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Financial Shared Services Centres:

Opportunities and Challenges for the Accounting Profession

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by

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Executive summary

The market in which multinational companies operate is characterised by globalisation, mergers, acquisitions and consolidation, requiring companies to standardise operations to stay competitive. An effective way of keeping costs down and improving efficiency is by moving certain functions to one central location. One way to meet this challenge is for companies to set up a shared services centre.

Shared services entered the corporate lexicon in the early 1990s as large decentralised companies looked to combine basic transactional processes such as payroll, purchasing and accounts payable, and sell back those services at cost to the individual business units. As companies extend their presence across borders, it becomes increasingly uneconomical to maintain a duplicate accounting infrastructure within each country of operation. Many public sector organisations have also recognised the benefits of implementing a shared services approach.

This report explores the financial shared services centres (FSSC) phenomenon, and in particular the shared experiences of those multinational enterprises and public sector organisations that have set up such centres in the UK and Ireland. The study examined the emergence of FSSCs in Europe, their impact on local accounting services in strategic business units (SBUs) and the long term implications for the development of the accounting profession. In addition, the study explored the training and education challenges and implications of the centralising of pan-European reporting in primarily Anglo-Saxon settings, particularly in the area of language skills.

The two part empirical study consisted of a postal survey of FSSCs in the UK/Ireland and an in-depth case study examination of seven organisations that have established financial shared services centres. The results of the study indicate that shared services centres are an established part of the business landscape and are likely to remain so for the foreseeable future.

The need to align the business strategy and financial/administrative process, combined with a desire to reduce headcount through process improvement initiatives, is shown to be a primary motivation for the move to shared services centres in Europe. Companies in the study reported reduction in staff costs of the order of 35%. The research confirms the importance of effective change management in realising the benefits of FSSCs and highlights the growing challenge in maintaining Ireland's attractiveness as a location for FSSCs.

Executive summary (continued)

The main drawback in setting up a shared services centre is in the area of staff turnover. Shared services can offer an extremely fast-changing environment during the start-up phase. Once the business units have been centralised, however, the work becomes less challenging and many staff will move to find more challenging positions. Much of the knowledge gained in the work-shadowing phase can be lost to the organisation. The absence of a common IT system can also be a drawback, as this can inhibit the achievement of process efficiency through standardisation.

The study also found that keeping staff motivated was a major issue, as much of the work tends to be transaction processing. As a result, firms in the study found themselves facing the double challenge of keeping cost to a minimum while finding and then motivating high quality staff for what is very often routine work. Attracting and retaining multilingual staff in what were often remote locations was a common problem.

The findings of the study highlight the importance of cultural and linguistic issues within the FSSCs examined. In particular, the migration of multilingual pan-European operations to a single site, while technologically and economically feasible, raises a large number of cultural and linguistic challenges, which can have a detrimental impact on the long-term viability of the FSSCs.

Differences in expectations regarding cultural and communication norms gave rise to frequent misunderstandings and a continual need to modify accepted US-based work practices to the European environment. The response from many firms to what they saw as ‘cultural and language’ problems has been to try to minimise the language element of the work and to ‘*de-language-tise*’ at the process level. The long-term objective for many firms appears to be to centralise pan-European service provision in a single (and often UK or Irish based) location and to eliminate the language diversity of the process over time.

The key critical success factors are a clear vision, strategy and support from senior management. Support from senior management is particularly important as this type of project cuts across the power base of the organisation and, as with any moving of one set of responsibilities to another location, there will be resistance. When this resistance appears, senior management support ensures that the project moves forward.

1. Introduction

According to Ross (1995), 'there has rarely been a time when the finance and administration departments – the back office – have been out of the firing line'. Managers accountable for running profit-making organisations always complain about the poor quality of service they receive or the amount of overheads related to the back office. Complaints range from inaccurate and late management information, inaccurate invoice processing, inability to pay suppliers as per agreed terms and conditions, unacceptable handling of customer complaints and late payment of expenses. There is increasing awareness among leading organisations that this must change and a finance function that creates value is what is now required.

There are a number of reasons for this pressure to change.

- Organisations operating in highly competitive markets are under enormous pressure to cut costs further, to maintain their margins.

- Within Europe's mature markets there are limited opportunities for developing and sustaining competitive advantage.

- The concept of a single European market has raised a question mark over the high costs of doing business in Europe. Comparisons are being made by US-based multinationals between back office costs in their North American and European markets, and North America is far better.

- The opening up of the Far Eastern and Asian countries as distribution, administration and production locations has added an extra dimension of competition.

- European legislation is gradually being harmonised and is providing greater flexibility for truly borderless operations. The European Union is also putting increasing pressure on a number of areas, such as taxation and telecommunications, to achieve cross-border liberalisation.

The market in which multinational companies operate is characterised by globalisation, mergers, acquisitions and consolidation, requiring companies to standardise operations to stay competitive. An effective way of keeping costs down and improving efficiency is by moving certain functions to one central location. One way to meet this challenge is for companies to set up a shared services centre.

Similarly, the establishment of shared services centres in public sector organisations (PSOs) is often an effective response to the need for PSOs to achieve both effectiveness and efficiency. (The specific issues surrounding FSSCs in PSOs are addressed and illustrated in chapter 6.)

Shared services entered the corporate lexicon in the early 1990s as large decentralised companies sought to combine basic transactional processes such as payroll, purchasing and accounts payable, and sell back those services at cost to the individual business units. As companies extend their presence across borders, it becomes increasingly uneconomical to maintain a duplicate accounting infrastructure within each country of operation.

Recent reports by Ernst and Young, Arthur Andersen, KPMG and PWC have highlighted the growing importance of FSSCs in delivering accounting services in the multinational and pan-European environment. A key element of the FSSC phenomenon is the evolving role of the finance function and the ongoing efforts to improve the quality and added value created from accounting services. This move to establish FSSCs in Europe has been prompted by a number of factors including:

- the enormous pressure on the accounting function in multinational corporations (MNCs) to cut costs in highly competitive markets

- the comparatively high cost of European accounting services when benchmarked against back office costs in North America

- the opportunities for centralisation presented by the harmonisation of European accounting, taxation regimes and the liberalisation of telecommunications markets

  and

- the emergence of enabling technologies in the form of International Direct Dial, International Virtual Private Networks, enterprise resource planning (ERP) systems and inbound international toll-free services.

European managers have been justifiably sceptical about the potential benefits from the establishment of FSSCs. In particular, operating site accountants argue that the back office overhead is typically a relatively low proportion of a company’s total base cost when compared with the major back office re-structuring or re-engineering needed to achieve an FSSC. The evidence from practice, however, would suggest that this scepticism is unjustified, as the opportunities from FSSCs for a sustainable reduction in an organisation's cost base can be significant and wide reaching. The most obvious opportunities for companies come from eliminating non-value-added activities such as multiple authorisation processes and reconciliations. Organisations can gain economies of scale and improved productivity by consolidating and centralising repetitive or transaction-based activities. FSSCs facilitate the leveraging of pan-European or global purchasing powers, redesigning processes to take advantage of technologies and focusing staff's efforts on providing a better quality of service to customers, both external and internal.

Over 60% of Fortune 500 companies now have shared service structures. In Europe, over 50% of major multinationals had implemented shared services by the year 2000. The list of multinational corporations who have chosen to set up FSSCs continues to increase on a monthly basis. Firms that have shared service units are shown in table 1.1.

TABLE 1.1: FIRMS THAT HAVE ESTABLISHED FSSCs

3M	Ericsson	Owens-Corning
AIG Insurance	Fidelity	Peoplesoft
Allied Signal	Ford	Perstorp
American Express	GE Medical Systems	Polaroid
Amoco	Girobank	Rubbermaid
BASF	Gothenburg	Scottish Amicable
Bertelsmann	Guinness	Seagram
Bristol Myers	Hewlett-Packard	Sterling Commerce
British Airways	Hewlett-Packard	Unisys
Chase Morgen Grenfell	Hughes Training	United Distillers
Ciba Speciality Chemicals	Interox	Volkswagen-Audi
Citibank Bankers Trust	Kellogg's	Volvo
Delta	Microsoft	Wang
Eaton	Merrill Lynch	Whirlpool
EDC Scicon	NCR	Woodchester
Ericsson	Owens-Corning	

Introduction (continued)

When first conceived, the objective of the shared services concept was almost exclusively to create vast key punching factories for huge volumes of paper invoices/journals and other transactional documents. More recently, however, the need to align the business strategy and financial/administrative process, combined with a desire to reduce headcount through process improvement initiatives, has become the primary motivation for the move to shared services centres in Europe. Companies have reported reductions in staff costs of the order of 35%. The Ernst and Young Report on Shared Services (1998), found that cost savings are one the main reasons why organisations decide to implement a shared services strategy.

Shared services create strategic value in two other ways besides capitalising on economics of scale. First, the information that is now captured through the internal customer-supplier relationship can develop new ideas for services and products. Practices constantly evolve as new technologies, ideas and ways of accomplishing processes are developed. Shared services also give the organisation the flexibility to add new business units, assimilate acquisitions and expand geographically more rapidly than ever before. As it is exclusively a support function, it frees business units to focus solely on their core businesses and pursue new opportunities.

A recent PricewaterhouseCoopers report points out that ‘the major causes of difficulty in an SSC implementation are not legal and technical but more often in the realm of organisational culture and change management’.

Implementing a shared services centre is no small undertaking. The physical logistics are considerable and, along with the effects on employee morale and headcount, can lead to difficulties.

This report explores the implications of FSCCs for accounting. In particular, the study examines the emergence of FSSCs in Europe, their impact on local accounting services in strategic business units (SBUs) and the long-term implications for the development of the European accounting profession. In addition it explores the training and education challenges and implications of the centralising of pan-European reporting in primarily Anglo-Saxon settings, particularly in the area of language skills.

This report also explores the nature of FSSCs and the management and accounting challenges associated with successfully implementing and operating them. In particular it seeks to highlight the need for organisations to recognise that the setting up of an FSSC involves not just the migration of transaction processing to a single location but a dramatic transformation of the delivery of accounting services in pursuit of increased shareholder value and improved business execution.

The research focused particularly on the following areas:

- the FSSC phenomenon and its emergence in organisations in the 1990s

- the shared experiences of practitioners – those instrumental in introducing FSSCs within organisations – and the benefits and difficulties encountered; this will include examining how the establishment of FSSCs has affected accountants working in the organisations in question

- the impact of FSSC accounting activities in organisations, particularly with respect to the de-skilling of accounting-type activities

- the implications of FSSCs for accounting and financial accounting processes and reporting activities

  and

- case studies of individual organisations and their experiences with an FSSC, with particular respect to its impact on the local accounting activities in SBUs.

While there is a significant body of empirical work concerning such issues as the setting up and location of FSSCs, there is a gap in our understanding of the wider implications of FSSCs for the accounting profession and their impact on the role of accounting in multinational corporations. It is this gap that this report will address.

The empirical research consisted of three phases.

PHASE 1: LITERATURE REVIEW AND PILOT STUDY

While the team had previous research experience in the general area of FSSCs, it was necessary to carry out a more extensive review of the literature. In addition, the team conducted a postal survey of FSSCs in Ireland/UK to help refine the research issues more clearly and to operationalise the research objectives. A total of 35 firms responded to the study.

PHASE II: THE DETAILED SURVEY AND FIELD WORK

The second phase of the study involved case studies of seven European FSSCs. This involved site visits and interviews with accountants and others in the FSSCs. All interviews were taped and, in the case of non UK/Irish nationals, were conducted in the host language where necessary. The case study firms were:

- Siebel Systems
- Nortel Networks
- Informix
- 3M
- ERHB
- Xerox
- Whirlpool.

PHASE III: DISSEMINATION AND PUBLICATION OF RESULTS

The final phase involved the writing up of the research findings as well as seminars, etc. for members.

2. The financial shared services centres phenomenon

SHARED SERVICES – A BRIEF HISTORY

During the 1980s and the early 1990s, a number of the leading management consultant 'gurus' made their reputations telling the corporate world that decentralisation was the way forward and, as a result, many organisations embarked on decentralisation programmes to make their organisation units into manageable chunks, in order to achieve greater shareholder value. This trend was supported by newly available decentralised technology solutions.

A number of benefits resulted from this approach: not least, it allowed organisations to identify non-performing and non-core business units that, because they had been disentangled from the organisational whole, could be more easily divested. Loss of economies of scale, massive duplication of resources and the hidden associated costs and problems of co-ordination, however, led to calls for a different approach.

Just when organisations had become comfortable with the decentralised approach, along came a new strategy on the centralise/decentralise approach. Now came the global, one-company approach. The small business model was not discouraged; however, there was a change of emphasis towards developing strengths as the local level, i.e. to add value to the sales and marketing effort. This approach was reflected in the view of John Whitwam, Whirlpool CEO (1994), who suggested that:

> *'the only way to gain lasting competitive advantage is to leverage your capabilities around the world so that the company as a whole is greater than the sum of its parts'.*

For a company to be truly global it must have the best technologies and processes at the lowest possible cost. One way of doing this is through the shared services approach.

The last two decades have been a dynamic period for the business community. Advances in technology, the globalisation of markets, mergers and acquisitions and heightened customer awareness have raised the competitive bar for business organisations. Leading organisations have recognised these changes and have responded in a variety of ways.

There is increasing awareness among leading organisations of the need for change and many CFOs feel that an accounting service that creates value is now needed. Firms faced with a changing competitive dynamic, the need to operate at a pan-European level and pressure to reduce support costs are seeking to:

- create a finance and administration organisation that adds value
- keep business planning and analysis close to the business
- outsource non-core activities

  and

- centralise transaction processing at a single European location.

The finance function is uniquely positioned to take a leadership role in a company's change process, as it touches every point in the value chain and has more contact with other functional departments than any other area. The finance function has the overall ownership of information management and delivery. In order to become an effective change agent within the organisation, finance must redefine its own role. It must transform itself from the traditional 'scorekeeper and guardian' role to true business partner. For many of the leading edge companies much of the focus has been on the transaction processing areas, i.e. that the local core activities would be supported by the approach known as 'shared services'. There would be services provided centrally from centres of excellence in order to reduce costs and minimise duplication.

So far, the major impacts of 'shared services' have been in the finance area with the establishment of what are sometimes called 'accounting shops'. The view is that there are two main categories of activity in the typical finance function, financial analysis/planning and transaction processing/accounts preparation. As the latter has no high added value it could be done centrally, whereas the former should be done at the local level.

While shared services originated in the US, the complexity and diversification of the European market has required businesses to adopt a slightly different model. To support European variations of language, culture, management styles, currencies, employment and company regulations, tax systems and technical and product standards, a unique pan-European approach has resulted (Drury 2000).

While some critics argue that the term 'shared services' is just a new way to describe the centralised organisation, many analysts disagree: 'this is not centralisation, it's commonisation', says Tom Longnecker, Deloitte & Touche. The difference is that while the central organisation answers to corporate dictates, the shared services organisation is answerable to the internal business, units that may have the corporate blessing to shop elsewhere if the shared services cannot deliver the goods better or cheaper than an external provider.

In some ways, shared services resemble outsourcing, in that both approaches force a company to examine the causes and effects of removing non-strategic functions from the business units. With shared services, however, the work is re-routed internally instead of sent to an outside vendor. As a company moves to shared services, management will see what it actually costs to provide the services and based on this it may then outsource certain functions. The American, and now the European, experience of implementing shared services demonstrates significant cost savings. Savings up to 50% have been quoted in the US, while a 35–40% saving is commonly quoted in Europe.

The business process re-engineering movement and the evolution of desktop and networking technology made it possible for companies to link remote business units within a central information system. More recently, the advent of such popular enterprise resource planning tools such as Oracle, Peoplesoft and SAP packaged software applications, which force process standardisation, have created even greater impetus for shared services.

THE DIFFERENT FSSC MODELS

While each organisation will have its own reasons for exploring the shared services option, it is important that the final decision to set up a shared services centre is informed by a clear understanding of all the issues involved and is based on a well-balanced evaluation of the costs and benefits of delivering a quality service. In the past some managers have been guilty of following fads and embracing organisational changes that were not appropriate for their organisations. In this section we explore the different FSSC models available.

From the outset it is important to recognise that each organisation will have to discover its own route to an efficient shared services architecture. The idea of a single best practice approach is at best naive and at worst dangerous to the organisation’s health. What works for one firm will not necessarily work for others. This section attempts to classify in general terms the approaches that could be considered.

CONSOLIDATION AT A SINGLE LOWER-COST LOCATION

While shared services consultants and writers are always keen to point out the differences between centralisation and shared services, for many organisations the consolidation of dispersed finance activities is often a substantial achievement in itself. The purist shared services centre advocates may be offended by what they see as a half-hearted approach, but those who understand the culture and dynamic of organisations are well aware of the need for change sometimes to be iterative and considered. The relocation of a finance staff from a large number of dispersed locations is often the first step in the move towards a more conventional FSSC approach. In many cases, expansion over time has led to a dispersal of finance staff across a number of sites and this creates problems in terms of co-ordination and communication. As an initial step, bringing staff involved in finance activities together in a single location can be a major improvement. While this approach is not strictly a shared services setting, elimination of the historical fragmentation of staff and processes can be very valuable in itself. In addition, it is an effective way of freeing up the expense of fixed assets/real estate in high-cost metropolitan locations in favour of lower-cost more accessible locations.

Bringing staff from several different finance organisations together at a single location

This conventional approach to shared services involves taking staff from finance functions across different sites/locations and putting them together at a single location. This approach is usually modelled on the experience of multinational corporations that have brought finance staff from around a region, such as Europe, to a single low-cost tax-efficient location. In the case of public sector organisations, shared services often involve bringing staff from functions based around the country to a single location. Processes are often reorganised or redesigned for the FSSC, to improve efficiency, and new technology platforms are put in place. In addition, the move to the FSSC will typically involve the migration of finance systems from a number of different legacy systems to a new ERP platform. The main benefits of this approach are savings in terms of staff costs, fixed assets and IT costs. Under this approach, the FSSC remains part of the existing organisational structure and has limited independence. Costs are typically allocated back to the client units. In many cases staff who previously carried out the transaction processing are offered the opportunity to move to the new location.

A new organisational entity with its own mission

This 'radical change' model of finance services is often associated with public sector organisations (PSOs). It is typically associated with a radical restructuring of the PSO that the shared services centre is intended to serve. In many cases the setting up of new unit or the amalgamation of a number of existing units provides the opportunity to rethink radically the provision of supporting finance services. In these cases a new location, new staff, new IT platforms, and new processes such as e-government are introduced in parallel with the new emerging organisation. The FSSC will typically have a clear independent mandate of operation and will normally recruit a substantial number of new staff.

The virtual shared services centre

The virtual shared services centre involves the use of ERP and other technologies to connect staff in different locations and thus avoids the need to move staff to a central location. While still the exception, the evidence from private sector organisations is that virtual FSSCs are difficult to operate in practice. In particular, the absence of regular face-to-face contact can lead to a lack of cohesiveness and problems of co-ordination among staff at different locations. In addition, some organisations have found that the enabling technologies such as intranets, video-conferencing and so on have not lived up to expectations.

Though the virtual model conjures up images of technology-enabled knowledge workers in different locations interacting in real time, in reality the virtual FSSC is often a compromise solution based on the reluctance or inability of the organisation to move to a new location.

Outsourcing

Under this approach, a contractor provides the services that were previously provided in-house. Though traditionally associated with IT services, the model is beginning to become popular in the area of financial processes and there is no shortage of contractors willing to take on work outsourced by either public or private sector organisations.

RATIONALE FOR MOVING TO A SHARED SERVICES STRUCTURE

There is often much scepticism among European management that the potential prize does not match the undertaking of major back office restructuring or re-engineering, as the back office overhead is typically a relatively low proportion of a company's total base cost. This is unjustified scepticism, however, as the opportunities for a sustainable reduction in an organisation's cost base can be significant and wide reaching.

The most obvious opportunities for companies come from eliminating non-value-added activities such as multiple authorisation processes and reconciliations. The organisation can gain economies of scale and improved productivity by consolidating and centralising repetitive or transaction based activities. Pan-European or global purchasing powers are leveraged, processes are redesigned to take advantage of technologies and leading edge practices, and staff's efforts are focused on providing a better quality of service to customers, both external and internal.

The *Ernst & Young Report on Shared Services* (1998) shows an average headcount reduction of 21% and an average cost reduction of 26%. This view is supported by Jarman (1998), who claims that savings of up to 50% have been quoted in the US, while a 30% to 40% saving is a commonly quoted target in Europe. In industries with few competitors, this radical cost reduction will force others to move to a shared services centre in order to compete on price. For one high growth company, however, the rationale was to redeploy scarce personnel resources to higher-value tasks.

As table 2.1 illustrates, the rationale for establishing FSSCs extends beyond staff cost savings, although this is often the primary motivation. Through FSSCs the opportunity exists to employ lower-paid staff to specialise in data entry and transaction processing, to reduce the amount of management required to deliver a quality service, to improve productivity and to standardise processes across operating units.

TABLE 2.1: RATIONALE FOR MOVING TO SHARED SERVICES

Align accounting services with business strategy
Eliminate non-value added activities
Improve/re-design back office process
Centralise routine transaction processing
Standardise processes across operating countries
Obtain consistent information across sites and countries
Take advantage of favourable tax regimes
Free up capital for core business operations
Accelerate and renew processes such as cash collection
Free staff to focus on strategic objectives
Improve connectivity across the value chain

In many organisations, the potential savings in routine transaction processing costs often provide the initial impetus for considering a move to a shared services approach. However, of even greater significance is the benefit of 'freeing up' individual country controllers to concentrate on providing support for management, once they have been relieved of the burden of transaction processing. The emergence of the Single European Market reinforces these benefits by providing strategic arguments in favour of a co-ordinated European structure. Jarman (1998) argues that 'the introduction of the Euro is another nail in the coffin of the decentralised country based organisation'. As companies extend their presence across borders, the European market is changing, through mergers and acquisitions or organic growth. Through the convergence of fiscal, legal and tax regulations and the introduction of the Euro, Europe is becoming more homogeneous. It is becoming increasingly illogical to maintain a duplicate infrastructure within each country of operation and the improvements in the functionality of IT software make geographic location irrelevant. The FSSC approach allows common standards to be applied across local markets thus facilitating the local finance function to concentrate on offering value added support to the business.

With a decentralised accounting service, poor integration between systems or inadequacy in current processes and systems usually results in a large number of manual checks and spreadsheets. Under an FSSC, the opportunity exists to eliminate these activities by redesigning operational processes and by introducing modern integration systems that contain built-in checks and provide exception reporting to bring discrepancies to management attention. Since new systems will often be necessary to facilitate sharing or centralisation of services, the elimination of these activities can be an added bonus.

One of the main questions organisations ask when considering back office re-structuring concerns the legal and fiscal restrictions on processing accounting transactions outside the country in which the transaction took place. In the past, this has been one of the main reasons the anti-centralisation lobby put forward to argue that shared services would not work. Many organisations, however, have put pressure on governments and tax authorities to relax restrictions. The emergence of the Euro will further assist in this area.

Some countries can limit the freedom to perform all accounting tasks outside the country; however, precedents have been set for establishing shared services centres and minimising, if not eliminating, the flow of paperwork back and forth to the legal entity. The savings from consolidation can be enormous. Local offices tend to have generalised accounting staff performing both analytical and transactional tasks. Through the FSSC the opportunity exists to:

- employ lower paid staff to specialise in data entry and transaction processing
- reduce the amount of management required to deliver a quality service
- improve productivity
- standardise processes across operating units and across countries

  and

- obtain consistent and comparable information across operating units, countries and business systems.

In addition to the operational savings, the potential tax savings can be considerable. Many firms are now using a Commissionaire structure to achieve these savings. Under this concept, sales are made by a central unit, which then pays the local sales organisations a commission. With this structure it is possible to net off the group’s profits and losses, and to move more of the profits to a low tax regime. Some countries, such as the Netherlands and Belgium, have introduced specific tax regimes to encourage shared service activities.

In addition, shared services allow greater connectivity across the organisation and throughout the supply chain. Limited labour pools and changing skill bases no longer need to be a deterrent to entry, either globally or domestically. The organisation does not have to worry about staffing business units already handled by its shared services centre and can instead direct all its attention to staffing the core business functions critical to those business units.

As markets become more transparent and investor demand for information increases, corporate performance measures become more important than ever. These measures are often difficult to obtain enterprise-wide because of lack of standardisation across business units. Reliable, cost effective performance metrics are an integral part of shared services. As in standardisation, shared services seek cost reduction and efficiency, however, unlike standardisation, cost reduction is not the only driving force. Shared services involve a redesign of personnel, process and technology, and a realignment of organisational structure. This is all done with the objective of enhancing value and improving service levels while all the time reducing costs. It is also an ideal springboard for implementing enterprise-wide software systems.

Shared services create strategic value in two other ways besides capitalising on economics of scale. First, the information now captured through the internal customer-supplier relationship can lead to the development of new ideas for services and products. Practices constantly evolve as new technologies, ideas and ways of accomplishing processes are developed. Shared services also give the organisation the flexibility to add new business units, assimilate acquisitions and expand geographically more rapidly than ever before. As these services are exclusively a support function, they free business units to focus solely on their core businesses and pursue new opportunities.

Shared services are a value-added strategy at heart: in the short term they require an investment to enable their creation; however, this investment can pay off richly.

- Capital is freed up for core business operations – by allowing companies to minimise their investment in incremental infrastructure, shared services enable the redirection of funds, which can foster expansion and growth of products and markets.

- Operating efficiencies are maximised – Dr. Michael Jacobi, CFO, Ciba Speciality Chemicals outlines in the Arthur Andersen (1997) paper on implementing shared services in Europe:

'*we simply could not afford to go on processing invoices in the 68 sites around the world that existed at the time of the spin off. We decided on a global shared services solution as the only way to significantly reduce overall costs, standardise data and maintain, if not improve service levels*'.

- Processes are accelerated and renewed – by streamlining processes and locations, companies can reduce business risk. Shared services allow companies to bypass the infrastructure-related risks of operating in emerging markets.

- The delivery of services and products is speeded up.

- Information flows are improved and the knowledge asset is increased – knowledge is increased through information standardisation and connectivity all along the value chain of an organisation. The depth and quality of the data unleash enormous possibilities for enhancing customer and supplier relationships and interdependencies.

- Senior staff are freed to focus on strategic and analytical functions.

- Through the leveraging of shared infrastructure, quick market development and post merger integration are enabled and the organisation even reaps revenues from serving external clients. Acquisitions become economical because with shared services there is no need to pay for technologies and processes that may in the long term be discarded. Organisations only pay for the core competencies they want, as reliable information and consistent performance measures are already in place.

LOCATION, LOCATION, LOCATION

Where the shared services centre is located is one of the critical factors in ensuring that it will be a success. Table 2.2 outlines some of the key site selection criteria identified in the literature that should be considered in selecting a location.

Cost/benefit

- What is the assessment of the site's equipment network and support capabilities and current utilisation, current equipment capacity, network capability and utilisation, hardware/platform configurations and staff to maintain new capacity?

- What is the assessment of the site's wage scales and incentives? Consider the establishment of common job descriptions and job levels, employment subsidies available from government bodies, and company allowances and fringe benefit rate.

- What is the assessment of the site's tax and duty requirements: specific site tax and duty advantages and disadvantages, tax holiday and incentive schemes, general permanent residency status? The location and tax treatment of an FSSC are critical because by locating in a low tax area a firm can account for all its European revenues under a low tax regime. The issue of tax residence for the FSSC is crucial: how is this to be established and are there restrictions on what can be done from the site that might alter the operation's tax status? This might affect payments made from one country to entities in another.

- What is the assessment of the site regarding total start-up costs, initial expenses for people, technology and equipment, government grants and assistance and, if work is moved to another country, relocation or training grants for new employees?

- What is the assessment of the site with regard to the total closing costs if a shared services centre is not established, including restructuring and investments that have been made locally and disadvantages if presence is not established?

- What is the assessment of the site's overall working local environment for a shared services centre, the political climate, stability or lack of it, regulatory and compliance issues on general company data and/or personal data, the ability to exchange data within and outside the country, and time zones among clients?

Tax/treasury/legal

- What is the assessment of the site in relation to government regulation of information passing in/out of countries, regulations regarding data processing, paper invoicing, record retention and edifact (EDI standard for electronic transmission of data) rules, exchange control in/out of the country, requirements on location of the company's books, confidentiality rules, i.e. whether one country can review the books processed for another country, and intercompany invoicing practices and processes?

- What is the assessment of the site on specific cultural issues, cultural norms, practices that will impact on the business, language, historical political practice and norms?

- What is the assessment of the site regarding national infrastructures to support the centre, development of the geographic environment, roads, telecommunications and utilities?

Client/business support

- What is the assessment of the site regarding current and future client and business support by finance, the role of total finance (the work done at the local business unit rather than at the FSSC), quantitative factors, e.g. knowledge of client business, ability to accommodate unique business practices, ability to assimilate common practices/programmes, awareness of who and where our clients are, and the knowledge of the needs of clients?

Human resource

- What is the assessment of the site's total population and skills levels, shared centre staff, non-centre staff remaining at the local business unit, continuance of client support by job rotation, language (whether English and the local language can be supported), and international accounting knowledge within the multi-entity, multi-currency environment?

- What is the assessment of the site on government barriers/assistance when relocating workers, workers' councils and unions, limitations of human resource movement across legal entities.

TABLE 2.2: FSSC LOCATION CRITERIA

Cost benefits	• Wage scales and incentives, local government and company allowances, fringe benefits. • Tax and duty requirements, tax holidays and incentive schemes, requirements for taxation status. • Government grants and assistance. • Relocation or training grants for new employees. • Closure costs of existing sites, etc.
Local Environment	• Political climate, stability or lack of it. • Regulatory and compliance issues on general company data and/or personal data. • The ability to exchange data within and outside the country, time zones among clients. • Roads, infrastructure, telecommunications, utilities. • Specific cultural issues, cultural norms, practices, language.
Tax/Treasury/Legal	• Access to banking system. • Government regulation on information passing in/out of countries; consider: regulations regarding data processing, paper invoicing, record retention and edifact rules. • Exchange control in/out of the country, requirements on location of the company's books, confidentiality rules.
Human Resource	• Total skill pool and skills levels, • Language skills • International accounting knowledge within the multi-entity, multi-currency environment

In identifying and selecting an appropriate location, many firms will engage consultants to offer advice on the different potential sites. While this is a useful starting point there is no substitute for 'gut feeling' and an extensive, well-planned two/three day visit by the CFO, project leader and others to the short-listed sites.

DELIVERING THE VISION OF FSSC

One of the key decisions that firms must make regarding the move to the FSSC is how fast or slowly to proceed towards the fully centralised structure. The evidence to date suggests that the speed of transition is very much contingent on the organisation in question. In particular, factors such as the number of sites involved, the level of integration of the existing IT platforms and the climate for change must all be taken into account when deciding the pace of change. What is clear, however, is that the likelihood of a successful transition to the FSSC model is substantially improved when a structured transition/migration plan is put in place before the project begins. Typically, firms will follow the following steps when moving to the FSSC structure.

Phase I. Establishing the business case

The focus in the initial stages is on raising awareness of the FSSC concept and on securing executive sponsorship and 'buy-in' at CFO and board level. This will typically involve briefings to executives on the FSSC concept, and information gathering. Attendance at seminars/conferences, short sessions with consultants and discussions with firms that have made the move to an FSSC are often helpful at this stage. The primary objective at this point is to achieve a shared understanding on the following issues:

- the nature of FSSCs
- the limitations of FSSCs
- likely timescales, benefits, drawbacks and critical success factors.

It is vitally important at this stage that expectations are carefully managed to avoid loss of executive support later on in the project. Once the firm has a clear understanding of the issues involved it can begin to assess the business case in detail. This will typically involve a cost-benefit analysis under the main headings of People, Process, Technology and Facilities. The question of likely locations, and issues such as green field versus brown field versus existing locations, will begin to be addressed. Useful cost and other comparative data is often available from groups such as consultants, government bodies, recruitment specialists and educational institutions (particularly with respect to graduate/ staff availability). All the large consulting firms now have service offerings in this area and this can help short circuit what is often a time-consuming data-gathering process. Some managers whom the author has interviewed, however, feel that the data-gathering process was an essential part of their building up a model of the decision process and were uncomfortable about relying on consultants. As part of the initial assessment, firms will often examine the degree of standardisation in the existing processes to determine the opportunities for process consolidation or re-engineering. This is a useful exercise even if the ultimate decision is not to proceed to the FSSC.

Phase II. Design and configure FSSC model

Once the business case has been established and the final choice of location made, the detailed operating structure and configuration of the FSSC needs to be addressed. This will involve deciding what activities or services to perform in the FSSC. Table 2.3 outlines the typical accounting processes that firms will normally move to the FSSC. The choice of services moved to the FSSC will have implications for staffing, structure and process design, and discussions with experienced staff and with managers from successful FSSCs can help in configuring an effective centre.

TABLE 2.3: SERVICE OFFERINGS AT THE FSSC

General ledger accounting
Inter company accounting
Statutory accounting
Consolidation
Accounts payable
Travel and expenses
Accounts receivable
Invoicing and billing
Fixed assets
Inventory
Cash management
Treasury
Payroll
Tax accounting
Management reporting
Records retention

There is some evidence to suggest that re-engineering of processes should be postponed until after the setting up of the new FSSC, as it is difficult to introduce new processes at local sites and then transfer the relatively new processes to the FSSC.

Service level agreements (SLA) and cost recovery/pricing are important issues to be addressed at this stage. In most cases, however, service quality is achieved through developing a customer-focused approach rather than through strict application of SLAs. In the initial set up, the FSSC will require significant co-operation from local and corporate IT staff and this needs to be planned for well in advance. Additional configuration decisions usually involve choices about structures (number of levels) and processes (by country or by accounting service).

Phase III. Roll out and implementation

The rollout of the FSSC involves the project team working closely with local controllers over several months. Good communication is essential and many firms will use a workshop approach to enlist the support of local controllers and HR managers in work-shadowing and migration. The purpose of the workshops is to explain to country heads the likely impact on their organisations and to enlist their support for change. This exercise has two crucial goals.

1. Enlist local support – the co-operation of the national human resource staff is needed in order to identify which local staff will have a job in the future and which staff need to be persuaded to stay at least for the transition period.

2. Manage expectations – rather than selling the project as something that will revolutionise the finance function overnight, the team should simply point out that, after migration of the relevant activities to the shared services centre, the service provided would at least match that which the local country organisations were used to and there would be no disruption to the business.

One of the key factors in the whole process is work-shadowing of the activities that are to be carried out eventually in the shared services centre. The main objectives of this are to understand and learn the local accounting and reporting practices. This involves understanding the local chart of accounts, US GAAP accounts, periodic external reporting, month end processes, reconciliation processes and liaison with the local organisation.

In countries such as France and Germany, a company may have extensive operations that necessitate stays of up to five months to ensure that the firm does not lose essential local expertise. FSSC staff involved in extended periods of work-shadowing away from home need to be supported and should not feel isolated.

As tasks are transferred to the shared services centre there is the inevitable loss of jobs in the local organisation. Some staff members may be able to move to another business unit, but for the majority this is not an option as they may not have the required skill set and the costs of re-training may be higher than the cost savings generated by the move to a shared services strategy. Many of these local staff are sources of critical knowledge and this knowledge is lost to the organisation forever.

Phase IV. Extend and expand

Once the FSSC is up and running the challenge is to create added value and ensure a continuous improvement in the key metrics of process quality, costs and time. In this regard benchmarking or performance metrics can be useful. The types of metrics that are typically employed may include:

- zero defects close off
- overtime in FSSC
- time for closing process
- customer complaints
- 100% payment to terms
- posting errors
- number of charts of accounts
- total finance cost
- number of systems
- invoices processed
- cheques/payments processed.

The financial shared services centres phenomenon (continued)

It is always worthwhile revisiting the original business case to see if the FSSC is meeting expectations. In particular, fine-tuning of processes and systems can lead to significant savings in the post-implementation period. It is critical in the post-implementation period that firms avoid an extended worsening of the process performance. In common with IT systems implementation, FSSC implementation often gives rise to a decrease in the quality of the process for a period after the migration. While it appears almost impossible to avoid this problem, steps should be made to minimise the duration of the decline in process quality and local controllers alerted well in advance to the potential hiccup.

As the FSSC becomes an established part of the organisation's support activities it should:

- focus on finance as an added-value activity instead of a cost centre
- adopt a continuous improvement strategy
- recognise that FSSCs are a business within a business and in the future will get external pressure from other sites that may offer to do the accounting for the organisation at a cheaper price than the organisation's internal FSSC can offer

  and

- be flexible in terms of how the FSSC and its business are defined. In the future, because of economies of scale there may be a need to take on activities for other organisations.

Recent advances in technology have enabled finance support processes to be performed in remote locations with little if any reduction in service levels. Client server technologies, electronic data interchange (EDI), data warehousing, document imaging software and Internet applications are just a few examples of how technology can support a world class finance and administration function.

One of the key decisions that must be made is whether it makes sense to reform finance practices (re-engineer) before setting up a shared services centre. Electrolux is running a pilot project to set up a shared services centre near Amsterdam. This centre will group the finance activities of the firm's Belgian, Luxembourg and Dutch centres. What makes this case so interesting is the decision to re-engineer finance processes at a country level before transferring them to the planned shared services centre. Other companies such as

Whirlpool have argued it can make more sense to centralise first and then re-engineer, on the grounds that it is easier to modify operations when they are under one roof. Rob Weststrate, the director of business administration for Benelux and the FSSC's project leader, is convinced that taking the centralise then re-engineer route would have been a mistake 'We think it adds complexity', he says, 'and we don't see the gain'.

Ernst & Young Report on Shared Services (1998), details a clear preference for organisations to transfer processes in their current state and to re-engineer when they have migrated into the shared services centre. The experience of other organisations that have taken the other route has shown that it can take considerably longer.

Communication is a key driver for success. This involves indicating service levels and measures and establishing a proper complaint procedure. There is a need to establish and maintain open communications. Oomens, European Treasury manager Eastman Chemical BV (1998) outlined that 'the ability to communicate the shared service centre concept to your customers will be essential for the success of your centre'.

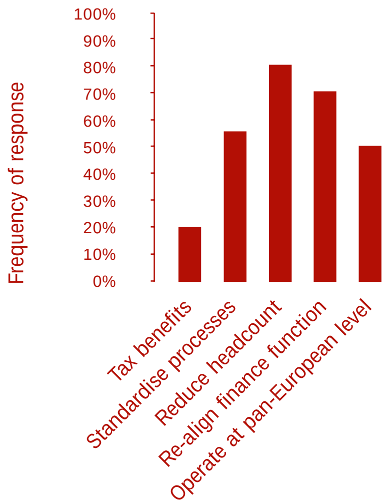
3. Evidence from the UK/Irish experience

The postal survey and in-depth case studies provide some valuable insights for those firms considering establishing shared services centres. This chapter explores the risks and drawbacks as well as the critical success factors for setting up FSSCs. Before that, however, we examine the rationale for setting up FSSCs for the firms in the study and the benefits that accrued to them.

RATIONALE FOR MOVING TO SHARED SERVICES

Much has been written over the past few years as to why companies have moved to shared services. This study sought to identify the key rationale for this strategy change. Figure 3.1 below outlines the main findings of this part of the study.

FIGURE 3.1: RATIONALE FOR MOVING TO SHARED SERVICES



Eighty per cent of respondents answered that 'to reduce headcount due to improvement in process efficiency' was a major factor in the rationale for moving to shared services. This is consistent with the *Ernst & Young Report on Shared Services* (1998), which had cost reduction as the key rationale for moving to shared services.

Evidence from the UK/Irish experience (continued)

Out of the organisations interviewed, 50% of respondents cited 'To operate at a pan-European level' as a major factor in the rationale for moving to shared services. Seventy per cent of respondents said that 'to better align the finance function to support the needs of the business', was a major factor.

A CEO of a multinational commented that,

> *'while cost was a key driver, the overriding priority was to take the routine transaction processing away from the country controllers allowing them to focus on supporting the business'.*

A market director said 'it allows the local business units to focus on what they are good at' The 'standardisation of processes' was listed as a major factor in the decision by 55% of respondents. Fisher (1998) outlined that 'the processes best suited to shared services are those that are not strategically critical and not unique to any business unit'.

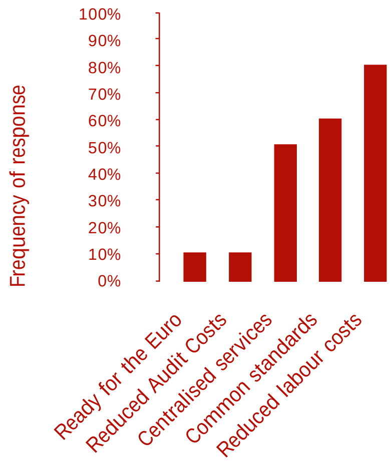
Other reasons cited were:

- to facilitate the integration of acquisitions
- to facilitate the introduction of a new computer system
- tax benefits.

MAIN BENEFITS SINCE MOVING TO AN FSSC

The main findings of this part of the study are outlined in figure 3.2 below.

FIGURE 3.2: MAIN BENEFITS SINCE MOVING TO AN FSSC



The majority of respondents, 80%, answered that a reduction in labour costs was a major benefit since implementation of the FSSC strategy. These findings are consistent with the *Ernst & Young Report on Shared Services* (1998), which suggested that cost reduction was the most common justification for setting up an FSSC.

Sixty per cent of respondents answered that common standards achieved across local markets were a major benefit since implementation of the strategy, and the local finance function could concentrate on offering value-added support to the business.

Other benefits outlined were:

- having all finance information located in one place and recorded consistently
- reduction in audit costs
- readiness to implement the euro

- making process changes simpler
- ability to manage growth in transactions better.

In summary, it is clear from the literature and survey that a shared services centre provides financial and non-financial benefits for the organisation. The financial benefits include reduction in costs; however, as outlined above, there are a lot more benefits, the main one being that the local finance function can concentrate on offering value-added support to the business.

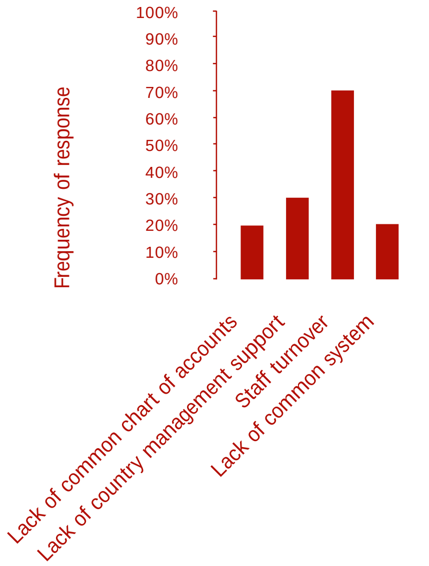
RISKS AND DRAWBACKS

Seventy per cent of the respondents answered that staff turnover was a major drawback since the implementation of the FSSC strategy; see figure 3.3 below. Callan (1998) supported this view. Arthur Andersen (2000) outlined:

> *'the trade off for having a dynamic creative problem solving new graduate in your team is that he or she is likely to be ambitious and is likely to want to move within a year or two'.*

It is very important to keep staff motivated with project work and other development opportunities.

FIGURE 3.3: MAIN DRAWBACKS SINCE IMPLEMENTATION OF AN FSSC



Twenty per cent of respondents answered that the absence of a common chart of accounts had been a drawback since implementation, as this inhibited process improvements and standardisation. Thirty per cent of the respondents answered that the absence of a common system also inhibited process improvements and standardisation. Many of the organisations surveyed are now implementing a standard IT system across their countries.

Thirty per cent of survey participants responded that lack of support from local management was a drawback. This view is supported by Sandwell (1997). Local support is necessary both in the transition period, when the tasks are being transferred from the countries of operation, and when the tasks are at the shared services centre. Senior management support is vital in this area as they may need to use their influence.

Many shared services centres have only been set up in the past one to two years so there is not a lot of information on the area of major drawbacks. Many respondents to the survey answered that it was too early yet to determine what the main drawbacks were, however, staff turnover has been the biggest so far. The physical logistics must be considered, along with the effects on employee morale and headcount. There are some distinct disadvantages to adopting a shared service approach and several trade-offs come into play.

De Zeeuw (1998) points out that ‘there is a double challenge of keeping cost to a minimum while finding and then motivating high quality staff for what is very often routine work’.

These factors, combined with the growing demand for accountants with linguistic and pan-European reporting knowledge, have led to staff turnover becoming a significant issue, especially as shared services centres mature. Discussions with FSSCs reveal that the linguistically challenged nature of the accounting profession is likely to be a major issue in the next five years. It is important to ensure, when setting up a shared services centre, that the firm understands the skills required and, therefore, the profile of the employees that it needs to recruit.

Firms should not underestimate what it takes to start an FSSC project, nor should they overestimate how quickly they can gain the rewards. Estimates of the payback time for an FSSC in Europe are typically from four to six years, which is approximately twice the payback time for an FSSC project in the United States. At one level, a shared services centre is not all that different from outsourcing. They both involve taking a dispersed set of activities or transactions and consolidating them into a centralised processing environment. They both have ongoing and initial costs. Both these options reduce transaction costs, minimise vulnerability from staff turnover and generate efficiencies. They also place the tasks in the hands of experts who can apply focused effort, innovative technology and concentrated knowledge to providing solutions.

Some of the more high profile shared services ventures, such as Monsanto and Baxter Healthcare, were originally set up to service multiple business units. When the parent companies reorganised, however, the changing internal markets forced them to outsource the service or abandon the concept altogether.

Europe’s inflexible labour also causes problems: it is more expensive to cut staff in Europe than in the US. US companies on average pay one and half weeks’ of salary for every year of service if an employee is made redundant; four to five weeks’ is the European equivalent.

Arthur Andersen (2000) highlights some cautionary staff issues that should be taken into account when setting up a shared services centre. In order for individuals to have the flexibility to work across more than one country they must speak a few European languages. It is not uncommon to find people who speak up to three European languages in FSSCs. There is a risk that people with such skills will wish to further their careers quickly and look for more fulfilling work than transaction processing. Centres that have sourced their language skills by moving people from their native countries may find that after a year or two many of these people wish to return home.

Shared services can offer an extremely fast-changing environment during their start-up phase. Once the business units have been centralised, however, the work becomes less challenging and many staff will move to find more challenging positions. Arthur Andersen (2000) believes a different type of person is needed to run a steady state (albeit with continuous improvement) transaction processing operation than to set up and build a shared services operation.

Shared services centres tend to be flat structures with only four levels. This structure leads to reduced promotional prospects for the staff. Once recruited, it is important to ensure that the employees' work environment is as empowering and enriching as possible. Transaction processing work is not the most exciting and demanding in the world and it is therefore important to look at other ways of making the job more interesting, i.e. by involving employees in projects such as improving the processes that they are performing. All employees should be given the chance to work on these types of initiatives in one way or another, and to be involved in action teams performing other change work, such as integrating new business units or country operations into the shared services centre.

Not having a common systems platform has prevented some organisations gaining the full benefits of shared services. In 2001, Whirlpool completed a three-year project that implemented SAP R3 across its European operations. A significant number of organisations reported that new systems were implemented *during* shared services implementation. On the other hand, new systems were implemented in 31% of organisations *after* shared services implementation, as they considered that it was easier to implement new systems once the shared services were up and running.

SIZE AND RESPONSIBILITIES OF THE FSSC

These data were collected to ascertain the size of the shared services centres and number of employees in each. Forty-four per cent of centres surveyed had between 101 and 150 full time equivalent staff; 21% had between 151 and 200; 14% had between 25 and 50 staff; 7% had between 201 and 250; and another 7% had between 76 and 100.

FIGURE 3.4: NUMBER OF FULL TIME EQUIVALENTS IN THE FSSCS

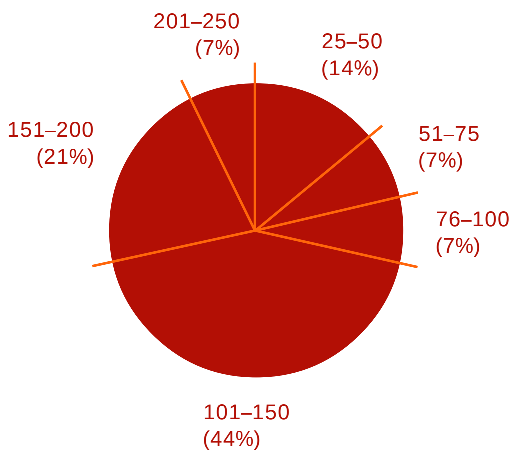
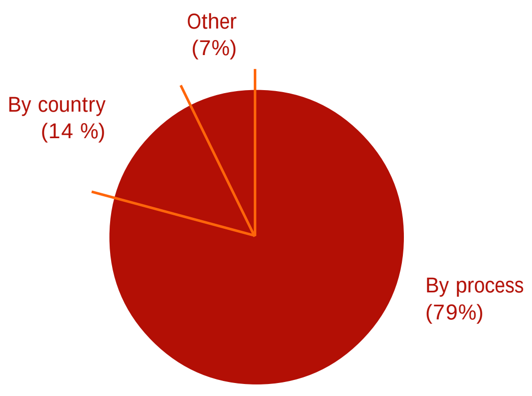


FIGURE 3.5: STRUCTURE OF THE CENTRES



The most common service provided by the centres was accounts payable processing, with 13 out of the 14 companies who replied to this question offering this service. This was followed closely by general ledger accounting, disbursements and fixed asset / inventory accounting as the next most common services offered. The accounting services that were least offered were customer service, order entry and credit control. Most companies believed that these areas were too key to the business to be done at a remote location. Seventy-nine per cent of companies interviewed were organised by process, with 14% organised by country and 7% (one company) organised by a mix of process and country.

CRITICAL SUCCESS FACTORS IN FSSC IMPLEMENTATION

The experience to date suggests that there are a large number of factors that must be carefully addressed if the establishment of an FSSC is to be successful. While it is impossible to discuss them all in detail, there are a number worth mentioning.

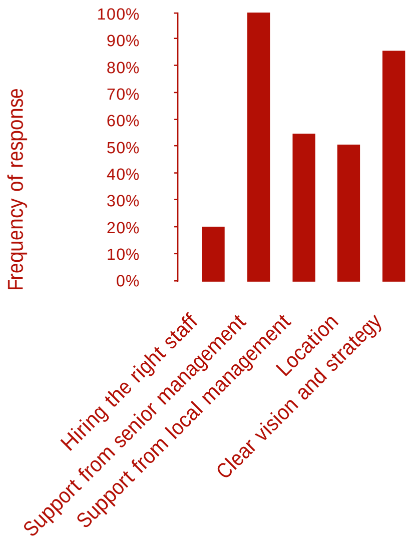
- Excellent communication is an imperative; there is a need to involve the local finance and administration staff. During the work-shadowing period, there need to be periodic assessment meetings between the FSSC staff and the local staff.
- Work-shadowing is stressful and the need to maintain motivation is a constant challenge.
- It is important to create and build team spirit and to provide support to FSSC personnel working away from their home country for extended periods.
- Local finance management commitment is important in managing the work-shadowing process and in resolving issues.
- Investments are needed in organisational change management and technology.
- Re-skilling and training of the finance function is vital.
- Service levels with the local organisation must be set up and agreed.
- Location of the site is important.
- Work-shadowing on a process-by-process basis is not feasible, as local organisation structures do not mirror the FSSC organisation. A one-to-one shadowing methodology is pragmatic and ensures all activities are covered.
- Implementation of new processes, incorporating best practices, during the migration period is not always practical. There is an unacceptable risk that major process re-engineering concurrent with migration of the activities will undermine the work-shadowing. There is not sufficient time to train and educate process partners in the new processes while work-shadowing.

- After the activities are moved to the FSSC, there is still a need of support from the key finance & administration manager to ensure the learning process is continued.

- There is a need for selective use of consultants, recruitment firms and local development agencies.

Nearly all the respondents, 85%, answered that ‘a clear vision, objectives and strategy shared by the management’ were major critical success factors in the move to shared services. This view is supported by Arthur Anderson’s paper, ‘Insights on European Shared Services Operations’ (1997). See figure 3.6 below.

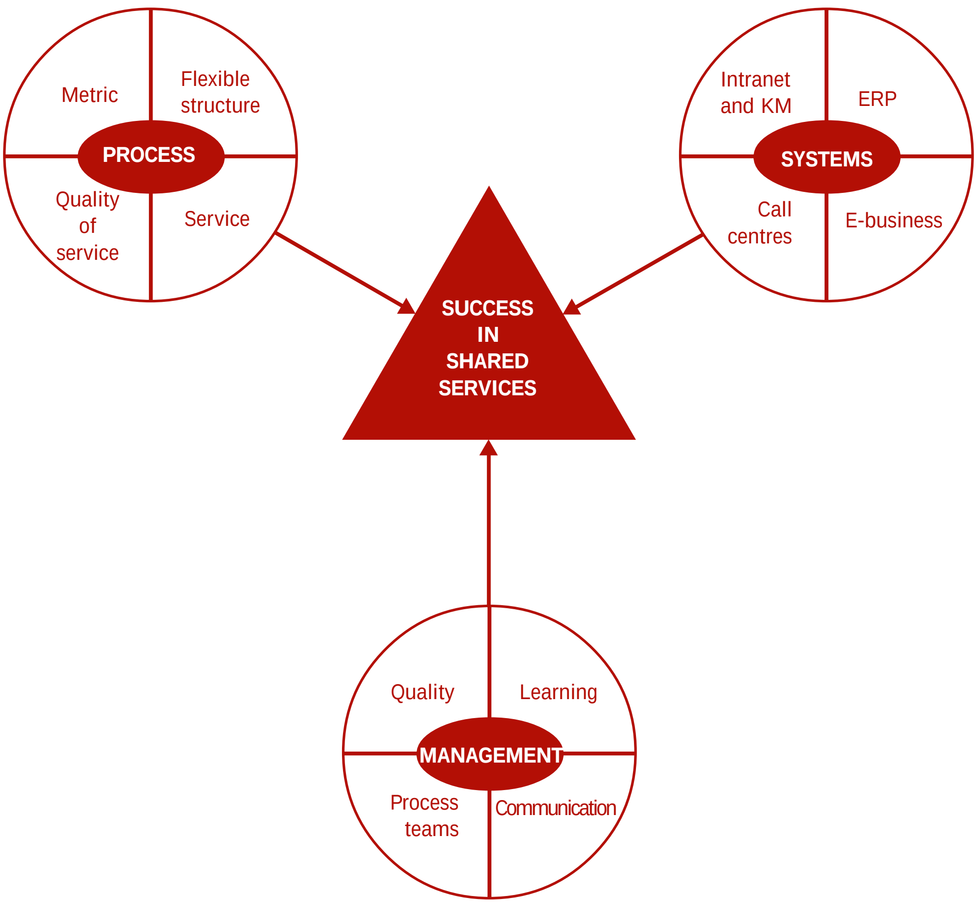
FIGURE 3.6: CRITICAL SUCCESS FACTORS



Fifty per cent of respondents answered that ‘the location of the centre’ was a major critical success factor in moving to shared services, while 56% answered that ‘support from local staff and local management’ was a major factor. All respondents listed ‘support from senior management’ as the *key* critical success factor. If there is not support from the senior management then the project is unlikely to meet its aims. This was highlighted in the Whirlpool case study. ‘A champion at a senior level is needed to push the project through’, commented an FSSC manager.

In designing an effective FSSC, executives need to address three main areas: processes, systems and management, as outlined in Figure 3.7.

FIGURE 3.7: THE KEYS TO AN EFFECTIVE FSSC



Effective FSSC processes

The key process features of a successful FSSC include:

- a customer focus, including support service level agreements
- the delivery of sustainable cost savings
- the communication of requirements and expectations
- performance metrics that align FSSC objectives with management actions, including cost-driver based metrics and a finance balanced scorecard
- a continuous improvement programme for all processes
- well-trained process team leaders
- shadow personnel should be used for a transitional period only, and on the basis of the ‘one-to-one’ shadowing methodology outlined earlier in this chapter.

Conducive organisational climate and effective change management

Management of the FSSC will be a key part of delivering on the FSSC vision. Success in this area will come from:

- client/customer orientated process teams that understand the FSSC philosophy
- a climate of organisation learning that encourages continuous improvement
- a commitment to quality and customer service
- a willingness to embrace a range of compensation and remuneration approaches
- a commitment to open and honest communication
- a willingness for managers at all levels to participate explicitly in change management activities

- a willingness to embrace any specific characteristics of the organisation's environment when making changes (e.g. the specific challenges in implementing FSSCs in public sector organisations, as illustrated in chapters 6 and 7)

- an explicit benefits realisation programme to ensure that the FSSC delivers the planned impact

- a willingness to expand beyond traditional FSSC services to new areas outside the finance area.

Effective and appropriate technologies

Technology has an important enabling role to play in delivering services. Success will typically come from:

- a strong customer management capability built around effective call centre technology

- well deployed enterprise resource planning (ERP) systems, which reflect specific organisational requirements

- effective use of intranet and other knowledge management technologies to leverage staff time and experience

- an e-business strategy, to enable key manual processes to be Web-enabled over the short term

- a willingness to make the ongoing resources available for technology upgrades.

These technologies are illustrated in the 'Systems' section of figure 3.7.

Measuring and managing for best-in-class performance

Successful FSSCs provide their clients/customers with detailed performance reports on a regular basis. Along with service level agreements (SLAs) these reports help to ensure that targets are agreed and that expectations are met. Most FSSCs will have formal SLAs that define the relationship between the centre and the client organisations. While ideally the SLA should be a short concise document, it will typically cover the following areas:

- a description of the services to be provided, including end products to be delivered
- skills that the supplier must possess, and levels of service to be provided
- pricing and billing, including charges for services provided and the charging method
- service standards, including deadlines, timescales, response times and other specific performance indicators.

Research by the authors indicates that the majority of organisations use SLA measures based on volumes, timeliness and quality of services (see table 3.1). Reporting of performance measures will typically be done on a monthly basis or in some cases quarterly. A key part of the SLA will usually be customer/client satisfaction surveys. These are a useful way of highlighting problem areas and can be used to direct problem resolution at regular meetings between FSSC management and the client organisations.

Finally, social and institutional networks in the form of FSSC benchmarking clubs and even simple social get togethers of FSSC managers provide a useful forum for getting what the head of Black and Decker's FSSC calls 'Tips and Tricks'. These are the useful insights that other FSSC managers have to offer and that are often more valuable than all the texts and benchmarking put together.

TABLE 3.1: EXAMPLES OF FSSC METRICS

Travel and expenses (T&E)	**General ledger/Consolidation**
T&E reports per Full-time employee (FTE)	Number of days to close
Cost per T&E report	FTE days for close
	Materiality cut-offs
Accounts receivable	**Accounts payable (AP)**
Cost of remittance	Cost per AP invoice
Remittance per FTE	AP invoices per FTE
Days outstanding	% of payments auto-matched
Credit checks per FTE	Volume of Internet and on-line purchases
Customers per FTE	
Incorrect invoices	
Fixed assets	**Cash and bank**
Cost per fixed asset	Percent of electronic funds transfer payments
Fixed assets per FTE	Idle cash balances

CONCLUSION

The key critical success factors are a clear vision, strategy and support from senior management. Support from senior management is a ‘must’, as this type of project cuts across the power base of the organisation and, as with any moving of one set of responsibilities to another location, there will be resistance. When this resistance arises there is a need to have senior management support to ensure that the project moves forward.

4. Whirlpool case study

BACKGROUND TO WHIRLPOOL

Whirlpool Corporation is one of the world's leading manufacturers and marketers of major home appliances. Its headquarters are in Benton Harbour, Michigan, in the USA. Though now a global leader, the company began as a family-owned machine shop located in a small town on the eastern shore of Lake Michigan. The company now manufactures in 12 countries, has over 30,000 employees and markets products under 10 major brand names in more than 140 countries. Annual sales now surpass $8 billion and continue to grow as the company expands its current lines of business and seeks opportunities in new ventures around the world.

In 1989, Whirlpool and Philips of the Netherlands formed a joint venture company, Whirlpool Europe, from Philips' major domestic appliance division, to manufacture and market appliances in Europe. It was agreed that Whirlpool would become sole owner in 1991. The following year a programme was launched to market appliances in Europe under the dual brands Philips and Whirlpool. In 1994, Whirlpool became a stand-alone brand name in Europe. Whirlpool Europe now comprises a network of 27 legal entities and 11 manufacturing sites, employing 13,000 people across 20 countries. Its main European markets are Germany and France.

RATIONALE FOR WHIRLPOOL'S MOVE TO SHARED SERVICES

In 1994, Whirlpool examined its finance strategy and realised that:

1. the dynamics of the major domestic appliance business in Europe had changed dramatically

2. the winners would only be those who are able

   - to operate at a pan-European level

   and

   - to provide business support at the lowest cost per unit.

Whirlpool case study (continued)

Whirlpool's response to this changing market was to announce that the ' new organisation would focus primarily on processes and not on local geography. Finance and Administration's response to support this new organisation was:

- to create a finance and administration organisation that would support and add value to all areas of the business
- to keep business planning and analysis close to the business
- to outsource non-core activities such as payroll, travel and fleet management

  and

- to centralise all transaction processing activities at a single European location.

The main aim was to create competitive advantage both in services and cost for the finance function. To meet these goals, it was necessary to separate the basic 'cost-adding' transaction processing from business planning and analysis, which is the key ongoing value-adding role of the finance function. It was also necessary to enhance the analytical skills of the business planners to support the business more effectively and, at the same time, dramatically reduce the cost of the overall service. Finance had to become better aligned with supporting the information needs of the business. There were problems with:

- the volume of reports: too much data and too many reports
- the clarity of Information: they had data rather than information; recipients had to interpret reports; and there were inconsistent data definitions
- variance analysis – there was a confusing morass of profit measures, while full profit and loss reports drowned the key variances
- exception reporting – there were multiple (and potentially mutually contradictory) performance benchmarks, so that it was difficult to compare current period performance with plans and forecasts, and with performance in prior periods
- the context of information – there are insufficient data to identify trends in performance

- lack of future vision – the focus was on historical information
- the focus of information, which did not pinpoint problems

  and

- the level of detail – too much unnecessary information with insufficient focus on areas for concern and investigation.

Senior Whirlpool management agreed that there were business needs to be addressed – reports were needed that gave headline news with fewer pages and clear signposts to problems, that distinguished good news from bad, and that provided trend analysis, predictive data and timely information. The future vision was that business planning analysis and control would be the key value adding roles in the support of the business. Whirlpool Europe benchmarked itself against its US operation, NAAG (North American Appliance Group). The centralised NAAG finance and administration function required 33% fewer staff then the decentralised European structure. Based on the above, it was agreed that major savings could be derived in Europe by consolidating and centralising transaction accounting. It was also agreed that the best companies are predominantly US-based multinationals operating in Europe. Companies at the leading edge in finance are those with strategies directed towards shared services and in this area there was little to emulate in Europe.

One of the main benefits that Whirlpool derived from changing to a shared services strategy was the realignment of its finance strategy. Whirlpool's centralised North American Appliance Group required around 20% fewer finance and administration staff than the decentralised Whirlpool Europe structure. All additional staff in Whirlpool Europe were involved in the area of transaction accounting. The business planning and analysis functions in the US represented around 40% of the total finance and administration staff but only around 20% in Europe. Whirlpool realised that as a US-based multinational in Europe it encountered wide-ranging threats and opportunities.

Whirlpool case study (continued)

CRITICAL SUCCESS FACTORS

Whirlpool believed the additional benefits of moving to a single centre were greater than from a series of regional centres. These benefits had, nonetheless, to be weighed against the increased complexity and difficulties of implementation, as well as the political considerations associated with the reduction in staff numbers and power in each of the countries where those functions and activities were currently located. In summary, the critical success factors for the establishment of Whirlpool's pan-European shared services centre were:

- effective human resource management
- clear vision, objectives and strategy shared by the management
- investments in organisational change management and technology
- re-skilling and training of the finance function
- set up and agreement of service levels with the local organisation

  and

- suitable location for the site.

After a period of careful planning, Whirlpool opened a shared services centre in Dublin in September 1995, which took over work from 14 different finance operations in western Europe. Initially, the company had planned to re-engineer the way it did things at the same time as it moved its finance operations to Dublin. The intention was that a dedicated project team would redesign an ideal set of practices and systems, and work out how to manage the transition to them. However, the team soon realised that the move to a shared services centre combined with re-engineering would be a recipe for failure, particularly as there were other major strategic changes going on within the organisation at the same time.

Accordingly, the way in which Whirlpool made the transition to a shared services centre was largely in accordance with the conventional wisdom as outlined in Chapter 2, i.e., it transferred its existing accounting and finance practices to Dublin in a relatively short space of time, leaving the re-engineering of practices to be carried out subsequently in the shared services centre.

One of the earliest decisions for Whirlpool was where to locate its shared services centre. Should it be in a place where the firm already had an existing site or should it be a greenfield operation? In the end, the team opted for a greenfield site and it appointed Ernst & Young, a consultancy firm, to assist in finding a location offering a pool of skilled labour, excellent telecommunications infrastructure and suitably priced property. At the end of March 1995 the project team pulled together all the company's financial controllers and human resource representatives from across Europe for a workshop to explain what the shared services project was all about. The following month the team carried out a series of roadshows across Europe to explain to country heads the likely impact on their organisations and to enlist their support for change. This exercise had two crucial goals:

1. to enlist local support – the co-operation of the national human resource staff was needed in order to identify which local staff would have a job in the future and which staff needed to be persuaded to stay at east for the transition period;

2. to manage expectations – rather than selling the project as something that would revolutionise the finance function overnight, the team simply promised that, after migration of the relevant activities to the shared services centre, the service provided would at least match what the local country organisation was used to and there would be no disruption to the business. The main task now was to identify a site for the centre and enlist a recruitment team to anticipate staffing requirements. They also drew up a timetable for transferring the national finance operations to the shared services centre (planning and analysis and factory administration would remain local). For convenience, this schedule for identical to the IT department's timetable for switching each national Whirlpool organisation to a new Europe-wide area network.

In June 1995, Ernst & Young proposed Dublin as a suitable location and this choice was quickly endorsed by Whirlpool Europe's senior management. Thirty staff were hired to fill the most important positions. A lease was also signed on a building and in order to link the shared services centre to the rest of the organisation a local area network was set up. After the initial induction course in Dublin, which lasted four weeks, the centre's new recruits, about half of whom were Irish, were sent out to work-shadow the people whose jobs they were assuming.

Whirlpool case study (continued)

In countries such as France and Germany, where the company had big operations, they stayed up to five months to ensure that the company did not lose essential local expertise. People said there was a risk of centralising bad as well as good practices; however, this was limited because the centre was structured on a functional and not a country basis, e.g. one group handled accounts payable and this was further divided into processing and disbursements. A second group handled the statutory and fiscal accounting, another the general ledger management and a fourth, fixed assets, intercompany and inventory. This allowed for staff covering different countries to compare and identify best practices and implement these country-wide in the centre. As the company's finance centre was under one roof it was easier to train personnel and use the most up-to-date technology.

One of the most significant changes was the implementation of service level agreements. These clearly defined the roles and responsibilities of the centre's teams and those in the country organisations who were responsible for providing them with the data. These documents were negotiated between the centre and each country operation. They established commonly accepted performance measures and service standards, such as accuracy of data and cycle times.

The other lesson Whirlpool learned from the project was the need for a Chief Financial Officer to champion the project, as it cut across the power base of the company. As well as helping the organisation to cut the costs of the finance function by about a quarter, it has emphasised the fact that the finance function is a business in its own right that can provide value added services to its partners in the organisation.

One of the key factors in the whole process was the work-shadowing of those performing the activities that would eventually be completed in the shared services centre. This had five main objectives.

1. To understand and learn the local accounting and reporting practices. This involved understanding the local chart of accounts, US GAAP accounts, periodic external reporting, month-end processes and reconciliation processes, and liaising with the local organisation. Relationships with the local staff had to be built as there was a need to transfer the knowledge from the local staff.

2. To understand and learn how to operate the systems – the migration staff were trained and supported by the local IT staff and area head office staff.

3. To prepare for the migration of the tasks to the centre – detailed mapping of all activities was done to ensure there were written records of all processes, and this allowed a gap analysis to be done. It also facilitated the development of the shared services centres procedures and links with the local organisation, and allowed country-specific information to be captured. Many of the local processes had to be changed or modified to allow migration to the centre.

4. To support local accounting staff in the day-to-day activities – in some countries there was a shortage of resources in the accounting department due to local staff leaving the company and internal transfers. The centre migration was able to fill these gaps until the relevant tasks were eventually transferred to Dublin.

5. To understand the local business and organisation – as the work would be carried out in Dublin there was a need for the new staff to understand the business in which they would now be working and the local staff and organisation that they would be serving.

The role and responsibility of the local finance organisation during this work-shadowing period was to manage the day-to-day activities, clean the ledgers prior to migration, manage the work-shadowing period, ensure appropriate training was given to the migration team and validate the new centre and local procedures. The role of the migration team was to plan the migration activities, ensure the quality of work-shadowing and ensure communication.

WHIRLPOOL'S RATIONALE FOR CHOOSING IRELAND

Whirlpool reviewed various locations across Europe; however, in June 1995 it chose Ireland as the venue. The functions carried out at shared services centres in Ireland broadly include financial administration, sales and marketing, personnel administration and information technology. Modern technology and data communications, all of which are low in cost in Ireland, are key to their success.

An extensive support infrastructure has been built in Ireland to encourage and develop the shared services sector. In the last 15 years, US$5 billion has been invested in Ireland's telecommunications system and this has made it one of the most advanced in Europe.

This technology includes ISDN, video conferencing, data networks, and leased lines in the form of International Virtual Private Networks (IVPN). The educational system has provided other infrastructural support, with a substantial number of IT and business graduates. For the major European markets particularly, language skills are available.

Availability of skilled staff

Ireland has a population of 3.6 million, a record high this century according to the 1996 Census of Population. The high birth rate, net immigration, increased female involvement in the workforce and, most of all, the predominantly young age of the population enable Ireland to offer a competitive advantage to any company planning their future human resources needs. The IMD world competitiveness report reflected this advantage when it scored Ireland highest in the European Union when measuring how demographic structures support business development. Ireland had the highest percentage of population in the 0-24 years category in Europe in the year 2000 (source: United Nations).

As a direct result of its modern and comprehensive education system, Ireland has a highly skilled and educated workforce. Over a quarter of Ireland's population are students, i.e. one million in full time education. The government each year commits approximately 20% of social expenditure to education. The IMD World Competitiveness Yearbook, 1998, gave Ireland the highest score in Europe for having the most relevant educational system.

There are over 120,000 students at second level studying for the Leaving Certificate programme, 70% of all students graduate with a modern European language – over 50% usually study French and a further 20% study German. Of students graduating from secondary school, over 70% study a foreign language. Over 2,500 graduate at tertiary level, from language degree courses, every year. Large numbers of students in addition to this major in other disciplines with a language option. 18% of students in total in higher education study a foreign language. Over 2,000 people currently work in the call centre business through foreign languages. By the end of the decade this figure is expected to rise to at least 5,000.

While completion of upper secondary education cycles is now becoming the norm worldwide, according to the OECD Indicators, Ireland has the second highest rate among OECD countries, with a ratio in 1994 of 96.7%, compared with the OECD average of 77% (source: Education at a Glance, OECD Indicators, 1997). Two out of every three university and college graduates in higher level education specialise in business disciplines, technology or science. Annually, of total degrees and diplomas awarded, approximately 25% are in business, 16% in natural and physical sciences (not including medicine) and 22% in engineering and computing (source: Higher Education Authority, National Council for Education, Dublin Institute of Technology, 1996).

With Ireland's young population and 'Celtic Tiger' image, it is proving a popular place for foreign EU nationals to work and live. There are in excess of 25,000 people from other European countries living in Ireland, bringing a substantial resource in language skills. There are no restrictions on labour movement within the EU. Returning emigrants are another source of language skills; 50,000 Irish people live in mainland Europe, many having gained fluency in European languages, and they are keen to return to employment in Ireland.

Employers have freedom to negotiate with employees on conditions of work through collective bargaining. Over recent years a series of national wage agreements has resulted in a sustained period of harmonious industrial relations. The current agreement, entitled 'Programme for Posterity and Fairness' operates until 2003. This should ensure Ireland remains a highly competitive location in the years ahead. Presently there are over 1,000 overseas companies in Ireland and virtually all of them have experienced smooth industrial relations. Ireland has considerably less onerous labour legislation than other European countries and, accordingly, employers enjoy improved flexibility with staff.

Fully developed infrastructure

Five billion US dollars have been invested by Ireland in modernising its telecommunications infrastructure. Because of this, Ireland has one of the most advanced telecommunications systems in Europe. The top quality service is both reliable and flexible, catering not only for the needs of business today, but for the years ahead as well. Ireland is committed to providing international business users with the most cost-effective telecommunications service. It offers the lowest cost in Europe for inbound international toll-free services, when discounts for volume use are taken into account.

Whirlpool case study (continued)

A comprehensive range of business services are readily available.

- International Direct Dial (IDD) – Ireland's state of the art network – delivers interference-free connections to 211 countries worldwide with six digital transmission paths, four of which are fibre optic.

- Integrated Services Digital Network (ISDN) is available, allowing high volumes of data, text, voice and images to be sent and received via a single digital connection.

- Leased Lines, in the form of International Virtual Private Networks (IVPN) represent a feature-rich communications service that delivers the quality and flexibility of a private network through the pubic network. IVPNS are also very cost effective, as no investment in dedicated facilities is required. Satellite links are available through GSM, the pan-European digital cellular system that operates over 75% of the country. Wideband and broadband data services are available.

MAIN SERVICES COVERED AT WHIRLPOOL FSSC

The main services covered in the Whirlpool FSSC are:

- general ledger accounting
- disbursements
- fixed assets/inventory accounting
- reporting consolidation
- VAT and Intrastat
- statutory/fiscal accounting
- accounts payable processing.

The centre is structured by process.

1. Accounts payable process – the FSSC manages all processing of invoices and disbursements to suppliers on behalf of the local markets. The FSSC manages all supplier and market queries and it interfaces with the company's pan-European bank, Bank of America, which handles the disbursement process.

2. Fixed asset/inventory and intercompany process – while the logistics and planning department is responsible for managing inventory and owns the inventory systems, the FSSC ensures that the inventory is correctly valued and accounted for. The FSSC manages the reconciliation and agreement of all intercompany transactions and liaises with the company's cash management centre in Brussels and the bank.

3. General accounting and reporting process – the FSSC manages the general ledgers on behalf of the local markets. The FSSC is also responsible for production of financial reporting, while the local markets retain ownership of the results and the responsibility for explaining them.

4. External reporting process – this is used to manage the relationship with external recipients of information, for example, the statutory and fiscal accounting, VAT, Intrastat, and to manage the audit process.

WHIRLPOOL'S TECHNOLOGICAL ENABLERS

Whirlpool has implemented a pan-European electronic payments system for all its shared service managed countries. Bank of America and the Svenska Handlesbanken for the Nordic countries were the chosen banking partners and the agreement was signed in 1996.

This has resulted in 95% ($40 million per month) of purchase ledger payments of shared services managed countries being paid via electronic funds transfer. The main results of this have been:

- increased control of cash management
- centralised cash forecasting

Whirlpool case study (continued)

- employee cost savings
- decreased bank charges
- increased efficiency of funds

  and

- increased security.

At the beginning of 1996, Whirlpool Europe initiated a project with the goal of restructuring and centralising all the treasury activities. A new entity was created based in Brussels, and was named Whirlpool Europe Co-ordination Centre (WECC). The principal and exclusive activity of WECC is to supply treasury services to Whirlpool Corporation and to all Whirlpool European subsidiaries. Currently WECC has already migrated and is actively managing 11 legal entities. This treasury centre was brought about through the technological advancement of the banking system, to achieve the following objectives:

- to centralise Whirlpool's treasury activities and decision making
- to provide improved control over treasury activities
- to provide a small specialised team of treasury professionals who will manage operational treasury services for Whirlpool's companies
- to provide an in-house bank to minimise internal and external banking costs
- to provide tax efficient treasury planning and execution in conjunction with the US corporate tax and treasury departments
- to centralise financial exchange and interest rate exposure where possible

  and

- to prepare Whirlpool Europe for EMU convergence in 1999 and beyond.

The main responsibilities of this treasury centre are:

- to establish and maintain bank accounts
- to maintain bank relationships

- to manage cash and debt positions
- to execute foreign exchange payments
- to transfer cash collections to fund disbursement accounts

  and
- to managing the company's exposures to foreign exchange and interest rates.

The main benefits of the treasury centre are that:

- it minimises the number of local banks per country
- it minimises the number of bank accounts per local bank
- it reduces administrative work
- it assures consistency across Europe in terms of payments methods
- it reduces bank costs, fees and value days
- it reduces handling activities, forms requirements, mailing
- it reduces payment cycle time
- it increases forecast accuracy of available funds
- it results in printing of fewer cheques
- it facilitates the centralisation of foreign exchange exposure
- it diminishes transactions and book entry
- it obtains the best foreign exchange spot quotas from payments and receipts

  and
- it increases European payment process control.

LESSONS LEARNED DURING THE PROJECT

The following main lessons were learned during the project.

- Excellent communication is an imperative – there is a need to involve the local finance and administration staff. During the work-shadowing period, there must be periodic assessment meetings between the FSSC staff and the local staff.

- Work-shadowing is stressful and the need to maintain motivation is a constant challenge.

- It is important to create and build team spirit and to provide support to FSSC personnel working away from their home country for extended periods.

- Local finance management commitment is vital in managing the work-shadowing process and resolving issues.

- Work-shadowing on a process-by-process basis is not feasible as local organisation structures do not mirror the FSSC organisation. Instead, a one-to-one shadowing methodology (which involves one person shadowing the work of another) is pragmatic and ensures that all activities are covered.

- Implementation of new processes incorporating best practices during the migration period is not always practical. There is an unacceptable risk that major process re-engineering concurrent with migration of the activities will undermine the work-shadowing. There is not sufficient time to train and educate process partners in the new processes while work-shadowing.

- After the activities are moved to the FSSC, there is still a need of support from the key finance and administration manager, to ensure that the learning process is continued.

5. Culture, language and communication

Accountants are influenced not just by national culture but also by the powerful norms of their respective professional formations. As a group they are influenced by a set of routines, procedures and value systems imposed by their professional bodies and are therefore burdened with an additional ‘cultural’ baggage. The largely monocultural nature of their professional training leaves many accountants poorly equipped to meet the challenges of operating across diverse cultural contexts. The anecdotal evidence to date would suggest that their response to the overwhelming complexities of managing cross-cultural organisations is to drive out the differences by institutionalising their familiar mono-cultural work practices and routines across the entire organisation.

Weaver (2000) points out that monoculturalism is also a typical feature of multinational corporations (MNCs). The organisational and national culture of the MNC trumps all other cultures, and people are expected to leave their ethnic or national cultural identities on the pavement before entering the building each morning. Success within the organisation is intrinsically tied to a willingness to behave like everyone else in the organisation and to share the dominant values.

Even in the more enlightened MNCs, the response to cultural differences is often to engage in cultural sensitisation through culture-specific training seminars that often do little more than perpetuate cultural stereotypes. The current vacuum of empirical research in intercultural communication has consequently been filled by a plethora of consultants and gurus offering ‘customised international organisation services’, which centre primarily on hand-holding in the areas of relocation, repatriation, and retention of ‘foreign’ staff – and more exclusive executive programmes aimed at ‘cultivating an international perspective and positive attitude to globalisation’.

While many companies have successfully addressed the issue of product localisation they have had only a limited success in the areas of international management of the processes and infrastructure of globalisation. In particular, firms have found that the cultural diversity of the international marketplace has led to increased controversy in communication. The accounting professionals in MNCs occupy significant roles in this respect. The CFO is normally a key member of the senior management team and is an important actor in the intercultural drama. The stereotypical image of a plethora of socially challenged accountants may seem extreme but the reality is that their professional training leaves them poorly equipped for coping with multicultural environments. Professional accounting training places a premium on quantitative and analytical skills and little or no attention is given to the softer skills of communication and change management. The heavy bias in the profession towards the province of reason, abstraction and objectivity and the suspicion of emotional factors forces accountants to import a set of values, beliefs, cultural norms and cultural practices. It is perhaps not surprising that accountants have traditionally fitted in well to the monocultural world of the MNC, and have felt comfortable with the assumption that a global capital market/ economy leads to a globalisation of cultures.

It must be recognised, however, that cultural issues cannot simply be 'assumed away'. Morosini et al. (1998) suggest that misunderstood national cultural differences may be the most important factors behind the high failure rate of global joint ventures and alliances. The increasingly internationalised nature of the business environment has led to a growing recognition of the importance of cultural issues and intercultural communications in multinational corporations. (Quill, 2000).

THE IMPORTANCE OF LANGUAGE AND CULTURE IN THE MNC SETTING

Over the last 30 years, effective intercultural communication in multinational corporations has been recognised as increasingly important (Hickson and Jennings, 1993). Many authors point to the strategic importance of communication as a source of competitive advantage in global corporations. Likewise, in the business literature, researchers such as Newman and Nollen (1996) highlight:

> *'the competitive advantage that can be derived from correctly adapted management approaches and the alignment between key characteristics of the external environment [national culture in this case] and internal strategy, structure, systems, and practices'.*

It appears that a contingency approach to achieving congruence between management practices and the characteristics of the national culture produces the most effective outcomes. For managers of multinational corporations, the implication is that adaptation to local cultural conditions is necessary to achieve high performance outcomes. Dunning (1997:196) argues:

> *'firms which are best able to identify and reconcile (cultural) differences, or even exploit them to their gain, are likely to acquire a noticeable competitive advantage in the marketplace'.*

The bulk of the research to date in the area of culture has focused primarily on the classing of organisational cultures, leaving aside the impact of national cultures as a key factor in influencing firms and individual behaviours. The FSSC's environment is an ideal one in which to carry out research on the interaction between organisational and national cultures, since it provides a good example of an organisational setting that involves a rich mixture of HR, team and intercultural communication issues.

National culture

To some, culture is a combination of norms, values, feelings, thinking, roles, rules, behaviour, beliefs, attitudes, expectations, meanings, and so on. To others, culture is understood by what it does not include: economics, politics, law, religion, language, education, technology, industrial environment, society or the market. Chapman (1992) points out, that 'Culture' resists operational definition, not because it is a particularly intractable area of human affairs, but because the idea is tied to a particular context. While numerous definitions of culture have emerged in the literature two definitions appear to predominate. The first conceives culture as a set of values, beliefs, norms, and rationalisations, i.e. mental products (Almond and Verba 1963). The other envisages culture as a way of life of a people, 'i.e. their interpersonal relations and their behaviors as well as their attitudes' (Randlesome & Myers, 1997).

Researchers have extensively debated the relative importance of national context and organisational characteristics. Two divergent perspectives have emerged in recent years. On the one side are those who believe that organisations are 'culture free' (Prentice, 1990). As such, they argue that competitive forces in the form of markets, industrialisation and new technology override differences in national context. As a result, they contend that, over time and helped by the process of globalisation, management practices throughout organisations become more akin, regardless of the national context. On the other hand, the contrasting view is that organisations are in fact 'culture bound'. Supporters of this view believe that national contextual factors definitively determine management practice. As pointed out by Tregaskis (1997):

> *'these variables include institutional structures such as trade unions, educational establishments and legislation and economy, in addition to an individual's values and belief system'.*

Hofstede defines business culture as 'learned assumptions and beliefs, attitudes and values shared by members of a group' and goes on to distinguish five aspects of culture for any given country. These are: the power-distance relationship; individualism versus collectivism; masculinity and femininity (also known as career success versus quality of life); uncertainty avoidance and long/short-term orientation (Hofstede 1991).

Mirjaliisa (1998) suggests that:

> *'it is vital that business practitioners become acquainted with the notion of cultural fluency for their transnational and transcultural work in Europe and elsewhere. While language fluency in a number of tongues may be highly desirable, cultural fluency is downright indispensable for companies large and medium-sized'.*

From a research perspective, the FSSC setting is unique in that, unlike traditional intercultural communication settings, the FSSC involves multilingual and multicultural actors, instead of the normal case of two distinct cultures that characterise the creation of a 'transaction culture'.

It is clear that national culture affects a person in a number of ways, ranging from the deeply underlying to the readily apparent: values, cognitive schema, demeanour, and language. These nationality-derived qualities, in turn, affect a person's behaviour, as well as how the person is perceived in a group or environment made up of a number of different nationalities. In some cases, it appears that the cultural diversity brings positive benefits to the group, while in other cases the diversity can create great difficulties. Whether diversity is an asset or a liability, in turn, depends on what the group is trying to accomplish. In contemporary global corporations, FSSCs serve an important purpose in the support activities. It is not clear, however, that firms have taken on board the findings of the literature.

The cultural and linguistic challenges and difficulties encountered

As indicated in Chapter 3, half of the respondents indicated that one major reason for adopting a shared services approach was a belief that it would facilitate operating at a pan-European level. Furthermore, one finance director said that 'we want to have a European business approach and not a collection of separate country companies'. Significant cultural and linguistics issues must be addressed in any serious attempt to achieve a truly pan-European model of operation.

Culture, language and communication (continued)

When asked about specific cultural and language issues, managers in the interviews suggested that the differences in processes across cultures militated against employing standardised technologies and led to difficulties in enforcing common standards of service quality. In particular, one manager suggested that local controllers tended continually to modify the MNC's recommended approach and, as a result, the firm had ended up with multiple process versions across Europe. This was a source of particular difficulty when the MNC wanted to implement a standardised corporate-wide ERP system. In the case of one UK-based FSSC, the director argued that, as a US-MNC, the firm felt the need to roll out the corporate approach to business processes across Europe and to eliminate as he termed it 'costly national differences in approaches to basic accounting processes'. While all the firms interviewed agreed that recognising cultural differences was important, none of them was keen to allow multiple process versions in the new FSSC approach. Requests by French controllers to maintain a separate French chart of accounts were overruled in four of the case study firms. In moving to the FSSC, firms were aware of the need to leave customer-facing activities at the local site. In particular, firms were keen not to disclose to customers that certain transaction processing was been moved to a single location.

Many of the FSSCs examined involve the centralisation of pan-European operations at a single location. The resulting multilingual locations were not without problems. Cultural and change management issues were widespread, with many FFSC managers ranking these as the most difficult areas. Many accountants found themselves, for the first time, faced with multicultural staff and language-intensive processes. The shortage/lack of language skills and the lack of experience in handling cultural conflict were highlighted in most cases. Accountants in many cases felt poorly equipped to handle the cultural challenges involved in managing 100-plus staff from 15 different countries. Sadly, the response to these problems in many cases has been to be begin restricting the language used in the FSSC to English, and to force the centre's staff to operate in accordance with the monocultural norms of the MNC. This was perceived as the best way to eliminate cultural tensions but also allows the firm to become more efficient and achieve better economic returns. Diverse national cultures increase process diversity, complexity and costs. Through the introduction of technology and through the redesign of processes, managers hope to make the FSSCs monolingual by driving out the foreign language element and thus minimising intercultural communication problems. Pushed by powerful economic incentives, a number of the FSSCs we studied were keen to reduce costs by eliminating other languages from the processes. MNCs strive to eliminate national differences by first establishing the use of English and then putting in place a single homogeneous culture, more stable and closer to the organisational culture of the MNC than the host country's culture, thus allowing at the same time for more flexible resource allocations.

Seventy per cent of the respondents reported that staff turnover was a major drawback since the implementation of the FSSC strategy. Attracting and retaining a large number of multilingual staff in what are often considered remote locations was a common problem for firms in this study. Staff turnover among non-nationals and difficulties in retaining staff beyond 18 months were reported by a large number of firms. It is particularly high in Irish FSSCs. For example, Allergan in Dublin had a turnover of 28% in 1999. In one experiment, it moved staff to a remote location in the west of Ireland and only managed to retain non-Irish staff by offering large financial packages. Despite this, none of the 12 staff who were transferred to the remote location stayed after the initial six month contract. The firm has encountered ongoing difficulties in retaining staff at the non-Dublin site. Staff cite poor weather, poor travel infrastructure, racism, dietary restrictions and educational restrictions as major issues. FSSC managers were continually looking for ways of reducing the sense of isolation and loneliness that many expatriates felt. This included specific initiatives in the areas of weekend social events, etc.

In addition, the pressure for staff in the FSSC to conform to and operate in what was often a US-oriented multinational environment gave rise to significant work place tensions and disagreements. Differences in expectations regarding cultural and communication norms gave rise to frequent misunderstandings and a continual need to adapt accepted US-based work practices to the European environment. The response from many firms to what they see as 'cultural and language' problems has been as mentioned above: they try to minimise the language element of the work and to '*de-language-tise*' at the process level.

As part of the migration to the FSSC, staff from the centre will often spend up to three months 'work-shadowing' their colleagues in the different sites around Europe. In the case of Whirlpool, a large team had just completed the migration of all the financial accounting operations from Italy (Milan) to Dublin. As part of the migration, the team spent the three months learning how local staff carried out various processes. In nearly all cases, those being shadowed were effectively being replaced in the organisation by the shadowers. This was a particularly difficult task and one that required a lot of management time and several interventions. In the case of one firm, staff were flown back to the FSSC each weekend because of the feeling of isolation they felt at the local site and the hostile nature of the relationship between the FSSC staff and local accounting staff. Thirty per cent of survey participants responded that lack of support from local management was a drawback, a view supported by Sandwell (1997). Local support is necessary in the transition period, both when the tasks are being transferred from the country and also when the tasks are established at the shared services centre. Senior management support is vital in this area, as they may need to use their influence.

In addition to work-shadowing, most migrations involve a redesign of the underlying processes. In some cases, this redesign is carried out at local sites before migration, but in other cases Business Process Redesign (BPR) is carried out after the migration to the FSSC. For the local site the trauma of losing work to the FSSC is combined with the replacement of what, for many, have been the work practices of a lifetime. Coping with a stream of continuous changes in processes is often cited as a reason for high FSSC staff turnover.

On a more bizarre note, the turmoil of migration appears to hold a certain attraction for some staff. We found evidence of nomadic accountants who specialised in helping firms migrate to shared services centres. These self-appointed enforcers seem to relish the cultural challenges of moving established processes to new centres. They are highly prized within the industry for work in the migration period of the FSSC.

One specific cause of difficulty was the issue of US norms of political correctness. In particular, one MNC had difficulty in enforcing its strict (by European standards) code on sexual harassment. Issues of physical contact – as one manager called it, 'the hormone hell of a building full of 20 something year olds' – highlighted the different norms regarding acceptable workplace behaviour.

The overriding dominance of US/UK GAAP (generally accepted accounting principles) was an issue for some staff in the FSSC setting. French accountants, in particular, made strenuous efforts to prevent the move to standardise on US accounting procedures. This included using national legislation and fiscal controls to prevent the move towards standardisation. In other cases, the attempts to frustrate the operation of the FSSC were more subtle and involved, as one FSSC director said, 'socialising us to death' during the work-shadowing process.

Discussions with FSSCs reveal that the linguistically challenged nature of the accounting profession is likely to be a major issue in the next five years. It is important to ensure, when setting up a shared services centre, that the firm understands the skills required and therefore the profile of the employees it needs to recruit. Firms should not underestimate what it takes to start an FSSC project, nor should they overestimate how quickly they can gain the rewards.

All the FSSC directors we interviewed viewed themselves as managing an accounting operation. The presence of multilingual staff was seen in most cases as a source of additional cost and recruitment problems.

In the establishment of the FSSC little evidence was found of using cultural expertise/ linguists in the decision-making process. Firms typically spoke to specialist recruiters, consultancy firms (in particular the location service), development agencies, incumbent FSSCs and universities. None of the FSSCs we spoke to had explicitly involved a linguist in their location decision. The availability of graduates was based on an assessment of the general demographics rather than an explicit count of the number of multilingual staff. Linguists were typically involved in the selection process in developing documentation and as link personnel in dealings with site accountants. The issue of native versus near native language fluency was raised in a number of organisations. Most of the FSSCs had a clear preference for native speakers and typically recruited accountants in the target country. Clients or customers of the FSSC also had a strong preference for native speakers and placed particular emphasis on cultural fluency. The technical or specialist nature of the language used in the FSSC was often unknown, however, to even the native speakers. Furthermore, many of the linguists recruited were unfamiliar with the accounting processes and procedures and in these cases work-shadowing was even more important as a source of learning. The need for languages followed a pyramid pattern, with the local language being essential for those further down the hierarchy but not viewed as necessary at the team leader or process manager level. While there were some exceptions, firms attempted to keep nationalities together. Attempts to organise purely by process were less than successful. Whirlpool had tried this and reverted to the geographic approach to staff to minimise cultural clashes.

CONCLUSIONS

The findings of the study show that cultural and linguistic issues represent the primary cause of implementation and operating difficulties within the FSSCs examined. In particular, the migration of multilingual pan-European operations to a single site, while technologically and economically feasible, raises a large number of cultural and linguistic challenges, which can have a detrimental impact on the long-term viability of the FSSC.

Differences in expectations regarding cultural and communication norms gave rise to frequent misunderstandings and a continual need to adapt accepted US-based work practices to the European environment. The response from many firms to what they saw as 'cultural and language' problems has been to try to minimise the language element of the work and to '*de-language-tise*' at the process level. The long-term objective for many firms appears to be to centralise pan-European service provision in a single (and often UK or Irish based) location and to eliminate the language diversity of the process over time. The case for language specialists to become more involved in the decision to set up FSSCs and the need for greater consideration of cultural and linguistic issues in FSSC decisions is evident.

The results of the study show that the primary motivation for the establishment of FSSCs is cost effectiveness. In particular, in the decision to set up an FSSC, cultural and linguistic issues are secondary to labour cost, fiscal and technology issues. The study reveals, however, that major causes of difficulty in FSSC implementation were not legal and technical but more often in the realm of organisational culture, language and change management. In addition, the move to the FSSC has led to an inevitable loss of jobs in the local organisation. In particular, older local operating site personnel are typically replaced by a younger, more mobile and linguistically versatile work force at the new central location. Existing staff and their expertise are lost to the organisation. Another disadvantage is the loss of face to face service, before shared services the local organisation can just 'go across the corridor' to find information, under the FSSC approach this direct contact is lost and staff must rely instead on phone and email contact.

6. Shared services centres in the public sector

INTRODUCTION

Recent decades have brought far-reaching changes to public sector organisations (PSOs). Increasingly, executives in PSOs have recognised that many of their organisations have elements that could effectively share certain administrative and service needs: payroll, disbursements and routine data transactions, for example, as well as more complex functions such as accounting, legal counsel and human resources (HR). The shared services model seeks to bring standardisation, cohesion, efficiency and expertise to these services. In carrying out services that are required throughout the organisation, shared services aim to provide the highest value service at the lowest cost to the internal customer.

While shared services were originally conceived in terms of cost savings, organisations have increasingly recognised that they can play an important role in improving service quality and stakeholder value.

In this chapter, we will:

- outline the reasons for the emergence of shared services in the public sector setting
- examine the managerial, organisational and technological challenges that they present
- highlight key implementation issues and pitfalls that need to be addressed

  and

- explore the future directions for shared services in the public sector.

THE DRIVING FORCES BEHIND THE ESTABLISHMENT OF SHARED SERVICES CENTRES (SSCS) IN THE PUBLIC SECTOR

While every organisation will have its own reasons for moving to a shared services approach, we can identify a number of important issues that typically will have influenced the decision.

The changing public sector organisational culture

In the past few years there has been a dramatic change in the organisational culture of many public sector bodies. A growing acceptance of the need for accountability, transparency and recognition of the primacy of the citizen have raised awareness of the need for greater efficiency and effectiveness in the delivery of all public services. In particular, there has been a growing acceptance of the benefits that can accrue to both employees and employers from a re-examination of traditional structures and processes. Public sector unions have more confidence in their ability to embrace change without compromising their members' working conditions and employers have woken up to the benefits of partnership in the workplace. In this environment, structural changes that could never have been considered in the past are now openly engaged with and embarked upon. In this context, stakeholders in the public services are embracing the shared services concept at a growing rate and the indications are that many more organisations will embark on shared services projects in the near future.

Benchmarking and the value-for-money requirement

Increasingly, public sector organisations are expected to deliver value for money not just in terms of the services they provide, but also in the costs incurred in supporting the provision of those services. Stakeholders such as trustees, management, funding bodies, clients, employees and those with ministerial oversight are continually comparing the performance of PSOs with their private sector equivalents. Though many of these comparisons suffer from comparability problems, there is no doubt that PSOs are under increasing pressure to attain similar performance in terms of process time, cost and quality. The growing army of benchmarking consultants and 'roundtables' has led to a greater awareness of the need for better process performance in PSOs. Closer examination of process performance in the private sector reveals that the top performers have in many cases achieved their impressive performance through the adoption of shared services centres. The increasing availability of very detailed process benchmark information will make it almost impossible for many PSOs to avoid at least considering the shared services approach.

The need to align support services with new geographical or organisational structures

Greater autonomy for the regions, and in the case of the UK and Northern Ireland the new parliaments and assemblies, has led to new departments and in some cases new PSOs. In the case of new departments or bodies there is an opportunity from the outset to provide support services and, in particular, financial services from a shared services centre. The amalgamation of different districts or areas is also a reason for moving to a shared services approach. The policy of many governments to decentralise government departments allows SSC structures to be implemented as part of the overall restructuring.

The success of shared services centres in private sector settings

The shared services approach has proved very successful in the private sector. Cost savings in the order of 30% have been widely reported and dramatic improvements in process quality costs and cycle times have provided advocates of FSSCs in the public sector with a very convincing argument. In a benchmarking survey of European finance functions, KPMG found that clerical staff in the top shared services centres were capable of processing ten times as many remittance advices per full-time equivalent as their non-SSC counterparts. In addition to savings on staffing, the SSC model has also allowed organisations to rationalise IT costs, optimise tax structures and free up business units to focus on core activities such as customer service and fulfilment.

The enabling role of technology

Technologies such as document image processing, enterprise resource planning systems, high speed WANs and computer telephony integration and, more recently, e-business applications facilitate the centralisation of financial transaction processing and other activities at a shared services centre. In addition to the functionality of the technologies in question, the high cost of acquiring and maintaining the technologies creates an incentive for organisations to share the cost across a number of sites using a shared services approach. ERP software applications support the operation of shared services by allowing multiple sites to be supported from a single software platform located in a shared services centre.

Shared services centres in the public sector (continued)

Compromised outsourcing

Though the high-profile problems affecting recently privatised bodies has tempered the public appetite for further privatisation, there is continued pressure for the outsourcing of many support functions. The shared services approach is a useful compromise in that it allows a PSO to retain control over its key activities while giving greater transparency to the process performance. In this respect, the SSC approach is often seen as a compromise form of outsourcing that allows a PSO to keep its public service mandate and at the same time improve process performance.

Service to citizens – core and non-core activities

For many public sector managers and service professionals there is a clear preference for focusing energy and resources on fulfilling the more immediate public service mandate rather than devoting large amounts of time to the distractions of supporting transaction processing in areas such as finance, HR and so on. In this regard, the SSC approach frees up public sector managers to focus on their *raison d'être*: 'public service'. As a non-core activity, the processing of financial transactions can be left to dedicated finance professionals, thus freeing up the organisational agenda and allowing greater concentration on the public.

Other factors

Other considerations that have led to the move towards the SSC model include:

- the pressure to move towards e-government
- the need to move staff from high-cost metropolitan locations to lower-cost and more accessible regional locations
- the freeing up of expensive city office space
- staff shortages in departments

  and

- pressure from funding bodies.

THE UNIQUE CHALLENGES OF THE PUBLIC SECTOR

Location

The selection of a location for the SSC is critical. In the case of private sector SSCs, the location decision is typically based on cost, taxation and availability of multi-lingual processing staff. As a result, SSCs have tended to congregate around such locations as Dublin, Greater London and more recently Eastern Europe. In the case of PSOs, the location decision is equally important, but the choices are often restricted by geographical conditions or the need to exploit existing sites to their fullest. PSOs are often under pressure to avoid acquiring greenfield locations and are instead restricted to finding under-utilised real estate within the organisation. As a result, the quality and functionality of the SSC location can be less than ideal. Every effort needs to be made to provide quality accommodation for SSC staff at a location that is attractive from a quality of life perspective. Since PSOs are limited in the incentives they can offer in relocating staff, the right blend of house prices, schools, cost of living and other external factors can be a powerful aid in keeping staff retention high.

Existing grades and work practices

In the past PSOs have operated under what might be loosely referred to as agreed work practices and demarcation lines. Historically, this has resulted in relatively low grading and payment for specific types of clerical and administrative work. In the private sector SSC, staff cost savings are normally made by redesigning and dividing work in a manner that, for example, allows lower-paid para-accountants to carry out work that was previously carried out by accountants. The move to an SSC model will often give rise to the redesign of processes and tasks. While similar changes are possible in the public sector, the traditional structures of PSOs may make the changeover relatively difficult and costly. Any resulting regrading of work may be possible only with the agreement of staff and union representatives. In some cases one-off payments may have to be made in order to entice staff to embrace more flexible work practices. In addition, the SSC project may require expertise that the PSO does not currently have. In order to attract and retain such specialist staff (in particular Information Services expertise) the PSO may have to get agreement from other staff to assign higher grades to new entrants in order to meet the market rates of pay prevailing for specialists such as project managers, IT specialists, and so on.

Retaining staff with marketable skill sets

Having invested large amounts of scarce resources in training staff in areas such as ERP and e-business, the PSO SSC may encounter difficulties retaining such staff. The large number of PSO shared services centres being set up means there are a substantial number of opportunities for staff to move on. While restrictive contracts may deter some staff from leaving, the most effective way of retaining staff is to provide them with an interesting and stimulating work environment. One of the most effective ways of doing this is to foster a climate of continuous improvement where motivated staff have the opportunity to acquire new experiences. In this regard the move to e-government and Web-enabled SSCs can be an opportunity.

Promotion outlets for SSC staff

While staff in private sector SSCs can achieve career advancement by moving between organisations, many staff in PSOs will largely look for advancement within the existing organisation. It is important that opportunities exist for staff to move from the SSC back to more line management type roles in the organisation if they wish to. The last thing an SSC needs is to be perceived by staff as a promotional graveyard with no opportunities for advancement.

The lack of a framework for change management and resistance to change

Unquestionably, change can arouse *fears*. Some of these are fairly common.

- *Fear of not being able to cope in the new situation*. Stressed, de-motivated people are not a good bet for carrying a new project forward. In addition, there may be a sense of resentment at the 'cost' of past learning that is now devalued. Negative reactions to new software can stem from feelings like this.

- *Fear of loss of status or influence*. Often people build up status and influence by years of experience. Change can alter the rules of the game such that the experience is no longer valid currency in the status and influence sub-system. It can lead to people questioning the meaning of their contribution – asking what was it all about? It can mean that the basis for future advancement, carefully nurtured in the old system, is eroded, as new systems come into play.

- *Fear of the unknown.* Organisations can manage resistance of this kind by means of an effective change management approach. Communication is essential, as fears and resentment will flourish where information is lacking. In the final analysis, the key factors that contribute to the success of the transition process are: credibility, leadership and resources.

FUTURE DIRECTIONS

Although public sector organisations have been slow to embrace the FSSC model, it is clear from the experience of the early adopters that public sector organisations can reap substantial improvements with the SSC approach. In many ways PSOs have benefited from the less than successful experiences of private organisations and have learned valuable lessons in terms of change management, technology and other areas.

In the future we are likely to see a number of clear trends emerging with respect to SSCs in public sector settings. In particular, e-commerce, knowledge management, benchmarking and other innovations will become important issues for FSSC management. In advance of these innovations, however, public sector managers and staff who are considering moving to the SSC approach need to familiarise themselves with the challenges of setting up and running SSCs in public sector settings.

In this regard consideration should be given to:

- setting up a public sector wide SSC association to provide a forum where issues such as staffing, technology and other requirements for the sector could be raised and appropriate actions put in place to address them

- increased knowledge-sharing initiatives and activities that would offer managers a network to share and exchange ideas with others in the SSC environment, which might include benchmarking and other information exchange programmes

- setting up specific public sector SSC benchmarking exercises to provide the data that is needed for use in performance assessment

  and

Shared services centres in the public sector (continued)

- increased co-operation with software vendors and consultants to provide the sector with better-suited technology solutions and advice.

Shared services centres are now an integral part of the public sector agenda and will play a key part in the way services are delivered in the future. Everybody involved in the provision of public services needs to be aware of the increasing importance of shared services and the potential opportunities they offer.

7. Case study: The Eastern Regional Health Authority Shared Services Centre

The Eastern Regional Health Authority (ERHA), established on 1 March 2000, is the statutory body with responsibility for health and personal social services for the 1.3 million people who live in the greater Dublin area (including Kildare and Wicklow). The ERHA's responsibilities include the strategic planning, commissioning and funding of services through service agreements with the three Area Health Boards, the voluntary hospitals and other voluntary agencies in the region. The ERHA is also charged with monitoring and evaluating the services provided by these agencies.

The Authority is not directly involved in the delivery of services. Instead, service delivery is the responsibility of the three Area Health Boards, the voluntary hospitals and the voluntary intellectual disability agencies in the region. The Area Health Boards, the voluntary hospitals and a number of other voluntary agencies receive their funding through the ERHA on the basis of agreed service plans. The three Area Boards – the Northern, East Coast and South Western – have responsibility for delivery of statutory services and also plan and co-ordinate all services within their areas, in co-operation with the local voluntary service providers. The new structures were introduced to cope with the vastly increased population of the Eastern region, the scale and complexities of the health and social service issues and the historic fragmentation of services between statutory and voluntary providers. Their aim is to provide an integrated, seamless and co-ordinated service for patients and clients.

REASONS FOR SETTING UP THE ERHA

Since its establishment in 1971 the population in the Eastern Health Board (EHB) area had increased by almost one-third. It now stands at 1.3 million, compared with the population of the other health boards, which range from 200,000 to half a million people. The years since the Board's establishment have seen a marked increase in the range and extent of social problems, such as drug abuse, child abuse and homelessness, that came under its aegis. Several expert reports over the years highlighted the need for radical organisational reform of the structures in the Eastern region so that the services could respond effectively to these challenges and continue to grow and develop with the region's changing needs. The primary and overriding objective of the ERHA is to achieve real improvements in the health and personal social services delivered to patients and other service users in the Eastern region. Its objective is a more integrated, efficient and patient-focused health service for the people of Dublin, Kildare and Wicklow.

Case study: The Eastern Regional Health Authority Shared Services Centre (continued)

The new Authority and the three Area Health Boards enable the delivery of health and personal social services to be brought closer to the people. Decisions regarding the provision of local services are being made closer to the point of delivery and facilitate more involvement by local communities in the planning and organisation of their health services. The second objective of the new structure is to ensure, in a more accurate and accountable way, that the £1.2bn spent annually on the health services in the Eastern region is providing the best possible value for money for the taxpayer. Accordingly the ERHA's role is to plan, commission, fund, monitor and evaluate the provision of health and social care in the region. The three Area Boards are charged with delivering services, along with some 35 voluntary organisations.

THE ERHA SHARED SERVICES CENTRE

In setting up the new ERHA structure, the government proposed that the health services should be centred on and driven by the need to simplify organisational arrangements and achieve value for money. Eastern Health Shared Services was established in this context, to provide a wide range of professional business, technical and information support services to the ERHA and the three Area Health Boards.

Eastern Health Shared Services is staffed by a team of some 400 people based at the Shared Services Centre. The centre is located at the building known as Dr Steevens Hospital, close to Dublin.

The range of services provided include:

- architectural, surveying and engineering services
- employee services
- estate and facilities management
- financial processing
- information communication and technology services

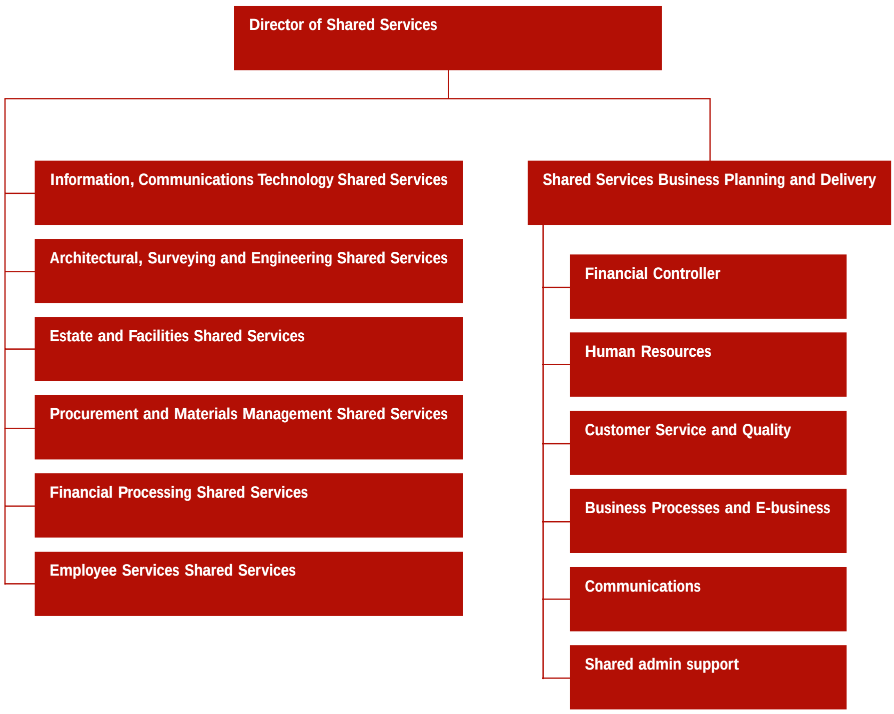
and

- purchasing and materials management.

The Eastern Health Shared Services was established to enable expertise and overheads to be shared, to encourage innovation and development and to allow customers to concentrate on their core business of health and personal social care delivery.

EASTERN HEALTH SHARED SERVICES FUNCTIONS

FIGURE 7.1 EASTERN HEALTH SHARED SERVICES STRUCTURE



Case study: The Eastern Regional Health Authority Shared Services Centre (continued)

Architectural, surveying and engineering services

The Architectural, Surveying and Engineering Department manages the development of capital buildings projects for the ERHA and Area Boards from brief stage to commissioning. This includes responsibilities for planning permission, fire certification compliance, sketch and detailed design development, contract negotiation and administration, design team engagement, general project management and equipping. The focus of the department in this respect is on the procurement of quality products on a cost-effective basis. Larger capital project values can range from £1m to £9m. The number of projects ongoing, at any given time, is approximately 25 to 35. This is expected to increase significantly over the coming years because the Government National Development Programme includes significant provision for development of the health care delivery infrastructure. In addition to capital development, the department has ongoing responsibilities in the areas of fire safety, waste management and energy efficiency management and actively supports the ERHA and Area Boards through the provision of expert advice and inspection services, as well as the procurement of contracts.

Business planning and delivery

The business planning and delivery function drives the transformation of Eastern Health Shared Services from a centralised function to a business-to-business professional agency, where a professional team delivers a portfolio of products to customers under arrangements contracted by service level agreements. Key agendas going forward will include:

- supporting customers through the implementation of service level agreements
- supporting the partnership steering group that ensures employee participation in service development
- introducing service plans and budgets for Eastern Health Shared Services
- benchmarking service cost and quality to ensure that best practice is achieved and sustained

  and

- supporting the Eastern Health Shared Services team of employees in developing their skills and talents.

Employee services

Approximately 10,000 people are employed in the ERHA and the three Area Boards. Employee services provide a comprehensive range of services to support the employees individually, and the organisation's line managers, in ensuring that all employees are able, equipped and motivated to contribute to the very best of their own talents and ability, in order to optimise the quality of care delivered to the clients. The employee services provided include recruitment (definition of need, search, selection and engagement), payroll, staff development and training, health, safety and welfare, staff counselling and information service, regional library service and PPARS (SAP Personnel Payroll Attendance and Recruitment System), general administration and superannuation.

The recruitment agenda is a particularly significant one in the current buoyant labour market and this service is expected to grow and develop. Going forward, the development of training and development programmes and services will be crucial to the success of this service.

Estate management

The Eastern Regional Health Authority property portfolio currently comprises some 450 properties with a buildings floor area of approximately 265,000m^2 with a current reinstatement value of approximately ¤800m. Over 40% of these buildings are over 100 years old, with just under 5% being under 10 years old. This portfolio contains a wide and complex range of properties providing extensive services to the public throughout Dublin, Wicklow and Kildare. The health authority's estate is a vital and integral part of the overall service, in that the health centres, hospitals, homes, day centres, community offices, and so on, are the first points of sale for people whether using or visiting, and as such they should be accessible and suitable for their particular use and should provide an open user-friendly facility for the local community. The Estate Management Department provides professional advice to the Eastern Regional Health Authority and the three Area Health Boards on all aspects of strategic property management services include valuation, negotiation and contract implementation, risk analysis and insurance provision.

Case study: The Eastern Regional Health Authority Shared Services Centre (continued)

Financial services

The financial services in Eastern Health Shared Services is a key support to the ERHA and Area Boards in ensuring that payments and receipts are processed, recorded and accounted for in a manner that is error-free, responsive, effective and efficient. Currently 250,000 invoices are processed, 85,000 cheques are issued and almost 500,000 payroll payments are made annually.

Financial services include:

- provision of a central resource to the Finance Directors in the Area Boards and the ERHA in the processing of receipts and payments
- provision of accounts reconciliation services
- supporting the annual and multi-period budget and service planning processes
- provision of information and reporting facilities to enable effective planning, analysis and control of expenditure

  and

- development of the SAP financial system in supporting processing, reporting and production of accounts.

Key agendas going forward will include:

- the introduction of the euro
- producing Area Board accounts

  and

- leveraging the benefits of SAP and associated technologies.

Information and communications technology

The Information and Communications Technology (ICT) Department provides information technology services to the Eastern Regional Health Authority and the three Area Health Boards. It also provides strategic advice and leadership to the ERHA in setting future ICT directions for all the health and personal social care service delivery agencies with which it contracts. In the future, major opportunities presenting to the ICT Department will include the ability to identify and develop strategic solutions that will address the information requirements of the Authority and its agencies over the next five to ten years and the implementation of a common information architecture across the region.

Approximately 80 business applications are supported and a number of these deploy the latest technologies, including warehousing, relational databases, and Web technologies, across large-scale communications networks. The ICT Department is currently structured into four units: Corporate Systems, Office Systems Technology, Corporate Data Centre and Business Unit. Key agendas going forward will include:

- developing the integration of information across platforms and organisations
- introduction of a single client record
- planning and delivering an e-health strategy for the region

  and

- using e-platforms to support Eastern Health Shared Services.

Procurement and materials management

It is essential that the Eastern Regional Health Authority's purchasing policies and practices secure best value for its clients and ensure that goods and services are delivered by suppliers in a manner that maximises economies of scale and meets individual need. To this end, the Materials Management Department of the Eastern Health Shared Services Centre provides a range of services to the three Area Boards and the ERHA, incorporating procurement (tendering, negotiation and contract) and warehousing and distribution (effective stock management, storage and distribution practices), to ensure that products are available as required and stock holding costs are minimised.

Case study: The Eastern Regional Health Authority Shared Services Centre (continued)

Through the central negotiation and purchasing of goods and services, Eastern Health Shared Services can leverage its purchasing power to secure cost advantage and quality supply processes.

Key agendas going forward will include:

- progressing just-in-time (JIT) provision
- leveraging the benefits of SAP

  and

- developing e-purchasing with all suppliers.

THE CHALLENGES OF BUILDING THE ERHA SHARED SERVICES CENTRE

Ms Valerie Judge is the Director of Eastern Health Shared Services, which is located in Dublin. She is responsible for the planning and delivery of support services, including a wide range of professional, technical and information services to the Eastern Regional Health Authority, the Northern Area Health Board, the South Western Area Health Board and the East Coast Area Health Board.

Ms Judge's previous experience included working for the Department of Health, where she was involved in human resources, resource planning and systems development roles, and for Telecom (now Eircom), where her roles included training and development, organisational design, change management, human resource policy development and implementation of HR shared services. This experience in HRM issues has proved invaluable in moving the FSSC forward.

As part of a larger reorganisation, setting up the FSSC involved addressing a large number of staff concerns. In the early days of the FSSC, some staff felt suspicious about the FSSC concept and wondered how long the centre might last. In addition, many of the organisations that were clients of the FSSC were sceptical about the FSSC's ability to deliver a quality service. Against this background, the management of the FSSC set about building a customer-focused team-based FSSC. As part of the reorganisation, many staff had left to become part of new units and as a result there was a depletion of talent in some of the core areas and processes. This loss of knowledge was compounded by the low levels of documentation on existing processes and the general lack of a process orientation under the previous approach. Faced with declining capability and increasing client expectations, the new FSSC was launched. A key part of the new FSSC philosophy was to move away from the excessive control focus of the older approach to a more supportive role, involving briefing, informing and advising. This was supported by moves to build a greater degree of performance measurement and a change in culture towards new concepts such as cycle times, process costs and performance scorecards

Many of the key decisions that drive the setting up of FSSCs in private sector settings were not faced by the ERHA SSC. In particular, decisions regarding location and technology platforms were not open to choice. Staff would remain at an existing site and the SAP platform was already the agreed platform across the wider ERHA. As a result, the early days of the SSC involved focusing on building staff capability and managing expectations. An important part of this was to secure some quick 'wins' early on in the project. These were centred mainly on process improvements. The SSC management did not embark on a large formalised change management programme; instead, the management team spent a large amount of time consulting and communicating with staff. Unlike many private sector SSCs, they kept the role of consultants to a minimum. Management of the SSC did not have many of the rewards and incentives available to their private sector peers and had to rely on gaining staff commitment through agreement rather than being able to 'buy' commitment using monetary incentives. This focus on change management has continued, with a large amount of management time spent meeting with staff before changes were made.

While the SAP platform was the required ICT approach, the SSC has had great success with its intranet. This is currently an information channel for knowledge sharing but in the future it is envisaged that the Web will become a transaction channel as the SSC embraces e-commerce.

As the SSC moves forward, the focus is moving towards identifying a clear definition of its core business and developing a better understanding of cost and value drivers. This will involve developing the, already strong, service focus that staff had prior to the SSC and attempting to move towards an approach in which value-for-money service for clients (i.e. stakeholder value) will be the key driving force.

8. Technological opportunities and challenges, including e-centres

THE ROLE OF TECHNOLOGY IN FSSCs

Arthur Andersen's paper, 'Insights on European Shared Services Operations' (1997) argues that up-to-date technology is required to support the shared services concept and plays a key role in the cross border consolidation of information and financial systems.

Recent advances in technology have enabled finance support processes to be performed in remote locations with little, if any, reduction in service levels. Client server technologies, electronic data interchange (EDI), data warehousing, document imaging software and Internet applications are just a few examples of how technology can support a world-class finance and administration function. Information technology considerations play an important part in the implementation strategy. The main considerations are as follows.

- Whether there is an adequate Wide Area Network in place across the countries in Europe to which one wants to connect.

- The degree of standardisation of the information technology, both for software and hardware, being used by the business units. Before Unisys, the $6.6 billion (in sales) American computer services company, began setting up its shared services centre in Amsterdam three years ago, the system used by its business units had been customised to suit each unit's needs. As a result, it was difficult to get consistent transaction processing data. With all the different systems in the centre, the centre staff struggled to get the consistent set of data they needed to do their jobs properly. Eventually, Unisys re-implemented the system throughout the company, but this time without the ability to customise. 'The biggest thing I've learnt is to have a simple, standard system', commented Robert Brust, senior vice president and CFO of Unisys.

- Whether any new technologies that are not currently being used by the business units need to be implemented.

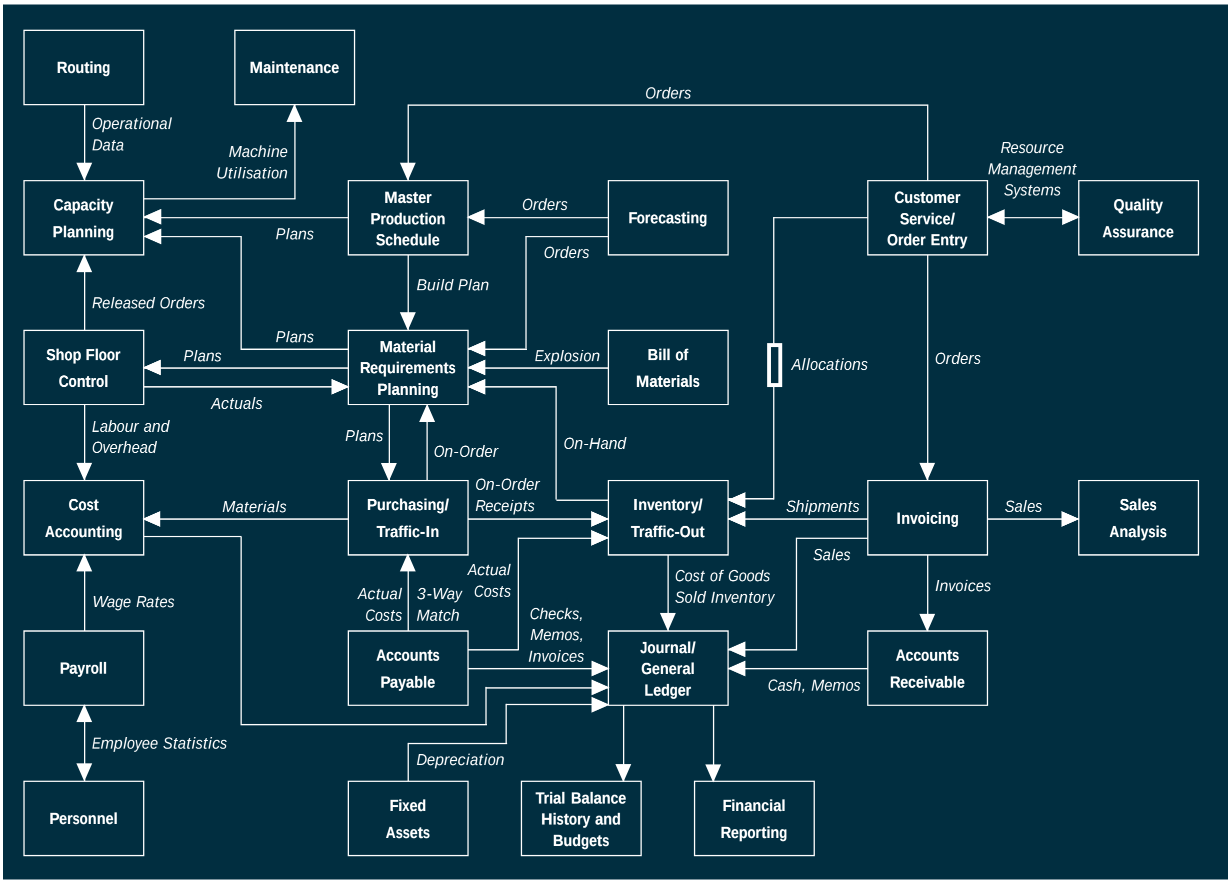
- Whether existing computer systems need to be upgraded or changed, to take into account the euro, at the same time as the migration to shared services.

Duke and Victorova (1998) wrote that precipitous price declines in hubs, routers and switches have turned the data communications equipment market into a more expensive version of the personal computer market. Leading the decline in prices are ethernet switches and fast ethernet switches.

ERP, DATA WAREHOUSING AND OTHER TECHNOLOGIES

The move to an SSC approach offers an ideal opportunity for transferring finance applications to the new enterprise resource planning (ERP) platforms. Vendors such as SAP, Oracle and J.D. Edwards were quick to spot a market opportunity and have introduced specific 'solution maps' for the FSSC sector. These not only encompass the typical finance processes but can also meet the unique requirements of the FSSC. While these customised applications deliver a large amount of the functionality required by the typical PSO shared services centre, a large number of issues still remain to be addressed.

FIGURE 8.1: TYPICAL ERP DATA FLOW



THE HIGH COST OF ERP RESOURCES

ERP systems require a significant investment in terms of IT architecture, staff, user licences and so on. While the demand for ERP specialists has fallen off in the wake of Y2K, acquiring and retaining high-quality ERP expertise is still an issue for many FSSCs. In particular, attracting project managers and functional area specialists with FSSC experience can be very difficult. In addition, ERP implementation consultants, while often necessary, can represent a significant drain on the project's resources and many lack specific FSSC experience. Shared services centres need to assess carefully the resources available and ensure that any investment made in IT up-skilling can be retained within the organisation. They also need to ensure that the consultants they retain have an understanding of the unique requirements of the FSSC setting and (preferably) have first hand experience of the workings of the FSSCs.

Migration of data and users to the new ERP environment

While the data models that emerge from the use of these structured approaches can alleviate many of the data integration issues that can plague ERP migrations, the problems associated with system change-over do not disappear entirely. In particular, the detailed migration to the standardised data model and processes incorporated in the ERP solution will often require a significant restructuring of the data and can delay projects. In addition the SSC may be pulling together data from several different legacy systems. Users may find the move to the new system difficult and it may take several months before staff are comfortable with the look and feel of the new system.

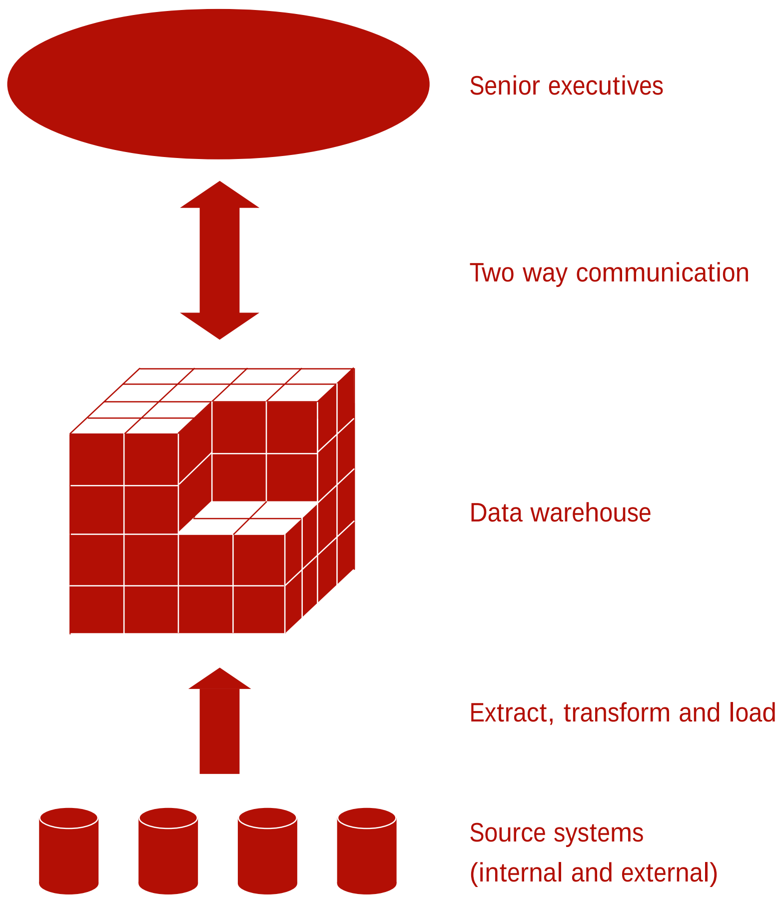
Enterprise application integration

It is unlikely that a single ERP platform will meet all the IS requirements of the FSSC. Hence many shared services centres find themselves running a number of different applications. The question of integrating these to provide effective service to the client organisations is often time-consuming and expensive. Immediately following the 'go live' period, when resources are stretched to a maximum, FSSCs often find themselves relying on manual integration using extract programmes and spreadsheet tools to provide the necessary information. As a result, the neat technological architecture that may have been envisaged in the IS strategy for the FSSC may take several years to emerge. Careful consideration needs to be given to planning the enterprise application integration activities, particularly given their increasing importance in the context of e-business and e-government.

Reporting tools – data warehousing

While technologies to support detailed transaction processing represent the most significant IT investment, the question of reporting tools and data warehousing is also an important issue. Timely and efficient reporting to its clients is critical to the FSSC's success. In this regard, the experience to date would indicate that most FSSCs adopt a 'best of breed' approach to the selection of reporting tools.

FIGURE 8.2: USING DATA WAREHOUSING TO MEET ANALYSIS AND REPORTING REQUIREMENTS

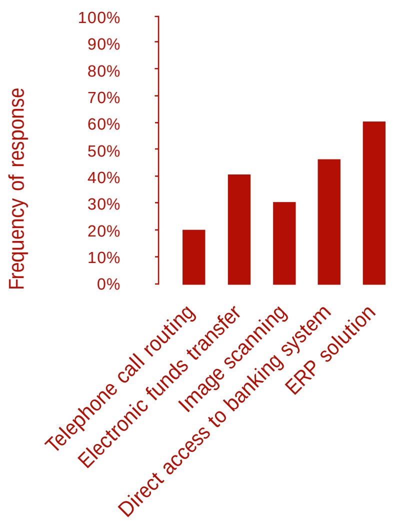


In many cases, FSSCs have found that the reporting tools that come as part of the ERP application lack the flexibility and functionality needed. A growing trend among FSSCs is to use data warehousing technologies to provide a separate reporting and analysis capability for the centre, as outlined in Figure 8.2.

Under this approach, the core transaction processing takes place on the ERP platform, with reporting and analysis running on a separate read-only data warehousing platform. This allows users to have easy access to detailed transaction data without compromising the integrity of the data or affecting the response time of the transaction processing on the ERP system. In addition, it supports the longer-term possibility of applying data mining techniques to the underlying data in order to identify important trends.

Figure 8.3 below outlines the main findings of the study in the area of technological enablers.

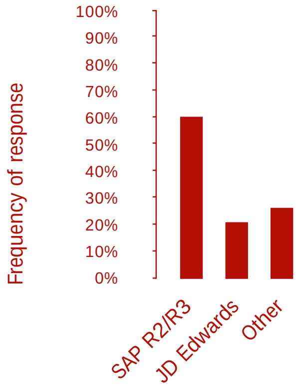
FIGURE 8.3: MAIN TECHNOLOGICAL ENABLERS OF SSCs



Sixty per cent of respondents answered that an ERP solution was a major technological enabler that facilitated the move to shared services.

Technological opportunities and challenges, including e-centres (continued)

FIGURE 8.4: SYSTEM APPLICATIONS USED AT THE CENTRES



Of the respondents to the questionnaire, 56% (nine) of the companies who answered used SAP R2 / R3, 19% (three companies) used J.D. Edwards and 25% (four companies) used some other computer application. Forty-five per cent of respondents answered that 'direct access to the banking system' was a major technological enabler that facilitated the move to shared services. This was vital in the area of disbursements.

Other technological enablers listed were:

- reduction in cost of technology
- telephone call routing
- use of image scanning system to ensure compliance with fiscal rules regarding return of documents to local countries
- EFT (electronic funds transfer) payments
- computer literacy among the workforce

  and

- pan-European systems.

EFT AND DIRECT ACCESS TO BANKING

In the early eighties companies recognised that there were economies of scale and improvements in control to be had in the regional consolidation of treasury and banking functions into a separate, formal legal entity. The essence of the shared services centre concept is a greater integration of the treasury function with other key financial functions. Technological advancement has been a key factor in this integration process. Treasury centres were previously characterised by a focus on tax efficiency and worked in a stand-alone environment with little contact with other parts of the company's financial organisation.

One example of advances in banking technology is the Bank of America's automated accounts payable system. Clients send a single file containing payment instructions directly from their accounts payable system. On the date specified in the file, the bank initiates payment in the format requested, whether by cheque, wire or automated clearing house. It has recently introduced a new payment enhancement that enables clients' accounts payable systems to generate wire payment orders automatically to the bank.

The bank provides the client with the electronic data interchange (EDI) file format so that the accounts payable system can build the file of payment orders, including remittance information such as invoice date. In order to protect the data, a security package is used; the system then dials up the bank or uses the Internet to send the file. The bank validates the file and sends the wire payment and remittance information to the appropriate clearing system. A few minutes after receiving the wire request, the bank sends to the company's accounts payable system an EDI advice acknowledging the order, (Bank of America, 1998, 'End-to-end wire automation',).

E-CENTRES

A number of trends have emerged in recent years with regard to FSSCs. In particular, since 1999 we seen the emergence of so-called second-wave shared services centres. These technology-enabled centres attempt to leverage Web/Internet technologies in order to improve FSSC performance dramatically. This section describes some of these changes.

In a recent article in CFO magazine, Stephen Barr outlined some of the challenges and changes facing the chief financial officer of the twenty-first century. The finance function is faced with re-inventing itself by 2005, in the face of many challenges. The biggest of these challenges is undoubtedly the challenge of e-business. In this regard it should be noted that KPMG Consulting (2000) assert that the

'Finance Function must break out of its comfort zone and embrace E-Business. The web provides finance with the opportunity to get closer to the actual business rather than having people and problems come to the finance department'.

In particular they point out that e-finance will allow the CFO:

- to eliminate transaction processing
- to embed financial controls in technology
- to empower decision makers

  and

- to explore new opportunities and relationships with stakeholders in order to create value.

The period 2002–2004 will see a continued growth in the number of FSSCs and a growing demand for multilingual accountants with experience of pan-European financial reporting. In addition, these accountants will be expected to address a range of change management issues associated with the move to FSSCs. The emergence of e-business and the need to continue to attract work to the FSSCs has prompted a number of FSSC managers to expand their activities beyond the traditional accounting areas.

A growing volume of transaction data arising from e-business applications

With the move to e-government combined with the widespread use of the Web for procurement and service delivery, FSSCs in the public sector will need to address a range of data management issues. In particular, there is likely to be an increased requirement for higher levels of data integrity since part of the e-government process will involve data becoming externalised as part of the move to open systems. Under the Web-enabled FSSC, high volumes of detailed data are captured and processed automatically, but exceptions may still occur. As a result, the role of the FSSC changes from that of processing transactions and applying internal controls, to one in which the centre deals with processing exceptions while internal controls are embedded in the Web applications. From a technology perspective, the FSSC must meet the challenge of dealing with the diverse technology platforms of the vendors who supply the client organisations. Hence enterprise application integration (EAI) can be problematic. Research indicates that Web-enabled transaction processing reduces costs by up to 20%, yet only 15% of companies use the Web for purchasing. If FSSCs in the public sector are to be successful they need to embrace the Web fully.

A growing move towards self-service finance transactions using the Web

Using the Web functionality provided by ERP vendors, SSCs are offering more and more services directly over the Web. These include not just traditional e-commerce applications in the form of business to business (B2B) procurement, but also services to employees and the public – for example, employees can fill in expenses claims with screen prompts highlighting invalid or excessive claims. Private sector organisations such as Cisco have shown the effectiveness of Web-based HR processes and this functionality is now becoming standard from many ERP vendors.

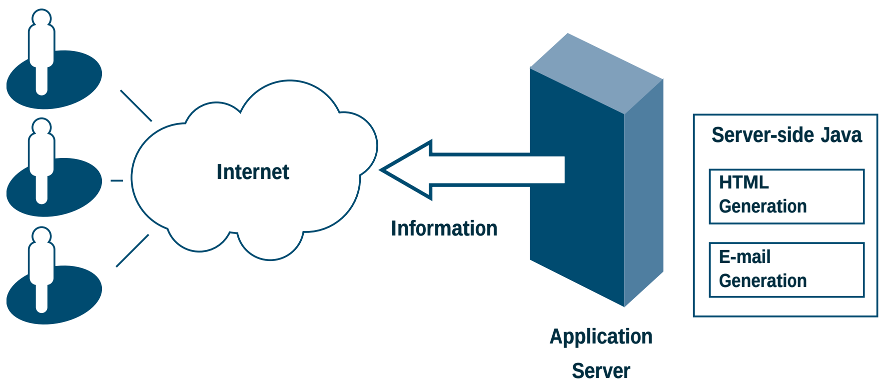
Controls are becoming embedded in the processes, for example accounts payable and fixed asset management are embedded in the supply chain process or revenue management as part of the customer care process. In addition, intranets allow suppliers to access internal organisational information to improve the co-ordination of the supply chain.

Web-based distribution of information

Many SSCs have found that providing an easily navigable intranet is an effective way of distributing large numbers of reports to dispersed users (figure 8.5). Using Web technologies can significantly reduce the number of telephone calls and e-mails from client organisations. In presenting their financial and business data, some FSSCs have used formats and tools designed to assist the user in reviewing, analysing, and using the information. For example, FSSCs can incorporate formats or features in the Web versions of their reports that make them easier to use, such as:

- linked table of contents
- hyperlinks that connect items to other relevant sections of the report and to other relevant documents
- multiple file formats (for example, PDF and HTML).

FIGURE 8.5: WEB-BASED INFORMATION DELIVERY



In some websites, a downloadable data feature allows the user to copy data into the appropriate word processing or spreadsheet application. At least one FSSC familiar to the authors also provides analytical tools to assist its users in summarising and analysing the financial data processed.

Other FSSCs regularly monitor usage of their intranet/website to identify ways to improve site efficiency and increase usage. They not only monitor the total number of hits, but also collect data indicating the usefulness of the different types of information included on the Web. In addition, those organisations often use recurring information requests, informal feedback and a review of website traffic to identify data needs that can be better met through electronic distribution. A notable recent development in the area of Web-based distribution of information is the emergence of XBRL (eXtensible Business Reporting Language). XBRL is an AICPA sponsored open specification for the on-line publication of financial reporting information. It is designed to improve the transparency and usability of all financial data published on the Web. While it is initially aimed at meeting the demands of investors and shareholders, it will also have applications internally within organisations since it provides a core XML-based specification for the presentation of financial information over the Web. (For a fuller discussion of XBRL see www.XBRL.org.)

These second wave Web-enabled shared services centres are designed to meet the unique information and transaction processing requirements of the B2B and B2C e-commerce environment. Under the e-centre concept, firms replace existing manual paper based transaction processing with streamlined e-commerce processes where processing volumes per full time equivalent staff increase by a factor of ten, thus allowing staff in the FSSC to focus on higher value added analysis and reporting. Under the e-centre, existing processes such as the purchase to payments cycle are moved to the Web, thus eliminating time-consuming manual processes. This move to Web-enabled processes is facilitated by an emerging range of enterprise systems from vendors such as Oracle, SAP and Peoplesoft. While these firms were initially slow to respond to the potential of the Internet they have all recently made significant investments to ensure their core enterprise resource planning systems are Web-compliant. The move towards the e-centre has also been prompted by the realisation among the profession that the techniques and approaches of the 1990s will not serve them well in the Web-enabled world of the twenty-first century, where changing business models and the pressure to create shareholder value require a change in mind set from the stewardship and control role to the value creation perspective.

For the FSSC director, there is also the changing business architecture, with increased emphasis on managing relationships with suppliers, customers, partners and other stakeholders. Increasingly, the organisational value chain encompasses a complex world of on line B2B markets and specialist industry online exchanges fed by a global supply chain. These industry driven e-enabled supply chains are already visible in the automotive and chemical sectors and are likely to become pervasive in the next three years. While

Technological opportunities and challenges, including e-centres (continued)

these vertical exchanges reduce the complexity of the procurement process, they often add an additional layer of systems complexity as FSSCs are faced with integrating their existing ERP systems with newer software systems such as Commerce One, Sterling, and i2i. In some cases, firms may be participating in several different procurement exchanges, each with its own preferred system platform. The promise of ERP with 'single system, single data instance' is rapidly being undermined by the B2B explosion.

Increasingly, firms are outsourcing more and more activities and moving non-core support activities to the shared service environment. The business of the future probably looks like Cisco, where the key activities are building brands and ideas. This so called weightless manufacturer has tried to outsource and Web-enable as much as possible. Its success in doing this is reflected in its market capitalisation. In the virtual world of the Web-enabled shared services centre, the core competency will become one of establishing and maintaining relationships based on a re-engineered business model.

With the increasing knowledge content and complexity of the tasks carried out, FSSC directors will be faced with a number of challenges. The key trends in the future are likely to include:

- deciding how to organise and structure an FSSC that serves a diverse range of cultures, stakeholders and customers
- deciding how to extend the FSSC concept to include factory accounting and the processing of e-commerce transactions
- greater value-added reporting on sites, including peer reporting, balanced scorecard (BSC) measures and other types of information
- Web-based distribution of reports and information to sites using intranets
- systems integration, including integration with B2B exchanges and markets
- new processes such as e-Tax and e-compliance reporting
- 24/7 financial reporting and the convergence of management reporting and shareholder reporting
- the challenge from low-cost locations such as Warsaw, Manila and Bangalore

- re-engineering not just the business processes but also the business model to take advantage of the Web
- the reduction in number of statutory and other legal entities and the move to UK/US GAAP and less local compliance reporting; simplification of tax and legal reporting
- greater involvement of eastern Europe and full extension to Asia and the Middle East
- increase in non-accounting activities at FSSC sites and shorter reporting cycles
- the reduced role of languages as firms seek to 'de-language-tise' the FSSC and increase the use of voice-recognition software
- second wave ERP, new systems implementation including application service providers (ASPs), and mobile commerce (M.Commerce).

The challenge for the e-centre is to create added value through a comparative advantage in information and knowledge-based processes. This will require the FSSC to become e-compliant at all levels and processes. In addition, the e-centre must develop a culture of global citizenship where the focus is on managing the complex and changing relationships that make up the value chain. To do this, accountants will need to develop their change management expertise as well as their systems integration and communications skills. As such, the successful e-centre will require accountants to abandon their traditional role as controllers for one in which they are much more entrepreneurial and proactive in redesigning the business model.

9. Conclusions and implications for the accounting profession

We have seen that the FSSC offers great benefits to organisations. It therefore seems wise for the accounting profession to reflect on the implications of the FSSC trend for the future nature of accountants' work. This is what we seek to do in this chapter. We also summarise the key issues that must be successfully tackled (by the accounting profession and others) in order to make a success of the FSSC concept in practice.

FSSCs: OPPORTUNITIES AND THREATS FOR THE ACCOUNTING PROFESSION

It is easy to state the justification in principle for a shared services centre approach to accounting and finance functions in an organisation.

(i) The FSSC approach offers the chance to reduce the cost of performing 'business-necessary but non-value-added' activities such as transaction processing, while maintaining (and perhaps ultimately improving) the quality of such activities.

(ii) More importantly, the FSSC approach makes it possible for accounting and finance professionals to concentrate on becoming true 'creators of value' within organisations. For example, FSSCs enhance the organisation's ability to add new business units and assimilate acquisitions.

The trend towards centralising 'business-necessary but non-value-added' activities is a tide that the accounting profession could not hold back, even if it wished to do so. Furthermore, this trend offers accountants the opportunity to strengthen their *raisons d'etre* in organisations.

This argument can be made in the following terms. In the 1960s, a lot of activity then seen as a necessary part of accountants' work (i.e. routine data processing) was eliminated (or at least removed from the domain of professional accounting activity) by computerisation. Similarly, for modern accountants to rely on 'business-necessary but non-value-added' activities as a *raison d'etre* offers them only the protection of being a 'necessary evil': sooner or later, the necessity is likely to be eliminated, and with it the *raison d'etre*! The best way for accountants to secure their future role in organisations is to concentrate on 'value adding' activities. The emergence of the FSSC offers the accounting profession the opportunity to do exactly this, with the more mundane tasks being performed by staff at the sub-professional level in the FSSC.

Conclusions and implications for the accounting profession (continued)

This is not to say that the emergence of FSSCs is a painless trend for all those engaged in accounting work. Some accounting activities can be eliminated altogether by the creation of an FSSC, e.g. multiple authorisation processes and reconciliations. Realistically, for most organisations one of the attractions of the FSSC is the desire to eliminate the labour cost of such activities. Thus, there would seem to be some risk of 'less work for accountants', although in practice this applies to sub-professional level accounting work, and not to tasks usually performed by highly-qualified professionals.

Furthermore, as noted in an earlier chapter, in at least one organisation the motivation for adopting an FSSC structure was *not* to reduce accounting staff numbers, but rather to free up scarce accounting staff to perform higher value added tasks. The main priority for most firms is to take the routine transaction processing away from individual country controllers, and allow them to focus on the value added activities of supporting the internal business units in their individual countries.

The Whirlpool case study provides an illustration of the shift in the nature of accounting work. The company's explicit rationale for developing an FSSC for its European operations was not only to reduce the cost of transaction processing services, but also to enhance the analytical skills of business planners to support the business more effectively.

Our research has also revealed that there are a number of transaction processing services that firms are reluctant to centralise. These are the services perceived as being closest to the customer (namely, order entry, customer service and credit control) and where the issue of cultural sensitivities is therefore of crucial importance.

The public sector offers a number of interesting insights into the role of the FSSC. As we have seen, a major motivation for the FSSC structure in public sector bodies is the desire to be able to measure (and demonstrate) that the costs incurred in supporting core activities represent value for taxpayers' money. For example, it is easy to gain public acceptance for expenditure on doctors' salaries and hospital equipment, but somewhat less easy to gain acceptance for the funding of the administrative overheads of the public health service. With an FSSC structure in place, it is easy for a public sector body to assess the quality and cost of many of its accounting and administrative services, and to benchmark these against other organisations (including those in the private sector, and possible suppliers of services on an outsourcing basis).

Interestingly, the case study of the Eastern Regional Health Authority demonstrated an effective shared services centre architecture that was not confined solely to accounting services, but also encompassed architectural, engineering, IT and other services. A key part of the new SSC philosophy was to move away from the traditional ‘control’ focus and towards a role that is ‘supportive’ of the Authority’s core functions, with suitable performance metrics for the various parts of the SSC.

A SUMMARY OF HOW AN FSSC STRUCTURE BENEFITS AN ORGANISATION IN PRACTICE

If a company is to be competitive at a global level, it needs to have the best technologies and business processes at the lowest possible cost. An FSSC structure is a practical application of this idea.

The FSSC is not just a reincarnation of the traditional centralised organisation. The FSSC is answerable to the internal business units for the quality and cost of its services. This is implemented by the use of performance metrics and service level agreements concerning the cost and quality of the service provided by the FSSC. In some cases this logic is taken one step further, with the business units having the freedom to purchase service from outside providers instead of from the FSSC, if desired.

There are a number of different models of FSSC. The best one depends on an organisation’s particular circumstances. For example, in principle ERP software enables a ‘virtual’ FSSC to operate, without the need to move staff to a single physical location. The relatively few organisations that have attempted this approach, however, have found that it is difficult to operate in practice. The key problem is the lack of cohesiveness and problems of co-ordination among FSSC staff at different locations. Another approach, analogous to that frequently used for IT services, is outsourcing, thus avoiding the need to create any new entity (physical or virtual) within the organisation. Nonetheless, the most common approaches to the creation of an FSSC *do* involve the creation of some new in-house entity, typically a new organisational entity with its own mission. This usually involves a new location, new staff, new IT, and a clearly-defined mandate to provide services to the independent business units.

Conclusions and implications for the accounting profession (continued)

The principal tangible benefits of adopting an FSSC structure are:

1. cost savings and economies of scale (e.g. in transaction processing)

2. information captured through the internal customer-supplier relationship, which facilitates the development of new ideas for products, services, and process accomplishments

3. the flexibility to add new business units and assimilate acquisitions easily. When a new business unit is acquired, perhaps in a new geographical location, the new unit can immediately be ‘supplied’ by the FSSC, leaving the organisation free to concentrate on staffing the *core business functions* of the new unit.

MAKING A SUCCESSFUL TRANSITION TO AN FSSC STRUCTURE

A major back office restructuring is necessary in order to establish an FSSC. The major causes of difficulty in implementing FSSCs are usually in the realm of organisational culture and change management. Related to this, there are also considerable problems of physical logistics, not least in assembling all the required staff in a single physical location.

Several issues arise in choosing a location for the FSSC. Each possible location is likely to be assessed in terms of cost-benefit issues (e.g. wage levels, government grants), telecommunications infrastructure, tax and treasury issues, and human resources issues (given the type of personnel required for staffing an FSSC, as discussed below).

The speed at which the organisation can proceed to a fully centralised structure wil vary from one organisation to another. The likelihood of the transition being successful is greatly enhanced, however, if a structured transition/migration plan is put in place at the outset of the project.

Service quality issues

The key to gaining acceptance of the FSSC from its business unit customers is adequate service quality. To a large extent, this is achieved through service level agreements (SLAs). More important, however, is the fostering of a customer-focused approach, rather than a very strict application of SLAs. The fact that the FSSC is a ‘new’ entity within the organisation makes it possible to adopt this approach.

Once the FSSC is up and running, its performance is assessed on an ongoing basis, using performance metrics for the quality and costs of its services, and also using benchmarking. The challenge is to strive for continuous improvement in the performance metrics. As well as service level agreements, successful FSSCs provide their clients with regular detailed reports on actual performance. These help to ensure that targets are agreed and expectations are met.

Payback from the investment in FSSC

Realistically, investment in FSSC is a strategic investment with a long payback. Thus, expectations need to be realistically managed in the short term. This was illustrated here by the Whirlpool case study, where acceptance of the FSSC was achieved by promising business unit managers that the creation of the FSSC would not lead to any *deterioration* in service quality in the short-term.

Some jobs disappear in local organisations as accounting functions are transferred to the FSSC. Some of the displaced employees may be able to move to another business unit in the organisation, but in practice many of these people simply lose their jobs and their knowledge and experience is lost to the organisation forever. This is part of the ‘pain’ associated with moving to an FSSC structure.

Even though one purpose in establishing the FSSC is to leave the local country controllers free to handle the truly value added parts of the finance function, this does not mean that the FSSC itself can afford to neglect justifying its existence. For example:

- the FSSC should see itself as a ‘business within a business’, which ultimately needs continuously to improve its customer service and keep down process costs, not least to compete against the long-term possibility of its activities being outsourced to an external provider

- economies of scale within the FSSC may ultimately lead to spare capacity within it, which can profitably be used by taking on activities for other organisations.

STAFFING ISSUES

As we have seen in earlier chapters, there is no shortage of interesting and challenging work opportunities in the *process of setting up* an FSSC.

The Whirlpool case study illustrated the need for a chief financial officer to champion the FSSC project, given the sensitivities involved in a project that cuts across the power base of the company and causes considerable disruption.

Furthermore, some accountants make careers as consultants specialising in helping organisations implement the transition to FSSC. This is a lucrative business since, given the once-off nature of the changeover, organisations do not have this kind of expertise and experience on their staff. Thus ironically, while the transition to an FSSC creates potential disruption and change for staff accountants, for ‘consultant’ accountants the opening up of FSSC work has created a lucrative and recurring stream of business.

One of the most difficult staffing issues, however, is that of *staff retention* in a ‘steady-state’ FSSC. The dynamic, problem-solving individual is excellent in overcoming the challenges in establishing the FSSC in the first place, but is likely to become fairly rapidly bored if expected to settle down to an ongoing lifestyle of data entry. This is a difficult problem to resolve. The people working in these centres need to have excellent language skills. While they are not likely to be qualified accountants (since the nature of the work requires only sub-professional levels of accounting expertise), such people clearly have a variety of career opportunities open to them and are unlikely to be satisfied indefinitely with the opportunities provided by FSSC work.

To a limited extent, the problem of ‘staff boredom’ and consequential staff turnover may be reduced somewhat by involving employees in projects such as improving the quality of the FSSC’s processes. Furthermore, it could be argued that sufficiently high financial inducements might overcome the staff retention problems, but this is not a realistic solution as it would eliminate the cost savings that are among the intended benefits of adopting an FSSC structure in the first place. Many FSSC managers with whom we spoke frankly acknowledged the lack of a long-term career path with promotional opportunities in their organisations, and seemed resigned to an inevitable high turnover of staff.

CULTURE AND LANGUAGE ISSUES

The payback time for an FSSC in Europe is commonly estimated at four to six years, which is about twice the payback time for a corresponding project in the United States. Our study shows that cultural and linguistic issues are the primary causes of implementation and operating difficulties within European FSSCs and are therefore the primary causes of the slow payback.

Two features of the traditional training and education of accountants should be commented on in this context. First, it must be stated that the education of accountants does not emphasise language learning. Second, the professional training of accountants tends to emphasise reason, objectivity and abstraction. There is even some degree of pride in ‘being above’ value judgements, prejudices and cultural influences. There is some implication that, in operating in a global economy, cultural differences both can and should be ignored. In reality, however, it is not possible to operate a pan-European FSSC successfully without some substantial modification of these attitudes. This is not to say that cultural factors need be allowed to frustrate the development of the FSSC. As we saw earlier, none of the firms interviewed was willing to allow multiple (country-specific) versions of accounting processes, such as the preservation of country-specific charts of accounts.

In practice, a key feature of acknowledging cultural sensitivities in an FSSC context is usually the employment of native (as opposed to merely near-native) speakers. Clients of the FSSCs seem to value highly the linguistic and cultural fluency that only native speakers can provide. Furthermore, most FSSCs find it preferable to group staff by *country* rather than by *process*, in order to minimise the sense of isolation that individual staff members might otherwise feel.

Of course, such a staffing policy is not easy to implement. It is not easy to recruit, for example, native speakers of ten different languages in a single location. The obvious solution – i.e. importing the necessary staff – is expensive and is typically associated with high staff turnover.

It is obvious that comparable linguistic and cultural problems do not exist in developing an FSSC for the United States and this is why the payback time for an American FSSC project is much faster. Many European FSSC managers acknowledge the temptation to cut corners and establish a monolingual FSSC, but they also acknowledge that the resulting service quality level would be perceived as unacceptably low.

The need for language skills is *least* among the senior staff of the FSSC (who carry out co-ordination and team leadership roles) and *greatest* among the lower-level staff (who do the hands-on data processing and service provision). Given that these lower-level staff are unlikely to be professional accountants, we do not need to conclude that advanced linguistic competence will be a requirement for the accountant of the future! In order to function effectively as managers of FSSCs, however, accountants *do* need to be able to manage multilingual and multicultural staffs, and the professional training and educational programmes for accountants are likely to reflect this requirement in years to come.

TECHNOLOGY ISSUES

Information technology considerations play an important part in the FSSC implementation strategy.

One of the benefits of FSSC can be that standardisation is achieved for the first time, making it feasible to aggregate data meaningfully. So long as all transaction processing is carried out in individual countries, it is likely that systems will be customised for each country, making aggregation impossible.

The implementation of an FSSC is an excellent opportunity to move finance applications onto ERP systems. Indeed, the leading ERP vendors have introduced specific ‘solution maps’ for the FSSC sector. In practice, however, these have not proved to be panaceas. A single ERP platform rarely meets all of the requirements of an FSSC. Many FSSCs find that they need to run a number of applications, and the task of integrating these to provide high quality service to client business units is often expensive and time-consuming, especially in the difficult period when the FSSC has just begun to ‘go live’. A common interim solution is for core transaction processing to take place on the ERP platform, with reporting and analysis (for client business units) running on a separate read-only data warehousing platform.

The issue of linkages with other IT systems is likely to be of ongoing complexity. Already, it is common for FSSCs in the public sector (for example, that of the Eastern Regional Health Authority, described in detail in an earlier chapter) to provide services to a number of smaller public sector bodies with diverse technology platforms. In the private sector, the organisational value chain often encompasses complex online business-to-business markets and specialist industry online exchanges. Thus, firms often find themselves participating in several procurement exchanges, involving a wide variety of software platforms. Thus, the idea of a single ERP solution may be impossible to realise.

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