The current status of shared services models in Japan:
Historical verification and challenges for future growth

Mitsuyoshi Sudo
Group Manager
Global Shared Services Initiative Group
Management Innovation Consulting Department
Nomura Research Institute, Ltd. (NRI)
Profile

Mitsuyoshi SUDO / m-sudou@nri.co.jp

Areas of Expertise

Innovation of corporate functions,
Shared Services & BPO Implementation, etc.

Representative Projects

- Establishment of corporate functions in China
  (Conglomerate company)
- Operational reform of indirect services
  (Semiconductor, Equipment/Utility, Food)
- Planning of shared services
  (Telecommunications, Materials and track records in other industries)
Agenda

1. Trends of shared service reform in Japanese companies
2. Issues and emerging examples of shared service reform
3. Essence of the Japan type shared service reform
SSC reform was a peak in 2004 in Japan. BPO is also active in recent years as well as SSC. The number of newspaper articles picked by keywords of “Shared Service”.

(Source) NRI creation from Nihon Keizai Shimbun articles.
Major shared functions are FN, HR and General Affairs.

Information systems were operated in the subsidiaries in many cases.
Both HR and Accounting & Finance functions, operational processes form a core of SSC services.

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Pulp/ Paper</td>
<td>Finance</td>
<td>Fiber</td>
<td>Food</td>
<td>Electronics</td>
<td>Electronics</td>
<td>Steel</td>
<td>Transportation</td>
<td>Chemistry</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5,000</td>
<td>3,500</td>
<td>7,000</td>
<td>8,500</td>
<td>5,200</td>
<td>176,000</td>
<td>27,000</td>
<td>16,000</td>
<td>17,000</td>
</tr>
</tbody>
</table>

**Human Resources**
- Labor Policy
- Personnel
- Hiring
- Education and Training
- Attendance/Salary
- Welfare

**Accounting and Finance**
- Cash planning and management
- Management accounting
- Account Close
- Fixed Assets
- Tax
- Debts and credits
- Cashbook

(Source) Web home pages and newspaper articles
There are two kinds of models when an organization is divided.

**Type A; concentrate businesses in the HQs**
- **Inbound - SSC**
  - [Merit]
    - Large reorganization is unnecessary.
    - It can concentrate on cost reduction without adhering to profits creation.
  - [Demerit]
    - The operating form of the head office is dragged.
    - Performance measurement of SSC is difficult.

**Type B; Concentrate Businesses in subsidiaries**
- **Outbound - SSC**
  - [Merit]
    - Performance measurement is easy and can clarify indirect operating cost.
  - [Demerit]
    - Initial investment is larger than a head office section.
    - An employee’s motivation falls easily.
SSC (type B) hits its stride in Phase 1. Moves into a period of improvement in Phase 2, and now are currently in Phase 3.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>• SSC (Type B) appeared in the US</td>
<td>• Spread of SSC concepts</td>
<td>• Expansion of organizations SSC offer services to.</td>
</tr>
<tr>
<td>• SSC concept was not in Japan</td>
<td>• Many SSC companies (Type B) were established, and published in mass media.</td>
<td>• Active SSC services sales to outside companies</td>
</tr>
<tr>
<td>• SSC (Type A) existed</td>
<td>• SSC offered services only to some group companies.</td>
<td>• Active improvement initiatives to solve many problems in SSCs.</td>
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</tbody>
</table>

**Outline**

80’s (US)
- GE
- 90’s (US)
- HP, AT&T, AMEX, P&G, etc.

**Cases**

Type A representative case (Japan)
- Sony, Sharp

Type B representative case (Japan)
- NTT, Teijin, Mitsubishi Corp., Daikin, Omron, Hitachi, Panasonic, Kirin, etc.

**Cases**

- Those companies in the left taken initiatives for improve
- SSC boom shifted to mid-sized companies from larger ones

(Source) Home pages and newspaper articles
From within leading Japanese companies, SONY classified as Type A (BPO User), and NTT classified as Type B (Service provider to external companies).

**Type A:**
SONY

March, 2001 when shifting to a company based organization and reorganizing whole group, HQs were divided into "global HUB" of a strategic planning function, and the "management platform" as a shared function.

**Type B:**
NTT

NTT BUSINESS ASSOCIE was establish in July, 1999. It started as a service provider to four NTT group companies. Services include financial & accounting, personnel & payroll, and general affairs. A local company was integrated in 2002, and became a service economy to whole nation.

**AFTER**

- A global hub, a management platform and an operation platform was unified in HQs in June, 2005
- Personnel operation, payroll and education & training business were transferred to "Human Business Associates" in April, 2010.

- A service menu of finance & accounting was developed in 2003, and outsourcing service was started. Services on personnel and general affairs were also developed later.
- Now scope is expanded outsourcing service provider

(Source) Home pages and newspaper articles
1. Trends of shared service reform in Japanese companies

2. Issues and emerging examples of shared service reform

3. Essence of the Japan type shared service reform
SSC (type B) hits its stride in Phase 1. Currently in the growth stage of SSC reform.

Period 1 and 2
(2000 - 2008)

SSC setup with try and error
- SSC technique which was beginning to spread was adopted as a means of the cost reduction of a back-office section.
- The optimal method was unclear and trials were made by internal organ. or subsidiary with/without external customers.

Period 3
(2009 - )

Seek for the best suited SSC and leap
- An effect cannot be demonstrated although SSC was installed.
- While expanding sale to external customers, service level for the internal customers falls.
- Generating of new possibilities, such as development of BPO in China

Searching for SSC suitable for the situation of Japanese companies.
- Unique business culture
- Large scale indirect businesses
- Difficulties in employment adjustment
HR One Corp was established by integration of some SSC companies towards service level improvement.

**Establishment of SSC**
By three cross-industrial companies (2002)
- By investment from Chuo Mitsui Trust and Banking Company, Panasonic and Kao, HR service consulting was established.
- In 2005, it came to handle HR and salary & welfare services of 60 companies (105,000 employees) within three company groups, and started sale to external companies.

**Merger of SSCs and expansion of external services (2009)**
- Acquired a SSC division of Human Link, a subsidiary of Mitsubishi Corp., and set up HR One Corp.
- The holding-in-custody-assets number of the employees reached 320,000, and aims at improvement in service quality and commission cost mitigation.

**Service level improvement by forming alliances and setting up base locations (2010 –)**
- Alliance was set with ADP (USA) in May, 2010
- A base which is entrusted with payroll calculation business etc. was set in Okinawa Prefecture in June, 2011.
Two or more BPO vendors in Dalian are utilized, and cost reduction is pursued over setting up SSCs in Japan.

Started in 2005.

Now, services equivalent to approx. 200 persons’ is carried out.

About five persons’ amount of services is made applicable, and BPO service is promoted.

Indirect business in Japan was transferred to Dalian (SSC in overseas)

Re-commission to BPO vendors
Kirin Holdings reorganized to make the SSC’s original objectives clear

2007
Kirin Business Expert (KBE)
400 employees

2010
Kirin Group Office (KGO)
170 employees

“New” Kirin Business Expert (KBE)
230 employees

SSC was established under a holding company. Concentration of the indirect businesses of group companies was started.

(1) Concentration and standardization of group’s indirect business were further promoted
(2) Introduction of new personnel and compensation system, and efficient personnel and management organization according to a business activity were built.
(3) Achieving and providing good merchantable indirect services to group companies at competitive price.
Daikin evaluated its SSC as a success. Changes were made to aim for a synergistic effect with the HQs.

Before 2000
Daikin and each group company carried out HR and general affairs separately.

2000 - 2008
Concentrated indirect businesses of group companies

2009 -
Businesses in DHS was transferred to Daikin.

- Businesses in HR and General Admin. were directly connected with corp. strategy.
- Planning was provided in align with strategy
- Fixed form and specialized services of the whole group were concentrated

(Source) Home pages and newspaper articles
1. Trends of shared service reform in Japanese companies

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Sustainable growth is hard to plan after the Lehman shock, and a re-setup of a mid-term plan is a major trend in the current fiscal year.
Radical company-wide reform becomes a critical focus for many organizations.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Organization Name (* general translation)</th>
<th>Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAKARA SHUZO Co., Ltd.</td>
<td>Business-innovations promotion dept.</td>
<td>2008.4</td>
</tr>
<tr>
<td>NEC Corp.</td>
<td>Operating process reform dept.</td>
<td>2008</td>
</tr>
<tr>
<td>ISUZU MOTORS Ltd.</td>
<td>Systems and Business-innovations promotion dept.</td>
<td>2009.2</td>
</tr>
<tr>
<td>Jupiter Telecommunications Co., Ltd.</td>
<td>Business-innovations promotion dept.</td>
<td>2009.4</td>
</tr>
<tr>
<td>Nippon Steel Chemical Co., Ltd.</td>
<td>Operating reform project</td>
<td>2010.4</td>
</tr>
<tr>
<td>Shimadzu Corp.</td>
<td>Operating system generalization dept.</td>
<td>2010.4</td>
</tr>
<tr>
<td>Nikkei Inc.</td>
<td>Operating reform head office</td>
<td>2010.4</td>
</tr>
<tr>
<td>Mitsubishi Chemical Corp.</td>
<td>Business-innovations unit</td>
<td>2010.4</td>
</tr>
<tr>
<td>Kaneka Corp.</td>
<td>Business-innovations head office</td>
<td>2010.4</td>
</tr>
<tr>
<td>YKK Corp.</td>
<td>Management and a business value base construction project</td>
<td>2010.4</td>
</tr>
<tr>
<td>NTT DATA Corp.</td>
<td>Operating reform promotion dept.</td>
<td>2010.7</td>
</tr>
</tbody>
</table>
Even in 10-year forecasts, Japan is still viewed as the main revenue contributor and with the rest of Asia and other emerging countries as growing areas of interest.

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>America</th>
<th>Europe</th>
<th>Asia / Newly Emerging Companies</th>
<th>Total Trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2000</td>
<td>62%</td>
<td>21%</td>
<td>9%</td>
<td>8%</td>
<td>121</td>
</tr>
<tr>
<td>FY 2007</td>
<td>48%</td>
<td>22%</td>
<td>14%</td>
<td>16%</td>
<td>173</td>
</tr>
<tr>
<td>FY 2020</td>
<td>40 – 50% (?)</td>
<td>20 – 40% (?)</td>
<td>30 – 40% (?)</td>
<td>??</td>
<td>??</td>
</tr>
</tbody>
</table>

(Source) NRI creation from the geographical segment information and the foreign-sales information on each company financial report.

(Notes) Data from 50 top companies in revenue selected from Japan affiliated manufacturing industry of chemicals, machineries, transportation machineries, electric apparatus, and precision instruments.
A barrier to adoption is due to Japanese companies using a non-global standard.

Accounting System of manufacturing company A

It is very hard to shift to SAP
There is no quick-fix solution to increase business efficiency globally.

A Japanese HQs staff is a local staff state
Who can perform only Japanese correspondence.

Operating process in Japan is like a state of "Galapagos Islands". (with no innovation)

To be is:
- Application of global standard
- Global personnel training

But,

Short-term solution is difficult
Essence of Japan type shared service reform towards 2020.

(1) Construction of global single shared service is difficult.

(2) Japan’s position in 2020 will still be large and Japan standard shared service will be necessary.

(3) Except Japan, standardization will progress on a global level and global SSC will be developed, too.
From now on, the shared service initiatives of Japanese companies will be developed through a Smart model.

HQs and subsidiaries in Japan

Business operations in Europe, US and Newly Emerging Countries

Smart Model

J-SSC

G-SSC

Personnel Master Data

IFRS

Linkage with necessary minimum functions