

Point of View

Shared Service Centre - the 2nd Generation Moving to the next level of capability

Shared Service Centre – the 2nd Generation

Improving business through intelligent sourcing and individual responsibility

The Challenge

Shared Service Centres (SSC) are internal service providers who bundle competencies and provide standardised services for a range of internal business divisions. The primary goal of implementing shared services is to achieve a higher level of service quality at a lower cost. In recent years, this has prompted companies across various industries and geographies to shift towards shared service provision. However, sustaining the benefits of a SSC requires more than just a one-off effort. Companies which have already established shared services are now confronted with a number of challenges (Figure 1).

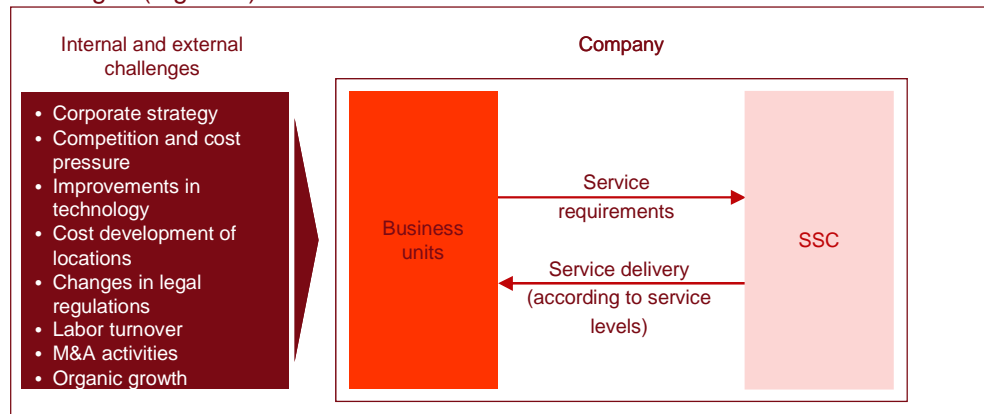


Figure 1: Challenges for companies

In order to address these challenges effectively, a SSC needs to constantly review which services it provides, the level of service delivery (Figure 2) and the structure of the organisation.

Finance	Procurement	HR	IT	Sales
<ul style="list-style-type: none"> • Accounts payable • Accounts receivable • Credit and collections • Financial reporting • Fixed asset accounting • General ledger • Inter-company reporting • Planning and forecasting 	<ul style="list-style-type: none"> • Administrative procurement • Contract management • Logistic and goods management • Purchase order processing • Supplier management 	<ul style="list-style-type: none"> • Applicant data administration • Payroll • Personnel data administration • Travel accounting 	<ul style="list-style-type: none"> • Application development • Hosting • Operating of data processing centre, data collection and data filing • User help desk 	<ul style="list-style-type: none"> • Billing • Complaint management • Customer service • Order management • Technical support

Figure 2: Examples of Shared Service centre offerings

To ensure sustained value, the SSC needs to anticipate changes in 'customer' requirements and adjust it's service portfolio accordingly. This document lays out our point view about how such challenges can be managed.

Design and implementation of a Shared Service Centre

Companies state two major reasons for implementing a SSC:

1. Increase of quality	2. Reduction of operating costs
<ul style="list-style-type: none"> • Standardisation and optimisation of processes • Improvement of services 	<ul style="list-style-type: none"> • Human resources costs • Infrastructure costs

The first step towards implementing a SSC is to determine which services should be provided. Generally, all transactional processes which can be standardised are suitable for migration to a SSC. The second step is to conduct an analysis to determine which process steps should be performed by the SSC and which should remain decentralised. SSCs are often separate business units with their own organisational structure and, furthermore, the SSC may even decide to transfer selected processes to an external service provider.

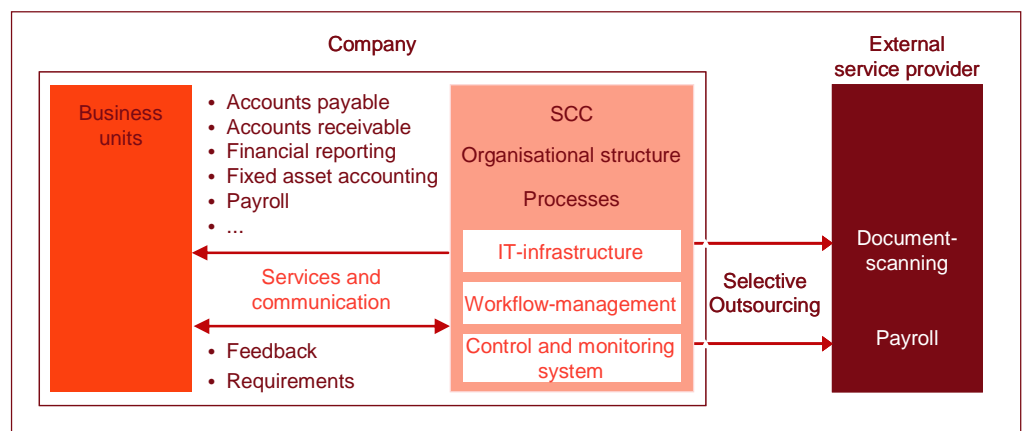


Figure 3: organisational set-up of a Shared Service centre

In order to ensure service delivery meets the demands of service level agreements (SLAs), it is essential to operate an adequate IT infrastructure, including a workflow and information management system. This creates a robustness that ensures all services and communications are performed via clearly defined interfaces.

Requirements will change over time, which can compromise outcomes. Increasing transaction volumes or changes in the scope of service, for example, can result in increasing costs or a decrease in quality - if the organisational structure and processes are not flexible enough. This can be seen via increased;

- processing time;
- system downtime;
- error rates; and
- costs per unit.

Furthermore, SSC optimisation often focuses only on narrowly defined service requirements. If changes to these requirements occur, processes have to be adjusted reactively and independently. As a consequence, corporate-level standardisation benchmarks cannot be sustained. The ability to avoid this, depends on the maturity of the SSC.

Problems of existing Shared Service centre

Evolution process of a Shared Service centre

The evolution of a SSC contains several stages: (Figure 4).

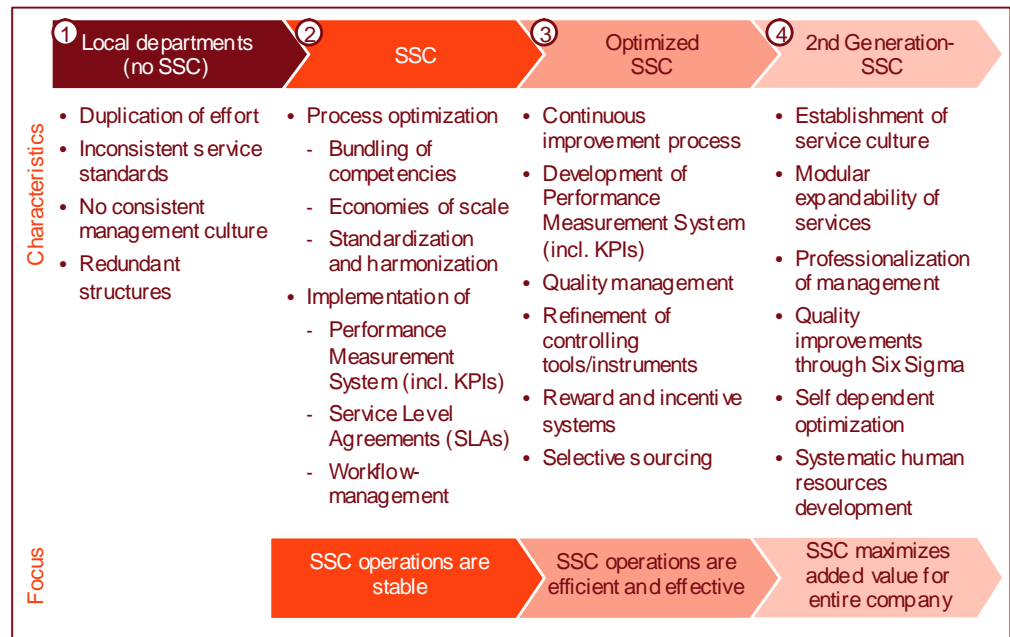


Figure 4: Evolution process of a shared service centre

In recent years a new trend in SSC implementation (Level 2) has emerged. Namely, that decisions around where to base sites, have often been made on the basis of quality rather than cost, which has created greater opportunities to embed continuous improvement. Typically, once the SSC is implemented, continuous improvement of processes and service levels is initiated by the SSC (Levels 2 and 3). A key aspect of this, is a review of the organisational structure, focusing on opportunities to optimise delivery quality and improve efficiency. In order to sustain the provision of enhanced services, appropriate payment models and reward structures should be established; this is essential, in order to maintain staff motivation through periods of change.

When the SSC reaches a 'steady state', where service delivery is stabilised and efficient, the SSC can extend the scope of the services it provides. This stage is typically the starting point for considering selective outsourcing of specific services. In our experience, however, selective outsourcing often proves to be less beneficial than expected. Primary reasons include the profit margin of the outsourcer, loss of flexibility and increased delivery risk.

A 2nd Generation SSC goes beyond this state (Level 4). Its focus is no longer limited to internal optimisation - it now encompasses added value creation for the entire company. The SSC becomes more than an internal service provider, increasingly assuming the role of an operational and strategic consultant. This is predicated on a service-oriented culture, made possible by enhanced use of the people talent at it's disposal. The SSC becomes capable of anticipating changes related to 'customer' needs and implements changes to service delivery and process optimisation proactively.

In order to assess the level of maturity of an internal service provider PricewaterhouseCoopers has developed a SSC-Capability-Maturity Model (Figure 5).

	Local departments (no SSC)	SSC	Optimised SSC	2 nd Generation 'Independent company'
Business processes	No standardisation, harmonisation or automation	Widespread standardisation and harmonisation	Optimisation and automation of business processes	Cross-organisational optimisation
Systems and Technology	Multiple systems	Partially standardised system environment	Standardised system environment	Optimised and modular design system environment
Human resources	Inconsistent, non-uniform management	Concentration of competencies and focus on professional know-how	Professional know-how and development of management	Embedding of service-orientated culture and leadership
Internal customer relationship	Inconsistent, non-uniform management	Standardised routine processes and transactions	Focus on efficiency and effectiveness within the SSC	Focus on added value proposition across the entire enterprise

Figure 5: SSC-Capability-Maturity Model

The assessment of the maturity level is based on four key criteria.

1. Business process optimisation

The first criterion is the level of business process optimisation. Before shared services are implemented (Level 1) most processes are performed locally and are neither standardised nor harmonized. In the course of transfer to a SSC (Level 2) a standardisation and harmonisation of the relevant processes is realised. Standardisation includes, for example, the implementation of company-wide charts of accounts, costs centres or software standards. Harmonisation focuses on the optimisation of processes, systems and interfaces between departments. The main objectives of both standardisation and harmonization are quality improvement and cost reduction. As soon as the SSC has been implemented and is operating in a steady state the focus changes to continuous improvement of service delivery. Depending on the SSC maturity level the initiative for optimisation is taken either by the internal customer (Level 3) or by the SSC (Level 4). At this level, the SSC works autonomously to optimise cross-organisational structures.

2. Systems and technologies

The systems and technologies in use represent the second assessment criterion. Level 1 is often characterised by a heterogeneous system environment including pre-systems, ERP-platform and workflow solutions. The implementation of the SSC often leads to a standardisation and consolidation of the systems (Level 2). For example, proprietary applications are replaced by modular standard software which simplifies the restructuring of processes. Level 3 comprises further optimisation, automation and possible expansion of the systems. SSCs which are confronted with changing service requirements build in corresponding changes to their existing system landscape. The greater the prevalence of modular systems, the easier it is to make adjustments to the service scope and content. A SSC at level 4, implements adjustments autonomously and creates added value for the whole enterprise.

3. Human resources

An essential condition for sustainable improvement of SSC competencies, is the development of human resources. At level 1, before implementing the SSC, the development of human resources is performed locally and often not according to company-wide standards. At level 2, shared services are established and the focus shifts towards the use of collective knowledge to manage process quality and efficiency.

In addition to this collective knowledge, level 3 is characterised by the enhancement of management and the embedding of a service-oriented culture, which are both vital to high quality service delivery. Therefore, at level 4 the emphasis shifts to leadership, which incorporates defining clear expectations around employee responsibilities and strengthening of both competency and motivation, to create proactive and customer-oriented behaviour.

Management actions that have been shown to optimise employee outcomes and support the retention of high quality staff include;

- A Performance Measurement System (including KPIs) to track and benchmark employees' performance;
- performance-related remuneration;
- team compensation;
- involvement of the team in the recruitment process;
- flexible working hours (work-life balance, individualised working hours, home office); and
- enhanced opportunities within the workplace (e.g. through providing increased responsibility for process management re-engineering).

Appropriate employee focused measures, a service-oriented culture, and the proactive quest for improvement are all crucial in migrating a SSC to 2nd Generation maturity.

4. Internal customer relations

The final criterion is internal customer relations. While the management of customer relations at level 1 is often non-uniform, the interfaces and communication channels between the SSC and its internal customers at level 2 are broadly standardised. However, the level 2 SSC still places emphasis on its core operation - the management of standardised transactions and processes. SSCs which have achieved level 3 maturity, utilise measures to optimise internal customer relations through customer surveys, complaint management and suggestion systems. At level 3, the SSC starts to focus on improvements in terms of efficiency and effectiveness. SSCs at level 4 have gone one step further and focus on delivering added value to the entire enterprise. At this stage, the SSC acts as a professional service provider and optimises its operations strictly in alignment with customer needs.

All four criteria together determine the cost and service quality level of a SSC. The changing profile of cost and quality trends, in relation to the SSC's maturity, are illustrated in Figure 6.

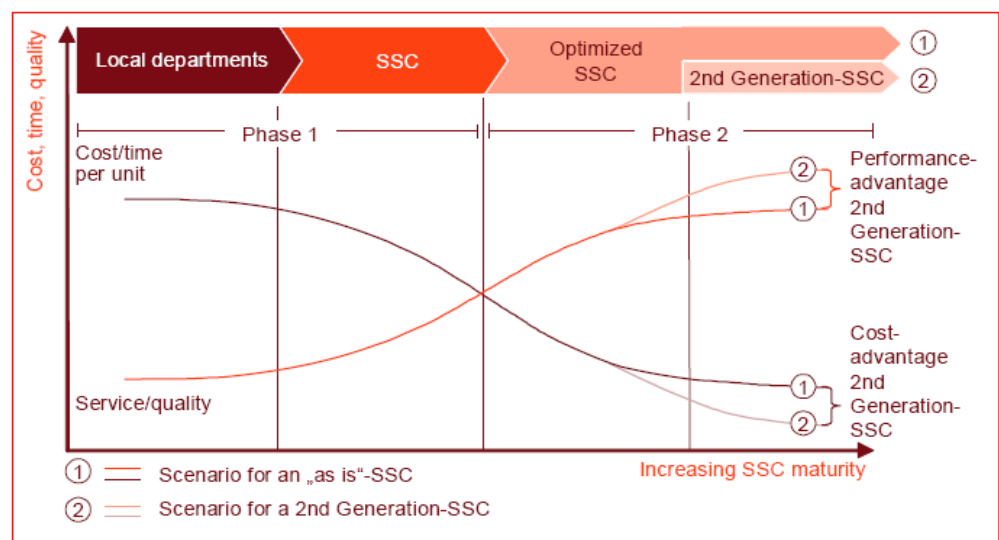


Figure 6: Cost and quality trend of a Shared Service centre

The illustration shows that at the beginning, learning curve effects and economies of scale lead to decreasing costs and to increasing quality. If, however, the SSC is confronted with changing service requirements in Phase 1, this could have an undesirable impact. In this case two different scenarios can be distinguished.

Scenario 1
<p>-is typical of a SSC which is not sufficiently prepared to anticipate changes to service requirements, because the organisational structure of the SSC has been designed to focus, purely, on efficient and effective provision of all current contracted services. However, as a result of company growth, change becomes necessary. Because the transaction volume has increased beyond the capacity of available resources, the organisation is unable to implement changes to optimise its operation. In the course of time this leads to sub-optimal service delivery and a failure to exploit synergies.</p>
Scenario 2
<p>- in contrast to scenario 1 - illustrates a 2nd Generation SSC which anticipates changes in requirements over time and is able to adjust its internal structures autonomously, to embed organisational agility. This provides a robust foundation for delivery against medium- and long-term cost and quality objectives.</p>

Characteristics of a 2nd Generation Shared Service centre

To ensure that a SSC is able to anticipate future service requirements and responds accordingly, it is important that the SSC gradually evolves into an “independent” organisation. This is achieved by focusing on the following aspects;

- implementation of a customer-oriented service culture;
- expansion of decision-making authority in order to execute service adjustments proactively and autonomously (e.g. adjustments to the service portfolio);
- development of human resources to safeguard and improve internal competencies;
- implementation of professional customer management to optimise and further develop customer relationships (e.g. implementation of a complaint management system); and
- commitment to continuous process improvement.

For the organisation, it is desirable to combine multiple shared service entities into an overall service delivery organisation. (Figure 7). The scope of services delivered by such a service organisation can be expanded far beyond finance and accounting. Generally, almost all non-core operations such as IT, tax, treasury or HR are feasible options.

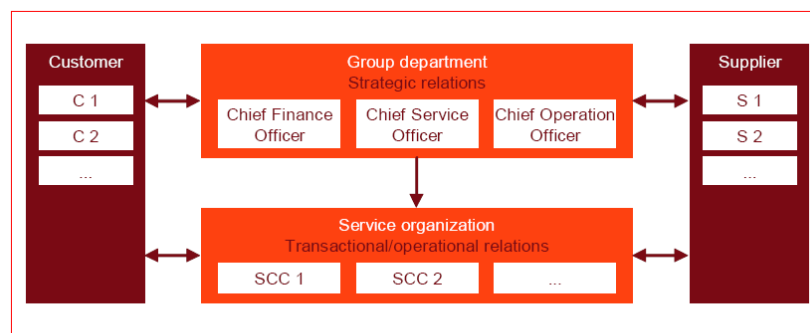


Figure 7: Integration of a Shared Service Centre into the entire organisation

Over time, a SSC can develop the ability to deliver a broader scope of services. A service organisation adds value to the entire enterprise, by enabling local business units to focus on their core business. The SSC evolves in parallel with the core organisation in alignment with corporate strategy.

Benefits

A number of advantages and benefits can be realised by companies who evolve their SSC to 2nd Generation maturity. The company itself is able to focus on its core competencies. The SSC optimises itself autonomously and initiates the implementation of new technologies, acting as a professional service provider. Furthermore, the extension of the SSC competencies creates the basis for further internal SSC optimisation and future make-or-buy decisions. Adjustment of SSC services according to changing service requirements safeguards long-term cost and quality advantages, embedding a holistic service delivery model.

Our expertise

Companies which have already implemented shared services are confronted with the challenge ensuring the long-term cost and quality advantages of their SSC. PricewaterhouseCoopers has been supporting clients for many years in implementing and operating SSCs. Our emphasis on high quality delivery is complemented by our future-oriented thinking. This means going beyond implementation of solutions to address only current needs. In focusing on future demands, we give our clients added security in an increasingly complex world.

Contacts

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