

Buzz@biz

Taking your shared services to the next level

Continuous innovation. Business sustainability. Strategic partnership.

Improving services, while keeping costs down are the top of mind issues when C-suites review their organisation's support functions. For many, this focus involves determining exactly what expectations they should place on their shared services centre (SSC) in order to balance cost reduction imperatives with long-term planning initiatives. But why do SSCs deserve a closer look right now?

- **Streamlining functions.** SSCs aren't just about reducing labour costs, usually associated with non-core, back office processes. It's one of the best ways to streamline many core and support functions, such as finance and accounting (F&A), HR and IT.
- **Proven success.** Global leaders - IBM, HP, P&G, Shell and GE - have used SSCs with much success.
- **The equation continues to change.** The worldwide economic uncertainty has opened up a new set of risks and opportunities. In such circumstances, inefficient core and support functions can present a variety of new risks and challenges.

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Buzz@biz is PwC's e-newsletter that helps you whiz through key information and insights on corporate, legal, or regulatory topics relevant to your business.

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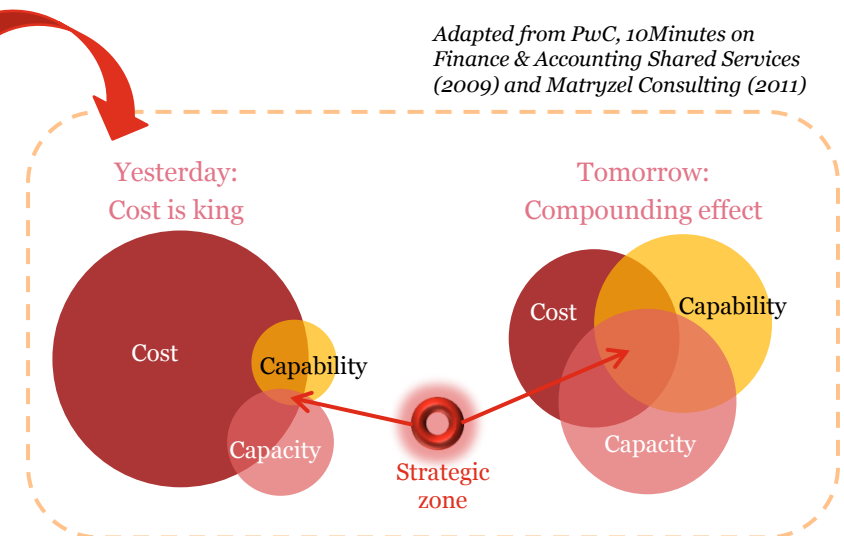
3 takeaways

1. The constant process of **reengineering and innovation** helps your organisation **move up the value chain** and stay relevant to your customers.
2. Working out a SSC is not just a cost reduction game but can **strengthen your business sustainability**.
3. Conduct your SSC like a business, get the **strategy and relationship** right.



SSCs at a glance...

| | Old “singular/ad hoc” approach | New “holistic” approach |
|------------------|---|---|
| Focus | Focused principally on back-office, non-core IT activities | More likely to be established for strategic, decision-making functions |
| Strategy | Typically one-off, tactical initiatives undertaken at the functional or business unit level | More likely in the context of a broader, company-wide sourcing strategy |
| Approach | Standardised service levels were not available, specific to a business unit or function, or set by the corporate office | Tailored service levels are set by internal customers through service level agreements (SLAs) |
| Objective | Cost reduction was the primary objective - achieved through <ul style="list-style-type: none"> • process consolidation • headcount reduction • labour cost arbitrage | Objectives extend beyond cost savings to other strategic payoffs <ul style="list-style-type: none"> • automation of processes • better quality reporting • increased control and transparency • improved ability to respond to market changes |
| Size | Considered most suitable to large companies | Increasingly attractive to mid-sized companies |
| Champion | The CIO, not the CFO, was often the executive champion of a shared services initiative | Shared services initiatives are collaborative efforts - executives from across the C-suite help establish the strategic direction |



Strategy: Focus on the long-term benefits

Companies with an *existing SSC* can further realise its cost savings and efficiencies while mitigating a shifting set of risks. Plans for rapid cost savings for the long-term benefits include:

- **Further simplifying core processes.** The processes developed when the SSC was first set up may no longer be applicable or efficient in the current business climate.
- **Automation of processes by maximising use of technology.** Leveraging on business analytic tools as well as high level of standardisation and automation helps the SSCs to improve the level of transparency regarding data, processes, systems, costs and services.
- **Partnering with internal customers.** Greater customisation of SLAs between strategic business unit partners may yield additional savings and operational benefits.
- **Rebalancing the distribution of talent between headquarters and centre operations.** Reductions in operating budgets and resource levels determine where certain skills should be.
- **Establishment of an effective performance management.** Tracking and continuously improving selective and relevant key performance indicators.

Companies in the process of *planning a SSC* should revisit their original analyses, assumptions, and timelines. They should pay particular attention to two foundational issues:

- **Validating the operating model.** While the one facility model (a centralised global location) may be the most cost efficient, it is also the most demanding to execute because it requires the most extensive operational restructuring and change management.
- **Rethinking the implementation strategy.** PwC's 2011 Global SSCs Survey found that SSCs which standardised and automated their processes at the 'old' location before transferring them to the new SSC location ('shift and lift') had slightly better results in:
 - performance management
 - the degree of process standardisation
 - the use of advanced systems and technologies.

For companies that already have an efficient finance function in place, simultaneously implementing standardised processes and migrating them to the SSC location is a good option - relatively shorter time needed to get it up and running.

Getting the strategy right

Strategic business partner
vs
business support

Run your SSC with a business mindset
(profit centre vs cost centre)

Focus on the entire value chain when you plan your SSC strategy



It's not always easy to implement and change, but it's worth the effort

Implementing a shared services model for back office functions like F&A, HR and IT can offer significant benefits to global companies. However, challenges such as talent availability, change management, communication and strategy, should not be underestimated. Let's learn from two MNCs which have set up SSCs in Malaysia to service their Asian operations.

BP Business Service Centre Asia

“The MSC Malaysia status centre, with its highly skilled and diverse work-force, has enabled BP to improve and streamline the way it provides shared services to its business by successfully combining activities previously dispersed across parts of Asia, Europe and the United States.

The strengths of Malaysia as a solid shared services and outsourcing destination helped to support the assessment of expanding this centre of excellence into a business service centre providing Finance & Accounting, IT and Tax support to BP companies in Asia as well as globally.

On the flip side, there are signs that it is increasingly difficult to get affordable talent for the shared services industry. The speed of shared services operations being set up here is outpacing the availability of talent. Thus, BP is putting in place in-house programmes to develop our own talent. However, this issue of shortage of good talent is an area that needs to be addressed at a national level.”

~ Head of BP Business Service Centre Asia, KL

(Source: Outsourcing Magazine, Sept 2011)

BASF Asia Pacific Service Centre

“The starting point was BASF's aggressive growth plans for the region back in 2003. By combining the different teams from across the region into a single entity, we had a much stronger case for capital investment.

Changing the operating model for finance, HR and IT in 45 companies across 15 countries is a huge challenge. Technical issues were the easiest part of the project – the biggest challenges were around change management, communication and strategy. We put a lot of effort and resources into designing a strategic approach to these factors and supporting the country management through the implementation process. This really was a journey for every one.

The interesting thing was how attitudes changed to the idea of process standardisation. Initially, the companies wanted to retain their local process variations, however, as the benefits of process simplicity and standardisation became apparent, companies became more comfortable with the elimination of what were previously considered essential process variations.

As at 1st January 2009, BASF's shared service centre in Asia Pacific is delivering F&A, HR and IT services to 65 companies in 17 countries in the region. Payrolls for 11,000 staff across the region are run from the centre. Services are delivered in seven Asian languages plus English.”

~ Managing Director, BASF Asia Pacific Service Centre, KL

(Source: CEO Forum Group, Nov 2009)

Key practices to keep in mind

As you realign your SSC operations or initiatives, pay close attention to the six lessons learned by other companies further 'up the path'.

1 Make the centre compete with third parties for in-house business. SSCs run as profit centres usually have a more sophisticated SLA concept than cost centres. The SLA is the basis for clearly defined responsibilities and makes it easier for the SSC to manage client relationship and support continuous improvements.

4 Link reward systems to end-to-end process excellence. Analysis shows that SSCs with standardised employee development plans that is linked to the manager performance will give their employees a clear responsibility to achieve their key performance targets. This will also motivate them to continuously innovate and improve their own processes.

2 Keep business-unit leaders and other key stakeholders deeply involved. Today's successful businesses require heavy focus on continuous change management elements such as communication, training and executive alignment to get buy-in and commitment from all stakeholders in the organisation.

5 Build agility. SSCs that capture the balance between standardisation and flexibility yields a new core competency - agility. SSCs' strategy should allow the company to refresh its operating model based on changing market conditions - and stay relevant.

3 Give the centre's director both authority and responsibility. Empowering the SSC directors to conduct the SSC like an independent business by giving them the authority to invest in human and working capital will allow the SSCs to innovate and work independently in parallel to its other business units to achieve the overall group strategies.

6 Ensure continuous improvement processes. Our recent survey shows that continuous improvement efforts are critical to maintaining the SSC value perception by SSCs' customers as a valued service provider. Continuous improvement efforts also provide a challenging and exciting working and development environment for its employees

What are your business relationships like? Overcome & avoid the master-servant relationship

Have you considered the tax implications?

Are your services good enough to sell in the open market?

Some considerations

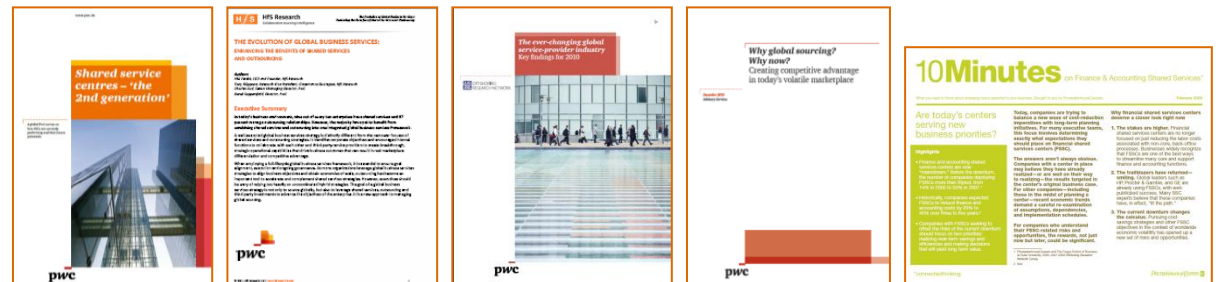
Moving up the continuum of the value chain

Innovation is key to moving up the value chain. Good communication and the sharing of information between the different hierarchy levels and key stakeholders in the SSC is the basis for a culture that fosters innovation and smoothen the change management process.

SSCs that stay stagnant and complacent run the risk of becoming obsolete and irrelevant. It's crucial that the SSC leadership team:

- is agile and aware of the business needs throughout the organisation
- stay in tune with the overall business model and strategies
- able to identify and seize the right opportunities that come forward.

Related thought leadership publications by PwC



- Shared service centres - 'the 2nd generation'
- The evolution of global business services: Enhancing the benefits of shared services and outsourcing
- The ever-changing global service-provider industry
- Why global sourcing? Why now? Creating competitive advantage in today's volatile marketplace
- 10Minutes on finance & accounting shared services

Regulatory updates

Governance, risk, compliance

New IFRS-compliant framework in 2012

The Malaysian Accounting Standards Board ('MASB') issued a new accounting framework, the Malaysian Financial Reporting Framework ('MFRS Framework') on 19 November 2011. This IFRS-compliant framework is applicable for all non-private entities for annual periods beginning on or after 1 January 2012 other than Transitioning Entities, which may defer adoption by one year in view of potential changes on the horizon that may change current accounting treatments.

Transitioning Entities ('TE') are non-private entities within the scope of MFRS 141 'Agriculture' and IC Interpretation 15 'Agreements for Construction of Real Estate', including their parent, significant investor and venturer. Therefore, not all subsidiaries of a parent company that chooses to use the FRS framework will be able to use FRS in their separate financial statements, if they themselves are not a TE.

The key matters for management's consideration include the following:

- To determine which entities in your group are considered TE.
- For the TE, to assess cost-benefit of deferring MFRS for one year in order to decide which financial reporting framework (i.e. FRS or MFRS) will be adopted in 2012.
- To assess the impact of full convergence with IFRS including the adoption of MFRS 1 'First-time Adoption of Malaysian Financial Reporting Standards'. MFRS 1 contains various mandatory exceptions from retrospective application and optional exemptions from respective MFRS on first-time adoption.
- If your group has entities applying both MFRS and FRS, to have a process in place to facilitate consolidation under the chosen framework of the parent/investor/venturer.
- For both new MFRS Framework and existing FRS Framework, the MASB has also issued many new MFRS/FRS. Therefore, entities need to assess and disclose the implications of standards issued but not yet effective in the coming 2011 financial statements in accordance with FRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- To consider impact on stakeholders, contracts and bank covenants, and to manage these issues accordingly.
- There is limited time available as those entities applying MFRS in 2012 have to assess the impact of MFRS 1 in time for their first affected quarter, 31 March 2012 (for December year end). Therefore, management needs to begin now to address the implications of the conversion to the new MFRS framework.

Possible benefits of delaying adoption of MFRS for another year could be:

- The TE will have more time to evaluate the impact of MFRS Framework.
- The TE can continue to apply FRS 201 'Property Development Activities' and existing accounting treatment for agriculture.

Possible disadvantages of delaying adoption of MFRS for another year could be:

- If your group has entities applying both FRS and MFRS framework, consolidation adjustments need to be made under the chosen framework of the parent.
- The new revenue standard (if available for early adoption in 2013) needs to be considered for all entities in your group, not only TE.

Taxation

Deduction for expenditure on issuance of Islamic securities pursuant to principles of Murabahah and Bai' Bithaman Ajil

The Income Tax (deduction for expenditure on issuance of Islamic securities pursuant to principles of Murabahah and Bai' Bithaman Ajil) Rules 2011, which are effective for the years of assessment 2011 to 2015 provides for deduction of expenditure incurred by a company resident in Malaysia on the issuance of Islamic securities which are approved by the Securities Commission or the Labuan Financial Services Authority.

The Islamic securities have to be issued pursuant to the principles of Murabahah or Bai' Bithaman Ajil based on the concept of tawarruq and the Malaysian resident company has to be established either under:

- the Companies Act 1965; or
- the Labuan Business Activity Tax Act 1990 and has elected to be charged to tax under the Income Tax Act 1967 (ITA).

Deduction relating to transactions with non-members for club, association or similar institution

The Income Tax (deduction relating to transactions with non-members for club, association or similar institution) Rules 2011 was gazetted on 27 October 2011. The Rules are effective from year of assessment 2009 and set out the formulas for computing the portion of outgoing and expenses, capital allowances and gift or money under Section 44(6) for purposes of determining the final tax liability.

New Green Building Index Exemption Order

The Income Tax (Exemption)(No.5) Order 2011 which provides for tax exemption for qualifying expenditure incurred for obtaining Green Building Index (GBI) certificate has been gazetted on 21 September 2011 and replaces the Income Tax (Exemption)(No.8) Order 2009 with effect from the year of assessment (YA) 2009.

New Public Ruling

The IRB has issued the Public Ruling 8/2011 – Foreign Nationals Working in Malaysia – Tax Treatment and Public Ruling 9/2011 – Cooperative Society dated 16 November 2011. The Public Ruling comes into effect from year of assessment 2011.

Double Taxation Agreement with South Africa

A new protocol amending Article 26 – Exchange of Information of the Double Taxation Agreement between Malaysia and South Africa was gazetted on 27 September 2011 but is not yet in force.

IRB headquarters relocating to Cyberjaya

The IRB is currently relocating its headquarters to Cyberjaya which is expected to be operational on 22 December 2011. Information on the new contact numbers and addresses will be published on the IRB's website www.hasil.gov.my once the relocation is completed.

Latest from PwC

Thought leadership publications

Economy

- APEC 2011 CEO Summit - The future redefined: Asia Pacific at an inflection point
- Marketmap - China: Pearls, pitfalls and possibilities
- Resilient growth: Making the most of opportunities away from home
- Global economic crime survey 2011
- How will the wealth of the baby bust generation compare with that of the baby boomers?

Government

- Making it happen: A roadmap for cities and local public services
- The impact of Sovereign Wealth Funds on economic success
- Paying Taxes 2012: The global picture

Climate change & sustainability

- Counting the cost of carbon: Low Carbon Economy Index 2011

Industry

- Emerging trends in real estate Asia Pacific 2012
- Continued growth: China's impact on the semiconductor industry — 2011 update
- Capital Markets in 2025 - the future of equity capital markets
- The consumer-led mobile smartphone transformation
- Global gaming outlook: The casino and online gaming market to 2015
- Top health industry issues of 2012

Corporate

- Change is certain - Are you? How to alter your organization's views on change and strategy
- Managing your China investments in troubling times

Human resource

- 10Minutes on updating flexibility strategies
- Securing the talent to succeed: Making the most of international mobility in financial services



Let's chat...

... on how we can help your shared services centre, contact:

Subathra Ganesan
Senior Executive Director
Assurance Services
subathra.ganesan@my.pwc.com
+60 (3) 2173 1074

Tan Eng Hong
Executive Director
Assurance Services
eng.hong.tan@my.pwc.com
+60 (3) 2173 0599

Clifford Yap
Executive Director
Taxation Services
clifford.eng.hong.yap@my.pwc.com
+60 (3) 2173 1446

... on performance improvement and change management, contact:

Andrew WK Chan
Senior Executive Director
Consulting
andrew.wk.chan@my.pwc.com
+60 (3) 2173 1282

Carmen Tang
Executive Director
Consulting
carmen.tang@my.pwc.com
+60 (3) 2173 1278

Kartina Abdul Latif
Executive Director
Consulting
kartina.abdul.latif@my.pwc.com
+60 (3) 2173 0763

... on other issues and PwC services, contact:

Mohammad Faiz Azmi
Partner
Assurance Services
mohammad.faiz.azmi@my.pwc.com
+60 (3) 2173 0867

Jennifer Chang
Senior Executive Director
Taxation Services
jennifer.chang@my.pwc.com
+60 (3) 2173 1828

Fung Mei Lin
Executive Director
Taxation Services
mei.lin.fung@my.pwc.com
+60 (3) 2173 1505

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