

Future challenges
facing the Shared
Services Centre in
China and greater
Asia Pacific

OPEN
ALL
HOURS

Contents

Executive summary	3
Introduction	4
Part 1: Talent management	5
Part 2: Innovation	6
Part 3: Global process delivery	8
Part 4: Governance	11

ACKNOWLEDGEMENTS

We would like to thank the industry participants who spoke in depth with our research team about the sector and their shared services centres.

Special thanks (in alphabetical order of the company) to:

- Cheral Zhang, Chief Finance Officer China, Arkema China
- Rachel Li, Head of Shared Service, Bayer China
- Gurbinder Singh, VP Global Shared Services Centre and Trading Division, DFS
- Graham Ford, CFO and Managing Director, Fuji Xerox Malaysia, Fuji Xerox
- Shao Xinzhi, Accountant General, Haier Group
- Jason Ferguson, Vice President, Global Business Service, HP
- Frankie Yang, Director, Accounting Q&O Department, Huawei
- Cathy Lin, Head of BPO Sales & Solution, Infosys China
- May Liu, Lead – Finance Center of Excellence, Infosys China
- Samir Pradhan, Head of BPO Service Delivery, Infosys China
- Henry Han, Director, Chief Accounting AP/PRC/ECS, Lenovo
- Peter Leber, Regional Finance Director, APAC, Newell Rubbermaid
- Paul Mok, Group Financial Controller, Orient Overseas (International) Limited / Orient Overseas Container Line Limited
- Li Yaodong, General Manager, PingAn Data Tech
- Feng Bao, National Finance Director, Starbucks China
- Guo Yi, Operating Management Center Director, ZTE Global Financial Cloud

Executive summary

ACCA and Deloitte Consulting have again collaborated to provide insights into the current and future challenges facing Shared Services Centre (SSC) in China and greater Asia Pacific (APAC) region. In early 2013, the 'Remote delivery: the China story' report was released and as an update to this, a series of in-depth interviews were conducted in late 2014 to gather further latest insights from senior finance leaders.

The organisations interviewed spanned a broad range of industries and organisation sizes. Their global or regional operational footprint covers China and broader APAC region with SSCs primarily located within Mainland China, Hong Kong Special Administrative Region (HKSAR), India, Malaysia, and Singapore. The SSCs within the interview group has been in operation from five to over 15 years. In addition, we have further enriched our study by leveraging Deloitte's 2015 Global Shared Services Study which surveyed 311 respondents and provided broader global context to the SSC landscape.

As a certain degree of maturity is being reached with SSCs, we seek to further understand the current and future challenges being faced and addressed by management. The ever evolving complexities of balancing costs and quality, increasing efficiency by means of technology, moving towards value processes, managing talent, and changes in governance have surfaced and challenged management's effectiveness to further utilise the predominately captive off shoring model.

Our interviews indicated the maturity of SSCs vary significantly across China and APAC. However, several key themes and focus areas were consistently. This includes the following:

1 Transitioning from labour arbitrage to effective talent management

In addition to the challenges associated with increasing labour cost and the increasing demand for talent, our analysis revealed that the actual average turnover rate for SSCs has increased. This implies that not only are companies less able to source candidates from their regional talent pool and to benefit from

labour arbitrage due to increasing cost; but also attracting and retaining resources is an issue.

2 Innovation

As the costs and benefits of offshoring processes are eroding by increasing wage and other operating costs, organisations are adopting alternative approaches to provide high quality, lower cost delivery to the business. Leading approaches include process automation, which delivers process efficiency and quality improvements through machine based decision making and workflows.

In addition many finance SSCs are exploring new, high value service delivery including big-data and analytics solutions to provide increasingly forward looking and predictive insight to the business

3 Global process ownership

Global processes ownership is being adopted by many organisations to drive the industrialisation of process delivery. By empowering a global process owner to standardise processes and technology on a global scale, with specialised delivery resources SSC organisations are able to build far greater scale through global delivery and a greater focus on continuous efficiency and quality improvements.

4 Governance

As SSCs gradually evolve from a predominantly transactional-based environment into a multi-functioned SSC with higher value processes, the governance structure will need to be tailored to ensure the same level of quality control. This means that basic SLAs are evolving to include performance metrics that drive continuous process improvement.

Introduction

In early 2013, ACCA and Deloitte jointly released a comprehensive report named 'Remote delivery: the China story' which provided an overview of the key trends and themes associated with the Chinese Shared Services Centre (SSC) landscape, as well as the key opportunities and challenges associated with the adoption of such remote delivery models.

ACCA and Deloitte have again collaborated to build on our insights on the strategic direction and challenges faced by SSCs in China and the broader Asia Pacific (APAC) region. As a key input into this latest report, we conducted in-depth interviews to gather insights from senior finance and SSC leaders. The organisations that were represented cover multiple industries, sizes and geographic footprint. These SSCs are primarily located across Mainland China, Hong Kong Special Administrative Region (HKSAR), India, Malaysia, and Singapore. The average SSC has been in operation from five to over 15 years.

In addition, we have further enriched our study by leveraging Deloitte's 2015 Global Shared Services Study to provide a wider global perspective, as well as provide insights into how the China and APAC SSC landscape compare against their peers in other locations.

In the 2015 Deloitte Global Shared Services Survey, 311 companies responded representing 35 countries providing data for over 1,000 shared services centres (SCCs). Over half of the respondents operate in more than 20 countries. Compared to Deloitte's

2013 survey, there was an increase in the number of the SSCs located in APAC and LATAM with a decrease in number of SSCs located within Western Europe and US/Canada. More importantly, 10% of the respondents are headquartered in APAC and 18% have their Shared Services Centres (SSCs) located in APAC.

The increase in SSCs within APAC is primarily attributable to growth in SSCs in India, Malaysia, Japan and China.

Respondents of the survey have the average age of 5.5 years of maturity, 40% of them have more than 100 employees.

Our overall analysis clearly indicated the maturity of SSCs varies significantly. In particular, it was noted that many of the challenges identified in the earlier study such as talent management remain prevalent in the current SSC environment. In addition to this, many new market and technology solutions have emerged, providing SSCs with the opportunity to deliver further value to their businesses.

From this updated study, the following key themes were identified:

Part 1: Talent management

With a population of over 1.3 billion, China is home to a deep pool of human capital. Notwithstanding this, the war for talent continues to intensify within a SSC environment. In China, Tier 2 or Tier 3 cities are currently the 'hot' SSCs locations but there are increasing concerns with the quality of the resources from their local talent pool.

In a number of established locations in China, governments and universities have begun to implement programmes to enhance the skills of the local labour force by language training and back-office proficiency, thus enhancing their long-term potential. Other emerging locations are also taking similar steps to improve their competitiveness. Examples of governments with strong, coordinated efforts to develop a pipeline of talent for attracting SSCs include:

- Emerging: China
- Established: Philippines, Malaysia, etc.

Selecting not only a suitable country, but also the optimal metropolitan area and appropriate sub-market within it is

critical to access to the right talent. In our experience, the variance of costs and conditions between cities within the same country can be greater than between countries.

The intensity of competition for limited talent has been clearly driving up the wage costs. Our analysis shows that China's yearly average wages has been increasing by 9–14% annually for the past few years.

As the cost of wages and benefits increase the cost of shared services, companies are turning to other more strategic measures to attract and retain talent, including aligning the human resources and facility strategies with the local culture. We also note that in China, the ambition of being recognised as an 'employer of choice' and providing a pleasant work environment are becoming more important in attracting talent within a SSC environment. For example, some companies in China have taken steps to provide employees with more modern and state of the art work environments including gym and other lifestyle facilities, differentiating themselves with other typical SSCs.

A standardised approach based talent development such as competency model training enables the development of a business function to be recognised as high-performing throughout the organisation. By implementing an effective talent development model, building a strong brand both inside and outside of the organisation as well as creating a pleasurable working environment has helped to attract the highest quality talent. Other top factors to attract and retain talent include mentoring and company reputation whereas job rotation outside of a SSC into other areas of the business decreased in importance compared to the 2013 survey (Figure 1.1).

Whilst the focus on talent management will remain a key priority for many SSCs, achieving success will not be easy. In the Deloitte 2014 survey, the respondents indicated their SSCs faced an actual average turnover of 8.3% which is higher than their expected average target rate of 7.2%. We believe this trend will continue but with time, this could be an opportunity for SSCs to differentiate themselves as an employer of choice.

FIGURE 1.1

What do you use to attract and retain talent?



Part 2: Innovation

Traditionally, operational efficiencies have been achieved through standardising non-core business processes within the SSC and across the whole finance processes.

However, the increasing cost and demand for skilled labour especially in countries such as China and India, means that the cost savings through process improvement are being offset by increasing labour costs. A leading global multinational pharmaceutical and technology hardware manufacturer, with regional SSCs based in China, found that local wages and facilities costs are increasing compared to neighbouring countries in APAC such as Philippines and Malaysia.

As a result of the increasing cost pressure, many established SSCs are investigating and testing alternative solutions to manage costs while continuing to deliver quality service to the business.

One of the most advanced solutions being adopted is using ‘artificially intelligent’ automation, which is designed to interface with existing applications for processing routine tasks and triggering responses, handling rules-based or high volume transaction processes. Such automation allows processing to be executed continuously with minimal human intervention, with the additional benefits of reducing turn-around time, higher quality, lower error rates and a reduction in management oversight.

One of our interviewees estimates that the total cost of processing reduced by 50% through automation when compared with human processing. As the technology matures and stabilises, these savings could be even greater.

The main opportunity for process automation are the transactional processes: specifically accounts payable, accounts receivable and certain standard accounting and control processes such as bank reconciliations. However, as technology matures and more advanced decision making software becomes available, more rule and decision based processes are being considered for automation.

FIGURE 2.1

What role does your SSC/GBS organisation perform or anticipate performing in data analysis or analytics?

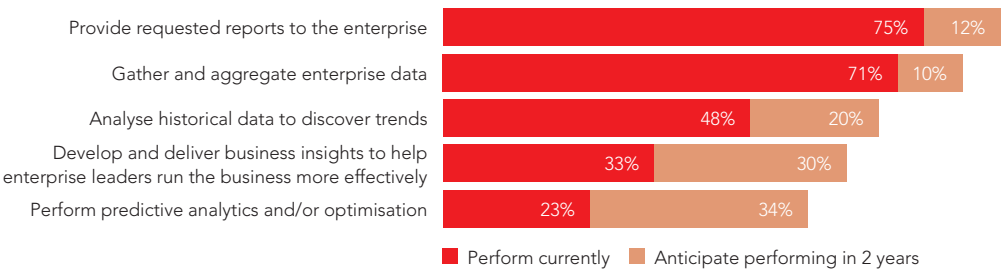
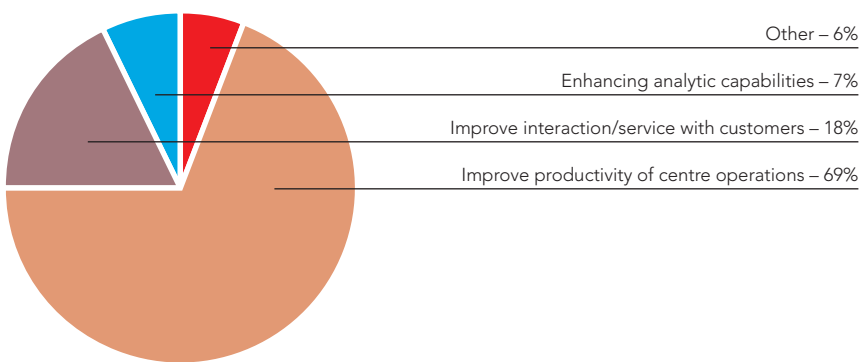


FIGURE 2.2

How are you allocating spend on technology for your SSCs?



Initial approaches to process automation typically focus on software that sits on-top of existing finance systems and drives those systems to complete transactions. However, the additional performance data that is captured by the automation software provides new opportunity for data mining to analyse the processes, to identify bottlenecks and inefficiencies in the process and identify improvements. This is particularly valuable where timeliness of process execution is important.

Our interviews with finance shared services departments also indicated a greater involvement in big data initiatives. Traditionally finance's involvement in big data has been related to finance related data warehouses to support consolidation and greater flexibility and comprehensiveness of management reporting and business intelligence.

This is now changing with finance having greater focus on master data management processes and in particular the quality of financial data as well as more complex data analysis to support decision making. The analysis goes beyond traditional variance and trend analysis into more detailed regressions to identify relationships between performance and financial outcomes and into predictions and optimisations. Although analytics of this nature has the ability to deliver powerful insight for decision making, it is still relatively unexplored with only 7% of our global SSC survey respondents having invested to develop finance analytic capabilities. Reasons for this relatively low uptake included data quality and availability to identify the necessary talent to perform this level or advanced analytics.

FIGURE 2.3

What are the top challenges of adding analytics as a capability within your SSC/GBS organisations?



Part 3:

Global process delivery

Historically the approach to transitioning to finance shared services and offshore delivery models has been driven at the regional and even at the process level. For global firms this means little standardisation in approaches, structure or processes.

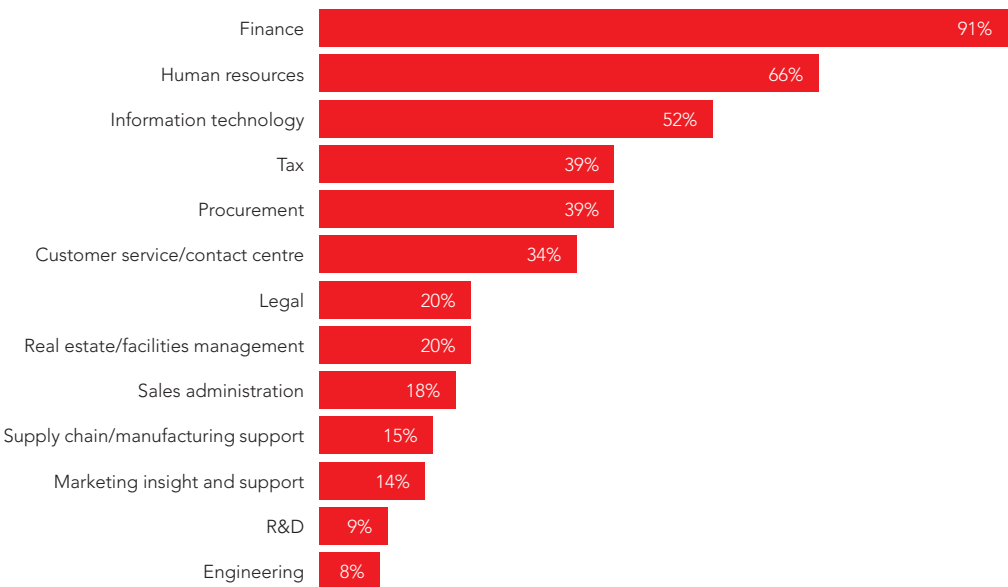
As these SSCs mature and as pressure grows on finance functions to reduce their operating cost further, there is an increasing focus on taking a global approach to process delivery and standardisation.

The benefit of this focus on process standardisation and specialisation is to breakdown the need for hard geographic team structures within the SSC allowing for more flexible work and resource allocations. The result is measurable improvements in per capita efficiency underpinned

by improvements in process output quality. One client interviewed indicated that process standardisation and streamlining had provided a near 40% reduction in the SSC headcount over the last five years.

The standardisation and global approach to process supports the building of specialised centres with scale and volume to be dedicated to perform specific processes on behalf of any location globally. This means that location selection can be made at the process level where more process specific talent, proximity, risk and cost decisions can be made rather than a one size fits all approach. By grouping processes from multiple functions of similar talent, risk, proximity and cost profiles, the organisation can build GBS centres and further achieve cost savings through scale.

FIGURE 3.1
Which functions are performed in your organisation's SSCs?



There are several key enablers of a process driven organisation which can be significant cost and organisation barriers to successful implementation. The first is consistency and standardisation of the finance technology stack which includes data inputs, upstream systems and interfaces, the finance system and workflows, and downstream systems including payment, consolidation and reporting/data warehousing. Global projects to achieve this level of system standardisation are typically multi-year, multi-million dollar programmes with challenging business cases and diverse stakeholders that take significant time to align on material design principles.

Secondly, global processes ownership is another important prerequisite requiring the appropriate level of authority to

drive a single process standard, with only exception on process localisation. The global process owner is responsible for driving process standardisation, quality and efficiency metrics globally and is empowered to implement the appropriate governance and change management structures to achieve this.

Many of the organisations that we interviewed aim to achieve industrialisation of processing in much the same way that factory production lines operate. The ongoing standardisation, simplification and automation of processes strive to minimise the inputs, outputs, steps, handoffs and human involvement in processes. The result is a service to the business which is definable, repeatable, scalable and measurable across a range of volume, quality and cost metrics.

For finance in particular, attention must be focused on the controls on key processes. While the execution of many controls, particularly in transactional processes can be moved offshore, the monitoring of the controls must remain the responsibility of the core onshore function. Offshore controls should include transaction validations as well as analytics assessments as a point of self-review.

FIGURE 3.2

What percentage of the SSCs are single function?

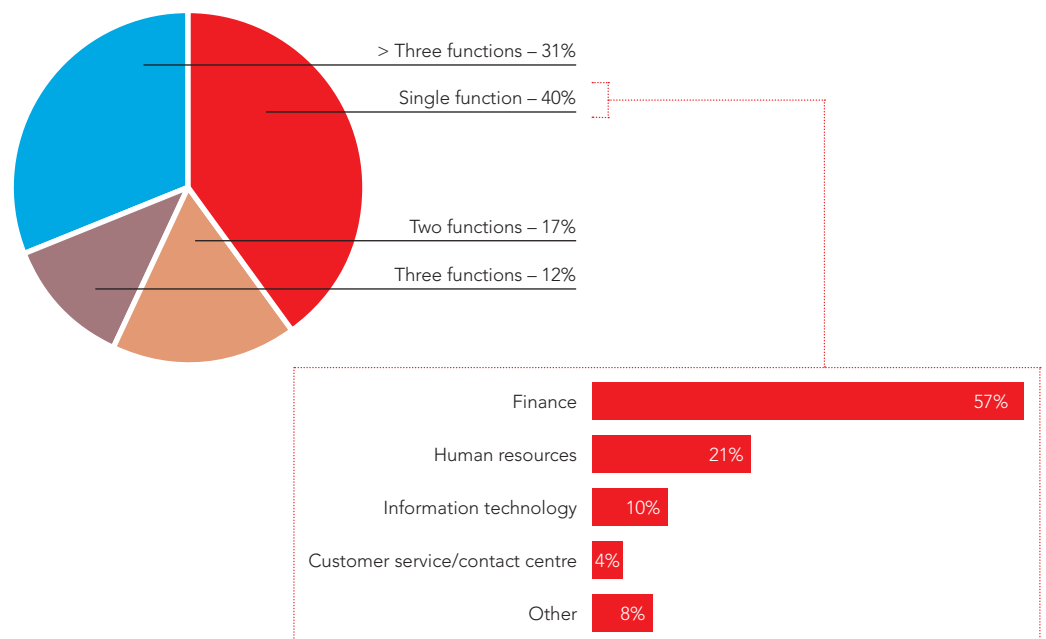


FIGURE 3.3

If you have a GBS organisation, what are the responsibilities of your GBS leader?

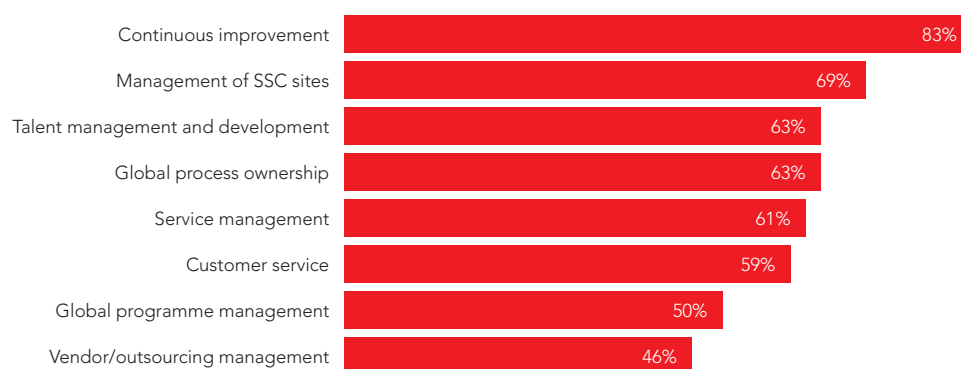


FIGURE 3.4

If you do not have a GBS organisation, do you plan to shift to a GBS model and if yes, when?

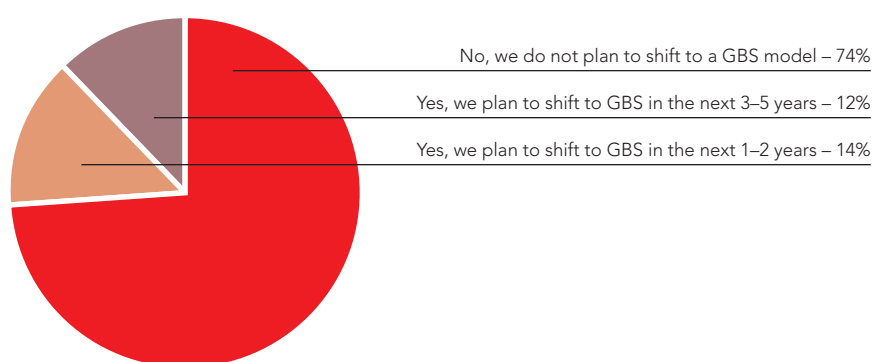
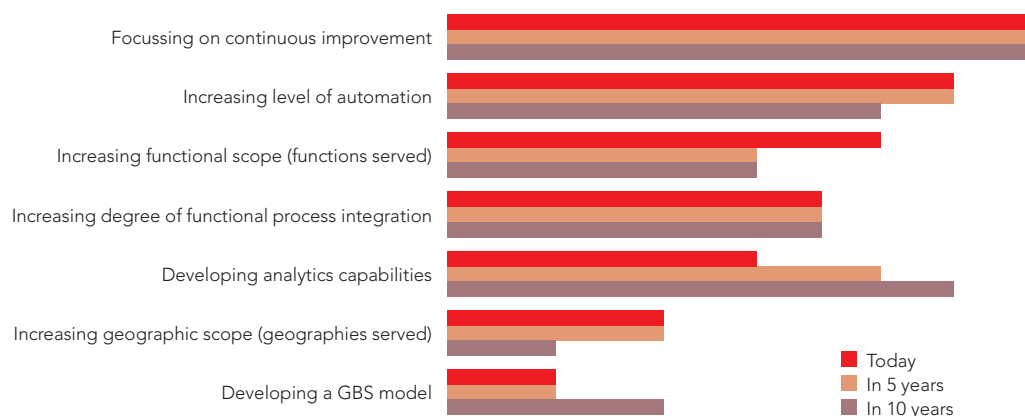


FIGURE 3.5

How will the strategic priorities for SSC/GBS organisations shift?



Part 4: Governance

Most organisations now have adopted and implemented Service-Level Agreements (SLAs) to govern service delivery through captive shared services centres. However as performance expectations, process complexity and sophistication of process delivery have all increased, the governance models adopted are also adapting in complexity and maturity.

Traditional development of SLAs and governance built performance improvement metrics and reward into the SLAs enabling the business to hold the SSC manager accountable for improvements in service delivery. This observation from our interviews is consistent with our global research that indicates 75% of organisations use SLAs as part of SSC governance and that two thirds of those SLAs include provisions to drive continuous process improvement. Many captive shared services are aligning service delivery charges back to the function or BU based on performance metrics, building in greater granularity and flexibility. This includes moving from fixed rate, to volume and quality based unit pricing. These metrics include bonuses and deductions for above or below target delivery.

The addition of rule-based, knowledge and decision processes into the SSCs means that metrics need to go beyond simple volume, quality and cost metrics, focusing on other measures of value delivered.

With the transition to global process ownership, the accountability of the SSC has become more detailed, specific and process driven. Although the global process owner may have overall accountability for process

performance and improvement, much of the implementation of these changes will be executed within the SSC. Specific commitments of time and resourcing to process redesign, change management and training are required to ensure the SSC supports the performance improvement initiatives. In addition, the SSC is accountable to the global process owner to ensure that processes remain globally standardised and that variations from the standard go through a review and approval process. Part of that approval process is to ensure that changes can be consistently applied for all locations receiving the service to ensure standardisation principles are met.

Within the shared services itself, many leading SSCs are aligning individual performance and reward with the achievement of the SSC performance objectives, including value-delivery and improvement metrics. This means that in addition to having a business as usual delivery target, every staff member is also responsible for supporting change projects. Many SSC organisations are extending this principle to incentivise staff at all levels to identify and bring innovative ideas to the global process owners. One of the challenges with this approach to innovation is the ability to meaningfully influence the global technology stack in a bottom up manner.

DEMAND MANAGEMENT

A significant challenge for finance shared services is the production of management reports. Even finance organisations that are able to define a set of standard management reports are subjected to continuous requests for ad-hoc reporting to answer specific management questions. Without

strong governance, many finance shared services accept these ad-hoc reporting requests and over time many become permanent additions to the reporting catalogue, with resulting increases to the headcount requirements and department costs.

Building a demand management structure is essential in order for finance to compare incoming requests against the existing report catalogue and the agreed metrics needed to run the organisation. The demand management process includes the ongoing testing of existing reports eliminating those that no longer have specific management, financial control or regulatory value. Eliminating structures that drive the volume of reports is fundamental to easing the reporting burden on finance. This could include consolidating cost and P&L centres, reducing legal entities, rationalising sign-off limits and defining allocation methodologies.

The capacity freed up from this report elimination and moving away from manual report production and reconciliation can be directed toward analysis and providing insight on data in the smaller subset of reports.

Report demand can be further addressed by giving management the ability to interrogate high quality, well governed and standardised datasets in a controlled, intuitive manner so they are able to answer their own performance questions and deep-drives rather than relying on finance to provide this reporting. Immerging reporting and visualisation tools are enabling management to view and interrogate data in ways that are more relevant to their business and management approaches.

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. As the first global accountancy body entering into China, ACCA now has 24,000 members and 61,000 students, with eight offices in Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen, Shenyang, Hong Kong SAR, and Macau SAR.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers. We support our 178,000 members and 455,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 95 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT DELOITTE

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/cn/en/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, enterprise risk services and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. More than 200,000 Deloitte professionals are committed to becoming the standard of excellence.

We are one of the leading professional services providers with 21 offices in Beijing, Hong Kong, Shanghai, Taipei, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hsinchu, Jinan, Kaohsiung, Macau, Nanjing, Shenzhen, Suzhou, Taichung, Tainan, Tianjin, Wuhan and Xiamen in Greater China. We have nearly 13,500 people working on a collaborative basis to serve clients, subject to local applicable laws.

In the Chinese Mainland, Hong Kong and Macau, services are provided by Deloitte Touche Tohmatsu, its affiliates, including Deloitte Touche Tohmatsu Certified Public Accountants LLP, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is a member firm of Deloitte Touche Tohmatsu Limited (DTTL).

As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting, enterprise risk services and financial advisory services to national, multinational and growth enterprise clients in China. We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.