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Banks to Play Key Role in Next-Generation Shared Service Centers

The scope of shared service centers (SSCs) — defined as locations where a multinational company bundles back-office services in order to generate efficiencies — has broadened to include a greater range of business activities. When SSCs were originated in the mid-1990s, the trend was to consolidate and centralize processes and information technology infrastructures using enterprise resource planning (ERP). But today technological advances and regulatory pressures are widening the scope of how SSCs are used, especially in the financial arena. And the potential benefits of the SSC concept are also broadening.

Geography is playing a part. The traditional image of global SSCs being located in India is breaking down as more regional offerings are becoming attractive. For example — in a move known as "near-shoring" — many SSCs are being located in Eastern Europe where, as in India, corporates can realize savings through lower labor and property costs. Eastern Europe has the added benefit of being closer to production plants. Indeed, more often than not, an SSC in Eastern Europe will be embedded in the existing manufacturing facilities, leading to better integration of company culture.

Streamlining and rationalizing financial processes in an SSC environment can provide significant cost savings and efficiencies. For example, SSCs are playing a more active role in defining system standards across business units for global data integration. Those in Purchasing will be involved in defining what system will be used. If this is the case, those working in shared service centers are basically creating the global standard. The economies of scale available can often work as a virtuous circle: Corporates will find that spending on advanced technologies that were not affordable on a unit-by-unit basis can now be justified — and further increase the economies available.

Banks' Role Grows in Importance
With the acceleration of technological advancement, the role of banks becomes even more important, at least at the financial end of the SSC utility. Corporations have the opportunity to partner with banks and use their expertise to gain efficiencies in transacting across diverse global banking and clearing systems.

At their core, financial SSCs are about the efficient management of financial processes across regions. Their goal should be to simplify and automate as many processes as possible. Corporates need a banking partner that has the IT capabilities to deliver on these goals, as well as the financial flexibility to invest in and develop systems in the future. In choosing a banking partner, corporates should take a hard look at their IT capabilities, including their flexibility and their appetite to invest in systems to make it easier to automate and centralize financial processes.

However, the reality is that there are only a few banks that have the financial strength, scale and footprint to offer real, tangible benefits. Such benefits include the capability of generating a single file in a single format through one communication channel, as well as processing related transactions across countries and regions without having to worry about local differences. Other examples are receiving detail enriched confirmation and return messages in a single format and coding for managing exceptions. Equally important is the ability to provide services to manage paper transactions — for example, in the form of lockbox services and automated check issuances, in a centralized fashion across geographies.

Another crucially important issue is a bank's ability to offer SSC-related electronic information solutions to afford corporations the benefits of a full range of transaction banking services. Only banks that have made a major IT investment can offer this.

Regulatory Pressures
Regulatory changes have also driven SSC growth. The Sarbanes-Oxley Act of 2002 established enhanced standards for accounting and reporting practices, as well as important new rules on the storage of financial data for US corporates. Yet with processes centralized under the umbrella of an SSC, consistent controls on data flows and aggregation can be applied. Data and decisions are also more easily auditable.

The Next Generation
This combination of technological development and regulatory pressures has broadened the potential scope of SSCs and multiplied available benefits. And the trend is set to continue, with the range of business functions potentially encompassing — among others — centralized invoicing, human resources, customer services and payroll.

Companies have found that SSCs offer even more benefits as time goes on. Originally seen as a way of mitigating costs by avoiding duplication of business functions and achieving economies of scale, the wider strategic benefits of SSCs are now becoming apparent to many corporates. Automating processes heightens their visibility, increasing management's ability to analyze and improve them. Also, such automation minimizes errors, strengthens compliance and breaks down silos. An SSC best practice is to aggregate data and compare business performance indices, allowing continuous improvement.

Techniques for managing liquidity will also benefit from SSC implementation. The centralization of financial processes through a single-window banking solution — within and across regions — allows corporates to improve forecasting and make maximum use of internal funds and reduce outside borrowing. The emergence of in-house banks from SSCs, using single account and payment "on behalf of" concepts, is also one of the key characteristics of the next-generation SSC. This will bring the SSC and the treasury functions closer together, provided that the banking partner can facilitate the reconciliation process and the related information technology.

Banks should lead the way in offering their corporate clients the technology platforms to make such solutions viable. Yet the barriers to entry are becoming higher. There are only a handful of banks that have both the technology and the global scope to keep up with the pace of change. This means that banks not only have to be in a position to accommodate the needs of corporates in today's marketplace, but more importantly they must be able to facilitate the implementation of next-generation SSCs. Corporates should choose a partner that is truly capable of fulfilling both these requirements.