ROLES AND RISKS IN FINANCIAL SHARED SERVICES TODAY

In this Q&A interview with Brad DeMent and Trey Robinson, partners in ScottMadden's Corporate and Shared Services consulting practice, APQC examines the current and future state of financial shared service organizations (SSOs). This is the first in a two-part series; click to read the second half: The Role of Robotics in Financial Shared Services.

How have financial shared services organizations (SSOs) evolved and what's the current state?

Implementation of financial SSOs began a couple decades ago and ScottMadden has been in the business of SSO design and implementation for a little over 20 years. In the early days, we were primarily engaged in designing single-function models that serviced the United States only. Now, organizations need larger scopes in terms of regions or services rendered. Many want to have multiple functions in the SSO—finance, IT, supply chain, human resources, and others—while servicing 50 or more countries around the world. Offering and executing processes around the globe means organizations will have new challenges to address (e.g., taxes, transfer pricing, regulations, cultures, currency fluctuation). Deciding where the best locations are for SSOs is a whole different ball game today.

How can organizations successfully move from a single function model to a multi-function, integrated, global SSO model?

A big part of SSOs' success is ensuring the organization's stakeholders are involved in the design process. ScottMadden often does future-state workshops that include representatives from different functional areas and/or countries. The point is to get buy-in for the overall vision of the next-era SSO. You're not going to go from decentralized services to integrated global business services overnight.

Beyond that, it's important to think about what the step-by-step road map needs to look like. It may start with transactional services and then move up the value chain to analytical services. Or perhaps you move forward integrating one function after another. Or perhaps independent shared services are developed with common governance and infrastructure, evolving over time to a multi-function model. The goal is to build a road map piece by piece so that stakeholders understand where the organization is today and what it's going to take to create an SSO that supports the corporate strategy.

What criteria should organizations use when deciding the location(s) of SSO centers and hubs?

In the past, common criteria such as labor skills, labor availability, and labor cost were considered. However, today criteria such as governance and political and economic stability have strong weightings.

Governance—one thing that's often overlooked is governance. For global services in particular, good governance is important so that everyone knows how decisions will be made and by whom. For example, who is the driver of decision-making? The country, the function, or the global business leader? We've seen clients implement a global business service only to move shared services back under the original function—or focus only on transactional services—all because an effective governance model wasn't in place before implementation. Locating global hubs needs to consider who and how decisions will be made in those particular regions and for what countries.

Location—there are potential operating risks due to political/economic stability or unrest in various locations. These concerns are gaining higher priority today as countries' political environments and economies are losing stability in certain regions such as Latin America. Organizations are looking for locations that are going to be relatively stable a decade out, instead of only examining what is stable today or has been stable over the past few years. There's also closer examination of operating risks due to extreme weather and natural disasters that may require expensive disaster recovery plans. We've seen many shared service locations affected by earthquakes in Chile, hurricanes in the United States, and flooding in Central America.

Currency Stability—Latin America is a recent example where currency instability has affected global operations. Within the last year, the value of the U.S. dollar has gained incredible strength against the Peso, devaluing the Peso to the point that it's extremely expensive for Latin America to purchase services from the United States. The heaviest impacts are currently in Colombia, Brazil and Mexico, but we've recently seen most of the currencies in Latin America devalue versus the dollar very quickly. So if you're choosing hub locations based on economic strength/currency you may consider purchasing Latin American-based services from the United States while the Peso is devalued up to 30 percent in some locations.

What are the essential changes organizations need to make before diving into financial SSOs?

Hopefully organizations encounter several realizations or "a-ha" moments during the SSO design process. Beyond making adjustments to all functions/processes and making decisions on geographic locations and technologies, one of the realizations many organizations have is that **you can't centralize one finance function without impacting another**. Standardizing and centralizing processes takes time because the financial staff may perform many different financial processes or even non-financial processes, such as human resources or supply chain. As this work is consolidated, the left-behind work must be accounted for, which often results in larger transformation initiatives. Also, the organization has to ensure the right skill sets are in place. Organizations should not jump into robotic process automation and business analytics initiatives before the basics are covered.

For more on this, watch APQC's March 2016 webinar—Financial Shared Services: A Whole New Ballgame.

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