Branding Malaysia as a High Value Destination for Finance Shared Services

MALAYSIA CAN LEVERAGE ON A UNIQUE SET OF ADVANTAGES AND SKILLS TO POSITION ITSELF AS A LEADING DESTINATION FOR GLOBAL FINANCE SHARED SERVICES ORGANISATIONS, ESPECIALLY AT THE HIGHER END OF THE ACCOUNTING VALUE CHAIN.

Celia Alphonsus

Shared services – including finance shared services (FSS) - has been identified under the ongoing Economic Transformation Programme (ETP) as a key driver for growth and Malaysia's envisioned transformation into a sustainable, highly-competitive, high-value and high-income developed nation by 2020.

From a business perspective, as business resources get scarcer, the finance shared services (FSS) model has been a boon to many companies and organisations seeking to optimise costs and the performance of the finance function through standardisation. Put simply, FSS is an opportunity to streamline and carve out financial processes to a separate business unit, which can be either captive (owned and controlled by the organisation) or outsourced to a third party.

Under the FSS model, finance processes and transactions are standardised and centralised across the organisation's global footprint and the finance function shared services centre interacts with the rest of the organisation in the guise of a business partner-customer relationship.

When implemented effectively, FSS can greatly decrease the cost of running disparate or fragmented finance functions. A decentralised finance function increases the margin for error and processes are typically less efficient since they are not centralised and standardised.

FSS IN MALAYSIA

When it comes to Shared Services and Outsourcing (SSO), Malaysia is in the right place at the right time, as many businesses consider alternate offshore locations for service and business delivery to optimise costs and efficiencies and take advantage of indigenous talent pools and skillsets. "As globalisation continues, increased acceptance of offshore delivery and scarcity of talented resource skill sets will push organisations to maximise the value of shared services in strategic locations like Malaysia," said Carmen Tang, Executive Director at PriceWaterhouseCoopers (PwC).

The numbers tell the story. "Malaysia has attracted many global financial institutions and non-financial MNCs to set up their shared services centres here. In MSC Malaysia, there are over 250 multinationals and local companies doing various SSO activities, out of which 42 are in Finance and Accounting (F&A) Business Process Outsourcing (BPO)," said Michael Warren, Director of the Shared Services and Outsourcing Cluster at MDeC. Collectively in 2012, said Warren, these 42 companies generated RM4.58 billion in revenue, 83% of which is from export sales, creating approximately 38,000 jobs in MSC Malaysia with an average salary of RM6,500 per month. "Finance shared services accounted for 57% of the total revenue, making it the most important sub-sector in the SSO cluster," noted Warren.

Some of the major players are Shell, HSBC, Eli Lilly, Schlumberger, Citigroup and BP, said Warren. Offering another perspective, Jason Crimson, Director at Kimberly-Clark Regional Services remarked that, "Currently, the big players include companies in the IT, oil and gas, mining and financial services industry. Increasingly, we are beginning to see pharmaceutical and consumer goods companies setting up financial shared services too. Collectively, they form a large finance shared services footprint in Malaysia."

MOVING UP THE VALUE CHAIN IN FSS

Malaysia offers a unique set of skills and advantages for FSS in particular.

According to Warren,a wide spectrum of Financial and Accounting (F&A) activities is carried out in Malaysia. Typical activities are related to operational processing elements such as invoicing, billing, accounts payable/receivable and general ledger, payment processing, financial reporting, and administrative processes such as claims management, inventory and cost accounting, and operational reporting.

An increasing number of FSS centres are also engaging in more high-value services such as global tax support, treasury, forecasting, financial risk analytics and advisory, and sales to procurement. And this is the area that Malaysia is targeting, to overcome the limitations of scarce resources, especially talent.

“Knowledge process outsourcing (KPO) is where FSS in Malaysia is gravitating towards. What Malaysia lacks in critical mass, we have in talent and our forte lies in meeting the demand for high-end activities such as cost management, tax compliance, business analytics and consulting,” explained Tang.

Typically, organisations establishing FSS start from base before maturing and moving into the higher end of the accounting value chain. Toh Beng Siew, Head of Accounting at IBM’s Asia Pacific Accounting Centre said, “Accounts payable is one of the more common base activities across the industry. However, as these shared financial services mature, they become more high value requiring more complex levels of accounting support and specialised process knowledge.

IBM Malaysia’s focus is on the higher end of the accounting value chain which is non-transactional accounting.”

POSITIONING MALAYSIA AS A KNOWLEDGE-DRIVEN HIGH VALUE DESTINATION

FSS is a highly competitive global market where countries such as the Philippines, Poland, Ireland, China, India and Malaysia rank as hot spots for shared services. What gives us an edge? "Many businesses cited government incentives and policies, modern infrastructure, readily available talent pool and ICT skills and resources as the key reasons for selecting Malaysia as their regional and global hub for F&A activities," said Warren.

Meanwhile, Toh singled out "the Malaysian MSC (which) offers incentives for companies that want to venture into opening a shared service centre here." MSC Malaysia is Malaysia's national ICT initiative designed to attract world-class technology companies while grooming the local ICT industry.

In the Asia Pacific region, Malaysia is one of the fastest growing markets for F&A services.

Indeed, Malaysia has been consecutively ranked third by the global management consulting firm, AT Kearney in their Global Services Location Index (a proxy for SSO popularity) since 2004, which measures financial attractiveness, people skills and availability, and business environment.

However, Warren stressed that Malaysia is positioning itself differently from other FSS hotspots with immense talent pools and lower costs."With a population of 28 million and unemployment rate of 3%, the biggest misconception is that Malaysia is competing against India, the Philippines and others based on cost arbitrage and economies of scale. We have long realised the need to focus on positioning Malaysia as a location for knowledge-driven high value/Knowledge Process Outsourcing (KPO) F&A activities. This is the area where there is strong application of advanced analytical and technical skills as well as a high degree of proprietary domain expertise, as companies are looking into specialised knowledge and additional value creation."

Our unique specialised talent pool and diversity, whereby Malaysia possesses a highly educated and multiracial population, also makes us stand out. "Malaysia has a workforce of experts in niche areas – a study by Frost & Sullivan - Shared Services & Outsourcing (SSO) cited Malaysia in the top five of three verticals: Banking, Financial Services & Insurance (BFSI); Oil & Gas; and Transportation & Logistics," explained Warren. Tang added that "Malaysia is well positioned because of the language skills of the workforce that can do processing work not just for the English speaking world but for China, Japan, Thailand and Korea."

At the end of the day, Malaysia's strategy in FSS will revolve around delivering value at the higher levels of the finance function value chain. "MDeC, as the driver of the MSC Malaysia initiative, is aggressively championing and promoting Malaysia as the preferred destination for SSO operations," said Warren. "This is being done by cherry-picking niche competencies to support the creation of higher value jobs and skills that will transform Malaysia into a high-income society. It is the objective of MSC Malaysia to grow the existing investment and attract potential new investment for increased GNI (gross national income) contribution and move away from commoditised work which can be generally termed as Low Value BPO."

FORECASTING THE GROWTH OF FSS

What are the prospects for FSS growth in Malaysia?

According to Crimson, "the FSS market will benefit as more and more businesses look towards process transformation as a vehicle to remain competitive and to bring value to shareholders. Many businesses have taken their FSS journey to the next level by leveraging multi-functional global capabilities in their centres where in the past it may have been just regional or function-specific. We will also begin to see local conglomerates with a regional or global presence begin exploring FSS options as they too seek to streamline their processes and operations."

A recent IDC study commissioned by MDeC found that the global finance shared services market is expected to grow from USD27 billion in 2010 to USD38.45 billion in 2015. "In Malaysia, growth is expected to reach up to USD997.39 million in 2016 from USD537.78 million in 2011, with a compound annual growth rate (CAGR) of 13.1% over the forecasted period," said Warren.

In the Asia Pacific region, Malaysia is one of the fastest growing markets for F&A services, with a market share forecast of 7% in 2016 – an increase from 5% in 2011. Many international and Malaysian companies are also setting up shared services centres here ahead of the 2015 ASEAN Free Trade agreement. Leading local companies like Maybank and CIMB are also establishing shared services centres here to support operations across the region in their Asian expansion drive.

CHALLENGES ACROSS THE FSS LANDSCAPE

As in other sectors linked to the accounting profession, the shortage of high-calibre accounting and finance professionals will continue to hamper FSS growth. "Talent availability" will be the "pressing issue and challenge to the growth of the FSS in Malaysia," stressed Crimson.

"The growth of the industry will be spurred by the availability of relevant skills and capabilities such as excellent communication skills, organisational leadership, finance competencies, strong ethics mindsets and regional/global language competencies. Other factors include cost effective infrastructure and training providers," said Crimson.

Warren concurred that "the growth of the SSO industry in Malaysia is stretching the talent pool thin." The country needs to invest in plenty of capacity building while emphasising the quality and relevance of talent. As the country aspires to move up the value chain and focus more on KPO-type of activities, Warren said that there is still a lot of work to be done to nurture talents to perform these tasks.

Meanwhile, Toh noted that "A stable political situation and effective risk management are also critical elements to ensure healthy growth. CFOs face constant trade-offs in their attempt to maintain efficiency, effectiveness and control while managing complexity and risk in pursuit of profitable growth."

Finally, Malaysia may need to blow its own trumpet louder to sell its strengths in high-value FSS. Transforming and building public perception of FSS opportunities in Malaysia is key to ensure success. "Not many people know that Malaysia has so much to offer," said Tang.

FSS TIPS - Is Finance Shared Services right for your organisation? Consider these key takeaways:

MDeC – Michael Warren

Many shared services centres will continue to focus on expanding their operations and climbing up the value chain to offer more data-intensive KPO (knowledge process outsourcing) and analytics-based services, such as financial statement and tax preparation, consulting, treasury and risk management, budgeting and forecasting to their business units. Companies should capitalise on Malaysia's growth and innovation to progress from an operational service-based delivery organisation to one that truly drives innovation.

PwC – Carmen Tang

We advise our clients to be clear about the strategic drivers to set up a shared services centre. Gone were the days when companies look at cost savings as a key driver. Instead, shared services are looking at exercising standardisation, process improvement and managing talent. Make a solid business case. If it is about cost saving, be clear on where you will be getting those savings. Do not ignore the process improvement angle and the cost involved in enhancing the process. You may have to spend more to get the quality and control you require and this may not be reflected in the business case. Be clear on strategy and drivers including governance issues.

IBM – Toh Beng Siew

As part of IBM's ongoing transformation we have been globally integrating IBM's operations rapidly, locating our work and functions where we can deliver the best overall value, based on various factors including the right cost, the right skills and the right business environment. Accounting is a key operations area that offers the opportunity for integration which translates into standardisation of processes, cost effectiveness and improved controls to the corporation. Companies contemplating venturing into the FSS arena should start by considering these factors within their organisation.

Kimberly-Clark Regional Services – Jason Crimson

Each organisation has different philosophies in managing their business and processes. My advice is to consider FSS solutions that meet their organisations' needs and ensure that it fits within their internal culture and organisational relationships. Do not assume the FSS approach can be applied as a one-size fits all solution.

Michael Warren – *Director of the Shared Services & Outsourcing Cluster at MDeC*
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