A decade in Dubai

STUART HEATH DESCRIBES HOW ENERGY SERVICES GIANT HALLIBURTON HAS DEVELOPED THE MIDDLE EAST LOCATION FOR ITS NON-US CASH MANAGEMENT OPERATIONS. **GRAHAM BUCK** TALKED TO HIM.

Executive summary

It is well known that cost saving, efficiency and a need to comply with regulation are the primary motivators of establishing a Shared Service Centre. However, the benefits can extend far beyond this as many companies are now realising.

Companies don't come much bigger than Halliburton, the oil and gas services giant once run by the former US vice president, Dick Cheney. Founded in 1919, its annual revenues run to \$16bn-17bn.

Two years ago the group proved that, while its base is in Houston, it regards itself very much as an international company. Its chairman and chief executive, Dave Lesar, announced his intention to relocate to Dubai, where Halliburton established its Middle East operations in the early 1990s.

FORGING AHEAD IN THE MIDDLE EAST Lesar has stated that the group plans to build up its presence in the Middle East to be less reliant on its North American and Latin American businesses; ultimately achieving a more equal split between its operations in the west and those in the Middle East, Africa, Asia and Europe. In 2007 it set a target of adding 60 contracts worth a total of \$80bn over a period of five years, with three quarters of the total coming from the latter regions.

Halliburton operates two Shared Service Centres (SSCs) to organise its cash management relationships with third parties and business units. One is in the town of Duncan, Oklahoma; the other was established in Dubai ten years ago and is run by the group's senior accounting manager, Stuart Heath.

Until 2002, the group also had a UK SSC based at Leatherhead in Surrey, which supported the group's operations in Europe and Africa. These functions are now handled by the Dubai Transaction Centre, which operates all of the group's business outside of North America. The centre has a team of around 70 individuals and is divided into three units. The biggest is accounts payable with a staff of 30, while accounting employs 26 people and payroll 15.

CENTRALISED SUPPORT "The team was set up in 1999 when we introduced SAP business software, and went live through March and April of that year. SAP means that you're logging into the same box as, for example, the office in Toronto." says Heath. "At the beginning there were no more than nine or ten employees so we've grown steadily and added more locations over the decade."

Four years ago, the team added account reconciliation work to its activities and over the subsequent period the volume has increased from 400 per month to 6,500. In addition, Dubai provides centralised support for the group's locations around the world.

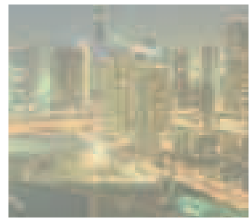
Support payrolls are run on SAP and payroll processing is carried out at the centre, says Heath. His team also carries out daily electronic bank reconciliations using MT940 automation for some 270 different bank accounts anywhere in the eastern hemisphere that are held by Halliburton's subsidiaries.

"The biggest number of these is with Citi, but we also utilise other banks and go through Interpool into Citi direct," he adds.

During its first decade of operations, Dubai's workload has steadily grown, with accounts payable processing around 50,000 invoices and 6,000 expense claims in a typical month, while making around 20,000 payments.

So the team processes invoices and arranges for the distribution of cash through electronic cash payments. Over a month this will average around 20,000 AP payments and 11,000 payroll payments, using IP technology.

For receivables, Heath reports that the centre's activities are limited to cash application, with its operations having a



direct interface with the customer. "We look to pay, and to be paid, electronically and these payments appear on the MT940 statements," he says.

As regards vendors, Halliburton has related sites at its operating locations and the centre's responsibility is for getting cash and the remittance to the vendor.

"The responsibilities of our field locations are set out very clearly," he adds. "Although we have formal service agreements, a high level of flexibility is built into them. They effectively act more as a charging mechanism for legal and tax purposes.

"Each entity needs to charge customers for its services, and meet these legal and tax requirements, so they essentially provide a price list – although as we are all employees of Halliburton, they also serve to provide clarity on who does what, without enforcing these guidelines too closely."

SYSTEMS TECHNOLOGY The technologies employed by Dubai are principally SAP, which Heath explains gives visibility to the data and enables the team to employ a virtual environment approach. It also utilises scanning technology, with invoices from the vendors sent to the relevant locations to be scanned.

These technologies include Optical Character Recognition (OCR) and Magnetic Ink Character Recognition (MICR), which identify the cheque information in standard format while allowing for the fact that no two invoices are identical.

As the system is capable of recognising different invoices, it significantly reduces the need for manual labour, and Heath says that OCR technology has enabled the centre to reduce the head count by one third.

"We deal with seven different banking softwares, but we also support different countries, so the file formats differ from country to country," adds Heath. To give an example, Malaysia's format is very different from that of Singapore.

"So we've worked with the banks on ensuring that file formats are improved and compatible. While it's not exactly 'state of the art', it nonetheless supports a lot of different locations."

However, the team's colleagues in the US are less advanced, with many payments still being made by cheque. Outside North America, Heath says that the Yemen is the one country where the group still uses only physical cheques.

CHALLENGES AHEAD What are the team's main challenges over the near-term in areas such as liquidity, FX pooling and regulation?

Heath replies that the Dubai centre has pools for a number of currencies and regards its challenge as twofold – to ensure that it maximises the balance in these pools and that it recovers cash from customers.

"We send each of our vendors masters to say that we will meet their credit terms, although customers don't necessarily always adopt the same approach. So cash collection is a challenge. Once we have collected, we need to move quickly into a pooled environment.

"On foreign exchange, we have the relevant hedging in place and put it into a dollar environment as quickly as possible."

Finally, he stresses that as an SSC, the Dubai centre is not solely focused on payment support. It is also seeking to expand the services that it offers in accounting activities. As he observes: "We live in a virtual environment and as an SSC, we can use technology as an enabler to speed things up."

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The growth of the shared service centre

Shared service centres were first developed by US corporates in the mid-1990s. The main driver behind the development has been the objective to maximise the return on investments in enterprise resource planning (ERP) solutions. Corporates have pushed the boundaries of SSCs including a wide range of financial and non-financial business functions, for instance elements such as HR. However where exactly to establish the boundary between the SSC and the organisation it services is not straightforward. For those involved in running a SSC one of the key challenges is to establish best practice in both establishing and maintaining the SSC. One of the key advantages of the SSC is that through the act of centralisation companies possess the ability to deliver automated and measurable processes. This is particularly important for global companies with operations in many different parts of the world where delivering a common approach in different cultures and business units has presented a particular challenge. Treasury and accounting processes are particularly suited to such a standardised approach and this has led to the related but separate development of the payment factory model.

While cost saving and efficiencies and the need to ensure compliance with regulation are the primary motivators of establishing SSCs, many companies are now realising that the benefits can extend to enhanced control over working capital management through greater control over internal funds, as well as gaining greater visibility over cash balances. Such advantages are particularly helpful during the present time when there is a difficult business climate and companies need to look at maximising funding sources other than bank finance. One of the key determinants in successfully establishing and maintaining a SSC is that service banks can offer to work with the centre.

For more on SSCs see The International Treasurer's Handbook 2009, Shared service centres by Eric Mueller, head of country sales Western Europe, cash management Deutsche Bank, page 150.