
The corporate strategy transformation in terms of the evolution of shared service centres



Abstract

The article intends to reflect how a shared service center (SSC) verifies the academic pillars of the corporate strategic planning. It supports to understand the base concept of a shared service center and then connection is built up between the corporate strategy and the organization structure change. The core relationship goes through an evolution and prove how this organization matures from a cost effective stage (SSC) through effectiveness (BSC) to a transformation factory and RPA (Robotic Process Automation) catalyst to enhance the corporation footprint (GBC). The goal with this paper is to share and spread the knowledge so that the future generation can get familiar with the globally organized shared service center phenomenon; and understand their potential employer's core operation and strategic thinking. The study can give significant benefit from both the employers' and employees' prospective if SSC, BSC or GBC buzz words bear clear message and expectations with straightforward alignment in a potential future common work.

Keywords: shared service centre, corporate strategy, global business centre

PORTER'S THREE GENERIC STRATEGIES & SBU

Strategic business unit (SBU) is an independently managed profit center or division that can run as a separate unit with its own strategic objectives. Each SBU goes with different generic strategy that results above-average net income. Not all the strategy is suitable for all SBUs. There are many factors like organizational structure, control and quality management process, available human, technological or other long term asset resources or even the management's leadership skills and style determine that the SBU follows cost leadership, differentiation or focus strategy (Porter, 1980).

Cost leadership strategy's objective is that the aggressive efficient scale leads to cost reduction that is relatively low compared to the competitors. In this matter the organization follows the approach how the cost can reduce the most effective way (e. g. maximize the asset capacity) that usually works at large corporations that have enough magnitude for the economy of scale.

Differentiation strategy committed to have a product or service with adequate distinctive features to create additional customized value for that additional premium price is charged. Material cost investment and proper market acceptance is required to generate the expected margin.

Focus strategy has mission in a special market niche where the competitive advantage is highly utilized. The targeted market segment could be cost-sensitive or prefer the superior and high quality product or service.

SHARED SERVICE CENTRE PHENOMENON

While in the late 1980s and early 1990s the world voted for decentralization, nowadays the centralization is in focus to reach efficiency by standardized and cheaper operation. The abbreviation of SSC (shared service center) or BSC (business support center) – recently renamed GBC (global business center) appeared in the worldwide business dictionary when the large and strongly decentralized organizations aimed for an alternative solution to be more effective with their basic transactional operations. The structure of multiple locations does not maintain the lean process. The lean process is based on the approach that the end customer value is created via the Japanese 3M (Liker, 2004). The mura, muda and muri meaning waste in the Japanese language (muri = unreasonableness, mura = non uniformity). Elements – like waiting, conveyance, correction, overprocessing – are in the “wheel of waste” is eliminated by the centralized organizational structure.

The similar transactional base supplemental activities like human resources, finance, accounting, information technology and customer service are lopped from the core business and set aside into a centralized but separated organization. By SSC concept both the main business and the business supported transactional service line can focus on their own strategic decisions. *SSC operates as an independent legal entity but it is still integrated with the core business' processes.*

- What are the root causes for a global organization to decide to change its business model?
- What short and long term benefits are expected after the organizational structure change?
- Why does a global corporation decide to *join the SSC world*?
- Is it only an indisputable cost effectiveness decision?
- Alternatively, can the low cost mindset turn into service differentiation strategy where the high data integrity provides meaningful support for the business lines?
- Does a worldwide global organization gain competitive advantage and strategic growth via an SSC that does not work only as a “robot”, but rather as an essential business partner of the key operation?

The above listed questions are looking for the verification that the robust organization structure change – like the shared service center concept – will create added value for the organization.

In the current highly competitive, matured and globalized market there is an ongoing and significant pressure to keep the target margin and to maintain

the sustainable competitive advantage. This current environment has proper fit for the low cost strategy. The `product` of an SSC is their service itself that is required to be provided at lowest cost. The multinational corporations (MNCs) with extended across borders *multi locations base sites of a global corporation could be ineffective as the repetitive transaction base processes and their facilitated infrastructure are duplicated and the same data provided from various sources.*

The *economies of scale* and an effective lean process can be reached if the non-value-added activities (waste) are eliminated by moving them to one central location. The new SBU is primarily launched on a low cost location with low labor cost, low price at the real estate market but with adequate infrastructure (logistic, telecommunication). The *good-level education with adequate human resource* are critical for a settlement. The *local taxation system* with the startup governmental subsidy are also essential to determine the strategic site of the newly built SSC. If the targeted place is economically and technologically feasible then other key critical factors like *quality of the future workforce, the cultural and language challenges and external environments* (political and macroeconomic stability (e. g. inflation rate)) needs to be measured.

Basically, we can say that the *primary reason for companies to implement a shared service strategy is to keep the cost at the lowest possible level and gain competitive advantage by low cost strategy.* The question is if this strategy can support the long term objectives.

STRATEGY CONCEPT AT BUSINESS CENTRES: LOW COST MAKER OR DIFFERENTIATOR?

In addition to the cost reduction approach, in my opinion the *SSCs can create strategic value* for the core operation. The new organizational structure sets customer-vendor (business – and service lines) roles in place that incite a continuous improvement mindset. A centrally located SSC shares the knowledge easily, generates new ideas, improves the processes continuously with active involvement of the latest technology. The SSC based organization structure results in more flexibility to add and eliminate SBUs like having merger, acquisition (M&A) or divestment. In this corporate strategy the organization can pay more attention to the core business while the SSC manages the service line`s transactions.

The main factors and the designated outcome of the SSC strategic partnership are as follows (ORACLE, 2014):

Driving factors:

- Limited access to management information,
- Poor mentality of the back office working attitude,
- Low quality and high cost at the service lines operation,
- Strong market competition,
- Mergers and acquisitions,

- Missing standards and effectively operated IT infrastructure.
- Resulted outcomes:
- Improved support in the management decision making with effective resource alignment,
- Cost effective labor force,
- Lower taxation including governmental subsidy,
- Economies of scale with lower fix cost,
- Strong customer orientation approach,
- Centralized and standardized best practises,
- Global and high quality control framework,
- Advantage in centralized IT infrastructure,
- Reduced asset duplication,
- Improved concise and time communication.

At the beginning of the SSC`s lifecycle (Genpact, 2015) the cost reduction with the capability improvement is the main goal. This becomes later a default expectation. The SSC is expected to reach a higher level when the organization is actively responsible for the extended and effective process improvements generating growth and delivering additional earnings.

We can differentiate four main lifecycles of a SSC (Santosh, 2013):

1. 1st (startup) phase – 0-2 years: The organization has its focus on stabilization and the realization of the planned savings. Primarily, the transferred process remains untouched and minor steps are done towards the reorganization. At this earlier stage the relocation from a high cost site to a low cost site could mean 15-35% G&A expense drop (Cacciaguidi-Fahy et al., 2002). In this phase the key strategic points are the flawless transition without major gaps, signing of the service level agreement, stabilizing the resources (people, process and technology) and starting to reduce the process complexity.
2. 2nd (matured) phase – 2-5 years: In the 2nd stage the organization works on the efficiency, span the controls and stabilize the productivity leading to a reduced cost base operation. It consolidates the supervisory and higher level of management roles across the funtions which is the key element as the SSC moves towards the process-focused organization structure. The goal of this phase is to have a “well-oiled machine” in order to assure the smooth operation. PwC defined a four step formula, which is the core of this phase: simplify, standarize, centralize and optimize (PwC, 2008).
3. 3rd (functional excellence) phase – 5-10 years: After 5 years usually the organization serves the flawless execution of the migrated functions. The site is fully optimized for the business purpose and is able to contribute to the strategic decision making. The SSC is embedded into the “body” of the organization: has ownership in the wall-to-wall processes on both cross functional and geographical level. At this stage the SSC supports the heart of the company’s strategy. The goal is not only the short and mid term perfor-

mance, but also the added value for the long term outcome such as establishment of process maps, definition of R&R (roles & responsibilities), finalizing of the KPI metrics, improvement on the working capital, giving influence on the customer interfaces, and implementing product development initiatives.

4. 4th (innovation and automation hub) phase - 15+ years: The site enhances its functionality further. This differentiation base SSC is already the strategic business partner of the business with innovative solutions. The strategy transition is also highlighted in the renaming. The SSC / BSC is replaced with the new brand of GBC which stands for global business center. The GBC provides embedded transformation capability that is essentially beneficial in case of M&A. Having integration capability into standard processes by experienced transition resources. The GBC is also an “incubator” for innovation, provides automation, robotics and cognitive computing solutions. The GBC has a “non-traditional” functionality, creates process ownership and represents cross functional visibility.

SUMMARY

The key message of the study is to highlight how Porter’s base theory goes practise. The SSC is able to work for the corporation to achieve cost leadership strategy in parallel with the differentiation strategy. The conscious strategic objectives creating added value and competitive advantage both short term and long term:

- Extensive cost drop due to reduced labour cost with appropriate cost and chargeback model
- Active cooperation and *strong management support* from both “sender” and “receiver” subsidiaries
- Increased *efficiency by centralized process* that completes the task with standardized and technically improved working files.
- *High quality and data integrity* in the service due to the deep process knowledge that is continually maintained by well-organized training programs for the long term sustainability.
- *Enhanced controls framework by defined R&R (roles & responsibilities)*, auditor verified control calendar and catalogue, well maintained accounting and reporting guideline including detailed desk manual description.
- Well established *communication process* and communication protocol across the organization via *global virtual network* including various location and cross functional involvements.

For the reason that SSC concept of a global corporation keeps the competitive advantage both globally (*inside: functions as business partner and serves the business line as client*) and locally (*outside: be attractive SSC as a workplace in Budapest*) the below focus areas are recommended:

- Enhanced focus on the local cultural discrepancies: the HQ base intensive corporate culture presence might be able to easily overwrite the local needs. *The elements of the local cultural iceberg could be regarded more carefully.*
 - *For Asia:* To have more focus on the individuals by one-to-one sessions or given feedback in written as in Asia region the collectivistic attitude^[1] is more dominant and the individuals do not express their own expectation about the job and long term career development.
 - *For Latin America:* To have intensive training program about time management. Set regular meeting reminder and have more focused and stronger coordination for the global meetings with South American participants
- Social collaboration: To improve the informal interaction channels across the organization to have more facility to exchange the knowledge and keep the sustainable competitive advantage. E. g.: *intranet base social media* within the corporation.
- Global continues improvement mind-set: To enhance the cross functional communication channels via *CI network* with active involvement of advanced technology. Business and non-business and functional departments need ask for continuous support and automation opportunities proactively and not waiting for the latest technology solution whether it offers its potential solution.

It is not a question anymore that a centralized service centre is an effective strategic model that is able to reduce the uncertainty of the business environment and realize high earnings on the investment. The dilemma is only how often, when and which way the service needs to be upgraded to improve the scalability, the standardization and the capabilities that is critical to preserve the differentiator strategy as competitive advantage.

NOTE

The study was based on the author's Final Exam paper at Central European University in 2017.

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