China’s phenomenal economic growth has provided the opportunity for many companies to grow extremely fast.

To take advantage of these opportunities, business has had to quicken the pace of development. MNCs, on one hand, continually examine the China market and either customize existing products or introduce new products and services. MNCs have also expanded their footprint in China’s major economic regions through the creation of subsidiaries and fostering relationships with local companies. Simultaneously, medium size and large domestic Chinese companies have strengthened their grip on local markets and are speeding up the globalization of their business by building production lines and brands outside China.

Cash is the lifeblood of these companies. To expand rapidly and survive in highly competitive markets, businesses need effective cash management mechanisms that provide healthy liquidity levels and support strategic decision making. While rapid expansion of business scope and geography can grow market share and log revenue milestones, it also leads to redundant accounting functions, diverse operations process flow, multiple ERP systems, bank accounts and relationships and difficulties with dispersible deposits. As a result companies allocate limited resources to overlapping daily financial activities, wasting time and effort trying to manage and control funds. Group fund transparency and efficiency is also reduced as are cost control and overall cash management effectiveness.
A major question for finance professionals of group companies with dozens, if not hundreds of subsidiaries, is how to manage group funds to support overall healthy business development.

CFOs are challenged to find cash management solutions that save resource distribution costs and minimize resource requirements, while achieving higher efficiency and easier control of financial processes. In meeting these demands, there is a general trend amongst domestic businesses to migrate to Financial Shared Service Centers to reduce operating costs, achieve funding efficiency, improve transparency of cash flows, to forecast and control risk and enhance liquidity.

Shared Service Centers are not new, having developed over 20 years ago in North America and Europe, Middle East and Africa (EMEA). MNCs have long experienced the benefits delivered by SSCs set up to serve regional and global business in North America, Latin America, Asia Pacific and EMEA. In Asia there are a considerable number of SSCs. Some are regional and serve one or more countries, others serve all of Asia, while others serve multi-region or global markets. Singapore has approximately 40% of Asia Pacific SSCs while China and India each have 10%, though these latter numbers are set to increase. The remaining SSCs are located either in Malaysia, Hong Kong, Philippines, Australia and Thailand.

The major players in China’s SSC market are large domestic enterprises and MNCs, who operate a larger proportion of SSCs. They have set up SSCs in the Bohai Bay region cities such as Dalian, Tianjin, and Beijing; the Yangtze River Delta around Shanghai and the Pearl River Delta cities such as Shenzhen and Guangzhou. These China based SSCs mostly cover Greater China and Asia Pacific; some offer global coverage while domestic enterprises have established SSCs to meet local demand. A few Chinese MNCs have set up SSCs in India and low-cost Latin American and European countries to support their overseas expansion.

Financial Shared Service Centers exist to deliver high quality cost-effective services for group entities by respectively centralizing and consolidating financial processes and resources.

The services performed by an SSC will generally have common features and the following key characteristics. They:

- Are required by most entities with similar needs
- Process high-volume low-value transactions
- Follow pre-setup procedures that do not require strategic decisions
- Are easily centralized, streamlined and measurable

With these characteristics, accounts payable, accounts receivable, account reconciliation, reporting and general ledger functions are normally included in the scope of the SSC. Since
companies proactively control their payment activities and payment information is easy to capture, new SSCs will normally start off by offering accounts payable functions.

However, implementing these services in a SSC is not a simple ‘copy-paste’ of existing procedures. Rather, it is a series of steps that integrate existing data collection and analysis, end-to-end process clarification, process consolidation and optimization to deliver standardized and centralized procedures across business divisions. A centralized ERP provides further integration, enabling greater automation, information transparency and data support to measure performance across all entities.

Companies first need to evaluate their resource requirements, following which a suitable location can be selected in which to centralize human resources. Once brought together, they are integrated with standard processes to enable maximum sharing of finite resources and improvements in control of operational and cost management. Resource integration also creates an environment in which people can easily communicate and share knowledge. Best practice and the innovations of each subsidiary can be identified and applied by the SSC to serve the entire group.

As each new SSC function is introduced, the benefits of standardized processes is evident in handling costs, overall control of group funds resource distribution and prompt and complete availability of funds information. Problems that are normally solved include:

- Financial personnel are gradually removed from complicated daily operations with more time devoted to value-added activities, such as cash forecasting and financial planning
- CFOs are able to assist CEOs more with strategic planning.

**Setting up an SSC is not an end in itself; it is the beginning of the journey towards a center of excellence.**

As providers of efficient services, SSCs have gradually become an important element in supply and sales chains. The SSC will conclude a Service Level Agreement (SLA) with each subsidiary to clarify its business scope and responsibilities and set an index to measure transaction volumes and response times, amongst other things. These help when establishing service benchmarks and for further communication and cooperation. The SLA also strengthens the partnership between SSCs and their clients as it becomes more client oriented.

Narrowing margins and stronger competition have forced business to make more demands on SSCs who respond by constantly improving on their main goal of providing low cost, highly effective, reliable and transparent financial services. In short these demands will stimulate an SSC to become a center of excellence.

Most SSCs introduce evaluation criteria to regularly assess their performance. Assessments cover overall service levels and detailed evaluation of each process. Financial assessments measure overall SSC cost performance, costs as a percentage of expenses, costs per employee and total employee cost. Deeper assessments will evaluate total full time employees (FTE) in the AP process, cost per AP FTE and the volume and cost of each payment method. Operational assessments check the efficiency of each process, e.g. the number of

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transactions per AP employee, the percentage of manual entry, AR auto-reconciliation rates and days sales outstanding (DSO). Finally, control assessments calculate total errors, error rate per thousand transactions and error rates of any single process.

Measurements are presented in clear formats such as a virtual dashboard or charts that present a picture of the SSCs current operating status for headquarters and clients. In addition, SSCs will use management and client satisfaction review and customer feedback to assess and detect client needs in a timely fashion.

Many SSCs have their own teams to optimize various services and redistribute resources depending on the problems discovered and feedback obtained. Once implemented, related services will be assessed in the following evaluation period. The SSC and subsidiary clients will also periodically update the SLA, taking service standards to higher levels.

Apart from the driving force of client needs, SSCs also innovate and maintain a knowledge-sharing culture, encourage staff comments, establish experience exchange channels, identify best practice and reward contributions. These actions help to generate great internal momentum for continuous improvement. At the same time, some SSCs also benchmark themselves against industry best practice in order to introduce external experience and set service improvement targets.

The role of your partner bank is critically important when establishing, operating and developing a SSC.

It is extremely important for an SSC to work with a banking partner that handles transactions and provides information on accounts payable, accounts receivable and reconciliation. These will directly affect the performance of the SSC. Finding the right banking partner early on will assist you to establish and develop your SSC.

**Direct clearing membership:** Your partner bank should have direct clearing membership in various countries, enabling SSCs to obtain better cut-off times, fully utilize payment funds and quickly receive incoming transactions. Moreover, your partner bank should provide a variety of payment methods, enabling the SSC with the most cost-effective method of handling different payment situations.

**Good local bank relationships and networks:** Your partner bank should have a good relationship with various banks in the local market and an established collaborative receivables network in addition to value-added information services available through a single centralized platform.

A single centralized platform through which your bank offers access to and control of multiple bank accounts and facilitates your customers’ payments and collections.
Unified and consistent service standards globally: Your partner bank should have a unified cash product platform across regions and countries and provide uniform service standards, deliver consistent and transparent account information and offer flexible integration solutions with industry standards. Highly efficient banking delivery channels with low implementation and maintenance costs enable SSCs to use a single file to handle multiple transaction types, currencies, accounts and locations.

Extensive network with global and deep regional coverage: To provide your SSC with a cooperative partner familiar with local market conditions wherever the SSC is located. Such a bank will provide your SSC with timely and accurate information on local market and regulatory updates, offer direct support for daily operations and be able to centralize funds locally, regionally and globally.

Selecting the correct strategic banking partner will enhance your SSC initiative and strengthen your SSC, helping your company to build a comprehensive solution for your cash management difficulties and driving the results that your business needs.

Citi is a pioneer in the global development of SSCs with more than 10 years of experience setting up and running SSCs throughout Asia in countries such as Singapore, China, India and Malaysia. Citi serves hundreds of SSCs regionally and globally covering a diverse range of industries including energy, IT, pharmaceutical, oil, chemical and medical. Regardless of your business location - be it in a single country, region or throughout the world - Citi provides uniform cross-region cross-function cash management solutions and support as you centralize and streamline your operational processes across your business.

Through CitiDirect® online banking, Citi’s global platform, a company can integrate its SSC with its entities in every country they are located. The SSC can further leverage Citi’s regional platform for payments, collections and liquidity management to benefit from reduced operating costs, enhanced funds control and liquidity, improved customer satisfaction and greater knowledge transfer. It also enables customers to extend their competitive capabilities and achieve company objectives.

Citi’s newest web-based treasury platform - TreasuryVision™ provides cross-region and cross-bank visibility across all accounts whether or not they are held with Citi. By using a comprehensive set of analytical tools and TreasuryVision’s leading forecast capability, treasurers can check account information and forecast funds flow according to different account, currency and subsidiary criteria, achieving full end-to-end control over the funds operating cycle.

Citi continues to provide a set of integrated solutions when establishing, enhancing and further expanding Shared Service Centers around the world with our leading services, products and technical innovations. Working with you as an important and valued partner, Citi will share our experience, innovations and solutions as we assist you on your SSC journey.