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*A MULTINATIONAL CFO'S TRANSITION JOURNEY*

**TRANSLATION FROM MANDARIN ORIGINAL (LANGUAGE IS NOT REVISED)**

***A EUROPEAN COMPANY OUTSOURCED PART OF ITS ASIA-PACIFIC BUSINESS PROCESSES TO AN AMERICAN COMPANY AS PART OF A TRANSITION PROCESS. ALL THIS HAPPENED IN CHINA AND WAS COMPLETED IN ONLY 6 MONTHS. TO MOST MULTINATIONALS IN CHINA, THIS IS AN INTERESTING REFERENCE CASE.***

About 20 years ago, he was a historian doing research on the European Middle Ages, hoping to lead organizations of whatever type at some time. About 15 years ago, after having obtained an MBA degree in the US, he moved from Belgium to Latin America managing local MNC affiliates using his historian's critical mindset. In the past 5 years, he was the investor relations officer of the Agfa-Gevaert group. About one year ago, he was relocated to China to manage the transformation of the organization to a completely new business model. Alexander Deblond is CFO for the Agfa Healthcare Asia Pacific region.

***A complex transition***

Alex took this position at the beginning of 2007, facing a complex transition.

As the whole imaging industry is migrating from analogue to digital technology, a key player on the global imaging market as the Agfa-Gevaert Group is facing a huge transformation challenge. Traditionally, it produced films in big plants offering similar products for its three divisions, Graphics, Healthcare and Specialty Products and the operational business model was mostly identical for each division. But now, the business characteristics of Graphics and Healthcare are moving swiftly in different directions. The graphics division is concentrating on selling aluminum printing plates and related technologies, while the healthcare division is shifting very fast from radiology film to IT. The businesses become fundamentally different.

“So, in healthcare, for instance, we have to focus more and more on IT related project-oriented business in conjunction with the traditional film based business, definitely in Asia” said Alex. “We have to rely on very flexible internal support processes in finance, procurement and supply chain. Not only do we have to limit our overhead resources to a minimum which is essential to support a company in transition, but also do we have to respond to the demands of the different business models with very flexible internal administrative and managerial processes.”

Before Alex was on board, the Agfa group had 11 affiliates in Asia-Pacific, each working as a legal entity and representing the whole Agfa group, Graphics and Healthcare. The task ahead of Alex was to split those legal entities in the region, whereby the graphics business will continue to operate within the existing structure, and Healthcare sets up new legal entities in 7 countries.

“The back office of this new structure – Finance, Accounting, Controlling, Credit Management, Procurement, Supply Chain, Sales Administration and ICS - was planned to be a very small group of 27 FTE's in 6 of the 7 countries with clearly globally defined processes integrating all these activities. That was a very big transition for our company. In Asia-

Pacific, there was definitely enough commitment to make this transition,” said Alex. “But with our limited resources and Headquarters far away we would definitely welcome a partner with good experience in managing transition processes,” he stressed.

### **Changes while business is going on**

Structural change is the first step of the transition. Alex was asked to spin off operationally the healthcare business from the group’s original 11 Asia-Pacific affiliates and set up 7 new legal entities in China, Australia, Malaysia, Singapore, South Korea, India and Taiwan.

At the same time, Alex designed a lean and mean back office structure in Finance, Accounting, Controlling, Credit Management, Procurement, Supply Chain, Sales Administration and ICS to support the whole region in its transition from a “box mover” to a “service provider”. For 6 out of the 7 new entities and structures, he had to retrain or hire 50% of the 27 FTE back office staff in Asia-Pacific. “That is quite challenging to make it work in one year, because in normal circumstances you have to deal with a yearly retraining or replacing of 10% of your staff,” said Alex.

In addition, as the whole healthcare business is becoming more project-oriented and IT-oriented, Alex’s company decided to set up a new computer system, replacing the AP2 SAP system by an AP6 SAP system in 6 of the 7 countries. This transition is part of the Group’s Healthcare Process Redesign (HPR) project, which is set to offer the right processes for the new healthcare business as it is turning to be increasingly different from the group’s traditional business.

On top of these challenges the new back office organization had to ensure a fast and smooth transition without disturbing the Group’s ongoing businesses in Asia Pacific, and without increasing costs. Agfa Healthcare represents 43% of the Group’s annual 3.3 billion Euros turnover, and as an important and growing market to Agfa, the Asia-Pacific region is realizing about 17% of total sales. “I had to do it in a very flexible way,” Alex iterated.

### **Strategic outsourcing**

Even for a small local company, a transition like this may take years to complete. Agfa Healthcare managed to fulfill this goal within one year. And one of the key elements leading to this fast change is strategic outsourcing.

“If I would have chosen other alternatives, based on doing everything in-house, then I would have to duplicate or even triplicate the back office organization in every country. I would obviously end up with high costs by setting up back office structures in every affiliate, with local supervisors and assistants in every domain from accounting, supply chain to ICS. I would have come to a situation that would be very hard to handle and be very costly,” explained Alex.

Agfa Healthcare chose for outsourcing. In this project Alex did not look for a mere outsourcing service provider but a partner.

In many cases, the outsourcing service provider would impose its operational processes on the client or consider an outsourcing project as a consulting service. Alex, on the other hand wanted his partner to accept completely Agfa Healthcare’s processes defined in the Healthcare Process Redesign project. “I wanted a partner who fully accepts your organizational philosophy and processes you are going to outsource and strictly adheres to those principles,” he stressed and iterated several times during the interview.

Alex needed also an outsourcing partner who accepted Agfa Healthcare’s back office as a very flexible organization, i.e. conceived to swiftly change business conditions in the future but at the same time still be operational in the current business environment. “27 people for 6 countries are a very small group to be as flexible as Agfa Healthcare aspires to be. I had to tell my partner that today their single contact point was going to be person X, and tomorrow it would be colleague Y, while the previous contact person could be assigned to another job.”

Apart from these two most important assets expected from the prospective outsourcer – committed and flexible partnership - Alex had three other elements on his requirements list: the partner should guide him in the transition process; a clear agreement about well defined deliverables and KPI’s against a certain price; and, last but not least, the partner had to help him realize this transition within his planned challenging time frame.

“I have contacted three candidates and IBM was the only one that was willing to commit to all of my 5 requests,” said Alex.

### **Partnership with IBM**

While the criteria were definitely demanding and had to be talked through thoroughly, the deal was closed in a pretty colorful way. The outsourcing contract was signed on September 30 in a taxi in Shanghai, just one day before the country’s

7-day National Day holidays. Agfa and IBM started in the second week of October, after the break, and the first phase of the project went live in 4 countries 7 weeks later, on December 1, 2007. The second stage was accomplished on March 1, 2008 with the go live of the 2 remaining countries. Alex split the project into two phases, and the reasons behind it were the delay in the set up of the new legal entities and finding the right human resources, good finance people who can operate with an outsourced team in particular. “To get an outsourcing project done in such a short time frame is a record and only IBM committed to this timeline,” Alex commented with a smile, adding “we succeeded in having everything successfully and on time.”

This is the first time for Alex to cooperate with IBM. “Of course, we have problems. But if we have problems, we have to overcome them. And I’m satisfied with the result because IBM is assuming its part of the responsibility to tackle these problems,” he stressed.

IBM also insisted the outsourced processes to be documented in detail, which Agfa was not really prepared for. “We were not used to document our processes in detail because so far we never outsourced. It is easier in an in-house situation because you have only to tell your accountant how to execute a certain process and he will keep that as his own little secret. This is a dangerous practice, not only because of the retention risk, but also because the in-house accountant can consider himself so important in the organization that after two years, he needs 5 assistants to do the job. And then a manager has a real problem when processes have to be re-thought of,” explained Alex. “Transparent documentation was indeed a problem we solved thanks to IBM’s insistence,” he added.

While outsourcing can help to tackle some resources and process problems, other serious challenges such as language and organizational culture remain and require mutual attention.

“Asia is not the same as Europe, and there is not one Asia. For communication between people in day-to-day operations, English proficiency is definitely an issue, but also the way of thinking has an impact,” said Alex. “IBM has an outspoken Chinese outsourcing team and Agfa has teams in 6 different countries. This is as well a problem for IBM as for me.” To solve the problem, Agfa and IBM set up a weekly meeting between an IBM team leader and his two accounting managers, one in China and one in Australia. “When the communication channel is not working very well, direct attention from a steering committee consisting of myself and an IBM counterpart is essential,” says Alex.

Internal resistance to change in Agfa is another challenge for both parties. “It might happen that our employees criticize the outsourcing operational mode as a cause of certain organizational problems. You have to deal with that in the same way you deal with all other cultural and linguistic differences. Both Agfa and IBM have to work constantly on the continuous improvement and on the communications of the outsourced processes and clear roles and responsibilities,” Alex observed.

### ***Not standing alone***

As a regional CFO, Alex was not standing alone in this project. Apart from the local management, although resistance remained a constant issue, Alex obtained strong support from headquarters, and this from the beginning. He proposed the idea of outsourcing at headquarters together with Nico Van Meerbeek, who continued later to be the manager responsible for knowledge transfer to IBM.

“The people who initiate the project are preferably also the managers of the project itself, responsible for the follow-up of the project. It is difficult to realize an outsourcing project based on people and partnership if management is changed two or three times during the project.” summarized Alex, “At headquarters, the global managers of the Graphics-Healthcare demerger, the implementation team of AP6 and the Healthcare Process Redesign committee trusted us thanks to that consistency. They were all confident we were doing the right thing.”

Support like this facilitated the closing of the deal between Agfa and IBM. When Alex was ready to sign the contract with IBM after a long negotiation at a Saturday evening, 9 o’clock, he called the CFO of the group and immediately got authority to sign.

### ***Opening the future***

Now Alex has a lean and mean structure of his back office, supporting the whole region’s healthcare business. Thanks to the regional outsourcing principle and the introduction of similar processes in all countries, his 27 people team is assuming double responsibilities, serving their own entity as well as the whole region. The accountant manager in Australia, for example, is responsible for accounting in the country, is the coach of the accountant in Malaysia and Singapore and is supervising the international accounting standards in the whole region.

Alex does not need any longer a big group of people with constant changes of headcount, profiles and job descriptions, and

he does not even need to make those frequent business trips to his region's different countries to solve problems anymore. This means a better control and better management of back office costs. And most important, the company has regional uniform processes that are designed and controlled by the group's headquarters.

Agfa Healthcare Asia Pacific has 290 finance processes, of which about 25% have been outsourced to IBM. With such a lean and mean structure, Alex is now thinking of doing more. When asked whether he would still choose to partner with IBM, his answer is firm, "yes, I will still think of IBM because they understand that partnership is the key of success in outsourcing."

As important is the fact that Alex built a reference case for the whole group, and with the implementation of outsourcing in Asia Pacific, Alex is ready for a roll out in other regions and in other areas such as accounting, supply chain management and human resources. Just one week before this interview, the Agfa Healthcare CEO visited China and Alex presented this project to him. "After the presentation I got only one message from him 'you have to start thinking about rolling out and expanding this outsourcing idea'," Alex said.

### ***Everything is possible and nothing is easy***

Alex has been in China for only one year, but if you don't know this, one would think he is a very Chinese foreigner who understands our country quite well. When asked to share his experience to other multinational CIOs/CFOs in China, he gave us a very surprising answer "In China, everything is possible and nothing is easy," adding that "This is what someone at IBM told me."

"Be aware of this complexity because despite the 5000 years of history, China is still a young country, growing very fast, but with language and communication difficulties, and differences in its way of thinking. But never give up in China because everything is possible - a concept we are not anymore used to in the West - because you can find a workable and ethical solution for most problems," explained Alex. "Let's look for instance at a VAT tax declaration, which is an outspoken example of a process that is generally perceived as different from country to country and, on top of it, specifically complex in China. From the moment we are aware and define clearly that the basic concept of a VAT declaration process is the same in most countries, yes also in China, and the core part of the VAT declaration process can be outsourced."

"Of course, we need to invest tremendous energy," he concluded.

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