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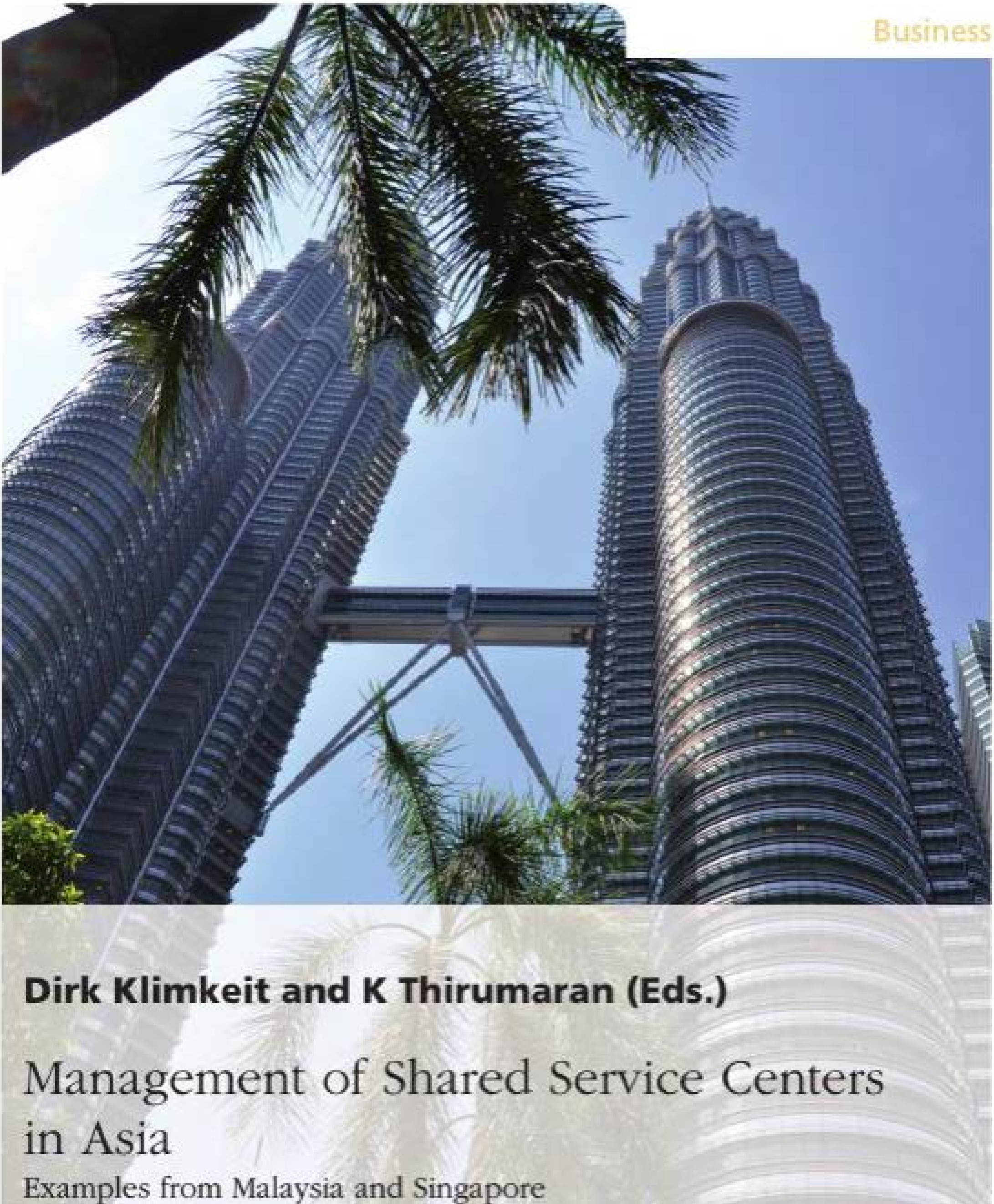

Dirk Klimkeit and K Thirumaran (Eds.)

Management of Shared Service Centers in Asia

Examples from Malaysia and Singapore

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Editors

Dirk Klimkeit, PhD
Baden-Wuerttemberg Cooperative State University Stuttgart

K Thirumaran, PhD
James Cook University Singapore

Foreword

Asia Pacific represents the most diverse region in the world, with more than fifty different countries, languages, regulations, currencies, and significant cultural nuances. In addition, it has possessed the fastest-growing economy in the world over the last two decades. In this context, companies doing business in this region must learn to structure their growth and reduce their risks in this complex environment. The rise of shared service organizations over the same period of time has been a key solution to this context.

In the Asia Pacific region, Malaysia has emerged as a major location for operating shared service organizations. The country presents unique attributes, including the coexistence of almost all Asian languages, high-quality education, growing skills, and a strong willingness from the government to attract foreign investments.

This book provides rich insights into the principal aspects of shared service organizations in Asia Pacific, particularly in Malaysia, covering the fundamentals, key frameworks, and new trends.

Pascal Bornet
Leader of Intelligent Automation and GBS Advisory at EY Asia Pacific

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Lisa Tolzin
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Patrick Rochhausen
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Editors' Profiles

Dirk Klimkeit, PhD

Dirk Klimkeit is Professor of Management, Organization and International Management at Baden-Wuerttemberg Cooperative State University (DHBW), Stuttgart, Germany. Before becoming a professor, he managed several projects relating to shared service centers in various parts of the world at a large audit and advisory firm. Besides his current research interest in shared services, he has done research on topics including mergers and acquisitions, knowledge management and the global management of professional service firms.

K Thirumaran, PhD

K Thirumaran is the Head of Academic Group, Business and IT at James Cook University Singapore. He has worked in the banking, transport, travel and hospitality industries. Despite specializing in tourism and hospitality management, he often employs his industry experiences in research and teaching. His current areas of focus are luxury businesses and the management of cultural resources.

Contents

Chapter 1: Introduction 9
K Thirumaran and Dirk Klimkeit

Chapter 2: Internal Organization and Governance 15
Rahul Kulkarni

Chapter 3: Planning, Recruiting, and Selecting Talent 21
Larissa Scholl

Chapter 4: Training & Development in SSCs in Asia 31
Komal Subhash Pasi

Chapter 5: Career Development and Retention 39
Katharina Kugler

Chapter 6: Financial Management 49
Sebastian Kurscheidt

Chapter 7: Performance Management in Shared Service Centers 59
Maximilian Pfander

Chapter 8: Collaboration with the Retained Organization and Other SSC Locations ... 69
Mirela Selimovic

Chapter 9: Information and Communication Technology 81
Jan Becherer

Chapter 10: Introducing Robotic Process Automation 89
Prateek Ahuja

Chapter 11: Shifting to More Knowledge-intensive Services 97
Simone Eichler

Chapter 12: Conclusion 109
Dirk Klimkeit and K Thirumaran

Chapter 1: Introduction

K Thirumaran and Dirk Klimkeit

1.0 Introduction

During the colonial period, early international corporations exploited land and labor in much of Asia (Alatas 1977; Breman 1989; Murray 1992). Nodal points of communication and command structures helped control far-flung territorial resources and trade (Jones & Wale 1998). However, after World War II, businesses and business organizational models became more agile (Doz & Kosonen 2010) in their profit-seeking activities, focusing on establishing strategic business production facilities to access markets, with an intention of transferring technology or merely assisting developing countries in their economic vitality and engagement in global trade (Amsden 2001; Maddison 2007).

During the 1990s, businesses rationalized and consolidated their resources more efficiently through better management processes and low-cost production centers (Bergeron 2002). 'Business process optimization' was a key phrase used by firms seeking ways to run their businesses at the most efficient level with a given resource. This thinking led to further streamlining of the business operations process at the back office and centralizing common functions across business units at select locations (Davenport, Harris & Cantrell 2004; Howcroft & Richardson 2012). Consequently, Shared Service Centers (SSCs) emerged.

The setup of SSCs is driven by geo-economic realities, a cheap but skilled labor force, low rental and infrastructure costs, and developments in information and communication technology that enabled the provision of many services from a geographic distance, all conducive to a centralized form of business operations known as "shared services". Companies found that key processes conducted in the back office could be standardized and executed in a place separate from the origins of the business transaction (Howcroft & Richardson 2012). Besides efficiency, SSCs promise additional benefits to companies. By moving administrative tasks into a SSC, companies free professionals working in decentralized units from administrative burden, enabling them to move into more strategic activities. Since many companies expect improvements in service quality without giving up control, as would be the case with outsourcing, SSCs are sometimes labeled as "insourcing" (Bondarouk 2014).

There are, however, significant differences between traditional central functions in a divisionalized corporation and SSCs. A traditional central function decides which services it will provide to the various business units. However, business units receiving the services of a SSC have more ownership and discretion in which services they request. As a result, the relationship is set up to be more service-oriented, which is also reflected in common SSC terminology, such as labeling the receiving business units as 'customers' (Janssen & Joha 2006; Bondarouk 2014).

However, to complete the picture, it needs to be added that SSCs can fall short of fulfilling expectations and can thus create disappointment. Academic research has found many cases where SSCs led to low customer satisfaction, higher-than-expected costs and reductions in service quality. In particular, employees in receiving business units, who were used to having a service provider co-located, may perceive alienation from the service provider in the SSC, deterioration in communication, fragmentation of services, and frustration (Arnoud & Falzon 2012; Cooke 2006; Janssen & Joha 2006). If set up and managed properly, SSCs can be important building blocks of success in a competitive global economy. Therefore, SSCs must address the abovementioned issues and determine an ideal formula that achieves both efficiency and effectiveness in service provision.

Despite the scant (Schwarz 2014) or dispersed and segmented (Richter & Brühl 2017) scholarships, emerging literature (Schwarz 2014) on SSCs provides a rich understanding of a business model that has been fundamental in cutting costs and raising efficiency in operations. This book offers an attempt to merge, where possible, existing literature with actual industry practices in a dynamic part of the world and to identify divergences between scholarship and the real world.

1.1 Field Study and Approach

In order to learn about the current practice of managing an SSC in a key region of the world for shared services, several firms with SSCs in Singapore or Malaysia were contacted in preparation for a field visit. Students from Baden-Wuerttemberg Cooperative State University (DHBW) Stuttgart, Germany, and James Cook University Singapore (JCUS) were divided into groups based on interest in various topics relating to the management of SSCs. During August 18-27, 2017, DHBW students joined JCUS students for a field visit of SSCs in Singapore and Kuala Lumpur, Malaysia. A total of 23 students and 3 lecturers participated in this intervarsity collaboration program.

The students were both undergraduate and graduate students in their final semester of business management degree programs. The companies visited were BASF, Siemens, Shell, SAP, IBM and one more company that chose not to be mentioned where we had opportunities to gain insights into the operations and understand the various aspects of how these centers are managed. Separately, we also attended talks — by esteemed scholars from Universiti Kebangsaan Malaysia (UKM); a management consultant from Ernst & Young (EY) who specialized in shared services; and Malaysia's premier economic investment promoter, Malaysian Digital Economy Corporation (MDEC) — to complement the inside perspective of SSC managers with the outside view of consultants, scholars, and a government agency, who were able to put the topic in a broader perspective.

A combination of academic lectures, exercises and experiential industry visits and insights provided our students with an in-depth understanding of the SSC business model. Following the study tour, the students wrote their research papers, with each focusing on a different aspect relating to the management of an SSC in Singapore or Malaysia. Ten of these papers were selected for inclusion in this publication, with three primary objectives:

1. To highlight insights from field visits
2. To examine industry practices
3. To contribute to existing literature with insights on SSCs in Malaysia and Singapore

In the last two decades, more businesses have found it beneficial to set up their SSC model in Malaysia. Accessibility to educated, skilled labor with multiple language skills; excellent infrastructure; and relatively low operational costs are some of the reasons cited. However, a SSC may also be located in a costlier place, like Singapore, because the regional headquarters of a company in the city-state may want to benefit from co-location. This is one type of example that readers can find in this book, which attempts to unravel the contemporary functional operations of SSCs in Malaysia and Singapore.

Especially prevalent in Malaysia, several institutions have been following a trend of referring to the shared services industry as the "GBS (global business services) industry". Therefore, we also follow this nomenclature in those cases, particularly when referring to this industry in Malaysia. This is to be distinguished from the specific GBS target operating model outlined in other parts of the book, which refers to a particular way of organizing all SSCs of a company worldwide under one joint global leadership.

1.2 Contributions

To accommodate these objectives, this book and the authors' contributions explored the modus operandi of SSCs in relation to areas like human resource deployment, recruitment and career advancements; financial management and performance controls; new advances in SSC operations driven by knowledge-intensive practices; and the use of digital technology and robotics.

Rahul Kulkarni examines the internal set up of SSCs, particularly the organizational structure and governance of the SSC. His chapter 2 concludes that the structure and governance style of SSCs very much depend on the function and reporting order of the company and, to an extent, the client service needs.

Since SSCs are essentially people businesses, it is appropriate that three chapters deal with human resource management in SSCs. In chapter 3, Larissa Scholl addresses the importance of recruitment and selection of talented staff in SSCs, which was described as a significant challenge to us during our company visits. The chapter suggests that, apart from utilizing social media to reach out to talented individuals, SSCs have also proactively worked with educational institutions to nurture young talent and prepare them for a role in the industry. Along the same theme, Komal Subash discusses in chapter 4 the critical point of continuous training and development in SSCs to qualify and retain people. One of the training forms highlighted by Subash is the use of e-learning. While e-learning may divert time away from the employees' immediate or daily tasks, it can also be a useful way to enhance knowledge sharing. In chapter 5, Katharina Kugler further analyzes the ways in which SSCs attempt to retain talent. Again, this is another salient issue among SSCs in this region, with annual attrition rates sometimes at 20 percent or more. She found that, besides an attractive remuneration, providing career development opportunities can play a key role in retaining talent in an SSC.

In chapter 6, Sebastian Kurscheidt studies the various financial management schemes of Shared Service Centers. He identifies differences between recommendations in literature and practices in Singapore and Malaysia. While several authors of the extant literature recommend running a SSC as a profit center, the centers we visited had all been set up as cost centers for good reasons. Maximilian Pfander, in chapter 7, expounds performance measurements and controlling as a way to understand the efficiency of the SSC and the use of service level agreements (SLAs) with internal customers. He found that, in practice, a focus on compliance has become part of the performance expectation of SSCs. Besides measuring SLAs and KPIs, benchmarking and surveys are also used to assess performance.

Due to the way SSCs are typically modeled, issues relating to managing boundaries and intra-firm relationships can be challenging. In chapter 8, Mirela Selimovic explores coordination and communication between SSCs and the retained functional organizations and other SSC locations within the larger internal structure of the company. She found that all SSCs visited are coordinated and controlled by standardized rules and procedures. Several of them have set up global virtual teams for collaboration. Jan Becherer, in chapter 9, attempts to unravel the fervent use of technology in the efficiency and delivery of services to internal clients, also including some recent developments. He found that while SSCs still mainly use traditional instruments, such as ERP systems, ticketing systems, phone, and email, some SSCs have started to introduce more recent technology that is likely to become widespread as SSCs move into more knowledge-intensive services.

The last two chapters look at recent trends observed in SSCs worldwide that have also started to impact the region being studied. In chapter 10, Prateek Ahuja addresses the shakeup that robotic process automation (RPA) may present for SSCs, as repetitive, transactional tasks might increasingly be done by robots. Consistent with this, Simone Eichler investigates how SSCs are shifting toward more complex knowledge-intensive services to increase the value-add provided by SSCs and stay relevant in the face of the automation of more traditional transactional tasks that SSCs are mostly associated with. She found that SSCs are preparing themselves for this change, including developing new competencies and becoming more proactive and innovative in their service offerings.

This book attempts to enhance our knowledge of current GBS industry practices in a major part of the world for shared services. Government agencies, university business lecturers and students, and professionals in the SSC business will find these various chapters of interest, as each contains valuable insights and learned observations.

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