangezien alleen op deze wijze de organisatie, als een geheel, wendbaar kan blijven. Dit onderzoek zal zich verder toespitsen op de wijze waarop de financiële functie kan bijdragen aan deze focus op flexibeliteit. Daarnaast is wel in dit onderzoek opgemerkt dat de focus op flexibeliteit, binnen de organisatie, voor alle processen moet gelden. Dit aangezien de mate waarin een organisatie wendbaar is, bepaald wordt door de totale flexibeliteit van de processen binnen een organisatie.

In de hedendaagse zakenwereld worden shared services, outsourcing, etcetera, veelal gezien als een panacee voor iedere organisatorische situatie (Deloitte Research, 2005). Maar vaak is de keuze voor een organisatiemodel niet geheel duidelijk, dit aangezien er veel aspecten een rol spelen bij dit proces, echter bepalen deze aspecten uiteindelijk wel het resultaat van dit organisatiemodel. Van hieruit is het doel van dit onderzoek geformuleerd als 'hoe flexibeliteit binnen de financiële functie georganiseerd kan worden, waarbij deze bijdraagt aan een meer wendbare organisatie'.

Volgens Strikwerda (2005) wordt de consumentenvraag steeds wispelturiger, wat organisaties ertoe dwingt zich flexibel te organiseren en snel te handelen in deze veranderende omstandigheden. In dit onderzoek is daarom beargumenteerd dat de flexibeliteit van de capaciteit voor de financiële functie relevant is. Dat aangezien de mate waarin de capaciteit flexibel is, invloed heeft op de kostenstructuur van de financiële functie. Dit wetende, is in dit rapport onderbouwd dat de financiële functie flexibeliteit creëert door de vaste kostenstructuur om te zetten in een variabele kostenstructuur. Dit proces blijkt zeer relevant aangezien de kosten, welke voortkomen uit de financiële functie, voornamelijk een vast karakter hebben. Door deze voorgestelde verschuiving in de kostenstructuur, zal de financiële functie beter in staat zijn om zich aan te passen aan veranderende capaciteitseisen, waardoor de financiële organisatie bijdraagt aan de wendbaarheid van de organisatie. Daarnaast blijken de kosten van de financiële functie onderhevig zijn aan 'plakkerig' gedrag, waardoor er onnodig veel capaciteit blijkt te worden aangehouden bij een neergaande vraag, en dus (financiële) productie middelen worden verspild. Dit fenomeen beïnvloedt de flexibeliteit van de F&A functie negatief en is daarom uitgebreid opgenomen in dit onderzoek.

Het beslissingsmodel, wat is ontworpen voor dit onderzoek om meer inzicht te verschaffen in het flexibeliteit vraagstuk, is voornamelijk gebaseerd op de literatuur, interne documenten van Deloitte en door het raadplagen van de werknemers binnen Deloitte. Allereerst zijn er een aantal F&A processen

geselecteerd op basis van verschillende karakteristieken, welke vergaand in het onderzoek beschreven worden. Deze geselecteerde processen worden vervolgens verder opgebroken in een aantal deelprocessen, dit om de flexibiliteit van de F&A functie zodoende nauwkeuriger te kunnen onderzoeken. Vanhier uit zijn er een aantal attributen voor het beslissingsmodel geformuleerd en is de afbakening van de financiële functie verder gedefinieerd. Na het raadplegen van het ingevulde beslissingsmodel, waar de karakteristieken van de financiële processen vergeleken worden met de karakteristieken van de oplossingsmethodes, kunnen er een aantal bevindingen geformuleerd worden. Deze bevindingen zijn vervolgens uitgebreid besproken met experts uit de praktijk in een serie van interviews. Vanhier uit zijn er een aantal conclusies geformuleerd omtrent de geschiktheid van de financiële processen om aangepast te worden en hoe dit optimaal is te realiseren.

Uit dit onderzoek kunnen de volgende conclusies en aanbevelingen getrokken worden. Het 'procure to pay' proces moet worden uitgevoerd in een outsourcing relatie, aangezien vooral dit proces onderhevig is aan 'plakkerig' gedrag. Hierbij moet de outsourcing relatie volgens een variabel contract geformuleerd worden, aangezien anders de 'plakkerigheid' zich verschuift naar het contract en een bedreiging voor de F&A functie blijft vormen. De 'general accounting and close' process moet worden uitgevoerd in een outsourcing of Shared Service Centre (SSC) model, of een combinatie van deze modellen. De SSC relatie dient gestructureerd te worden door middel van een variabel vergoedingssysteem, anders voldoet deze niet aan de flexibiliteit definitie welke eerder is geformuleerd. De 'analyze & support business performance' en 'support compensation' processen moeten uitgevoerd worden in een SSC model, dit gegeven dat er een sterke binding met de organisatie nodig is om deze processen uit te voeren. De 'set business performance measurement' en 'define management reporting requirements' processen moeten worden uitgevoerd in de business units, indien nodig met externe gespecialiseerde werknemers (bv. consultants). De 'stakeholder management' processen moeten uitgevoerd worden, deels in de business units en deels op het hoofdkantoor. Wat betreft de 'order to cash', 'cost accounting' en 'tax & compliance' processen kunnen er geen uitspraken worden gedaan, dit aangezien de resultaten van het primaire en secundaire onderzoek weinig overeenkomsten vertonen. Door de geselecteerde F&A processen op bovenstaande wijze in te richten, verkrijgt de financiële functie de optimale flexibiliteit om snel te reageren op veranderingen in de omgeving, waardoor de financiële functie zal bijdragen aan de wendbaarheid van de organisatie.

Bij deze conclusie moeten wel een aantal kanttekeningen geplaatst worden. Allereerst moet er opgemerkt worden dat in dit onderzoek de nadruk lag op slechts één vorm van flexibiliteit binnen de F&A functie, voor een compleet beeld zullen ook andere vormen van flexibiliteit onderzocht moeten worden, bv. de rapportage flexibiliteit. Deze zijn niet bijgevoegd in dit rapport aangezien voor het schrijven van dit rapport een bepaalde tijdsduur in acht genomen moest worden. Daarnaast zijn er in dit onderzoek een aantal bijverschijnselen voor het implementeren van een SSC of outsourcing relatie besproken. Aangezien de implementatie van een SSC of een outsourcing relatie vergaande consequenties heeft voor de organisatie, dienen deze implicaties diepgaand te worden onderzocht voordat men overgaat tot de implementatie van de bovengenoemde modellen.

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Chapter 1 Research plan

This chapter will begin with an introduction about our modern society, which becomes more complex and changes faster and faster: what the world will look like in a relatively short time from now is increasingly uncertain (Johnson et al., 2002; Financieel Dagblad, 2002; Deloitte Research, 2001).

Organizations may react to this by increasing the agility of their organizations (§1.1). After this introduction paragraph the purpose of this research will be explained (§1.2) and the research problem (§1.2) and derived research questions (§1.3) will be introduced. Subsequently the scope for the research will be demarcated (§1.4), as not all the variables can be included. The next paragraph (§1.5) will explain the methods used for the research and this chapter will finish with discussing the research plan (§1.6), what can be seen as the guideline for this research.

1.1 Introduction

Increasing competition, the progressive globalization of the economy caused by the lowering of trade barriers, the emergence of new market players that benefit from the significant labour costs advantage, etcetera. These are some of the developments that are putting pressure on western firms to devise strategies to reduce costs and improve the efficiency and agility of their operations (Deloitte Research, 2001; Daft, 2000).

The particular interest in agility, of the management and in the literature, may be explained in terms of the relationship between flexibility and uncertainty (Volberda, 1998). In the literature it can be found that the extent of uncertainty has increased substantially since 1970 and that changes in the environment are becoming more unpredictable and discontinuous (Nadler & Tushman, 1995). Mase (1970) formulates the concept 'flexibility' as follows: "to underline the importance and to create awareness, flexibility is one of the most important adaptive criteria for realistic planning. Needs, as well as goals, change at a great rate and we must remain flexible enough in our planning to adapt to these changes. We must not only handle the problems of today, but be prepared to meet the needs of tomorrow". So it can be argued that organizations should focus on flexibility, as an integral part of the business, for the organization to remain agile.

This results in the need of organizations to focus increasingly on the degree of flexibility in each of the processes within the organization. All processes should be customized to be flexible to the extent the market or organization requires (or the maximal possible flexibility). Considering the time frame in which to write this report, the scope of this research has been confined to the finance & accounting (F&A) function. All other processes in which flexibility plays an important role are not discussed, although I recognize the importance of this. All the processes within the organization have to be flexible, to realize overall flexibility for the organization, and thus an agile organization.

Many large and midsize organizations have developed their F&A functions and processes over time as they have grown - organically or through acquisitions - often culminating in few standard

practises, little automation and multiple finance departments, which are often located in multiple 'traditional' headquarters (Tornbohm et al., 2006). From here it can be argued that the traditional approach is no longer suitable and could even be considered as outmoded. To assure the readiness for the future the organization has to customize the F&A function, so it can operate with more flexibility.

Within the literature, and observable in the actual world, there are a number of organizational structure models¹ known, which are supposed to be able to improve the flexibility of the F&A function. Among the various alternatives for increasing the degree of flexibility, the development of Shared Services Centres (SSC) and outsourcing are increasingly regarded as a potential solution to this problem (Deloitte research, 2005B). A survey of Deloitte (2005) showed that 64 percent of the respondents had at least one process of the F&A function outsourced in the back office and operating in a shared service model has become even more a custom.

1.2 Research problem and purpose of research

In the business world, shared services, outsourcing, etcetera are considered to be a panacea for every organizational situation (Deloitte Research, 2005). But the organizational structure decision model is often not clear, many aspects play a major role in the choice for the organizational structure model, which determines in the end the success of the model. From this follows the object of this report.

The object of this report is to create more insight in the actual organizational structure decision model, this will be achieved by the development of a decision model on which organizations can base flexible decisions related to the F&A processes. This decision model should provide, in a surveyable way, insight into which processes of the F&A function are suitable to be customized to enhance the organization's agility. As this decision potentially influences the performance of the entire organization it is of importance that this decision is based upon a structured decision model, to possibly increase the rate of success. The research problem is therefore formulated as a design question (Geurts, 1999), as follows:

How should the F&A function be organized to contribute positively to the creation of flexibility, in pursuit of a more agile organization?

Since this research question has certain points of contact with various disciplines, this question can be considered as a multidisciplinary research question (Reader of the course 'Bedrijfskundig Onderzoeken en Ontwerpen'), which is not unknown of in the field of business administration science.

1.3 The research questions

In order to be able to formulate an answer on the study as formulated above, the original research problem will be progressively broken down into more specific questions, the research questions (Cooper et al.,

¹ The three components in the definition of organization structure are: 1. Organization structure designates formal reporting relationships and the span of control of managers and supervisors. 2. Organization structure identifies the grouping together of individuals. 3. It includes the design of systems to ensure effective communication, coordination, and integration. (Daft, 2001)

2003). For this research there are 5 research questions defined, all 5 principal questions raise secondary questions. The research questions can be individually answered after which an answer on the central research problem can be formulated (Cooper et al., 2003).

The first section of this report will focus on the concept agility, the number one strategy challenge of the 21st century (Deloitte Research, 2001). The degree in which an organization can be considered to be agile depends on the flexibility of the underlying processes. Within the value chain of Porter several processes are brought up, on which an organization is based (Porter, 1985). The F&A function is considered as a supporting process within this model. A supporting process has the aim to support the core-processes, the core-processes define the organization's right to exist.

Flexibility appears to be of life importance for most organizations, as apparent in most of the descriptions of flexibility in the literature. As the definition for flexibility appears to be very diverse in the literature, we are interested in what the concept flexibility implies for the F&A function. At the same time we are interested in the aspects which define the boundaries of the flexibility in the F&A function.

1. How can the F&A function become more flexible by which the agility focus within the organization is pursued, and what are the drivers behind this process?

For this research is the definition for flexibility defined as that the F&A function pursues the improvement of the agility of the organization. The next step in the research will be to uncover the characteristics which indicate that a certain process has the potential to be performed in a more flexible manner. These characteristics will be referred to as attributes, which serve in the context of the decision model, by which a process can be investigated. The attributes will be determined from a 'process oriented perspective' what implies that primarily the F&A processes, and related sub-processes, will be uncovered in the search for attributes.

2. Which process-characteristics should be considered to create flexibility?

A closer look at the processes within the F&A function, teaches us that these processes are rather diverse. This research question has the aim to select the most significant F&A processes which can be determined within the F&A function. These selected processes have to be further analyzed, and if possible, further broken down into smaller parts for a better analysis. From here the reader will get more acquainted with the processes which are performed by the F&A function, but above all this will bring up the related characteristics of the (sub-) processes and provide a further insight.

3. What are the most significant F&A processes within the F&A function and how can these processes be broken down and described?

The preceding two research questions serve as the input for this research question, as it will actually link the previous research results. From here a statement can be formulated about the potential to create a more flexible F&A function. In addition, it will be investigated if there is a relationship between the characteristics, which are determined by the attributes, and possible suitable organizational structure

models. Then certain statements will be formulated, in the form of a number of hypotheses, after which this research question will be finalized.

4. What is the flexibility potential of the F&A processes, based upon the process-characteristics, and how can this be exploited?

The last research question serves the goal to actually substantiate the formulated attributes, chosen organizational structure models and the resulting hypotheses. This will be done by interviewing several professionals with practical experience related to this topic. From here the process of reaching conclusions can be started.

5. In which organizational structure model are the F&A processes in everyday reality performed and what are the underlying reasons for this?

1.4 Scope of the research

As with any research, not everything can be taken into account, so also for this report certain boundaries are drawn. The boundaries are necessary to be able to study more in depth and to come up with a more specified decision model, instead of ending up with an ‘empty’ general conclusion.

1.4.1 Finance & accounting (F&A) processes

The interest of this report will be dedicated to the financial and accounting (F&A) function, described as a non-core function in the model of Porter. Given that the F&A function claims a supporting role, this process can be transferred or bought from a third party, as is happening on a large scale these days.

1.4.2 Medium and large organizations

This research focuses on medium and large organizations, as for some of the proposed organizational structure models a certain minimum scale is required (see chapter 6). In addition, only professionals working in medium or large organizations were interviewed during the validation process.

1.4.3 Operating within European Union

This research has a keynote that all F&A processes are performed within the European region. This as the respondents were all responsible for the European market. And next to this I do believe that the e.g. culture, country influences, do have its influence on the performance of the F&A function. Due to the similarity between the countries of the European Union, this can be regarded as a suitable demarcation.

1.5 Research methods

There are several models for a research process, each of them has its own implications for the way the research will be structured and for the objective that is pursued (Riley et al, 2000). All models start with the basic premise that scientific research is an iterative process. Although this doesn't mean that research requires completion of each step before the next step can be started (Cooper et al., 2003).

For this research the “regulative cyclus” of Van Aken will be used; this method is focussed on design by diagnostic thinking to reach a solution in the end. The various steps in the cycle are graphically represented in figure 1.1. Van Riemsdijk (1999) indicates that the cycle, as represented by Van Aken, is an extremely useful cyclus for research and design if the evaluation/reflection step is included.

The cycle starts with the problem definition; the discrepancy between the desired situation and the actual situation, which is for this report already discussed in paragraph 1.2. In the next step of the regulative cycle the observed problem is further analyzed and based upon this a plan is drawn up, describing concrete actions to remedy the problem, in our case the proposed research questions (§1.3). Then the plan is designed, implemented and then evaluated.

Academic research can be roughly divided into two parts; primary research and secondary research (Riley et al, 2000). Primary research generally refers to a research that is concerned with the collection of original data by using an accepted methodology. In Riley et al. several methods in collecting primary data are described, and the related effects of each research method. For the primary research of this report there is chosen to review data and making use of (structured) interviews. This approach will be mainly used for the research question number 4 and 5, the final research questions, which can be considered as the evaluation step in the regulative cyclus. Besides this, there are two preparatory interviews held to provide the research with a direction from the beginning (Appendix 1).

Any research normally also includes a secondary research that is subtracted from books, statistical reports and other documentation. For all the research questions, there is made use of secondary research. For the literature and sources, which are used, you are referred to the reference list in the back of this report.

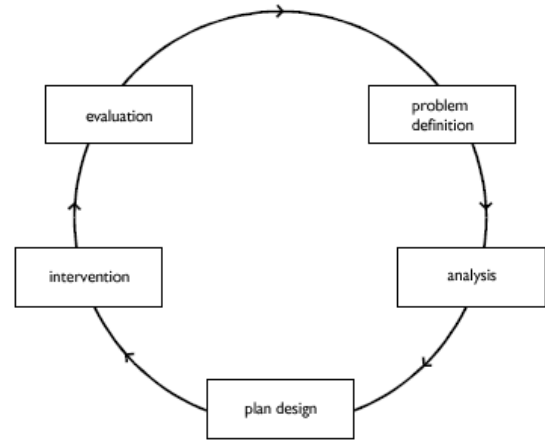


figure 1.1: The regulative cycle (Van Aken, 1994)

1.6 Research plan

This paragraph in the report is dedicated to the research process. Riley et al. (2000) emphasize the importance of this research step. As already explained in the previous paragraph, a part of the research question will be explored by

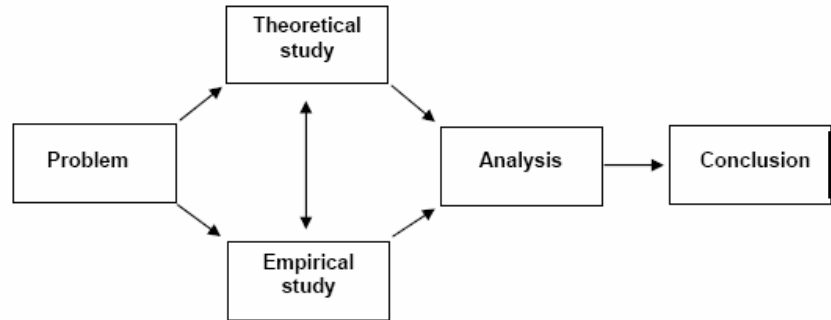


figure 1.2: Research model

primary research. And all of the questions will be subjected to a secondary research. Before the process of writing could start, a superficial secondary research and limited preparatory primary research was held for all the research questions as to be able to provide the research with a research direction. In figure 1.2 can be noticed how the theoretical part (secondary research) and the empirical study (primary research) are linked and combined.

The first step in this research will be to interview two professionals which hold the position of CFO (Appendix 1) and whom recently went through the same decision process as we are interested in, as their organization recently began outsourcing/ setting up a shared service centre. From this several interesting perspectives were extracted, by which a more accurate direction could be formulated for this research. Thereupon the research questions 1,2 and 3 will be investigated in the order as in which they are presented. When the first three research questions are closed, the study will move on to the phase where the previous findings will be used to formulate a number of hypothesises, which are partly obtained by interviewing professionals of Deloitte. After closing this research question the analysis phase can start. Research question 5 includes the validation process, this research question has to demonstrate to what extent the conclusions, reached in the previous four chapters, are also observable in practise. When all the research questions are closed, the conclusion can be formulated and the research can be finalized.

Chapter 2 A flexible F&A function is essential for an agile organization

As indicated in the previous chapter flexibility is of the highest importance during volatile times and changing market requirements. For this reason this chapter will examine the role of the F&A function in pursuing the organization's strategy to become more agile.

2.1 The role of the F&A function in pursuing agility

In the previous introduction chapter the importance of flexibility is emphasized. Here it became clear that flexibility is needed for the survival of the organization in today's world, with its upcoming new threats and increasing uncertainty level. Flexibility is therefore considered to be of utmost importance for the agile organization (Deloitte Research, 2001). This is also confirmed in the preparatory interview, in which the importance of flexibility was rated as very high. Besides, research has shown that flexibility can be considered as an essential characteristic of successful enterprises in a highly competitive and rapidly changing business environment (Volberda, 1998). The decisions which affect the flexibility of an organization should be made within the parameters of the strategy (Johnson et al., 2002), from this it can be reasoned that the agility of an organization is defined in the organization's strategy, what is of utmost interest for the research perspective.

From this it is stated that this report will go into the strategy which an organization should pursue to become more agile, within the scope of the F&A function as previously explained. So this report only includes a small part of the organization's flexibility enhancing strategy, namely the F&A function perspective.

For the formulation of what flexibility in the F&A function exactly implies, it should first be formulated clearly what the general concept flexibility implies. The definition of flexibility is according to the Longman dictionary of Contemporary English (1978) as follows: "That can change or be changed to be suitable for new needs or conditions". This definition is somewhat discomfoting for this research as the nature of the definition is too general. From here, and from the consultation of the literature, it can be concluded that flexibility appears to be a widely used concept in the literature and can be defined from several perspectives (Van Triest, 2000). Because of this, further research is first needed to define the concept flexibility more specifically/detailed for the F&A function, before any statements concerning this concept can be formulated.

To acquire a better insight in the concept flexibility for the F&A processes, the function of the F&A processes within the organization has to be subjected to a closer look. As a starting point we take a model which is developed by Porter; the value chain framework (Porter, 1985). In the model of Porter the F&A processes are categorized as supporting processes within the organization, which have the responsibility to support the operations of the core-processes.

From here it is reasoned that the supporting processes, and thus the F&A process, should provide

the capacity demanded by the internal organization. The consumers demand is increasingly volatile, forcing organizations to be flexible and to act swiftly in rapid changing environments (Strikwerda, 2005). From this follows that the F&A function should be able to adapt its capacity to the capacity which is required of the internal organization. This because in the event that the F&A function is not able to adapt its own capacity to the required capacity, there will be an overcapacity what results in the waste of (financial) key resources, or undercapacity what results in the fact that the organization's performance will be slowed down. If the organization can operate without any over- or undercapacity, an agile organization can optimally prosper. This research will further focus on the 'capacity flexibility' of the F&A function. For which the definition is formulated as follows; the ability of the F&A function to adapt its capacity (to the required capacity).

It should be mentioned here that changes in the capacity are directly connected to the cost structure. Here the importance of a variable cost structure is emphasized, as by this a process is truly flexible and is not only flexible in appearance. Here the need appears to further examine the cost structure.

Certain remarks have to be included for the research. First of all, the capacity flexibility will be examined from the client's perspective, the functions which 'purchase' the services of the F&A function. Which have, in a flexible system, to recompense only the services which are needed. Besides, it should be noticed that the capacity flexibility is not the only kind of flexibility on which the F&A function should focus, there are several forms of flexibility observable in the literature and practise, like e.g. technological flexibility, product flexibility. These are not all included in this research given the limited timeframe.

2.2 Cost structure flexibility

When speaking about cost behaviour we are especially interested in the costs which don't behave purely variable, since this cost behaviour causes business risk (Dorsman, 2000; Van Triest, 2000). This business risk comes forth out of the uncertainty regarding the future cash flows. Related to the cash flow, is the cash outflow (and the cash inflow), of which can be stated that there is a link with the cost structure of the organization. In a fixed cost structure the cash outflow can be regarded as stable, no fluctuations in the cash outflow will be noticeable when the capacity decreases or increases. In case of a variable cost structure the cash outflow will fluctuate with the required capacity. The importance of a flexible F&A function, with a 'healthy' cost structure, was also largely recognized by the respondents of the preparatory interviews.

When the majority of the costs of an organization are fixed, the organization will not be able to respond to changes in its environment. Fixed costs have to be settled, independent of the capacity which is needed for the performance of the F&A processes. On the other hand, when an organization is predominantly structured on variable costs, the organization is able to reduce its costs and remains profitable in a declining market. This comes forth out of the ability of the organization to adapt its capacity to the demand. In the literature the flexibility of the cost structure is best described by Stigler: "flexibility is secured by transferring resources from the fixed to the variable category" (Aranhoff, 1989).

From here the objective of this research can be formulated as 'how the fixed costs of the F&A

function can be transferred to the variable costs category', so the F&A function can be considered as more flexible. This will be considered from the corporate perspective, thus in what degree the F&A function is recompensed in a variable way by the other identified elements in the value chain of Porter. Which is, as previously mentioned, especially important for F&A processes which are susceptible to changes in the demand.

The respondents of the preparatory interviews claimed that something as an 'optimal' cost structure for the F&A function cannot be determined. This is widely supported by the literature, Van Triest (2000) argues that the optimal relation between the fixed and variable costs cannot be determined as there is nothing like a 'standard' organization. The optimal ratio depends on several factors, such as: operating industry, company strategy, economic situation, and etcetera. As from this it can be concluded that it will not be possible to determine an optimal cost structure for the F&A function, this research will therefore be structured in a qualitative way.

Up to here our interest in the cost structure was of a general kind, from now on our focus will shift more towards the F&A function. In the next paragraph the cost structure of the F&A processes will be determined, done as indicated above in a qualitative way.

2.3 The identification of the key resources for the F&A function

In the literature is indicated that organizations spend on average 1.06 percent of their revenue on the performance of the F&A processes (Hackett group, 2002). The majority of these costs can be easily reduced to the factor labour. No less than 60 percent of the total costs of the F&A function occur in the factor labour. The respondents of the preparatory interviews did substantiate these findings, and did also agree on the extraordinary importance of this key resource. From here the factor labour can be indicated as the main cost driver for the F&A function. As the second key resource the factor technology can be indicated. The factor technology claims 18 percent of the financial resources of the F&A function (Hackett group, 2002). From here the factor technology is determined as the second most important key resource in the F&A processes. As above mentioned key resources utilize in average 78 percent of the financial resources, the majority of the costs, only these factors are discussed during this report.

In the next sections the identified key resources will be further examined to acquire more insight in the cost structure these key resources bring about. As described we are especially interested in the fixed cost group as the origin of business risk. According to Wang et al. (2001) fixed costs should be described as follows; "costs that are independent of the level of output, and, in particular, they must be rewarded whether or not the firm produces output". This definition will be set as the definition used to classify the fixed costs for this research. The opposite of the fixed costs group, the variable costs, can be derived from this statement as; 'the costs that are dependent on the level of output, and do not have to be paid when the firm doesn't produce output'.

2.3.1 The labour costs of the F&A function examined

The cost structure of the labour costs is closely related to the legal system, as noticed by Wang et al. (2001). For this research it is taken for granted that employees are employed by a contract with an indefinite duration, as mainly by this, the organization can assure the continuation of the organization. The many contract sub-forms which are available e.g. in The Netherlands are not taken into account.

The labour market in the European Union (§1.4.3) should be considered as regulated, organizations are bounded by rules concerning i.e. the discharge of personnel, working hours, and contract forms (Triest, 2000; Loonstra, 2005). In for instance the Netherlands, it is not unusual that the discharge of an employee will cost the organization a substantial amount of money, because a discharge compensation has to be settled with the employee (Loonstra, 2005). From this it can be argued that the labour costs should be considered as fixed costs for the organizations in Europe, as the laying off of employees can be seen as rather complicated and expensive. Although, there are differences in the legislation within the European Union observable, as there is of yet not one single European law issued on this subject. From this it can be recapitulated that labour costs are for this report considered as fixed, despite of the univocal legislation.

To this it should be added that there is a certain time horizon in which all costs can be stated as variable, as employees e.g. change their job or pass away. As from the literature (Wang et al., 2001) and the preparatory interviews these costs are considered as fixed, this report argues these costs to be fixed. This because the management cannot customize the labour key resource when sudden changes occur in the environment. Besides, this will further intensify as the environment becomes more and more volatile, as discussed in the previous chapter.

2.3.2 The technology costs of the F&A function examined

The factor technology in the F&A function includes the use of computers and software to perform the F&A processes successfully. Training will also be needed for the employees who work with this technology. The costs which follow from the purchase of technology related items will therefore be considered as fixed for this report, as the only thing the organization could do to lay off the fixed costs is to sell the items mentioned above. Only a small part of the costs can be considered as variable (e.g. electricity). Considering the majority of the costs concerning the technology can be regarded as fixed, the cost structure of the technology is argued to be fixed.

Additionally, for the technology cost group it can be added that these costs became more variable during the last decades, as the life span of the technological products decreased by which the depreciation period reduced.

2.4 ‘Stickiness’ as an additional phenomenon in the F&A costs

In the literature the cost behaviour of the F&A costs is extensively described. As these costs appear to vary with the sales volume, but do not change proportionately with changes in sales revenue (Noreen et al., 1997; Subramaniam et al., 2003). This can be understood as that together with the increasing activities

the costs increase, what is normal for a production process. But in the situation of an equivalent decrease in the required capacity, the resulting cost decrease is lower, what results in overcapacity; 'stickiness'. It is clear that this is considered as a negative side-effect by the organization, as this implies the wastage of (financial) resources. Besides, it should be observed that, as discussed in the first chapter (§1.1), the world changes faster and faster so stickiness will become an increasingly larger threat for organizations in the future.

This 'stickiness' can be explained from Ames et al.'s (1990) point of view. Ames et al. make a distinction between bedrock fixed costs, managed fixed costs and direct variable costs. The direct variable costs are considered as the most optimal costs for this research, and therefore we are as previously explained only interested in the other two fixed categories. Bedrock costs are the costs related to the physical capacity of a company that cannot be avoided unless the facility is sold or written off the books, thus the so-called sunk or committed costs. According to Ames these costs are the only true fixed costs. So after reconsideration, it can be stated that the costs related to the technology factor can be (partly) indicated as bedrock costs (e.g. computers), though not all technology costs should be classified in this group (e.g. software licenses). The managed fixed costs can be, according to Ames et al., especially ascribed to the labour costs and the structure in which the organization is structured. Once these costs are in place, managers often treat these costs as integral and as bedrock costs, which is of utmost interest for this report since this leads to a decrease of the flexibility. Besides, it is noticeable that the appearance of managed fixed costs is especially observable in the F&A function, according to Ames et al. (1990).

The phenomenon that 'managed' costs are treated as 'bedrock' costs is known in the literature as 'stickiness' (Anderson et al., 2004; Subramaniam et al., 2003) and can be seen as a 'ratchet effect' in the costs. Anderson et al. argue that the stickiness of F&A costs occurs because managers deliberately choose to maintain excess resources when sales decline, if they believed that a drop in revenue demand was only temporary and that revenue demand would be restored in the near future. Evidence was also provided that sticky costs behaviour is consistent with deliberate decision making by managers who weigh the economic consequences of their actions. It can be argued that developing a greater understanding of the managerial decision-making process and the forces that lead to sticky cost behaviour, will be an important step in improving cost analysis.

During the preparatory interview Mr. Mitchell made the clear-cut and well-defined statement that "sticky costs are the result of bad management, and should therefore not be considered to be process driven, but management driven". This reflects clearly the basis of the stickiness problem. The respondent also mentioned that large organizations have opportunities to become less liable to sticky behaviour. This could be explained from the point of view that these organizations have e.g. a scale advantage, so sticky behaviour can be better levelled out. This result provides evidence of sticky behaviour in the costs of the F&A function and should be perceived as a relevant threat for the flexibility of the F&A function and should therefore be included in this research.

2.5 Summary and conclusions

In this chapter it becomes clear that the F&A function is able to contribute to the improvement of the organization's agility by becoming more flexible. Only the F&A function is in scope, as there is a limited timeframe for writing this thesis. By contrast, the contribution in the flexibility focus of the other (supporting) processes, may not be underestimated. Flexibility is defined, in the context of the F&A function, as the ability to adapt its actual capacity to the demanded dimension; 'capacity flexibility'. From this can be concluded that capacity flexibility is especially of significance for the processes which are susceptible to a changing capacity requirement, thus sales related. The resulting cost structure (ratio of the fixed/variable costs) is therefore of utmost interest, as it was concluded that the F&A function based upon purely variable costs would be completely flexible. The improvement of the cost structure is therefore seen as transferring fixed costs to the variable cost group. Also it became clear that no optimum could be determined, as this depends on several different aspects (e.g. operating strategy, organization's strategy).

Labour and the technology are identified as the main key resources of the F&A function, as these are responsible for the majority of the costs. The cost structure of both key resources appeared to be of the fixed category, and therefore this research will thoroughly go into the behaviour of these key resources, since these costs obstruct the organization to become agile.

Stickiness appears to be an additional phenomenon for the transference of the costs of the F&A function. This is applicable for especially the labour driven resources, and in a less extent for the technology driven resources. This stickiness has a negative implication for the F&A function as this results in overcapacity, what can be considered as the wastage of (financial) resources. This concept can be explained from the point of view that certain costs are 'managed fixed', what implies that these costs are treated as fully fixed what cannot be justified on behaviour grounds. As stickiness is argued to be a threat for the organization it is included in the research.

Through logic reasoning this brings forward, a reasoning also supported by the literature, that not all processes are 'equally' suitable to be customized as described above. From this follows the need for a set of criteria on which the separate processes, within the F&A function, can be examined on the potentiality to become more flexible. For this purpose the next chapter will formulate a decision model, equipped with a set of attributes, by which the management of an organization can reach a conclusion about which processes can be (further) customized. This should be exploited to pursue process flexibility and eventually organization agility.

Chapter 3 The decision model and its key concepts

In this chapter a decision model will be developed through which flexibility opportunities within the F&A processes can be indicated. This will eventually lead to an overall improvement of the agility of the organization, as argued in chapter two. The primary goal of this chapter is to formulate a set of attributes by which the processes within the organization can be explored for the possibility to increase the degree of flexibility (§3.2). Through the customization of the processes, the organization should adapt to today's dictated agility requirements (Deloitte Research, 2001). But first of all the design of the decision model and its applicability will be defined (§3.1), this indicates the demarcation for which the research is applicable.

3.1 The decision model's design and applicability

The set of attributes will be determined from a 'process oriented perspective'. This can be understood as that the focus of this report will be primarily on the F&A processes, and its sub-processes.

The set of attributes will be based upon rather general characteristics, which are not only primarily applicable for the F&A processes but also for other similar processes. The F&A process is indicated in the value chain of Porter as a supporting process (Porter, 1985). This decision model is therefore rather widely usable, although it can be only considered as complete for processes which are also considered to fulfil a supporting role within the organization, notwithstanding the fact that there are of course adaptations necessary. The attributes cannot be considered as complete for the core-processes as for instance the competitive advantage perspective is not covered. And this aspect should especially be considered as highly relevant for the survival of the organization (Johnson et al., 2002). For this research it is assumed that the supporting processes are only expected to perform the processes in the most efficient and effective way, and by this are supporting the core-processes within the organization.

3.2 The decision model's attributes

In the next paragraphs, the relevant attributes by which the decision model will be equipped, will be discussed. The attributes which will be presented in this chapter are partly extracted from the literature (Aranoff, 1989; Nooteboom et al., 2003; Baldwin et al., 2000; Daft, 2001; Means et al., 2000; Nadler et al., 1995; Volberda, 1992; Volberda, 1998; Wolters, 2002), and named as possible attributes during the preparatory interviews. From here the observed attributes were examined on their ability to indicate flexibility and to support further choices in the actual customization decision process. Then a list of seven attributes was derived which fulfilled these requirements. The number of attributes is limited to the number of seven to keep the decision model on the one hand comprehensive and on the other hand manageable. The seven established attributes will be discussed to a further extent in the next paragraphs.

First a description for every attribute will be formulated, which will be used for this research. And secondly the possible consequences and implications will be discussed for the F&A processes. It should

be noted that all the attributes will be discussed independently from each other, and any links will not be mentioned or considered in this stadium. Neither is the order in which the attributes are presented of any consequence; all attributes are at this point considered to be of equal importance.

3.2.1 Degree of routine

The first attribute to be drawn up is the *degree* in which a process is a routine process. Routine processes are processes that are always performed in the same (identical) way, thus without any large variations in the process execution. Routine processes are also performed on a frequent basis within the organization. To recapitulate, routine processes are frequently performed processes, which are every time performed in the same identical way (Nooteboom et al., 2003). Processes with a high routine are therefore often performed within an organization in a dedicated department or by a dedicated person (Daft, 2001), which/who performs this process on a regular basis, accumulating the process specific knowledge. The opposite of routine processes are non-routine processes, that are not performed on a high frequent basis and possibly show large variations in the process execution every time they are performed. From this it can be concluded that the requirements of the non-routine processes are not always the same for each time the process is performed; variations in the process and required key resources do appear (Baldwin et al., 2000).

So it can be stated that routine processes within the F&A function can be considered as more predictable and better manageable. This can be explained from the fact that organizations are more familiar with performing routine processes. Within the F&A function routine processes are therefore often found suitable for optimization (Booz Allen & Hamilton, 1998). This is done by e.g. the standardization of the routine processes by which 'one best way of working' can be implemented, so these processes can now be performed in an optimal way. The non-routine processes are less predictable, making these processes less manageable. Since the required knowledge to perform the process successfully, differs each time it has to be performed, optimization of this process is therefore considered to be very hard.

From this it can be summarized, that an organization is more likely to customize the routine processes to increase its capacity flexibility, as these processes are more predictable and stable in execution. From here it will be more likely that the routine processes will be customized in a further step of the decision model.

3.2.2 Scale

In addition, the *scale of the process* is included in the list of attributes for the decision model. This attribute indicates the dimension of a specific process, in comparison to other processes which are performed within the very same organization. The dimension of the process will be indicated in the degree of the key resources utilization, which are needed to perform the transactions successfully. As determined in a preceding chapter, labour and, in a lower degree, technology are indicated as the main key resources for the F&A function. From this it can be reasoned that the number of full time equivalents (FTEs) determine the scale of the process. This simplification is made, given that the scale of a process

cannot easily be determined or quantified by the technology as a key resource. Although not all the selected key resources are included in this attribute, it is argued that this won't affect any further resulting conclusions. From this a statement about the scale of the process can be formulated.

So processes which utilize a great deal of resources, and so as argued have a large scale, are more likely to be approached for customization (Nadler et al., 1985). This because even small improvements in processes with a large scale, will have a potential large impact on the flexibility for the total organization. On the contrary, small scale processes are less interesting since customization will have only a slight impact on the total organization. Although, it should be kept in mind that all processes have to be executed on a certain minimum level, as only then the organization can function properly.

From this it can be recapitulated that processes with a large scale, with therefore a significant impact on the total organization, are more likely to be customized to become more flexible (Daft, 2001). For a relatively small process there is not considered to be enough opportunity to justify further customization in the first instance (Deloitte Research, 2005). Although, as already mentioned in the introduction of this chapter, it should be observed that for this statement only the scale attribute is included, when other arguments are included this statement would possibly be rejected.

3.2.3 Modularity

Modularity is also included to the list of attributes for this decision model. Modularity is seen as the ability of an organization to split a large design into coherent units/processes that can function together as an integrated whole (Wolters, 2002). One way of conceptualising modularisation is by using Thompson's model of interdependence. By this the degree of modularisation can be regarded as the interconnection of the factors 'diversity of demand' and the 'disposition to participate'. Latter indicates the intensity of the communication. If for a certain process both above mentioned characteristics are indicated as low, this process can be classified as 'highly modular'. For highly modular processes there exists the possibility to physically uncouple these processes from the core-processes and perform these processes at another location, what also can be done by another party (Johnson et al., 2002). This can be explained from the fact that the diversity of services and the communication are considered to be low, resulting in a low interdependence. Processes which score high on both Thompson's factors, are considered to be low modular, which is equal to 'highly integrated'. Highly integrated processes do have a high interdependence in regard to the core-processes, and because of this intensive link the processes have to be performed close to the organization (Baldwin et al., 2000).

F&A processes which are classified as highly integrated are committed to be performed within the borders of the organization. This because of the above described high intensive interdependence between the modules of the organization, as without this binding the modules wouldn't be able to execute the processes properly. Highly modular processes are not restrained to be performed within the borders of the organization. During the preparatory interviews it became clear that highly modular processes were considered to be suitable to be performed outside the organization, and also by a third party. The fact that highly modular processes can be moved away from the core-processes is also emphasized in the literature

(Daft, 2000).

From this it can be summarized that highly modular processes can be transferred to another party or location, what creates further customization opportunities for these processes. On the contrary, highly integrated processes are restricted to the boundaries of the organization, as the links are highly intensive, and for this reason less interesting for further customization (Wolters, 2002).

3.2.4 Specificity of the resources

The *specificity of the resources* is also added as an attribute to the decision model. Asset specificity refers to what extent the asset is irreplaceable or creates strategic advantage for the organization. Transaction specific assets are characterized by the fact that their value is closely linked to the specific transaction (Williamson, 1981). The output value is therefore expected to be larger using a transaction specific asset compared to other transactions. As already previously determined, we are only interested in the labour and technology key resources. Regarding the labour resources, certain specific knowledge (e.g. international accounting rules) and/or skills could be required to perform a certain F&A process successfully. Highly specific knowledge can be considered to be a scarcity, and because of this more expensive than non-specific knowledge. Idem with the skills of the employee which are required to execute the process. When considering the technology resources, it can be stated that the use of more specific software or a high level of customization will require more developed skills and so hard to replace, resulting in higher costs. Labour and technology resource specificity should also be considered from a strategic advantage point of view, and should be carefully watched as this determines the success of the organization (Tornbohm et al., 2006)

From this it can be argued that a F&A function which is based upon highly specific resources can be considered as less flexible, as certain skills or technology are not freely available. For this reason the organization is obligated to maintain these resources, what results in inflexibility. Whenever the organization is based upon low specific resources, or general resources, which are freely available in the market, the organization is considered flexible, as these resources can be replaced easily.

In summation: processes based upon resources which are generally available, can be made flexible. Processes based upon irreplaceable resources or which create strategic advantage for the organization, should be maintained closely or can be sometimes partly substituted by external resources.

3.2.5 Industry standardization

Furthermore, the *degree of industry standardization* is considered to be an important characteristic for our research needs and is therefore added to the list of decision model attributes. The industry standardization determines in what degree a particular process is performed in a standardized way within the industry. This can be understood as that certain processes, in our case the F&A processes, are performed more or less in the same way within the industry. The market is fully aware and capable of performing these processes, since there is a considerable amount of expertise gathered to perform the processes. In contrast there are non-standardized processes within the industry or organization, to which are referred to as 'highly organization specific' processes. Every organization has more or less developed its own approach,

with its own points of attention and focus, for these processes. For this reason the market is not familiar with performing these processes.

From this it can be derived, that highly standardized processes within the industry, are, considering the preparatory interviews, more suitable to be performed by a third party. This is also underlined in the literature (Accenture, 2004). This is possible because the third party is familiar with the standardized processes, so the transference of processes can be considered to be less liable to business risk. For the processes which are not standardized within the industry, the business risk of a transference appears to be significantly larger. This because the third party will not be acquainted with that particular processes, increasing the potential failure rate (Deloitte Research, 2005B).

In summation, processes that are firstly standardized within the organization and secondly within the industry, are better suitable to be customized to increase the flexibility of the process.

3.2.6 Strategic importance

In addition to the preceding described attributes, the *degree of strategic importance* of the process is considered to be substantial. Strategic importance should be understood, as processes which are of a high importance for the organization given the future performance of the organization. These processes are responsible for setting (or supporting this process) the long term goals of the organization, and can therefore be considered essential for the survival of the organization (Johnson et al, 2002). As we are only interested in the strategic importance of the supporting processes for this research, the concept strategic importance can therefore be translated, as to what impact this particular process will have on the strategy formulation, and thus on the strategy of the entire organization. The data and information which follow from strategic important processes can also be considered as highly classified, and should therefore not be accessible outside the organization, as this reveals the performance and direction (setting) of the organization. Processes which are not classified as strategically important do not have (any) influence on the direction setting of the organization. And can therefore be considered, from a direction setting perspective, as not important and of low influence on the organization. These processes are therefore indicated as more short term oriented.

From this it can be argued that strategically important processes have to be located closely to the core processes, and be performed by the own organization, because of the significant (strategic) importance for the entire organization. Processes which are not considered as highly strategically important, will primarily focus on the short term performance of the organization, and are therefore considered to be less susceptible to strategic risk (Daft, 2001).

From this it can be summarized that processes of strategic importance should be better kept on a close watch as these determine the long term result of the organization. The processes which are not of any strategic importance, are therefore more likely to be suitable for the customization process, to enhance the flexibility of the organization.

3.2.7 Scale sensitivity about the sales

Finally, the *scale sensitivity about the sales* is regarded as an important attribute for the decision model, to determine the flexibility potential. In here we are interested in what the initial trigger is for the organization to start a certain process; the capacity driver. For this research we are purely interested in splitting up the capacity drivers into two categories; non-sales related and sales related drivers. If the process driver is not related to the sales, this process is not expected to be influenced by changes in the sales level. This process could be regarded as fixed in size as it won't be affected by the sales (e.g. the staffing of the reception is not directly related to the sales level). On the other hand, there are sales related processes. These processes are, from the research perspective, of more interest. The processes which are driven by a sales related capacity driver will vary with the sales of the organization, e.g. the number of invoices received/sent. This behaviour stems from several reasons, e.g. regulations, which are not of any interest for this report.

The dimension of these processes is subject to the falling or rising sales level of the organization, resulting in over- or under-capacity. In the volatile world that organizations are operating in nowadays, this could result in possible 'sticky costs' (§2.4). From this it is argued that this attribute will be able to indicate the stickiness within the F&A processes. Given the indicated stickiness in processes, the need to customize the processes largely based upon variable resources, is indicated as very high.

To recapitulate, processes in which the scale sensitivity about the sales is very high, these processes are indicated as a potential source for stickiness (§2.4). And therefore these processes should receive special attention in the customization process, given their unwanted cost behaviour.

3.3 Summary and conclusions

In this chapter seven attributes have been formulated that will be used in the design of the decision model. The attributes are subtracted from the literature and from the preparatory interviews which were held. The formulated attributes are:

<i>degree of routine:</i>	Routine processes are frequently performed processes which are every time performed in the same identical way each time
<i>scale:</i>	The scale of a process is expressed in the number of FTE used for a specific process
<i>modularity:</i>	Indicates the diversity of demand and the intensity of the communication (internal and external)
<i>specificity of the resources:</i>	The specificity of resources indicates to what extent the asset is irreplaceable or creates strategic advantage for the organization
<i>industry standardization:</i>	Industry standardization indicates to what degree a particular process is performed in a standardized way within the industry (and organization)
<i>strategic importance:</i>	Strategic importance indicates in what extent the process

scale sensitivity about the sales: influences the long term goals of the organization
The degree, in which the capacity driver relates to the sales,
indicating any potential stickiness (§2.4) within the process

From here it is argued that there is a positive correlation between a high indication for an attribute and the possibility for customization (vice versa for the 'strategic importance' attribute). By indicating a supporting process on these seven attributes, a statement about the potential flexibility can be formulated. This will be a qualitative process as the selected attributes are also of a qualitative type. The processes of which its attributes are indicated as generally (very) high (low for the 'strategic importance' attribute), are suitable to be further customized to fit the flexibility requirements of today's economy.

Chapter 4 The F&A processes anatomized

The primary goal of this chapter is to formulate a process description for the F&A processes and its sub-processes. These process descriptions serve as input for the formulated flexibility decision model. From this a statement about the flexibility potential of the F&A processes can be formulated, what will be done in a next chapter.

4.1 Defining the scope for the F&A function

The different organizations which operate in the market can be divided based upon several typology models within the literature. Our research needs can be satisfied by using the model of Starreveld et al. In this typology several different organizational forms are described, which are based upon the way value is created by the organization. Here there appears the need to further specify a group of organizations on which this research will focus. For this research is chosen to focus primarily on organizations in the 'industrial organization' group, as described in the classification model of Starreveld. The 'industrial' typology can be described as organizations which produce products/services for the market by predominantly using own semi-finished products and by using a technical transformation process (Starreveld et al. 1997, 2b).

Within the value cycle process, which is driven by the core-processes, we are obviously mainly interested in the F&A processes, which hold a supporting role in this model (as discussed in §2.1). The value cycle can be seen as a closed series of processes, which are continuously performed within the organization. The now proposed representation of the cycle reflects only a simplified working of the organization but the reflection of the F&A processes can be derived accurately enough. The actual cycle starts with the purchase of raw materials and semi-finished parts which are needed for the production of the final products. This results in the fact that the organization is in debt with the vendor of the materials. In the production process the organization adds value to the products, which are then sold to the organization's customers. From here the payments of the customers can be collected and the debt with the vendor can be settled. All 5 core-processes from the model of Porter are the driving force behind the value cycle, though only the 'production' core-process is indicated in the above mentioned description.

This simplified process reflects concisely how the organization is creating value, and so reflects its right to exist. The process which deals with the actual payments of the vendors and customers, is classified as the 'record & report' perspective (§4.2). This process can also be indicated as the most intensive and the largest within the F&A function (Deloitte benchmark database; Hackett group, 2002), what was also recognized by the respondents of the preparatory interviews. The findings related this subject will be presented in the 'record & report' paragraph (§4.2).

Next to this an '*analyze & interpretation*' role can be distinguished for the F&A function. This function can be considered to form the 'sense' of the (top) management and other decisions makers within the organization. On basis of this information the strategy of the organization is formulated and the

directions within the organization determined. This should be considered as an important process; as the strategy of an organization determines for a large part the success of an organization (Johnson et al., 2002). This discipline of the F&A processes can therefore be regarded as an import aspect for the entire organization, and will be presented in the ‘*analyze and interpretation*’ perspective in paragraph 4.3.

Over the last years the business pages have been filled with stories of scandals and accounting irregularities at a series of major organization. Legislator and regulators have responded with a versatility of new rules and requirements which organizations have to satisfy (Deloitte Research, 2003). For this reason it is relevant to include the stakeholder management function of the F&A function in this research. This function has to deal with the (financial) stakeholders of the organization, and should assure that the organization is operating conform the regulations and laws. The findings related to this subject will be presented in the ‘*stakeholder management*’ paragraph (§4.4).

Even though this selection may not be complete to cover the total range of tasks of the F&A function, the reasoning is that these disciplines cover the most intensive and most discussed processes of the F&A function. This selection has to be made given the timeframe to conduct this research.

4.1.1 Representation method

To obtain a better insight in the three above described disciplines, this chapter will break these disciplines down into small elements (figure 4.1). A discipline can be divided into a number of processes. A process is, in this context, a representation of time related actions and dependencies that transfer a set of inputs into a set of outputs. This set of outputs forms feasibly the input for another (F&A) process. On its turn these processes can be further broken down into sub-processes (figure 4.1). The sub-processes are the lowest level in which we will breakdown the F&A discipline. Every discipline and its underlying processes will be graphically represented to acquire a clear insight in the discussed discipline, and will always be displayed as in figure 4.1.

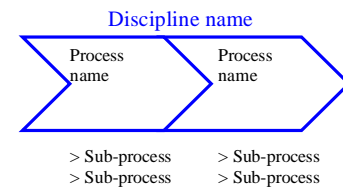


figure 4.1: Graphical representation of a discipline and its underlying processes

The information which is put together to form the formulated model is originating from consultations with experts from Deloitte and the consultation of literature and internal-sources (best-practises). A merge of information resulted in these process descriptions of the F&A function.

In the following paragraphs the selected disciplines will be further broken down and discussed, through which a better insight into the F&A processes will be acquired.

4.2 The ‘record & report’ discipline

This discipline serves the goal to perform all accounting and transaction processing activities. This discipline can be regarded as the largest discipline of the F&A function, as this function claims roughly 65 percent from the resources (Hackett group, 2002; Deloitte internal database). Additionally this process has to report adequately and accurately, and according to the

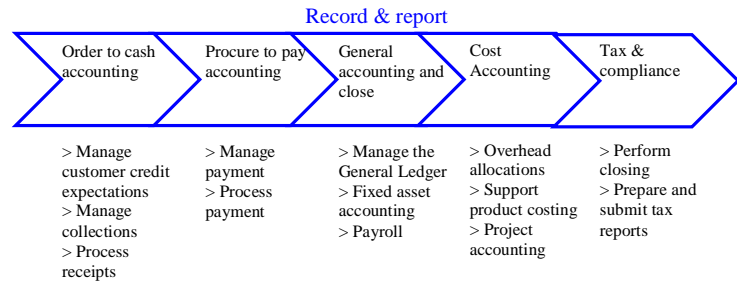


figure 4.2: The ‘record & report’ discipline

statutory and regulations (Deloitte Research, 2003). This discipline is broken down into five interdependent processes (figure 4.2), which are on its turn broken down into a number of sub-processes, which will be discussed in the following sub-paragraphs.

4.2.1 Perform ‘order to cash’ accounting

This process is responsible for checking, managing, receiving and the processing of the payments and related information of the customer for the organization. Within this process three sub-processes can be distinguished:

► *Manage customer credit exposure*

This process starts with a credit rating and limit check after which, if necessary, the order has to be blocked. From this a request of prepayment, letter of credit, etcetera can be requested after which, the order can be unblocked or the delivery can be cancelled. This whole process should be communicated with the sales department.

► *Manage collections*

This process is in charge of establishing the collection policies and procedures, which have to be openly communicated. From this a prioritization can be made after which the collection activity can be initiated. From here the payments have to be tracked and a dunning letter should be sent. If necessary the customer has to be contacted for a late payment, and disputes have to be solved, and can be handed over to a third party and bad debt should be deducted.

► *Process receipts*

When the actual payment is received, this process is responsible to enter the payment into the accounting system, and to update the financial records. Eventually the necessary reconciliation of the bank statements will also be performed by this sub-process.

4.2.2 Perform 'procure to pay' accounting

This process is responsible for the checking, managing and processing of the vendor invoice and the actual payment of the invoice. Within this process two sub-processes can be distinguished:

► *Manage payment*

The invoices which are sent by the vendors are received and processed in this sub-process. The invoice has to be matched to the purchase order, and there should be confirmation that the product is actually received. From here the procurement card invoice can be approved, after which it is ready for payment.

► *Process payment*

In this sub-process the procurement card invoice, which is created in above mentioned process, is processed. From here any possible discrepancies have to be solved and the optimal timing of the payment should be identified. Finally the actual payment is executed after which the financial records have to be updated.

4.2.3 Perform 'general accounting and close'

This process manages and processes the general ledger. It also handles the process of closing of the ledgers at the end of the period, in the form of a set of closing activities. Within this process three sub-processes can be distinguished:

► *Manage the general ledger*

This process is responsible for maintaining the chart of accounts, the creation of accounts, and the changing and deletion of accounts. In addition this sub-process is entrusted with the managing and updating of i.e. account groups, posting blocks, and master data.

► *Perform fixed asset accounting*

This sub-process is charged with the handling and processing of the fixed asset information. These assets (e.g. buildings, machinery) have to be depreciated as these are regularly used over a long period of time for the purpose of generating profits. This process records and enters the depreciation information in the accounting system of the organization.

► *Perform payroll*

In here the administration and coordination of the payroll services is handled, by taking into account the necessary procedures and regulations. Next to that this process is responsible for the processing of reports concerning the payroll function.

4.2.4 Perform 'cost accounting'

This process is entrusted with the allocation of overhead costs within the organization and the allocation of costs to a specific product or project. Within this process three sub-processes can be distinguished:

► *Perform overhead allocation*

This sub-process is responsible for the calculation of the overhead and the settlement of this, the posting of the allocation figures in the financial system and to performance analysis on this subject.

► *Support product costing*

Here the costs are analyzed to come up with a cost price of a certain product. By this various cost accounts have to be taken into account (labour, material, etcetera.).

► *Perform project accounting*

This process is entrusted with the analysis and cost calculation for a certain project by taking all the different debit items into account (labour, material, etcetera).

4.2.5 Tax & compliance

This process handles the closing process of the financial period and the financial reporting process.

Within this process two sub-processes can be distinguished:

► *Perform closing*

The handling of the closing schedule is part of the responsibilities of this process. After necessary adjustments are made, this process will close the accounting books. Next to this a number of closing reports have to be processed which are intended for the management or other decision makers. Beside, is the process charged with the process of drawing up the tax master records, calculate taxes, keep these up to date, and finally posting these records.

► *Prepare and submit financial and tax reports*

This process is focussed on the preparation of the financial statements and periodic reports from which the tax declaration is formulated. This can be considered as a highly complicated process regarding the statutory regulations.

4.3 The ‘Analysis & interpretation’ discipline

This discipline serves the goal to support and promote efficient operations. This is done by establishing an appropriate performance evaluation structure and by providing relevant advice to the evolving business concerning the performance and goals. This discipline is broken down into four interdependent processes (figure 4.3), which are on its turn broken down into a number of sub-processes, as discussed in the next sub-paragraphs.

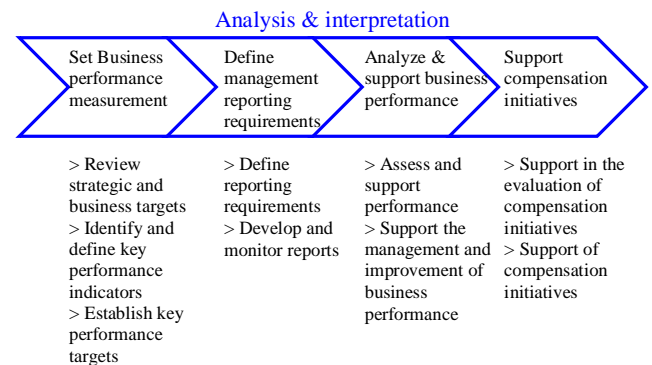


figure 4.3: The ‘analysis & interpretation’ discipline

4.3.1 Set business performance measurement

This process is charged with the process of setting up the financial business performance measurement system for the organization. Within this process three sub-processes can be distinguished:

► *Review strategic and business plan targets*

Firstly the key performance indicators have to be identified which are formulated in the organization’s strategy. When the identified target requirements are determined these indicators have to be validated

with the 'guideline value' which is described in the strategic or business plan. In the next step these targets have to be reviewed and confirmed by the management.

► *Identify and define key performance indicators*

This sub-process commences to analyze and evaluate the formulated performance indicator requirements, and assess the feasibility of tracking the identified performance indicators. If applicable, key performance indicators have to be identified for each dimension of the organization. Then the formulated and traceable performance indicators have to be approved by the management.

► *Establish key performance targets*

This process is concerned with the responsibility of the benchmarking process of the current formulated performance indicators. After the benchmarking process the established key performance targets which have been set in the previous process should be discussed and if needed be revised. Subsequently the approved key performance targets have to be communicated to the process-owners.

4.3.2 Define management's reporting requirements

This process is charged with the responsibility to define the management's reporting requirements throughout the organization. So this process basically handles the question 'who in the organization should receive what information'. Within this process two sub-processes can be distinguished:

► *Define reporting requirements*

The information requirements have to be analyzed and evaluated within the organization. In the determination process of the information requirements the feasibility and the cost/benefit relationship of the required information should be considered.

► *Develop and monitor reports*

Next to above this process is responsible for updating the required reporting information, periodic reports, and management reports throughout the organization. The information is reported to the proper persons who need these reports for the decision making process.

4.3.3 Analyze & support business performance

This process is responsible for the analysis of financial data, which is obtained from other financial processes. For this reason can this process be considered as the supporting process of the (financial) processes for decision making.

► *Asses and support performance*

In this sub-process the key performance indicators have to be monitored and analyzed. From here the difference between the 'realized' and 'planned' performance levels have to be analyzed, after which the results have to be communicated to the responsible persons within the organization.

► *Support the management and improve of business performance*

This process is initially responsible for the support of information in other (financial) processes within the organization i.e. the benchmarking process. Besides this, the process holds several multifaceted supporting roles towards other (financial) processes which need (ad hoc) financial data and analysis.

There can be thought of requests of the management for, e.g. the assessment of improvement of opportunities, interim budget preparations, etcetera.

4.3.4 Support Compensation initiatives

This process is charged with the analysis and review of the performance indicators and the support of compensation initiatives. Within this process two sub-processes can be distinguished:

► *Support in the evaluation of compensation initiatives*

This sub-process has the aim to provide support in the identification process of the performance indicators which are formulated to determine the cost compensation within the organization. Next to this, this sub-process should update the compensation report on a regular timeframe.

► *Support of compensation initiatives*

All on-going performance level data has to be monitored and reviewed, after which it has to be communicated to the relevant stakeholders. Besides, this process is dedicated to support other processes with the interpretation of these performance results.

4.4 The ‘Stakeholder management’ discipline

This discipline acts as the interface between the financial and non-financial stakeholders by communicating expectations, results and issues with integrity and transparency (Deloitte Research, 2001). This discipline is broken down into two processes (figure 4.4), which are in its turn broken down into a number of sub-processes, discussed in the next sub-paragraphs.

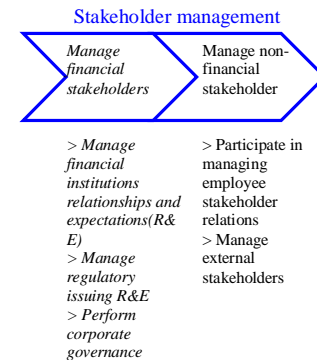


figure 4.4: The ‘stakeholder management’ discipline

4.4.1 Manage financial stakeholders

This process is responsible for managing the relationship with the financial stakeholders and providing these parties with the relevant required information. This should all happen conform the current regulations. Within this process three sub-processes can be distinguished:

► *Manage financial institutions relationships and expectations*

This sub-process is responsible for the establishment and maintenance of the relationship and communication with the key financial institution stakeholders (e.g. debt holders, credit rating agencies). Information has to be collected for these stakeholders and distributed. Next to this the stakeholder expectations have to be reported to the business.

► *Manage regulatory issuing relationships and expectations*

This sub-process deals with the establishment and maintenance of the relationship and communication with the regulatory issuing key stakeholders (e.g. SEC, compliance bodies). Information has to be gathered and analyzed to meet the stakeholders’ requirements. The organization’s plans and results have to be communicated to the stakeholders.

► *Perform corporate governance*

The presentation of the financial results, the coordination of the communication, and formulation of the conclusions are handled by this process. This to guarantee a sound system of relations between the shareholders, board of directors and management of the organization.

4.4.2 Manage non-financial stakeholder

This process is responsible for managing the relationship with the non-financial stakeholders and providing these parties with the relevant required information. Within this process two sub-processes can be distinguished:

► *Participate in managing employee stakeholder relationship*

This sub-process is responsible for the coordination of the regular communication and delivery of financial information to the employees and unions.

► *Manage external stakeholders*

The main role of this sub-process is to establish and maintain the relationship with the external key stakeholders (e.g. industry associations). Furthermore, company plans and results are communicated to this group of external stakeholders.

Chapter 5 The completion and interpretation of the decision model

The primary goal of this chapter is to link the previous two chapters, what can be interpreted as the completion of the decision model for the F&A processes (§5.1). From here a conclusion can be reached, about which F&A processes are suitable to be customized to improve the flexibility.

5.1 The completion process

This paragraph will combine the previous two chapters, in the form of a decision model. Since the qualitative approach, which is used for this research, only an 'indication' of the flexibility potential of the processes can be determined, and no 'measurement' as it would be possible in a quantitative structured research. The chosen qualitative approach won't result in further complications for the interpretation and conclusions process. This because these processes are also completed in a qualitative way, as there appears that there is no clear dividing line for when a method can be regarded as optimal.

The valuation process for the attributes, for the different F&A processes, is determined by using several research sources, this to assure a complete perspective. First of all, the process descriptions (ch.4) are used to filter out the indicated attributes, but it may be clear that additional and more specific research was needed. Within the collection of attributes certain attributes, can be made more quantifiable. For this reason the 'scale', 'scale sensitivity about the sales' and the 'degree of routine' attributes were determined from the internal benchmark database of Deloitte. The database, is considering the reputation of Deloitte, indicated as reliable and given the timeframe for writing this report, not further verifiable. The 'specificity of resources', 'modularity', and 'strategic importance' attributes are valued by consulting the literature (see reference list) and by consultation of the professionals within Deloitte. The last attribute, the 'specificity of the resources' is determined in consultation with professionals within Deloitte and the investigation of process descriptions.

5.2 The completed decision model

This paragraph will discuss the actual completion process and will indicate how to interpret the indications. These processes will be discussed more in Appendix 2, which includes a reading manual and an explanation about the indications.

5.2.1 The axis of the decision model

On the horizontal axis of the decision model the attributes are presented (figure 5.1, red frame), which are defined in the third chapter. The attributes are sorted according to the possibility to quantify the attribute, what has no further implications for the decision model, but what could be the basis for an extension. On the vertical axis of the decision model the F&A processes are presented (figure 5.1, green frame), in the order in which they are presented in the previous chapter. Also the disciplines, of which the processes are a part, are mentioned in the far left column of the decision model (figure 5.1, green frame).

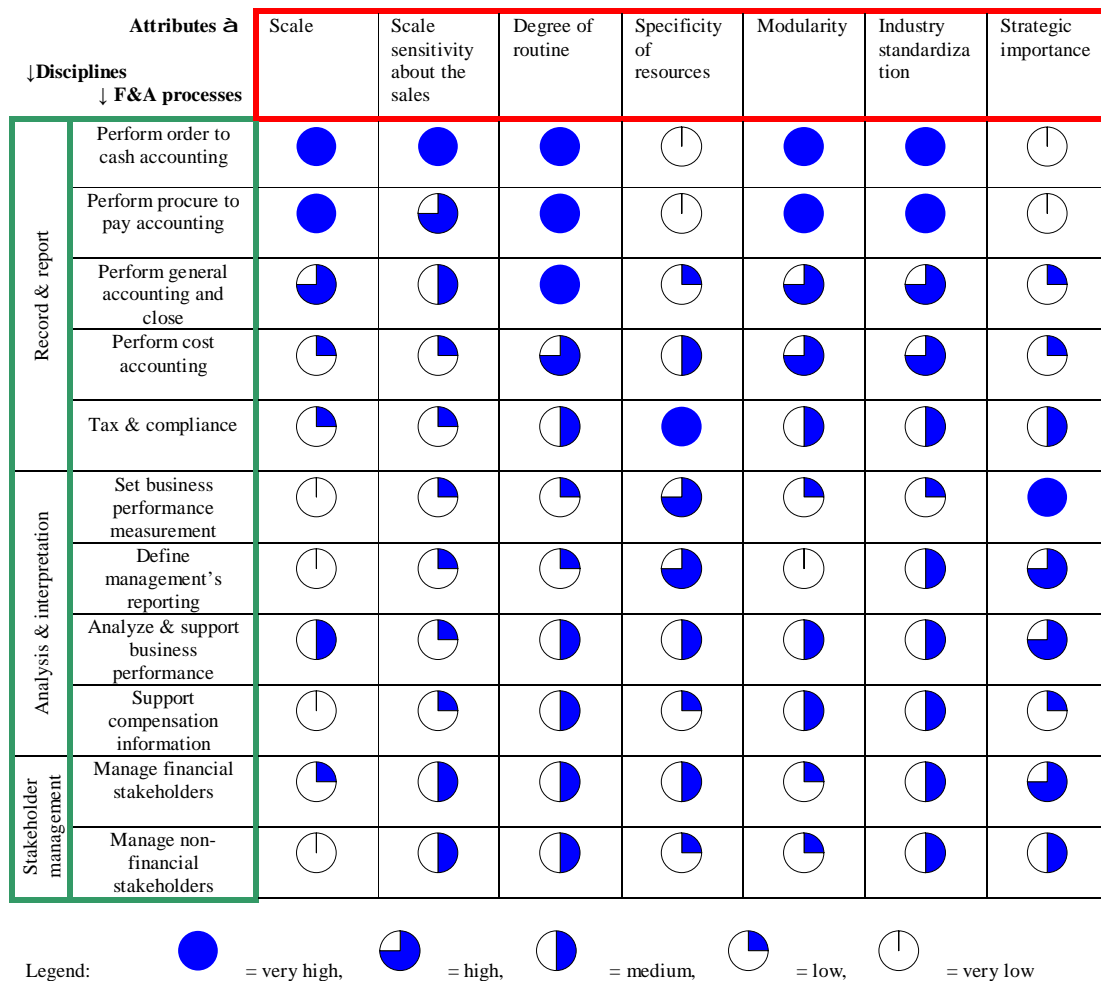


figure 5.1: The completion of the decision model

5.3 The interpretation of the decision model results

The actual results of the indication process are reflected in the black frame (figure 5.1), the part of the decision model which isn't discussed so far. The indications are graphically represented in the form of circles which are partly or completely coloured blue. The results are presented graphically to create a clear surveyable insight for the reader. The explanation of the symbols is recorded in the legend, below figure 5.1.

The results should be interpreted as follows; e.g. the 'tax & compliance' process (green frame) is indicated as 'very high' on the 'specificity of resources' attribute (red frame). This can be explained from the fact that for the execution of this process highly specific accounting knowledge is required, which differs per country and is regularly revised. Or e.g. the 'strategic importance' of the 'perform order to cash accounting' process is indicated as 'very low', since this process has hardly any influence on the long term goals. This process focuses on the receiving of the customer's payment, which is considered as a short term goal. In Appendix 2 all the underlying arguments are set out, this to provide an insight in the given indications.

From here the F&A processes should be considered in a horizontal approach, what corresponds with a row approach in the model. Thus, from here the F&A processes are indicated on all of the seven

attributes. For a further explanation you are referred to Appendix 2. As indicated in the discussion about the attributes (chapter 3), there is a positive correlation argued between the attributes and the possibility to customize the process to become more flexible. Certain process are clearly, at first sight, more suitable to be customized than others considering the overall high indications, e.g. the 'order to cash' or 'procure to pay' process. Although from here it should be marked that certain combinations of attribute indications can possibly result in a different perspective.

Considering the qualitative research method, the results are somewhat subjective, but unfortunately this cannot be excluded in this research method. Although an objective approach would have resulted in less disputable results, the use of the qualitative approach won't have any implication on the continuation of the research. This because the process of linking possible solutions to the presented indications is also approached as a qualitative process, what will be discussed in the next chapter.

Chapter 6 Possible solution to enhance the process' flexibility

This chapter will analyze the results of the decision model and from here will draw further conclusion considering the possibility to further enhance the process' flexibility. First a selection of possible solutions have to be made for this research, as not all i.e. organizational structure models can be included (§6.1). Subsequently, the selected solution models will be discussed extensively, investigating all relevant model characteristics. In this process the customization models will be examined on the same characteristics as the F&A processes in the last chapter, thus into the selected attributes (ch.3). After that, the results of the decision model, which are formulated in the previous chapter, will be linked to the selected possible solution in this chapter (§6.2), from where a number of hypothesises can be formulated (§6.3).

6.1 The selection of suitable solutions

As it is argued in paragraph 2.1, the flexibility of an organization is determined within the parameters of the strategy and organizational structure (Ames et al., 1990; Johnson et al, 2002). For this reason this paragraph will focus on the solutions within these parameters, which can be implemented to enhance the variable cost structure of the F&A function. According to Strikwerda (2005) organizations realize that the flexibility can be increased when certain functions are unbundled into combinable modules, what corresponds with the definition of modularization (§3.2.3). This can be roughly understood as that the organization can be cut into modules, from which certain modules can be transferred away from the organization. Obviously we are only interested in the unbundling of the F&A processes. The unbundling of the process relates to the organizational structure model of the organization, which will be for this reason further examined.

Within the literature and in practise there are a number of organizational structure models observable. As the writing of this report is bound to a timeframe, not all the organizational structure models can be discussed. The selection for this research will include the organizational structure models which are most observable in practise. Consultation of the literature (Deloitte, 2005) brings us to the following set of methods: the implementation of a *shared service model* (SSC) (93 percent of the respondents) and the entering into a *business process outsourcing* relation (64 percent of the respondents). Within the literature there are more sources which emphasize these results, but these are founded with slightly different percentages (Accenture, 2004/B; Economist corporate network, 2003), though this has no implications for this research.

Next to this there is another approach observable, which is used on a large scale by organizations to increase the flexibility of the F&A function, which was also emphasized during the preparatory interviews. The hiring of external employees by the organization for only a limited timeframe. As in this approach external employees are hired for a limited timeframe, the fixed labour costs are transferred to the variable cost structure. Within this category, the distinction is made between the *hiring of temporary*

workers (6 % of the Dutch labour force, CBS, 2005) and the *external knowledge* (e.g. hiring of consultants).

To begin with, these four approaches should be explained before any links with the decision model can be argued, for this reason the approaches will be discussed in the next four sub-paragraphs.

6.1.1 Operating in a shared service organizational structure model

The Shared Service Centre (SSC) concept is based on the idea of sharing resources, organizational staff and technology. These are the three pillars that serve as the foundation for the shared service approach: 'Standardization' ensures that employees follow the same processes by using standardized software applications, resulting in improved policies, smoother processes, and information harmonization. 'Consolidation' ensures in a SSC approach that the number of locations are minimized, creating a scale advantage. And as the final factor 'automation', by which technology replaces the human factor in the F&A processes (Accenture, 2004B; Deloitte Research, 2005; Tornbohm et al., 2006). By this the SSC enables the organization to anticipate on future developments (Strikwerda, 2005). Additionally there are two types of SSCs distinguished, namely 'expertise' and 'transaction' orientated, in which for this research no difference has to be made, this research is applicable for both forms. Besides, this research will shut out the difference between on- and offshore SSCs, what indicates the distance between the processes, for this research is only of concern that in a SSC setting the processes (and its related resources) are still owned by the organization.

Falling back on the definition for flexibility which is set for this report (§2.2), it can be concluded that not all the governance forms for the SSC fit the description (Bywater, 2001). According to Strikwerda (2005B) the transfer pricing system for a SSC can be divided into a system of variable and fixed recompenses. In the latter system, the business units and other internal users recompense the SSC a fixed amount per year, unrelated to the number of requested services. In the variable system, the business units and other internal users have to recompense the SSC per requested service. It may be clear that the variable system matches the definition for flexibility which is set in the second chapter. From this it is argued that only the SSC, which is based upon the variable recompense system, is able to transfer the fixed labour and technology costs to the variable category. Although, according to Strikwerda (2005) most of the SSCs are structured by a fixed transfer pricing system. Besides, it should be observed that this applies (only) when the relation between the F&A process and the client is considered. The internal cost structure of the SSC is given the timeframe not included. As previously explained we are purely interested in whether the client of the F&A function recompenses at a variable or fixed rate for this research. From this it can be recapitulated that a SSC is an accountable entity in the internal organization of a firm, tasked to provide specialized services to operational entities on basis of a service level agreement and the he expenses are shifted on to the operational entities on basis of a (variable) tariff system (Nolan Norton, 2006).

The large advantage of the SSC method is that the 'knowledge' remains within the boundaries of the organization. The SSC is still technically owned by the organization, but e.g. staffed in a separate

business unit or Ltd. Also the SSC is positioned ‘close’ to the organization (Deloitte, 2005), so intensive communication is possible. Because of the centralization, the degree of routine and scale can be improved, resulting in a general improvement of the performance through which the SSC can be more competitive.

Potential disadvantages could be that the link with the core-business is too weak for the performance of the strategically important processes, as a close link with the core-processes is needed for these processes. Besides, the processes that are executed in a SSC need a certain minimal scale, as otherwise the SSC’s advantage disappears. Aside from this, it should be observed that the SSC is in most cases still technically part of the organization, but only the relation is made formal by which the difference between variable and fixed costs can be made. From here it can be argued that optimally no process should be performed in a SSC organization, in which the scale sensitivity is high about the sales, as this possibly results in sticky behaviour (§2.4).

From here the SSC approach can be recapitalized as in figure 6.1. In here the same notation system is used as in figure 5.1. Besides, in this model the range of applicability of the SSC methods is indicated for the seven attributes. During the indication process each attribute was closely investigated and eventually certain indications could be marked out, what should be considered as a range of applicability. In the legend of figure 6.1 the additional notation system is explained. For a number of attributes there is no value included, as for these attributes it is argued that these have no influence on the proposed method, further substantiated in Appendix 3. From here it can be read in the model that e.g. the modularity of the processes which are suitable to be transferred to a SSC should be: ‘medium’, ‘high’, or ‘very high’. Consequently arguing that for processes which have a modularity which is ‘very low’ or ‘low’, the SSC approach is not considered suitable. At the same time, it is argued that e.g. the degree of ‘industry standardization’ attribute has no effect on the SSC model decision. The interpretation of the other attributes is similar. For a further description and underlying indications you are referred to Appendix 3.

Attributes ↗ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Shared Service Centre	●	X	●	-	●	-	X
	◐	X	◐	-	◐	-	◐
	◑	◑	◑	-	◑	-	◑
	◒	◒	X	-	X	-	◒
	X	○	X	-	X	-	○

Additional legend: “X” = not applicable, “-” = indicates that the attribute has no influence on the proposed method

figure 6.1: The characteristics of the ‘SSC’ approach

Aside, that the SSC increases the flexibility potential of the organization, the implementation of a SSC results also in a number ‘side’ effects. Although these effects do not have any influence on the decision process because the scope of this research is defined as the flexibility of the F&A function, this section will discuss some of these implications anyway.

The setup costs which are required to install a SSC are considerable. This because the centralization, consolidation and automation process are very costly. But this can be refuted due to the cost reduction which the SSC brings about, the payback period of the implementation is around 4 years (Economist corporate network, 2003). Next to this, the resistance to change is considered as a large problem when a SSC has to be implemented. Employees are afraid for their future in the organization and managers are afraid to lose power and authority (Deloitte Research, 2005), what could result in e.g. sabotages and opposition. As a positive point of attention it should be considered that the SSC approach is able to clarify and provide more insight in the situation of e.g. the Sarbanes-Oxley regulation (Deloitte Research, 2003). But above all, it should be noted that the process of transferring the processes to the SSC remains risky, several aspects can result in a failed transition, with dramatic organizational consequences.

6.1.2 Entering a business process outsourcing relation

Business Process service Outsourcing (BPO) is a strategic management model in which businesses processes are transferred to another party. From here the third party will perform the day-to-day execution of one or more business processes that might otherwise be done in the own organization. Within the BPO relation this research won't make any difference between the onshore and offshore type, which indicates the distance between the client and outsourcing provide. What is of importance is that in this organizational structure model the relation between the client and the outsourcing provider is purely contract-based (Tornbohm et al., 2006; Accenture, 2004).

Regarding our definition for flexibility, it can be stated that the outsourcing relationship is of excellent use to convert fixed costs into variable costs, because the labour and technology key resources are transferred to a third party (Accenture, 2004). It should be kept in mind that the link with the organization is very low, so strategic importance processes cannot be executed in the outsourcing relation. In addition, the outsourcing provider should be acquainted with the processes and there is a certain minimal dimension of the processes needed to perform these processes against a competitive rate. Noticeable is also that especially processes that have a high degree of routine are performed within the outsourcing module. This because the execution of these processes is relatively easy through the fact that they are frequently performed and each time in the same, identical way. This method can be recapitulated as in figure 6.2, for this figure the same comments apply as in figure 6.1. For a further underlying explanation for the indications you are referred to Appendix 3.

Attributes ↕ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Outsourcing				-			X
				-			X
	X			-	X	X	X
	X		X	-	X	X	
	X		X	-	X	X	

figure 6.2: The characteristics of the 'business process outsourcing' approach

Aside, that the outsourcing method increases the flexibility potential of the organization, the implementation of an outsourcing relationship results also in a number 'side' effects. Although these effects do not have any influence on the decision process because the scope of this research is defined as the flexibility of the F&A function, this section will discuss some of these implications anyway.

There exists always the possibility that the service provider underperforms, what can have major implications for the entire organization. At the same time the organization cannot approach this problem directly as it is no longer in control of the processes. Furthermore organizations are always hesitant to hand over services to a third party (Deloitte, 2005B), because the process of handing over the F&A processes results in the fact the internal/own employees become redundant. Due to this e.g. sabotage and work strikes can be expected. Next to this, it is argued that an outsourcing relation is suitable to transfer the described stickiness of the processes (§2.4). With this, the organization should be aware that entering an outsourcing contract could result in other forms of stickiness, given that the organization's situation can change in regard to the outsourcing contract. After all, this 'contract stickiness' can have the same result as the described stickiness in chapter 2 and so cause inflexibility. Besides, the 'switching costs', the costs which follow from changing the service provider, appear to be very high. From this it is argued that the service provider holds a position of power since, given the switching costs, the client is not inclined to switch service provider, so possibly resulting in an increase in the contract price.

6.1.3 Hiring of external knowledge

The third selected method is the hiring of external skills and knowledge. In this situation the organization hires employees for a certain period of time, from e.g. consulting firms, which have certain specific skills or knowledge. In this process the fixed costs, which are involved in hiring an employee by the organization directly, are converted into variable costs by hiring externals for a short time.

An advantage of this method is that the organization can hire a source of knowledge and skills purely when needed. If the employee was hired by the own organization, the employee's salary still has to be settled when the services are not needed. Also, the strategic importance of the processes is secured because the processes are performed close to the own organization. The external employee can work in a team by which the optimal synergy can be brought about. Next to this there are no minimal scale requirements as there is also the possibility to hire external expertise on a part-time basis.

A disadvantage is the short-lived relationship, and therefore the lack of organization specific knowledge of the external employee. In addition, hiring employees from an external agency is far more expensive than employing an employee directly. This method can be recapitulated as in figure 6.3, the same comments apply as in figure 6.1. For a further underlying explanation for the indications you are referred to Appendix 3.




Attributes \hat{a} ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
External knowledge	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-	X	-	-	-
	-	-	-	X	-	-	-

figure 6.3: The characteristics of the 'hiring of external knowledge' approach

6.1.4 Hiring of temporary workers

The process of hiring temporary workers corresponds largely with the arguments which are given in the previous paragraph. The only large difference with the external knowledge approach of the last paragraph, is that the specificity of the knowledge of the average temporary worker is expected to be lower. Of course there are also temporary workers with a very high skill and knowledge level but these can be considered as a scarcity, also increasing their price. The costs of employing a temporary worker will be lower than e.g. a consultant, also because part of the organization's overhead is calculated in the consultant's rate. Contrary, the costs for hiring a temporary worker are higher than employing an employee directly through the own organization. This method can be recapitulated as in figure 6.4, the same comments apply as in figure 6.1. For a further underlying explanation for the indications you are referred to Appendix 3.




Attributes \hat{a} ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Temporary employee approach	-	-	-	X	-	-	-
	-	-	-	X	-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-

figure 6.4: The characteristics of the ' hiring of temporary employee' approach

6.2 Formulating the preliminary conclusions

In this paragraph it will be argued by which of the four methods, according to the decision model, the selected F&A processes can be performed. Figure 5.1, the completed decision model, will be compared to the characteristics of the described methods (figure 6.1, 6.2, 6.3, 6.4). This process is further explained in Appendix 3. Here we are interested in the ultimate organizational structure, in which the F&A process should be performed, when the F&A function can be considered as mature and balanced. Subsequently, a series of statements will be formulated, which can be regarded as hypotheses (§6.3).

Two processes in the decision model stand out immediately, because of the high indications, namely the 'perform order to cash accounting' and 'perform procure to pay accounting' processes. Given the extraordinary large scale of the process, the very high modularity, and very high degree of routine, taking in mind that these processes are standardized within the industry, it can be concluded that these processes should be outsourced. It is argued in a previous paragraph that these processes are not suitable to be performed in a SSC setting, as these processes are strongly related to the sales. As substantiated in the second chapter this will result in 'sticky behaviour', what is unfavourable. Additionally it should be noted that for these processes the outsourcing contract should be formulated as a variable variant. Thereby the organization is paying only for the actual services which are requested, as most of the outsourcing contracts only include a certain range in which the number of services can vary (Deloitte Research, 2005B).

Regarding the second group of processes, namely the 'perform general accounting and close' and 'perform cost accounting' process, the conclusion can be formulated that these processes can be performed either in the SSC approach or in the outsourcing approach. This because of the high modularity and the high degree of industry standardization. Both options would be optimally able to perform the selected processes considering the degree of routine, by which a scale advantage can be created. Next to this it should be noticed that the 'perform cost accounting' process is only able to be transferred if there is already a basis for the outsourcing/SSC relation, in the form of other transferred processes. This because only the scale of the 'perform cost accounting' process is not enough to initiate a relation.

The 'analyze & support business performance' and the 'support compensation' process are best performed in the SSC setting. This because these processes are of a relatively high strategic importance, but are executed in a routine way, with a high (and low) modularity, concluding that outsourcing is not suitable. As the scale of the 'support compensation' process is moderate, this process should only be staffed in a SSC if there are other processes performed in this setting.

Due to the low scale, the low degree of routine and the (very) high specificity, the 'tax & compliance', 'set business performance measurement', and 'define management's reporting' processes are best performed in the own organization with the help of external knowledge. This because the strategic importance is too high to e.g. outsource, but on the other hand the organization has to invest a lot in maintaining the skills or knowledge needed to perform these processes in the own organization. For this reason external help is the most suitable option.

Both the processes of the 'stakeholder management' discipline are best performed in the original situation, by the own organization. This because the (very) low scale and high strategic importance of the processes. For this reason these processes are not suitable for the outsourcing or SSC method. Because of the low specificity of the resources no external knowledge is required.

It can be observed that the 'hiring of temporary workers' method is not included in the range of solutions, which are selected according to the decision model. Considering the characteristics this method would be able, in combination with a SSC, to neutralize the sticky behaviour of the 'order to cash' and 'procure to pay' processes. From here it is argued that the outsourcing option, which is recommend above,

would be better suitable since the world is becoming more volatile, what would result in very short contracts for the temporary workers. On the long term this would result again in stickiness, as the source of the volatility is not eliminated or transferred. For this reason the outsourcing method is preferred above the temporary worker approach for this process.

6.3 Summary and conclusions

In this chapter a number of conclusions are drawn about the flexibility potential of the F&A processes and in which way these can be optimally exploited. Here, optimally exploited means that the fixed costs of the processes should be transferred to the variable cost group, taking all the identified process characteristics into account. From here a number of hypotheses can be formulated, which can be considered as a summary of the findings of this chapter:

1. For the 'perform order to cash accounting' and 'perform procure to pay accounting' processes it is concluded that these processes should be organized as an outsourcing relation, considering i.e. the large scale, the very high modularity and high degree of standardization of these processes. But especially because these processes are argued to be susceptible to stickiness, ruling out the SSC method.
2. For the 'perform general accounting and close' and the 'perform cost accounting' processes it is substantiated that these processes can be organized in a SSC or outsourcing setting. This considering i.e. the high degree of routine, the process scale and the high modularity.
3. For the 'analyze & support business performance' and the 'support compensation' processes it is concluded that these processes should be organized in the SSC setting. This considering these processes are performed i.e. in a routine way and are highly modular. But especially because these processes are argued to be of high strategic importance, what rules out the outsourcing method.
4. For the performance of the 'tax & compliance', 'set business performance measurement', and 'define management's reporting' processes it is substantiated that external knowledge should be hired, instead of maintaining the skills for performing these processes by the own organization. Considering the high specificity of the knowledge the temporary workers option is ruled out.
5. For the 'managing the (non-) financial stakeholders' processes it is concluded that these processes should remain in the organization. This considering i.e. the low scale of the process and the strategic importance of this process.

From this it can be reasoned that the optimal flexible F&A function should be a combination of the SSC, outsourcing and the hiring of external knowledge. From this the sixth hypothesis can be derived:

6. A flexible F&A function is organized by a SSC, outsourcing relation, and external knowledge. Only in this setting the F&A function can be optimally flexible, by which the F&A function contributes to an agile organization.

Chapter 7 Analysis

The primary goal of this chapter is to validate the hypotheses, which were formulated in the previous chapter. This to declare in what extent the theory manifests itself in practise. The validation process will be carried out by interviewing a number of professionals from the practical world. The first paragraph of this chapter (§7.1) will discuss the design of the interviews, and whom were interviewed. Subsequently the findings of the interview will be discussed (§7.2), after which the hypotheses will be validated (§7.3).

7.1 Interview design

The interviews were based upon a structured interview script. In this script all the research question, but especially the findings which follow from the research, had to be further uncovered by the answers of the interviewees. More details about the interview script can be found in appendix 4. Besides this, it should be mentioned that the list of questions, the interview script, is too extensive to discuss everything in detail with all of the correspondents. Therefore there was a selection of questions made for every respondent, this to be able to go into more detail on the answers.

The interviewees were selected on a number of aspects: the scale of the interviewee's organization had to correspond with the scope of this report (§1.4.2). The position held by the respondent had to be in the management of the organization, so the respondent is acquainted with the subject of the research and the actual decision. Besides, if the interviewees held a lower position, this would result in a 'rosy view', as their positions would possibly be at stake given their answers. Subsequently, the market in which the organizations operate was of importance, as only the 'industrial organization' is in scope for this report (§4.1). Also participants from all over the European Union were selected, to cover the total scope of the report (§1.4.3). For a complete list of the names, functions, and for which organization the respondents are working, you are referred to the preface of this report.

Although there were nine interviews held, the number of respondents is not representative for the total population on which this research is applicable. From here the empirical basis of this research does not substantiate this research as a well-proven scientific research, this being impracticable, unfortunately, considering the timeframe. In despite of this, it is possible to reach certain conclusions about the degree in which the theory manifests itself in practise.

7.2 Findings of the interviews

This paragraph will discuss in short the results of the interviews. In this paragraph the focus will be on the similarities with the research findings but even more interesting are the differences, as from there it can be argued that the literature doesn't correspond with the practical world, or other variables of importance should be identified.

All the respondents stated that a supporting process, as which the F&A process is classified, should first of all have a close link with the core processes, satisfying their requirements and evolving

with the core processes. It was observed that the F&A function should be able to adapt its capacity to the demanded capacity by the internal processes. All the interviewees indicated the importance of the F&A function to be organized on largely variable costs as high, between a 7 and 9 on a scale of 10 (highest). What emphasizes the importance of this research. Also the respondents indicated, as argued in this research, that there are other types of flexibility for the F&A function which play a role in converting the inflexible organization into a more agile organization. The percentage of the revenue, which is utilized by the F&A function to perform its processes, differs widely in the various organizations. The percentages ranged between 1 and 6 percent, from which it can be argued that the cost structure flexibility topic is for certain organizations more relevant than for others. Exactly as it was argued in the report, the labour and technology key resources are named as the major cost groups. The percentages which are related to the key resources diverged, but the majority of the respondents considered both cost groups as fixed. More alarming is the fact that none of the respondents is aware of any 'sticky behaviour' in their organization, although most of the interviewees could imagine this behaviour taking place. In contrary, all the respondents did agree upon the fact that the source of this stickiness should be searched for within the organization, as the organization is in this situation not able to adapt to external influences, e.g. the economic situation or market demand.

The description of the F&A disciplines, processes and sub-processes were unanimously approved by the respondents. From this it can be concluded that the F&A processes are reflected in a complete and observable way. The 'order to cash' and 'procure to pay' processes were indicated by the interviewees as the most susceptible to possible sticky behaviour. The 'stakeholder' discipline should be considered, according to the interviewees, within the F&A function as a very small process as this process only supports the function which communicates the (required) information to the stakeholders.

During the interviews no new general applicable attributes, which could improve or add another relevant dimension to the presented decision model, were indicated by the respondents. The interviewees all came up with a number of attributes but all of these attributes could, after a discussion, be reduced to the attributes which are already defined in this research. Next to this a more subjective attribute was added by a number of the respondents. This attribute should indicate 'how important a specific F&A process is considered by the management'. This because certain respondents indicated that e.g. the communication process of the 'order to cash' process was regarded as very important from a sales perspective. The communication with the customers is, from their point of view, considered to be essential for realizing further sales and the creation of customer goodwill. Due to this e.g. the 'order to cash' process was not considered to be suitable for the outsourcing method, as the communication was considered as too important to be transferred. As the focus of this proposed attribute is of a short term, this attribute describes the functional strategic level of a process (Daft, 2000). The functional level strategy deals with the question 'how the business level competitive strategy should be supported', which can be seen together with the corporate level strategy, as the main strategy for the overall organization. So it is reasoned that this attribute is not the same as the included 'strategic importance' attribute, as this attribute indicates the long term effect on the strategy of the organization.

All the selected organizational structure models were brought up, by the interviewees, as being able to transfer the fixed costs to the variable cost group. Besides this, a number of interviewees indicated the growing role of the technology, what will eventually result in methods which are in a larger extent based upon the factor technology.

7.3 Summary and conclusions

The main goal of this paragraph is to subject the hypotheses (§6.3) to a validation process. In this paragraph the findings from the literature are compared to the answers and findings from the empirical part of the report. Arguments which given by the respondents, which are in line with the substantiation of this research, will not be further discussed, only deviations will be further analyzed as these can bring about new perspectives.

First of all came forward from the interviews that the majority of respondents regard, in theory, all the F&A processes to be suitable for outsourcing. The outsourcing method is considered as the most optimal way the processes can be performed, given that the organization can fully focus on the core processes which are directly creating value for the organization. Although, the respondents admitted that the situation in practise was often different, as outsourcing contracts are e.g. too inflexible and processes are considered to be too important from a strategic perspective. From here it is argued that a combination of SSC, outsourcing and external knowledge are required to create more flexible F&A function and organization. By this the *sixth hypothesis* can be regarded as *approved*.

During the interviews it became clear that the ‘perform procure to pay accounting’ process could be performed in an outsourcing relation, according to the respondents. This obviously cannot be concluded for the ‘perform order to cash accounting’ process, as some of the respondents indicated that the contact with the clients is considered as too strategic important, and therefore this process is not considered to be suitable for the outsourcing method. A SSC would be more appropriate in the perspective of the respondents. From this it can be concluded that the *first hypothesis* is only *partly approved*.

The respondents indicated in the interviews that the ‘perform general accounting and close’ processes can be performed in an outsourcing relation or in a SSC, or a combination of these methods. On the contrary appeared from the interviews that the ‘perform cost accounting’ cannot be successfully be performed by an outsourcing provider. This is partly in line with the *second hypothesis*, from which this hypothesis can be regarded as *partly approved*.

The majority of the respondents indicated that the ‘analyze & support business performance’ and the ‘support compensation’ processes are suitable to be performed in a SSC. From this it can be concluded that the *third hypothesis* can be considered as *approved*.

About the ‘tax & compliance’ process no statement can be formulated, as during the interviews all possible customization methods were brought up as suitable what was substantiated by different arguments. For the ‘set business performance measurement’, and ‘define management’s reporting’ processes the majority of the respondents indicated that these processes should be handled by the own

business unit, and sometimes in combination with an external employee as the relevant knowledge should not be incorporated in the organization. From this it can be stated that the *fourth hypothesis* can be regarded only as *partly approved*.

The managing of ‘the (non-) financial stakeholders’ processes is, according to the majority of the interviewees, best performed partly in the relevant business unit and partly performed on a global or corporate level (e.g. annual reports). From this it can be concluded that the *fifth hypothesis* can be regarded as *approved*.

Chapter 8 Conclusions and recommendations

In this last chapter the main conclusions and broader implications (§8.1) and recommendations (§8.2) will be discussed, which will be presented point by point.

8.1 Conclusion

In the first chapter of this report (§1.2) the research problem was formulated as follows: *‘How should the F&A function be organized to contribute positively to the creation of flexibility, in pursuit of a more agile organization?’* In order to be able to formulate an answer on this study, the original research problem was progressively broken down into more specific questions, the research questions (§1.3). Below, the relevant findings of the research questions will be indicated, after which an answer on the research problem will be formulated.

8.1.1 The formulation of an answer to the research questions

This research began with a statement that our modern society becomes more complex and changes faster and faster: what the world will look like in a relatively short time from now is increasingly uncertain (Johnson et al., 2002; Financieel Dagblad, 2002; Deloitte Research; 2001). From this it is argued that the F&A function can contribute to an agile organization by the pursuit of flexibility. For this research, flexibility implies that the F&A function organizes its capacity as flexible. This can be understood as that the F&A function is able to adapt its production capacity to the fluctuating required capacity of its services. This is of importance since the consumer demand is increasingly volatile (Strikwerda, 2005), forcing organizations to be flexible and act swiftly in rapid changing environments (Strikwerda, 2005). By maintaining a flexible capacity, the F&A function can overcome the problem of under- or over-capacity and the undesired related effects.

The capacity topic relates to the cost structure topic, as only by a variable cost structure the F&A function is truly flexible, otherwise it is only a matter of a pretence of being flexible. Fixed costs are “independent of the level of output, and, in particular, they must be rewarded whether the firms produces output” (Wang et al., 2001). From here it was argued that this research is highly relevant as it appeared that at least four-fifth of the costs related to the F&A function appeared to behave fixed.

Besides, in the literature there is an additional phenomenon described called ‘stickiness’, which can be explained as that a part of the F&A’s fixed costs are ‘managed fixed’, implying that these costs are considered as fixed by the management, although this cannot be justified on behavioural ground.

Furthermore it was argued that the decisions which affect the flexibility of an organization should be made within the parameters of the strategy of the organization (Johnson et al., 2002). From here a number of operational structure models were extensively investigated on the ability to increase the described form of flexibility (ch.6). From here a series of methods were indicated, which are able to increase the flexibility of the F&A function and thereby the agility of the organization. From here it is

argued that the SSC has to be structured by a variable compensation, by which the SSC relation is based upon variable costs and therefore satisfies the formulated definition for flexibility. For the outsourcing relation it is of importance that the contract is structured in a variable way, by doing so the client recompenses the outsourcing provider per service, and thus satisfies the flexibility definition which is defined for this research.

Subsequently the profiles of the operational structure models were linked, on basis of the selected characteristics, to the F&A process descriptions, what is done in the form of a decision model. After all, the findings were validated by subjecting the findings to a series of interviews.

First of all, it can be concluded from this research that it should be acknowledged that the flexibility and agility topic is very complex, already observed in the introduction of this report. The literature for this research field is limited, what was also emphasized by Mr. Strikwerda during the interview. According to Mr. Strikwerda the literature about flexibility, agility, SSCs, and outsourcing lags behind in comparison to other management literature fields. Besides, the complexity observed in this research, was also expressed by the respondents of the (practical) interviews, indicating that there are various sub-forms of the methods and numerous factors which are of influence for the actual decision.

8.1.2 The formulation of an answer to the research problem

From this research, what is substantiated by the secondary research, a number of conclusions can be reached. Notwithstanding the fact that there are certain limiting conditions, which influence the conclusion which can be drawn for this research. In the course of this report there are a number of limiting conditions set, hereby should be thought of i.e.: the nature of the investigated processes (§1.4 & ch. 4), the size of the organization on which this research is applicable (§1.4), the market in which the organization is operating (§1.4) and the definition which is set for flexibility in this research (§2.2). From here it can be stated that the optimal capacity flexibility, within the F&A function, can be brought about by organizing the F&A processes in the following way. By creating a more flexible F&A function the foundation is set for an agile organization, what is of utmost importance in today's market (§1.1).

1. The 'procure to pay' process should be organized in an *outsourcing relation*. This because of i.e. the large process scale, high degree of routine and the largely standardized procedures, within the industry, for this process.
2. The 'general accounting and close' process should be organized in an *outsourcing* or *SSC approach*, or a *combination* of these models. This because i.e. the large process scale, high degree of routine and the (functional) strategic importance of this process.
3. The 'set business performance measurement' and 'define management reporting requirements' should be organized in the *own business unit*, and in some cases with *external* help. This because i.e. the low process scale, the high specificity of the needed resources and the low industry standardization for these processes.

4. The 'analyze & support business performance' and the 'support compensation' processes should be organized in a SSC relation. This because i.e. the low degree of routine, the high strategic importance and the low scale of these processes.
5. The 'stakeholder management' processes should be organized by the *own organization*, partly in the business unit and partly at the headquarters. This because the scale of the process is very low and because this process is indicated as strategically important.

By organizing the processes as described above, the organization will bring about the most optimal structure in which an equilibrium between flexibility and (business) risk can be pursued optimally.

No clear conclusion can be formulated about the other processes, given that the results from the primary literature and secondary literature didn't correspond. To acquire further insight in the organizational structure model for these processes further research is necessary.

6. The organizational structure model for the 'order to cash', 'cost accounting' and 'tax & compliance' processes couldn't be determined from the results of the primary and secondary research.

From this it can be concluded that the optimal F&A function is organized by a combination of an outsourcing and a SSC organizational structure model, and by making use of external knowledge, by which the F&A function contributes to an agile organization.

8.1.3 Additional conclusions

In addition to the operational structure model decision, the broader implications of this model has to be taken into account. A number of implications are already discussed in the sixth chapter of this research. In this chapter was i.e. argued that a shift in the operational structure model would have major implications for the employees in the F&A function. It was also argued that this decision has to be considered well and should be supported by the top management, as this decision will have major implications for the complete organization. After all, as substantiated several times in this report, cost structure flexibility in the F&A function is not the only important aspect for an organization, several aspects have to be determined when the actual decision is considered (i.e. other sorts of flexibility and the flexibility of other (supporting) processes).

Moreover it could be concluded from the series of interviews that the practical world is not that aware or convinced of the stickiness phenomenon (§2.4). Although this phenomenon is widely investigated and described in the literature, subordinated by statistical research which sustains this behaviour. This behaviour is hardly noticed in any of the consulted organizations, let alone that it was measured or indicated.

8.2 Recommendations

In the next two paragraphs a number of recommendations which follow from this research and a number of recommendations for possible directions for further research will be indicated.

8.2.1 Recommendations following from the research

From this research it can be concluded that the F&A function has to be organized as indicated, point by point in §8.1.2. In this paragraph are also the main limiting condition described which are applicable for this research. By organizing the F&A processes in the proposed organizational structure models, the F&A function will be as flexible as possible, by which the F&A function will be better able to deal with fluctuations in the required capacity. This results in an increase in the agility of the total organization, by which the total organization is better able to cope with the changing market requirements.

This research is especially important for organizations in which the F&A function claims a large part of the total costs. Besides it can be concluded from the primary research, that there are large differences in the cost level of the F&A function, what is extensively discussed in §7.2. A benchmarking process of the F&A functions appears to be very helpful for the future, as by doing so, the described flexibility need can be rated for organizations. After all, especially organizations with large F&A costs are more susceptible to the described threats.

Next to this it can be recommended that the top management should consider any changes in the operational structure model extensively, as major implications are indicated in this research. These were indicated and closely described in §8.1.3 and the sixth chapter, though it should be noted that this was not the major focus of this research and thus not all possible implications are included in this research.

8.2.2 Recommendations for further research

In this section the recommendations for any further research will be indicated, which should provide more insight in the topic of this research. The proposed recommendations have predominantly the aim to reduce the limitations of this research and clarify the obscurity which appeared in this research.

Extend the decision model: To the decision model an extra attribute has to be added, which has the aim to indicate in what degree the organization assumes certain F&A processes to be essential for the organization. This attribute has to be able to determine the strategic goals on a functional level (§7.2), and thus deals with the question ‘how the business level strategy should be supported’. To put it briefly; this attribute should be able to indicate the F&A processes which are, according to a specific organization, marked as strategically important. To illustrate this; an organization can indicate e.g. the ‘procure to pay’ process (§4.2) as a very strategic. This as many of the future assignments are raised during this (F&A) process, what can be explained from the fact that in this process the communication with the client plays a central role.

This attribute will therefore indicate the choice, and the focus, of the organization and its management regarding the F&A function. As is observed in the interviews, will this new attribute create a

further insight in the possibility to make a further distinction between the outsourcing and SSC approach (§7.2).

Next to this there should be thought of including a certain ‘weight’ to the various attributes. By which an attribute with a higher ‘weight factor’ will have more influence on the ultimate decisions given the optimal setting to perform that process. The added weights will have i.e. the purpose to put right the fact that i.e. the ‘scale sensitivity about the sales’ was (probably) overruled by the new attribute, which is proposed above in this paragraph. This all was disclosed during the validation interviews (§7.3).

Devote research to substantiate the ‘stickiness’ concept: As none of the interviewees measured stickiness (§2.4) within the organization, though it is clearly identified in the scientific research.

Next to this there appears to be no explicit research on this subject for the F&A function (§2.4), although in the research of Anderson et al. (2000) and Subramaniam (2003) there is mentioned that ‘stickiness’ predominantly occurrence in the F&A function. For this reason, further research should provide an insight in which costs of the F&A function are susceptible to stickiness, by which the designed decision model can be further developed and improved.

Investigate flexibility from other perspectives: Any further research should study in depth the other flexibility perspectives. Considering that the flexibility topic is not widely described in the literature as recognized by Strikwerda (interview). On the one hand, other relevant forms of flexibility for the F&A function should be uncovered and indicated, and from this be exploited (like e.g. reporting flexibility). This given that there are probably more flexibility forms which determine the total flexibility of the F&A function.

On the other hand, there should be a focus on the flexibility of the other processes within the organization (e.g. logistics, HRM). This because the overall agility of the organization depends on the ‘sum’ of the flexibility in all the processes. In other words, the advantage of a very flexible F&A function is annulled if the other processes within the organization remain inflexible.

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Appendices

Appendix 1: Preparatory interviews

For the process of acquiring an initial idea about the flexibility topic and its related models, a number of professionals were interviewed. The professionals were interviewed in a structured way; meaning there was made use of a script. The script which is used for the interviews is presented below. The written out notes of the interviews are not included in this report, but can be obtained on request from the author.

Interview script:

This interview is structured in two parts. The first part of this interview consists out of a number of questions to get an insight in the SSC and outsourcing methods. Subsequently the second part of the interview consists out of a number of statements on which the respondent is asked to respond on two counts. First of all whether the interviewee agrees or disagrees with the statement, and secondly the respondent is asked to rate the statement on a scale of 1 (low) to 5 (high), this to stress the importance from the respondent's point of view. The aim of these statements is to bring forward more information.

Part 1: Interview questions

- 1) What are in your opinion the main key resources which are used for the F&A processes?
- 2) What do you consider as the most significant F&A processes when measured in FTEs?
- 3) What are the characteristics, of the processes and key resources, which should be kept in mind to guarantee the durability of the F&A processes, but above all the entire organization, when the shift to another organizational structure model is considered?

- 4) Are you aware of any sticky cost behaviour in the F&A processes within your organization?

What could be, according to you, the origin of these sticky costs?

Which F&A processes, are according to you, especially subjected to this sticky behaviour?

- 5) Which available organizational structure models do you consider to be suitable to perform the F&A processes?

Which processes are, according to you, considered to be applicable to be performed in the SSC model?

Do you think the SSC process will have an impact on the cost structure of the F&A processes?

In what extent do you consider standardization as an important step before that a SSC could possibly be implemented?

Do you think the standardization process will have an impact on the cost structure of the F&A processes?

Which processes are, according to you, considered to be applicable to be performed in the outsourcing model?

Is outsourcing from your point of view considered to be a successor of the SSC concept? or is the standardization considered to be a sufficient base?

Do you think the outsourcing will have an impact on the cost structure of the F&A processes?

6) How do you see the future of the F&A processes and thereby the related costs?

Part 2: Statements:

True/false; why? Please indicate the on a scale of 1 (low) to 5 (high)

- 1) Maintaining flexibility is of the highest importance for today's organization.
- 2) The traditional asset based pyramid organization is too slow and inflexible to react on changes in the market
- 3) A healthy cost structure is a top objective for organizations.
- 4) Organizations should focus more on their core competences and should therefore transfer the F&A processes, if possible, to a third party?
- 5) Organizations should best keep all governance over the F&A processes, also when this results in a rigid costs structure and higher costs.
- 6) The outsourcing model is the only model which can make the cost structure more flexible.
- 7) A portfolio approach (combination of organizational structure models) would best fit the requirements of the F&A processes.
- 8) The most optimal organizational structure model for the transaction based processes is the outsourcing model.
- 9) The most optimal organizational structure model for the expertise based processes is as an 'centre of expertise' in the SSC approach.
- 10) The most optimal organizational structure model for the strategy based processes is the traditional organizational structure model.

Appendix 2: The selected F&A processes rated at the 7-attributes

This appendix is included to provide further insight in figure 5.1. First the design of the model will be discussed and secondly the actual completion process and its indications will be discussed.

Reading manual:

This section will further explain the design of figure 5.1, from which will become clear how to ‘read’ and how to interpret the decision model. This reading manual should be considered as an extension on the description which is given in the fifth chapter.

The decision model should be consulted horizontally, as is indicated by the red frame around the ‘perform order to cash accounting’ process, in the figure below. When the decision model is consulted for this F&A process it can be read that: the ‘scale’ is ‘very high’, that the ‘scale sensitivity about the sales’ is ‘very high’, ‘degree of routine’ is ‘very high’, ‘specificity of resources’ is ‘very low’, ‘modularity’ is ‘very high’, ‘industry standardization’ is ‘very high’, ‘strategic importance’ is ‘very low’. The other processes of the F&A function have to be consulted likewise.

Attributes ↗ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Perform order to cash accounting	●	●	●	○	●	●	○
Perform procure to pay accounting	●	◐	●	○	●	●	○
Perform general accounting and close	◐	◐	●	◐	◐	◐	◐

Explanation of the indications:

In the next section the indications of the F&A processes in regard to the attributes will be explained. Here it is chosen to represent the indications per attribute, what corresponds with a column view (green frame in the above-mentioned figure). This approach will allow the reader to compare the different indications per process easily.

Attribute: scale

Attributes ↗ ↓ F&A processes	Scale	Consulted sources: Process descriptions, Benchmark database, Hackett group 2002
Record & report	Perform order to cash accounting	Several sources in the literature indicate this process as the (second) largest process with the F&A function. The scale is often the basis for an outsourcing or SSC relation.
	Perform procure to pay accounting	Several sources in the literature indicate this process as the (second) largest process with the F&A function. The scale is often the basis for an outsourcing or SSC relation.
	Perform general accounting and close	In the internal benchmark database is the general accounting process indicated as the third process in size. From this and from other literature can be concluded that this process should be considered as an important process in size.
	Perform cost accounting	The size of the process is not sufficient for the basis of an SSC or outsourcing relation, although the size can add some extra potential for the already existing relationship.
	Tax & compliance	The size of the process is not sufficient for the basis of an SSC or outsourcing relation, although the size can add some extra potential for the already existing relationship.
Analysis & interpretation	Set business performance measurement	A very short process, with a low scale. From the scale perspective this process is not really significant
	Define management’s reporting	A very short process, with a low scale. From the scale perspective this process is not really significant

Stakeholder management	Analyze & support business performance		The scale of the analyze process can be seen as significant. Putting together of this processes for all business units results in a significant scale for the organization to initiate a relation.
	Support compensation information		A very short process, with a low scale on a very low interval. From the scale perspective this process is not really significant
	Manage financial stakeholders		The scale of this process stated as low. From the scale perspective this process is not really significant
	Manage non-financial stakeholders		The scale of this process is very low. From the scale perspective this process is not really significant

Attribute: capacity driver sales related

Attributes \Rightarrow ↓ F&A processes		Scale sensitivity about the sales	Consulted sources: Process descriptions, benchmark database, process descriptions, best practices
Record & report	Perform order to cash accounting		This process is very closely related to the sales since the size of the process is largely determined by the number of invoices which are sent to the customer, what depends on the sales of the organization.
	Perform procure to pay accounting		This process is very closely related to the sales since the size of the process is largely determined by the number of invoices which are received from the vendors, what depends on the sales of the organization. Although not as much as the OtC process.
	Perform general accounting and close		This process has a small relation with the sales. Higher sales implies more salary cost for handling this process, next to this the general accounting sub-process costs more time since there is more information which should be processed.
	Perform cost accounting		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
	Tax & compliance		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
Analysis & interpretation	Set business performance measurement		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
	Define management's reporting		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
	Analyze & support business performance		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
	Support compensation information		No or a low implication for this process. From the capacity driver sales related perspective can be stated that this process is insignificant.
Stakeholder management	Manage financial stakeholders		The implications for this process can be indicated as low. This because the stakeholder will have more attention for a fluctuating organization, what results in a fluctuating workflow for this process.
	Manage non-financial stakeholders		The implications for this process can be indicated as low. This because the stakeholder will have more attention for a fluctuating organization, what results in a fluctuating workflow for this process.

Attribute: degree of routine

Attributes \Rightarrow ↓ F&A processes		Degree of routine	Consulted sources: Process descriptions, process benchmark details, Hackett group 2002
Record & report	Perform order to cash accounting		This process can be classified as highly repetitive, as there are a number of small processes which have to be performed. This is confirmed in consultation with a professional of Deloitte.
	Perform procure to pay accounting		This process can be classified as highly repetitive, as there are a number of small processes which have to be performed. This is confirmed in consultation with a professional of Deloitte.
	Perform general accounting and close		This process can be classified as highly repetitive, as there are a number of small processes which have to be performed. This is confirmed in consultation with a professional of Deloitte.
	Perform cost accounting		This process is highly frequent, although smaller than the processes which are described previously.
	Tax & compliance		This process consists of a number of processes of which the main part can be considered as highly repetitive.
& inter	Set business performance measurement		Since targets and measurement systems are set only on a very low frequency can this process be classified as low. From the degree of routine attribute perspective can this attribute be classified is insignificant.

Stakeholder management	Define management's reporting		As target and measurement systems are set only on a very low frequency this process can be classified as low. From the degree of routine attribute perspective this attribute can be classified as insignificant.
	Analyze & support business performance		The analyze process requires weekly/monthly/ yearly the same procedures to create reports. Although it should be noted that also the possibility exists that ad-hoc reports should be performed
	Support compensation information		These are very repetitive processes although only performed on a very low interval (monthly, quarterly, yearly).
	Manage financial stakeholders		Stakeholders mainly request standard information (e.g. annual report) although the accompanying information cannot be standard (e.g. interpretation). Next to this the frequency is considered to be low (quarter/year end)
	Manage non-financial stakeholders		Stakeholders mainly request standard information (e.g. annual report) although the accompanying information cannot be standard (e.g. interpretation). Next to this the frequency is considered to be low (quarter/year end)

Attribute: specificity of resources

Attributes à		Specificity of resources	Consulted sources: Process descriptions, Consultations of experts, Analyzes of vacancies (salary/required education - job description)
↓ F&A processes			
Record & report	Perform order to cash accounting		The job requirements for this function are very low. From the specificity of resources perspective can be concluded that this process can be considered as insignificant.
	Perform procure to pay accounting		The job requirements for this function are very low. From the specificity of resources perspective can be concluded that this process can be considered as insignificant.
	Perform general accounting and close		The education level of these employees can be considered as higher than previously discussed processes. Although the requirements can still be seen as low.
	Perform cost accounting		For the execution of this process a medium knowledge of accounting is necessary.
	Tax & compliance		For this process information and accounting skills are necessary to report in complying with the latest regulations. From here the employees who handles this process (not all) are skilled accountants and tax experts. Thus a very high specificity is required.
Analysis & interpretation	Set business performance measurement		The process of setting up the performance measurement systems can be considered as a complicated process, for which experience and organization related knowledge is required. Organization knowledge + experience are needed to perform this process.
	Define management's reporting		The process of setting up the performance measurement systems can be considered as a complicated process, for which experience and organization related knowledge is required. Organization knowledge + experience are needed to perform this process.
	Analyze & support business performance		The analyze process requires high analytic skill to interpret the data and reach conclusions from this. From this can be concluded that the employees who perform this process do need a the proper education and skills to perform this process.
	Support compensation information		The job requirements for this function are very low. From the specificity of resources perspective can be concluded that this process can be considered as insignificant.
Stakeholder management	Manage financial stakeholders		For this process the power of persuasion is necessary, and the ability to explain information to external parties. As the importance of this process is very large as it should be done well in one go., the specificity is classified as medium.
	Manage non-financial stakeholders		For this process the power of persuasion is necessary, and the ability to explain information to external parties. As the importance of this process is low, the specificity is classified as low.

Attribute: modularity

Attributes à		Modularity	Consulted sources: Process descriptions, consultation of experts, Wolters 2002
↓ F&A processes			
Record & report	Perform order to cash accounting		Although the intensity of the communication can be classified as medium, but the diversity of demand is very low this process can be classified as very modular. This results in the possibility to communicate over a distance of the core-processes.
	Perform procure to pay accounting		Although the intensity of the communication can be classified as medium, the diversity of demand is very low, so this process can be classified as very modular. This results in the possibility to communicate over a distance of the core-processes.
	Perform general accounting and close		Since the diversity and the intensity of the communication can be classified as low this process is rated as highly modular. This results in the possibility to communicate over a distance of the core-processes.
	Perform cost accounting		Since the diversity and the intensity of the communication can be classified as low this process is rated as highly modular. This results in the possibility to communicate over a distance of the core-processes.
	Tax & compliance		For the proper interpretation of the tax data high diverse communication is needed, although the intensity of the communication will be considerably lower. The overall modularity of this process can therefore be considered as medium.

Analysis & interpretation	Set business performance measurement		The diversity of demand which is needed for this process will be high, besides the intensity of the communication will be high. From here can be concluded that this process can be considered as integrated, as interpretation difference should be avoided
	Define management's reporting		The process of setting the managements requirements is a highly diverse and communication intensive process. From this can be stated that this process can be regarded as highly integrated.
	Analyze & support business performance		Both the diversity of demand and the intensity of the communication are considered to be medium. From here can be concluded that this process can be regarded as semi-modular.
	Support compensation information		Both the diversity of demand and the intensity of the communication are considered to be medium. From here can be concluded that this process can be regarded as semi-modular.
Stakeholder management	Manage financial stakeholders		The diversity of demand which is needed for this process will be high, besides the intensity of the communication will be high. From here can be concluded that this process can be considered as quite integrated.
	Manage non-financial stakeholders		The diversity of demand which is needed for this process will be high, besides the intensity of the communication will be high. From here can be concluded that this process can be considered as quite integrated.

Attribute: industry standardization

Attributes à		Industry standardization	Consulted sources: Process descriptions, Consultation of experts, Hackett group 2002, Deloitte Research 2005B
↓ F&A processes			
Record & report	Perform order to cash accounting		This process is often outsourced within the industry and in most cases performed in the same way. From the very high routine perspective can be explained why this process is optimized industry wide.
	Perform procure to pay accounting		This process is often outsourced within the industry and in most cases performed in the same way. From the very high routine perspective can be explained why this process is optimized industry wide.
	Perform general accounting and close		This process is often outsourced within the industry and in most cases performed in the same way. From the very high routine perspective can be explained why this process is optimized industry wide.
	Perform cost accounting		This process is often outsourced within the industry and in most cases performed in the same way. From the very high routine perspective can be explained why this process is optimized industry wide.
	Tax & compliance		For this process can be stated that all organizations are subjected to similar regulations. But the actual completion of the tax report differs for every organization.
Analysis & interpretation	Set business performance measurement		This process is very organization specific, as every organization will put the point of interest on a different aspect of the organization.
	Define management's reporting		For this process can be stated that most of the organizations would request similar information about a process, although possibly difference can be observable. For this reasons this process is rated as medium for the industry standardization.
	Analyze & support business performance		For this process can be stated that most of the organizations would request similar information about a process, although possibly difference can be observable. For this reasons this process is rated as medium for the industry standardization.
	Support compensation information		For this process can be stated that most of the organizations would request similar information about a process, although possibly difference can be observable. For this reasons this is process rated as medium for the industry standardization.
Stakeholder management	Manage financial stakeholders		For this process can be stated that most of the organizations would request similar information about a process, although possibly difference can be observable. For this reasons this process is rated as medium for the industry standardization.
	Manage non-financial stakeholders		For this process can be stated that most of the organizations would request similar information about a process, although possibly difference can be observable. For this reasons this process is rated as medium for the industry standardization.

Attribute: strategic importance

Attributes à		Strategic importance	Consulted sources: Process descriptions, Consultation of experts, Accenture 2002
↓ F&A processes			
Record & report	Perform order to cash accounting		This process is indicated as of very low strategic importance. This can be explained from the point of view that only the collections/managing of payments can be considered as a short term goal.
	Perform procure to pay accounting		This process is indicated as of very low strategic importance since the payment of vendors is considered as a short term goal.
	Perform general accounting and close		Although the importance of this process is low, there should be made a difference with the previous 2 processes. The strategic implications of not performing these processes would be larger for the long term.
	Perform cost accounting		This process is predominantly for the internal calculations, although it should be noticed that on the long term this could have implications for the strategy of the organization

	Tax & compliance		For an organization it is of utmost importance that the tax declaration is done in the utmost secure way by complying with the latest regulations. For this reason the decisions are made, also from the tax point of view, e.g. in all headquarters in the
Analysis & interpretation	Set business performance measurement		As this process determines the actual measurement dashboard of the organization, from which the strategy is derived this process, could be considered as highly important.
	Define management's reporting		This process is of importance since the actual values for the strategy are indicated here, and from which can be indicated if the performance is good or bad. What results evidently to a strategic decision
	Analyze & support business performance		The analyze process has the responsibility to draw conclusions from the previous two processes and the performance of the organization. From this can be concluded that this process is the basis of the strategy formulation.
	Support compensation information		This process is only for internal cost calculation, and will have only minor implications for the strategy formulation.
Stakeholder management	Manage financial stakeholders		This process can be considered as important for the strategy formulation as this process handles the relationships with (i.e. banks, stock exchanges) what does have influence on the strategy formulation of the organization.
	Manage non-financial stakeholders		The implications for this process on the strategy are lower than the financial stakeholder, but shouldn't be underestimated. Communication with employees, industry associations have the potential to influence the strategy of the organization.

Appendix 3: The customization methods rated at the 7-attributes

This appendix is included to provide a further insight in figure 6.1, 6.2, 6.3 and 6.4. First the design of the model will be discussed and secondly the actual completion of the attributes for each of the F&A processes will be discussed.

Reading manual:

This section will further explain the design of figure 6.1, 6.2, 6.3 and 6.4, from which it will become clear how to 'read' and how to interpret the models. This reading manual should be considered as an extension on the description which is given in the sixth chapter. The reading manual which is applicable for these models is largely similar to the reading manual which is presented in appendix 2, and for this reason not completely repeated in this section.

The main row indicates the attributes, as is similar to figure 5.1. In the main column the discussed customization method is indicated (red frame). In the completion section the range of applicable indications is indicated (orange frames). For the explanation of the symbols, which are used in this model, you are referred to figure 6.1. From here it can be read that , e.g. the 'scale' of a process should be 'high' or 'very high'- the 'scale sensitivity about the sales' of a process should be 'very low', 'low', 'medium', 'high' or 'very high'- the 'degree of routine' of a process should be 'medium', 'high' or 'very high' - the 'modularity' of a process should be 'high' or 'very high' - the 'strategic importance' of a process should be 'very low' or 'low' - only when all these requirements are satisfied, the process can be successfully transferred to the indicated customization model, which is in this case 'outsourcing'. This process is identical for the other customization methods.

Attributes \hat{a} ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Outsourcing				-			X
				-			X
	X			-	X	X	X
	X		X	-	X	X	
	X		X	-	X	X	

Explanation of the indications:

In the next section the indications of the customization methods in regard to the attributes will be explained. This approach is chosen as this will allow the reader to compare the different indications per customization model easily, what is in line with the approach which is followed in the previous appendix.

Attribute: scale

Attributes \hat{a} ↓ Methods	Scale		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre			The scale for the SSC relation is of a lower importance. But of course there should be considered a minim scale since performing processes under this scale level would counteract the centralization aspect of the SSC relation.
Outsourcing			The scale aspect is in the outsourcing relation of very high importance (centralization is an important aspect of outsourcing). This because it can only be profitable for an outsourcing provider to perform processes of scale. In some cases smaller processes are outsourced after a large process is set as the basis of the relation
External employees	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Attribute: capacity driver sales related

Attributes \bar{a} ↓ Methods	Scale sensitivity about the sales		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre			The SSC organizational structure model is in my opinion not very suitable to perform processes which are related to a capacity driver which is related to the sales. This because the SSC is after all still considered as a part of the organization. To transfer the stickiness problem which is indicated in the second chapter it should be outsourced to an external party in my opinion.
Outsourcing			In my opinion the outsourcing approach is the most suitable structure model to fight the sticky behaviour of the F&A function. This because with the transference of the processes the stickiness problem is also transferred. This should be included in the outsourcing contract, what should be recorded as variable as possible.
External employees	-	-	This attribute is not applicable for the external knowledge solution
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Attribute: degree of routine

Attributes \bar{a} ↓ Methods	Degree of routine		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre			In most cases particularly the processes with a certain degree of routine are performed in the SSC setting, this because the SSC can bring by operating in this way a substantial advantage. And can be found in the automation aspect which is described in §5.2.1
Outsourcing			In most cases particularly the processes with a certain degree of routine are performed in the Outsourcing setting, this because the outsourcing can bring by operating in this way a substantial advantage.
External employees	-	-	This attribute is not applicable for the external knowledge solution
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Attribute: specificity of resources



Attributes \bar{a} ↓ Methods	Specificity of resources		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre	-	-	This attribute is not applicable for the SSC solution. Although there are no limitations to staff which is hired for the SSC are often only the lower/medium educated jobs are performed in this setting. Next to this the factor technology increases, for which probably external help is necessary. But performing these 'high' technological processes can still be considered as low/medium.
Outsourcing	-	-	This attribute is not applicable for the outsourcing solution. See the SSC setting.
External employees			Especially external employees with skills and knowledge of a high level will be hired. This because these employees are only needed for a limited time. The processes which need lower education/skilled employees are often performed in a more regular way, what makes hiring employees several times cheaper for the organization.
Temporary workers			For temporary workers is argued that these have a relatively low knowledge level. The processes which need lower education/skilled employees for a longer time are often performed in a more regular way, what makes hiring employees several times cheaper for the organization.

Attribute: modularity





Attributes \bar{a} ↓ Methods	Modularity		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre			In the SSC setting the organization is able to perform all processes which are to a certain degree modular. This because for certain processes a strong binding with the core-processes is necessary. As the SSC is often still owned by the organization, by which the contact is more intensive, medium modular processes can also be performed.
Outsourcing			Only high/highly modular processes can be performed by the outsourcing organization. This because the binding with the core-processes is very limited.

External employees	-	-	This attribute is not applicable for the external knowledge solution
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Attribute: industry standardization

Attributes \hat{a} ↓ Methods	Industry standardization		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre	-	-	This attribute is not applicable for the SSC solution. What is necessary only for this perspective is the internal standardization of processes.
Outsourcing			For processes which have to be performed in the outsourcing setting it is of utmost importance that these processes can be standardized to a certain extent. This as it will be easier for the outsourcing provider to perform and equip the processes. Processes which cannot be standardized cannot be performed in a competitive way by the outsourcing provider.
External employees	-	-	This attribute is not applicable for the external knowledge solution
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Attribute: strategic importance

Attributes \hat{a} ↓ Methods	Strategic importance		Consulted sources: Accenture 2002/2004, Anderson 2001, Deloitte Research 2005/2005B, Nolan Norton 2005, PriceWaterHouse 1997
Shared Service Centre			As the SSC is often still considered as a part of the organization and because of the intensive binding it is possible to hand over more strategic important processes to the SSC. Although should be noted that certain processes do require such an intensity in contact/diversity that the SSC cannot deal with this request.
Outsourcing			Handing over strategic important processes is not common as these are not trusted with an external party. Also the intensity of the relation is not sufficient for a strategic important process.
External employees	-	-	This attribute is not applicable for the external knowledge solution. When the external employees are working in a team with own specialists there won't be any lack of knowledge.
Temporary workers	-	-	This attribute is not applicable for the external knowledge solution. Since as many employees can be hired as needed.

Linking the decision model and the customization models

This section will discuss how the process of ‘linking the decision model and the customization models’ is executed. This will be done mostly graphically, as this provides the best insight in this process.




Here the indications of the ‘perform order to cash accounting’ process will be reviewed to find the best suitable method, according to the indications of the customization methods. Here the indications of the F&A process should be included in the range of indications of the method, indicated below. For instance the scale attributes of the process is ‘very high’, this process fits in the range of the SSC approach (and therefore coloured green), as can be seen. The ‘scale sensitivity about the sales’ of the F&A process, doesn’t fit the SSC method (and therefore coloured red). For the other customization methods and processes this should be done in the identical same way.

Customization methods:

Attributes ↕ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Shared Service Centre		X		-		-	X
		X		-		-	
				-		-	
			X	-	X	-	
	X		X	-	X	-	

Attributes ↕ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Outsourcing				-			X
				-			X
	X			-	X	X	X
	X		X	-	X	X	
	X		X	-	X	X	

Attributes ↕ ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
External knowledge	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-	X	-	-	-
	-	-	-	X	-	-	-

Attributes à ↓ Methods/Range ↓	Scale	Scale sensitivity about the sales	Degree of routine	Specificity of resources	Modularity	Industry standardization	Strategic importance
Temporary employee approach	-	-	-	X	-	-	-
	-	-	-	X	-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-
	-	-	-		-	-	-

From here it can be argued that only the ‘outsourcing’ and ‘temporary employee approach’ fit the requirements of the selected F&A process. In the conclusion of the sixth chapter is further substantiated why latter method is not applicable to perform the ‘order to cash accounting’ process.

Appendix 4: Validation interviews

The interview script is structured in the same order as the research questions, what corresponds with the order of the report. Every interview subject will be introduced to indicate the definitions which are used for this report, and by this avoid misinterpretations. The 'centre of gravity' of this interview will be in the last two research questions, as these describe the conclusions of the research. From here a statement can be formulated about the extent in which the conclusions of the research do correspond with the decisions which are made in the practical world. Besides, by this process more insight in the underlying decisions process in practise is collected.

The author will hand over the complete detailed interview write-out notes on request, as only a summary of the findings is included in this research.

Interview questions to substantiate research question 1:

Introduction: Increasing competitions, the progressive globalization of the economy caused by lowering of the trade barriers, and the emergence of new market players that benefit from the significant labour costs advantage are pressing western firms to devise strategies to reduce costs and improve the efficiency and agility of their operations. From here origins the necessity of organization to become more agile.

1. How is the F&A function able to contribute to an agile organization in your opinion?

For this research is set that the F&A function should become more flexible by which the agility of the overall organization will improve. Flexibility for the F&A functions is defined as the transference of fixed costs to the variable cost category, by this the F&A function will be better able to adapt to changing capacity requirements.

2. Do you agree on this statement? How important is, in your opinion, that the F&A function is based upon predominantly variable costs? (rate at a scale of 1-10)
3. Do you think that the focus on variable costs became more important during the last decade? When did this start and what was the trigger behind this shifted focus?
4. What is the percentage, expressed in a percentage of the revenue, your organization spends on the F&A processes?
5. What are in your opinion the cost drivers of the F&A function? Could you express these in a percentage of the F&A costs?

In the literature the labour and technology costs are indicated as the major cost categories for the F&A function. With this in mind:

6. Should the labour costs of the F&A function be regarded as predominantly fixed or predominantly variable in your opinion? And why?
Keeping in mind that the process of discharging an employee can be considered as very expensive, and therefore considered as fixed costs
7. Should the technology costs of the F&A function be regarded as predominantly fixed or predominantly variable in your opinion? And why?
8. Concluding: what is the total percentage of fixed/variable costs for the F&A function.

From the literature can be concluded that the costs of above mentioned labour and technology key resources are fixed, and from this perspective the research continues.

In addition, the concept 'stickiness' for the F&A function is introduced in the literature. This means that the costs for the F&A function behave 'sticky', as a consequence from a change in the capacity. This

results in a case of a downturn in a overcapacity, and so the waste of (financial) resources. (further explanation will be given during the interview)

9. Are you aware of sticky behaviour in the F&A function of your organization? Do you measure this within your organization? By measuring which variables? How regularly?
10. Do you consider sticky behaviour as a threat for an organization?
11. From what do you think that sticky behaviour is the possible result? Do you think this is process- or management-driven?
12. How should the organization counteract this behaviour in your opinion?

Interview questions to substantiate research question 2:

Introduction: This research is devoted to the development of a decision model by which the management of an organization/ F&A function can create a (more) flexible F&A function. The basis of this decision model is formed by a number of attributes. From here the possibility appears to value the F&A processes on these attributes, from which a number of possible solution/ organizational structure models are linked to the process characteristics. These organizational structure models have predominantly the goal to improve the flexibility of the F&A functions.

13. Which process characteristics are in your opinion important to determine the flexibility potential of the F&A processes? By keeping in mind that this should result in a organizational structure model choice. And why? (what I am referring to are the 7-attributes which are determined in the report, and if these are accurate and complete according to the interviewee)
14. Were these characteristics also actually included during the decision making process, and selection process, of the organizational structure model for your organization?

During the discussion of the attributes, firstly a short description will be given, this to avoid misinterpretation and confusion.

15. Do you agree on the importance of the 'degree of routine' as an attribute?
16. And 'modularity'?
17. The 'specificity of the resources'?
18. The 'industry standardization'?
19. 'Strategic importance'?
20. In which degree is the 'capacity driver is sales related'? Do you think that this attribute is able to cover the stickiness problem of the F&A function?

Interview questions to substantiate research question 3:

Introduction: In the next section the F&A processes will be demarcated, this to avoid misinterpretations. Within the F&A function, for research purposes, three functions are highlighted, on which this research will further focus. First of all the 'record & report' function, this because this function claims the majority of the FTEs of the F&A function. Secondly the 'analysis & interpretation' functions, since this function claims also a large part of the key resources and also has a large influence on the strategy of the organization (long term). Thirdly the 'stakeholder management' function is selected, since over the last

years the business pages have been filled with stories of scandals and accounting irregularities at a series of major organizations.

21. Do you have any additions or remarks considering the three functions? Do you agree on the significance of the three described F&A functions? And are by these functions the major disciplines covered within the F&A function?
22. (show figure 4.2) Do you have any additions or remarks considering the processes and sub-processes? Do you agree on the processes and sub-processes which are included in the record & report function? Would you like to add/ delete any processes?
23. (show figure 4.3) Do you have any additions or remarks considering the processes and sub-processes? Do you agree on the processes and sub-processes which are included in the analysis & interpretation function? Would you like to add/ delete any processes?
24. (show figure 4.4) Do you have any additions or remarks considering the processes and sub-processes? Do you agree on the processes and sub-processes which are included in the stakeholder management function? Would you like to add/ delete any processes?
25. Which of the processes do you consider the most susceptible to sticky behaviour?

Interview questions to substantiate research questions 4+5:

Introduction: Within the literature, several methods are developed to create a more flexible F&A function with a more variable costs structure, which can be observed in the practical world.

26. What are, in your opinion, the most significant methods to modify the F&A function, by which the costs become more flexible/ based on variable costs?
27. In case your organization (is planning to) implement(ed) (already) a method: which methods is/was selected? And what are the main drivers behind this selection (e.g. cost reduction/ making variable of the costs)?

For this research there are three methods determined which are perfectly able to transfer the fixed costs into the variable cost category, namely: shared service centres, outsourcing, and the hiring of external knowledge. The research will continue from this point of view.

Besides, it should be noted that the SSC situation is only able to transfer the fixed costs into the variable cost, when the governance structure of the SSC is designed as an external organization with its own separate accountable structure.

28. Do you agree that all three above mentioned methods are able to transfer the fixed costs of the organization into variable costs? Do you consider all three methods equally suitable for this purpose?

Present the interviewee a list of the selected financial processes and sub-processes:

29. What would be in your opinion the most optimal method to convert the fixed costs of the 'order to cash accounting' process into variable costs? What is the advantage of this model for this process? And why do you consider the other two models less suitable?
30. same question for the 'procure to pay' process
31. same question for the 'general accounting and close' process
32. same question for the 'cost accounting' process

33. same question for the 'tax & compliance' process
34. same question for the 'set business performance measurement' process
35. same question for the 'define management reporting requirements' process
36. same question for the 'analyze & support business performance' process
37. same question for the 'support compensation initiatives' process
38. same question for the 'manage financial stakeholders' process
39. same question for the 'manage non-financial stakeholders' process
40. Referring to the stickiness we spoke about earlier, which processes are, in your opinion, most susceptible to sticky behaviour? Which organizational structure model would be best suitable in your opinion to fight this behaviour? And why?

If all the F&A processes are performed in the organizational structure models as discussed, the literature refers to this organizational structure model as a portfolio approach/ multi sourcing. This can be understood as that the F&A function performs in the 'setting' which is the most suitable for each process.

41. Why is this portfolio approach/multi sourcing not often initiated for the F&A function, but organizations make a clear defined choice between these methods?