



February 2018 Management case study examination – pre-seen material



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Introduction

Nortan is a major quoted oil company that operates globally. Most of its accounting information is processed at Nortan's Finance Operations Shared Service Centre (FOSSC).

You are a senior financial manager in Nortan's head office in Centaria, where the FOSSC was established in 2002. The currency in Centaria is the C\$.

Your primary responsibilities are associated with management accounting. This means that you must often liaise with colleagues in many of the countries where Nortan operates, as well as colleagues in the FOSSC in Centaria.

Nortan's background

The Nortan Group was established in Europe in the early part of the 20th century. It grew rapidly, eventually becoming a major force in the exploration and exploitation of the oil reserves in the North Sea. It expanded into other regions through a combination of acquisition and organic growth.

The Nortan Group is a vertically integrated business. It extracts, refines and sells oil, natural gas and petrochemicals. It operates in 85 countries and produces 2.8 million barrels of oil equivalent each day. The Nortan Group's operations include exploring for oil in various countries, extracting and refining of crude oil, manufacturing and selling petrochemicals and the operation of petrol stations (or filling stations) that retail fuel along with confectionery and newspapers directly to consumers.

The Nortan Group comprises the parent company along with more than 200 wholly-owned subsidiaries. Each subsidiary falls within one of four categories: exploration, extraction, refining and petrol stations. Each of those categories is under the control of a senior management team. The four senior management teams report to Nortan's head office.

The FOSSC's history

Nortan began to outsource its main record-keeping functions in the mid-1990s. That involved batching all documents received or created by operating units and forwarding them to an independent company that provided data input and data processing services. That company then used these documents to update Nortan's records. The logic for doing this was partly to reduce administrative costs because centralising record-keeping created efficiencies. For example, there was no need to maintain a separate accounts payable department in each subsidiary, with each one requiring supervision, staff training and office space. Outsourcing also permitted the operating units to concentrate more fully on their core business activities.

The logistics of transferring the vast numbers of documents were complex and Nortan had concerns about relying on a third party to maintain records for such critical areas as accounts receivable and payroll. Additionally, improvements in IT meant that it was becoming easier, and more cost-effective, for large groups to create their own in-house shared service centres.

Nortan created its FOSSC in 2002. Technology was one of the drivers of the decision to do so; it had become viable for operating units to scan documents and transmit the resulting images to the FOSSC for processing. That both reduced transportation costs and simplified the process of ensuring that all documents had been received and processed.

There has been a shift away from paper documents since the FOSSC was first established. Most sales and purchase transactions now involve electronic invoicing. Copies of all electronic sales and purchase invoices can be forwarded to the FOSSC as electronic files. Similarly, Nortan's petrol stations are equipped with state-of-the-art electronic point of sale (EPOS) systems in place of conventional tills. These transmit information about sales transactions to the FOSSC in close to real time, with all sales being analysed by the FOSSC's enterprise resource planning (ERP) system. Apart from analysing sales, this system tracks inventory at each petrol station and manages credit card billings.

Nortan's FOSSC is flexible and responsive. It uses software that permits senior managers to submit complex queries, most of which can be answered with a tailored report quickly and at little cost.

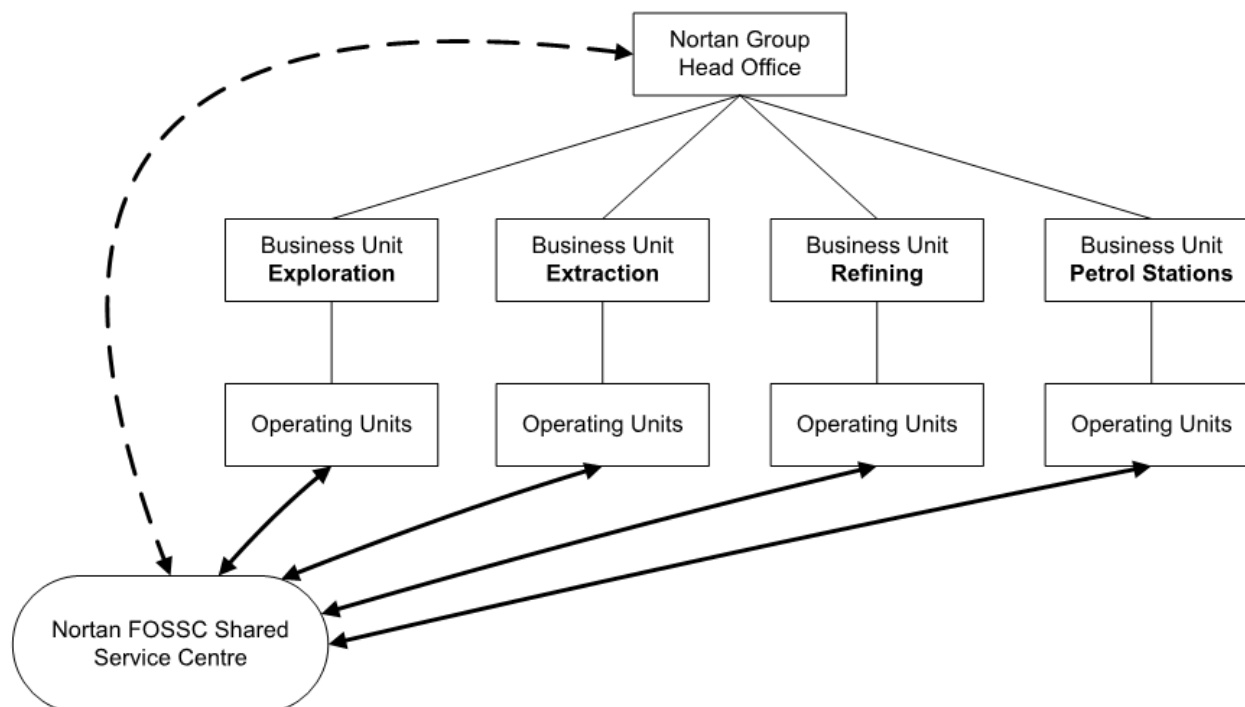
In addition to processing data, the FOSSC collates budgets across operating units and consolidates them into a master budget. The system automatically generates routine reports for budgetary control, with any significant deviations highlighted for further consideration. The FOSSC also processes all banking activities associated with payables, payroll and revenue.

Managing all these different areas of a multinational organisation means that there are very strict processes and timescales which have to be followed. Any deviation from the processes can cause widespread disruption.

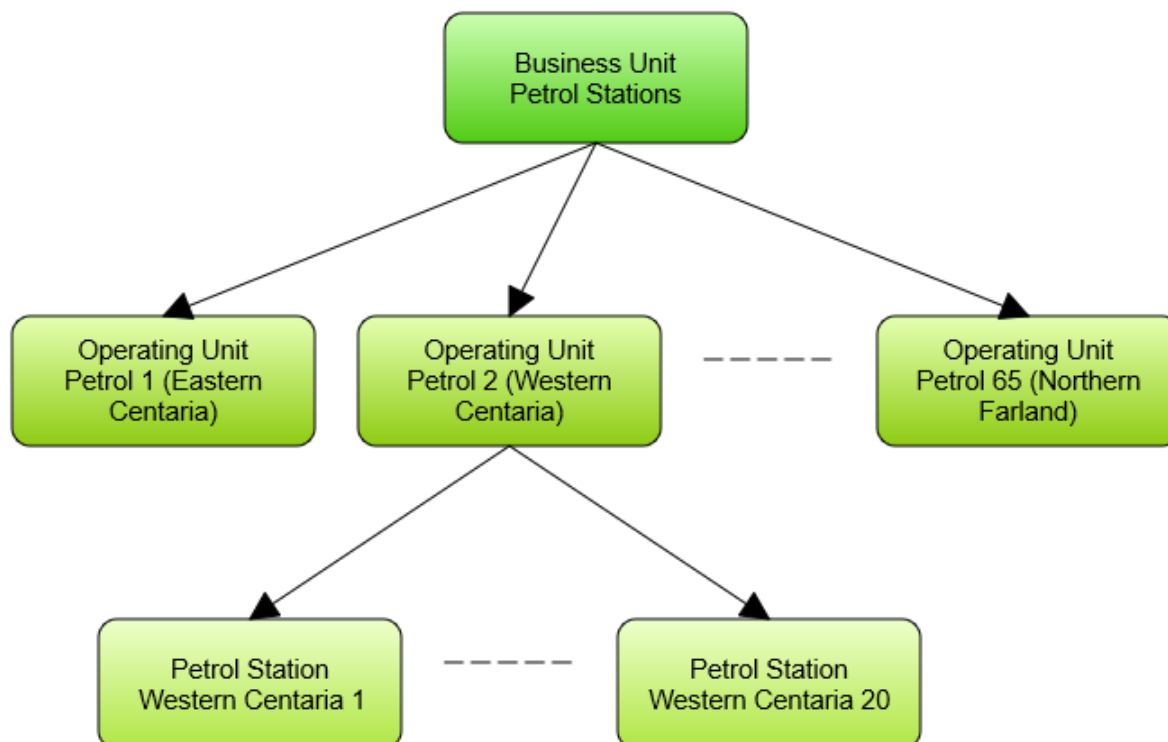
The FOSSC operates as a cost centre and the entire cost is charged to the parent company. The parent deals with subsequent charges to operating units.

The FOSSC's role

The FOSSC is responsible for maintaining records for the whole of the Nortan Group.



Each subsidiary is a separate operating unit within the Nortan corporate structure. The FOSSC works with the management teams of both the business units and operating units to ensure that files and reports are structured in a manner that meets management needs. Operating units are generally investment centres and most operating units can be broken down into individual cost and profit centres. For example, 'petrol stations' includes 65 operating units, each with an average of 30 petrol stations under its control. Each petrol station is a profit centre, with performance data available from the FOSSC to enable operating units to study the performance of the unit as a whole or by individual profit centre.



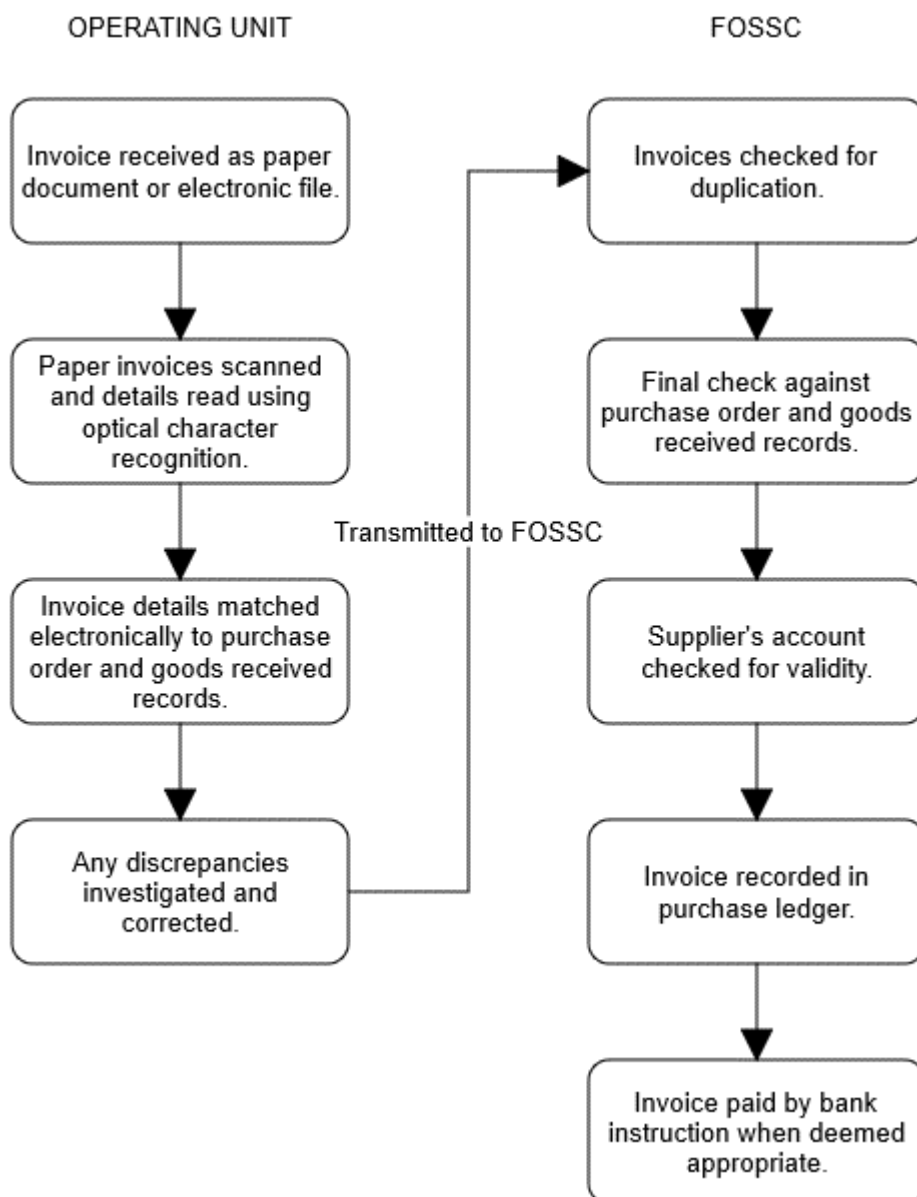
Nortan is committed to continuing growth, which puts the FOSSC under pressure, both in terms of keeping pace with the increasing volume of transactions and the need to furnish the parent company's board members with the reports and analyses that they require to manage such a complex entity.

Each operating unit has its own budgetary control system and one of the FOSSC's functions is to aggregate and consolidate budgetary reports to enable senior management to understand how Nortan is progressing.

Each individual operating unit is incorporated as a subsidiary company within the Nortan Group. The FOSSC can compile performance statements for each operating unit and also aggregated statements that combine reports geographically, by line of business or in accordance with more specific requests from Nortan's board.

The FOSSC's processes

Many of the processes for which the FOSSC is responsible are routine and repetitive. For example, the process of managing payables can be summarised as follows:



The system is designed to simplify the processes while enabling the FOSSC to carry out as much of the work as possible. The operating units conduct the initial checking of payables to ensure that any invalid or incorrect transactions are corrected or eliminated before they are forwarded to the FOSSC. The FOSSC's systems then ensure that only valid transactions are being posted, before inputting the data and dealing with any further matters, such as managing payments.

Most processes are electronic. Any human interventions are located where they can be managed most effectively. For example, it is generally more efficient for the staff at operating units to query any anomalies in purchase invoices before they are submitted to the FOSSC.

Maintaining the purchase ledger at the FOSSC minimises duplication and simplifies information processing. For example, the FOSSC can provide Nortan’s treasury with detailed day by day projections of payments to suppliers, which assists in managing Nortan’s cash flows.

The FOSSC recruited 1,000 staff when it was first established in 2002. It has since added several new functions and has also grown in line with Nortan’s expansion. The FOSSC now employs more than 3,000 people.

In 2002, the FOSSC employed mainly unskilled workers for basic data entry work. Over time, improvements in IT have led to increased automation and so the number of data entry staff has declined. New appointments increasingly require degrees, professional qualifications and language skills.

The FOSSC makes extensive use of balanced scorecards to track the performance of its various sections. The following is a brief extract from a recent report.

Learning and growth

Domain	Objective	Indicator	Measure			Comments
			Actual as at 31 December 2017	Projected to 30 June 2018	Target	
Staff recruitment and development	To ensure that all staff are suitably trained.	Every section head to submit a detailed training plan.	90%	90%	100%	New head of payroll still working on plan.
		Every newly appointed staff member to receive a formal induction course within 10 working days.	72%	84%	100%	Section heads often prefer to provide their own induction training.
		The training needs associated with every job title to be evaluated and documented.	66%	66%	100%	Section heads often disagree over training needs for any given job title.
	To recruit highly qualified staff.	Proportion of new hires holding first degrees or above.	52%	61%	80%	Programming section due to expand in May of this year.

Good	>75%
Need to monitor	50-75%
Need to improve	<50%

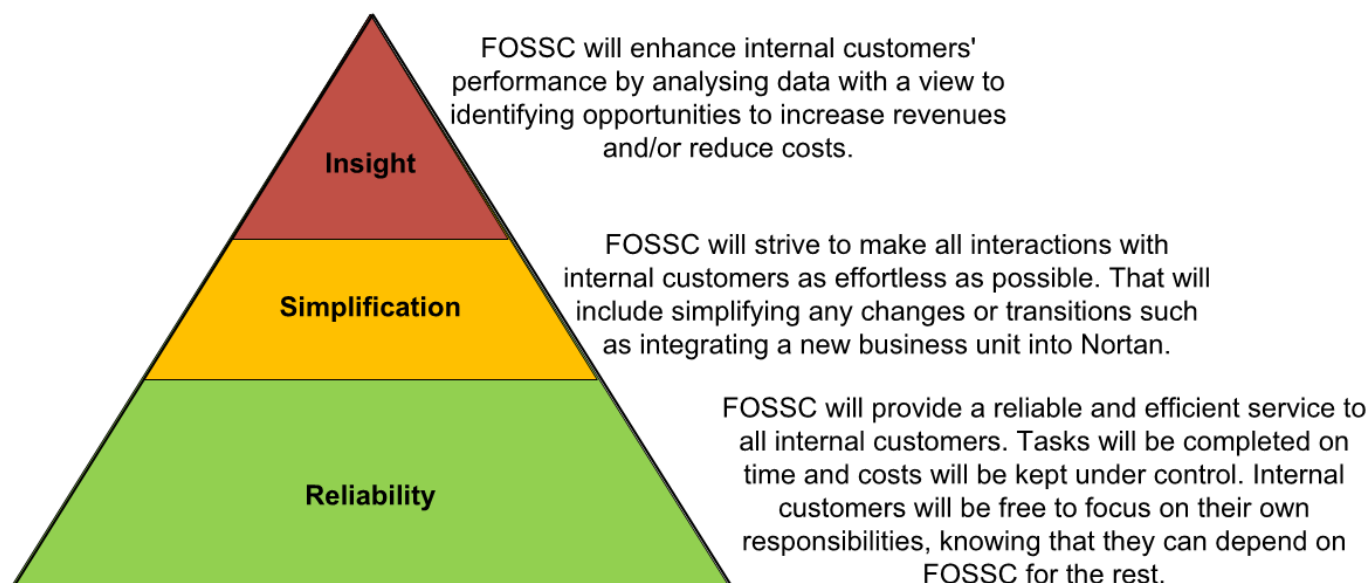
The FOSSC's vision, mission statement and strategy

Our vision

We aspire to be recognised as a world-class shared service centre, which we will achieve through the excellence of our people, our services and our processes.

Our mission

We will support Nortan by being value-added business partners to our internal customers.



Our strategy

The FOSSC will meet its challenging goals by engaging the best people, who believe that 'there is always a better way'. We will seek to understand Nortan's evolving needs and through our commitment to quality and excellence we aim to exceed expectations.

The FOSSC will extend its business by developing as Nortan expands.

The FOSSC will invest in the most advanced software and the most efficient people in order to meet future demand from Nortan.

The FOSSC's core values

- We **listen** and **learn** in order to constantly improve the efficiency and effectiveness of our service.
- We **work together** as colleagues and in our dealings with customers and other stakeholders.
- We **accept responsibility** for making decisions and ensuring that the job is done properly.
- We **innovate** in order to ensure continuous improvement.

Budgeted annual operating costs

The following budget refers to the year ended 31 December 2018 and is broken down by section.

	C\$ Project Management million	C\$ Management Information and Budgeting million	C\$ Receivables and Invoicing million	C\$ Payables and Expenditure million	C\$ Payroll million	C\$ Total million
Professional staff salaries	12.0	13.8	8.4	8.6	9.7	52.5
Support staff salaries	5.8	7.9	11.2	9.9	11.1	45.9
Data input staff salaries	1.1	2.3	5.3	7.6	6.8	23.1
IT support staff salaries	4.6	5.2	4.9	5.7	6.1	26.5
Heat, light and power	13.2	14.8	13.7	14.6	13.6	69.9
Other operating expenses	6.8	7.3	7.4	7.7	8.1	37.3
Depreciation on hardware	22.1	21.4	19.8	18.6	15.2	97.1
Amortisation of software	16.8	12.1	9.8	11.3	18.7	68.7
	82.4	84.8	80.5	84.0	89.3	421.0

The FOSSC's management team

Amber Lees, FOSSC Director of Operations

Amber is an executive director of Nortan and sits on Nortan's board. She is the most senior employee at the FOSSC.

Kim Lee, FOSSC Head of Human Resources

Kim is in charge of recruitment and human resources at the FOSSC.

Aldo Hirsch, FOSSC Head of Finance

Aldo is responsible for ensuring that the FOSSC works within its budget and produces monthly management accounts for the FOSSC.

Yee Zean Arnott, FOSSC Head of Project Management

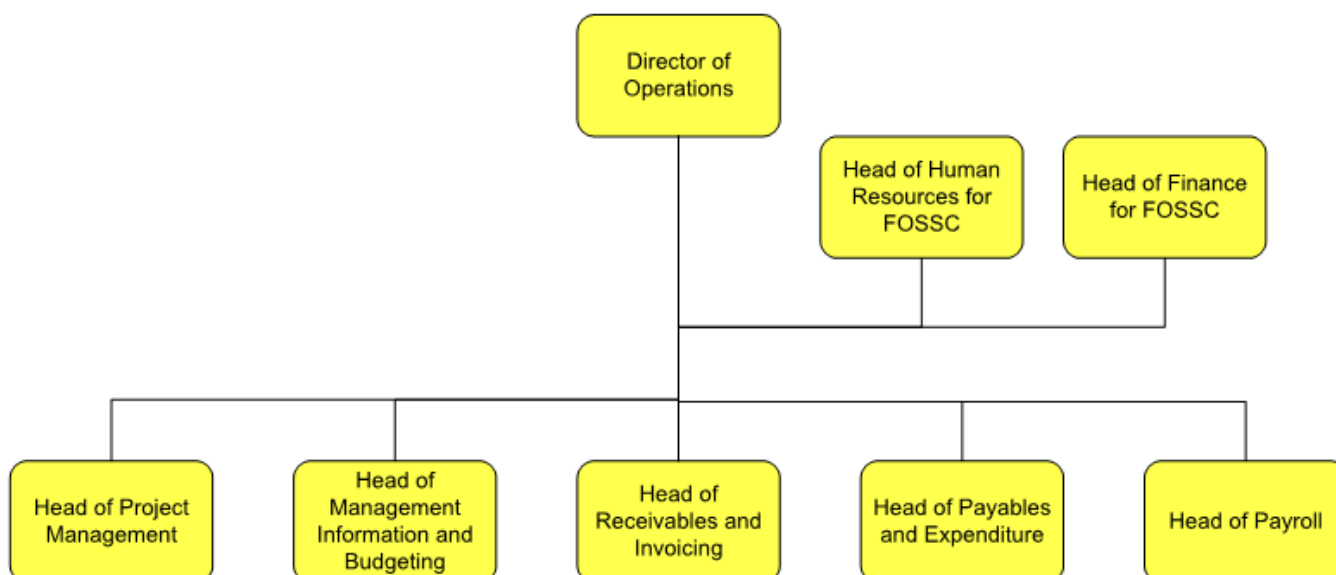
Andrew Milner, FOSSC Head of Management Information and Budgeting

Pete Zeckler, FOSSC Head of Receivables and Invoicing

Patience Dikko, FOSSC Head of Payables and Expenditure

Abdhul Al Shad, FOSSC Head of Payroll

The five section heads are responsible for oversight and management of the services provided to Nortan by the FOSSC. They ensure that the information received from all the Nortan operations are processed accurately and that the reports are delivered on time to Nortan.



Extracts from Nortan’s financial statements

Consolidated statement of profit or loss

For the year ended 31 December

	2017	2016
	C\$ million	C\$ million
Sales revenues	6,853.3	5,794.7
Cost of sales	(3,749.2)	(2,522.2)
Exploration expense	(576.3)	(803.7)
Pre-licence exploration costs	(47.6)	(93.8)
Profit on disposal of exploration and evaluation assets	567.7	1,641.3
General and administration costs	<u>(1,078.7)</u>	<u>(1,076.4)</u>
Operating profit	1,969.2	2,939.9
Finance costs	<u>(198.4)</u>	<u>(216.3)</u>
Profit before tax	1,770.8	2,723.6
Tax expense	<u>(495.8)</u>	<u>(762.6)</u>
Profit after tax	<u><u>1,275.0</u></u>	<u><u>1,961.0</u></u>

**Consolidated statement of financial position
as at 31 December**

	2017	2016
	C\$ million	C\$ million
Non-current assets		
Intangible exploration and evaluation assets	2,586.2	2,505.7
Property, plant and equipment	11,082.0	9,861.7
Goodwill on acquisition	806.8	806.8
	<u>14,475.0</u>	<u>13,174.2</u>
Current assets		
Inventories	193.2	129.9
Trade and other receivables	1,644.9	1,317.3
Cash and cash equivalents	1,551.9	442.8
	<u>3,390.0</u>	<u>1,890.0</u>
Total assets	<u><u>17,865.0</u></u>	<u><u>15,064.2</u></u>
Equity and reserves		
Share capital and share premium	1,446.9	1,446.9
Foreign currency reserve	1,200.3	1,119.2
Retained earnings	7,052.2	6,270.1
	<u>9,699.4</u>	<u>8,836.2</u>
Non-current liabilities		
Long-term debt	1,500.0	1,500.0
Long-term provisions	4,494.2	2,334.2
	<u>5,994.2</u>	<u>3,834.2</u>
Current liabilities		
Trade and other payables	1,558.7	1,484.1
Current tax payable	492.7	804.7
Provisions	120.0	105.0
	<u>2,171.4</u>	<u>2,393.8</u>
Total equity and liabilities	<u><u>17,865.0</u></u>	<u><u>15,064.2</u></u>

Notes on the extracts from Nortan's financial statements

1. Segmental analysis

	2017	2016
	C\$	C\$
	million	million
Revenue		
North Atlantic	2,049.0	1,682.1
South Atlantic	1,697.7	1,557.7
Middle East	876.9	2,050.9
Asia	2,229.7	504.0
	<u>6,853.3</u>	<u>5,794.7</u>
Operating profit		
North Atlantic	610.4	875.1
South Atlantic	531.7	807.7
Middle East	374.2	1043.8
Asia	452.9	213.3
	<u>1,969.2</u>	<u>2,939.9</u>
Segment assets		
North Atlantic	6,074.1	5,598.8
South Atlantic	6,610.2	4,436.1
Middle East	1,965.3	2,210.1
Asia	2,322.6	2,052.3
Unallocated	892.8	766.9
	<u>17,865.0</u>	<u>15,064.2</u>

2. Intangible exploration and evaluation assets

	C\$ million
As at 1 January 2017	2,505.7
Exchange movements	34.6
Additions during year	1,242.6
Amortisation to exploration expense	(492.9)
Disposals	(703.8)
	<u>2,586.2</u>

3. Property, plant and equipment

	Oil and gas C\$ million	Other assets C\$ million	Total C\$ million
Cost			
At 1 January 2017	12,632.1	146.7	12,778.8
Exchange movements	2,262.6	12.6	2,275.2
Additions	861.6	3.3	864.9
Disposals	(238.2)		(238.2)
Impairment	(576.9)		(576.9)
At 31 December 2017	<u>14,941.2</u>	<u>162.6</u>	<u>15,103.8</u>
Depreciation			
At 1 January 2017	2,887.2	29.9	2,917.1
Exchange movements	(242.7)	3.0	(239.7)
Charge for year	1,463.7	8.8	1,472.5
Disposals	(128.1)		(128.1)
At 31 December 2017	<u>3,980.1</u>	<u>41.7</u>	<u>4,021.8</u>
Net book value			
At 31 December 2017	<u>10,961.1</u>	<u>120.9</u>	<u>11,082.0</u>
At 1 January 2017	<u>9,744.9</u>	<u>116.8</u>	<u>9,861.7</u>

4. Long-term provisions

Long-term provisions comprise the commitments made by Nortan to restore drilling and exploration sites to their original state upon the completion of work.

Press coverage

The Accountant's Bugle - Interview

Amber Lees explains what has changed at Nortan's FOSSC in the last 15 years

Nortan's FOSSC is seen as a fantastic example of what can be achieved with shared service centres: from something that was seen by many as just an attempt at cost-cutting to an efficient and effective operation, which processes and transforms data and produces management and financial accounts.

Keith Palmer from The Accountant's Bugle interviews Amber Lees, Director of Operations at Nortan's FOSSC, to find out more about the transformation of Nortan's FOSSC.



KP: How did the FOSSC come into being?

AL: Sometime around 2000, we started to realise that our finance function was very expensive. Several other large organisations had gone down the shared service centre route so we decided to investigate the idea.

We already outsourced some parts of our finance function, especially the day-to-day data processing, so it seemed a logical step. Instead of having a number of centres, we decided to completely centralise the process and just have one shared service centre in Centralia, just near to our head office.

KP: So did you just make the leap right away and move everything to the shared service centre?

AL: More or less! We took a year to think about what we wanted and made a significant investment in hardware and software and then just advertised 1,000 posts. It was a little frightening... but we were sure that it was a good decision.

We spent a lot on staff training as the processes are really key to everything working and they are quite precise. If something goes wrong in one part of the process it has a knock on effect.

Timing is also critical to success so we have very strict timetables that everything runs to. The other key factor is accuracy.

KP: So do you still have 1,000 staff all for data processing?

AL: Oh no! We quickly realised we needed more staff and different skills. At first we advertised for people who were good at data entry and did not have much in the way of qualifications.

However, we changed the model at the FOSSC and it is no longer just data processing. All our management accounting is done there now, all the budgets from all the operating units are sent to the centre, where we consolidate them and do all the variance analysis. We also keep all the costing records for all the projects for all the operating units.

We realised quite quickly that we needed people educated to degree level in a financial discipline and also that we needed people with language skills. The combination of both was very difficult to find so we trained people ourselves.

We expanded to 3000 people by 2008 and, with the increasing volume of work as Nortan expands, we will need another major recruitment effort fairly soon.

KP: Will it end with management accounting and projects or do you envisage other accounting being done at the FOSSC?

AL: Oh there will definitely be more. Human resources will transfer soon and after that, who knows? Some multinationals are doing all their financial reporting at shared service centres now.

KP: This is all really interesting! So the jobs are well-paid, and many qualified accountants are working at your centre now?

AL: Absolutely! Almost a fifth of our staff are qualified accountants and we expect that to increase. The salaries are competitive and we have an excellent bonus scheme if people achieve their key performance indicators.

KP: If you are all working for Nortan, do you adhere to service level agreements?

AL: We have a very short SLA as it is not quite as important as we all work for Nortan. It just states the timeline for activities and also some details of levels of errors. Not much more than that.

KP: I was surprised that the whole cost of the FOSSC is just transferred as a head office cost?

AL: Yes, some SSC add profits to their company but our FOSSC is just a cost centre. We constantly strive to cut costs and seek continuous improvement and efficiency.

KP: Does having the FOSSC save Nortan money?

AL: Absolutely it is a saving of 35% on the costs of having the activities done at the operating units. A lot of that is just efficiency.

KP: Nortan is not unusual in having a FOSSC is it?

AL: No. 80% of multinationals have the same approach and have SSCs who do a huge variety of work, not just data processing.

KP: Do you think that jobs in SSCs are now seen as having a career path and are quite sought after then?

AL: Of course, if we advertise for qualified accountants or for data processors we get thousands of applications. Many of our staff have been with us over 10 years and have been promoted several times. The work is interesting and well paid. The middle and senior management jobs are well paid and very desirable.

KP: You have stressed the importance of the ERP system and how advanced it is. Do you think the technology will change much in the future?

AL: I am constantly astonished by the technology. We are now giving access to our system to our main suppliers and are encouraging them to submit their invoices directly. We hope that soon all our suppliers will do this and we will not have to scan anything.

Borland Daily News

Oil company sheds jobs

Administrative staff at the former Borland oil refinery have been warned to expect significant redundancies in the aftermath of the company's recent acquisition by Nortan.

The newly-appointed management team announced that the jobs of all production staff were safe and that Nortan planned to invest in increased capacity. However, it was confirmed

that most of the administrative and record-keeping functions would be transferred to Nortan's shared service centre in Centaria.

A spokesperson for Nortan confirmed that at least 300 jobs would be lost, but stressed that the company would make every effort to assist outgoing staff in finding new posts. It is Nortan's policy to centralise all administrative posts.

INFORMATION SYSTEMS QUARTERLY – SPRING 2018

Nortan's FOSSC upgrades to Omega UPS

Nortan became the latest major customer for Omega Technology's new generation of uninterruptible power systems. In the event of an electrical power outage, the new system will have the capacity to maintain operations without loss of data for sixty minutes, which would be more than enough time to bring the site's backup generators into operation.

Omega's Sales Director announced that the company was proud that Nortan had placed its confidence in this product. This is a major investment costing several million C\$.

INFORMATION SYSTEMS QUARTERLY – SPRING 2018