Point of view*

Shared Service Center - the 2nd Generation
Taking the next step to reach a more efficient level of evolution.

*connectedthinking

PricewaterhouseCoopers

The challenge

Shared Service Center (SSC) are internal service providers which bundle competencies and provide standardized services for different business divisions within the company. The main goal of implementing shared services is to achieve a higher level of service quality at a lower cost level. This has prompted companies in various industries and different countries to move towards shared services in the recent years. But leveraging their benefits in the long run requires more than just a one-off effort. Companies which have already established a SSC are confronted with a number of challenges (Figure 1).

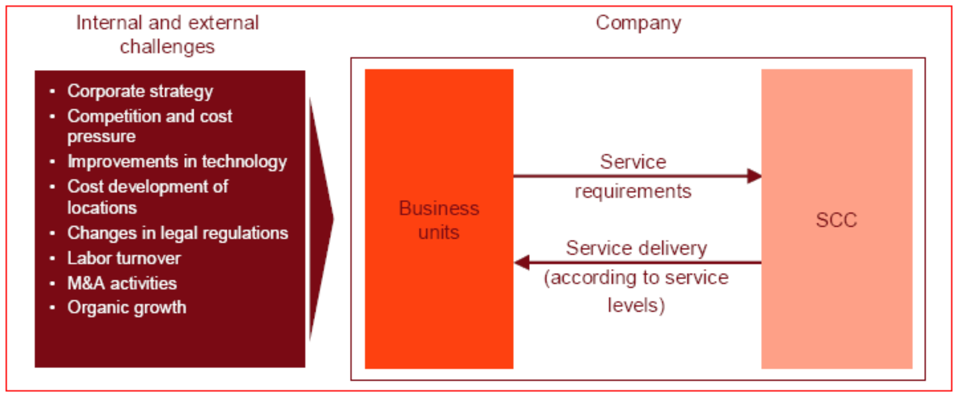

Figure 1: Challenges for companies

In order to overcome these challenges and generate sustainable benefits, a SSC needs to constantly review the services it provides, including the service levels (Figure 2), as well as their organization.

Finance	Procurement	HR	IT	Sales
• Accounts payable • Accounts receivable • Credit and collections • Financial reporting • Fixed asset accounting • General ledger • Inter-company reporting • Planning and forecasting	• Administrative procurement • Contract management • Logistic and goods management • Purchase Order processing • Supplier management	• Applicant data administration • Payroll • Personnel data administration • Travel accounting	• Application development • Hosting • Operating of data processing center, data collection and data filing • User help desk	• Billing • Complaint management • Customer service • Order management • Technical support

Figure 2: Examples of Shared Service centre offerings

To ensure a long-term added value, the SSC needs to anticipate changes in requirements and furthermore to adjust its service portfolio in an effective and efficient way.

This point of view aims to present adequate solutions to face these challenges.

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
• Standardization and optimization of processes • Improvement of services	• Human resources costs • Infrastructure costs

The first step towards implementing a SSC is to determine which services shall be provided. Generally, all transactional processes which can be standardized are suitable for a migration into 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 decentralized. SSCs are often separate business units with an own organizational and operational structure. Therefore the SSC may even decide to transfer selected processes to an external service provider.

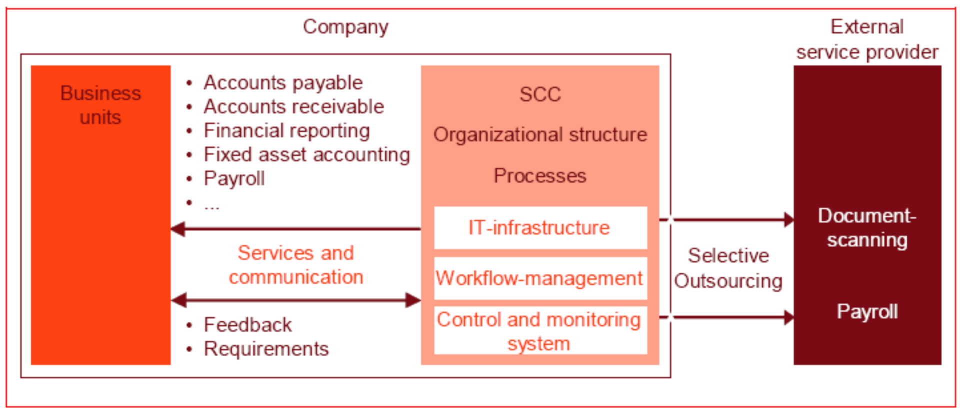

Figure 3: organisational set-up of a Shared Service centre

In order to deliver the services defined in service level agreements (SLAs), it is essential to implement an adequate IT infrastructure, a workflow management system and an information management system. Focusing on these major implementation issues ensures that all services and communications provided are performed via clearly defined interfaces.

Problems of existing Shared Service centre

Requirements will change over time which often leads to a compromise in the quality and cost objectives. Increasing transaction volumes or changes in the scope of service, for example, can result in increasing costs per unit or to a decrease in quality if the organizational structure and processes are not flexible enough. This quality loss in turn could entail increases in:

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

Furthermore, SSC optimization often focuses only on narrowly defined service requirements. If changes to these requirements occur, processes have to be adjusted ad hoc. As a consequence, corporate-level standardization benchmarks cannot be sustained. The capability to avoid these critical issues depends on the level of evolution of the SSC.

Evolution process of a Shared Service centre

The evolution of a SSC can be divided into multiple levels (Figure 4).

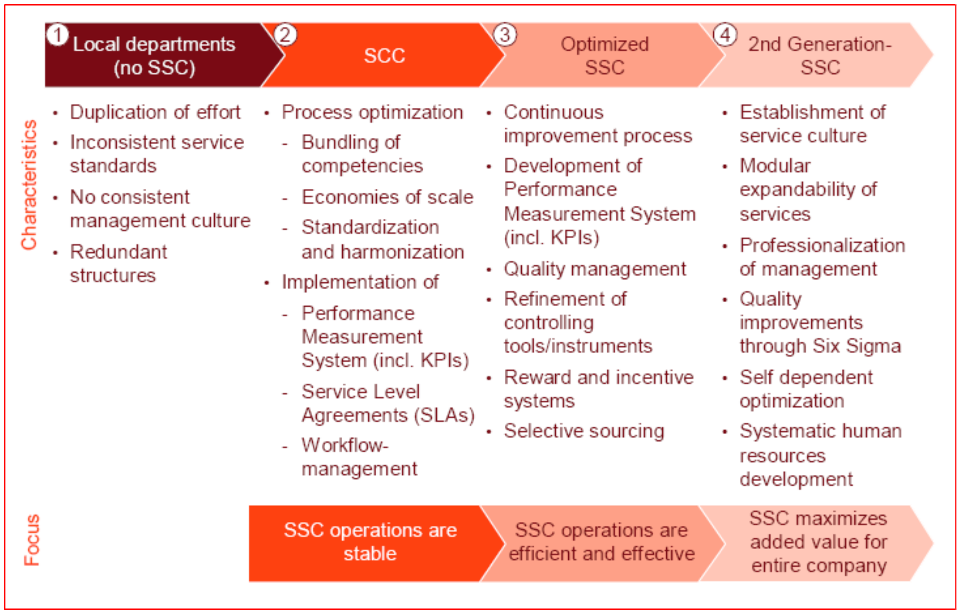

Figure 4: Evolution process of a shared service centre

In recent years a new trend in SSC implementation (Level 2) has been observed, namely that the frequent decision to base site selection on aspects of quality rather than cost tends to provide far better possibilities to realize a continuous improvement process. Typically, once the SSC is implemented, a continuous improvement of processes and service levels is initiated by the SSC (Levels 2 and 3). On the one hand a review of the operational structure, together with identification and exploitation of optimization potential, is key. On the other hand the organizational and management structure including staffing is put to the test. In order to provide services of significantly optimized cost and quality, appropriate payment models and structures should be established. These measures are essential in order to keep staff motivated and its future development at a high qualitative level.

If the SSC is optimized to the extent that all the processes are performed efficiently, 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. According to our experience, however, selective outsourcing often proves to be less beneficial than expected. Major reasons are the profit margin of the outsourcer, loss of business flexibility and a number of specific risks related to outsourcing.

A 2nd Generation SSC goes one step further (Level 4). Its focus is no longer limited to internal SSC optimization - it encompasses added value for the entire company. The SSC develops into an internal service provider which increasingly assumes the role of an operational and strategic consultant. The basis for this is the establishment of a service-oriented culture through the systematic development of human resources. Thus the SSC can gain competencies in anticipating changes related to a company's service requirements.

Moreover, the SSC is able to implement service adjustments on its own authority and to introduce process optimization 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)	SCC	Optimized SSC	2nd Generation "Independent company"
Business processes	No standardization, harmonization or automation	Wide standardization and harmonization	Optimization and automation of business processes	Cross-organizational optimization
Systems and Technology	Multiple systems	Partially standardized system environment	Standardized system environment	Optimized and modular designed system environment
Human resources	Inconsistent, non-uniform management	Concentration of competencies and focus on professional know-how	Professional know-how and development of management	Establishment of service-orientated culture and leadership
Internal customer relationship	Inconsistent, non-uniform management	Standardized routine processes and transactions	Focus on efficiency andeffectiveness within the SSC	Focus on added value proposition for the entire company

Figure 5: SSC-Capability-Maturity Model

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

1. Business process optimization

The first criterion is the level of business process optimization. Before shared services are implemented (Level 1) most processes are performed locally and are often neither standardized nor harmonized. In the course of business process transfer to a SSC (Level 2) a standardization and harmonization of the relevant processes should be realized. Standardization includes, for example, the implementation of company-wide charts of accounts, costs centers or software standards. Harmonization focuses on the optimization of processes, systems and interfaces between departments. The main objectives of both standardization and harmonization are quality improvement and cost reduction. As soon as the SSC has been implemented and is operating, the focus changes to a continuous improvement of the internal provision of services. Depending on the SSC maturity level the initiative for optimization is taken either by the internal customer (Level 3) or by the SSC (Level 4). At this level the SSC is working autonomously on the continuous optimization of cross-organizational process structures.

2. Systems and technologies

The systems and technologies in use represent the second assessment criterion. Level 1 is often characterized by a heterogeneous system environment including pre-systems, ERP-platform and workflow solutions. The implementation of the SSC often leads to a standardization 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 optimization, automation and possible expansion of the systems. SSCs which are confronted with changing service requirements have to reflect the changes in their existing system landscape. The more modular systems there are, the easier it is to make adjustments to the service scope and content. A SSC at level 4 implements adjustments autonomously and provides an added value to the entire company.

3. Human resources

An essential condition for a sustainable enhancement 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 is moved to the accumulation of specific know-how in order to control operational processes and thus enable a more efficient provision of services. Level 3 is characterized by the fact that in addition to specific know-how, the development of management in particular becomes more important. Vital for the success of shared services are both the professionalization of management and the establishment of a service-oriented culture. Therefore at level 4 the emphasis shifts to leadership, as a principle of responsibility for the entire SSC staff. The management's focal points are the strengthening of employees' competencies and motivation in order to encourage proactive and customer-oriented behaviour.

Suitable actions to develop strong human resources and retain qualified staff are for instance the implementation of:

- A Performance Measurement System (including KPIs) in order to track and benchmark employees' performance,
- performance-related remuneration,
- team compensation,
- involvement of the team in the recruitment process in order to improve teamwork,
- flexible working hours (work-life balance, individualized working hours, home office), or
- improvements to the working atmosphere (e.g. through increased responsibility for processes and process reengineering).

Appropriate human resources measures as stated above, a service-oriented culture, and the proactive quest for improvement are all crucial in stepping up a SSC to the 2nd Generation level.

4. Internal customer relations

The final criterion is the internal customer relation. While the management of customer relations at level 1 is often non-uniform, the interfaces and communication channels of the SSC and its internal customers at level 2 are broadly standardized. The SSC emphasizes on the delivery of operational and standardizable transactions and processes. SSCs which have achieved level 3 already implement measures to optimize internal customer relations by the utilization of customer surveys, complaint management and suggestion systems. At level 3 the focus is still on improvements of the SSC internal efficiency and effectiveness. SSCs at level 4 have gone one step further and focus on added value to the entire company. At this stage, the SSC is now acting as a professional service provider and optimizing its operations strictly with regard to the customer's benefit.

All four criteria together determine the medium- and long-term cost and service quality level of a SSC. The development of the cost and quality trends in relation to the SSC's maturity level are illustrated in Figure 6.

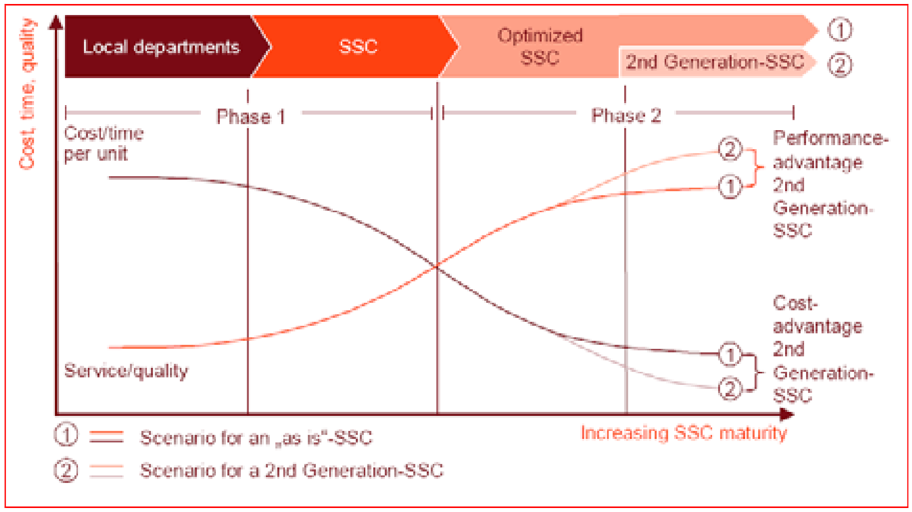

Figure 6: Cost and quality trend of a Shared Service Center

The figure 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 result in an unwanted development. In this case two different scenarios can be distinguished.

Scenario 1
is typical of a SSC which is not sufficiently prepared to anticipate changes to service requirements. The organizational structure of the SSC has been designed and optimized at a particular time for an efficient and effective provision of all contracted services. As a result of company growth a need for adjustment can arise. If a specific transaction volume is exceeded, the lack of human and technical resources results in a backlog of optimization measures. As a result of this lack of resources - and insufficient flexibility - various tasks concerned with implementation, adjustments and optimization can only be executed partially. In the course of time this leads to sub-optimal service delivery and under utilized synergies. Consequently, improvements in efficiency and quality can not be fully realized.

Scenario 2
- in contrast to scenario 1 - illustrates a 2nd Generation SSC which anticipates changes in requirements over time and which is able to adjust its internal structures flexibly and autonomously. This is a significant basis for the sustainable realization of medium- and long-term cost and quality objectives.

Characteristics of a 2nd Generation Shared Service Center

To ensure that a SSC is able to anticipate future service requirements and reacts adequately, it is important to develop the SSC gradually into an ”independent” organization by focusing on the following issues:

- implementation of a customer-oriented service culture,
- expansion of decision-making authority in order to carry out service adjustments proactively and autonomously (e.g. adjustments to the service portfolio),
- development of human resources to safeguard and improve internal competencies,
- implementation of a professional customer management to optimize and further develop customer relations (e.g. implementation of a complaint management system),
- commitment to continuous process improvement as an ultimate objective.

The combination of multiple SSCs into a service organization which provides different services seems to be favourable from an organizational point of view (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.

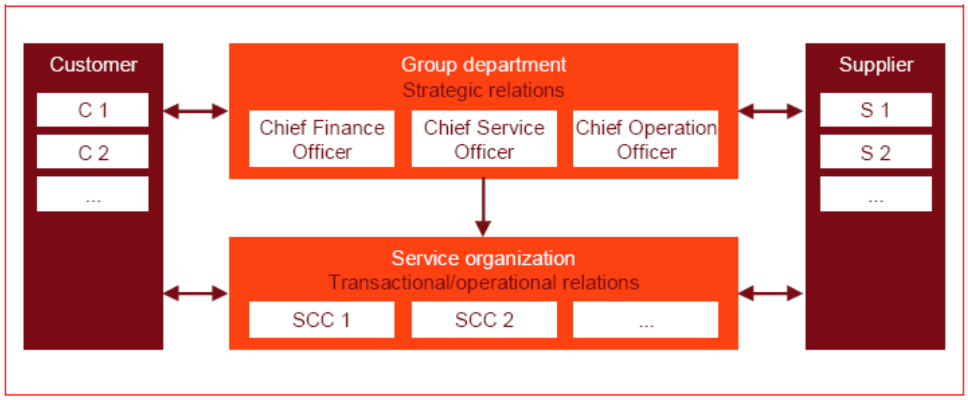

Figure 7: Integration of a Shared Service Center into the entire organization

Over time an SSC could gain the ability to deliver a broader scope of services. A service organization adds value to the entire company by enabling local business units to focus on their core business. The SSC evolves together with the entire company as an integral component in accordance with corporate strategy.

Your benefit

A number of advantages and benefits can be realized by companies which develop their SSC towards the 2nd Generation standard. The company is able to focus on its core competencies. The SSC optimizes itself autonomously, itinitiates the implementation of new technologies and it acts as a professional service provider. On the other hand the extension of the SSC competencies is a basis for further internal SSC optimization and future make-or-buy decisions. The adjustment of SSC services according to the changing service requirements of the company enables safeguarding of long-term cost and quality advantages. Therefore a 2nd Generation SSC is particularly suitable for ensuring a holistic end-to-end process view.

Our expertise

Companies which have already implemented a SSC are confronted with the question of how to ensure the long-term cost and quality advantages of their SSC. PricewaterhouseCoopers has been supporting clients for many years in implementing and operating Shared Service Center. Our emphasis on high quality is complemented by our future-oriented thinking on behalf of our clients. This means going beyond the mere completion of a task to anticipate their needs and provide a forward-looking solution. In doing so, we give our clients added security in an increasingly complex world.

About us

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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