

Shared services in Accounting and Finance

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Abstract

The purpose of this paper is to present examples of the current state of the Shared Services Concept as applied to the finance function. The paper arises out of the ongoing research after current developments in the finance function enabled by information and communication technology, at the University of Twente.

The rapid developments in information and communication technology (leading to new 'economics of information') combined with developments in organisation theory, have far-reaching implications for the way activities are best organised ('the new economics of organisation'). As a result, organisations are being re-structured, and boundaries of organisations are shifting. These developments are captured by the powerful concept of the virtual organisation. As being argued by the authors, the Shared Service Concept could be understood as providing an answer to these new economics of organisation. As such, it is related to the more general concept underlying the virtual enterprise. The Shared Services Concept implies consolidating certain support services into a shared services centre. The relations of the shared services centre with business units is governed as much as possible by market conditions. After having explained the Shared Service Concept in general, the authors will focus on the way this concept is applied to the finance function. In the finance function, several examples exist of the Shared Services Concept. Such examples include accounting houses and in-house banks. For the next years, financial shared services can be expected to enjoy an increasing amount of attention.

1 Introduction

This paper discusses the application of the Shared Services Concept to the finance function. With information and communications technology ('ICT') as an enabling factor, organisations are reviewing the current structuring of their activities, in some cases finding that the most sensible thing to do is to outsource their non-core activities. To put the Shared Services Concept in a proper perspective, this paper also provides some theoretical and conceptual background. An enabling factor in helping companies reach corporate goals, ICT is the driving force behind a corporate rethink of core activities. Up to this point management has applied the Shared Services Concept to different sections, while it is increasingly focusing on its possible application in the finance function.

2 Current trends

Before elaborating on the Shared Services Concept, we would like to discuss some general trends concerned with the economics of organisation. However diverse these developments, we reckon that ICT plays a pivotal part in enabling all of them, with a redrawing of organisational boundaries a definite trend in business (BIR95). This arises out of the rather simple maxim that companies should do things they are good at (and should not do things they are less good at). Recent encouragement to define core competencies and make them point of focus has led to corporate restructuring. This encouragement to re-engineer and not just to fine-tune operations often results in more radical reorganisation than otherwise would be the case (TAY96).

The outsourcing of a growing number of support activities traditionally found within the boundaries of the firm is a very evident sign of corporate restructuring. While the boundaries between activities that can be outsourced and those that cannot are shifting in favour of outsourcing, the question is where the ultimate line between 'outsourcable' and 'non-outsourcable' activities will be found to be. 'Because of technological developments non-core activities can be outsourced in ways not possible ten or even five years ago (BIR95)'. The whole concept of core competence basically tries to answer this truly essential question of which activities an enterprise should engage in, and in which it should not.

Although a much less visible way of restructuring, support activities within firms are also being subjected to massive overhauls, the aim of which is to attain economies of scale and scope, while avoiding particular drawbacks. Roughly speaking, such economies of scale are generated through changes in the organisational mix of centralisation, decentralisation and concentration / consolidation¹ of both decision-making and operations. As with outsourcing, the emphasis is on increasing the degree of specialisation, while duplication is eliminated to a large extent. Against this backdrop of increasing specialisation, outsourcing may be seen as just a special case of this specialisation trend; of 'doing what you are good at'.

This redrawing of boundaries, both inside and outside firms, is captured by today's influential trends such as the networked organisation and virtual enterprises (BIR95). As we have mentioned, we believe ICT underlies much of this restructuring. In short, ICT is changing the 'economics of organisation' in a number of ways. Traditionally, a distinction is made between activities that are carried out most economically through the market (i.e. co-ordination between firms), and activities that are carried out most economically by using hierarchical co-

¹ To avoid any misunderstanding: the authors mean with concentration / consolidation integration of activities on a more central level. In principal, this form of integration does not lead to centralisation of decision power. Rather, it leads to more co-ordination in the way operations are performed.

ordination mechanisms (i.e. co-ordination within firms). Shifts in cost structures attending the co-ordination of economic activity are likely to usher in a new equilibrium between market co-ordination and hierarchical co-ordination, compelling companies to redefine their boundaries in the process.

A number of authors observe that market forces have been replacing traditional ways of co-ordination within firms. As a matter of speech, the market is creeping in the firm, and is setting apart activities that were traditionally tied closely together. Ultimately, activities may be outsourced to an external entity, but there are many options in between. An internal market would be a possibility; for example, with activities outsourced to an internal entity within the structure of a holding. As we will explain later, the need to pursue certain activities ‘under one roof’ is taken away by ICT-enabled co-ordination possibilities.

Aside from the shift in favour of market forces, the nature of market co-ordination itself is also changing with the relationship between customers and suppliers growing closer. The paradox that presents itself here is that on the one hand market forces are replacing other co-ordination mechanisms, while on the other the market has incorporated some characteristics traditionally attributed to hierarchical co-ordination. This incorporation of characteristics traditionally attributed to hierarchical co-ordination in market relations is the subject of a recent article (EVA97), which discusses the ‘new economics of information’. Its authors argue that traditional economics of information implied a trade-off between ‘richness’ and ‘reach’. Coase and Williamson (COA35), (WIL75), point out that the boundaries of a corporation are set by the economics of exchanging information: organisations enable the exchange of rich information among a narrow, internal group; markets enable the exchange of thinner information among a larger, external group. The point at which one mode becomes less cost-effective than the other determines the boundaries of the organisation. According to the article, the trade-off between richness and reach that underlies the choice for co-ordination by organisation or by market, is now being blown up by the new economics of information. Its authors claim that this broken trade-off (that favours the replacement of internal co-ordination by market co-ordination) will cause existing value chains to unravel: ‘Existing value chains will fragment into multiple businesses, each of which will have its own sources of competitive advantage’.

3 Shared services centres

The general trend, then, is towards concentration / consolidation, specialisation and outsourcing, all of which lead to redefining boundaries both within and outside the firm. Falling in with these three trends, the ‘Shared Services Concept’ enjoys increasing popularity. Although the concept is easy to understand intuitively, capturing it in a definition is tough. We will however try to clarify its meaning by providing some definitions by other authors, and by listing aspects

we think are of particular importance. With shared services, traditionally separately executed activities are being brought together in one organisational entity (ULR96). Of course, this does not mean the activities are actually concentrated in any one place; IT allows wide freedom as to the choice of location (LES97). In this respect, the term 'centre' should be regarded as virtual: by certain forms of co-ordination, a certain degree of 'commonality' like standardisation of technologies and procedures, the transparent entity is - in certain respects - able to act as one centre. A shared services centre ('SSC') is based on the idea of sharing resources, organisational staff and technology, providing defined services (GUN93). The organisational entity can be part of the company it is providing services to, or part of a third organisation (outsourcing). The activities that are brought together in an SSC tend to be part of support functions, with the SSC in its purest form explicitly leaving actual decision-making to the business units. The relationship between the business unit and the SSC is governed by a service level agreement. On top of that, the SSC operates often on a fee-for-service basis. Dekker however states that a strict distinction between concentration of activities and decentralisation of SSC management is not feasible in practice (DEK95).

On the face of it, the following comment could be made of the Shared Services Concept: 'Whether management theory really evolves, or simply goes through cycles of fashionable thinking such as centralised or decentralised, hierarchically accountable or matrixed teams is a topic separately worthy of consideration (TAY96)'. This quotation points up an important source of scepticism. Although we argued that shared services is as much about centralising as it is about specialisation, there is of course some truth in this assertion, which is to say that there is a distinct relationship between past centralisation/decentralisation trends and the Shared Services Concept. As the Peoplesoft report (PEO97) states, SSCs serve as a counterblast to the unbridled decentralisation of the 1980s, which in turn was a clear move away from traditional hierarchical, bureaucratic, centralised management. The emergence of the Shared Services Concept can be said to combine the best of both worlds (centralisation and decentralisation), without the drawbacks. In this sense, the Shared Services Concept represents a highly balanced way of thinking with a sensible trade-off as its main aim, while trying to avoid the undifferentiated prepossession of organisational paradigms of the past. In this respect, the concept is not new; it has been 'recycled' from older concepts. The following chart compares decentralisation and centralisation.

	<i>Advantages</i>	<i>Disadvantages</i>
<i>Centralised</i>	<ul style="list-style-type: none"> • Entities well integrated • Consistency among entities • Economies of scale 	<ul style="list-style-type: none"> • Bureaucratic • Remote from operations • Unresponsive
<i>Decentralised</i>	<ul style="list-style-type: none"> • Close to source • Answers to specialised needs • Responsive 	<ul style="list-style-type: none"> • Not cost-efficient • Redundancy • Disconnected from corporate goals

Table: Comparison of centralisation and decentralisation of decision power (source: (PEO97))

Similarly, SSCs try to find an optimum equilibrium between standardisation and customisation in terms of procedures and systems. ‘A system flexible enough to build quirks into the standard can make the difference between a successful shared services initiative and an imposed bureaucracy (PEO97)’. The ever-increasing costs of ICT relative to other costs in support functions constitute a key driving force for greater co-ordination between divisions: by reducing the number of accounting systems from twenty to just one, for instance, a large company could cut down significantly on ICT spending and systems maintenance. Having said that, information systems are increasingly built to allow for a considerable degree of flexibility to meet the needs of different users. More and more, standardisation and flexibility can be combined in one system (harmonisation).

A distinction can be made between a ‘centre of expertise’ and a ‘centre of scale’. The latter handles routine administration, transactions, data processing, and procurement for economies of scale, efficiency, and workflow standardisation. A centre of expertise offers high value-added services to clients at competitive cost (PEO97). In practice, SSCs are nearly always a combination of the two types.

The Shared Services Concept seeks to bring commonality, cohesion, efficiency, expertise and strategic planning to the fulfilment of these service requirements (PEO97). Shared services have a dual value and cost focus: improved quality and extended scope add value while efficiency and economies of scale help cut costs (PEO97). The literature about SSCs generally lists the following advantages:

- Economies of scale, leading to reductions in the workforce and management as well as providing opportunities for further specialisation of staff. An increasingly important aspect is that the IT spend is more thinly spread (DEK95) (see above). Economies of scale will make it easier for the company to keep up with the fast trends in the IT industry.
- Quality improvement, due to a higher level of expertise, increased transparency, and because SSCs are easier to manage (personnel can be instructed more directly and activities are undertaken by fewer people) (DEK95).

- Client-supplier-relationships. Due to their emphasis on customer-friendliness, SSCs are more responsive to real business needs (ULR96).

In recent years many moves have been taken towards establishing SSCs. For every support activity included in Porter's Value Chain, examples of SSC-like applications can be found: in recruitment (IBM (ULR96)), in procurement (combined procurement), in sales (direct call centres), maintenance (particular lessors, company-wide maintenance services), customer services (in-bound call centres), logistics (logistic centres), and in the financial and administrative functions (emerging accounting houses, on which we will elaborate later). The sudden rise of the call centre as a major instrument in providing customer service illustrates how fast such a development of a new type of a shared services centre can be. Only a few years ago virtually no one had ever heard of such a service. The call centre also is a good example of the speed at which companies have grown accustomed to the idea of outsourcing a critical activity such as customer services. In this respect, this example takes the edge off the 'invincible resentments' currently surrounding the idea of outsourcing certain financial and accounting tasks.

In case of outsourcing the SSC -which is sometimes regarded as a second step after establishing an in-house SSC (DEL96)- some of the advantages of outsourcing in general could also apply:

- First of all, outsourcing makes it possible to cut back on assets and to remove the need for further investments. In an extreme form this is demonstrated by some young, fast growing enterprises in Silicon Valley. Existing of a core of only a few people, in a rented building, they buy almost every support service from specialised suppliers. In doing so, they have a turnover as high as a traditional medium-sized company, without having to make major investments.
- Changing more or less fixed costs into variable costs, thus reducing risk. A good example is provided by the 'serviced office'. A serviced office offers office space and meeting facilities to clients according to their varying needs. As it is put in the words of Birchall and Lyons: 'The organisation's office has thus become virtual; it is visible, yet the need to sink capital into it has been avoided and replaced with a variable cost (BIR95)'.
- Benefiting from economies of scale that could not be attainable otherwise. As an increasing number of companies outsources activities to an external entity that also provides the same kind of service to other companies, this entity can achieve considerable economies of scale and scope thanks to its large 'service pool'.
- Management attention can be focused on core activities.

We would like here to emphasise the importance of the two advantages of outsourcing that were mentioned first; cutting back on assets and changing costs

from fixed into variable. In our opinion these advantages will be an important rationale to outsourcing.

Depending on the situation, outsourcing has the following disadvantages (GRA96):

- Dependence on an external party. Switching costs can be very high. In case the insourcing party cannot meet the standards in terms of quality and costs of service, the outsourcing party could be confronted with high expenses.
- Disposal of confidential information. The insourcing party might be a competitor, or might have other interests in the information disposed. For example, a bank that sources in accounting processing, might use the information for its credit rating of the company.
- Loss of expertise. In a way, expertise which might have take years to build up is wasted, and bought back from an external supplier.
- Co-ordination. Tuning the outsourced activity to core activities could be difficult in some cases.

The prevalent opinion on outsourcing is that core activities should not be outsourced. The problem of course is to determine which activities are core activities and which are not.

4 How the Shared Services Concept relates to the virtual organisation

As we already pointed out earlier, the concept of the virtual organisation and the Shared Services Concept are related to each other. On the one hand they originate from the same developments (changes in the economics of both information and organisation), while on the other hand introducing shared services is a way of effectuating an organisation that incorporates features of the concept of virtual organisation. These features include an ‘atomisation’ of traditional firms into more specialised and independent units, as well as an increased degree of co-ordination by market. There are some important differences between the concepts as well. The possibility of dynamic linking of resources being an essential feature of virtual organisation (WIG97), is in much cases not feasible in shared services applications. This is due to the generally high degree of interdependence between the provider of shared services and its suppliers over a longer period of time. This interdependence is caused by asset specificity (e.g. tailored software and expertise), high switching costs and a rather immature outsourcing market for services (implicating less alternatives). However it can be expected that the interdependency between the provider and the supplier of shared services will decrease (due to greater flexibility in ICT-applications and a maturation of the outsourcing market).

5 The Shared Services Concept applied to the finance function

Having described the general characteristics of an SSC, we will now discuss the implications of the Shared Services Concept for the finance function? First of all, are there some special characteristics to the finance function that affect the application of the Shared Services Concept? To answer this question, we will regard the SSC as a tool to cut costs by improving efficiency, and a tool to upgrade quality. To start with, the finance function is one of the (if not the) most resources consuming support functions within organisations. It is not exceptional for the costs of finance functions to add up to 1.5 per cent of total revenue (ROY95). Its relative and absolute importance in terms of costs incurred, make the finance function potentially one of the most rewarding areas for the Shared Services Concept.

Secondly, also if one looks at the potential quality improvements that could be made, the finance function seems to be a good candidate. Given the important role finance plays as a provider of management information and control, quality of finance is critical to overall business success. On top of that, the effectiveness and efficiency of financial and administrative processes within firms is being increasingly questioned. It is felt that administrative processes are unnecessarily complex, that too much emphasis is put on accuracy of reports instead of on their relevance, that too much time is spent on drawing up budgets and reports, that there is not enough attention for advising executives, that requests posed by management are not answered promptly, and that there is insufficient support for innovating the organisation (SCH95). Also, there are enormous differences among firms in expenses for standard accounting operations, such as accounts payable, accounts receivable, journal entries, etc. According to Gunn the best practice of 'Fortune 100' companies can often differ with the mean of the 'Fortune 100' companies by a factor ten for standard operations such as making an invoice, paying an invoice or making journal entries (GUN93). We are not totally convinced of the accuracy of these figures, but at least it gives a rough indication that there are major advantages in restructuring finance and accounting. According to AT Kearney management consultants, cost savings of between 35 and 40 percent could be achieved by introducing financial SSCs (QUE94).

Research also indicates that in traditional finance departments 65 per cent of the time is spent on transaction processing, while in restructured finance departments this is only 35 per cent, while the total time spent reduced by about 20 per cent. The extra time can be used for high value added activities such as reporting and auditing and decision support (KPMG94). The sheer scale of finance, combined with the relative importance of quality and the potential for upgrading quality and cutting costs, indeed makes finance a very likely candidate for SSC. At the same time, there are some obstacles in applying SCC. Given the important role finance

plays in providing pivotal management information, the opposition to consolidating and centrally streamlining certain tasks is accordingly high. If tasks for subsidiaries in various countries are performed on one location, staff is expected to meet much higher requirements. This is because of different currencies, different regulations (reporting, tax), different languages, and working with different cultures. It could be difficult to find a provider meeting the requirements of the outsourcing party (DEK95): the market for outsourcing finance and accounting activities is far from mature.

In practice, initiatives to establish some form of SSC in the finance and accounting field are numerous. As the field is in many respects rather dynamic, a clear overview of the initiatives is not easy to give. To create some order in the diversity, two basic forms are distinguished in practice: the accounting house ('AH'), and the in-house bank ('IHB'). The AH is primarily concerned with accounting activities, while the IHB puts emphasis on performing activities from a treasury perspective. However, as they are both dealing with activities comprised under the finance function there is considerable overlap between the two.

Besides these two categories, we would like to distinguish a third category: 'other forms of SSCs'. These forms are more fragmented, less integral arrangements, i.e. financial SSC initiatives that are not comprehensive solutions like the IHB or the AH. The latter comprises a diversity of SSC forms. We are aware that our 'taxonomy' is not fully accurate.

6 The role of banks

Traditionally, banks have played of course an incredibly important role in facilitating the finance function of organisations. As providers of financial infrastructure and as 'enablers' of both economies of scope and scale, in some respects they acted as an external SSC. Roughly, their core-capabilities could be found on fields of confidentiality, efficient transaction processing, and financial consulting. At first sight, these core-capabilities could be very useful to banks in providing financial shared services to organisations. As cited from a senior vice president of ABN AMRO: 'In fact, these (ed.: routine transaction processing) are much closer to a bank's core business and competencies than they are to most companies outside the financial service sector' (LES97). Likely as this may seem, on the other hand there are considerable psychological barriers to be overcome by both corporates and banks (ERP96). These barriers have to do with concerns of organisations about not giving banks too much insight in their businesses (they have interest in maintaining information asymmetries with their bank), and of too much dependency of a single bank. The banks on their behalf are questioning themselves whether offering these services is a logical step. A further complication is given by the fact that banks are limited in the functionality they can offer their clients by their legacy systems. We will elaborate on this later in this text.

7 Accounting house

The rather recent concept of an AH originated from the United States. In the US, the AH concept is practised on a much larger scale than in Europe (DEL96). The concept is being imported by U.S. multinationals to Europe to enhance efficiency of their European subsidiaries. Most of these initiatives are pan-European. 'An AH is an independent service-unit, in which part of the finance function is concentrated. This unit performs (bulk) activities, in general processes on the field of financial and accounting, treasury and to a lesser extent processes associated with control (DEL96)'. AH are (primarily) directed towards efficiency and quality enhancement of transaction processing. The accounting house concept means that parts of the finance function are concentrated in a single service unit, carrying out bulk activities. 'Characteristics of an accounting house are that only routine activities are involved and the services are enterprise-generic (KPMG96)'. The generality aspect KPMG adds to the AH concept, stresses the fact that there are possibilities of outsourcing to an external AH (the generality will make it possible to provide services to several firms with a limited number of adjustments).

The literature mentions the following benefits (on top of the general benefits attributed SSCs) with regard to establishing an AH:

- More uniform accounting procedures: This will lead to simplification, i.e. lower costs, to increased possibilities for comparing performance of different divisions, to lower auditing costs, and to lower information systems costs.
- Possibilities for future outsourcing of low value added activities: Transaction processing consists mainly of bulk processing activities having low added value. On top of that there are strong indications that these processes, like accounts payable and receivable, could be carried out at much lower costs by specialised parties (GUN93), (LES97).
- European Integration: In the advent of the introduction of the euro, and ongoing regulatory harmonisation, the opportunities for establishing an AH will grow.
- Increased possibilities for tax planning: By establishing SSCs in countries with relatively low taxes taxes can be evaded to some extent (KOS95).

To illustrate the AH concept we will present two recent examples of AH initiatives in the Netherlands.

Avery Dennison

Avery Dennison, which has its European headquarters in the Netherlands, operates in most European countries with twenty-four different administrative departments. The Shared Service department is set up for efficiency reasons, by means of standardisation and re-engineering of the administrative process. All European accounting functions are now centralised in the Netherlands. There is one general ledger system for all subsidiaries. Financial reporting based on the

European accounting standards and the FASB directives are possible. Also the inter-company bookkeeping between the different subsidiaries is changed. In the past the subsidiaries in the different countries invoiced each other. The sales offices act as agents of the factory. The customers get their invoices directly from the factory. The next step is the further development of a multi-currency centre. This Ireland-based centre co-ordinates the exchange risks for the local factories.

Shell

Shell is planning to outsource its internal accounting function. Shell set up a new company called Tasco ('The Accounting Service Company') with two shareholders Shell and the auditors Ernst & Young. This new company will not only offer financial and administrative services to Shell subsidiaries, but also to other companies.

We have derived some additional characteristics of the companies currently considering an AH. Some comments could be made about the scientific and methodological nature of our conclusions. However our objective is only to indicate a certain direction for further research. The population of the sample of examples of Shared Services and AH applications is too small, and, as said, no complete theoretical framework is available yet.

As an addition to these examples, we will conclude this paragraph with a short list of characteristics that seem to us typical of many companies setting up an AH.

Additional characteristics:

- Mainly multinational organisations, with an international flow of goods and materials.
- Most initiatives are in-house, outsourcing is hard due to immature outsourcing market.
- Most companies now adopting the concept are US or UK based.
- Adoption of the GAAP accounting standards.
- A more or less directive style of management.

8 In-house bank

Today, many companies are under pressure to cut costs as part of the drive to boost corporate earnings. In the treasury department, this usually implies reducing external financing costs, improving liquidity, lowering bank charges and minimising risk. To accomplish these diverse roles, companies are establishing IHBs to consolidate, manage and control their long- and short-term liquidity, as well as their risk position (WIE96). An IHB could be defined as 'the concentration of the treasury and banking activities of an organisation at holding level (REB95)'. The IHB acts as bank towards the subsidiaries; it provides services that would normally be delivered by a bank. The holding hedges the financial positions of the business units centrally. Mostly, market conditions prevail in the financial rela-

relationship between the IHB and business units. The concept of an IHB builds on recent technological advances in bank computing and communications, which have allowed companies to take advantage of efficiency generated by the banking industry (WIE96). There are an increasing number of standard applications that offer IHB functionality. Even more than an AH, an IHB essentially consists of an information system. The paradox of in-house banking is that it involves insourcing activities that were traditionally performed by banks, as well as new tasks that were not carried out before. In a way it can be regarded as a consequence of the failure of banks to meet the client demands; at first glance it would seem more logical that banks would perform the aggregation of certain accounts (e.g. cash pooling, zero balancing) and charge accordingly. Some answers to the question why this is not the case might be found in the inability of the legacy systems at banks to properly aggregate / consolidate on an enterprise level, rather than on account level. On top of that, providing such 'consolidation functions' is not in line with short-term interests of the bank; it would put pressure on their charges. However, it looks as though many banks are investigating the provision of IHB to their clients. We expect that in the medium term, the 'out-house bank' ('virtual in-house bank' (REB95)) will come into being. This service may be provided by banks, or by new entrants. Banks could circumvent problems with legacy systems by placing a system 'in front' of the legacy system that is capable of supplying the requested functionality. However, we do not expect that the IHB as it exists now within firms, will cease to exist.

The structure, size and nature of the internal operations of the IHB depends on the strategy and organisational philosophy of the organisation. In general, an IHB provides the following activities:

Operational level: financial payment transfers, foreign currency transactions, cash-management activities.

Corporate level: capital market transactions.

There are several additional advantages in setting up an IHB, such as:

- Lowering of banking costs, due to larger sales volumes and better bargaining clout.
- Lowering transaction costs, due to combining different transaction processes and better operation of the infrastructure.
- Improved use of different financial instruments.

A disadvantage of an IHB could be that the staff feels more like a banker than a corporate member. The future developments could be that the IHB not only delivers banking products to the business units but also acts as the front office for the administrative process. The IHB could easily develop into a virtual bank. For the customer of the (internal) IHB products it is not always clear who delivers the product, the external bank, or the IHB?

9 Other forms of financial SSCs

We have mentioned examples of two types of organisations; the AH and the IHB. These examples are the most evident forms of SSCs, but there are other organisational entities that are not as evident, but could still fall under the shared services umbrella. Examples are co-ordination centres, a factoring agent etc. These forms of SSCs are in general less reliant on ICT, and for that reason generally less innovative.

Treasury agent organisation ‘P2iV’

Five co-operative housing companies in the Netherlands outsourced some of their treasury activities to a new organisation, called ‘P2iV’ (KOS97). The companies have recently made some serious misses in the use of derivatives. One of the reasons for their blunders was the lack of specialised expertise of these sophisticated treasury products. The financial structure of the housing companies is such that they have large amounts of interest charges on their Profit & Loss Accounts. Interest rates are volatile by nature. It is worthwhile for a housing company to hedge the risk of unexpected interest rate movements. Due to their scale of operations housing companies are not in a position to attract and keep highly experienced treasury professionals. These five companies have solved this problem by expanding the scale of their treasury operations by outsourcing these activities to a new organisation operating on their behalf. Aside from being oriented towards capital market transactions, the activities are operational, such as cash-management tasks.

10 Conclusions / Future developments

The rapidly growing flow of publications about SSCs in connection with the finance function, the number of initiatives towards financial SSCs, and the fact that many consultancy and accounting firms are paying a lot of attention to financial SSCs, justifies the conclusion that the application of the Shared Services Concept will further develop. US firms are clearly ahead of the rest of the world, but the concept is now catching on in Europe very fast. We expect that restructuring of the finance function to the Shared Services Concept, will make entities more manageable, more standardised, and, consequently, easier to outsource. However, there will always be finance activities that should be performed in-house, whether for strategic, ‘safety’ and for economic reasons. In our opinion there is a ‘twilight zone’ between activities performed in-house and outsourced activities; there could be all kinds of arrangements in between (for example having shares in the external SSC, thus enabling some kind of influence). As is the case with the Shared Services Concept, which aims at having the best of both worlds when it comes to centralisation / decentralisation, it seems important to combine the best of both worlds when it comes to retaining activities within the firm and out-

sourcing as well. Once the concept has really proved its usefulness to finance, it can be expected to spread very fast. Because of the relative generality of much financial activities (e.g. certain accounting operations), usefulness of the concept to a few organisations, will imply some usefulness for other organisations as well. Also, the more generic activities will be the most likely candidates for undergoing some form of restructuring.

In our opinion the result of all this restructuring will inevitably be that the core activities of organisations will become much more distinct from the non-core activities.

Finally, we would like to remark that no comprehensive theoretical framework is available yet. Further research will be necessary. The research will stress the study of the contingency factors, i.e. which factors determine how financial activities will be structured with the organisation and between organisations).

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