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A SHARED SERVICE CENTRE (SSC) FOR CONSOLIDATION AND OUTSOURCING OF SMEs INTERNAL BUSINESS PROCESS IN MALAYSIA

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Abstract
The shared service center (SSC) is a service rendered by the third party company to ease the operation of the organization. It is a cost-efficient service that functioning to eliminates the transactional process which is a significant barrier for SME to grow and sustain in the business. The importance of shared service in improving the business process is undoubtedly in the case of big companies. However, it is almost none for the case of SMEs as far as the research is concerned. The objectives of this research are to analyze the readiness, risk, challenges and evaluate the influence factor of SMEs in implementing SSC in their organization. The qualitative research method was adopted to provide a roadmap to guide the researcher throughout the research project. Five SMEs have been selected and interviewed based on the saturated principle in the data collection process. The finding shows that adaptability, cost, experience management, and strong change management are the main factors that contribute to the adoption of shared service at the SMEs. This study serves as a guideline for SMEs that interested to implement the SSC and furnishes information for the government in developing a policy to support SMEs in the implementation of SSC. Other than that, this study also contributes as a reference guide for the other nations that have a common interest to improve the competitiveness of SMEs through the implementation of SSC.

Index Terms-- Supply Chain Management, Logistic Management, Warehouse Management, Design & Operation optimization

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INTRODUCTION

The shared service center (SSC) implementation has been recognized as an effective tool to reduce the transactional activity in the large organization business process such as Procurement, Finance, Human Resource, Information Technology (IT), etc. Despite the concern on the security of the private information that is shared with the third party, SSC has proven brings huge benefits to the organization, by improving the operation competitiveness and help the organization to focus more on their core competencies to drive efficiency. With the success of SSC implementation at the large business organization, this study was conducted to investigate the potential application of SSC in the context of the SME industry, which is still unexplored in the field of academics.

RESEARCH BACKGROUND

The shared service can be operationalized when the company tends to improve their operation by transferring the current task or process to the third party to handle recurrence activities such as issuing purchase order, invoice for the customer, recruitment, finance and also IT-related work. For instance, due to the size and nature of SME business, the SME owner-manager is fully responsible to manage the whole business process started from the sourcing process until servicing the customer.

This makes the owner-manager unable to focus on their core competencies and likely to be distracted during making a critical decision in the business. The adoption of SSC will help the SME owner-manager to release the recurrence tasks that time consuming to the experts and focusing their role in another critical aspect of the business while able to achieve dramatic savings to the company." (Forst, 2001).

In Malaysia, SME's company has been there making a significant contribution to job creation, innovation, social stability, and aggregate productivity growth and economic development. SMEs in Malaysia are reported to have contributed about 66% of total employment and 37.1% of Malaysia's GDP in 2017. The more SME works towards the improvement of their company, the better they will contribute to the Malaysian economy. Hence, the importance to support SME's development has become increasingly important in the national agenda.

Many initiatives have been introduced to support the SME's competitiveness at the various stage of development. This includes the introduction of incubator for SMEs at the start-up stage which the result is limited due to inconsistency in the implementation (Fararishah, 2014). For SMEs that passed the initial start-up stage, the government through its agencies have linked them with the reputable supplier for them to explore potential opportunities for outsourcing and enter the global supply chain of the market.

Despite the reported economic significance of SMEs, most Malaysia SMEs face significant barriers to growth and sustainability. While these barriers may vary from area to sector, there are certain constraints is common to all SMEs which is been struggling to manage the internal cost as a result of uncertainties in the domestic and international business landscape.

While many measures are put in place to manage the internal cost in the organization, the recent attention of SMEs has shifted towards outsourcing some of the processes to a third party with the ultimate hope of reducing the internal organization's operating workload as well as corresponding cost components. With this in mind, many SMEs has taken advantage of the potential saving of outsourcing to transfer some of the transactional functions and processes like IT work, sourcing, recruitment, and finance to the third party supplier.

However, this strategy perhaps is not suitable for the SME organization. SMEs must understand that it is not possible for outsourcing to fix all the remedies. It can work exceptionally well provided that the proper procedures are performed during the procurement and contract negotiation phase to manage the vendor (governance) for long-term relationship success. In this case, the acquisition of a credible consultant who understands the market for SMEs would be crucial in the implementation of SME outsourcing.

The volatility and uncertainty in the SME environment, as well as the uniqueness of SME management characteristics, could be attributed to the little or limited development in terms of the successful implementation of the outsourcing process in this industry (Erlinda M et al,2016). Direct replication of large company outsourcing experiences onto SME's function may not be suitable, considering a different industry nature, dynamic business model and the impacts of economic of scale to overall operations and management at large (Erlinda M et al,2016). In many cases, the implementation of outsourcing by SMEs in Malaysia (Hasliza et. al, 2017) did not help to improve the competitiveness of the participate SMEs.

Motivated by the challenge faced by SMEs in the outsourcing implementation, it is warranted to identify innovative solutions that differ from the current practices. While some processes can be adopted directly, a few others may require a certain level of adaptations to tailor the suit to prevailing industry complexities. Therefore, in response to the issue in the SME outsourcing implementation, the potential development of Shared Services Center (SSC) initiatives that cover a wide range of nonfinancial services for SME's internal business process will be the main objective of this study.

SHARED SERVICE CENTRE (SSC)

The shared service is a collaborative strategy of the subset of existing business functions, is designed to promote efficiency, value generation, cost savings, and improved internal customer service (Carlson and Schurmann, 2014). It has a common goal of delighting external customers and enhancing the corporate value of the company (CJ, 2006). It is also known as an innovation in the outsourcing process.

Various studies indicated that SME organizations tend to pursue outsourcing strategy to focus on core competencies, improve the quality performance as well as to increase the cost-saving (Raman, R., & Ahmad, A., 2013; Potkány M. et al, 2016).

While outsourcing is thought to improve firm performance through specialization, the impact of outsourcing on performance is limited and mixed (Raman, R., & Ahmad, A., 2013). In particular, the implementation of outsourcing in SME organizations is associated with various risks, such as the loss of expertise, hidden costs, control limitation, loss of privacy and security, and the loss of morale among employees resulting in outsourcing failure (Kaja Prystupa & Maciej Rządca, 2015).

SSC which operates as a separate entity is accountable for the performance of the business unit that migrates work and ensures that results are delivered based on agreed measures (e.g. cost, quality, KPIs, etc.). Shared services operate on three key levers: people, processes, and technology. SMEs that migrate their process to SSC will give up their transactional processes such as accounting and bookkeeping, sourcing, recruitment, IT, etc. These are the area where SMEs spend much of their operation time to combat the problem.

There is no exact equivalent of SSC in the literature. Although it may be regarded as something similar in a way to business incubators because they both provide non-financial support to SMEs, different in the sense that incubators cater mostly to start-ups, while SSC is intended for SMEs that have passed the initial start-up stage. The goal of SSC is to assist SMEs to accelerate their bid for greater competitiveness through the operation cluster by addressing their inherent disadvantage from the lack of economies of scale.

A. Characteristic of shared services

There are few common characteristics of SSC, and it is a combination of support processes to cut costs, delivering customer satisfaction and performance benchmarked externally and lastly, a relationship model similar to that of an independent third-party vendor (Mark Bowman, 2010), The main objective of separating the SSC from the organization is to gain more bargaining power during a negotiation of terms and prices, which can further reduce the costs, such as volume discounts.

In the SSC model, employees will be more appreciated in contributing their skills and knowledge effectively based on their core competencies. Employees can also contribute to a new service-oriented attitude by feeling their knowledge is appreciated more, which is important in creating a new level of internal customer-supplier relationships or business partnerships. (Frank Ulbrich, 2006) states that the implementation of shared services helps to establish a platform for business growth, flatten the organizational structure and support the overall group strategy. It is often a step towards globalization, an enabler of cultural organizational change, or an external outsourcing step.

B. Type of Shared Services User

Both the public and private sectors tend to use shared services for their benefit (Timothy and Kathryn, 2008). Based on (Mari Sako, 2010), Companies outsource for more than a few reasons. The main reason may be to save costs. But how this is achieved varies from introducing new technology, improving service quality, transforming fixed investments into variable costs, or freeing management time to focus more on their core skills. Many SSCs have been used in public or private organizations to achieve a higher level of efficiency (Knol, Jensen, Sol, 2014).

C. Evolution of shared services

The shared services center has been a business supporting services to any kind of business in the world, that includes public and private sectors. It is combined and delivered the services through distinct, without compromising the agreed level of quality, consistency and also cost with the organizations. (Fahy, Currie and Martin, 2002).

In the early 1990s, shared services entered the corporate industry as large corporations attempted to combine basic transactional processes such as payroll, purchasing, and payable accounts, and to sell these services back to other business units at cost. As businesses spread across borders, maintaining the same accounting structure among each country of operation is becoming progressively difficult. The benefits of implementing a shared service approach have also been recognized by many public sector organizations (Fahy, Currie and Martin, 2002).

SMEs IN MALAYSIA

Small and medium-sized enterprises or known as SMEs are the type of organization that established all around the world. According to Hashim and Abdullah (2000), for Malaysia, SME is defined based on the fixed quantitative measures; which are the total number of employees, the total number of capital, total assets and also by determining the sales turnover.

The latest definition of SME was updated on the 14th NSDC Meeting (2013), of which SMEs are categorized into micro-enterprises, small enterprise and also medium-sized enterprises as shown in table 1.

Table 1. Category Microenterprises, Small, and Medium

Category	Microenterprises	Small	Medium
Manufacturing	• Sales turnover of less than RM3000,000 or less than 5 full – time employees	• Sales turnover from RM 300,000 to less than 15 million or full-time employees from 5 to less than 75 employees.	• Sales turn over from 15 million not to exceeding RM 5O million or full times employees from 75 to not exceeding 200.
Services & Other Sector	• Sales turnover of less than RM 300,000 less than 5 full – time employees	• Sales turnover from RM 300,000 to less than 15 million or full-time employees from 5 to less than 30 employees.	• Sales turnover from rm3 million to not exceeding RM 20 Million or full-time employees from 30 to 75.

Source: SMEs Corp Malaysia, 2013

A. SMEs Management Process

In many SME organizations, SME owner-manager plays a crucial role in managing the business process spanning from the sourcing process until servicing the customer. This includes the business process such as recruitment, sourcing, finance, sales, distribution, etc. The owner-managers normally tied up with these functions or processes which mainly are transactional activities that can be handled or outsource to the third party. Instead, SME owner-manager should focus on their specialty in developing the business.

The FTE strategy in SMEs mainly focuses on the flexibility of the organization to meet the variability of demand. For instance, SME may hire a temporary worker or outsource the function to the other SMEs that can perform or deliver the service. This strategy might work well in a certain case, but the issue of employment lead time and performance of new FTE will be always a challenge and not sustainable in the long run. In an adverse situation, the SME staff would become idling or underutilized and termination of those idling staff becomes an unavoidable business decision to stay competitive in the market. This business decision could lead to the loss of important talents which might be essential for future business requirements.

B. Factor influencing SMEs readiness in implementing SSC

Strong Change Management

Special consideration is required during the implementation process to meet the specific structural changes often obligatory by shared service initiatives. Many researchers had suggested for the company that intends to have SSC should have initiated their attempts by handle the process of managing change. This is because the change management planning is the most critical part in the establishment of SSC to provide a structured approach design in transforming the organization into the desired future state from its current state (Burns & Yeaton, 2008; S.wang and H.wang, 2007).

Organizational Culture

According to (Shahidi, Abdolvand and Harandi, 2015), organizational culture is the most important component of readiness for an organization in implementing certain services or anything related to new things. Business culture is an organizational determinant factor in having a successful implementation

Senior Management Commitment

Senior managers are responsible for providing awareness, information, consultation, leadership, supervision, coaching, and supporting, which are essential for better implementation as their experience is better than the young ones. Having more commitment from the seniors in the organization indeed are a success factor in implementing new things, (Shahidi, Abdolvand and Harandi, 2015). Leaders should be credible as well as tactful. Furthermore, senior support ensures the availability of both financial and human resources to support a project, (Burns & Yeaton, 2008).

Adaptability

As suggested by Knol, Jensen, Sol (2014), it is hard for the user to accept a new distribution of power that comes from the reorganization process in developing the SSCs. In many cases, the process is inviting unhappiness among the staff in accepting a new role. There is also the staff who are thinking that if they were using SSC, they might lose their job and facing a problem in accepting new roles as a result of the occupation change(Knol, Jensen, Sol, 2014). Expressions such as timing, flexibility, and quality are widely used in the modern business context, which illustrates the recent change in strategic focus among organizations (Lindvall, 2001; McCormack and Johnson, 2001).

Cost Challenges in shared services

Achieving a cost-reducing in operations with SSCs is a challenging task as there are many examples of SSCs that have failed before in delivering their promises in reducing cost in a company(Knol, Jensen, Sol, 2014).

Flexibility

The Shared Services Centre should align itself to the overall organization strategy to achieve long term success and survival at the same time. The decision of the choices will determine whether its primary goal is to save cost or if innovation and an increase in quality are imperatives as well (S.wang and H.wang, 2007).

Maintaining services

Next is a struggle for SSCs themselves in acquiring and maintaining the required resources that can be expected, for example, to maintain their staff quality, so that there will be no lack in skill communication, results in orientation, cooperation, and customer orientation. This challenge does not only concerned with human resources, but it is also a struggle in obtaining and maintaining other tangible or intangible resources types (Knol, Jensen, Sol, 2014).

Inadequate data acquisition systems

Most businesses use a scanning system to collect information, which requires considerable time and staff resources to achieve the required performance. Incoming invoices are often scanned manually and it takes a lot of time to get the scanner to understand the model used by the different providers. Given the time-consuming task, the data can only be obtained at the header level and not at the line level. In doing so, the organization is losing valuable information that can be used to better assess and endorse decisions, for example by cost analysis. (Pagero, 2017).

Staff Attitude

Other than that, the challenges are resistance due to neglecting no –critical resources affected by the organizational transition. This happened mostly in the public sector which that end-user are always been neglected due to managers tend to give more attention to those who contribute more to the organization compare to those who are contributing less. There is an indication that listening to voice customers has become less important to them (Knol, Jensen, Sol, 2014).

RESEARCH DESIGN

This study was done based on the data collected from a qualitative method using in-depth interviews with the selected SMEs. A set of questionnaire was prepared based on the previous study as a guide for the interview session. To comply with the research ethic and to gain quality responses, the researcher has selected the SME's owner-manager that deemed as a suitable respondent that has sound knowledge in the business operation and capable to make a business decision for their company. Five SMEs have been selected and interviewed based on the saturation model principle to extract the research theme. All these companies are in the category of Small and operating in Johor. The data were analyzed using NVIVO to extract the theme and identify converging areas of interest.

RESULTS OR FINDING

All the SME's companies selected in this study had experience in outsourcing for some of the processes or activities within their company, which helps the researcher to approach the topic more effectively. The result from the in-depth interview has been summarised and discussed in the following sub-heading:

A. The readiness of SME's in implementing the SSC

After gathering information from all of the companies, it is clear that all of the companies are aware of the usage of the third parties or outsourcing in their business process. It is common for SMEs to use third party services in managing some of the business processes such as logistics, finance, and recruitment, except for those strategic processes such as sourcing, production, and sales which is remain under the scrutiny of the owner-manager. Despite exposure to the outsourcing process, the majority of the owner-manager are not familiar with the term of SSC, have a misconception of the SSC model of operating, and unclear the benefit generated of the implementation. The term SSC has been referring by most of the SME respondents as similar to the concept of incubator that was introduced by the government for the SME at the start-up stage, which is not a success (Fararishah, 2014). The misconception of the SSC model and its potential contribution has caused many of the SMEs are unaware of the opportunity to participate in the next level of the business competitiveness. Realizing the benefit of SSC, the majority of the owner-manager has shown interest to explore the SSC model which is a positive indication for the success factor in implementing new things (Shahidi, Abdolvand and Harandi, 2015). Furthermore, the owner-manager support is crucial to ensure the availability of both financial and human resources to support the SSC implementation (Burns &Yeaton, 2008). Based on the case of a large organization, the role of senior management is important in implementing SSC as they became the person who influences the staff to support the use of SSC(Shahidi, Abdolvand and Harandi, 2015).

B. Risk and challenges of implementing shared services.

Based on the case of a large organization, few challenges been discussed during the implementation of SSC, one of it is difficult to find a competent provider and trustable by the employee. This is because the reorganizing of role in SSC implementation will create unhappiness among the staff that could lead to loss of trust in the relationship with SSC provider (Knol, Jensen, Sol, 2014) This situation even more complex for SMEs environment due to nature of the business that easily for duplication by the competitor. As expressed by most of the respondents, it makes the effort to transfer the responsibility of strategic activity to the SSC provider even more difficult. Trusting the outsider is a major problem among the owner-manager in this study, in which the attitude of the service provider is the main concern that will determine whether the service will last long.

C. Assessing SME's influence factor in the implementation of the shared service

In a study at the large organization, strong change management provides a structured approach designed to transform an organization into the desired future state from its current state (Burns & Yeaton, 2008). This can be noticed during the interview which most owner-manager express a strong interest to change its company to be better, which is a natural characteristic of the SMEs that committed to updating their skills strive for continuous improvement. However, the owner-manager should be guided with a proper approach during the transition process as their exposure is limited to the outsourcing process only.

Senior management commitment is one of the factors that influence the success of SSC implementation (Burns & Yeaton, 2008). The capability and experience of senior managers are needed in providing awareness, information, consultation, leadership, supervision, coaching, and supporting, that are essential for a better implementation. In this study, the owner-manager is representing the function of a senior manager in the large organization to coaching or supervision its employees during the implementation. Despite limited exposure to the SSC practice, the owner-manager is the suitable person in SMEs organization to drive the SSC implementation which evidence of their interest in the SSC model and its benefits.

The last factor extracted from this study is the adaptability of a new organization under SSC implementation to accept a new distribution of power, which in many cases is the contributor to the failure of SSC. As suggested by (Knol, Jensen, Sol, 2014), the reorganization process in developing SSCs will create a lot of unhappiness among the employee in term of accepting a new role in SSC structure, and it will be more challenging for the strategic roles that traditionally scrutiny by the owner-manager. Based on (Mari Sako, 2010), the main motivation in the SSC implementation is a benefit to the cost. It is also similar in this study where the owner-manager is hoping can tapping a benefit of cost reduction which similar to what ae the practicing now for the outsourcing.

Based on the findings, a framework indicates the influence factor of SSC implementation is illustrated in figure 1.

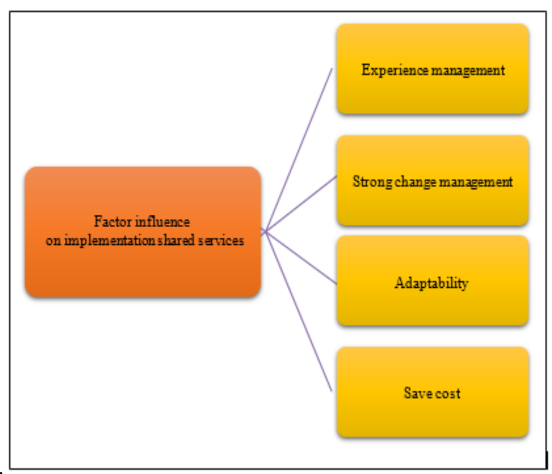

Figure 1. Factor influence on the implementation of shared services

CONCLUSION

This study constitutes and offers a preliminary finding on the major issues surrounding the implementation of SSC at SMEs organization. Despite limited exposure to the SSC practice, the owner-manager in this study had enlightened a positive interest in materialized the implementation of SSC at SME by sharing all the issues related to the implementation.

The owner-manager in this study believe that an SSC can become the industry standard for SME's business environment as SSC not only impacting the bottom line through more efficiency but also the top line with more value-added services supporting the business. This supported the argument that SSC will be becoming the industry standard of the future (Capgemini, 2015).

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