

The Other View



Outsourcing and not shared services may be a practical option for India Inc

✦ RAJ DUTTA

Shared Services is suited for large organisations – conglomerates involved in multiple businesses. So be it in India or in developed nations such as the USA, large companies have been moving some of their verticals to Shared Services. This happens when business divisions grow into very large verticals

and then at the owner or board level a decision is taken to bring together or 'share' the HR department or the IT services or the accounts functions across multiple verticals. Usually the rationale for such a move is better quality control, smoother administration and lower costs. It also leads to better internal benchmarking. In short therefore, Shared Services helps standardise processes across different business units and increases organisation-wide efficiency. While most of what I have said till now still holds true, cost arbitrage is not always a valid argument when it comes to Shared Services. In the context of a huge majority of Indian

organisations, a lowering of cost can only be made through better efficiency and smoother operations. Manpower cost does not necessarily come down in Shared Services. But if productivity is significantly increased, then there might be some cost efficiency to show.

Most importantly though, in my view, shared services is not an option for more than 70 per cent of Indian companies which are single unit businesses. Why so? Quite simply these organisations do not have multiple businesses from where they can look for Shared Services! The bigger reason for SSCs not taking off in India is that even large corporations have to make significant



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investments in licences when going the Shared Services route. There will always be a fixed cost and capex. This may reduce with time but a certain fixed cost remains all through. The main reason outsourcing is a far more popular option for most Indian companies, is because here, one gets all the positives of Shared Services and a lot more. One may ask how does this happen. Let me give you one example. If you outsource a function, you will get a much better benchmarking across companies on that function than you would get if you took the Shared Services route. In the US for instance, we do internal accounts for over 2000 restaurants. So we do the analytics for them and share it with all of them on a no-name basis. This is a huge value add that they all get from outsourcing their accounts function to us. Would you get such amazing benchmarking opportunities in Shared Services? Also, from an organisation's point of view, their capex is no longer a fixed cost and is now connected directly to their revenue. It takes away the fixed cost P&L factor totally. Also outsourcing gives you flexibility in operations. All this is not to say Shared Services will not or does not work. Of course it does. But I think people who are talking about Shared Services as the way forward are speaking largely if not entirely about larger conglomerates or at least the billion dollar plus companies. For an overwhelming majority of Indian organisations that are SMEs, Shared Services is not yet a visible option.

The question on who does or should take the call on whether to go for shared services, outsource or simply maintain status quo – is probably simpler to answer. Historically the initiative always came and will continue to come from the CFO. Intrinsicly, he or she has the key role to play here...to hold the oars so to speak. The main reason why the CFO has been the key player when it came to moving to Shared Services or outsourcing a function, is because moving to shared services was originally seen as a cost saving measure. Naturally it fell on the CFO to handle things. Funnily enough, now that such a move is seen more as a strategic shift, a value add and a process to create a more efficient system, the onus still lies with the CFO, since the CFO's role itself has undergone a transformation and he or she also wears the hat of the chief strategy officer. To sum it up, I clearly believe outsourcing and not Shared Services may be a practical option for India Inc. True, the larger organisations will perhaps move towards SSC but even large telecom companies in India, banks and automobile companies have already outsourced their entire customer services and will continue to do so.

So to me the way forward for India Inc is: outsource to the best provider and get the best of Shared Services and a lot more. **CFO**

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