# Elevating Shared Service Operations to New Levels

By **Vivian Xiao and Hedy Huang**

Shared Service Operations have grown exponentially in the past decade and have become standard practice for companies in Europe and North America. Chinese companies are now adopting this as well. The SSO model will continue to evolve and, eventually, allow the building of a lean and agile business structure with functional expertise on both the global and local fronts.

We live in a sharing economy. Peer-to-peer businesses such as Airbnb and Uber which provide sharing platforms for individuals to trade excess capacities are booming, thanks in large measure to advancements in mobile technology and digital social networks. These technologies are also stimulating fundamental changes in business operations. One such example is Shared Services Operations (SSO), in which multi-unit organizations consolidate resources and funding of support services to their various business units. The model has existed for over four decades, but recent technological advances are inspiring many shared services organizations, or centers, to rethink their strategies and take their SSO to new levels.

## Expanding shared service operations

More than 30% of Fortune 500 companies have implemented the shared services model since the 1980s. As large companies expanded into the international market, it was imperative for them to institute a solid and cost-efficient business infrastructure. In addition, competition and rising cost pressures required them to slim down supporting functions back home. An effective solution was a shared business entity at the regional or country level, to provide essential supporting services to the affiliates. By transferring routine activities to the shared "back office" and streamlining the processes, business divisions and affiliates could free up their resources and focus on critical operations.

Services provided by the shared service center should be labor-intensive and require common processes and repetitive transactional work. Transactional finance that deals with accounts payable and accounts receivable operations (AP/AR) was among the first to be applied in SSO. The regional and local SSO on AP/AR transactions achieved early success, enabling companies to reap the benefit on scale, quality and compliance, and to reduce total cost in labor and process.

These days, with the aid of web-enabled technology platforms, companies may gradually expand their SSO to a true shared-service model. This involves:

- all-in strategy: divisions, affiliates, regions and countries align their back-office functions to SSO so there will be no deviations
- function expansion: beyond finance, non-business specific procurement, IT, HR and other functions are assessed and, where feasible, integrated with SSO.

## Tackling complex delivery structure

In the ever-changing business environment, companies are constantly looking for new avenues for top-line

**Table: Tiered Delivery Model (hub and spokes model) and the Key Objectives**

| Head of the shared services operations | Global process/ functional owners | Shared service centers (hub) | Local delivery (spokes) |
| --- | --- | --- | --- |
| • Defines overall shared services strategy and elevates to the board level.<br>• Communicates and advocates the culture change. | • Define a common functional framework: system, process, policies, governance and technology.<br>• Oversee and lead global implementation of the defined framework.<br>• Track, measure, manage and improve the overall performance. | • Provide transactional work for the business divisions in the region.<br>• Focus on process improvement, data quality and visibility.<br>• Manage resource planning to drive base-cost reduction.<br>• Outsource labor-intensive activities to low-cost or best-cost countries. | • Manages local nuances for specific activities that cannot be delivered at the center level.<br>• Provides last-mile support to advocate and execute global projects at the local level.<br>• Acts as the local relationship interface to manage customer satisfaction. |

growth and bottom-line cost reduction. With the rapid pace of acquisitions and divestures in the global market, SSO need to be flexible to adapt to these changes swiftly. However, regional business divisions often have the autonomy to decide whether or not to opt into SSO, based on their own needs. Such a decentralized structure creates a significant challenge to align shared operations with the company's strategy. Moreover, there is a constant organizational debate about "insourcing vs. outsourcing" with respect to SSO. It is therefore critical for the executive team to implement an efficient delivery structure that provides full alignment at the business, local and regional levels.

An effective delivery model usually involves four stakeholders: the head of the shared services operations, the global process (or functional) owners, the shared service centers (hub) and the local delivery (spokes). The head of SSO needs to have a seat in the boardroom and bring shared services to a strategic level to help accelerate implementation. Global process owners are responsible for non-business specific functions such as finance, HR operations, supply chain and IT. They need to understand there are nuances at the business division, regional and country level, and that an early assessment of these differences is essential to building a true integrated global/local delivery structure. The hub performs transactional routines and the spokes manage local nuances that can't be delivered at the center level.

## Using emerging technology solutions

Technology solutions have changed the shared services space tremendously, even disruptively. In the early days, the solution was hinged on the ERP system, including SAP and Oracle (PeopleSoft). Few companies could afford the multimillion-dollar investment of such systems. It was not surprising that many regions, countries and business divisions may have chosen a less costly technology platform to address their needs, which yielded limited data and poor quality.

With the increasing desire at the CFO level for enterprise data clarity, insightful analytics and process cost reduction, the head of SSO must apply new technologies in a timely manner. For example, in the accounts payable operation, some companies manually key in the receiving in their ERP system. But with software that recognizes characters, or through e-invoices generated by the supplier, the process time per invoice and the key-in error rate can be significantly reduced. Such emerging technologies are becoming key enablers for SSO.

One promising technology of this nature is Procure to Pay (P2P).

## Procure to pay solutions

In automating the workflow and reducing manual touch points, many companies embrace the concept of Marketplace, which is technically supported by Coupa, Ariba, Basware and Sciquest. Marketplace is a Taobao-style platform that allows employees to access online catalogues for office supplies, promotion items and MRO (maintenance and repair operations). The self-serving model greatly reduces the effort in inquiring about prices and creating line items. Procurement teams, as part of SSO, can thus normalize item selection and negotiate the contract at the company level. The leverage on scale and the simplification of the procurement process significantly reduce the overall acquisition cost.

Marketplace has undergone a revolution in the past few years with the development of mobile applications and user interface, as well as the awareness of total cost reduction. As businesses go mobile, it is urgent for a platform to offer a secured service. At the same time, it needs to be intuitive and user-friendly, as employee experience is becoming increasingly important in adopting the technology. To keep costs in check, more and more companies are embarking on a cloud-based SaaS (Software as a Service) model. One merit of this system is that the initial investment is considerably less than the closed-loop ERP, allowing companies to make the deployment scalable and manage the upgrade at minimum cost.

Insightful analytics is another desirable deliverable for the companies. Companies have a keen interest in understanding the details of buying behavior at the line level. Category-focused P2P solutions are getting more sophisticated these days. For example, Fieldglass - the VMS leader in managing contingent labor - was acquired by SAP Ariba to complement the Ariba software suite. Other homegrown and third-party software also provide solutions in managing different procurement categories. By leveraging the standard platform, the system can provide full insight on the purchase at the line level for the shared services team to make a sensible decision.

**Hedy Huang**
Associate Professor, Supply Chain and Business Technology Management, Concordia University

**Vivian Xiao**
Corporate Sourcing Leader, General Electric

HR Operations used to be perceived private and opaque. However, many activities in the HR field, such as requisition, screening, interviewing and benefit administration, are similar among business divisions and regions. With a common platform and the crowd sourcing capability, the cost of hiring and retaining employees can be significantly lowered. The risk of employment malpractice can also be controlled through standard practice and the local experts.

While an SSO model has many positive aspects, implementing it still poses significant challenges and risks, including a large initial investment, inaccurate baseline, poor ROI, long payback time and business disruption. Therefore, it is critical that companies considering the SSO model perform a complete feasibility assessment on whether the strategy, the mass and the culture are truly aligned with their long-term objectives.

Shared Service Operations have grown exponentially in the past decade and become standard practice for companies in Europe and North America. With rising labor costs and the requirement for compliance and transparency under globalization, Chinese companies are now adopting the shared services model as well, examples include the Chang Hong Group, Huawei Technologies and Changan Automobile. This trend will continue at a much faster pace, thanks to emerging technologies and well-established practices around the world. The SSO model will continue to evolve and, eventually, allow the building of a lean and agile business structure with functional expertise on both the global and local fronts.