STATE OF THE SHARED SERVICES AND OUTSOURCING INDUSTRY REPORT

ASIA 2018/2019

SSON THE WORLD'S LARGEST SHARED SERVICES & OUTSOURCING NETWORK

SSON ANALYTICS

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Asia's strength remains in numbers, but the shift to knowledge-work is unavoidable

Technology has been driving the evolution of Shared Services since its inception more than three decades ago. Yet, never before have we experienced such extraordinary shifts in scope, value, and capability as over the past 18 months. This shift has been driven by nothing less than a fourth iteration of the *industrial revolution* based on robotic automation, but now, moving from manufacturing into services.

Robotics in the workforce, also referred to as the *digital workforce,* removes transactional work from humans, releasing the latter for more valuable, *knowledge-based activities*. Combined with the insights derived from the data and analytics that are more easily tapped through robotic automation, Shared Services is finding its *modus operandi* not just redefined, but its *role* and strategic potential within the enterprise finally recognised.

So drastic is this shift, in fact, that a year ago the European Parliament called upon the European Commission to table a **legislative proposal** laying down a set of civil law rules on robotics and Artificial Intelligence to address issues like liability of robots, as well as to establish an agency for robotics and Artificial Intelligence. The draft **resolution** of the Commission on Civil Law Rules on Robotics, quotes:

"The development of robotics and AI may result in a large part of the work now done by humans being taken over by robots, so raising concerns about the future of employment and the viability of social security systems if the current basis of taxation is maintained, creating the potential for increased inequality in the distribution of wealth and influence."

There has never been a more exciting time to work in Shared Services, to lead the model's evolution, or to influence enterprise strategy – at least for those who understand how to grasp the opportunities.

SSON's annual state-of-the-industry report for Asia is based on more than 200 responses specifically from this region, and highlights trends in operational models, identifies the 'new and improved' profile of modern Shared Services, and identifies where future value-add lies.

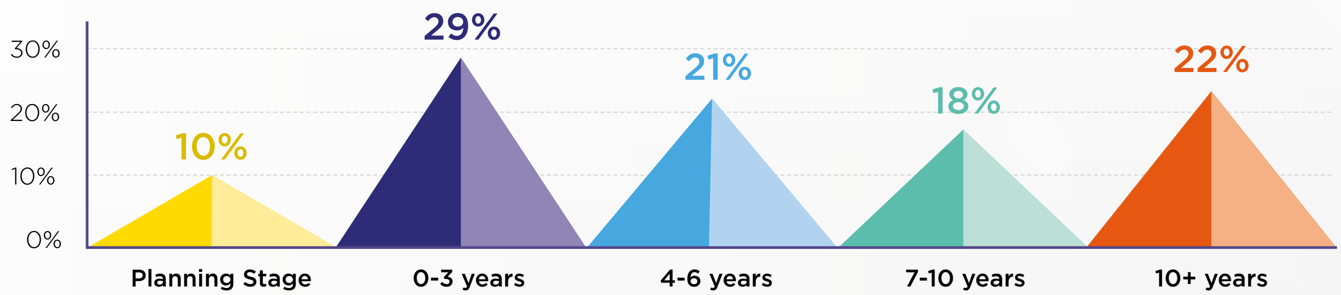
This report provides a deep-dive analysis specifically for the Asia region. We hope it will guide you to improved decisions as you move your operations.

Barbara Hodge
Global Editor
Shared Services and Outsourcing Network [SSON]

What is the current state of play for the SSO model in Asia?

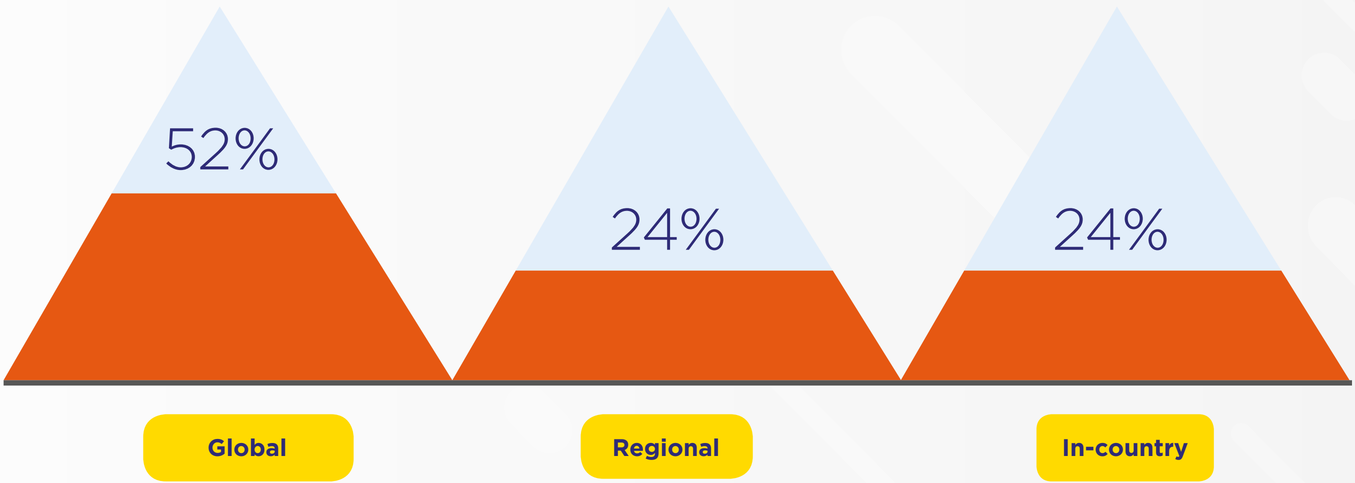
Asia's Shared Services are fairly evenly distributed across different maturities; however, the largest segment of responses falls into the 'launch-to-three-years' category. Four out of 10 respondents are fairly mature, however. This shows a good distribution highlighting not only the long-standing robustness of the Shared Services industry but also the continued and increased interest in launching new centres. *Global Comparison: Europe reflects the highest percentage of SSCs in the seven-plus years range.*

MATURITY OF ASIA'S SSOs



Originally encouraged by labour arbitrage and low-cost operations, the SSO industry is well-established across Asia (hotspots like Malaysia and the Philippines play a leading role), with many organisations taking advantage of the opportunity to leverage the region as a global delivery hub. According to the survey respondents, more than half the Shared Services in Asia are currently providing 'global' services, with the other half split between in-country and regional delivery. *Global Comparison: Latin America offers the highest ratio of in-country services compared to other regions, and Asia the highest ratio of global services provided.*

GEOGRAPHIES SERVED IN ASIAN SHARED SERVICES CENTRES



Services provided are still predominantly Finance, HR, IT. The most significant shift we noticed this year, with regards to services in scope for Asian based delivery centres, is the emergence of data analytics as well as sales & marketing, and front office support as service delivery lines. *Global Comparison: Asia and Europe show the highest ratio of data analytics offered within Shared Services, while Asia rates one of the lowest in front office support.*

While the wins derived from data analytics in terms of business insights and intelligence gained are in themselves significant for business performance, today we are also seeing the growing appetite for Intelligent Automation focusing attention on the availability and access of quality data. Data is being both 'pushed' and 'pulled' by emerging IA solutions that depend on it in order to be able to perform. The trend towards server-based solutions, in turn, requires *more access* to enterprise data in order to be effective. The appetite for data is also being driven by interest in machine learning and cognitive capabilities.

So, alongside the 'business insight' output of data analytics, we are also seeing data effectively fuelling further developments in Intelligent Automation. In order to support this shift towards data-driven technological advances, Shared Services Centres are actively training their employees in data analytics, and/or have already set up a date analytics service for their operations. Interestingly, Malaysia is ahead of the Asian average on both fronts.

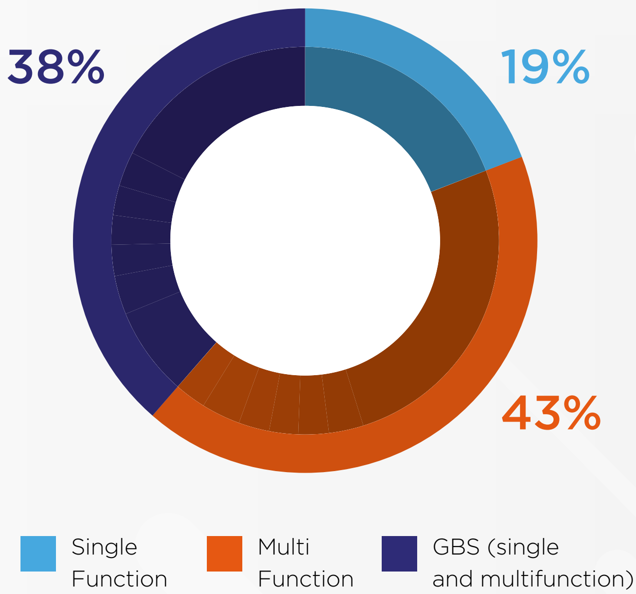
Data is the Rising Star

Operating models are still predominantly multifunctional – less than two out of 10 respondents claim a single function model – but Global Business Services emerges as the dominant model, with nearly 40% of respondents listing this as their operating model. In fact, three quarters of respondents confirm they have either already implemented GBS or are planning to do so in the near future.

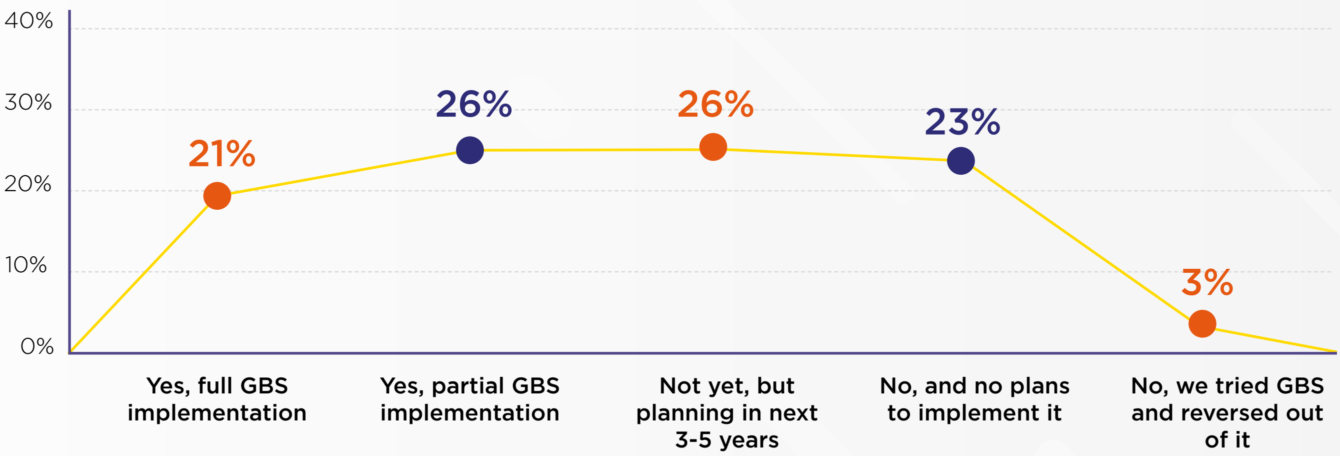
OPERATING MODEL OF ASIAN SHARED SERVICES CENTRES

This shift towards GBS is being driven primarily, and convincingly, by the desire for standardized processes delivery and Global Process Ownership – both characteristics that support optimisation of service delivery. However, half the respondents also list the need to make more effective use of technologies like Intelligent Automation, as well global talent, as significant drivers towards GBS. In addition, better agility in service delivery and enterprise transformation, although not listed as drivers for GBS are certainly identified as key objectives. *Global Comparison: Asian respondents showed the highest commitment to GBS out of any other region in the world.*

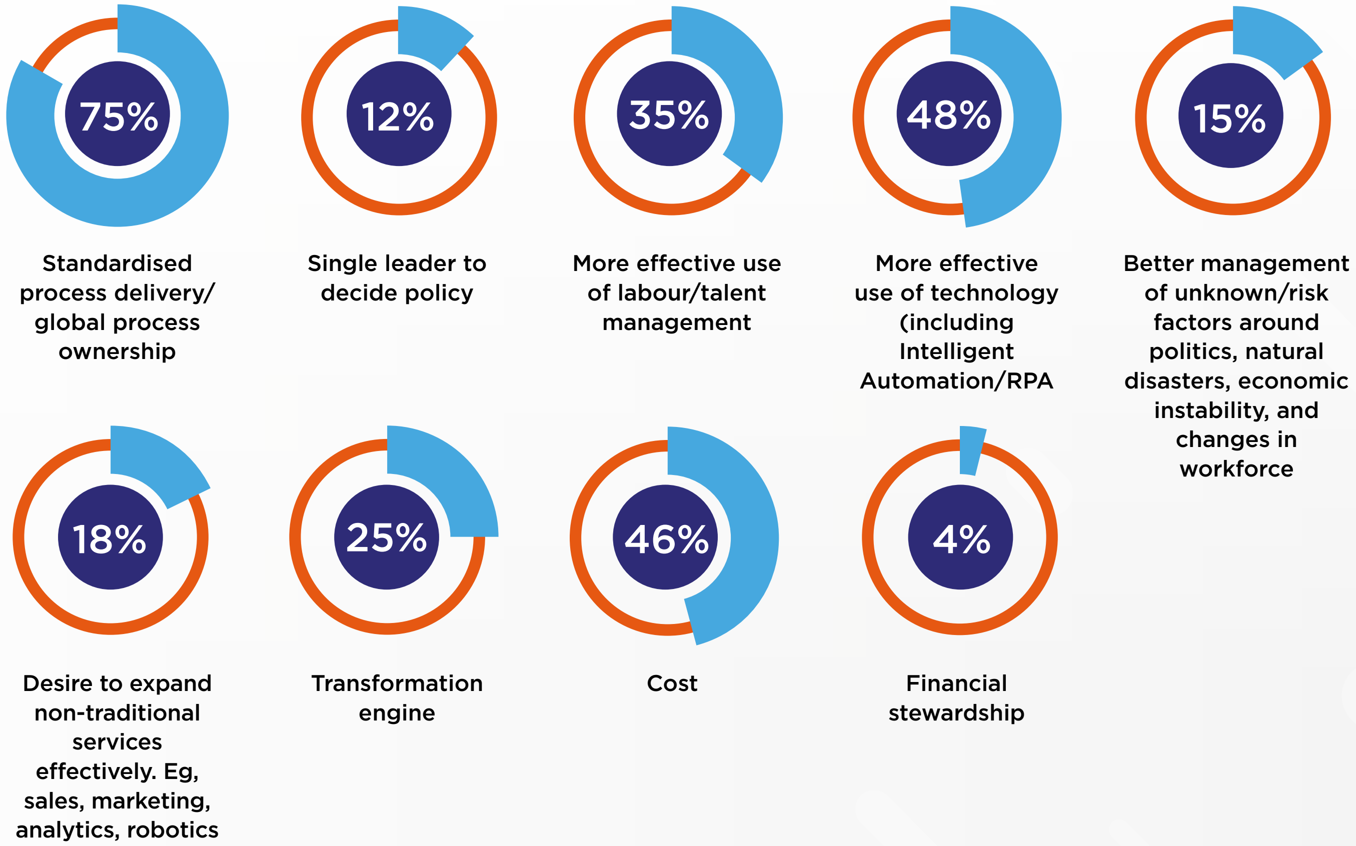
For those organisations not currently committed to the GBS model, the main reasons appear to be other competing or more important priorities, lack of a convincing business case compared to the risks, and insufficient appetite to drive the necessary changes.



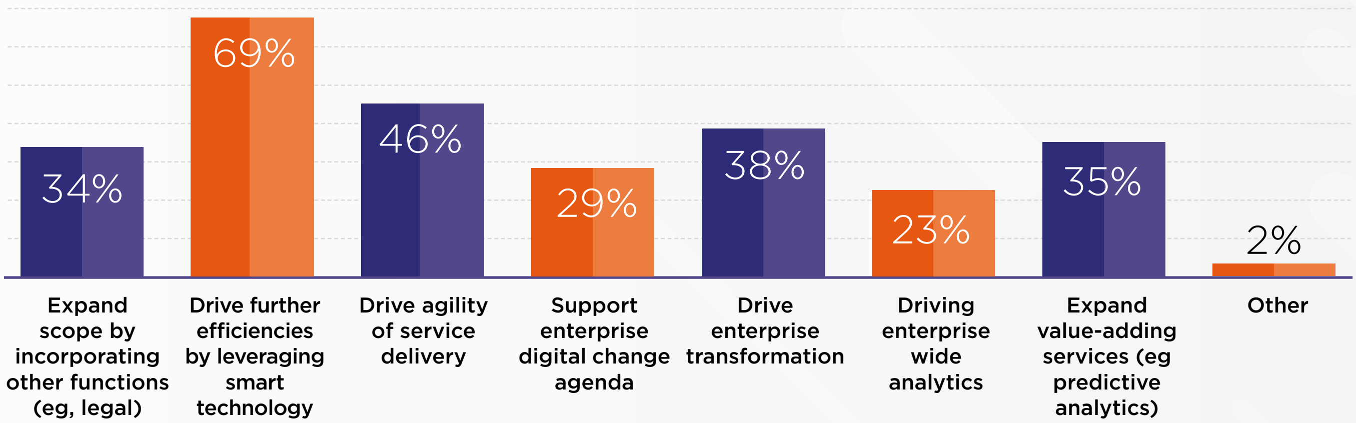
ARE YOU CONSIDERING, OR HAVE YOU IMPLEMENTED GBS?



WHAT DRIVES YOUR GBS STRATEGY?



WHAT ARE YOUR KEY OBJECTIVES FOR GBS OVER THE NEXT FIVE YEARS?



However, no matter what the model, organisations recognise that the Shared Services model provides a cost efficient and effective means of providing non-core business support to global operations. The most notable benefits as identified by survey respondents in the Asia region, are process optimisation and standardisation, as well as cost. (While cost is, of course, a constant, it's notable that in this survey *cost has slipped down to third place*). Nearly a third of respondents also recognise Shared Services as a means of offering flexibility and agility, via the ability to scale and react to changes in the markets. This is also important for enterprises expanding into existing or new markets.

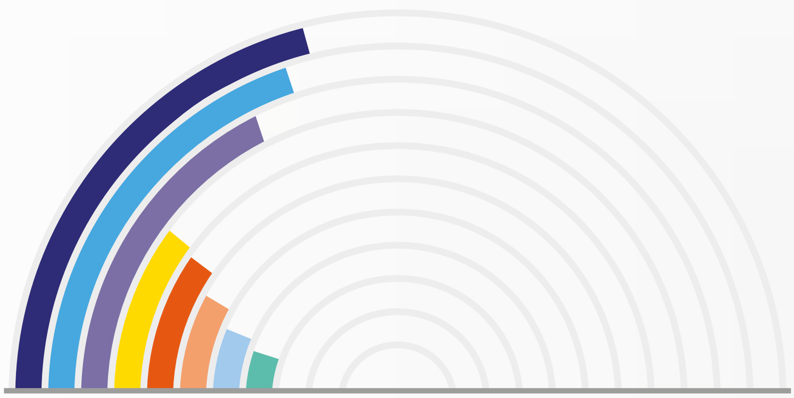
Control is also highlighted as a key benefit, feeding well into compliance driven objectives.

Global Comparison: It's interesting to compare key success metrics across regions. Productivity is most highly valued in Asia; efficiency in Europe and Latin America; customer satisfaction in Asia and North America; and few have yet to recognize 'work absorbed through automation' as relevant metrics.

Similarly, control is the most highly valued as a benefit of Shared Services in Latin America and Asia; process optimisation in North America; and agility in Europe and North America.

What's interesting is the recognition of the model's ability to drive scale and provide agility to the enterprise

WHAT ARE THE MOST IMPORTANT BENEFITS OF SHARED SERVICES TO YOUR ENTERPRISE?

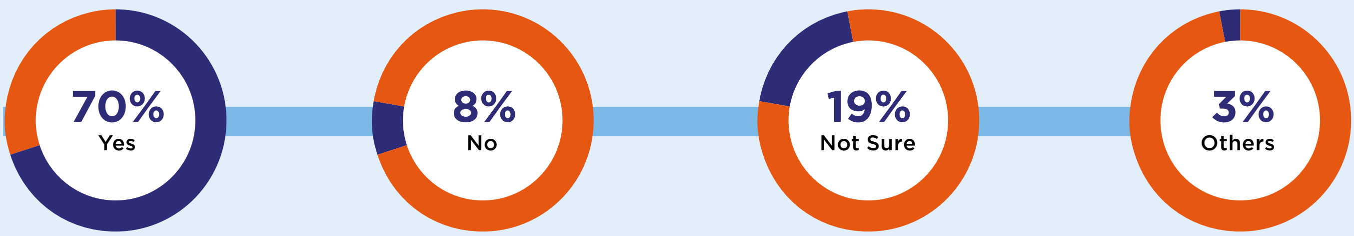


- Process optimisation 59%
- Standardisation 57%
- Cost 53%
- Scaling and agility 31%
- Control 30%
- Customer service 26%
- Enabling Intelligent Automation/Robotics/Digitalization 18%
- Platform integration 15%
- Facilitating integration of acquisitions 3%
- Other 1%

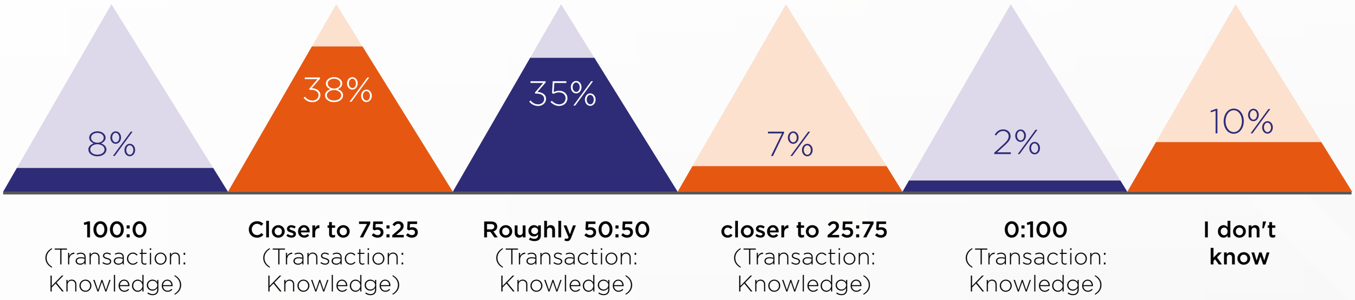
The shifting pattern of work: from transactional towards knowledge

While industry strategists have been foretelling the re-invention of Shared Services activities from manual and transactional towards automation driven 'knowledge' work, and the evidence in terms of RPA adoption (see below) certainly point in that direction, the largest segment of respondents from the Asia region is currently still at 75% transactional work, with only a third having already achieved a 50:50 ratio. However, the shift is indisputable. Seven out of 10 Asia respondents confirm that their current strategy is, indeed, shifting towards knowledge-based activities – the highest regional ratio emerging from this survey – and that this transition is driven by improved access to robotic automation tools and opportunities.

IS YOUR STRATEGY SHIFTING FROM TRANSACTIONAL TOWARDS KNOWLEDGE-BASED WORK?

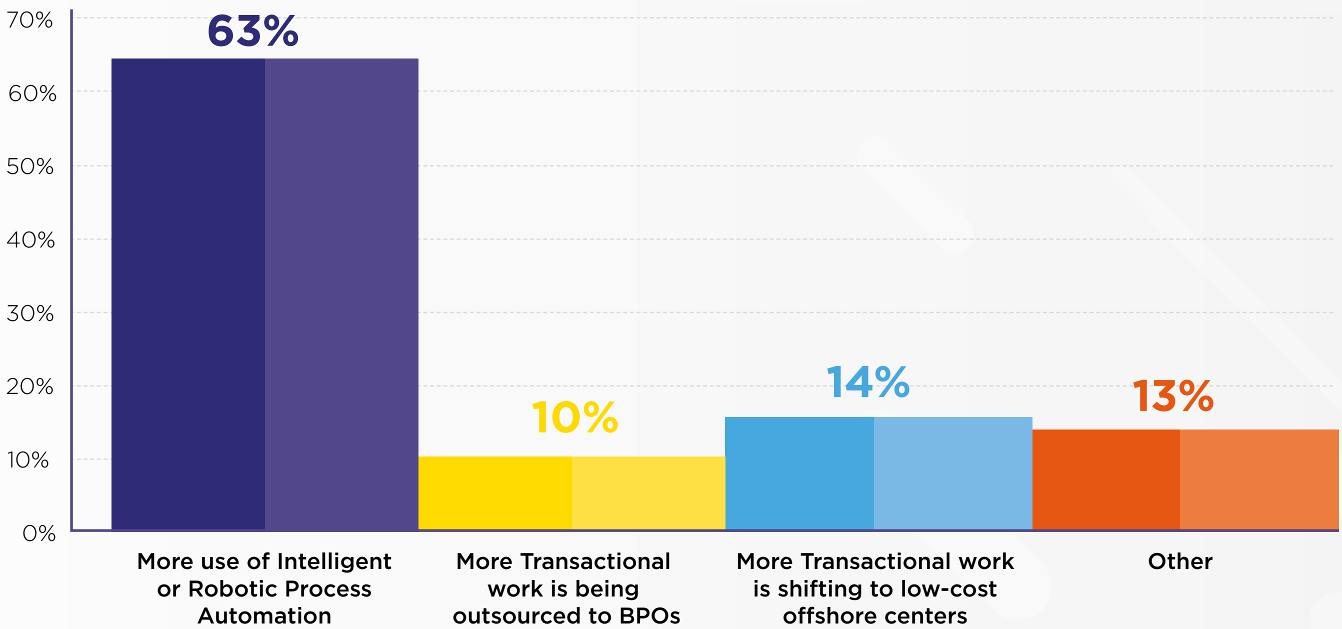


HOW WOULD YOU ESTIMATE THE RATIO OF TRANSACTIONAL TO KNOWLEDGE WORK IN YOUR SHARED SERVICES CENTRE?



In the chart below, it's interesting to compare the recognition of Intelligent Automation as a key driver towards value-adding knowledge work across global operations.

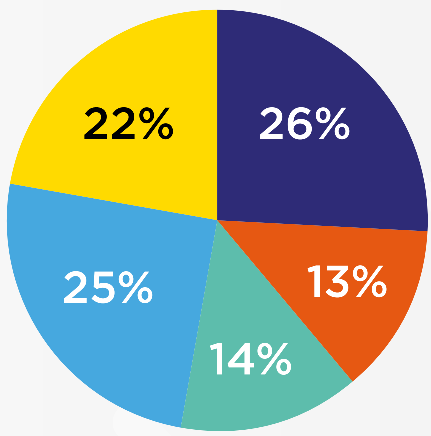
WHAT IS DRIVING THE SHIFT AWAY FROM TRANSACTIONAL ACTIVITIES?



HOW ARE YOU LEVERAGING IA IN YOUR OPERATIONS?

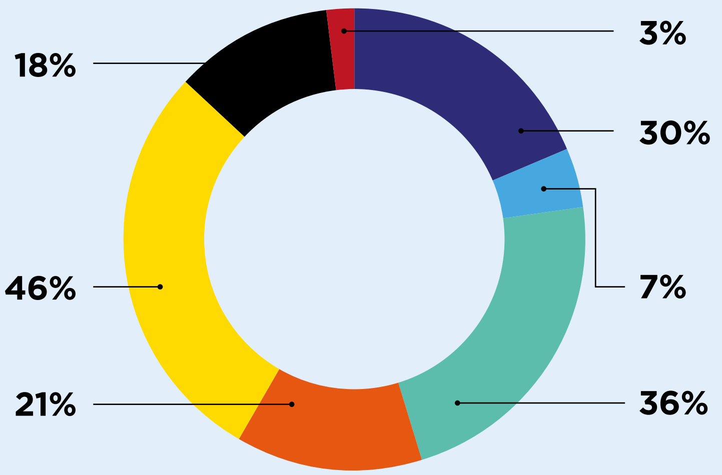
The impact of automation on traditional Shared Services activities is also notable in how this capability is being optimised via specialised teams (Centres of Excellence) and by building relevant skills into Shared Services roles.

- Setting up specialised teams
- Building relevant skills into every SSO role
- Shifting away from transactions as these are automated and moving towards value-adding, knowledge-based work
- Automating well-defined parts of an end-to-end process (does not need to be entire process).
- n/a



The rising star of this year is 'data'. That is not to say that data will overshadow the rampant growth we are witnessing in Intelligent Automation, but that enterprises are rapidly recognising the limitation of their IA strategies without *significant prioritisation* given to a data strategy alongside. It's encouraging to see the commitment that Shared Services Organisations across Asia have already made to setting up data analytics functions. What is currently still lacking, in Asia as elsewhere, is the recognition that a Chief Data Officer will become an imperative to assure the governance, quality, and prioritisation of data as a key driver of enterprise value in future.

WHAT BEST DEFINES YOUR CURRENT DATA ANALYTICS STRATEGY?



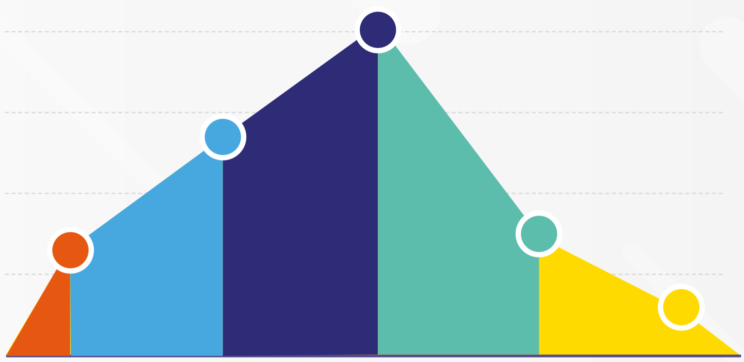
- Identifying/creating our critical corporate data assets
- Recruiting a Chief Data Officer
- Already have or setting up a Data Analytics function/service for SSO/GBS
- Already have or setting up a Data Analytics function/service outside SSO/GBS
- Training/upskilling SSO staff in data analytics
- N/A
- Other

Intelligent Automation defining the future state

Although full IA implementations across Asia are still rare [less than 10%], seven out of 10 organisations are committed to testing or are actively planning implementations. (Similarly, Artificial Intelligence is creating a lot of excitement, and although perhaps ahead of its time, a quarter of Asian centres are currently testing its application, with more planning to do so soon.)

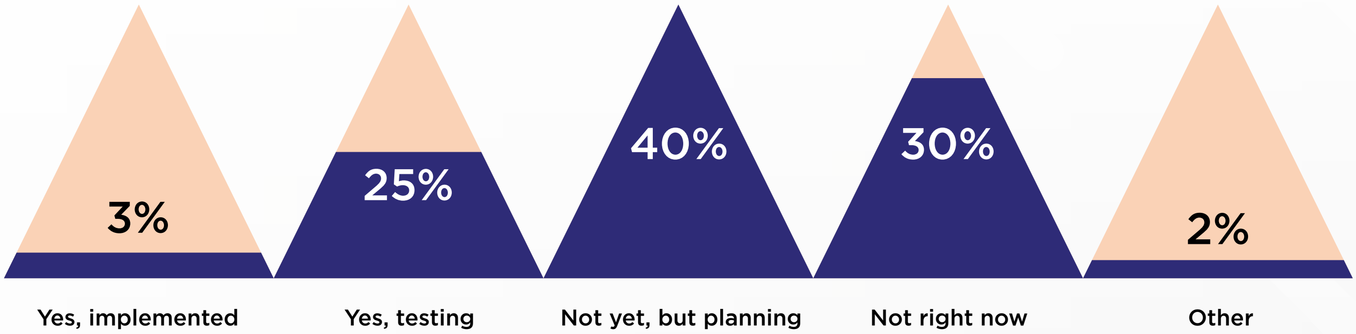
The key area in which IA is being applied is the automation of *well-defined parts* of an end-to-end process. One challenge for enterprises keen to embrace automation, however, is the current lack of experience or relevant skills, internally. Given the relative newness of these capabilities that is no surprise. According to our survey, most Shared Services are plugging this gap by either recruiting tech-savvy employees, leveraging their IT departments, or using third-party resources, for example from solution providers. In addition, many organisations are preparing for the future new way of working by building relevant IA skills into every role.

IS INTELLIGENT AUTOMATION CURRENTLY PART OF YOUR OPERATIONS?



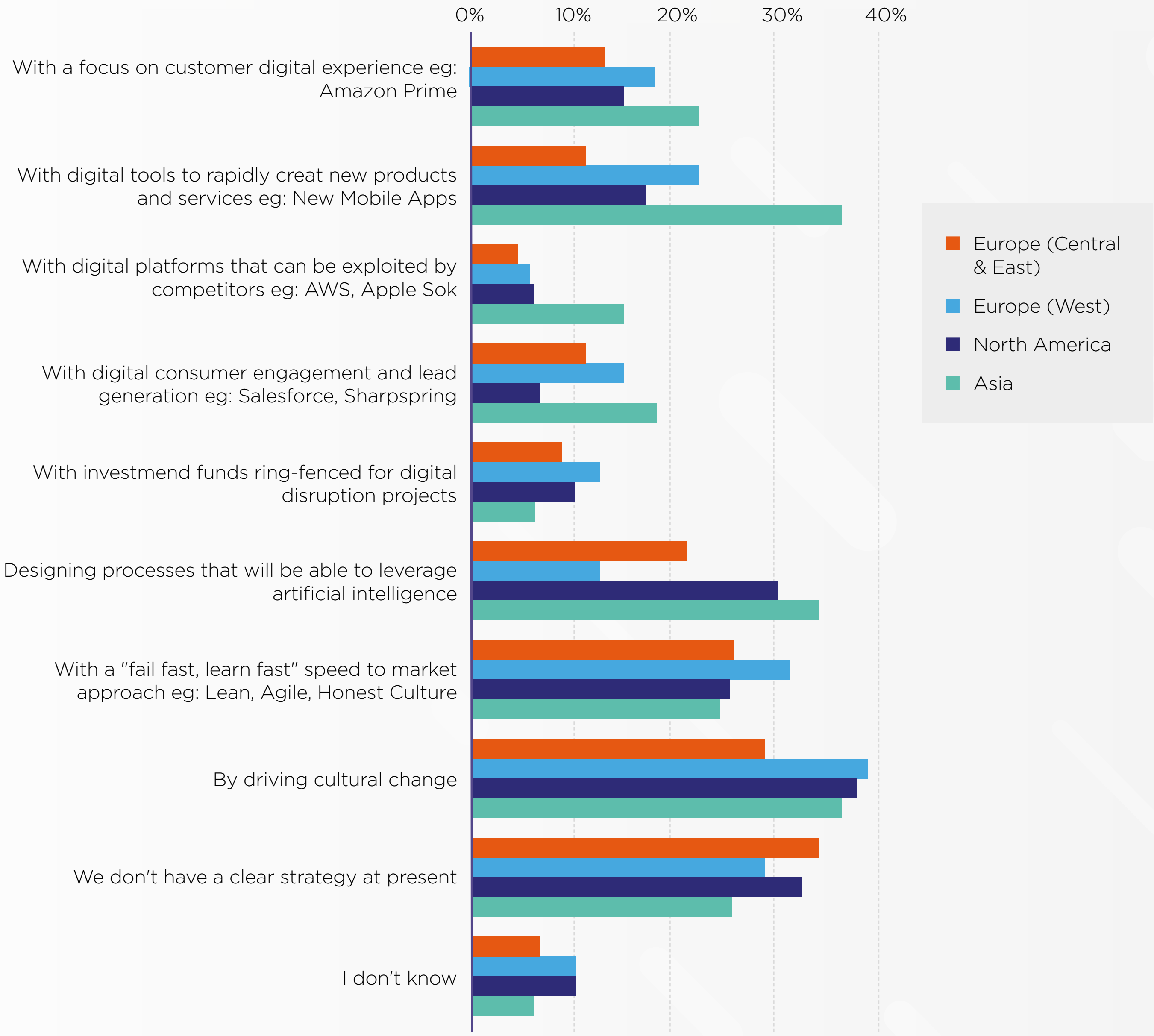
- **Yes, fully implemented** **11%**
- **Yes, testing** **27%**
- **Not yet, but planning** **41%**
- **Not right now** **16%**
- **Other** **3%**

IS ARTIFICIAL INTELLIGENCE CURRENTLY ON YOUR AGENDA?



The digital disruption that is spreading across global markets is equally being felt in Asia, and the region is stepping up to the challenge. In fact, across multiple options offered, Asian centres consistently rank at the top for embracing digital disruption (see chart below) and are noticeably recognising the importance of digital tools and cultural change to stay ahead of the curve.

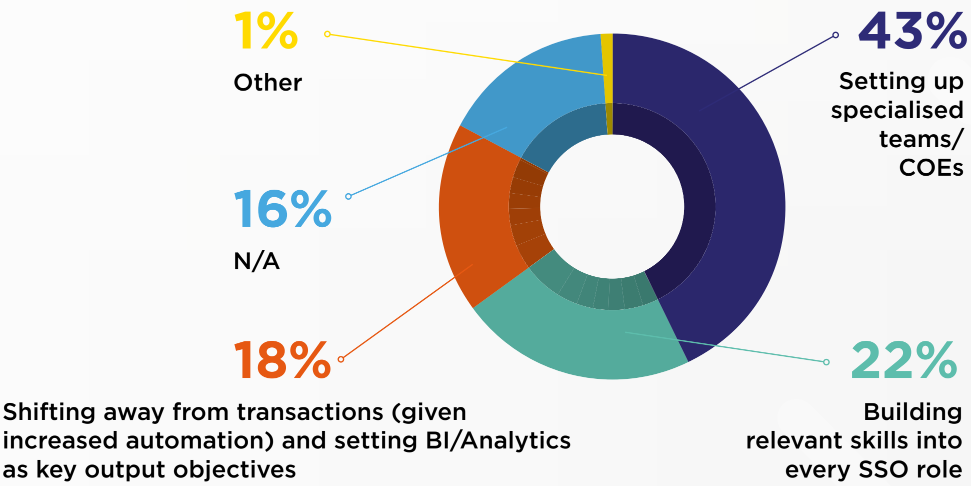
HOW ARE YOU EMBRACING DIGITAL DISRUPTION?



How are modern SSOs leveraging their global footprint?

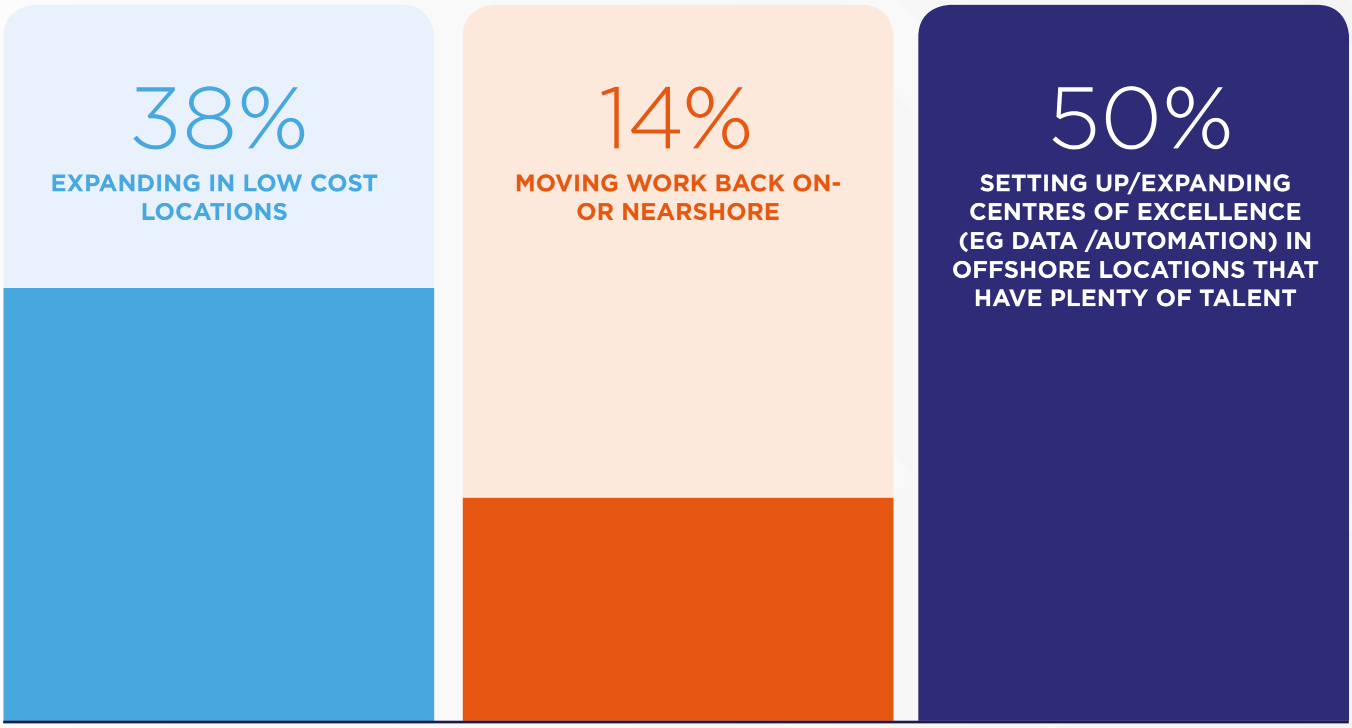
One of the strategies very much in evidence is the establishing and expansion of Centres of Excellence in offshore locations with plenty of talent. In fact, this focus on *skilled talent* outweighs the traditional priority of low-cost in terms of location selection. Many of the Centres of Excellence are focused on leveraging business intelligence and analytics, as well as automation capabilities.

HOW ARE YOU LEVERAGING DATA INSIGHTS AND ANALYTICS?



The table below lists the three most popular strategies for leveraging a global footprint today.

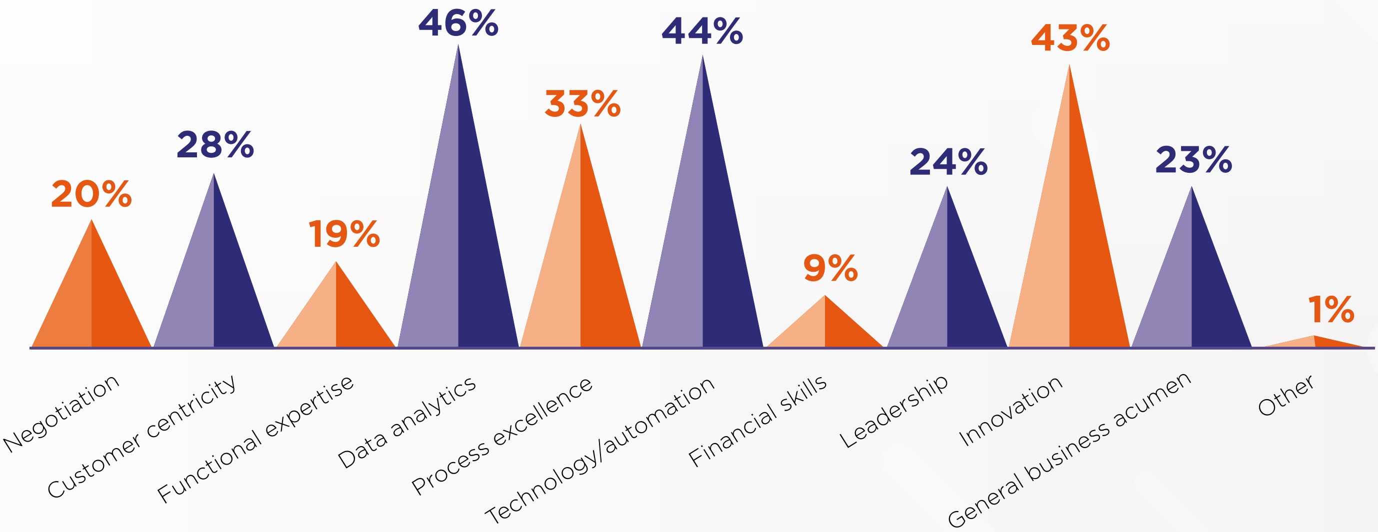
HOW ARE YOU LEVERAGING YOUR GLOBAL FOOTPRINT?



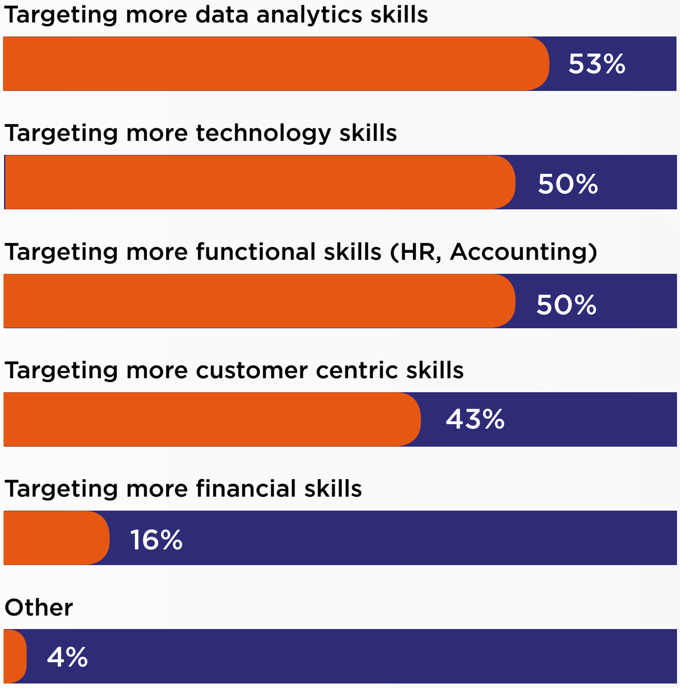
Talent: Gaps, priorities and recruitment

One of the biggest challenges to Asian Shared Services operations is ensuring they have the requisite skills for the modern robotic-enabled and analytics-driven Shared Services. The survey data backs up much of what we are hearing from practitioners in-country, namely, that they are looking for individuals with data analytics awareness, if not skills; and a strong propensity to understand the impact of technology on service delivery.

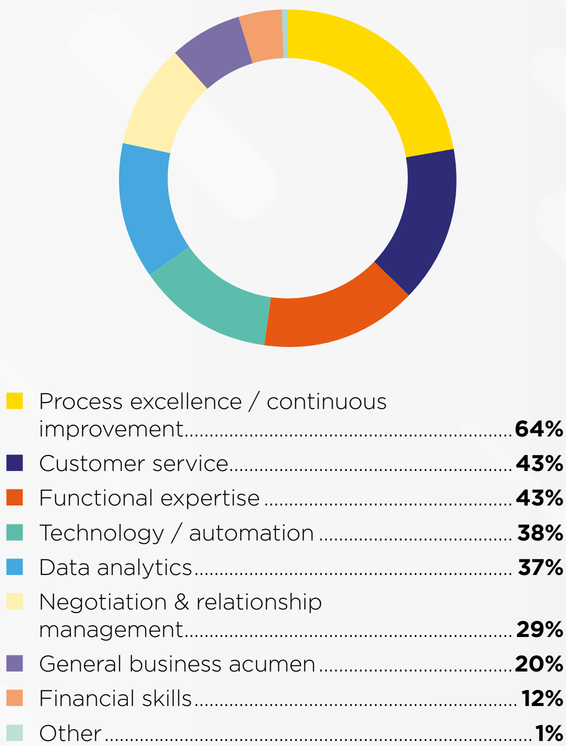
WHAT ARE THE BIGGEST SKILLS DEFICITS WITHIN YOUR EXISTING STAFF?



HOW HAS YOUR SHARED SERVICES RECRUITING STRATEGY CHANGED?



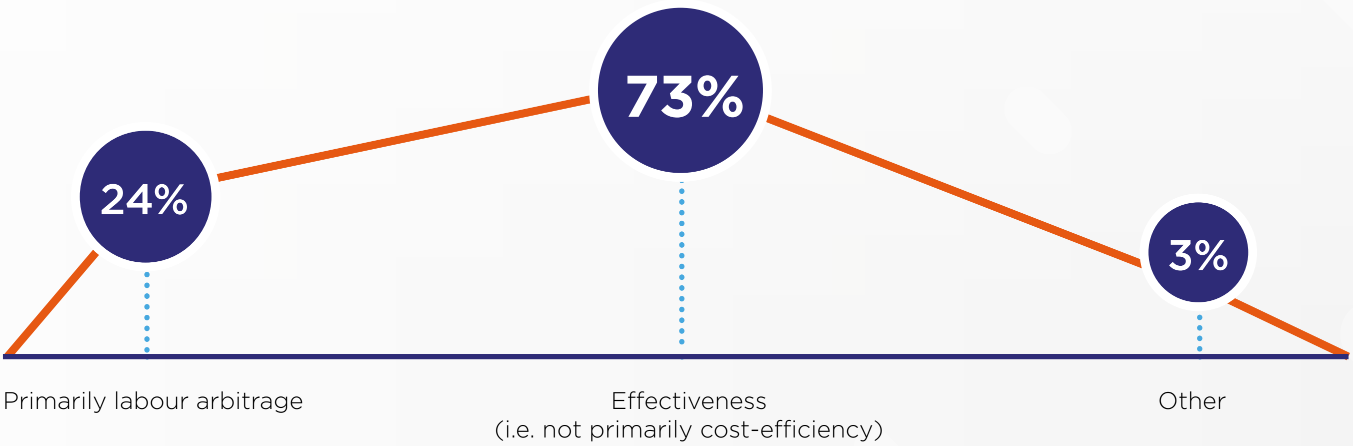
WHICH SKILLS ARE YOU PRIORITISING?



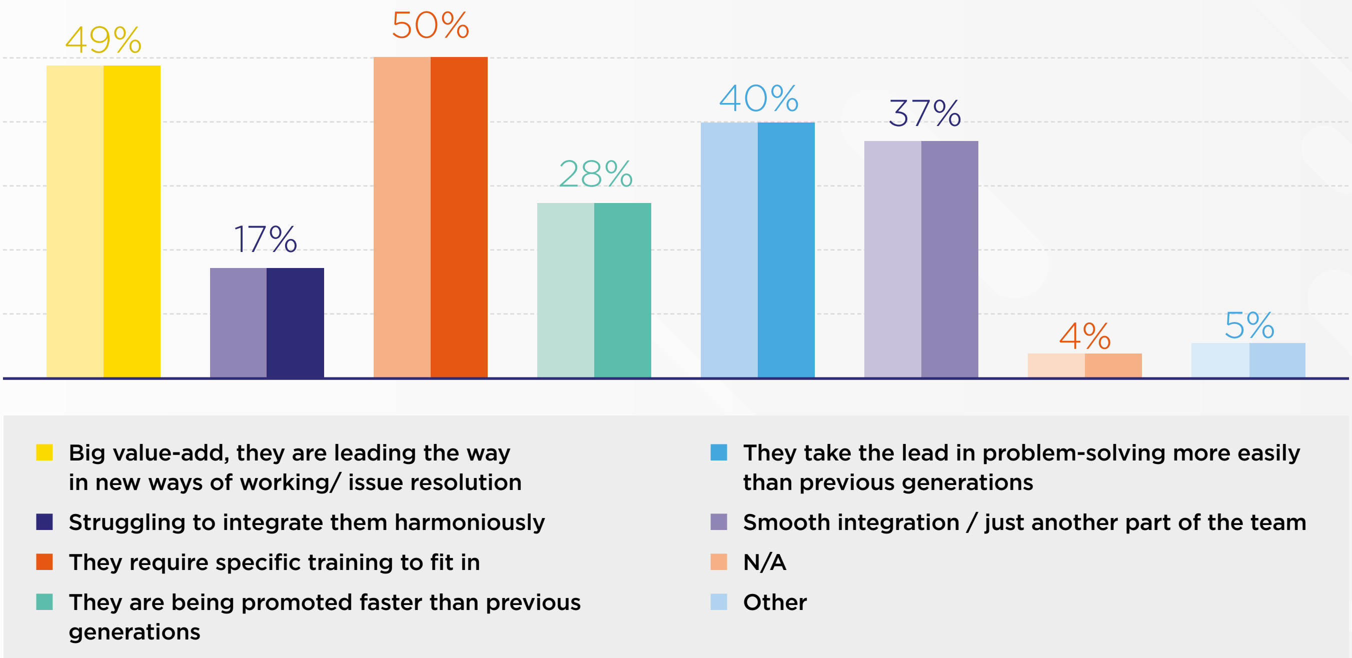
In addition, process excellence, customer service and negotiation skills are all being highly valued. Reflecting the rapid speed of change, Shared Services leaders are also looking for 'innovation.' Functional expertise is way down the line; indeed, nearly negligible.

Talent strategies are no longer driven primarily by labour arbitrage. Those days appear long gone. Instead, *effectiveness* is driving human resource decisions. This is helped, to a large extent, by the fact that Millennials are the most represented demographic within today's teams. However, respondents agreed that Millennials often require *specific training* in order to 'fit in', but that they provide a big value-add, and lead the way in 'new ways of working and issue resolution'. They also were naturally taking a lead in problem solving, certainly to a greater extent than did previous generations.

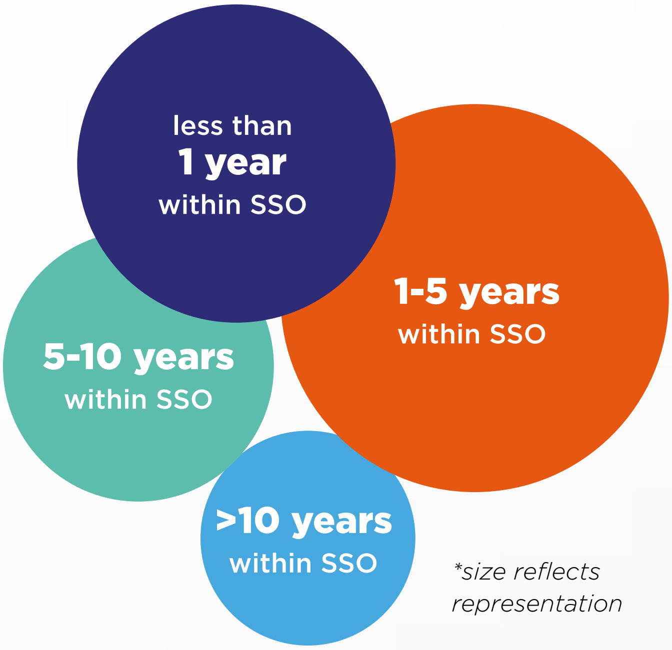
WHAT DRIVES YOUR TALENT STRATEGY?



WHAT IS YOUR EXPERIENCE WITH MILLENNIALS IN YOUR TEAM?



TENURE OF STAFF IN SSC



*size reflects representation

Attrition is a familiar problem within the Shared Services sector in Asia generally. The survey points to the fact that tenure rarely extends to the long-term, perhaps reflecting the large segment of SSCs that are less than four years old. The most common tenure is in the 1-5 years range, but then slopes off – a difficult situation for leaders intent on building up a strong pipeline of experienced managers and possible successors.

Global Comparison: It is interesting to note the differences in skills priorities when comparing across regions. Negotiation and relationship management are most prioritised in Asia; customer service in North America and specifically Central and Eastern Europe; data analytics in Asia; process excellence in Europe; and general business acumen in Asia.

SHARED SERVICES CAREERS: STEPPING STONE TO SENIOR LEADERSHIP OR GRAVEYARD TO AMBITION?

Summary

While Shared Services trends are fairly similar around the world, a few differences emerge when we compare regions. Asia stands out particularly in the extent to which it reflects a strategy of setting up or expanding Centres of Excellence in locations with plenty of talent. Fifty percent of Asian respondents to the survey identified this as a clear strategy for leveraging the organisation's global footprint, compared to 20% or thereabouts in most other regions.

This trend is particularly notable when it comes to leveraging data analytics and robotic automation. In both, Asia leads other regions in the world in terms of setting up or leveraging specialised centres of excellence to optimise these capabilities.

The current shifts being driven through Shared Services are predominantly the result of automation taking over much of the mundane transactional work of old. As Asia's Shared Services industry built its power and its reputation on the basis of low-cost FTEs, this represents somewhat of a challenge. While the results of SSON's global survey do show Asia somewhat slower in grasping the robotic arbitrage opportunity, given that cost of FTEs is perhaps less sensitive, the shift is nevertheless clearly discernible.

HOW ARE YOU SOURCING YOUR IA TALENT?

Where Asia does have an advantage, perhaps, is that so many of the robotic automation solution providers hail from this region, and the talent thereby fostered and released into the marketplace will no doubt define the competency profile of future Asia-based Shared Services teams.