Sharing the load

Businesses in a range of sectors, from petrochemicals to pharmaceuticals, are turning to shared services solutions to make their processes more efficient.

Cutting cost is among the key reasons for switching to shared services operations, as firms seek to remove duplication and harmonize operations, such as finance and accounting, worldwide.

The savings can be vast. SABIC, the Saudi petrochemical company, managed to cut its costs by US$107m (SAR400m) after setting up a shared services operation in 2002 that included functions for accounts payable and receivable.

Andrew Kris, co-author of *Shared services, shared insights* and founding partner of executive search firm Borderless, argues that shared services operations can reduce hassle and improve quality. “Why repeat the same financial activities for each country, especially when a CFO would consider many of them to be low value-added work?” he points out. “Shared services can help you improve the quality and effectiveness of the work, while reducing the number of people who do it.”

Vienna-based Borealis Polymers certainly found this to be the case. It has production facilities in a number of European countries, the US and Brazil, and a single shared service center at Mechelen, near Brussels. This handles centralized treasury, payables and receivables, general ledger, cost and inventory accounting, reporting and business intelligence. Although the company has taken on more work, staff numbers have halved and its cost per net external sales has fallen to 0.3%.

Savings are only part of the attraction, according to Michael Corbett, founder of the International Association of Outsourcing Professionals. “If you can respond more efficiently, you are going to be more competitive,” he says.

Shared services can be either “captive” (in-house) or outsourced. “You may not want to outsource everything,” says Kris. “You may want to keep credit control in-house to retain a close customer interface.”
If you choose to create a captive function, the biggest challenge may be getting staff to understand the nature of their new role. “Ultimately, it’s a people problem,” he explains, “because you’re fundamentally changing the way your employees work.”

Corbett agrees that companies may have to deal with what he calls “turf issues.” “An internal service center has to blend with the rest of the business and see itself as a commercial service provider,” he says. “It may be a big change for employees to see other units as their customers, so internal communications and training are important.”

It may be worth looking outside the organization when it comes to considering who will manage the new shared function. “Your best finance guy is not necessarily the best leader of a service business,” says Kris. “Ultimately, the best person to run shared services is a general manager.”

There are, however, benefits to finding the right person internally, he adds: “Having someone who understands a company’s history and centers of pressure, without starting from scratch, is useful.”

Full commitment from senior executives is necessary to make the transition work. “Too many companies drift into shared services,” comments Kris. “It needs extremely strong leadership. It’s an immensely disruptive process that has a tremendous impact on people.”

The new culture has to support sustainable value creation, warns Corbett. “Shared service operations have to learn to listen to their internal customers,” he says, adding that companies need to know when to “pull the plug” on a service provider if their needs change.

“Always deliver what your clients value, year after year,” concludes Kris. “In a shared services function, you’re only there as long as your customer is satisfied.”

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