Academic Article

The Journeys of Accounting Shared Services Centers of Large Multinational Companies in Thailand

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ABSTRACT

The purpose of the article is to raise awareness of the phenomenon of accounting shared services, since the academic knowledge in this area is scarce in Thailand. This article elaborates on the journeys of the accounting shared services centers (SSCs) of Philips, ExxonMobil and Lufthansa, set up in Thailand in the early 2000s, based on publicly online sources (including practitioner articles, press releases, the companies' websites and newspapers). At the present time, only ExxonMobil still maintains its SSC in Thailand; while the SSCs of Philips and Lufthansa have been terminated. The discussion in the article illustrates that Thailand is not yet an optimal location for foreign accounting SSCs pursuing high cost savings. A theoretical concept of mimetic isomorphism is drawn on to explain the initial establishment of the three SSCs in Thailand and the termination of the SSCs of Phillips and Lufthansa as an act of imitation.

Keywords: Shared Services Center (SSC), Accounting Shared Services, Mimetic Isomorphism

การเดินทางของศูนย์การทำบัญชี Shared Services ของบริษัทข้ามชาติขนาดใหญ่ในประเทศไทย

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บทคัดย่อ

บทความนี้มุ่งเพิ่มความตระหนักรู้ถึงปรากฏการณ์การทำบัญชีแนวคิด Share Services เนื่องจากความรู้ทางวิชาการด้านนี้ขาดแคลนในประเทศไทย บทความนี้กล่าวถึงการเดินทางของศูนย์การทำบัญชี Share Services ของบริษัท Philips, ExxonMobil และ Lufthansa ซึ่งก่อตั้งขึ้นในประเทศไทย ในช่วงต้นยุค ค.ศ. 2000 โดยอ้างอิงข้อมูลจากแหล่งข้อมูลออนไลน์ (บทความของผู้ประกอบการ ข่าวประชาสัมพันธ์ เว็บไซต์ของบริษัท และหนังสือพิมพ์) ในปัจจุบันนี้มีเพียง ExxonMobil ที่ยังคงดำเนินการศูนย์ Share Services ในประเทศไทย ในขณะที่ ศูนย์ Share Services ของ Philips และ Lufthansa ได้หยุดการดำเนินงานในประเทศไทยแล้ว การอภิปรายในบทความนี้แสดงให้เห็นว่า ประเทศไทยยังไม่ใช่สถานที่ที่เหมาะสมที่สุดสำหรับศูนย์การทำบัญชี Share Services ของต่างชาติที่ต้องการประหยัดค่าใช้จ่ายอย่างสูง บทความนี้ได้นำแนวคิดเชิงทฤษฎีปรากฏการณ์การเลียนแบบขององค์กรมาอธิบายการจัดตั้งศูนย์การทำบัญชี Share Services ทั้งสามและการหยุดการดำเนินงานศูนย์ Share Services ของ Philips และ Lufthansa ในประเทศไทยว่าเป็นการกระทำที่เลียนแบบขององค์กร

คำสำคัญ: ศูนย์ Shared Services การทำบัญชีแนวคิด Shared Services ปรากฏการณ์การเลียนแบบขององค์กร

1. Introduction

The organizational model of shared services has been a trend for managing the accounting function among large multinational companies (MNCs) in developed countries since the 1990s. To achieve high cost reductions, these MNCs have set up accounting shared services centers (SSCs) in low-cost, overseas locations. Thailand is one of such location choice, with some MNCs having set up their accounting SSCs in Thailand since the 2000s. This academic article discusses journeys of the SSCs of Philips, ExxonMobil, and Lufthansa, using information from publicly available online sources (practitioner articles, press releases, the companies' websites, and newspapers). The main purpose of the article is to raise awareness of the phenomenon of accounting shared services, since the academic knowledge in this area is scarce in Thailand. The three companies Philips, ExxonMobil, and Lufthansa were chosen because they are well-known, world-class MNCs, and data on their shared services organizations is publicly accessible.

The SSCs of Philips, ExxonMobil, and Lufthansa started their journeys in Thailand in the early 2000s. The centers created hundreds of accounting jobs in the country. Currently, only ExxonMobil still maintains its SSC in Bangkok, while the SSCs of Phillips and Lufthansa in Thailand have been terminated. In 2007, Phillips decided to sell its SSC to Infosys, a business process outsourcing company (BPO) basing its services hubs in India and China. In 2018, Lufthansa closed down its accounting SSC in Thailand; certain tasks were transferred to a newly set-up, company-owned center in the Philippines, and other tasks were outsourced to a BPO in India. Indeed, over time the three SSCs established in Thailand have followed different paths. The discussion in this article illustrates that Thailand is not yet an optimal location for foreign accounting SSCs pursing high cost savings. In particular, the theoretical concept of "mimetic isomorphism" (DiMaggio & Powell, 1983) is drawn on to explain the initial establishment of the three SSCs in Thailand and the termination of the SSCs of Phillips and Lufthansa as an act of imitation.

The insights provided by this article will be valuable in academia, since knowledge in the literature of shared services is generally scarce, despite the fact that practitioners have a great deal of information on shared services (Herbert & Seal, 2012; Rothwell, Herbert, & Seal, 2011; Sako, 2006). In particular, the phenomenon of shared services in Thailand is academically under documented.

The remainder of the article is structured as follows. Section 2 describes on the concept of shared services and the characteristics of SSCs. The profiles of the SSCs of Philips, ExxonMobil, and Lufthansa are outlined in Section 3. Section 4 elaborates on the theoretical lens of mimetic isomorphism employed in this study to explain the establishment and termination of the SSCs as an act of imitation. Then, Section 5 discusses the journeys of the three SSCs in Thailand through the lens of mimetic isomorphism. Finally, Section 6 provides a conclusion, including suggested future research.

2. Shared Services and SSCs

Shared services is an organizational model for managing supporting functions. This model is particularly suitable for large organizations with many business units that perform the same supporting functions—e.g., accounting, human resources, and information technology. Many MNCs in developed countries have adopted the shared services model since the 1990s in pursuit of high cost reductions and efficiency (ACCA, 2012; Bangemann, 2006). In general, MNCs first implement shared services in the accounting function before expanding it to other supporting functions (Mechling & Schwarz, 2007). It has been claimed that the shared services concept originated in the accounting function of General Electric in the 1980s (Quinn, Cooke, & Kris, 2000).

By adopting the shared services model, an organization will set up SSCs to provide supporting services to multiple business units. An SSC can be considered a form of "internal outsourcing" (Schulman, Harmer, Dunleavy, & Lusk, 1999). SSCs (i.e., service providers) and business units (i.e., customers) must first sign a service-level agreement specifying the scope of services, the means of service measurement, the targeted service levels, pricing, etc. In principle, SSCs are independent from other business units, albeit reporting directly to a mother company. Since the beginning of the 2000s, large MNCs have typically decided between the shared services model and a BPO approach. The BPO option also enables management of the accounting function. The main reasons that a firm will choose the shared services model over outsourcing are to ensure service quality, to keep control over accounting processes, and to ensure confidentiality of information (Anderson & Vita, 2006).

Cost reduction is one of the top reasons why many MNCs adopt the shared services model. Through this model, costs are significantly reduced through process standardization and consolidation of work processes across business units into newly established SSCs in low-cost locations (ACCA, 2012; Bangemann, 2006). Indeed, global labor arbitrage plays a significant role in helping MNCs achieve high cost reductions. Over time, setting up SSCs in remote, low-cost countries—or "offshoring"—has become common among large MNCs in developed countries (Sako, 2006). This phenomenon of offshoring has emerged in the last two decades because of advanced technology (e.g., Enterprise Resource Planning and electronic banking systems). U.S. and European MNCs have usually established their accounting SSCs in Asian countries—such as India, Malaysia, the Philippines and China—for their branches in the Asia-Pacific region.

3. Profiles of the SSCs of Philips, ExxonMobil, and Lufthansa in Thailand

In this section, the profiles of the SSCs of Philips, ExxonMobil, and Lufthansa in Thailand are provided, based on publicly available online sources including practitioner articles, press releases, the companies' websites and newspapers (BOI, 2010; Camus, 2016; Infosys, 2011; SSON, 2014).

Philips, ExxonMobil, and Lufthansa are three of the world's largest MNCs. Philips, a Dutch company, specializes in electronics and healthcare products; ExxonMobil, which originated in the U.S., is a leader in the energy and petrochemical industry; and Lufthansa, headquartered in Germany, is ranked as the largest airline company in Europe. Although Philips, ExxonMobil, and Lufthansa operate in different industries, one commonality among them is that they set up their SSCs in Bangkok, Thailand in the early 2000s.

The SSC of Philips started its operations in 2002, whilst ExxonMobil and Lufthansa established their SSCs in Bangkok in 2003. Each SSC was primarily set up to support the accounting function of the companies' branches in the Asia-Pacific region. Interestingly, in practice, the term SSC is not necessarily used as the organization's name; for example, ExxonMobil calls its SSCs "Business Support Center", and Lufthansa first used the name "Airline Administration Center" and later changed it to "Lufthansa Group Business Services." Philips, however, does use SSC. The term "shared services" not being widely used helps to explain why the concept of shared services is not generally acknowledged in society.

Over time, the three SSCs in Thailand followed different paths. Only ExxonMobil still maintains its SSC in Thailand, whilst Phillips and Lufthansa terminated their SSCs in the country. In 2007, Phillips decided to sell its SSC to a BPO, Infosys, an Indian-owned company. This represented a significant strategic change in managing the accounting function, moving from "internal outsourcing" to the "external outsourcing." One of the main reasons for this strategic change was the pursuit of further cost savings and efficiency. Following the acquisition of Phillips' SSC, Infosys transferred accounting activities previously performed in the SSC in Thailand to its service hubs in India and China.

As for Lufthansa, its SSC in Bangkok was closed down in 2018. This resulted from a shared-services restructure. The main driver of this organizational change was again the pursuit of cost savings and efficiency (Camus, 2016; SSON, 2014). Executives had to enact the organizational restructure as the airline industry had become highly competitive. With this large organizational change, revenue accounting (ticket sales), which was previously performed at the Bangkok center, was outsourced to a BPO in India, whilst financial accounting was transferred to a newly set up, Lufthansa-owned center in Alabang, Philippines. Unlike Phillips, Lufthansa does not outsource the entire accounting function, and seems to be careful about what it outsources to the third party. Indeed, financial accounting involves sensitive information (e.g., salaries and debts). Therefore, many MNCs are hesitant to outsource this function, despite the savings doing so would offer (Anderson & Vita, 2006). Even though the strategies of Philips and Lufthansa in managing the accounting function are not exactly the same, their SSCs in Thailand were both shut down and hundreds of jobs were transferred to other Asian countries (i.e., India, the Philippines and China). For example, Lufthansa aimed to employ 440 staff for the new SSC in the Philippines by 2018 (Camus, 2016).

4. Mimetic Isomorphism

This article draws on the lens of mimetic isomorphism from the theory of institutional isomorphism (DiMaggio & Powell, 1983) to shed light on the establishment and termination of the SSCs in Thailand. According to mimetic isomorphism, "imitation" is a condition that makes organizations similar to one another in terms of practices and structures. The theoretical concept is employed by scholars to investigate the wide adoption of specific organizational practices or structures (Barreto & Baden-Fuller, 2006). For example, Porter (1998) studied mimetic behavior in the banking industry—e.g., the rapid adoption of Internet banking and the wide establishment of supermarket branches.

The concept of mimetic isomorphism was developed to explain why organizations resemble one another. DiMaggio and Powell (1983) argued that homogeneities among organizations are underpinned by either coercive isomorphism, normative isomorphism, or mimetic isomorphism. Coercive isomorphism causes a company to conform with a certain organizational template (e.g., a practice or structure) in order to fulfill requirements of a dominant organization. Under normative isomorphism, a firm adopts certain practices or structures suggested by a particular profession in order to maintain its professional status. Mimetic isomorphism entails an organization imitating others that are perceived as successful.

According to mimetic isomorphism (DiMaggio & Powell, 1983), an organization tends to imitate successful organizations when it faces uncertainty in its goals or environments. Here, successful organizations refer to well-known, large companies with significant profits (Haveman, 1993). Often, consulting companies play a role in diffusing so-called best practices. Notable about mimetic isomorphism is the fact that organizations are likely to follow trends, even without confirmation of the best choice (Boglind, Hallsten, & Thilander, 2011), because mimicry is a convenient solution for organizations seeking legitimacy and resources rather than efficiency. It has been acknowledged that being isomorphic to environments is not necessarily an optimal choice, but is necessary for gaining legitimacy and resources (Beckert, 2010; Powell & DiMaggio, 1983). Put simply, imitation still takes place even if it does not make operations more efficient.

5. Discussion

By looking at the journeys of the three SSCs in Thailand, we can see mimetic isomorphism in both phases; that is, the initial establishment of the three SSCs in Thailand and the termination of the SSCs of Phillips and Lufthansa.

First, the establishment of the three SSCs in Thailand in the early 2000s reflects the act of imitation within mimetic isomorphism (DiMaggio & Powell, 1983). Philips, ExxonMobil, and Lufthansa seemed to follow the trend of establishing an SSC in Asia to manage the accounting function of their Asia-Pacific branches. Since the 1990s, large MNCs with revenues more than 2 billion USD have had their own SSCs in various regions (e.g. Asia-Pacific, Europe, and South America) (Schulman et al., 1999). Surveys have suggested that many organizations adopting the shared services approach achieve high cost savings (ACCA, 2012; Bangemann, 2006). Nevertheless, the benefits of high efficiency—one of the top reasons to implement SSCs—are questionable, since some SSCs were poorly implemented or underperform (Cacciaguidi-Fahy, Currie, & Fahy, 2002; Cecil, 2000). Despite some shared experiences of difficulties in implementing and running SSCs, setting up SSCs in low-cost, offshore locations is a popular approach among practitioners. Philips, ExxonMobil, and Lufthansa setting up their SSCs in Thailand in the early 2000s is an example of mimetic isomorphism, wherein organizations tend to imitate large, successful organizations even if it has not been confirmed that the imitated practices or systems will help improve efficiency (Boglind, Hallsten, & Thilander, 2011).

It is worth noting that although this article views the setting up of the three SSCs in Thailand as an act of imitation and mimetic isomorphism, the decision to adopt the shared services model in the first place (not necessarily with Thailand as the destination) may have been influenced by coercive pressure to a certain degree. Specifically, the Sarbanes-Oxley Act in the U.S., the Control and Transparency in Business Act (KonTraG) in Germany, and the Dutch corporate governance code (Tabaksblat code) in the Netherlands require effective internal control and transparency in companies' accounting and financial systems. The shared services concept can help organizations fulfill statutory regulations; specifically, the standardized finance and accounting processes in SSCs strengthen internal control and improve transparency with less compliance cost (Deloitte, 2004).

After operating for several years, Philips decided to sell its SSC to a BPO in India, Infosys, while Lufthansa restructured its shared services organization by relocating the SSC to the Philippines and partly outsourcing some tasks to a BPO, again in India. Based on the publicly available online sources consulted for this study, the two main drivers of the companies' strategic changes in managing the accounting function, including relocation, were the pursuit of cost savings and efficiency (Camus, 2016; Infosys, 2011). In the field of shared services, the strategic changes in managing the accounting function of Philips and Lufthansa are unsurprising, and can be seen as forms of “adaptation” (Meyer & Rowan, 1977). It has been acknowledged that SSCs can evolve in various ways, including expansion to other areas, relocation, partial outsourcing, or being sold to a BPO (Bangemann, 2006). Implementing an SSC is not a one-time thing, but an ongoing process aimed at achieving higher cost savings and efficiency.

This article suggests that the decisions of the companies were influenced by their experiences in Thailand and a trend to outsource to a BPO (a best practice in the MNC field). The decision to terminate their SSCs in Thailand implies that based on their experience, both companies perceived that they could not gain further cost savings and efficiency in Thailand. The head of Lufthansa Global Business Services, who ran the shared services function, indicated in an interview that the Philippines was chosen because of “the country’s high level of education, English language proficiency and competitive cost structure” (Camus, 2016). This implies that Lufthansa did not see Thailand to be as competitive compared to the Philippines in terms of cost savings and English language skills.

Lufthansa also outsourced its revenue accounting (ticket sales), which was previously performed in Thailand, to a BPO in India, while Philips sold its SSC to Infosys, a BPO company with service hubs in India and China. The strategic changes incorporating the BPOs also reflects another form of imitation and mimetic isomorphism. BPOs have become popular among large MNCs over more than a decade. Nowadays, both the shared services model and BPOs are well used by large MNCs in managing the accounting function (ACCA, 2012). In the early 2000s, companies were hesitating to use BPOs due to stories about the inefficiencies of outsourcing. However, over time, large BPOs such as Gentpack, Accenture, and Infosys managed to convince large MNCs that, unlike previous outsourcing companies, they could provide quality services, high cost savings, effective finance and accounting processes, and confidentiality of information (Anderson & Vita, 2006). The BPO pitch also included offloading accounting responsibilities from executives (Gospel & Sako, 2010). Over time, the successful stories of BPOs working with large MNCs attracted more practitioners.

Ultimately, the strategic changes of Philips and Lufthansa made Thailand lose accounting jobs to India, the Philippines and China. This article suggests that these countries were more competitive than Thailand in terms of shared-services jobs due to lower costs and higher worker skills. The new locations are recognized as attractive SSC locations in Asia, since they offer lower costs with a large talent pool (Accenture, 2012; Bangemann, 2006). India and the Philippines are considered popular destinations for SSCs because they have a large English-speaking talent pool and solid infrastructure with lower costs. In terms of recruitment, since English is an official language in accounting SSCs of MNCs English-language skills are a priority over accounting skills (ACCA, 2012; Sutthijakra, 2016). It is perceived that staff with English proficiency can learn standardized accounting tasks in SSCs. Indeed, with respect to English proficiency Thailand can hardly compete with India and the Philippines, which were colonized by Western countries. Specifically, in Thailand it is expensive to become fluent in English. China is also an attractive location because of the good infrastructure and incentives for foreign services centers, which the Chinese government has strongly supported (KPMG, 2011).

Nevertheless, ExxonMobil continued to have its SSC in Thailand, as it was not relocated to a lower-cost location. This can be explained by the fact that ExxonMobil is an energy and gas company—a high-profit business. An indication of the ongoing operations of ExxonMobil's SSC in Bangkok is that Thailand has skilled workers and sufficient infrastructure, but these are not cheap.

From the analysis of the journeys of the SSCs of Philips and Lufthansa in Thailand, it can be inferred that Thailand does not have a low-cost talent pool that is attractive to foreign accounting SSCs. This is in line with the argument from Accenture (2012) that Thailand is an immature location for SSCs.

6. Conclusion

In conclusion, as discussed above, the journeys of SSCs of Philips and Lufthansa in Thailand illustrate that Thailand is not yet an optimal location for foreign accounting SSCs pursuing high cost savings. It is unfortunate that, as a result of the shared services strategic changes in Philips and Lufthansa, hundreds of jobs which had come to Thailand left. With this situation, there are two important questions, requiring an in-depth investigation. Which factors make Thailand less competitive than other accounting SSC locations in Asia Pacific? How can Thailand compete with other accounting SSC locations in Asia Pacific? Both potential research questions would help create knowledge which is useful for making Thailand be an attractive accounting SSC location. In particular, the Thai government aims to attract MNCs to establish regional operating headquarters or global sourcing centers in Thailand (BOI, 2010). It argues that with the accounting shared services phenomenon, western countries have lost many accounting jobs to the far east countries (Rothwell et al., 2011). Definitely, we would want the jobs to come to Thailand as many as possible.

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