ARE SHARED SERVICES PREPPED TO INTEGRATE LAST-MILE R2R PROCESSES?

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INTRODUCTION

2020 has been nothing short of revolutionary. Eight months into what amounts to a global office shutdown, the extraordinary revelation is that businesses operations have proven remarkably resilient in a remote work scenario. SSON has conducted a number of surveys over the past seven months to chart the reaction of shared services organisations (SSOs) as well as their outlook, based on the impact of COVID-19. Overall, from a business services support perspective, service has remained consistently strong – give or take some adjustments in service level agreements.

That's not to say, however, that enterprises have not been taking a long hard look at what's happened and reassessing their future operational models. Indeed, a recent SSON report confirms the two main trends emerging from the crisis are, first, a more comprehensive adoption of automation; and second, aggressive implementation of future of work strategies.

Part of this story is a much greater focus on rooting out inefficiencies and applying best practices to address quality and cost. The shutdown highlighted the "risk" associated with relying too heavily on the human touch and also drove home the message that "virtual" operations work. While we don't expect to see a pivot from current location strategies overnight, it does lend credence to the argument that work can reliably be redeployed elsewhere.

Enterprises have woken up to the fact that the shared services model is not just reliable, but the right choice in increasingly uncertain and unpredictable times where business resiliency is key, and where technology-enabled remote work strategies will come to define the future. As a result, there is a move within shared services to increase the geographic as well as process scope of current operations to deliver additional value to the enterprise. Organisations that might have taken a slower tack to extending the range of processes managed now find themselves under pressure to move full steam ahead. The pandemic has created a burning platform to push enterprises into adopting not just digitised front-end operations, but also digitised business support via the back end.

This report analyses the extent to which statutory reporting and tax provide a lucrative opportunity for centralisation and automation. It confirms statutory reporting as already significantly centralised in modern operations (56%), with more planning to move that way within the next five years.

BARBARA HODGE
Principal Analyst and
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SUCCESS METRICS IN MODERN SHARED SERVICES

While cost was the initial driver for the shared services model's widespread adoption starting three decades ago, the lessons of the past have been implemented effectively. Most shared services, whatever stage of maturity they are at, have made efficiency and effectiveness their priority – with newer centres building on the experience of their peers to leverage digital operations from the start; and older centres having successfully applied continuous improvement to their operations. As a result, the primary "success metrics" today are quality - rather than cost-based. Indeed, providing reliable and error-free services – whether in the shape of data or transactional activities – is the priority for the modern SSC, and drives home the importance of reliability and compliance reassurance, above all, in finance processing.

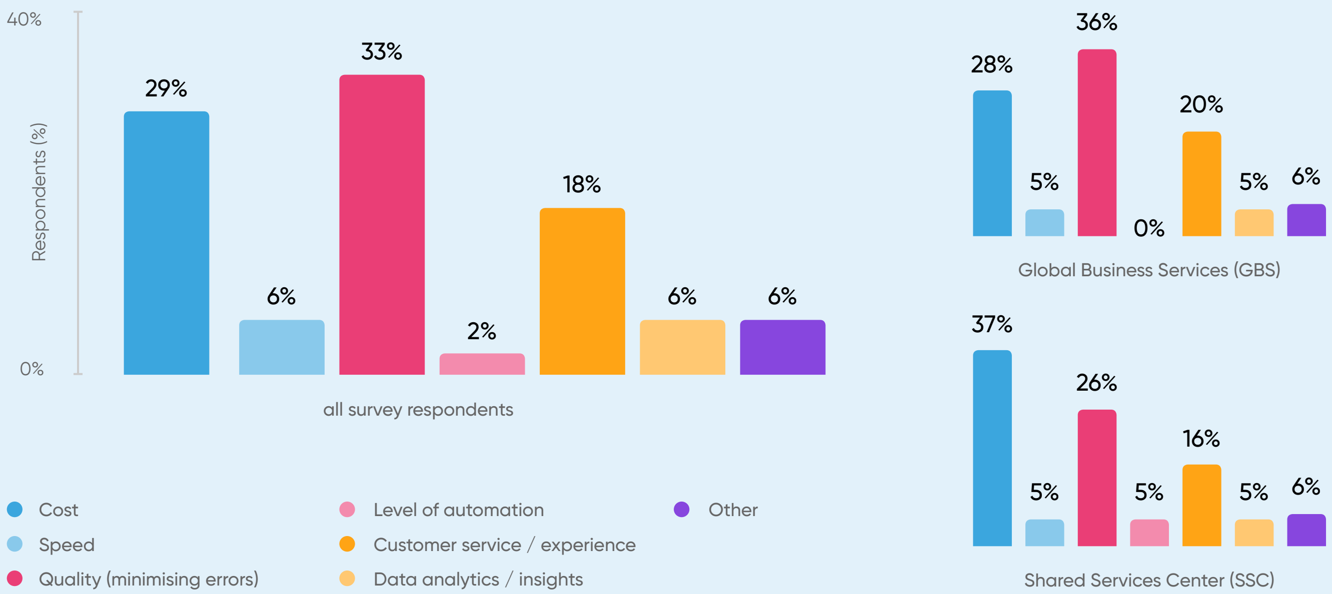
"It's heartening to see quality concerns topping the list," explains Briony Kempton, who heads Statutory Reporting and Direct Tax Propositions for Thomson Reuters in Europe.

"Historically the focus in shared services was to take out cost through efficiency, and that bottom line is still critical. But the fact that quality is now the priority highlights 'value' beyond efficiency alone."

"Indeed, sophisticated shared services models, for example GBS, have optimised service delivery through integration and automation," she adds. "It's not just about automating to avoid human error – it's also about leveraging human skills at the higher-value end of a process, for example at the review stage. The right combination of technology, process and skillset offers the best 'quality' output. So that is where companies are setting their sights."

While quality leads overall in this survey, it's interesting to note that if we compare the responses of shared services centres (SSCs) to global business services (GBS), the former tend to prioritise cost over quality. [For the purpose of this report, reference to "shared services" generally includes GBS.] Reflecting the comments above, we can interpret this as more evolved – i.e., GBS – shared services recognising the more holistic impact of a sophisticated service delivery model, which leverages the most appropriate resources to optimise services.

What success metrics is your SSC measured on?



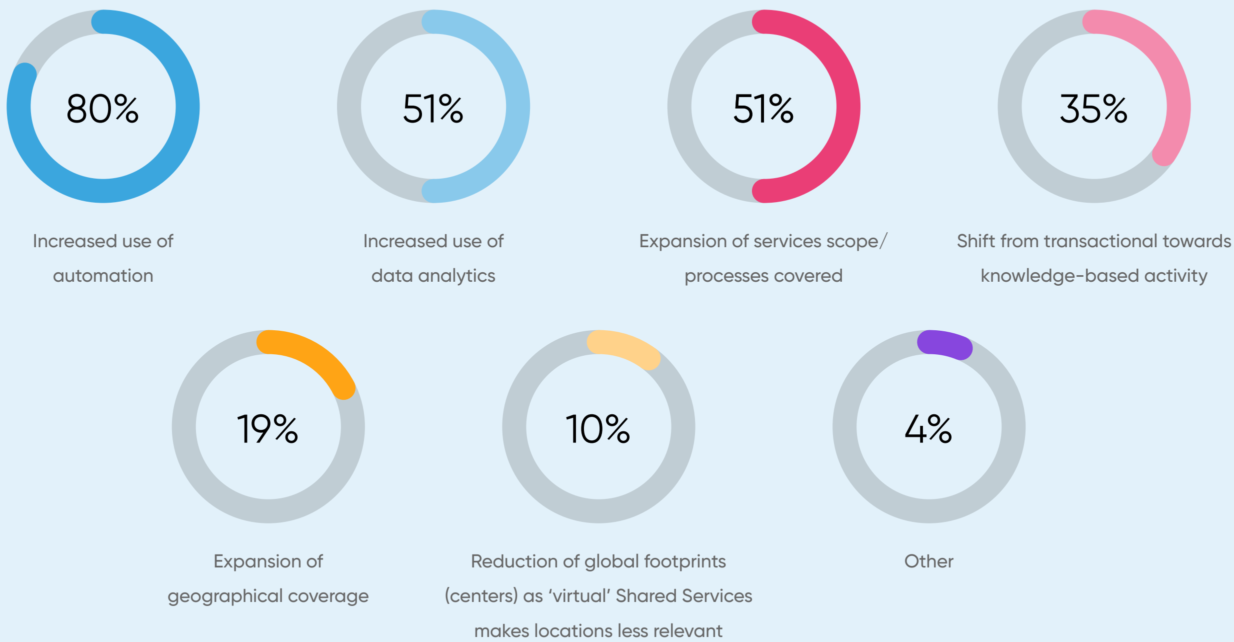
"Sometimes what this means is that a centralised GBS or Centre of Excellence manages the lion's share of the reporting process , while a localised team, or more skilled employees, support specialised inputs and review," explains Kempton. "This kind of hybrid solution can often offer the best results, especially for entities or jurisdictions where there is higher risk."

Also noteworthy from the survey is that data analytics and level of automation do not factor heavily into success metrics. Looking forward, however, we clearly see shared services prioritising more automation, as well as data analytics and scope expansion, in order to improve their value to the enterprise. This reflects the trend already noted above, to digitise operations, but also highlights the value of data analytics in driving better insights and thus better decisions.

The data also indicates a continued shift towards knowledge-based activity, which is expanding as technology frees human employees from mundane work, and data analytics provides the critical insights needed to offer knowledge-based services.

What are the most significant areas of change in your SSC's near-term future?

Respondents could choose multiple answers



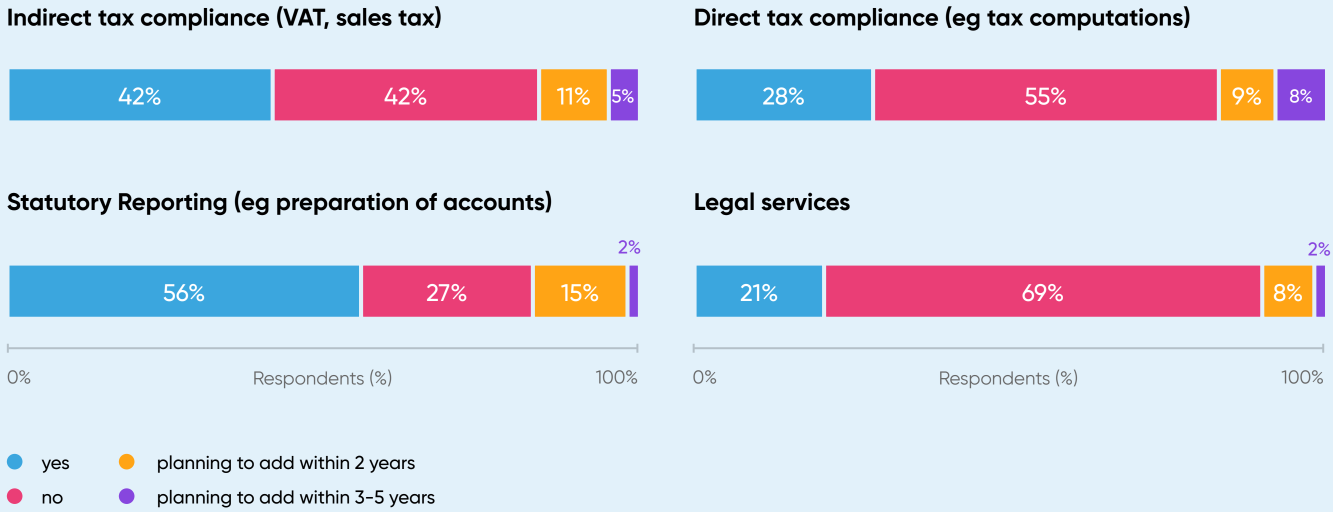
ARE SHARED SERVICES INCORPORATING TAX AND STATUTORY REPORTING?

Given the determination to expand scope and better leverage automation and data as outlined above, it's useful to take a deep dive into how tax and statutory reporting are currently addressed within modern enterprises.

Statutory reporting: Nearly 75% of respondents plan to centralise by 2025

The statutory reporting process is already centralised in more than half the enterprises surveyed, and another 17% plan to centralise it within five years. That means that by 2025, nearly ¾ of organisations will have adopted a shared services or similar centralised strategy to manage statutory reporting.

Do you currently offer the following as a centralised service? (eg, from an SSO)



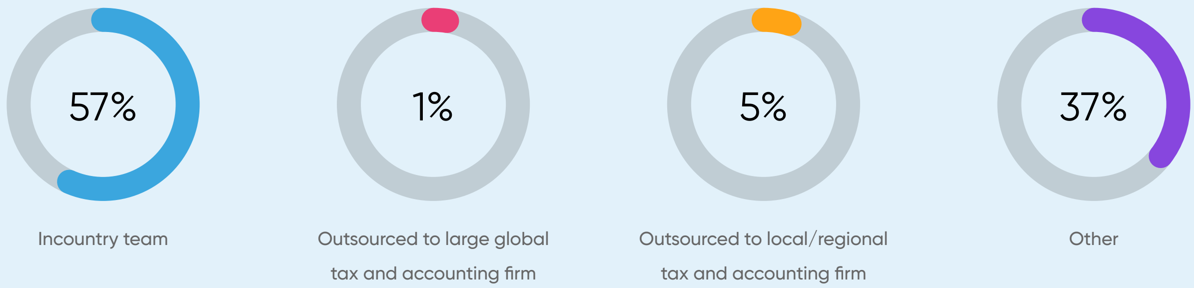
However, while we already see significant integration of statutory reporting within shared services, those that have not opted for this approach predominantly leverage in-country teams with only minor outsourcing to tax specialists.

Despite the benefits of a shared services model, concerns around perceived gaps in knowledge of local finance requirements, timely updates, and regulatory deadlines are holding enterprises back from bringing statutory reporting into a centralised model. Nevertheless, the data tells an encouraging story in terms of both current integration and future plans.

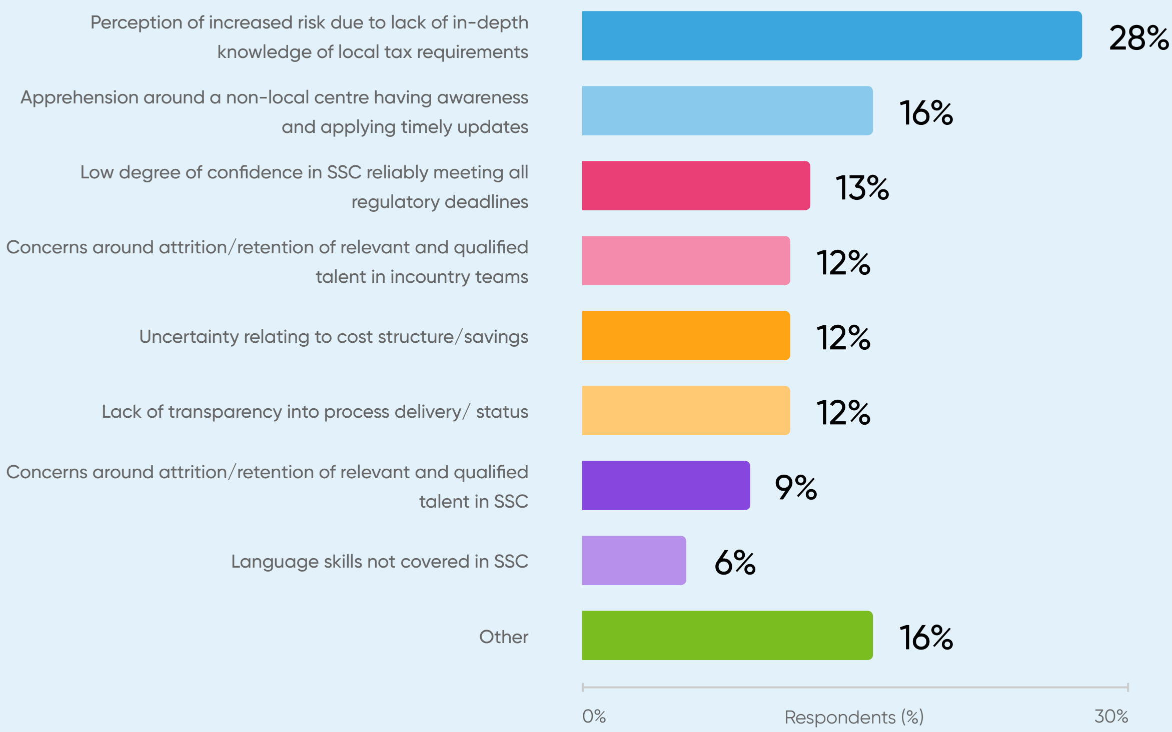
"Many of our global customers confirm that they've been able to maintain reporting schedules throughout the pandemic because they have the technology to help them," explains Kempton. "It really comes down to having the right process and technology in place and maintaining connectivity. That's been the common denominator for organisations that have been successful."

"There is no one-size-fits-all, however," she warns. "The right balance of service delivery for statutory reporting and tax will depend on each organisation's operations, risk profile and priorities." However, as more companies recognise that technology has made remote work possible, Kempton believes that this will fuel their

If you have not yet centralised STATUTORY REPORTING (eg preparation of accounts) where is this work currently done?



If you have not yet centralised STATUTORY REPORTING (eg, preparation of accounts), what is holding you back? *Respondents could choose multiple answers*



plans to build on their successes – in particular, as Finance is looking for more opportunities to drive value and route routine process work through smart technology but supplementing this with in-country experts. “This will become the go-to strategy,” she says.

Many local or in-country teams offer value-adding work around reporting to leaders, so freeing them up to focus on the data analytics, while a centralised team produces the accounts, is a better service delivery option. This applies specifically where you have complex consolidations or in specific countries, where local knowledge is key.

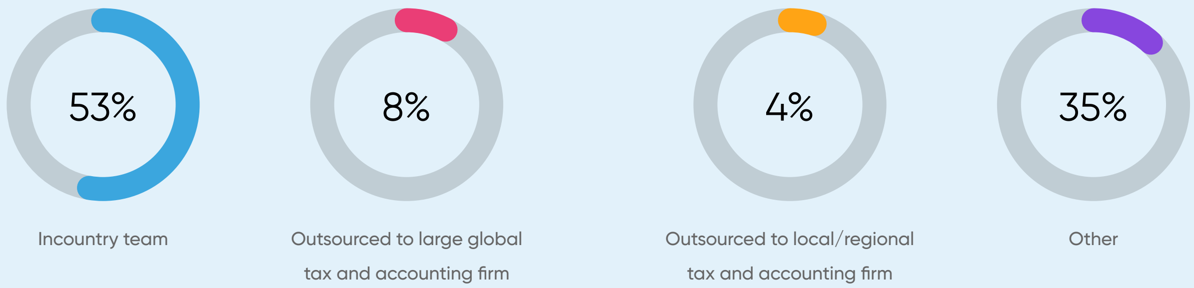
“It doesn’t have to be an all or nothing scenario,” says Kempton. “That’s what we see, at least, as working well in some of the larger enterprises.”

Indirect tax is on a growth trajectory

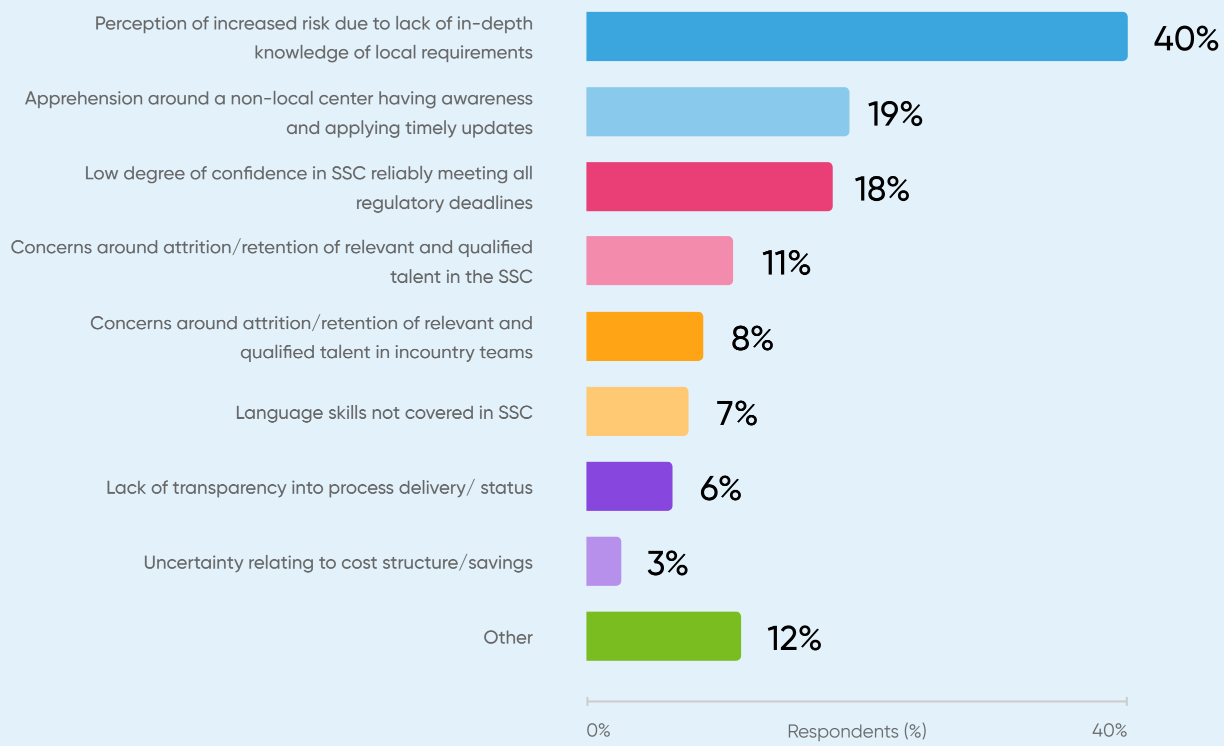
By comparison, tax still lags somewhat further behind. Indirect tax management lends itself more readily to centralisation than does direct tax. The survey indicates 42% of respondents have already centralised indirect tax, with another 16% planning to do so within five years. The balance manage activities mainly through in-country teams, with 10% relying on outsourcing.

What limits further centralisation is the concern around potential risk – specifically the perception of increased risk due to a centralised team's lack of in-depth knowledge of local requirements, or awareness of relevant updates / regulatory deadlines.

If you have not yet centralised INDIRECT tax compliance (VAT/sales tax), where is this work currently done?



If you have not yet centralised INDIRECT tax compliance (VAT/sales tax), what is holding you back? *Respondents could choose multiple answers*



"The data tells us that organisations are concerned about the potential risk of moving work to a shared services or centralised team," says Gunjan Tripathi, who leads Indirect Tax propositions for Thomson Reuters in Europe. "And their concerns are certainly valid."

Across Europe, she explains, some regions require reporting in the local language, which might not be readily available in a central SSC. These kinds of stringent requirements focus heavily on cultural awareness and relationships, which can be supported locally. A hybrid model is a good solution.

One approach that works well in leveraging centralised resources is to cluster similar regions together for the purpose of standardisation, explains Tripathi. "For example, the UK, Ireland, the Netherlands, and the Nordics all share the same pragmatic approach to taxation. Another group would contain Poland, Romania, and the Czech Republic, which are more complex but also offer cheaper local resources to provide in country expertise."

With digitisation becoming more common across both indirect and corporate tax, companies need to start now with change initiatives, Tripathi warns. "Most organisations are aware that there is a much greater risk of local tax authorities auditing their accounts. So, ensuring they are meeting their obligations, but not paying more than is due, is critical."

What makes indirect tax such a good candidate for centralised processing is the frequency of activity. Accounts are required monthly, for example, or in the case of Spain even near real-time. "Deploying human resources simply puts too much pressure on getting this right. So, leveraging a central team for ongoing updates makes sense," says Tripathi.

"The trouble is that many organisations are just not thinking digital yet. And it's hard to make a convincing business case for investing in tax technology."

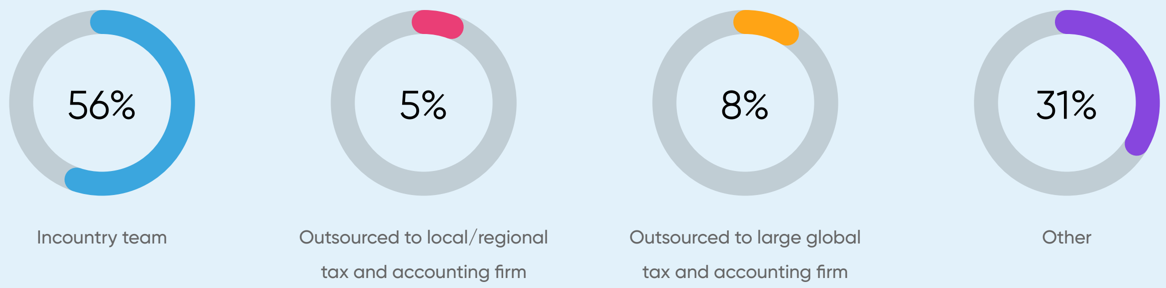
One factor that might swing this, Tripathi believes, is if there is a valid HR play – in other words the people requirements prove challenging and the scale of work is such that the return on investment becomes obvious. Alternatively, a compelling event can make such an investment unavoidable, for example an audit failure or gap in process control. Finally, sudden changes in external regulations may force an investment, for example when the Italian government mandated e-invoicing or Spain required SII reporting within four days.

"I have seen convincing cases when executives understand that technology can provide useful insights – for example, whether an operation is truly profitable in a certain country based on real-time cost and revenue comparisons," says Tripathi. "This kind of analytics makes a great case for prioritising tax technology. Especially where data can be leveraged to mitigate risk in supply chains, for example."

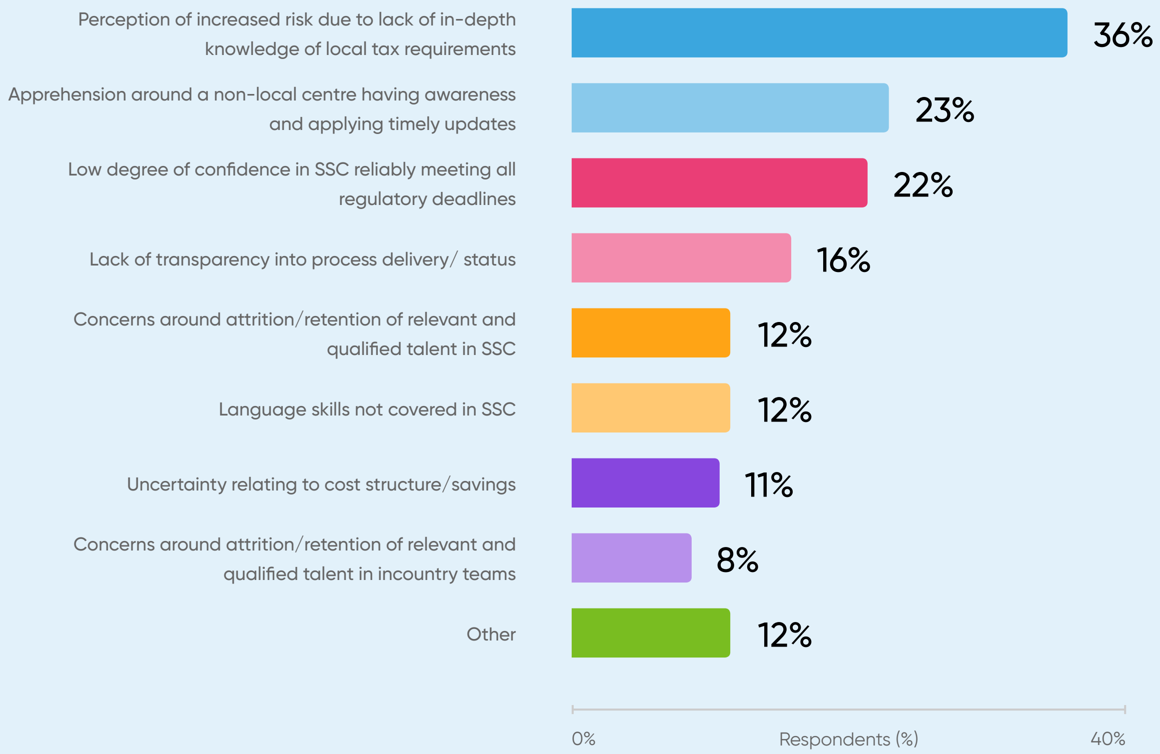
Direct tax offers less opportunity

Direct tax lags much further behind, as would be expected given it is initiated outside the enterprise. Less than 30% of respondents currently have taken a centralised approach to direct tax – 17% plan to do so within five years. Direct tax, like legal services, is perceived as less easily standardised due to its local / country variations and falls into the category of services that are perceived as requiring a local presence, and we thus see this predominantly managed by local teams.

If you have not yet centralised DIRECT tax compliance, where is this work currently done?



If you have not yet centralised DIRECT tax compliance (eg tax computations), what is holding you back? *Respondents could choose multiple answers*

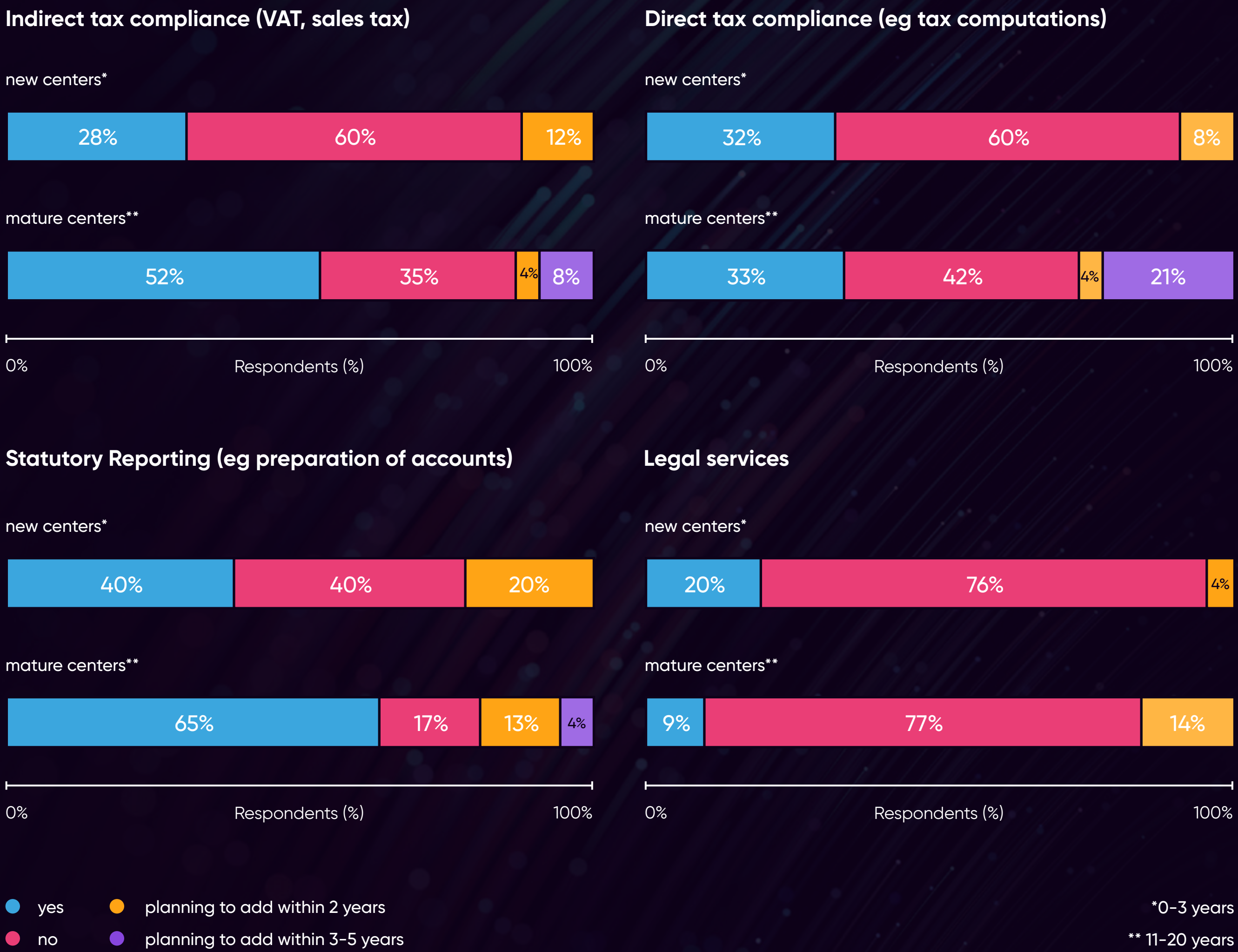


MATURITY DRIVES ADOPTION – BUT SHOULD IT?

Some interesting trends emerged when we compared the approach of relatively new shared services (0 to 3 years) to mature centres (11 to 20 years). What became immediately apparent was that the more mature centres were nearly twice as likely to have centralised statutory reporting and indirect tax (with not much difference in direct tax).

Despite the data pointing to a broader process scope in more mature centres, there is no reason why this should be so. Indeed, the advantages of shared services and the complexities of reporting are both well understood. For any enterprise devising a shared services model at present, there is no reason to start with a limited or narrow focus. Digital tools that support virtual operations make it that much easier to embrace a broader scope from the beginning. In addition, the significant growth in cloud-based technologies provides even more – and cost-effective – agility for shared services models, which new centres can certainly take advantage of.

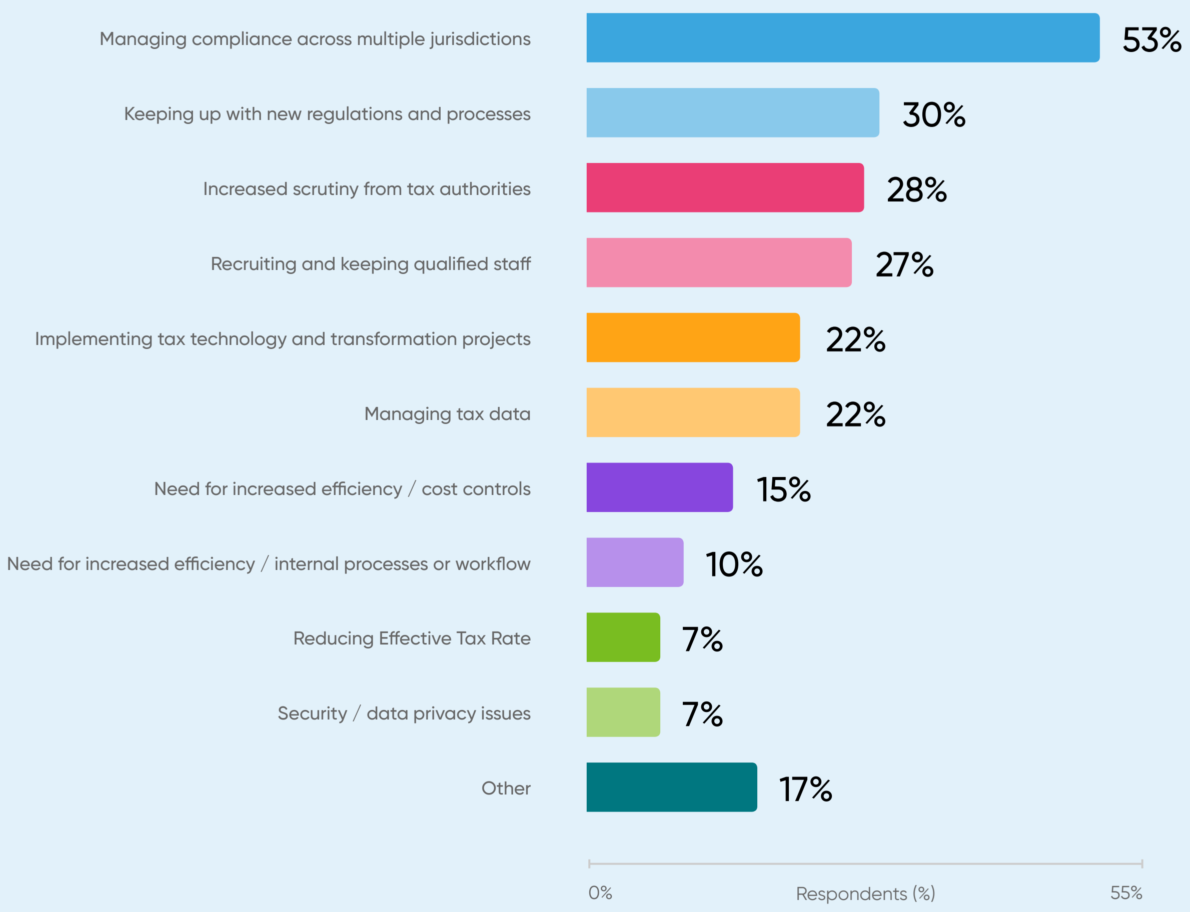
Do you currently offer the following as a centralised service? (eg, from an SSO) – by maturity



KEY CHALLENGES EASILY ADDRESSED THROUGH MODERN SOLUTIONS

While centralisation offers benefits not just in terms of subject matter expertise and standardisation but also by leveraging best practices for process management and governance, there are nonetheless some issues to overcome. Both statutory reporting and tax activities are very rules driven, so technology can easily be substituted as a means of translating these rules into automated solutions. Organisations that have already centralised **tax processing** list as their key concern the ability to manage compliance across multiple jurisdictions. Similarly, nearly a third cite worries about keeping up with new regulations and processes, specifically in the face of increased scrutiny from tax authorities.

If you have centralised TAX (direct/indirect), what are the top 3 challenges facing the centralised team? *Respondents could choose multiple answers*



Again, we see clear differences in comparing newer shared services to mature models. Those at an early stage of implementation (under three years) are more concerned about scrutiny from tax authorities, whereas mature centres (11 to 20 years) are primarily concerned about compliance across multiple jurisdictions. These concerns around compliance and regulations are common to any process that is managed manually, as human error is a common source of irregularity. However, modern technologies can be deployed to address these reliably and automatically – specific to jurisdictions – while also reflecting regulatory updates.

Despite this, the vast majority (82%) of enterprises surveyed confessed their current tax technologies were intermediate at best, if not basic – mainly reliant on manual processes and spreadsheets with only some use of tax solutions. In fact, less than 10% of respondents believed their current tax technology to be advanced – despite the fact that most (78%) recognise a best practice tax solution as playing a strategic role in the success of their tax department. (Nine percent believe their current spreadsheet approach works just fine!)

A tax technology strategy is complex, agrees Kempton. "With pressure from both external regulators and internal departments, as well as increasing demand for business insights that drive the right decisions, the challenge is to find a solution that works – and then to make a case for investing in it."

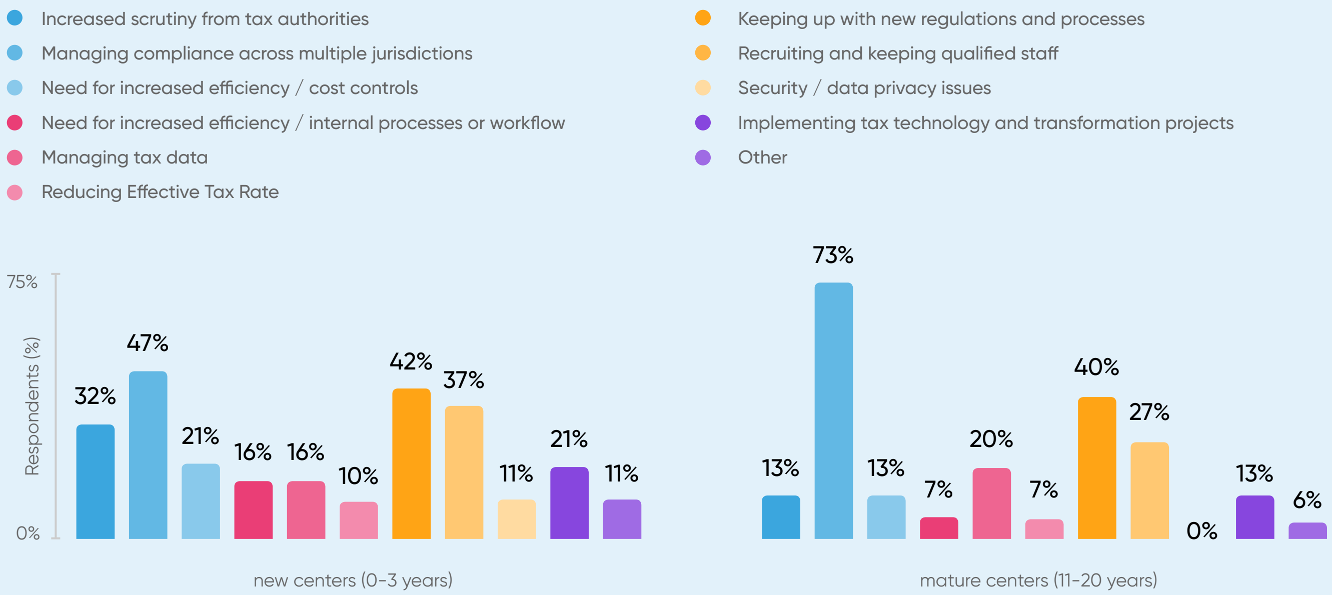
"And you are competing against other parts of the business for valuable investment funds," she adds.

"It's interesting to see the data on how many practitioners recognise the importance of a tax strategy – but don't really have one," states Kempton. "Today, with global tax regulations becoming more stringent and greater awareness of who is not paying taxes, there is a cost beyond compliance, based on reputational risk. So, how tax is managed is being critically reviewed."

The danger that is here so clearly illuminated is that enterprises are exposing themselves to significant risk of human error by lagging behind in the application of specialist technologies that would force compliance and provide the reassurance so sorely needed.

In fact, as business escalates and jurisdictions take a more critical approach to auditing, the ability of humans to maintain adequate service in the face of thousands of rows of data simply won't hold. Today, countries like the UK are already forcing the issue of tax digitisation, following the likes of Italy and Latin America, where governments have been much quicker to take the initiative. Others will be sure to follow, to reduce the **gap in corporate tax** as a result of insufficient transparency.

If you have centralised TAX (direct/indirect), what are the top 3 challenges facing the centralised team? – by maturity *Respondents could choose multiple answers*

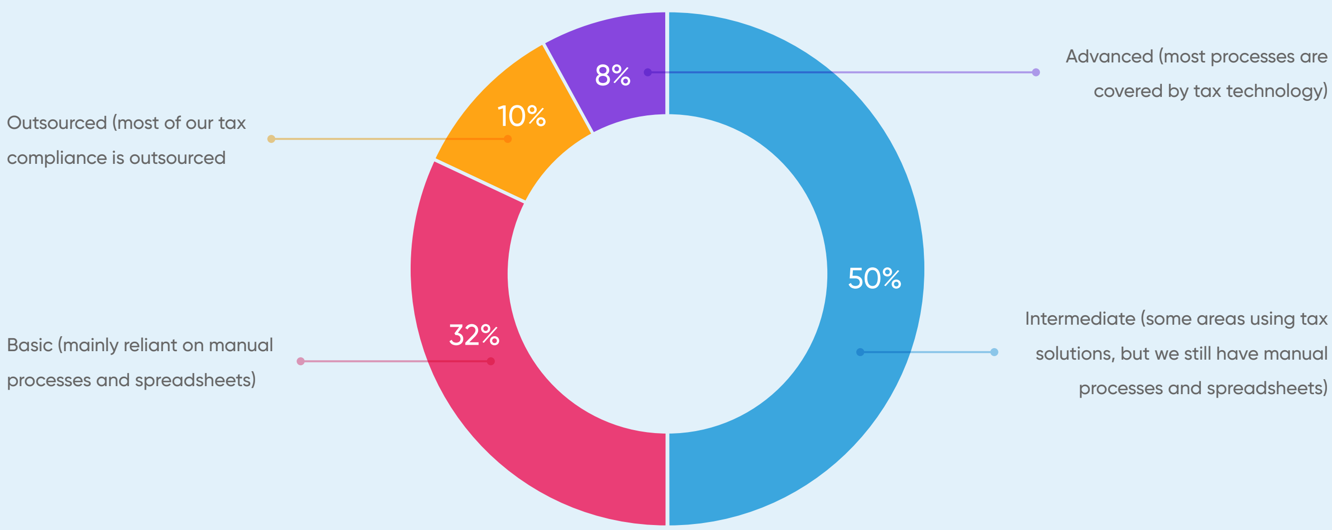


"The trouble is that you cannot just launch digital tax services overnight," says Tripathi. "Whether companies like it or not they need to start trusting technology to do what it says it can do: ensure compliance and meet reporting deadlines."

"Covid-19 has shown us that we have to be able to react," she says. "It's not just about being compliant but also about adding value and making the right decisions. Relying on human resources alone just won't work. It's beyond the capability of human workers. New solutions that provide seamless integration between reporting and tax documentation and other segments of the business, however, can provide the support that is so urgently required."

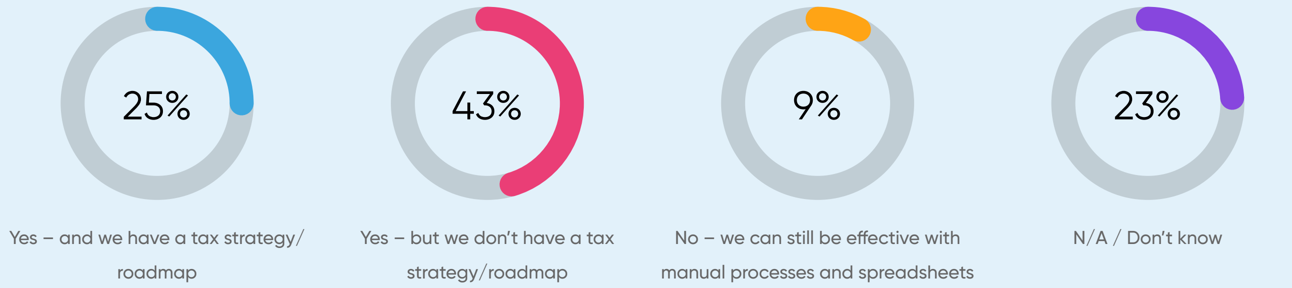
Organisations will need to develop a robust resource allocation strategy and some of that resource is technology. Alongside this, they will also need to quickly develop robust tax strategies to guide their decisions.

How would you describe your current adoption of tax technology?



However, of those respondents who acknowledge that **technology is key** to their success, only a few currently have a robust tax strategy or roadmap in place. The vast majority do not. This also implies a certain fuzziness around identifying priority processes or activities. What's needed, and needed urgently, is some reliable guidance on where to start in building a robust technology strategy. However, in comparing new centres to mature centres, mature centres are more than twice as likely to have a strategic tax technology roadmap in place (41%, compared to 17% of new centres).

Do you see tax technology as strategic to the success of your tax department?



Of the tax technologies currently implemented in global enterprises, the majority fall into indirect tax management and compliance/digital reporting; transfer pricing documentation; or reporting. Very few listed workflow management tools or data management tools as areas in which they had invested significantly.

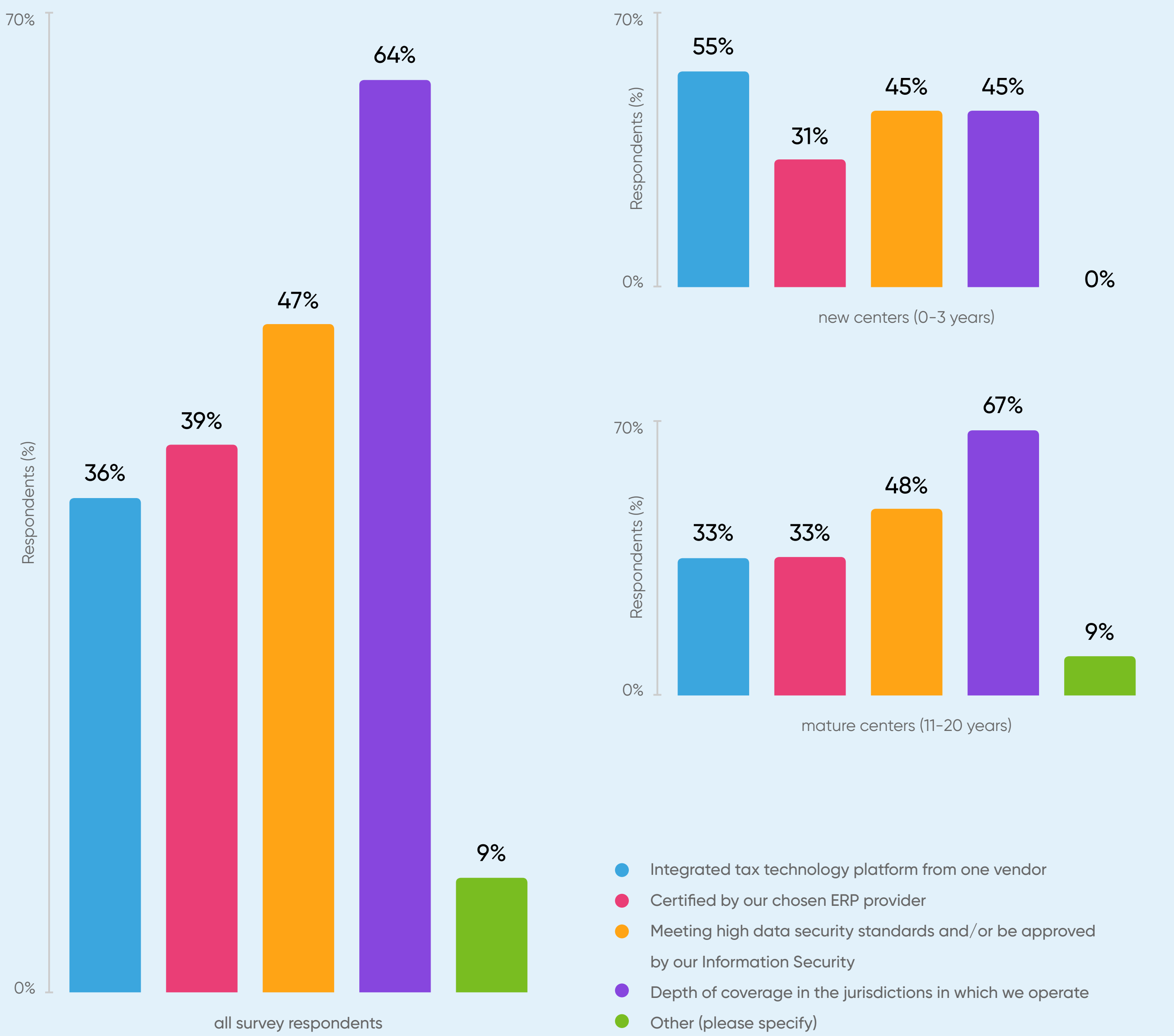
The key criteria for selecting tax technology, according to the survey's results, are depth of coverage across multiple jurisdictions, and ability to meet data security standards as set by the information security or technology team.

In addition, more than a third of respondents concede that the ability to integrate various capabilities through a single vendor would be a priority.

Again, in comparing new to mature centres, new centres prioritise an integrated technology platform from one vendor (55%, compared to 33% of mature centres), while mature centres are more concerned about the ability to cover multiple jurisdictions (67%, compared to 45% of new centres).

When looking to invest in new tax technology which criteria are most important?

Respondents could choose multiple answers



PRESSURE TO ACCELERATE?

While SSON's surveys indicate a strong uptick in terms of the pressure to automate shared services activities, it's notable that in neither statutory reporting nor tax do we see a significant impetus to drive either centralisation or automation as a result of the pandemic. Only one in five respondents confirm an accelerated shift towards centralisation. An accelerated implementation plan as far as automation is concerned is notable through its absence. And even where this data is strongest (in statutory reporting) it's still less than 20% of respondents.

Once again, we see a clear difference in how new and mature shared services are addressing future centralisation and automation opportunities: Newer centres show significantly more interest in accelerating automation for statutory reporting, compared to older centres; but also show much less interest in taking initiatives for indirect and direct tax. In fact, as far as indirect tax is concerned, mature centres show marginally more inclination to accelerate automation than do newer ones.

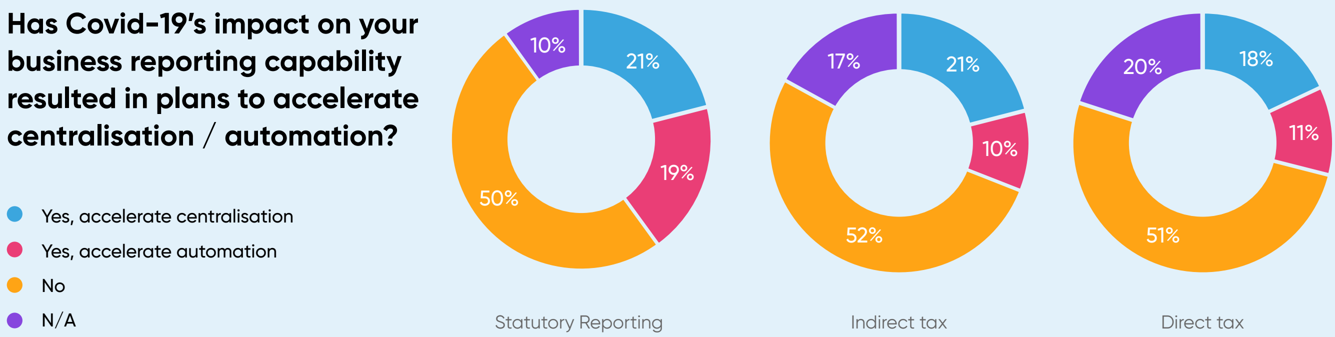
Why this apparent conflict between the acknowledged need to invest in technology and its actual adoption? The shift towards virtual service delivery is clear. The majority of respondents indicated that their future plans are very much focused on a virtual shared services model. And virtual services flow through digitised processes, which are built on technology.

If there has been hesitation to date, we are probably witnessing a critical tipping point in which enterprises commit to bringing more of the last mile in reporting and compliance processes into a shared services model. Finance has generally led with centralising procure-to-pay and order-to-cash, as these activities have easily lent themselves to process standardisation but given the regional and jurisdiction-driven vagaries of reporting and tax, these areas have traditionally lagged behind the trend to centralise.

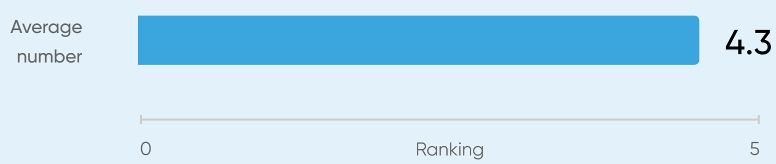
Today, the urgency of the moment is forcing enterprises into bigger decisions. The time is right to embrace record-to-report equally.

"One thing I would advise anyone is to talk to others who have already moved ahead on the path", says Kempton. "The survey highlights that mature SSCs are more likely to have leveraged technology for both statutory reporting and tax. So those centres have a lot of experience to share. And it's a generous community when it comes to discussing performance enablers."

Has Covid-19's impact on your business reporting capability resulted in plans to accelerate centralisation / automation?



On a scale of 1 to 5 (with 1 being not likely and 5 being very likely), to what extent is COVID-19 driving a more virtual shared services model?

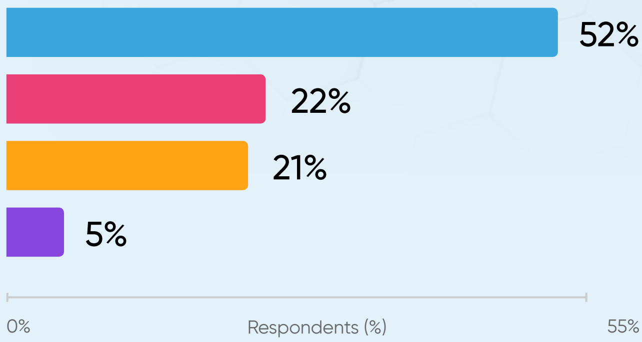


DEMOGRAPHIC SNAPSHOT

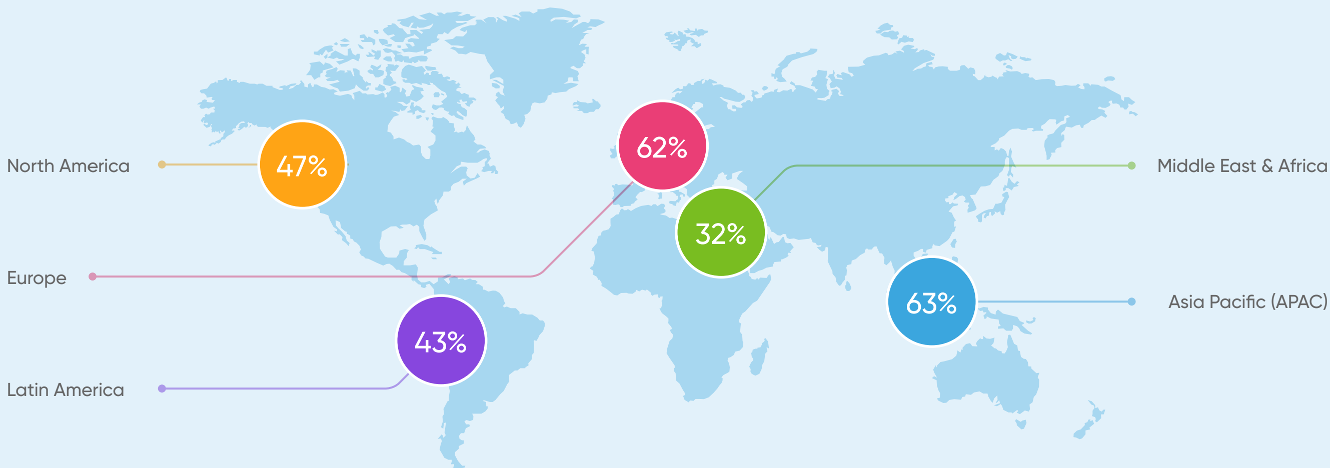
The survey was conducted in Q3 2020 and represents more than 100 global shared services practitioners. SSOs surveyed represent a fairly mature model: more than half the respondents represent SSOs that are seven years or older, and that provide services across global business customers – covering the Americas, EMEA, and APAC. Most of these SSCs serve five countries or more, and half of them support at least business entities.

What is your SSC's service delivery model?

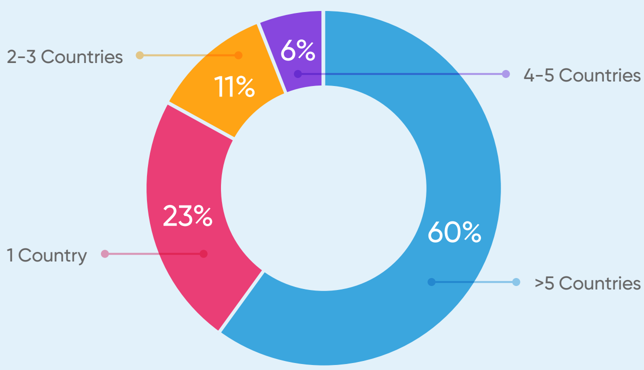
- Providing global services
- Providing regional services
- Providing in-country services only
- Other



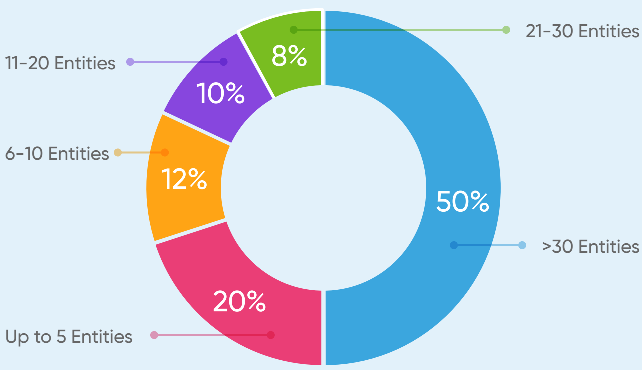
Which region(s) does your SSC serve? *Respondents could choose multiple answers*



How many countries does your SSC service?



How many entities does your SSC service?



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