

Finance transformation: expert insights on SSO in Malaysia

SUMMARY OF THE ACCA MALAYSIA ROUNDTABLE DISCUSSION, KUALA LUMPUR, 20 MARCH 2012

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.

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 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

About MDeC

MSC Malaysia is Malaysia's national ICT initiative designed to attract world-class technology companies while grooming the local ICT industry. Fully supported by the Malaysian Government, MSC Malaysia has led the nation's transformation towards a K-Economy over the past decade and a half.

At the Multimedia Development Corporation (MDeC), we combine the entrepreneurial efficiency and effectiveness of a private company with the decision-making authority of a high-powered government agency.

Our role is to advise the Malaysian Government on legislation and policies, develop MSC Malaysia-specific practises, and set breakthrough standards for multimedia operations. We also promote MSC Malaysia locally and globally, as well as support companies that are locating or located within MSC Malaysia.

We are dedicated to ensuring MSC Malaysia is the world's best environment to harness the full potential of ICT. MDeC is a champion, facilitator and partner. We champion the merits of MSC Malaysia, facilitate the entry of companies and partner with the Government and the private sector in realising both a vision and an opportunity.

For more information about MSC Malaysia and MDeC visit www.mscomalaysia.my



www.accaglobal.com/transformation

Senior executives of the shared services and outsourcing industry in Malaysia convened on 20 March 2012 at the Hilton Kuala Lumpur for a roundtable discussion.

The discussion took a perspective on the ACCA report, *Finance Transformation: Expert Insights on Shared Services and Outsourcing*.¹

This summary outlines the themes arising from the discussion and provides a Malaysian context to finance transformation activity.

1. *Finance Transformation: Expert Insights on Shared Services and Outsourcing*, ACCA, January 2012.

This report presents insights from global experts of companies at the forefront of finance transformation activity. It explores the issues, challenges and opportunities facing businesses transitioning to new finance models to improve business performance.

No turning back from SSO

Provision of shared services and outsourcing (SSO) facilities is ranked as a key growth area under Malaysia's Economic Transformation Programme (ETP) and government policy and incentives are designed to support and promote SSO growth. According to Multimedia Development Corporation (MDeC) representatives, 30 new outsourcing services suppliers entered the market in 2011. Out of these 30 companies, 10 are involved in financial shared services.

Participants in the roundtable remarked that there is a preponderance of shared services centres over business processing outsourcing companies (BPOs) in Malaysia because companies want to establish a footprint in the country and ensure the sustainability and security of captive outsourcing facilities. There are fewer qualified BPOs in this part of the world, they said.

Asked about Malaysia's SSO capability index on a country level, out of twenty SSO destination countries, participants ranked Malaysia as seventh on delivering high value, complex finance and accounting services, with expectations of moving up to about fifth with strong government support and EPPs (ie entry point projects identified under the ETP to stimulate growth in key sectors). The talent issue will be managed by cherry-picking niche areas to sustain growth, and participants were confident that Malaysia would not regress.

As regards competition, participants were more concerned with regional rivals. The Philippines is a major threat to Malaysia in ASEAN, both in its outsourcing capability and as a country, since they share similar skills in English language fluency and have suitably trained talent. Nevertheless, Malaysia's stable political and geographic climate is an advantage compared with the Philippines' frequent natural disasters and political instability.

SSO has matured over the years and it is a key component of best practices especially for large organisations.

WOON TAI HAI, PARTNER OF KPMG MALAYSIA.

The retained finance function should be upgraded to a strategic advisory role to fill the gap created by changing to SSO. Retained finance could bring the local business operation and shared services provider together and operate as their linking pin. The retained finance staff and their local knowledge are critical for the business and the management of local statutory and legal matters that are unique to each jurisdiction. The insider knowledge on how to apply local management processes can never be outsourced.

DR NG BOON BENG, FCCA, FINANCE DIRECTOR OF ORACLE

Migrating from cost to efficiency drivers

Cost arbitrage was the primary motive behind the initial move of multi-national corporations into the Malaysian shared services and outsourcing sector. As cost drivers decline, companies are seeking to increase efficiency and value-adding factors to achieve enhanced value. In future, organisations providing outsourced services must focus on transformation and change management, improve speed to market and service levels, and provide greater business insights to clients, and invest in such methodologies and standards as Six Sigma and Lean to make their businesses sustainable.

Shared services form a platform for driving change, panellists stressed. To achieve meaningful change, companies need commitment from senior executives so use of outsourcing should be a decision for the whole business, not just the finance department. From the company perspective, benefits of outsourcing are that it provides an opportunity to drive best practices, achieve commonality of processes and advanced controls, bring in talent and drive growth, said panellists.

There is also an opportunity for improvement through jurisdictional comparisons and transparency through visibility. For example, the Kimberly-Clark model places matrices on a single chart copied to senior executives; this shows country financial controllers how to benchmark against their counterparts.

Shared services employees are given the opportunity for skills development through exposure to multiple processes, since people are being continually moved around. Meanwhile, the high concentration of talent in such providers enables the development of finance career paths, where these might not exist previously.

Elsewhere, as companies go up the value curve (which may be described as a 'J-curve' to reflect the speed of development), rising costs become an issue as they compete for the same limited resources.

Participants noted that high-speed broadband (HSBB) infrastructure needs to be rolled out and costs of HSBB reduced to induce companies to relocate and stay. They claimed that Malaysia's broadband costs are the highest in this part of the world.

Directionally, we will definitely move up the curve; we will lose the bottom.

WOON TAI HAI, PARTNER OF KPMG MALAYSIA

The talent crunch

The 'talent crunch' is cited as the biggest challenge in the Malaysian context, at both low and high levels. Participants noted that the amount of high-level work has grown tremendously, while senior and middle management resources are stretched thin owing to growth in outsourcing and the small talent pool.

Although the Malaysian government agency, Talent Corporation Berhad, is working on measures to repatriate, import and retain talent, these were described as temporary 'band-aids' that cannot heal the brain drain permanently.

Long-term measures to remedy the talent crunch are vital, and hinge on revamping and developing the education system. Participants said that the current school and university curriculum must be changed to become industry-oriented and produce employable graduates. They urged the government to stop measuring output in terms of numbers of graduates produced and to aim for quality graduates as the ultimate outcome.

MDeC is working to educate those in the talent pipeline on opportunities in SSO and to brand the industry as a 'sexy' place to be. Initiatives include educating career guidance counsellors to influence students, and making collective industry visits to campuses to change the grassroots perception that stigmatises finance shared services providers as call centres.

Participants urged role models and leaders in shared services and outsourcing to raise their public profiles and collaborate to rebrand shared services in Malaysia. Furthermore, education providers were urged to embed SSO process management and change management topics within finance syllabuses and qualifications to create awareness of the sector.

The train has left the station and picked up speed. It's moving from a coal locomotive to a shinkansen [bullet train].

TAN EU JIN, FCCA, MALAYSIA SHARED SERVICE CONTROLLER OF INTEL

You cannot have the same comfort level that you expect from a retained function, but you must have the faith and trust in the system that it can deliver the same or better services.

NG WAN PENG, COO OF MULTIMEDIA DEVELOPMENT CORPORATION (MDeC)

Finding a niche; moving up the value-curve

With its limited population of 28.3 million as of mid-2011, Malaysia cannot compete on the same platform as India and China with their billion-strong populations.

Participants urged the maturing Malaysian SSO sector to move away from low-end processing work to 'premium, in-depth' niche areas such as country-specific International Financial Reporting Standard (IFRS) convergence, data analytics, and market research that will offer higher-paying jobs for Malaysia's limited but experienced and skilled talent pool.

They argued that Malaysia needs to move into the area of knowledge process outsourcing (KPO), which they identified as having greater potential than business process outsourcing (BPO) and offering generic cost arbitrage benefits. Such a move would pre-empt competition with high-volume providers such as India, China and the Philippines.

The key point is with our talent, what are we going to focus on? BPOs must become centres of excellence for companies where the knowledge concentrated must be increased.

DR. NG BOON BENG, FCCA, FINANCE DIRECTOR OF ORACLE

We have to be careful in managing responsibility and ownership of a case. There must be resolution and accountability in seeing through a case to its conclusion. Don't pass the buck around.

FRANCIS WONG, FCCA, FINANCE DIRECTOR OF THE GLOBAL ACCOUNTING AND FINANCIAL SERVICES OF AMD

Improving service levels

To optimise service levels at shared services centres, there must be differentiation and diversity in service. Problems and challenges in one market differ from those in another, and providers cannot afford to impose a standard process on customers and ignore local issues and contexts.

Panellists emphasised the need for frequent and clear communications between client and provider to mitigate frustrations. Language and communication skills must be very strong to prevent miscommunications, especially between different jurisdictions. Some global shared services centres invest in prolonged communications training for staff. On top of regular discussions, panellists recommended the establishment of an escalation team to identify and deal with urgent issues that might otherwise be ignored.

Outsourcers must maintain a certain level of confidentiality to safeguard intellectual property rights and security. The client must check that the external provider has a good work culture and ethics to protect client confidentiality.

Technology should be used to provide enhanced customer support and interaction, which is important for gaining trust. Technologies and services such as instant messaging and webcams enable 'instant face time' and immediate responses, and they speed up resolution.

To give excellent service, providers must stress the importance of case ownership. An employee managing a case must see it through to its resolution instead of passing the buck to the next employee who takes over his shift. Delay frustrates customers.

The J-Curve is here to stay. As we go up the J-Curve, positives like talent and infrastructure and resources will become negatives. These are going to crack as we continue to grow, unless we anticipate growth and build the infrastructure, including talent supply.

MARK GRILL, EXECUTIVE FOR SHARED SERVICES – MALAYSIA OF IBM

Capabilities the finance function should retain

Roundtable panellists said that retained finance functions are easier to manage and more stable when they are more streamlined.

Retained finance functions also need to define their own identity. Currently, there is so much focus on SSOs that retained finance is sidelined, said participants. The key capabilities of the retained finance function should include governance, communication, liaison and decision making. 'The retained finance function should become the "voice of business" for the SSO team; it is the "bridge" between business and the SSO.' There may be a need to retrain and reskill people in the retained function on their new roles in the interests of good change management.

Drilling deeper, roles retained by the in-house finance function should be higher-level business and strategic-type roles and not accounting and finance. Also retained are relationship and 'business intimacy'-type roles that require local expertise and the 'finance person at the table making strategic decisions'. Likewise, forum panellists in Penang recommended that the retained finance function focus on local issues, since the staff possess the expertise on statutory and regulatory matters unique to each jurisdiction.

Panellists noted that frustrations with the shared services centre could lead the local retained finance function to set up a structure similar to that of the centre: a shadow organisation. It was pointed out that some retained functions maintained the same headcount despite outsourcing. To prevent this, the scope and alignment of objectives between the centre and the retained finance function should be articulated clearly.

On this note, IBM explained that at country level the company retained only critical functions, such as financial planners and analysts who were needed in real time. IBM's HR ensured that no accountants were placed under the accounting job code in any country, making it easy to remove any shadows.

On the supply side, providers too should have certain capabilities. Strong and close relationships between users and providers are very important, and each relationship varies according to culture. Communications are important, and providers need to provide a platform for discussion and conflict resolution. Providers should also have a strong understanding of the users' business, so that service-level agreements (SLAs) and key performance indicators (KPIs) can be tailored to business needs.

Trust and providing assurance and comfort are important elements of finance shared services. Some best practices for finance shared service and outsourcing providers include the following.

One, accounting/finance shared services must give the comfort and assurance required by business units; the consequences of mistakes are eroded trust, extra costs and violation of regulations.

Two, full-time and very experienced finance people must be designated as account relationship managers or liaisons with the business units to give comfort and assurance to clients and to gather feedback.

Three, a continuous improvement team must be set up that constantly evaluates and assesses SSO performance for business optimisation and quality assurance, and is in constant contact with the business team. This should go beyond SLAs and KPIs and align the service provider's performance with desired business outcomes and impacts.

The infrastructure and talent aren't deep or broad enough. If we can't get all the infrastructure and talent, cheques for shared service centers will be written out in another currency.

MARK GRILL, EXECUTIVE FOR SHARED SERVICES – MALAYSIA OF IBM

