Shared service centres – no gain without pain

Are shared service centres just a fad? Or have they developed into something much more important? Richard Jaggard of Bank of America looks at the facts.

Are shared service centres (SSCs) a fad? Well, looking at their ability to attract audiences at conferences the subject remains current and interest levels are as healthy as ever. In practice, though, it seems that a simple concept, which probably began as a means to reduce cost, has blossomed into something much more important in an increasingly global and technology-led business environment. So what is all the fuss about?

What are SSCs?

Generally, an SSC is an operation that provides a range of services to multiple entities within the same corporation. A typical example would be the centralisation of accounting transaction processing – something which, like eating your greens, needs to be done, but is generally not considered to be the *raison d'être* for most corporations.

The other common type of SSCs is that which provides specialist, high added-value skills. The role of these types of centre is as an advisor in complex corporate functions such as tax, legal and treasury. Indeed, the regional treasury centre (RTC), particularly in its guise as an in-house bank, is now widely considered as a structure set apart from the SSC. This distinction is driven by a recognition that SSCs which are focused on transaction processing are low added-value, while RTCs focusing on corporate finance, risk and liquidity management are high added-value. With the increasing importance of the value derived from SSCs, however, this distinction is likely to change.

What are the benefits?

The principal drivers for early SSCs were good old-fashioned cost reduction through centralisation. As the broader benefits of the structures have become clear so the reasons have moved on. These additional benefits are a principal reason why one should not view SSCs as part of the eternal business cycle of centralising then decentralising and back again.

Cost reduction – cost reduction however, does remain an important part of the equation, since access to scarce capital is more easily justified in most corporations when it is invested for a quantified improvement in shareholder returns. The reductions either in absolute terms, or through productivity gains can be substantial, with significant improvements in cost as a percentage of sales, or an absolute reduction of costs in the range 25–40%.

Qualitative benefits – aside from the quantitative benefits of raising productivity through the elimination of duplicated tasks and processes, the qualitative benefits are significant. They include the ability to improve the professionalism of staff – by concentrating functions in one centre you can afford to improve skills and recruit specialist staff. This is one major benefit of centralising treasury into an RTC. The increased focus on financial risk management and control achieved through this is seen as particularly valuable in Asia following the recent crisis.

Also, the centre will provide flexibility for growth and the development of the corporation, for example it is easier to enter new businesses or new markets when the processing engine is already established and needs relatively minor adjustment to accommodate the new product set or country of activity.


Richard Jaggard

Information flow – but in an era where managing the information flow is seen as a key ingredient in sustaining competitive advantage and ensuring strategic growth, the SSC has a central role to play. When coupled with a strong Enterprise Resource Planning (ERP) system, the resulting improved access to quality information will allow for greater business responsiveness, something, which is increasingly important in an increasingly competitive environment. Implicitly the creation of the SSC allows businesses to minimise resources in non-core activities and move them to where they will add more to shareholder value: specifically away from number crunching to higher added-value analysis on understanding the commercial environment.

Why have they occurred?

Given the benefits that many companies are enjoying, is it a wonder that SSCs have only become a noise over the past decade. The reasons for this can be divided into macro and micro effects.

At the macro level many companies have been faced with greater challenges in growing revenue and improving shareholder value either as a result of economic slowdown, for example the Asia crisis, or through the maturing of existing markets. The response has been to centralise functions as a means of reducing their cost base. In addition, the recognition that corporations should focus on their core activities has meant that there has been a reassessment on where resources should be committed.

At the micro level, technology and the advent of sophisticated ERP systems that allow for the connection of information flows for all parts of the business have been a major enabler, as has the improvements in telecommunications.

But given that many SSCs are focused on accounting transactions, perhaps two reasons for their occurrence are:

- the need to provide secure internal control environments, something which is more easily achieved when risk is centralised and processes refined; and
- the shift in the finance organisation's recognition of its own core competency – away from being data processors to being information managers providing decision support to commercial management.

The key issues in setting one up

Just to confirm any concerns, managing change on this scale is usually hugely disruptive and the process of centralisation is difficult to implement. In the immortal words of the gym instructor, said of the body physical, but applicable to SSCs: "there is no gain without pain!"

I have listed below some of the major factors that we have learned through our own experience in setting up our SSCs in Europe and Asia and also from our clients' experiences.

A project team – this is essential. The composition of the team needs to be flexible around a central core of members. There needs to be representation of the key functional areas involved, with accountability held by a project manager. The team should be formed in the feasibility stage of an SSC project, and core members of the team should be responsible for carrying recommendations through to completion. The team members will need to be wholly dedicated to it, and any idea that the project role can be shared with existing responsibilities should be strongly resisted: it requires total dedication.

The project leader – as the project moves through its many phases the skills required of the project leader change from the constructor or change initiator responsible for the delivery of the centre, to the operating manager once the centre is in operation. Given the skill sets these roles are likely to be filled by two different individuals. Some elements are key: the project manager will need excellent interpersonal skills and must be seen as credible by business partners. A sound understanding

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of finance as well as a service ethos are also essential. Depending on the culture of the organisation and the development of the SSC, a strong entrepreneurial bias may be useful in developing the functions and role of the centre.

Communication – the key task for the project team is communication (so easy to write and yet given the complexity of what is being achieved so difficult to get right). It is essential to involve those parts of the business that will be affected by changes in the process. Their support of the project will be essential if you want things to run smoothly, and getting their buy-in and involvement at the conceptual stage invariably pays dividends on implementation.

Communication is also important in addressing one of the most difficult aspects – retaining those key employees in the current structure who will be made redundant through implementation of the project. The following ideas are worth considering to manage this:

- let the individuals see some benefit for them. Retention bonuses, as well as the support of knowing that the company will help them find new jobs with active out-placement programmes will help offset the pain. Often redundancies can be reduced by re-training staff to carry out different roles in the same location, or by relocating them to the SSC;
- be open in your communications, so that employees know where they stand. The loss of control and uncertainty of what will happen is a major stress factor for anyone directly involved. Often there is ambiguity and a lack of certainty, which prevents clear statements being made, but people are likely to be more tolerant if you have established a record of being frank and open. This affects all employees – even those who are not directly affected by the project will probably have colleagues who are, so the positive motivational impact of getting this right is likely to run wider than you might expect; and
- finally, if you have got the above right, it seems that most employees have a strong desire to do their jobs professionally and have a commitment to their organisation, even though they know the relationship has an expiry date.

Senior management commitment – to paraphrase a US president, "Speak softly, but carry a big stick". Likewise, the project manager can follow this advice if preparation has been thorough and a commercially sound rationale agreed with those affected. However, senior management commitment to the project objectives is essential to reduce corporate infighting and obstruction.

Although these issues are generic, having spent time on SSC projects in both Europe and Asia, it seems that country manager autonomy in Asia is a bigger issue. This probably is a result of the geographical immensity of the region, the time zones both within the region and between Asia and US/Europe, and the fact that there is substantially less homogeneity between economies and markets in Asia.

Senior management involvement is also important to ensure that if there are major strategic changes to the corporation, for example, acquisitions or changes to markets, the project can be adapted to cater for them. The project should anyway accommodate the concept that the only constant in today's business environment is change.

Efficient and accountable SSCs

For clients considering setting up an SSC, there is a twofold concern. Like many projects historically involving centralisation, the net result is that you end up not only transferring cost from the subsidiaries to the centre with no overall gain, but that accountability is lost as well.

This is something a well-conceived project should avoid by ensuring that there are measurable performance indicators with a strong focus on service quality. Many corporations use service level agreements (SLAs) to ensure that all parties understand the metrics. Results should be published and reviewed with users as a means to identify faults, determine remedial action and so strengthen further the efficiency of the centre. To the extent that service costs are charged out, this also keeps focus on the value for money equation. Many companies use key productivity measures as well as industry benchmarks, for example, finance cost as a percentage of sales, or days cycle for order to billing, to monitor the continuing efficiency of the centre.

Arguably, imposing the disciplines of the market and having a buyer/seller is an effective means to ensure this happens – but applying this to a processing centre is generally a theoretical exercise, and the SSC is in reality a mandated business partner. This lack of real choice means that there must be continuing senior management oversight on the effectiveness of the SSC.

Are they for everybody?

Size – traditionally there has been a view that a corporation needed sales of around USD 300–400m to be of a size able to justify the investment in setting up an SSC. Although size is important to cover in particular the systems investment, the development of technology means that the concept will increasingly be available to smaller corporations. Application service providers (ASPs), for example, which provide access to ERP systems over the internet, are a major step forward in lowering the substantial upfront systems cost.

For entities that have streamlined processes and believe they have maximised efficiency on a decentralised basis, the added benefits of centralisation may well be outweighed by the cost of set up. Although this may ignore many of the qualitative advantages of the project, it does highlight the importance of re-engineering and standardising processes prior to centralisation.

Culture – organisational culture is also important in understanding the attitude to decentralisation and management accountability. A traditional view would be that SSCs are centralised vehicles that suit companies with centralised management structures, and that therefore organisations with a decentralised style will not find them appealing. However, if you consider the technology support as well as the 'back office' nature of a transaction-focused SSC, the two models are often compatible, that is, decentralised management accountability can be achieved even when entities are supported by a centralised service function. This is much like a building's centralised heating/cooling system – as a tenant you want to control your own environment, which a thermostat lets you do, but you get your heat from the central plant.

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Where are they going?

There seem to be three main trends in the development of SSCs: an increase in geographical scope, an increase in functional scope and the outsourcing of the SSC itself.

Geographical – geographical development is a straight application of the fundamental principles of SSCs, but over a wider terrain. Moving from a regional centre to a global centre, although a logical next step, is a major step change. Communication within regions is clearly easier in such similar time zones, because they are geographically close and also where there is management and team interaction. Optimists will claim that these seemingly major obstacles are in fact no greater than those faced when establishing regional centres. The number of global centres, although small, is growing, and with this growth will come increasing acceptance of the model.

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Functional – functionally, the range of service that an SSC encompasses is increasing. As with development of the geographical scope much of this is driven by the continued development of technology, such as ERP systems. As these systems develop more towards customer interactivity along with the increasing use of the internet for e-commerce, the role of the SSC will inevitably move to integrating across the value chain with customers and suppliers and so further improve the commerce responsiveness of the corporation.

The nature of this integration will increasingly focus on management of the information flow, ensuring that business managers get better quality information, where and when they need it, with unnecessary data sifted out.

Outsourcing – for some corporations that have squeezed out all the benefit of centralisation, the focus is on moving the SSC to a third-party provider – for whom, for example, transaction processing has become a core activity. By outsourcing, the corporation gets the benefit of focusing its resources on core activities while buying non-core support from a specialist service provider.

Within Europe, the trend is established across a range of companies from capital-intensive process-related industries such as petrochemicals, through to entertainment and across functions as diverse as direct marketing, accounting and treasury.

A metamorphosis

SSCs strengthen financial returns and efficiency, as they allow management to turn its attention to the core competencies of the corporation and to raising the skills and professionalism of staff. The difficulties in implementing SSCs can be significant, although dedicated professional project management supported by an open and comprehensive communication programme will help mitigate these.

Initially, SSCs were seen as a fad to cut costs. However, they are now rapidly metamorphosising into an important support system for corporations as they grapple with a highly complex and competitive business environment. ■

Richard Jaggard is senior vice president, head of Global Treasury Services North Asia at Bank of America in Hong Kong.