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### **Shared Services Center – HR Management is Key Success Factor**

Over the past years, companies have been flocking to establish Shared Services Centers (“SSCs”) and it is said that this kind of intra-group structures has been growing in the region of over 30% a year in some countries, including the USA.

Although SSCs seem like favorable arrangements that may bring positive outcomes, many companies have found that their implementation may not be as simple as the centralization of resources and regrouping of personnel, especially in China. Simply put, since the main scope of SSCs is to provide services by individuals, naturally human resource management should be the most important factor for the success of SSCs.

#### **Introduction**

SSCs are primarily global, regional or national intra-group arrangements or setups, through specific entities or functional vehicles or otherwise, for the purpose of centralizing specific operations commonly carried out in the various subsidiary or affiliate companies within the group, in order to achieve certain overall benefits for the group. These benefits generally include reduction of costs, centralization of management and expertise, and enhancement of quality etc.

Functions and operations that can be brought under the SSC arrangements are broad, and are largely dependent on the companies’ specific business needs and models. These may include tasks and activities such as financial and accounting, information technology, human resource and payroll, legal and compliance, purchasing, pre-and-post sales support, to name a few.

The need to drive the bottom line in the current economic environment has speeded up the pace of many groups to introduce or enhance the use of SSCs. Moreover, the fast development of the information and communication technologies nowadays also provide better tools for companies to implement such arrangements.

## Key HR Challenges

When we examine the subject with various multi-national groups in China, it is found that the fundamentals to making SSCs success stories may be very heavily HR related. We have seen cases under which resentment and conflicts were created among the employees, which defeated the management objectives of the SSCs.

Some of the perceived major challenges for implementation of SSCs in China are summarized as follows. Most of these challenges may not be unique to China and may be applicable in other countries, although to different extents:

1. **Management Buy-in:** It is critical to get the buy-in of the management teams, including local management, on the SSCs. Proper involvement and sometimes over communication may be necessary. This is because very often they may see the introduction of SSCs as measures to weaken their autonomy and therefore may be reluctant or even resistant to the changes.
2. **Local Variation:** Since many of the shared services may be compliance oriented, it is important for group management to understand and appreciate the various local constraints and considerations when implementing SSC practices, instead of bringing in blanket applications. This is particularly important in China, given its many and complicated regulatory requirements.
3. **Culture Shock:** Appreciation of cultural differences in different countries or even different regions in China is important to the success of SSCs, especially when local teams are interfacing with regional and global teams.
4. **Defined Roles and Responsibilities:** As SSC arrangements may typically involve more complicated direct or dotted reporting lines and hierarchy for the group as a whole, it is obvious that clearly defined roles and responsibilities should be laid out.
5. **Staffing and Succession Plan:** SSCs sometimes maybe perceived as down-scaling and redundancy exercises, therefore would create job insecurity in some employees. During the early establishment stage, it is advisable for management to have a succession or rotation plan in place, therefore providing more visible and promising career paths for the staff, thereby turning perceived potential threats into promotion prospects for the staff.
6. **Management and Staff Experience:** Managing or serving a group of companies requires broader skill sets than managing one company at one location. Assuming SSC personnel to be able to run a SSC automatically is management naivety. Proper training as well as tools and resources should be provided.
7. **Choice of the Business Model:** Proper choice of business models and vehicles are important, especially when the SSCs are located and operated in China. This is because of the complicated and tedious regulatory requirements in China, which include business scope and licensing restrictions to foreign exchange and other operational requirements, and which may affect the practical selection of the business models. Also, management should be aware that employees may have preference over certain forms of setup or structures of SSCs, eg national investment holding companies are

always regarded as more important than other forms of presence in China, therefore overall evaluation should be properly carried out. Believe it or not, whether it is a cost centre or a profit centre may also affect the acceptance by the staff.

8. **Transition:** Depending on the situation, transition to the SSC structures may be better implemented in phases. This can be done by a phase-by-phase conversion of a specific function, or conversion of less challenging functions before others, therefore creating successful role model examples to enhance the confidence of the other team members.

### Other Key Considerations

Apart from important HR factors and other more universal considerations for the setting up of SSCs, it is also important to understand the potential additional tax costs in China that need to be taken into the equation. This is because Business Tax, a Chinese turnover tax levied on income from provision of services, together with corporate income tax exposure on a deeming basis, may be applicable to some SSC operation models.

In any case, the introduction of SSCs in China would command a holistic plan and overall considerations.

### Action

SSCs primarily consists of HR challenges and considerations, and implementation is not just a business or structuring project, therefore its implementation takes much more than crunching of numbers and drawing of process flowcharts. HR Management has a big part in the consideration of SSC plans and structures, because many HR challenges can be serious road blocks to making it a success.

It is advisable that HR Management be more proactively involved in the evaluation process and as early as possible for the implementation of SSCs, in order to help achieve their optimum results.

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