Thinking

The rise and rise of shared-service centres is a revolution that's going under the radar

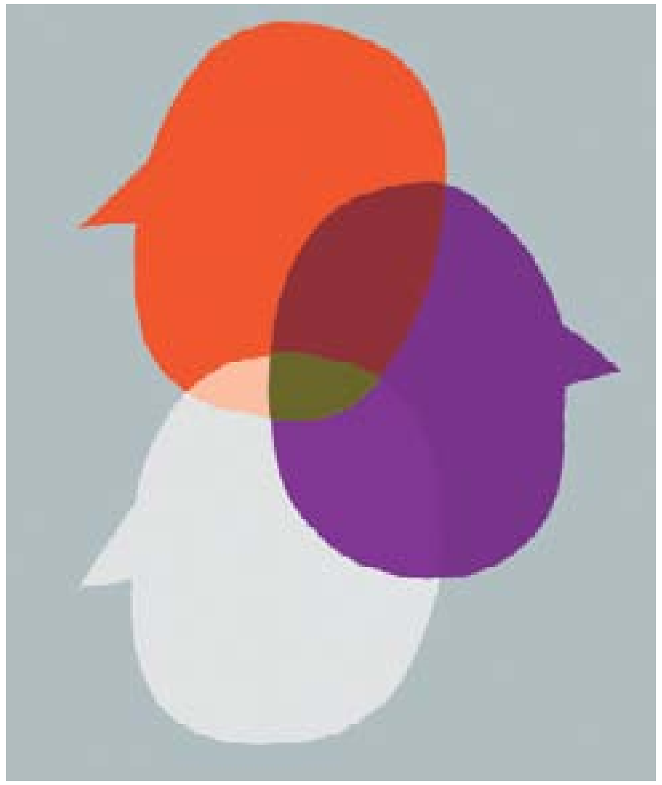

Illustration: Karolin Schnoor/Dutch Uncle

The consolidation of common service activities in a discrete shared-service centre (SSC) is an emerging trend in the evolution of the multi-divisional form of organisation. Typically, it's where a firm removes support services such as finance, IT and HR from front-line business units and puts them in a purpose-built facility in a cheaper part of the country or abroad.

Our research considers SSCs as hybrid governance mechanisms that seek to combine market principles with in-house control. They are arm's-length bodies that can act in an entrepreneurial way – outside the control of divisional management but answerable to it through a service-level agreement (SLA).

The claimed advantages of adopting shared-service centres have hitherto gone largely unchallenged by academic studies

While outsourcing also claims to achieve efficiency savings through relocation and the elimination of duplication, an SSC brings a quasi-market feel to relationships with its business-unit "customers", yet enables the management to retain control of activities so that its services can adapt to changing business needs. SSCs argue that their competitive, independent nature is reinforced through external benchmarking and rankings against other SSCs. Divisions can also hold a centre accountable by either enforcing SLA terms or lobbying senior management. What's more, there is always an implicit threat that a centre might be outsourced.

In the public sector, too, several bodies have come together to share services through a new organisation with its own constitution and an objective of breaking even or perhaps making a small profit.

Uncritical mass

The list of SSCs' advantages published in the consultancy literature might suggest that the case for them is proven – indeed, there has been little critical research into shared services so far. This apparent neglect may be because the SSC model largely lacks the radical impact of outsourcing in terms of a dramatic reorganisation. The migration of activities to an SSC is usually a gradual process that tends to stay under the radar of unions, academics and the media. Despite this, the interim findings of our study indicate that, far from being a peripheral project concerned merely with shuffling the organisational deckchairs, the SSC model represents a quiet revolution in back-office services. Through its emphasis on cross-functional process streams and business process re-engineering, it's reshaping the way in which activities are done and also has the potential to influence our thinking about the design and operation of large organisations and professional careers.

Although achieving cost savings is a key objective, adding value through improved service is also an important goal for some of the organisations in our study. In these cases, they see the back office as an opportunity to make the most of the talents of front-line staff rather than just another overhead burden to shed. For most of our research subjects, the real benefit of SSCs is that they make costs that were previously hidden within the divisions more visible.

As well as interviewing SSC managers and their "customers" in business divisions, we have set up the CIMA-Loughborough SSC Forum – a series of round-table workshops bringing together managers from a range of public- and private-sector SSCs to discuss common issues. The forum also encourages its members to collaborate outside its quarterly meetings to share more specific data and experiences.

Further information and resources can be found on the project's website at www.shared-services-research.com FM

By **Ian Herbert**, senior lecturer in accounting and financial management, and **Will Seal**, professor of accounting and management, at Loughborough University. They are members of an SSC research team supported by CIMA's general charitable trust.

Opinion

The demand among investors for firms to adopt integrated reporting is irresistible, writes **Andrew Clark**. But IR is about more than an annual document – it's a state of mind

Life used to be so simple. A flick through an annual report published only a couple of decades ago is a trip down memory lane. Take Sainsbury's 1990 effort, which runs to a modest 48 pages and features sepia montages of winsome shop assistants dispensing crusty loaves to bad-haired housewives. It was a year of "outstanding" results, Lord Sainsbury declared, devoting three terse paragraphs to the environment and food safety.

Reporting today is an altogether dicier affair as companies have come under pressure to bare their souls. It's become impossible to ignore moves towards integrated reporting (IR) – an idea endorsed by the Prince of Wales, Nestlé, HSBC, Tata Steel and many more. In April the International Integrated Reporting Council (IIRC) published a draft framework on how multinationals should publicly discuss their finances, governance, strategy, prospects and challenges. At its heart the IIRC initiative means that they need to be far clearer about where they're going.

Steve Gale, a partner at accountants Crowe Clark Whitehill, explains: "The investor community is saying: 'It's all very well reporting on the past 12 months, but forward-looking aspects are our key interest.' They want to know what the short- and longer-term strategies are, how the business is going to be run and what challenges are around the corner."

IR goes well beyond a single annual report. It means transparency, equality and equanimity in everyday discussions among companies, investors, employees and analysts, with regular progress updates and openness – even with regard to ugly happenings.

Sir Mark Moody-Stuart, a former chairman of Shell, believes that any "thoughtful" firm should report in a more sustainable way. "Companies exist to produce goods and services for members of society," he says. "But it's no good doing that if they're causing long-term damage in the process."

Why all the caring, sharing hug-talk? Because the figures demand it. If investors value a firm's brand at billions of pounds, they'll want to know how the management is protecting these intangibles. BP's Deepwater Horizon disaster, Barclays' admission of Libor rigging and the discovery of horsemeat in Tesco's burgers have cost these companies far more in reputational capital than in straightforward cash flow.

A pilot run by the IIRC on integrated reporting has involved Coca-Cola, Microsoft, HSBC and Unilever, while in South Africa the practice is already enshrined into law. Even the US, where a dour 10-K filing with a pictorial cover tends to pass for an annual report, is waking up to the need for reform.

But not everyone has got the message yet: a PwC study has found that, while 77 per cent of the FTSE 350 mention their "business models" in annual reports, only 40 per cent offer insightful data on these and 8 per cent combine that with talk of future risks. But there are some cases of good practice. Chemicals firm Johnson Matthey and power generator Drax, for instance, were named the best UK companies for sustainability and stakeholder disclosures in the 2012 awards for transparency in governance held by the Institute of Chartered Secretaries and Administrators and Hermes Equity Ownership Services.

The head of communications at one FTSE-250 company told me it was time for firms to put old doubts aside: "It's actually considered a strength now to talk about your risks and how you plan to mitigate them. It shows you're on the ball and that you're scanning the horizon for changes that may be just out of sight." FM

Illustration: Lyndon Hayes/Dutch Uncle

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