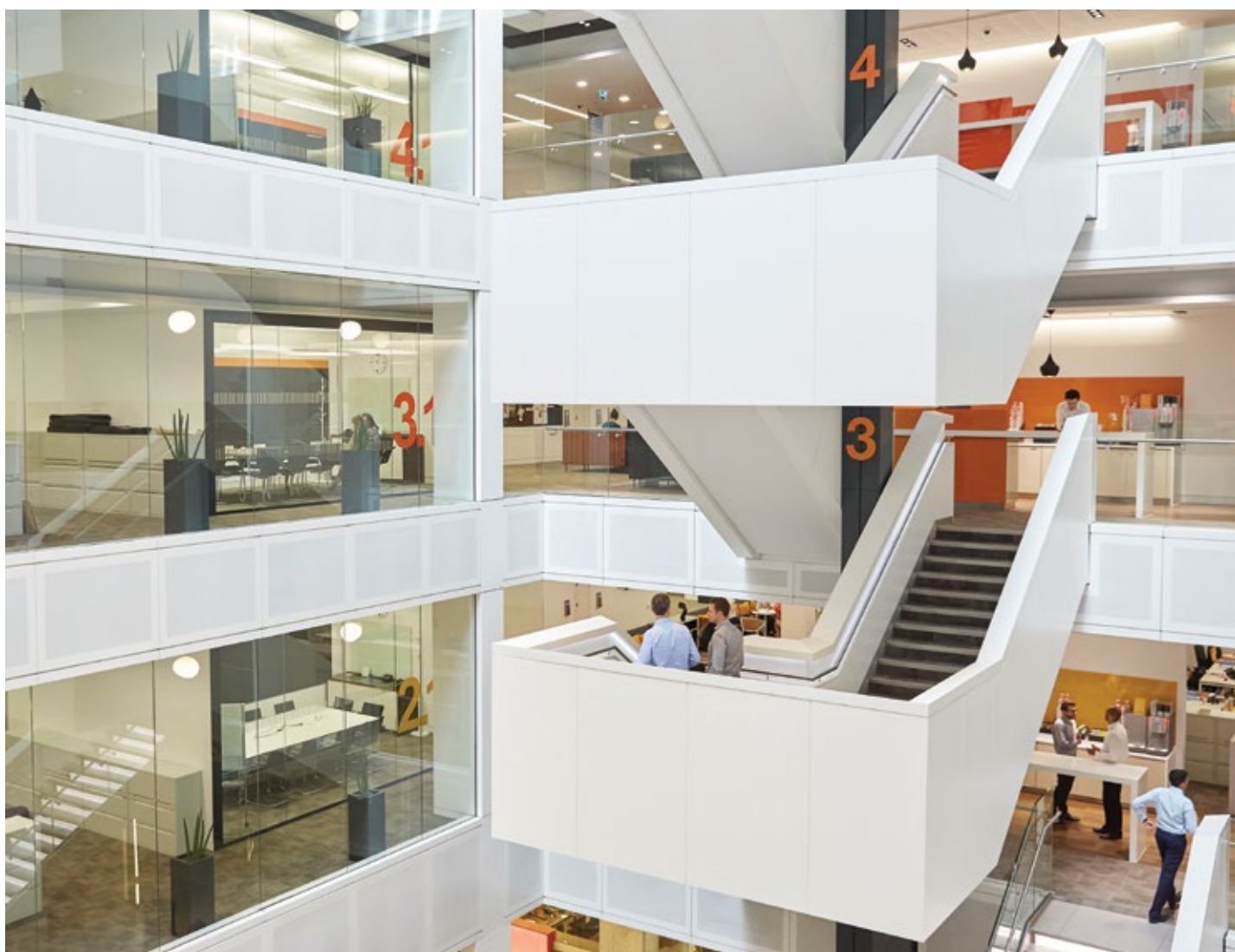


# ***The success story continued - but what comes next?***

Hungarian Shared Service Center Survey 2016





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# 1 Market update

## New challenges on the horizon

Shared Service Centers are undoubtedly a sector of the Hungarian economy that continue to perform strongly. As stated in our previous studies, the SSC industry has created thousands of new jobs in Hungary since the first centres were established in the late 90s. The sector has been growing continuously and evolving ever since. When our previous survey was released in 2013, there were 80 SSCs operating in Hungary, employing 30,000 individuals. According to the latest figures published by the Hungarian Investment Promotion Agency (HIPA) the number of centers exceeded 100 by the middle of 2016 and these now employ more than 38,000 people. These employees are typically highly-skilled individuals with university degrees who speak multiple foreign languages and perform complex and value-adding activities.

It is very positive to see that new companies are still entering the Hungarian market but it is equally or even more important that most of the existing players have recently been through an expansion phase: a significant portion of the **industry's impressive 20% increase of the last three years** has been largely driven by existing centers. These Hungarian SSCs have proved to be successful in delivering the expected results, and therefore have continued to increase their scope and scale of operation.

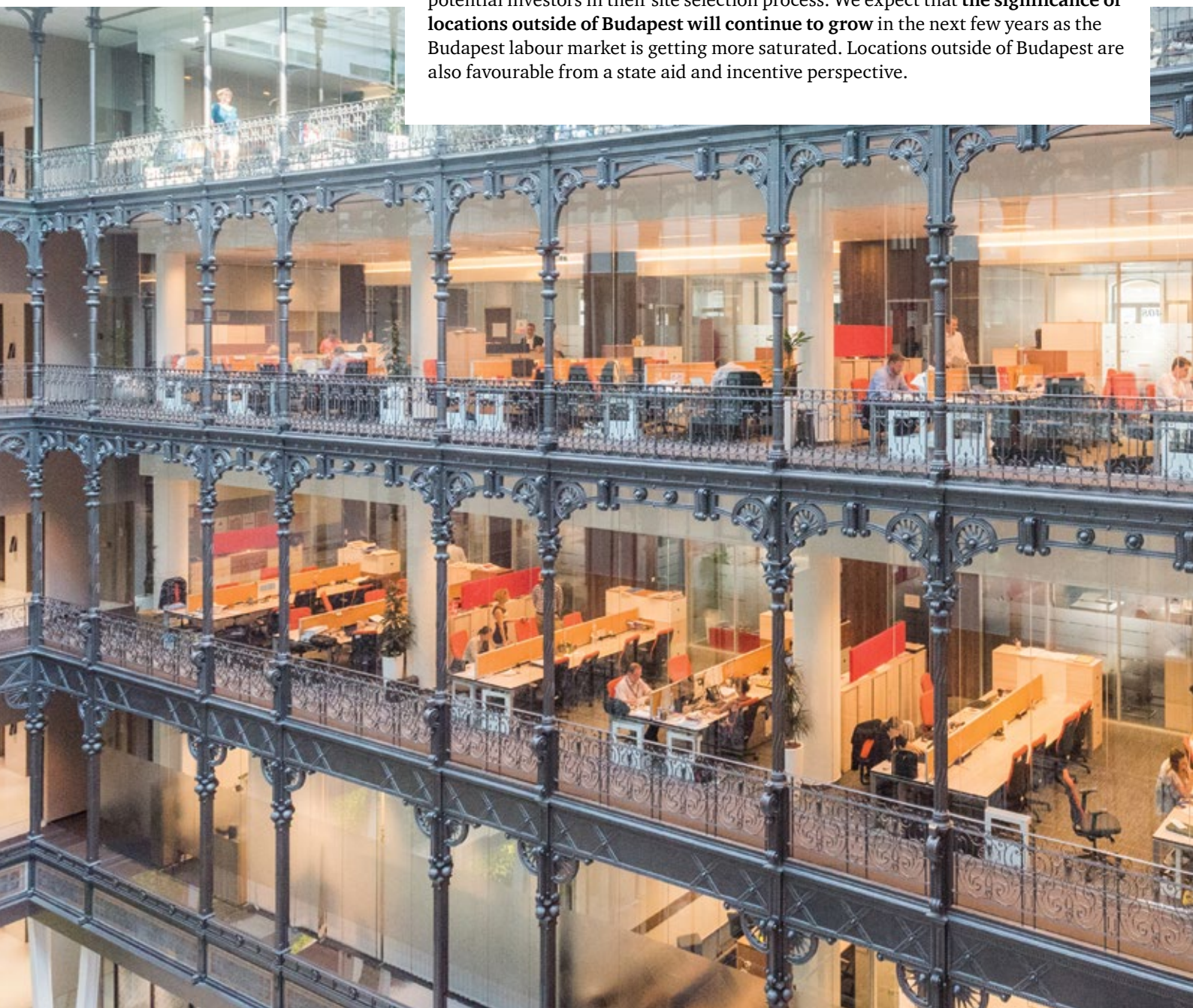
But the evolution of the sector is not just a numbers game: the complexity of activities performed by these centres has also continuously improved. By now the typical Hungarian SSC no longer performs straightforward transactional type activities, but offers value-adding and knowledge-intensive services to its customers. The Hungarian SSC industry has by now become a solid, mature industry even on a global scale. Its **SSCs have been continuously moving up in the value chain**. Hungary is no longer a low-cost location which is chosen simply to take advantage of labour arbitrage. It is much more a proven location for centres that are providing high quality value-adding services or even centres of excellence on a global scale.





Our 2013 survey has identified some very positive trends and it is reassuring to see that these fundamental elements are still present in 2016: consistent with the previous surveys, the participating Hungarian SSCs reported a high level of customer and employee satisfaction. In addition, Hungarian SSCs have been very successful in achieving their initial objectives: **the centres' performance has even exceeded the original cost-saving- and FTE reduction targets.** In these areas, the Hungarian centres are even more successful than the global average.

Another development of the last three years is that the importance of locations outside of Budapest have been increasing: quite a few centres that were originally set up in Budapest have opened a second location in other large cities around the country by now. These new locations provide additional security from a business continuity perspective and also enable these companies to exploit the diverse employee pool of different locations. There were also some new market entrants who have selected their primary location outside of Budapest. These non-metropolitan locations are typically larger cities with the presence of strong universities, such as Debrecen, Szeged and Pécs, just to name a few examples. It is also positive that local municipalities have started to realise the importance of the SSC sector and are now on the hunt for new investments, and actively supporting potential investors in their site selection process. We expect that **the significance of locations outside of Budapest will continue to grow** in the next few years as the Budapest labour market is getting more saturated. Locations outside of Budapest are also favourable from a state aid and incentive perspective.





We also have to acknowledge that some new challenges have emerged on the horizon since our last survey.

The competition for experienced professionals has become more intensive in the SSC industry due to the growth of the sector. If an existing centre is expanding or a new market entrant arrives, a natural pool of experienced colleagues for hiring will be the employees of other centres, as has always been the case. Although fluctuation and retention of key talents have been an issue for a while there is a new element of this **fierce competition for skilled workers: it has become truly global** by now. Young, highly educated professionals who speak multiple foreign languages have realistic options for finding a job outside of Hungary. Signs of an increased level of international mobility can already be observed when students select a foreign university after finishing secondary school. They are less likely to return to the Hungarian labour market later on.

A shortage of skilled workers now appears to be an overarching and general concern in the Hungarian economy. This impacts some functions of the SSC industry more severely than others: the IT sector appears to be the most vulnerable at the moment. Whether the shortage of manpower is true or just a myth, the perception is there. Therefore, the government and universities should focus on ensuring the Hungarian education system will provide sufficient numbers of young professionals who possess the right skill-sets and foreign language knowledge, are flexible to adapt to the constantly changing environment, and are committed to life-long learning by the time they finish their studies. It should be noted that there are signs of more intensive cooperation between universities and the SSC industry than ever before to achieve this result.

Both the increased level of international mobility and the growing concern regarding the shortage of skilled workers will continue to drive **salary increases** in Hungary. Although it is a positive development for the employees and the country overall, this **will create challenges for the SSCs to maintain their payroll costs** at a reasonable level in order to remain competitive. The growing salaries will hopefully further accelerate Hungarian SSCs' move up in the value chain.

Another challenge the SSC industry will have to face in the near future is the **impacts of digitalization** and the 4<sup>th</sup> industrial revolution: robots will not only appear in manufacturing facilities but some administrative functions are also expected to be fully automated, and human labour force to some extent will be replaced by software solutions. The more rule-based and standardised these activities are, the easier it will be to apply **Robotic Process Automation solutions** which will make it possible to automate processes without having to change the existing IT systems. Machine learning and artificial intelligence will create opportunities that cannot be foreseen yet. Since these software solutions will make some of the currently existing SSC jobs redundant, the more value-adding and knowledge-intensive activities the Hungarian SSCs are performing the less likely their FTE will be significantly impacted by digitalisation.



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## 2 About the survey

### A distinctive survey in Hungary

This is the third time PwC Hungary has conducted a comprehensive survey of Shared Service Centers operating in Hungary. Similar to the surveys conducted in 2010 and 2013, we requested the leaders of Hungarian SSCs to complete a survey questionnaire that assesses various elements of their operation.

Our survey was part of a global exercise that was conducted by PwC Germany (PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) from November 2015 to April 2016.

Applying a globally consistent methodology provides us with the unique opportunity to benchmark the 2016 Hungarian results with the most current global trends and also to put the current-year Hungarian results into a historical context by comparing the current year responses with the outcome of local surveys conducted in the past.

Although we queried the heads of SSCs about the same operational areas as we did in the past, this time we moved away from the maturity model concept and shifted our focus to providing more insight into future challenges and how SSCs can tackle those instead of focusing solely on the status quo.

A total of 75 companies from various industries in more than 20 countries worldwide participated in the global survey, collectively representing about 300 Shared Service Centers. 15 Hungarian SSCs participated in the local survey from a wide range of industries. The survey participants employ more than 11,000 people in Hungary, so their responses provide significant coverage of the local SSC industry. The survey also provides a balanced view, as far as the size of the centres is concerned, since the number of employees is split relatively evenly between small, medium-sized and larger centers. The respondents provide services both to internal and external customers.

Considering the number and characteristics of the participating centres, we believe that the results and conclusions of the survey are fairly representative and can provide useful information and insight into the entire Hungarian SSC industry.

This Hungarian study is based on the publication “**Shared Services: Multiplying success**” issued by PwC Germany in July 2016, which can be found at the following link: <http://www.pwc.com/ph/en/consulting/consulting-publications/shared-services-multiplying-success.html>





## Executive summary

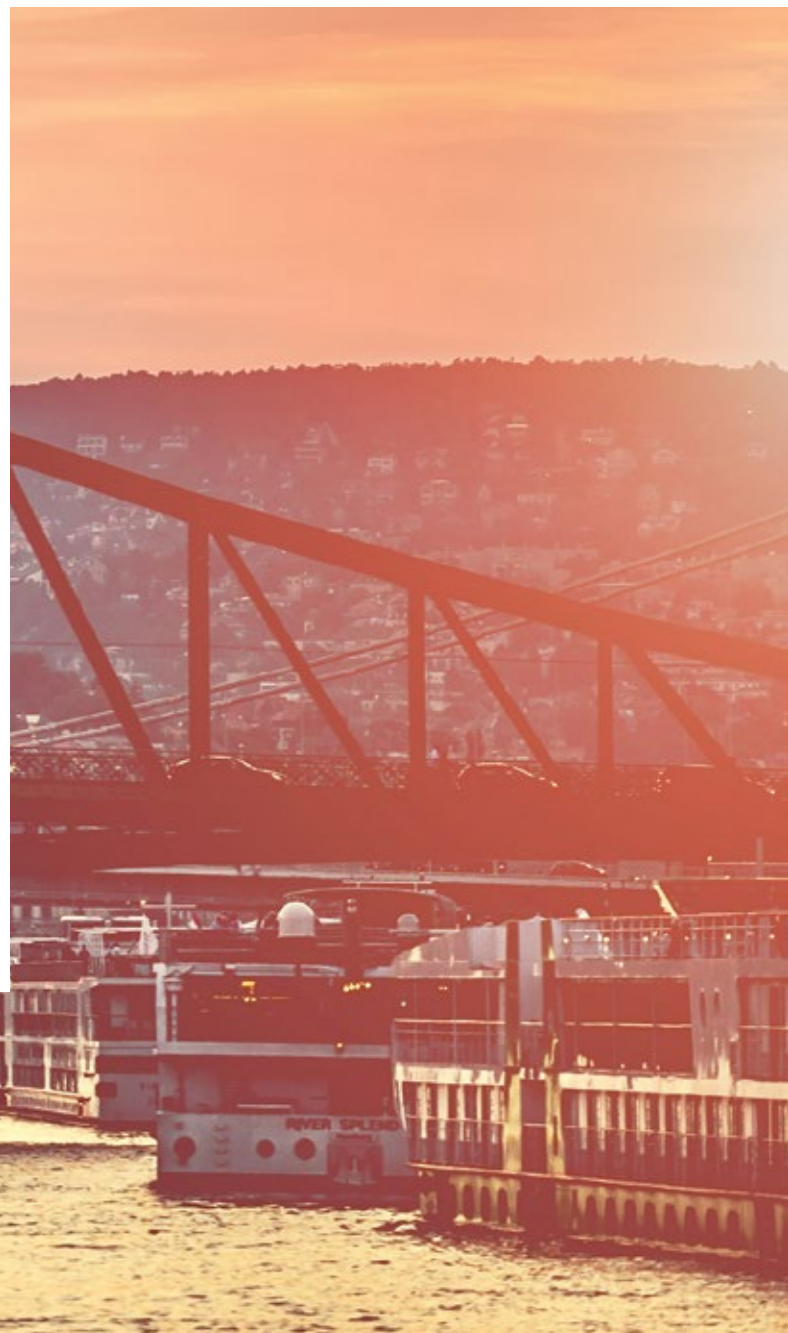
When assessing the actual performance of the industry, we concluded that **Hungarian SSCs were able to deliver a stronger than expected performance**: they managed to exceed the planned targets both in the areas of cost saving and capacity reductions. With regards to cost savings the actual performance of Hungarian SSCs is even more impressive than the global average. However, the majority of such cost reductions is still realised through decrease of payroll costs which will not be sustainable in the longer term. SSCs, both in Hungary and globally, should **focus on how to realise cost and capacity savings through the efficient use of IT solutions and common infrastructure in the future**. At the moment only 33% of survey respondents globally realised cost savings through such solutions.

Consistent with the past, SSC locations are selected primarily based on two criteria: the **availability and cost of skilled workforce**. This message is loud and clear: no matter how well-established the transport and telecommunication infrastructure of the country is, no matter how attractive a location Budapest appears to be from a quality-of-life perspective, and no matter how lucrative government incentives are, if decision makers have the slightest concerns about the availability of a qualified labour pool in sufficient volume and on a sustainable basis, the country will struggle to convince potential investors.

The traditional Single Tower concept is becoming obsolete, as the **prevalence of multi-functional or Global Business Services significantly increases**. Organisations are expanding their process scope, consolidating their functions geographically, and bringing them under one consistent conceptual framework. This enables them to achieve advanced efficiency and improve the effectiveness of services.

Despite the fact that Hungarian SSCs consistently report high levels of employee satisfaction, the turnover **rate appears to be increasing**. Average recruitment time of experienced staff is slightly longer in Hungary compared to the global average.

Technological breakthroughs and the development of new business models are having an increasing impact on the Shared Services Business. Digitalization is a strong lever to enhance service quality. A hot topic currently being discussed is Robotic Process Automation (RPA), which achieves a high level of automation in the area of transactional processes.



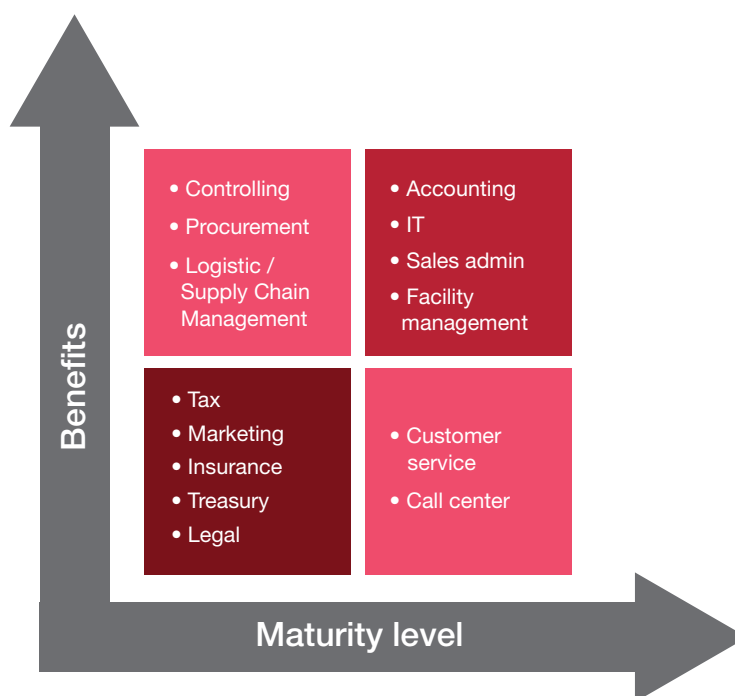
### 3 Status quo

**Cost reduction has remained the most important objective when setting up an SSC. Hungarian SSCs exceeded their targets: they delivered more cost savings and FTE reduction than originally anticipated. The majority of cost savings are still realised through reduction of personnel costs, and although SSCs benefit less from efficient use of IT solutions, this should become the focus areas of the industry for the coming years.**

Shared Service Centers have achieved strong market penetration over the last decade. The value proposition of the industry has been historically very clear: centralising functions into a Shared Services organisation will lead to significant cost reductions due to labour arbitrage and economies of scale. However, as it was evidenced by our previous surveys quality improvement has become equally important as cost saving over time.

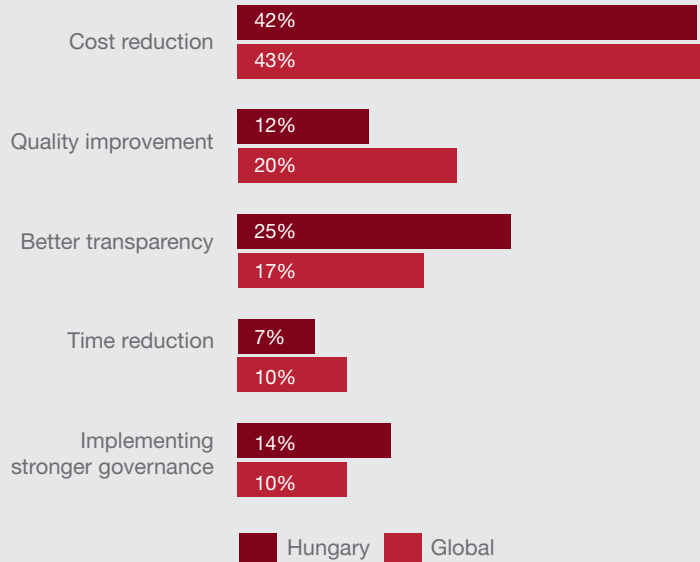
As the industry continued to evolve and SSCs became more mature, new and more complex activities have been gradually added to their service portfolio.

**Figure 1:** Business functions in the SSC market clustered in benefits and maturity



Most of the SSCs participating in the survey were established between 2000 and 2012. Globally there was a sharp decline in the number of newly established Accounting SSCs in recent years, which shows a high maturity of this function.



**Figure 2:** Importance of objectives at the date when the SSC was implemented

When setting up their Shared Services, most organisations consider cost savings as the most important objective, followed by quality improvement and increased transparency. Less important factors include time reduction or the creation of a strong governance framework. There is no significant deviation between the Hungarian and the global results.

***Cost reduction remained the most important driver when setting up an SSC***

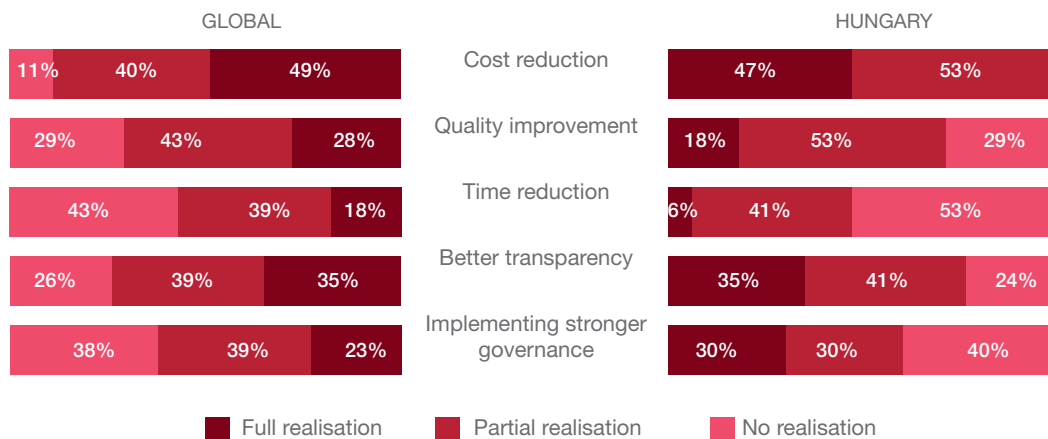
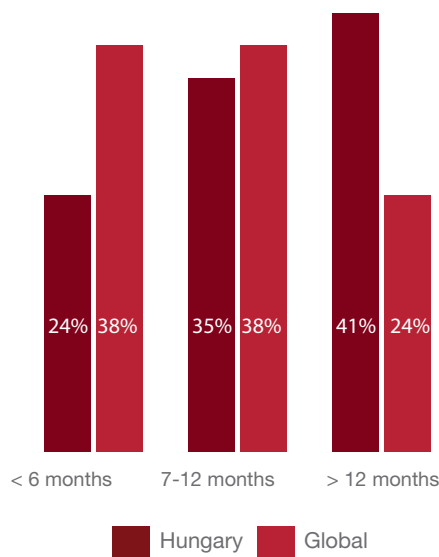
**Figure 3:** Extent to which objectives have been realised

Figure 3 shows the extent to which initial objectives have been met since Shared Services were implemented. On average, both globally and in Hungary, half of the participants reported having fully realised their cost reduction targets (Hungary: 47%, globally: 49%). All the remaining Hungarian respondents have stated to have at least partially reached their targets. 11% of the global respondents reported no realisation of the planned cost savings while there was no such response from Hungary.

Hungarian SSCs are performing very consistently with the global average in the areas of quality improvement, better transparency and stronger governance. Time reduction is however an area where the Hungarian SSCs are slightly behind the global average: 53% of Hungarian respondents reported no realisation of time reduction objectives while only 43% of global respondents reported the same.

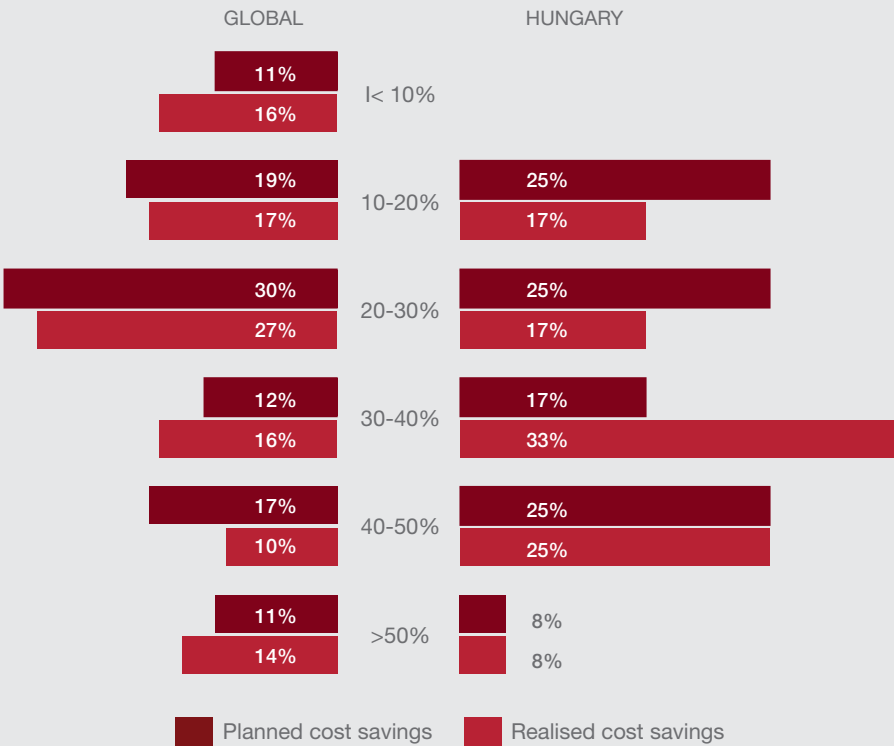
**Figure 4:** Time needed to stabilise Shared Service operations after implementation



Globally 76% of the surveyed companies stabilised their SSC operation within 1 year after the center was implemented. The Hungarian results show a slightly longer time frame as 41% of the Hungarian survey respondents claimed they needed more than a year to achieve this. A possible explanation for slightly longer time requirement in Hungary can be the higher maturity of the SSC sector: more value adding and complex activities by nature require more time to appropriately migrate from the local operation to the centre compared to more straightforward transactional type activities.

As shown in Figure 4 the global survey shows similar results for the time needed before starting with the transition into the Shared Service Center. The average time needed was less than one year, only a few companies reported a period before transition of more than 1.5 years.

**Figure 5:** Comparison of anticipated and realised operation cost savings



The average Hungarian SSC realised cost saving in the range of

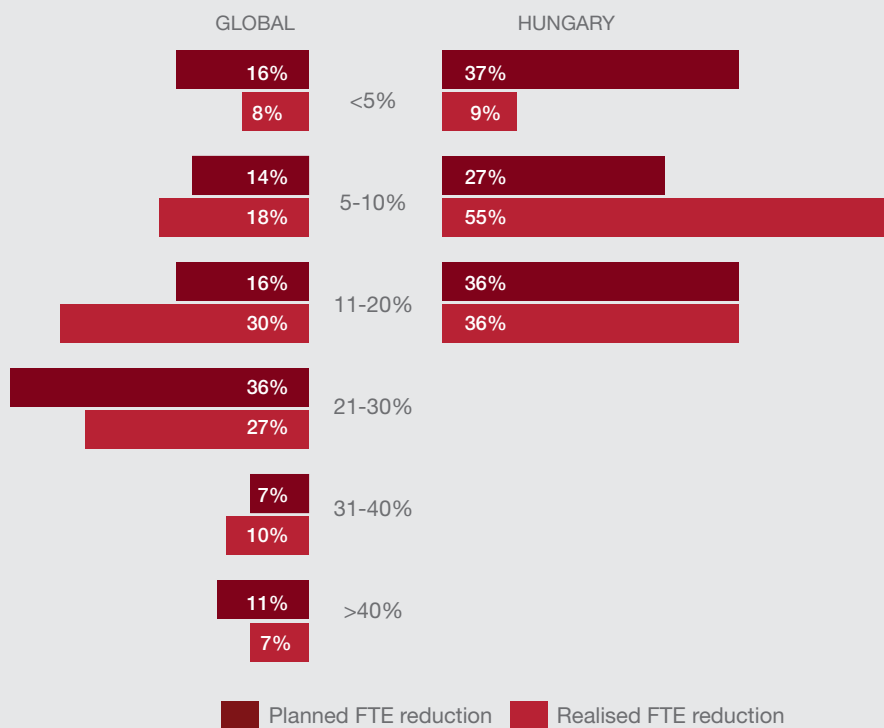
**30-50%**



As stated earlier cost savings is one of the most important drivers of the SSC industry. The global survey results indicate that the majority of companies expected costs savings of more than 20%. Considering the reported realised savings, these objectives were realistic and achieved.

Examining the Hungarian results in Figure 5 the expectations seem to be quite consistent with the global average when the SSC was set up. However, the delivered results seem to be even more impressive. Based on the survey responses Hungarian SSCs are clearly delivering a higher level of cost savings than originally anticipated and also performing better than the global average: 66% of the Hungarian respondents reported a realised costs savings of 30% or even more while the same result was achieved by only 40% of the global respondents.

**Figure 6:** Comparison of planned and actual FTE reduction

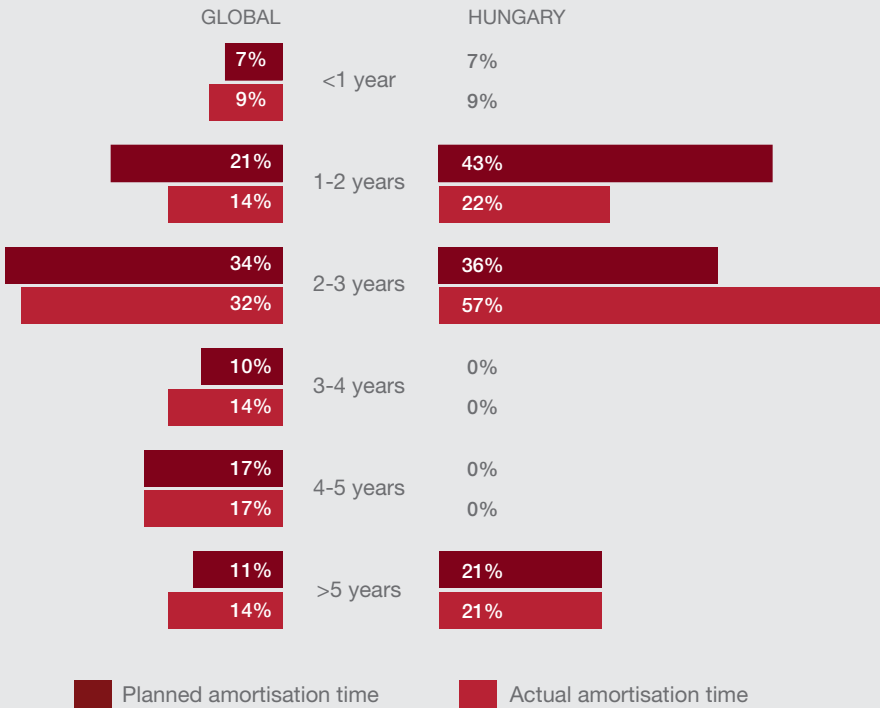


**55%** of Hungarian SSCs achieved FTE reduction of **5-10%**

Cost savings is not only achieved from transitioning activities from higher cost local operations to a lower cost SSC location but process standardisation and economies of scale can also lead to reduction in capacities and consequently to further cost reductions. The global results show that companies have generally reasonable expectations regarding FTE reductions and the actual results are close to the plans. 18% of the global respondent managed to achieve an FTE reduction of more than 30% by setting up their SSCs.

The Hungarian results show more conservative expectations for capacity reductions: 37% of the respondents expected less than 5% of FTE decrease and another 27% expected a decrease of 5-10% as a result of the SSC implementation. However, the actual delivered results show a stronger performance, 55% of the Hungarian respondents achieved FTE reduction in the range of 5-10%. None of the Hungarian respondents expected or realised an FTE reduction exceeding 20% though.

**Figure 7:** Comparison of planned and realised amortisation time for implementing SSCs



Based on the survey results companies tend to underestimate the payback period of setting up an SSC organisation. As an example, less than one-quarter of the global survey participants were able to achieve amortisation in less than two years. Actual results indicate that it is more prudent to plan for an amortisation period of two to four years.

The Hungarian survey results show a similar pattern – expectations seemed to be more ambitious than the delivered results. Although 43% of the respondents expected an amortisation period between one and two years, the reality is closer to 2-3 years. 21% of the survey respondents realised an amortisation period longer than 5 years which is also an indication of more mature SSCs with more complex and value adding activities. Short amortisation periods can be typically achieved by a quick transfer of straightforward activities to low cost countries.

All in all, the global findings confirm that Shared Services are a suitable measure to achieve optimisation potential. Organisations especially take advantage of labour arbitrage in low cost countries. 93% of global survey participants reported achieving cost savings mainly through reduction of personnel costs due to capacity reduction and labour arbitrage effects. Compared to this, companies benefit less from an efficiency use of IT solutions or from a consistent infrastructure – only 33% of survey respondents realised cost savings through IT and infrastructure globally. However, as the wage difference gap between countries will decrease over time, there is a substantial need to generate benefits in other fields. This is particularly true for Hungarian SSCs which are no longer competing only based on labour cost: since salaries are expected and hopefully will move closer to the Western-European standards new ways of efficiency gains will have to play significant role to maintain the SSC's costs on a reasonable level.

**93%** of SSCs realised cost saving in payroll, but only **33%** had savings through IT



## 4 Assessing the SSC landscape

### 4.1 Strategy

The most decisive factors for selecting a SSC location remained the availability and cost of skilled workforce. There is an increasing preference to the 'lift-drop-fix' migration approach which can utilise the SSC's expertise and experience in standardisation and process improvements.

#### Location selection – factors

Similar to the previous surveys, we queried participants about the decisive factors in their selection of an SSC location.

The current-year results remained very consistent with previous surveys. The Hungarian responses are also in line with the global results. The most crucial criteria remained the availability of skilled workforce. More than 29 % of Hungarian survey participants decided on the location primarily based on skills sets and language skills of staff. The second most decisive factor is obviously staff cost: 24% of Hungarian survey participants cited this as the most important item.

**56%** of Hungarian SSCs selected their location based on availability and cost of workforce

**Figure 8:** Key factors influencing the choice of SSC location

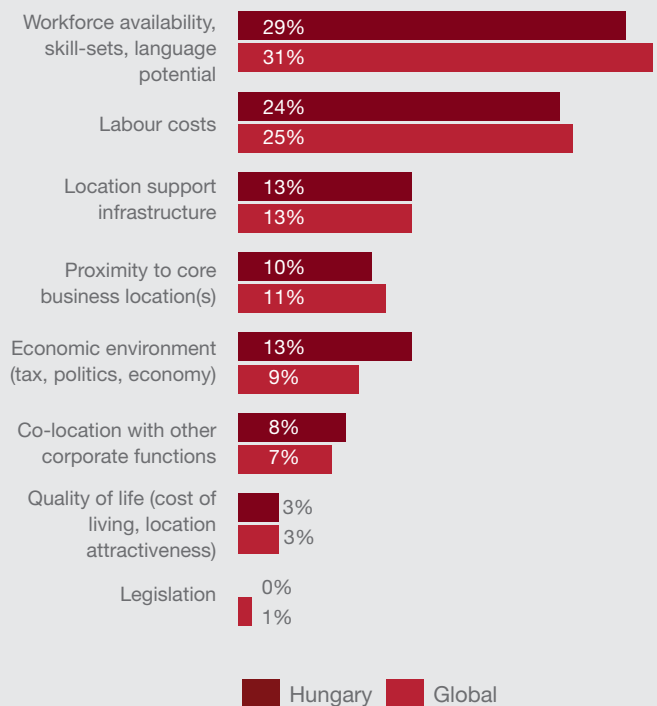
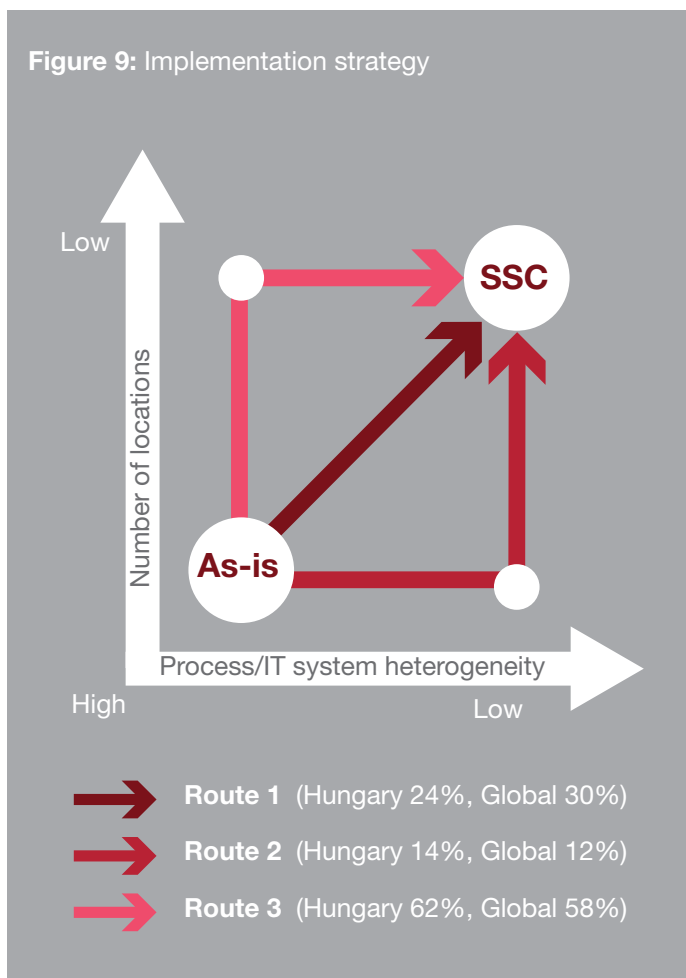


Figure 9: Implementation strategy



### Migration approach

Selecting the right strategy for migrating processes and activities will remain a key decision for all Shared Services Organisation and will fundamentally impact the centre's ability to deliver the expected results both from cost saving and quality improvement perspectives. Not only newly established centres but also more mature organisations should carefully consider such decisions since these more developed organisations are typically also continuously taking over additional processes and activities from the local operations. Since most of the SSCs in Hungary are still expanding their scope of service, it is worth discovering which scenarios exist and what is currently the preferred approach of the industry.

The three possible migration strategies are:

- **Route 1 (lift – fix – drop):** Non-standardised processes are standardised in one go and simultaneously transferred to the Shared Service Center
- **Route 2 (fix – lift – drop):** Non-standardised processes are first standardised at the original in-country locations before being transferred to the Shared Service Center.
- **Route 3 (lift – drop – fix):** Non-standardised processes are first transferred to the Shared Service Center and then subsequently standardised.

Although all three of the strategies are viable options, and there is no single best “one-fit-for-all” solution, the survey results shows a strong preference to Route 3 (lift – drop – fix) both in Hungary and globally. In fact, the preference for this approach has been clearly increasing since our 2013 survey.

The greatest benefit of this approach is the fast pace at which the transition takes place and this leads to the rapid achievement of cost savings. Other implementation strategies typically take longer and therefore are less suitable for realising quick wins on labour arbitrage. Selecting the lift-drop-fix approach is also strongly influenced by the experience and expertise of more mature SSCs in standardising processes centrally instead of trying to execute this locally with less experienced local management with less interest in- and motivation towards the successful outcome.

### Roll in sequence

Another important decision is to find the most suitable approach and sequence for how processes and knowledge are transferred to the service organisation. The survey results show that most organisations prefer migrations by process, followed by location, entity and country. In contrast, migrations by business unit, department, business area and company code are used only rarely by the survey participants.

**62%** of Hungarian SSCs applied “lift-drop-fix” approach when migrating processes



## SSC investments in Hungary

The Shared Service Centre (SSC) sector has grown to become a significant presence in Hungary since the 1990s, with more than 100 SSC sites operating currently. When a global company considers Central-Eastern Europe for establishing such a center to focus on specific activities, Hungary is often short-listed due to its quality workforce at an advantageous cost, strong infrastructure, and good location. Furthermore, the incentives available further improve the business case.

### Finding the ideal place: start considering the countryside

Most of Hungary's SSCs are set up in the capital, Budapest, which offers a large pool of university students who speak foreign languages. However, an increasing number of companies are investigating the possibilities offered by university cities in the countryside. A huge number of fresh graduates who speak foreign languages are available in those cities – which creates the opportunity of a win-win situation: the fresh graduates can start a (multinational) career in their university-city, and the SSC can attract motivated talent in a less competitive environment and at a lower cost than in Budapest. Not to mention that the highest (50%) regional aid intensities are available in cities like Debrecen or Szeged. This means that even one year of personnel-related expenses for the new hires can be received as cash subsidy, and tax incentive out of their two-year personnel expenses. Additionally, training subsidy is also available to encourage training programs.



In our experience, some SSCs in Budapest are looking to increase their headcount in the non-metropolitan cities as a second- or third-stage extension. Of course, examples show that presence only in the countryside is also tempting: Debrecen is a perfect example for attracting global functions. This city of more than 30,000 university students, which also has an international airport with connections to several European destinations, has been chosen in recent decisions of US-investors: National Instruments and Flowserve will create several hundreds of global positions in the city.

### Wide range of activities located in the heart of Europe

The country's location enables companies to have morning calls with Asian countries and afternoon calls with the USA. Large enterprises establish SSCs to serve the group or to provide outsourced activities in finance, accounting, customer service, ICT and other fields. The positive experience of SSCs currently present in Hungary can be tracked in the decisions of many to extend their centers, both in terms of headcount and in terms of attracting new functions or even reaching a center of excellence status. Several companies have located more complex activities with higher added-value services in Hungary. Such activities, especially R&D activities are highly welcome and encouraged by several incentive possibilities.

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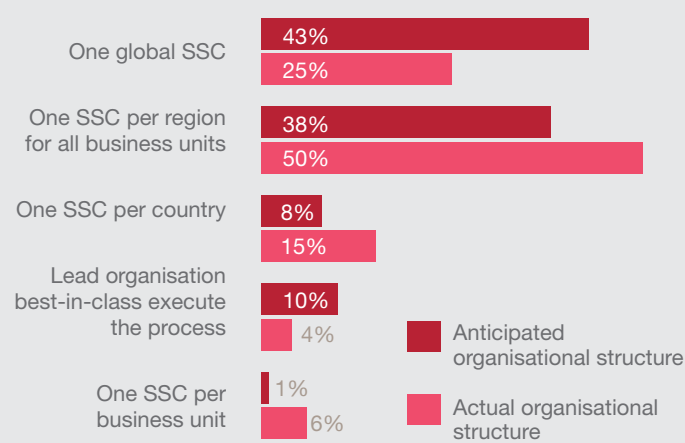
## 4.2 Governance and organisational structure

As the SSC sector is getting very mature and industrialised, there is a tendency to organise SSC activities into Global Business Services, which is a fully integrated, multi-functional model with global and end-to-end ownership of processes. There is also a global tendency toward regional consolidation.

**Figure 10:** Assignment of responsibility for process management and development



**Figure 11:** Comparison of actual and targeted organisational structures - global



To ensure that a Shared Service Center is operating efficiently and effectively, a suitable and appropriate governance framework should be developed that provides clear directions, and those guidelines should also be aligned with customer needs.

We queried the survey participants about the assignment of responsibility for process management and improvement.

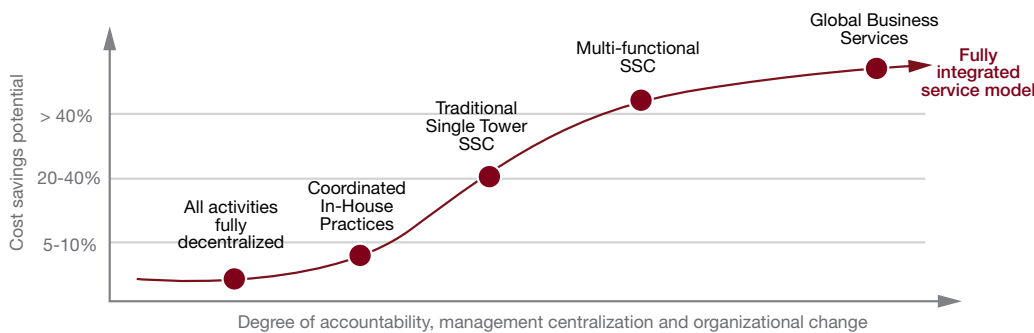
The results in Figure 10 show that process management and improvement is largely handled by the Shared Service Center itself or by a Global Process Owner. According to our experience, Global Process Owners very often operate as part of the SSC, or there is at least an intensive collaboration between the GPO and the SSC. The biggest advantage of locating responsibility within the Shared Service Center is the direct responsibility for efficiency increase and the direct input from operational staff in order to improve the processes. Only a minority of respondents (25% globally and 22% in Hungary) delegate their process management to the retained organisation.

We queried the survey participants about their actual and targeted organisational structures. Based on the global responses many organisations have already realised the potential of an integrated service framework. About 80% indicated having targeted only one Shared Service Center that combines all business units globally or at least regionally. Half of the respondents are already operating one SSC per region. Another 25% have even gone one step beyond by implementing one global Shared Service Center. The results highlight the increasing relevance of global, multi-functional and highly integrated service organisations. As this trend is expected to grow over the next years, companies are well advised to adapt to the situation and to develop individual plans and actions in order to implement such service organisations.

**43%** of global survey participants plan one single global SSC

## Degree of integration

**Figure 12:** Progression/evolution of Shared Service Business

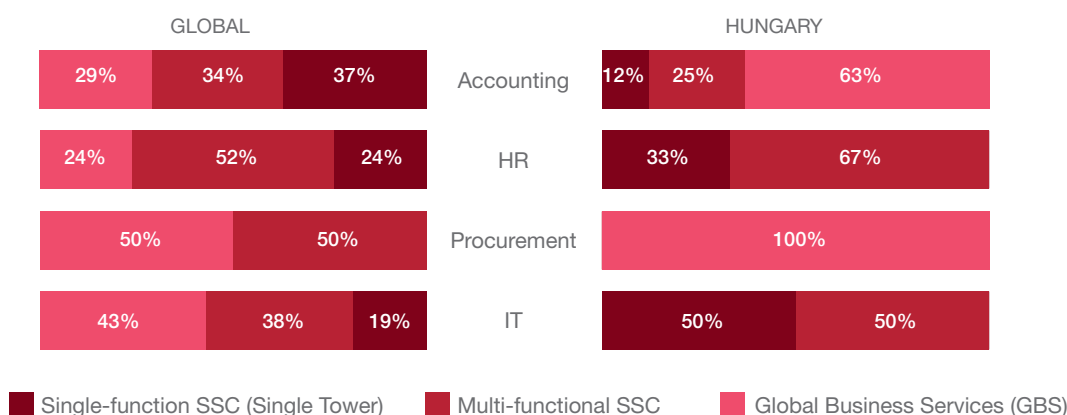


As shown in the graph above the traditional Shared Service Center approach becomes obsolete as the Shared Service Business moves towards a fully integrated Global Business Service model (GBS). An interim stage on the way to Global Business Services is a multi-functional approach which differs from the traditional Shared Service Center model regarding additional functions in its service scope. Global Business Services, however, are more than just a multi-functional Shared Service Centers. It implies the full integration of non-core business activities into one consistent and independent service organisation which has a special focus on end-to-end processes. This development again grants cost advantages, for example due to integrated demand and service management, global governance, common infrastructure, cross-functional synergies and elimination and consolidation of redundant IT systems/applications.

Furthermore, Global Business creates value that lies within more intangible factors. While traditional drivers such as cost efficiency remain important, the relevance of customer services, leanness and scalability increases. Global Business Services deliver highly standardised processes, policies and procedures and maintain a constant focus on continuous improvement. The concept requires an organisation to develop process acumen and to adopt a customer-centric view. Instead of acting alone, corporate functions need to collaborate on an end-to-end basis.

Both the global and the Hungarian survey confirms a recent strong shift to the concept of Global Business Services. The vast majority of the survey participants follow the trend of a Global Business Services model or at least a multi-functional Shared Services Framework.

**Figure 13:** Organisational set-up by functions



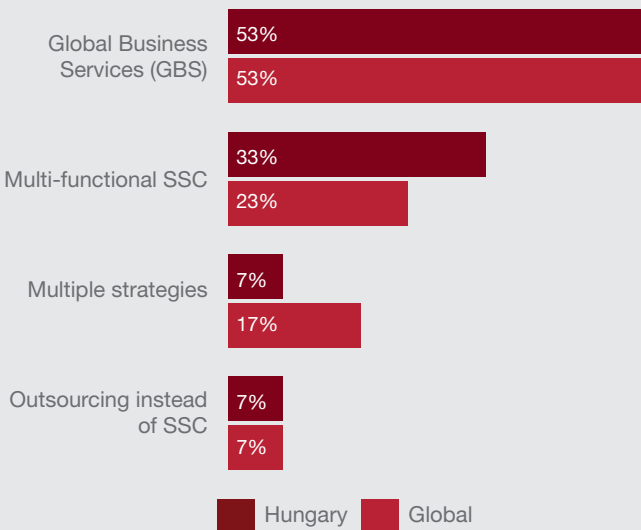


In fact, the survey responses also highlight that Single Tower SSCs are not as prevalent as they were a few years ago.

Taking a closer look at the specific functions the following trends are identified:

- **Procurement:** none of the organisations apply a Single Tower concept for this function either in Hungary or globally. Interestingly, all of the Hungarian survey participants are already operating the Procurement function as part of a Global Business Service Center, which significantly exceeds the global result of 50%.
- **Accounting:** 63% of Hungarian respondents apply the GBS concept for this function compared to the global average of 29%. In line with this, only 12% of Hungarian SSCs have accounting in the scope of a Single Tower SSC whilst the global result for this category is 37%.
- **HR:** both on a global scale and in Hungary this function seems to be less mature. The results indicate that embedding the HR function into the concept of Global Business Services is an opportunity area to be further explored and exploited in the future. None of the Hungarian participants operate HR as part of a GBS organisation at the moment.
- **IT:** While the global trend is clear and indicates an increasing use of the GBS concept, the Hungarian market seems to be less mature in this respect with 50% of the respondents still operating IT as a Single Tower SSC and the other 50%, as part of a multi-functional SSC. Similar to HR, the rise of the Global Business Services in IT in Hungary is yet to come.

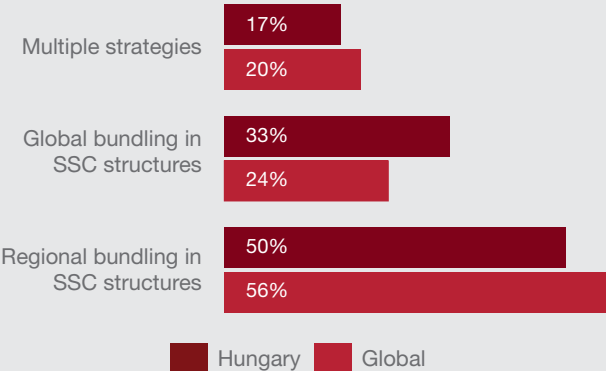
Figure 14: Organisational strategy for the next two years



The future plans of Hungarian SSCs are very much in line with the global trends and these also indicate the growing importance of multi-functional or Global Business Services. As shown in Figure 14 more than half of the Hungarian survey participants target a Global Business Services framework, while an additional 33% plan to establish a multi-functional SSC platform in the next two years. Only a few organisations are planning to apply a mixture of strategies depending on business functions. There is a very limited number of respondents who are considering an outsourcing strategy instead of the captive SSC approach, either globally or in Hungary.

Shared Services will continue to evolve, integrating a broader set of processes into their scope. Instead of providing only transactional processes, companies will now include more complex activities and services. Almost 75% of global participants stated the transactional processes will remain a substantial part of their service scope. However, in terms of a strategy for the next two years, more than two-thirds of respondents indicated that they would focus on integrating knowledge-intensive processes.

Figure 15: Plans of geographical consolidation



Future plans of SSCs, both in Hungary and on a global scale, reveal that more than half of the organisations target further regional consolidation of services. As shown in Figure 15 more than 30% of the Hungarian survey participants even plan to bundle services globally. These plans also indicate the trend toward moving beyond the status quo: instead of operating various SSCs per business for each region, these will be gradually replaced by Global Business Services or Global Centres of Excellence organisations.

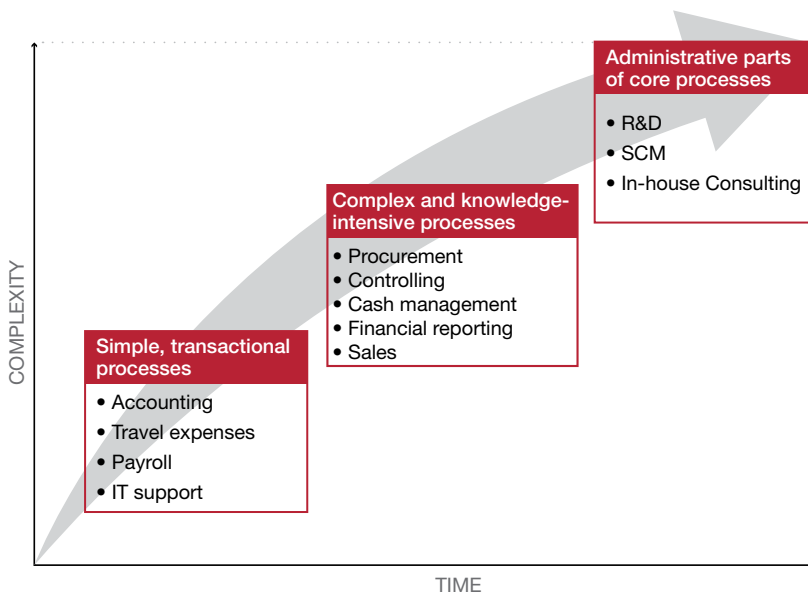
### 4.3 Processes and services

On a global scale the SSC industry is moving beyond transactional activities, and more knowledge-intensive, expert-based activities are being added into their service scope. The Hungarian sector has been on this journey for several years and is currently showing higher maturity in certain functions compared to the global average, such as Treasury and Cash management, Controlling and Sales.

#### Activity splits

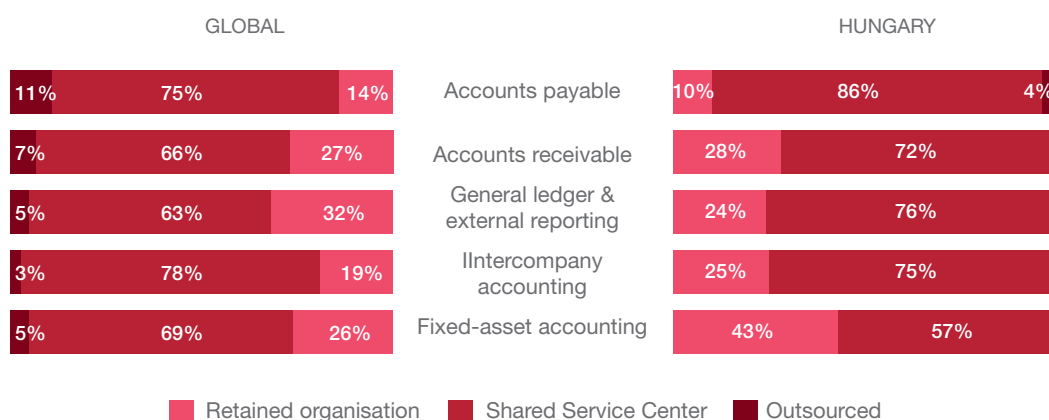
There are some generally accepted principles for deciding what sort of activities are ideally performed by a Shared Service Organisation and what activities typically stay with the local operation in-country. The traditional Shared Service Center approach mainly focuses on transactional processes such as Accounting or IT support, as they offer high potential for standardisation and automation. However, companies are now moving towards a more integrated approach that includes more complex, knowledge-based activities. As time passes, this will result in growing transfer rates for administrative parts of core functions to Shared Service Centers, as shown in Figure 16.

**Figure 16:** Shift from transactional to knowledge-intensive processes



*There is high level SSC usage in the fields of Accounting and IT. Procurement, Controlling and Sales are opportunities to be further exploited*

In the current-year survey we queried participants about the individual activity splits of numerous processes to understand how much of these activities have been centralised into an SSC organisation or are now being performed by an outsourcing provider or simply stayed where they have always been in the local operation. In general, the findings show higher usage of SSCs in the areas of Accounting and IT functions than for other business activities. Shared Services for Procurement, Controlling and Sales are mainly used only for transactional tasks and therefore show lower-level usage of SSC or outsourcing solutions.

**Figure 17:** Activity split - Accounting

Based on the survey results, most of the accounting activities have already been migrated to SSCs both in Hungary and globally. Highly transactional tasks such as fixed asset accounting, intercompany accounting and accounts payables show especially high penetration of SSC usage. In the case of accounts payable and intercompany accounting, less than 25% of activities are performed by the retained organisation in the case of the surveyed companies.

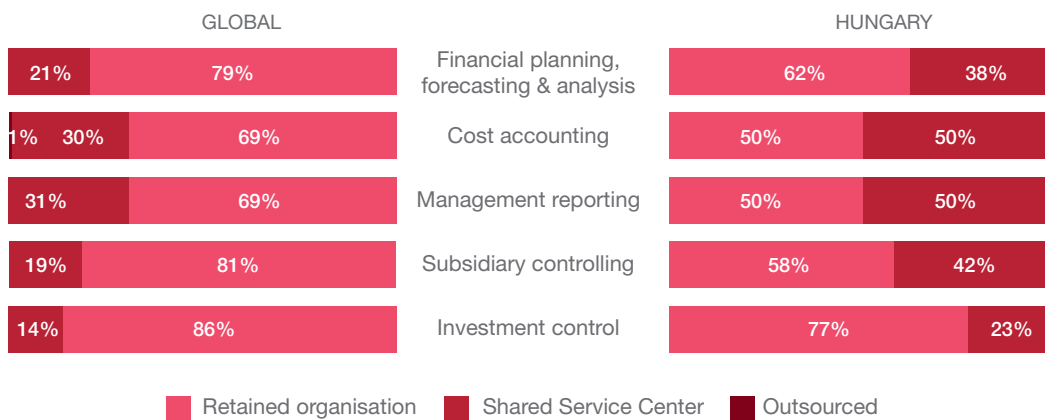
**Figure 18:** Activity split - Taxes, Treasury & Cash management

Besides typical Accounting activities, some organisations are already shifting their focus to more expert-based services such as Tax, Treasury and Cash management. Although, in general, almost 50% of these activities are already being performed in SSCs, the expectation is that the activity split will continue to evolve and will result in a further increased usage of Shared Service organisations. There is a global trend toward bundling more and more Tax functions either on a national or even on a regional basis. Transactional Tax services are typically transferred to the already existing Shared Service Centers, whereas expert services are set up in separate Centers of Competence. Besides the bundling of Tax services, there is also a specific development globally regarding the retained organisations: remaining activities in the countries are no longer carried out by the organisation itself. There is a strong trend toward outsourcing these activities to local or international tax advisors.

Comparing the Hungarian results to the global responses, there is no significant difference as regards Tax function, while Treasury & Cash management indicates a more mature SSC approach in Hungary compared to the global average.

Although the trend is clear, Tax and Treasury are functions which provide further opportunities for existing Shared Service Centers to take over more value adding and complex activities in the coming years.



**Figure 19:** Activity split - Financial planning and reporting/Controlling

Financial planning and reporting or Controlling is one of the latest functions to be considered suitable for Shared Services. Based on the survey responses, the activity split shows a lower maturity of SSC usage for these functions. Migrating controlling activities to Shared Service Centers is a relatively new trend. However, it should be noted that the Hungarian survey participants tend to use SSCs to a greater extent in this area compared to the global average.

In order to increase the amount of sharable Controlling tasks, companies need to reorganise their Controlling operation model. Positions can be reallocated to either Business Partnering or operational tasks. In a second step, companies develop the ability to bundle, standardise and transfer their operational Controlling tasks to a Shared Service Center. Based on this new operating model, we expect significantly increasing SSC utilisation in the Controlling function.

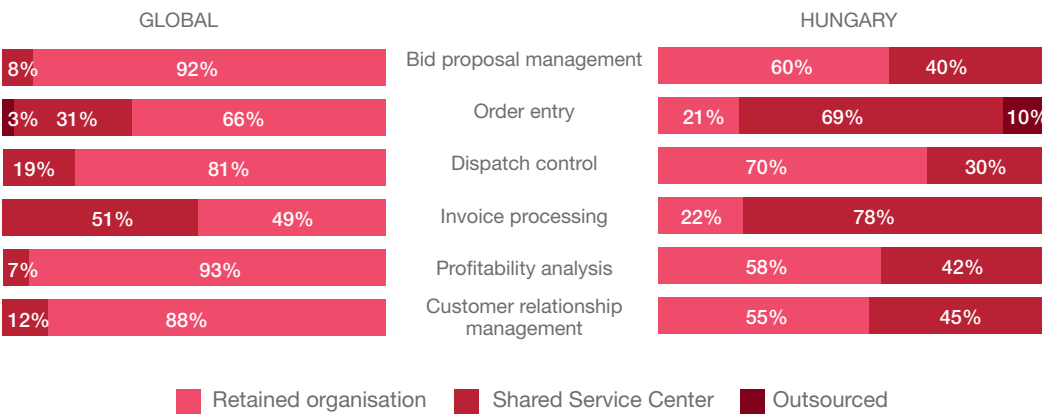
**Figure 20:** Activity split - Procurement

The Hungarian survey results show an activity split that is generally consistent with the global responses.

The survey reveals a fairly low usage of SSCs except for master data maintenance and operational procurement. Most sovereign and strategic tasks typically remained in the retained organisation. This might be due to a need for immediate proximity to core business and decision makers. Supplier management for example requires advanced interpersonal skills that cannot easily be provided by a Shared Service Center. Other functions appear to be too sensitive to be removed from the immediate reach of management.

In our view, Procurement offers much more potential regarding its suitability for Shared Services than is currently being exploited. Procurement includes several repetitive and rule-based processes that can be perfectly standardised and performed in a Shared Service Organisation.

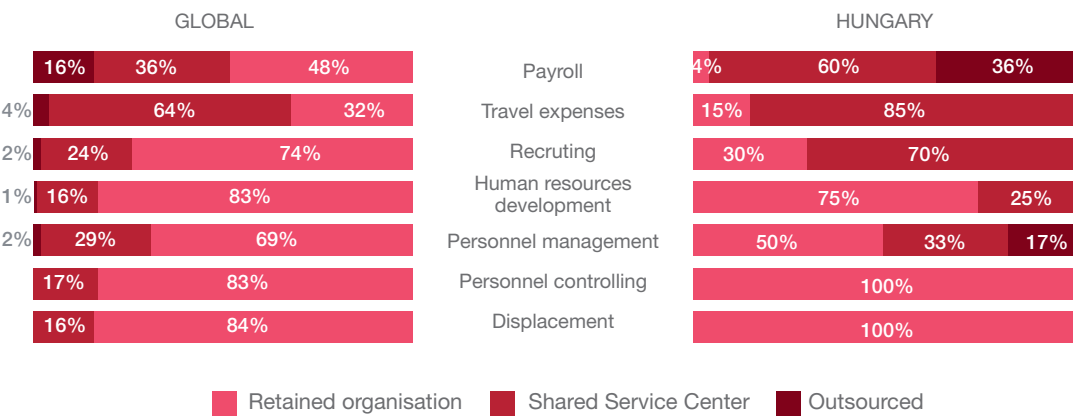
Figure 21: Activity split - Sales



In general, Sales activity splits are on a relatively low level, as Sales is typically seen as one of the core competencies of each company. However, several Sales-related processes are suitable for Shared Services. The results show that rule-based processes such as invoice processing and order entry are bundled in Shared Services to a higher extent. We also expect that expert services especially Sales and Marketing analysis, forecasting and corresponding data management will become more and more relevant for Shared Services in the near future.

The Hungarian survey participants use SSCs more extensively for Sales-related activities compared to the global average.

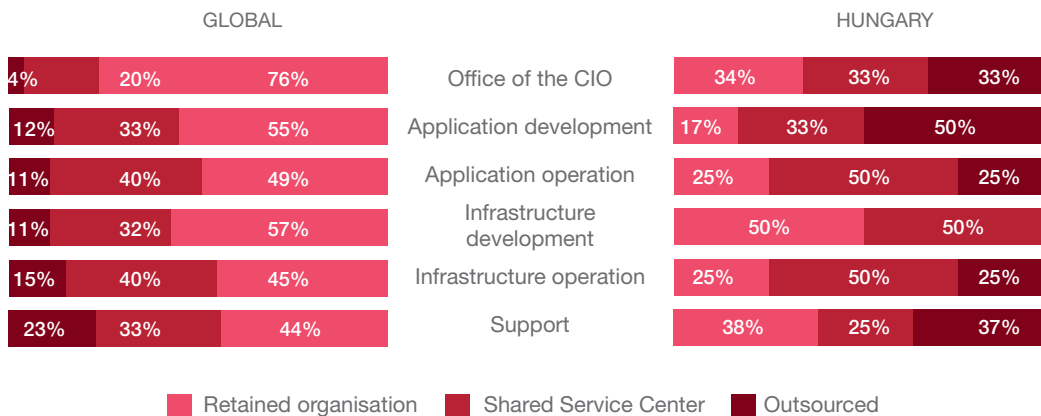
Figure 22: Activity split - Human Resources



As indicated by the above figures Shared Services for Human Resources mainly apply to transactional tasks such as travel expenses or payroll. Other, less transactional activities utilise Shared Services or outsourcing solutions to a much lesser extent. The rationale for this is the perceived need to work closely with corporate executives or the necessity for face-to-face conversations, e.g., for job or exit interviews. Nevertheless, a more detailed analysis reveals that large,

multinational companies are already working with more aggressive activity splits, and market trends indicate that companies in the middle market are rapidly catching up. There is also a global trend toward HR Shared Services taking over more value-adding services, such as parts of the recruiting- or talent management process.

**Figure 23:** Activity split - IT



Activities in the IT functions were the first ones to which the Shared Service Center and Outsourcing concept were applied. Over time Shared Services have reached high maturity levels in the IT functions, and outsourcing has become a common strategy to offset load peaks, especially in service support. Approximately half of the IT activities are performed by SSCs or by an external provider globally. Hungarian survey results show an even higher percentage of captive SSC or BPO usage. The remaining services have stayed with the retained organisation. A possible reason might be the necessity of interfaces with other functions or departments. However, there can be huge differences among industries and between single companies in this respect.

## Process management

The major objective of process management is to ensure that processes run smoothly and efficiently. This requires the design of efficient process flows and enabling technology as well as the ongoing review of the compliance with the defined processes.

Documentation of processes is a fundamental part of process management. Before starting Shared Service operations, processes need to be clearly defined and described so that everyone understands how to execute the workflow appropriately. The ideal process documentation is broken down to the level for activities or tasks and includes clear guidelines regarding responsibilities. Clear and concise process documentation is the cornerstone of business continuity and the sustainable operation of the SSC considering the relatively high fluctuation rates in the industry.



Figure 24: Level of process documentation

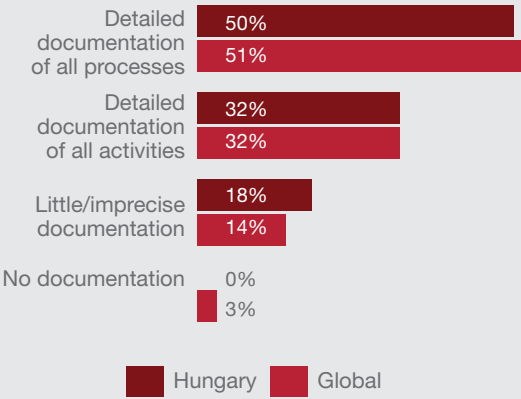
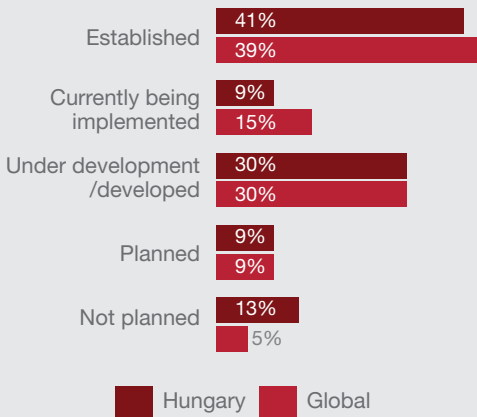


Figure 25: Level of standardisation with regard to the existence of a standard process model



The survey results show that process documentation plays a relevant role and is addressed accurately in most of the Hungarian centers as well as globally. Only 3% of global respondents (none in Hungary) do not have any process documentation in place.

Standardisation is the way to achieve significant efficiency gains in the SSC environment. Performing activities in a single and consistent way for multiple companies, countries or regions will ensure costs savings and consistent quality as well.

As shown in Figure 25 the survey results clearly indicate a dominant trend toward standardisation, but it has not yet been fully achieved in almost 60% of the respondents, both globally and in Hungary. The participants are either defining and developing (30% globally and in Hungary) or currently implementing (15% globally, 9% in Hungary) a standard process library. 41% of global- and 39% of Hungarian respondents have already established a standard process model. Only 5% of the global respondents have not planned a standard process model which is slightly higher in Hungary with 13%. Both globally and in Hungary 9% has just got through the planning phase and will need to implement a standardised process model in the coming years.



## 4.4 Technology

**Technological breakthroughs and the emerging trend of digital transformation are massively impacting the Shared Services environment and will shake-up the status quo. These developments will create further opportunities and tools to achieve the SSC's mission to manage and maintain cost at a reasonably low level and, in parallel, will contribute to high-quality services at a consistent level.**

**Digitization:** In order to meet the requirements of Global Business Services, it is essential to make effective use of technological platforms. The integration of specialised tools and systems accelerates process flows and significantly reduces error rates. Furthermore, it allows constant monitoring and controlling of workflows, which ensures not only improved quality but also high transparency. This standardisation and technologically enabled environment provides the opportunity to create further savings, e.g., via Robotic Process Automation.

The key success factor to fully utilising the outcome of technological innovation is the use of a consistent company-wide Enterprise Resource Planning (ERP) system. A common ERP is essential to achieve a high level of standardisation as well as smooth workflows.

The results in Figure 26 reveals that the majority of the survey participants have already reached a high level of standardisation: more than half of the participants stated that they operate on one company-wide ERP system (56% both globally and in Hungary). The others either operate on different customer systems or are working on a separate system that is connected to the customer's system.

The survey participants are predominantly using SAP as their **ERP system**. The majority of the respondents are using diverse SAP applications. Many companies also use other programs such as Oracle Navision and Peoplesoft to support the ERP process.

Regarding **management tools** there is a clear trend toward moving to cloud computing. The most advanced area in which cloud solutions are used is for documentation sharing. The most commonly named platform used by the survey respondents for this purpose is Microsoft SharePoint. However, for the purposes of knowledge management and process management, IT solutions are still used relatively rarely.

Undoubtedly the primary **communication tool** used by the SSC survey participants is e-mail. However, private and group messaging are also very frequently used and are gaining more and more importance as these can significantly speed up the communication process, and are also commonly used by the younger generations in a more natural way. The most widely mentioned chat tools are Skype for Business and Lync. Some participants reported using ticketing tools such as SAP Shared Services Framework, Remedy and HP Service Manager. Since the SSCs are dealing with a heavy volume of transactions, the ticketing tool can help to further streamline communication and processes. However, these tools are not widely established yet.

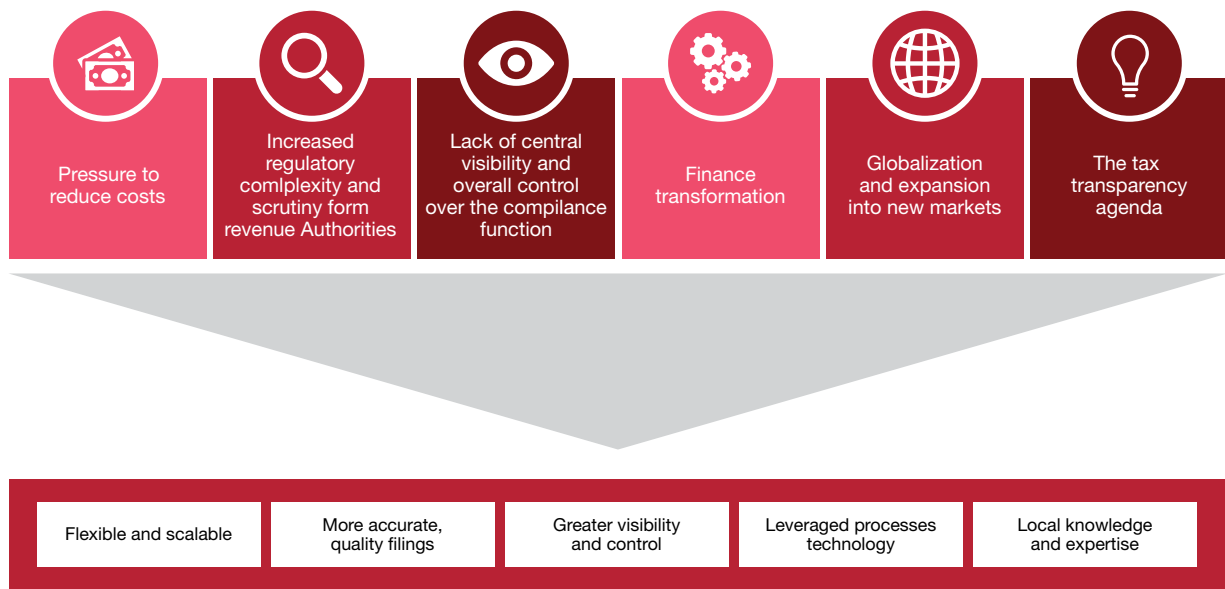
**Figure 26: Use of standard ERP system**



## Standardising with the help of technology

Digitization and automation significantly affects business environment – especially in the field of Shared Services. Automated processes should lower cycle times and reduce error rates and personnel costs. Moreover it should enable business teams and Shared Delivery Centre staff to focus on handling more value-adding and complex tasks while at the same time helping an organization demonstrate control over their compliance processes, not just compliance deliverable by compliance deliverable but across all compliance requirements and across all countries. This requires significant reduction in the use of spreadsheets and for data to be available to be presented and consumed in a more integrated manner. From a Shared Delivery Centre perspective, automation and use of more advanced technologies thus leads to advanced productivity, service quality and customer/business satisfaction. Transactional activities – which have already reached high maturity in the field of Shared Services – have great potential to become fully automated across all jurisdictions.

### Themes impacting how companies approach compliance



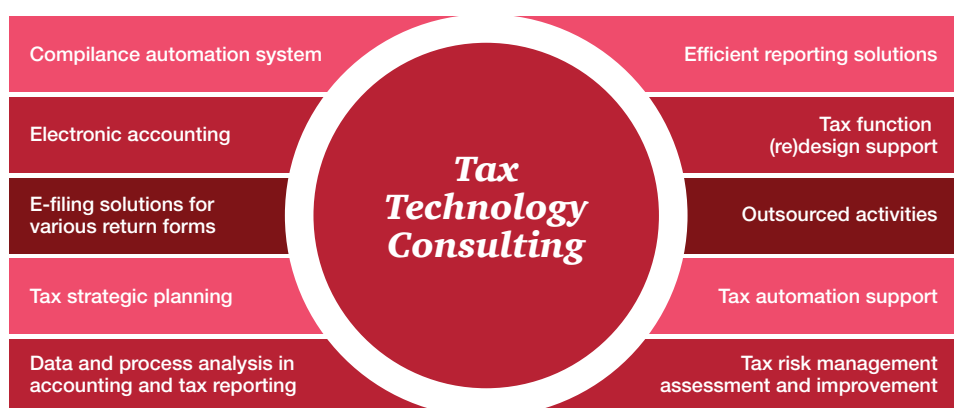
Many companies face challenges arising from their ERP landscape not cost effectively providing an end to end or integrated compliance solution for all countries or even business units. There are many third party technology solutions designed to tackle particular compliance solutions in particular jurisdictions and sometimes across jurisdictions where common rules apply (eg SFS production for English speaking IFRS accounts production). These solutions are able to prepare parts of the process for particular obligations, but do not communicate with each other, and they are not able to manage the end to end compliance process. Often such solutions are created internally in Excel or Excel based calculation workpapers are created to supplement deficiencies in the local solution. These solutions typically demonstrate a lack of control and require extra effort to review (by all involved in the review process internally and externally). Also solutions designed for general purposes are typically not able to provide the locally specific “last mile” functions, like tax return preparation and filing. Moreover, solutions and processes that are not



integrated, means reconciling between compliance outputs in the same country and across countries is either not done or is a process in itself that consumes valuable resources in the business and in the Shared Service Centre and limits the possibility to access and use data for value added purposes of planning and decision making.

PwC has established a Tax Technology Centre of Excellence in Budapest, responsible for evaluating the business needs, selecting appropriate vendors and creating automated and integrated solutions for compliance deliverables including, Statutory Financial Statements including GAAP to GAAP walks, corporate Income Tax provision calculations deferred taxes and even TP documentation and other corporate reporting obligations. The Centre of Excellence can support the business design a solution - taking into consideration the local regulatory and company needs – also configuration, testing, and training.

### Helping our clients in transformation process



If for whatever reason outsourcing is preferred, for example to fill gaps in the in-house solutions or otherwise, PwC provides outsourcing services increasing using integrated technologies or to go the last mile.

If you are interested in the topic above, please contact our colleagues:



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4.5 People

Despite the reported high level of staff satisfaction, turnover appears to have been increasing over the last couple of years in Hungary. Also it seems that recruiting experienced staff takes slightly longer in Hungary compared to the global average. The language skills of the average Hungarian SSC worker seem to be stronger than the global average.

Figure 27: Percentage of staff that rated working conditions as "good" or "very good"

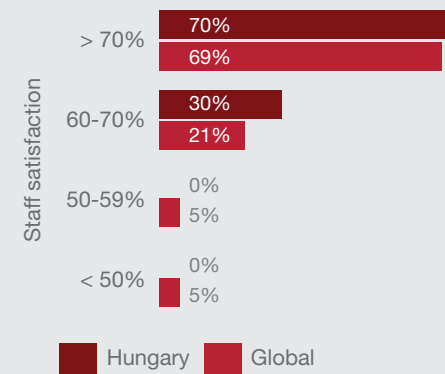
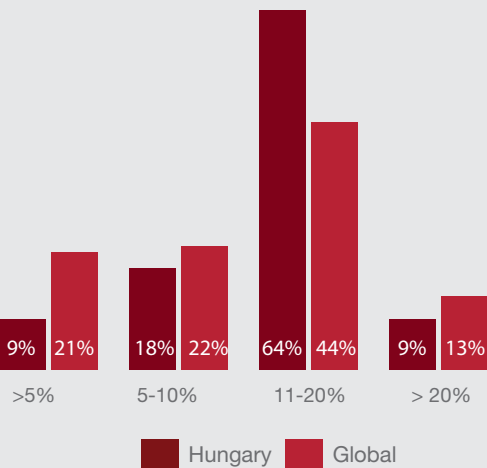


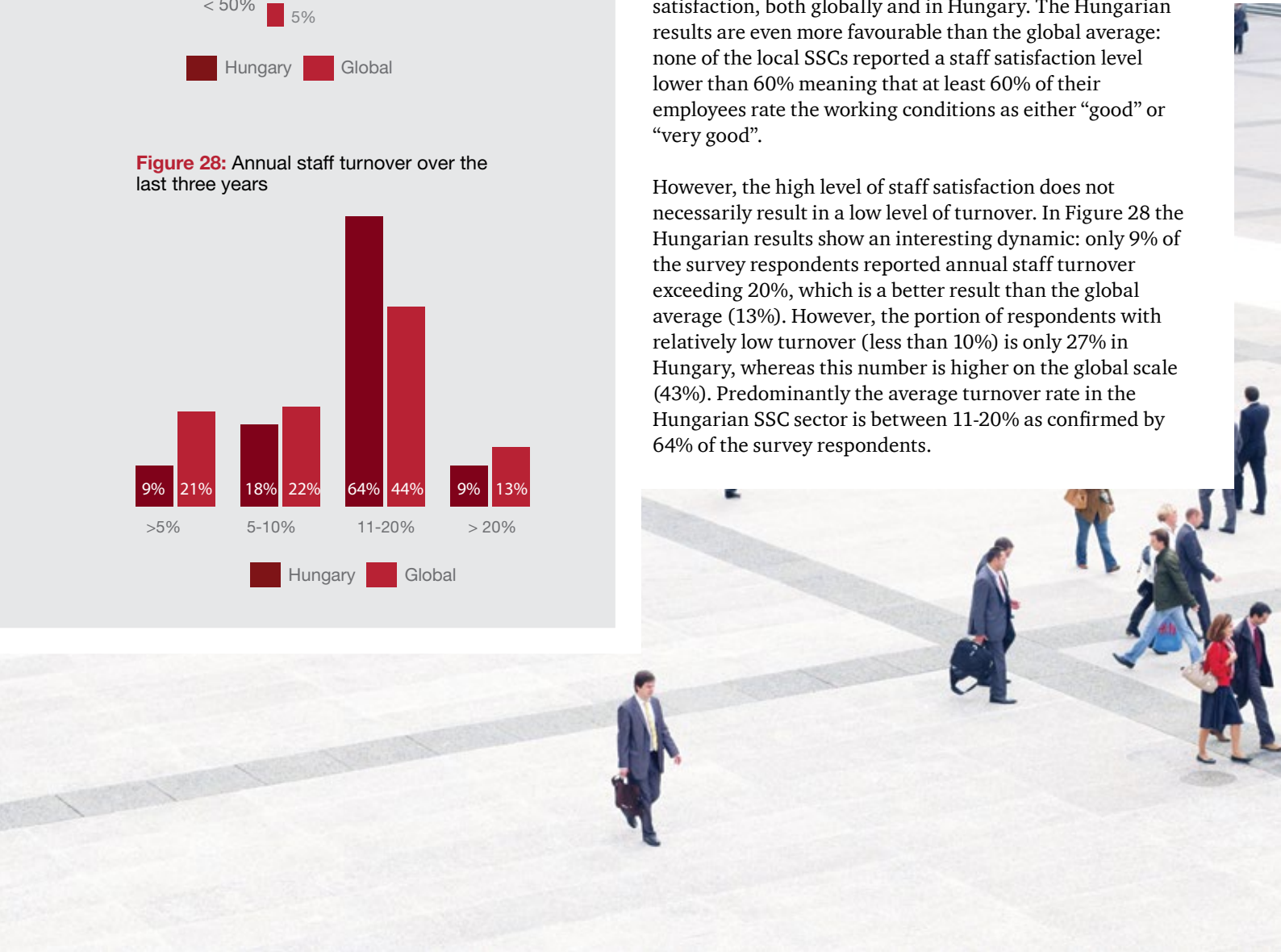
Figure 28: Annual staff turnover over the last three years



It is evident that employees are the most important resources of every Shared Service Center. The successful delivery of the SSC’s goals depend heavily on its human capital. SSCs should ensure that they hire and retain a sufficient number of employees who possess the right skills and expertise. It is equally important that these employees are utilising their full potential by staying motivated and doing their best to provide high-quality services to their customers.

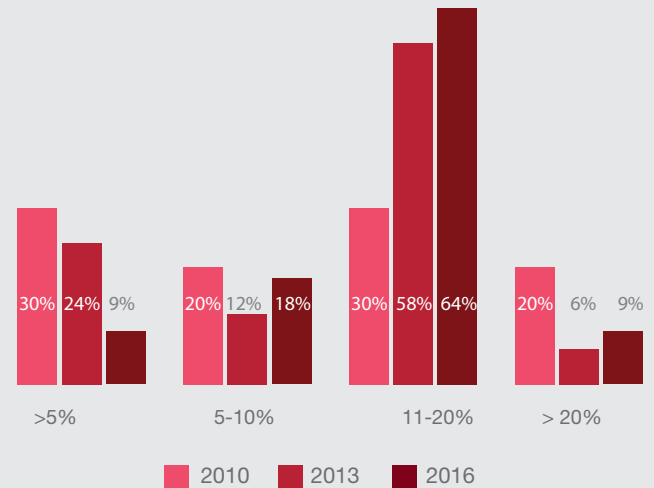
SSCs should create and maintain a pleasant business environment for their employees. As indicated in Figure 27 most of the survey respondents reported high levels of staff satisfaction, both globally and in Hungary. The Hungarian results are even more favourable than the global average: none of the local SSCs reported a staff satisfaction level lower than 60% meaning that at least 60% of their employees rate the working conditions as either “good” or “very good”.

However, the high level of staff satisfaction does not necessarily result in a low level of turnover. In Figure 28 the Hungarian results show an interesting dynamic: only 9% of the survey respondents reported annual staff turnover exceeding 20%, which is a better result than the global average (13%). However, the portion of respondents with relatively low turnover (less than 10%) is only 27% in Hungary, whereas this number is higher on the global scale (43%). Predominantly the average turnover rate in the Hungarian SSC sector is between 11-20% as confirmed by 64% of the survey respondents.



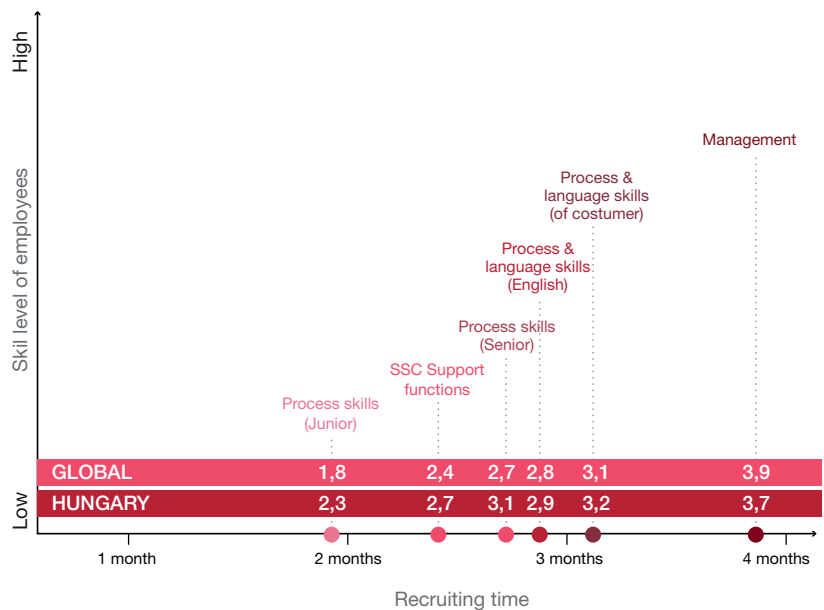
It is worth taking a glance at how these average annual turnover rates have developed over time in Hungary as indicated in Figure 29. If we compare the 2016 survey results to the previous surveys, the average turnover rate has settled in the range of 11-20%. It is probably closer to 10% than to 20%. However, the lower end of the attrition rate (less than 10%) has been shrinking continuously: 50% in 2010, 36% in 2013 and 27% in 2016. This demonstrates a slightly increasing level of staff turnover and increasing competition for SSC employees. This is partly due to some of the newcomers on the market, but probably even more due to the expanding existing centers that can attract employees from other existing SSCs with competitive salaries and with the promises of development and promotion opportunities linked to recently migrated roles and services.

**Figure 29:** Average of annual staff turnover over the past six years - Hungary



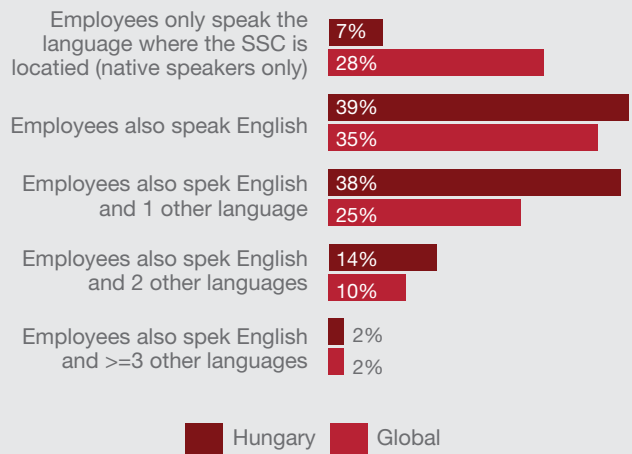
**Figure 30:**

**Question:** How long does it take to recruit skilled employees for your SSC?



We also asked SSC leads about the average recruitment time required to hire experienced colleagues. Global results show that it takes up to four months to find qualified staff, depending on the position to be filled. The recruiting of junior employees with process skills typically does not take more than two months, while the selection of qualified management often takes twice that time. Although the Hungarian responses are broadly in line with these global trends. It is noticeable that the average recruitment time for almost all categories is slightly longer than the global average.

Figure 31: Language profile of employees

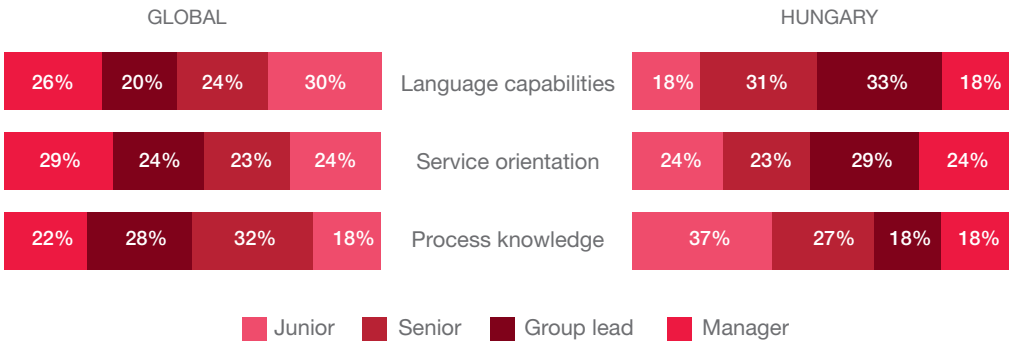


For the first time in the history of the survey, we investigated the language knowledge of the SSC employees because this is also a crucial decision factor when selecting an SSC location.

In this area the Hungarian results are convincingly better than the global average. As shown in Figure 31 ninety-three percent of the SSC employees in Hungary speak at least English as a foreign language while the global average is 70%. This means that only 7% of the Hungarian SSC employees speak only their native language (the global average is 28%). The Hungarian survey results are indeed better in all other categories. Based on the survey responses more than half (54%) of Hungarian SSC employees speak at least two foreign languages while the global average is 37%.

These results also show indirect correlation with the maturity of the Hungarian SSC industry and the dominant share of value-adding services: speaking only the native language is probably sufficient for performing very straightforward transactional type activities such as scanning invoices. When it comes to customer service or more complex activities that require communication or even problem solving with colleagues or customers of other nationalities foreign language skills proved to be essential.

Figure 32: Relevance of selected service criteria across various hierarchy levels



As a new question, we also queried SSC leaders how they evaluate the importance of process knowledge, service orientation and language skills across different staff grades. As indicated in Figure 32 the global results show that process knowledge is especially relevant for seniors and group leads (together 60%) in order to have a full end-to-end understanding of the process they are responsible for. Service orientation is highly important for all grades, especially for managers (29%). Language knowledge is rated slightly more important for juniors (30%) than for higher grades as operational activities often require direct communication with customers. Overall the above results show only minor differences between different grades therefore all three aspects seem to be quite important for all SSC employees irrespectively of their grade or role in the organisation.

The Hungarian results are fairly consistent with global responses. There is only one noticeable difference: compared to the global average Hungarian SSC leads rate process knowledge much more relevant for junior grades than language capabilities.



## ***What do your employees really value?***

### **– The relationship between retention and compensation**

The pressure created by limited availability of human resources on the labour market and the objective of decreasing employee turnover presents a real challenge for SSC HR teams to ensure the availability of the right people at the right place at the right time with the right skills and capabilities. Managing human capital has probably never been so critical before. The most obvious area for management teams to focus on in order to acquire and retain quality workforce is compensation.

As demand and competition is currently strong, the company that offers the more attractive compensation package will employ the better and larger workforce.

A **new and innovative** way of redesigning the employee value proposition and the broader compensation system is to import methodology from consumer marketing. Understanding consumer preferences helps marketers offer products and services that are the best value to their customers. Likewise, understanding employee preferences helps HR and business management to design or redesign the compensation package, including both financial and non-financial elements.

The new approach – called **PwC-TrueChoice employee and benefit value analysis** – provides unique insight into employee preferences. The robust decision-making and design toolkit provides precise information on the perceived value of different compensation elements. Based on this data, HR and business management can easily compare actual cost and the perceived value of compensation elements.

#### **How does it work?**

The PwC-TrueChoice solution uses a customised internet-based survey platform that is available to all employees. The application conveniently runs on PCs, tablets and smartphones, and the survey can be completed in 15 minutes. The outcome of the survey is an **interactive database** with filtering options. We grant access to clients' representatives after a training session, at which we demonstrate all usage options. The database is accessible for the contracted period and provides endless opportunities to generate a solid decision-making platform. Savings and offers that can develop employee commitment are visible in a moment.

#### **What value do clients get?**

On the competitive SSC labour market, the PwC-TrueChoice solution will generate competitive advantage to a company's compensation offer and employee value proposition. Designing offers that fit the needs and preferences of most current and future employees will definitely result in profitable results.

For more information and details, please contact PwC People & Organisation team:



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## 4.6 Service management

Based on the survey responses, 15% of Hungarian SSCs still do not have SLAs in place and only 20% of the centres are continuously reviewing and updating these documents. This is far behind the global average. Although seems that Continuous Improvement Process tools are being applied by the Hungarian centres, they are still not being exploited fully to improve processes significantly. On the other hand, the customer satisfaction levels reported by the Hungarian SSC leads are noticeably higher than the global average.

Service management refers to the economic performance of Shared Service Centers as well as to the efficient and effective service provision to their customers. This includes defining and agreeing rights and responsibilities of the SSC and its customers under a suitable framework, developing appropriate KPIs to measure the performance of the center and also developing an adequate charging model. Overall, service management that performs well results in a strong service relationship with good service quality and a high level of customer satisfaction.

As it has been always the case, Service Level Agreements (SLA) remained the most important and common tool to define an SSC's service scope and its responsibilities when delivering these services. SLAs are usually written in the form of a legal contract between the SSC and its customer. Similar to the previous surveys, the current year results continue to show the use of SLA is very common: 95% of global respondents have SLAs in place. The majority of respondents (61% globally, 60% in Hungary) use process-oriented SLAs and only 21% (45% in Hungary) define prices in these documents. About half of the global respondents review and update their SLAs on a recurring basis to reflect any scope or service changes. The Hungarian results deviate slightly from these global results for certain areas: 15% of the survey participants do not have SLAs in place at all (this was 12% in 2013) and only 20% review and update these document for scope changes. It appears that the usage of SLAs and their ongoing review and monitoring is an area in which the local results lag behind the global best practices.



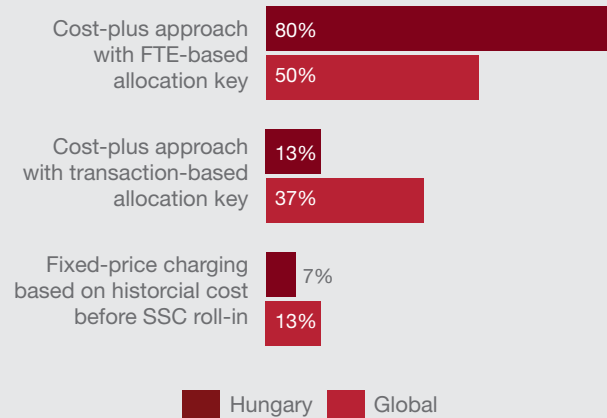
As indicated in Figure 33 the vast majority of survey respondents apply the cost plus method based on effort, either using FTE- or transaction-based calculation (87% globally, 93% in Hungary). The FTE-based cost plus method is more prevalent in Hungary with an 80% response rate compared to the global average of 50%.

Service management also takes responsibility for managing service quality. The market offers a number of approaches and concepts that shows that Continuous Improvement Processes (CIP) are widely established. The previous surveys stated Six Sigma and Total Quality Management (TQM) are commonly used tools and both are aimed at achieving process improvements. The previous surveys also stated that most organisations have adapted lean approaches and company specific tools. Compared to the findings in 2013, this year's global survey shows a declining trend for TQM, while Six Sigma remains a widely accepted CIP approach. Most participants also implement a mixture of different approaches or make use of self-developed solutions. The Hungarian survey responses are in line with the global results.

Another angle of service management is the selection of KPIs that are used to measure and monitor the performance of the center.

As demonstrated in Figure 35 the survey results show that the use of benchmarking is not a widely common or frequently performed exercise. Only 23% of the global survey participants make frequent use of it. The remaining 77% use this method only occasionally at most. The Hungarian survey shows better results: 52% of the survey respondents use external or internal benchmarks frequently on a regular basis and only 5% of the participants don't use benchmarks other than this PwC survey.

**Figure 33:** Selection of charging concepts for Shared Services



**Figure 34:** Continuous Improvement Process tools used by the SSC



**Figure 35:** Level of use of external/internal benchmarks



**80%** of Hungarian SSCs operate on a Cost plus basis with FTE based allocation keys



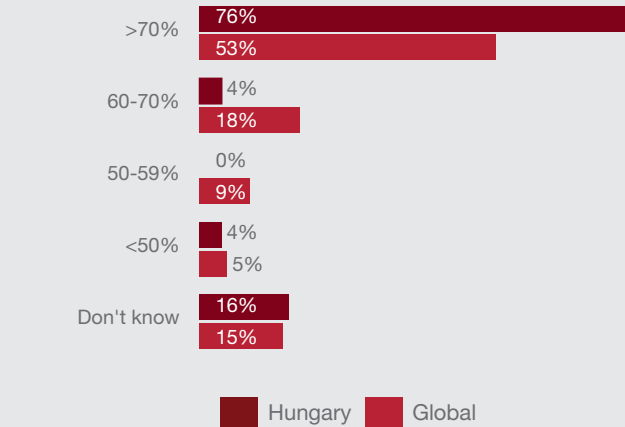
Figure 36: Extent to which CIP approach is in use



Figure 37: Impact of CIP on processes



Figure 38: Percentage of customers who rate SSC's services as very good or good



The survey also revealed that many organisations have the CIP approach in place but only a few exploit the full potential. Only 27% of the global respondents (25% in Hungary) have fully developed their approach in a way that management is incentivised based on CIP targets. The remaining participants stated that the effectiveness of CIP depends largely on individual performances or have not even defined CIP targets yet. The Hungarian results are fairly consistent with global responses. It is interesting to note that all Hungarian survey participants have implemented some sort of CIP, as none of them said CIP does not exist in the SSC, compared to the global response of 10%.

The survey responses also demonstrated that CIP is already paying off, and has direct and positive impact on the quality of services. As indicated in Figure 37 81% of the Hungarian survey participants claimed that CIP improved SSC processes either greatly or to some extent. This result is slightly more positive compared to the global average of 75%, however globally 32% reported huge process improvements due to CIP while in Hungary this remained at a level of 10%. Consequently it seems that the Hungarian SSCs still have more potential to fully utilise the positive outcome of CIP programs.





As Figure 38 indicates customer satisfaction remained at high levels both globally and in Hungary. The majority of the global survey respondents indicated that more than 70% of customers rate their center's services as "very good" or "good". This data is 76% for Hungarian SSCs, which shows a higher level of customer satisfaction than the global standard.

Besides customer satisfaction, a number of other KPIs have been identified that are used by the survey participants to measure and monitor performance. These can be typically categorised around three areas: quality, cost and time. The schedule in Figure 39 shows some examples of these KPIs.

The participants also listed more process-specific KPI that are aligned with the individual characteristics of a business function. The degree of automation was often mentioned for accounting related activities. For other functions, such as HR or IT services, other KPIs such as customer satisfaction and operational excellence were deemed more relevant.

**Figure 39:** Typical KPIs for Shared Services

Overall	Quality	Costs	Time
Customer satisfaction (in %)	Correctly processed documents (in %)	Total costs per FTE	Response time
Employee satisfaction (in %)	Error rate (in %)	Costs per invoice/transaction	Processing on time (in %)
Number of transactions per FTE/day	(First time) Matching rate (in %)	FTE rate per SSC	Cycle time e.g., for invoice processing
Number of automatically posted invoices	Payment to terms	Cost reduction rate (in %)	On time payments and overdue

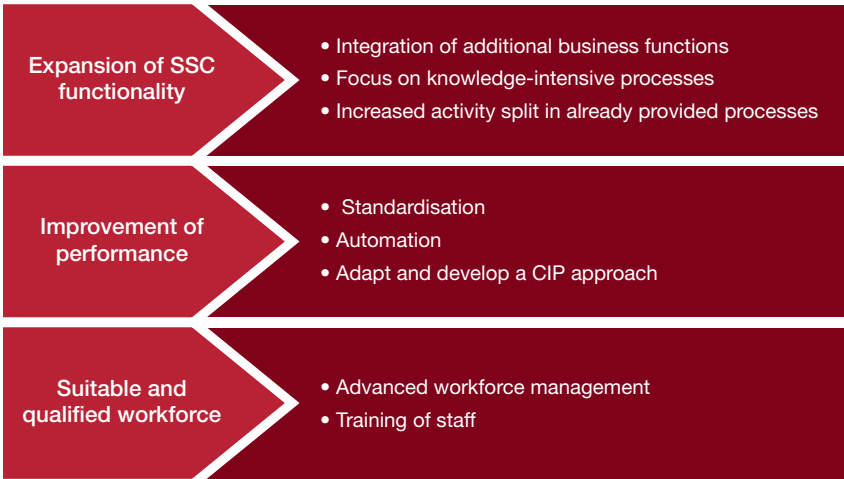


# 5 Outlook

**The Shared Service Center industry will undoubtedly continue to evolve. We queried the survey participants about their upcoming challenges and the initiatives they are applying to tackle them in the coming years. The Hungarian responses were very consistent with the global results.**

The survey indicates that expanding the functional scope of the SSC will be one of the most important topics of coming years. This will require companies to decide not only which service should be integrated into the SSC, but also how to best streamline processes and how to bring them under one consistent governance. Functional scope enhancement also implies integrating new functions that have not yet been in scope as well as extending existing functions, with the goal of incorporating the whole end-to-end process. Focus on more complex, knowledge-intensive processes is typical for the Hungarian SSCs but this is also a global trend.

**Figure 39:** Overview of upcoming challenges and typical initiatives



Performance improvement remains high on the agenda, consistent with the previous years. SSCs will all continue to focus on process automation and standardisation to drive further cost efficiencies and to improve service quality. Standardisation and automation have been the cornerstone of the industry from the start, but digitalisation and robotics are creating opportunities that were unforeseeable before. Wide-scale use of robotic solutions will likely result in headcount reductions in transactional areas, and therefore more mature SSCs such as the Hungarian ones are advised to focus on more knowledge-intensive and value-adding services in order to maintain the employments scale of the industry.

Many companies are pursuing a Continuous Improvement Process approach that is aimed at streamlining business operations. Over the coming years digitization will become even more important as organisations invest in advanced IT solutions to reduce the volume of manual processes.

Availability of skilled workforce were also very frequently mentioned as a crucial success factor for the coming years. Employees need to meet higher requirements, especially when it comes to language and process knowledge. High turnover rates and a lack of skilled employees were indicated as important issues that need to be addressed.



## ***Outlook – Six trends that will shape the future of the SSC industry***

As a summary, the survey result shows that the Shared Service Center concept has reached high maturity and the SSC sector has become industrialised. Most companies are rapidly approaching the target situation by continuously improving standardisation and automation. Shared Services now seem to be a necessary stepping stone on the way to full-scale automation.

### ***But what is beyond?***

Our expectation is that the next six trends will determine the next few years of the SSC industry.

### ***Standardisation***

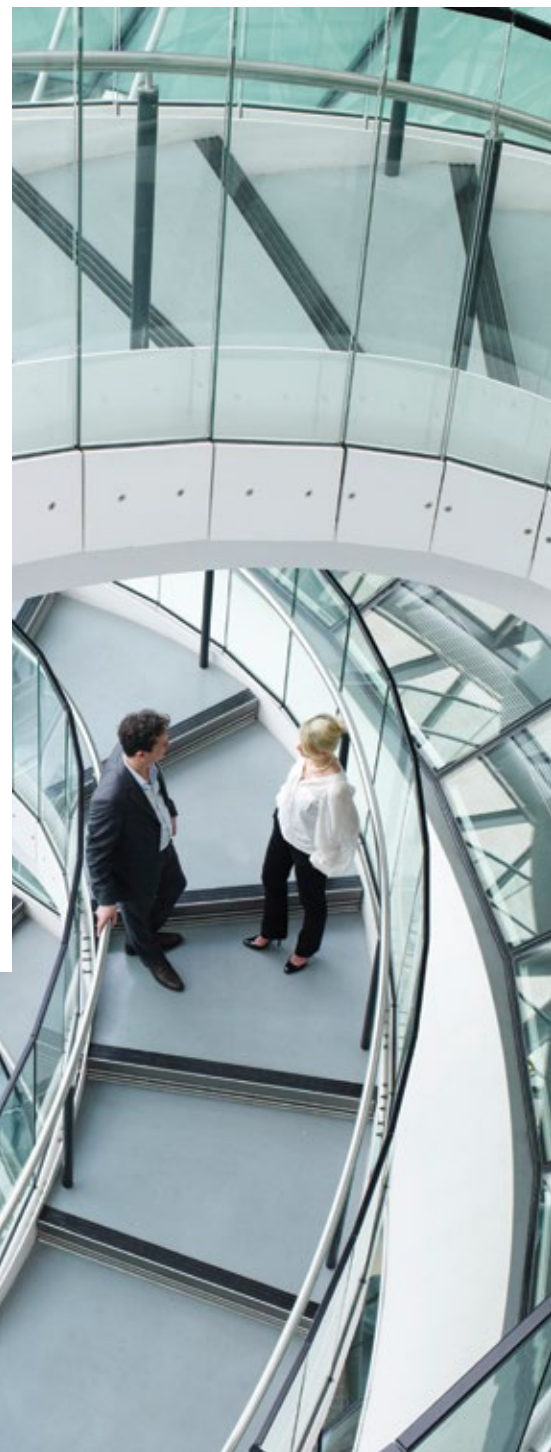
Standardised processes, systems and structures are essential for the success of a Shared Service Organisation. The harmonisation of processes and the IT landscape is considered to be the biggest challenge when setting up an SSC. It generally takes up to 12 months to streamline processes so that they meet the requirements for efficiency and effectiveness. Most of the centers apply the CIP approach to evaluate and improve services on a regular basis. Some try to use the organisational set-up for further standardisation, for example, by creating positions such as data owner and process owner to ensure that there are dedicated people who are specifically responsible for these areas.

We expect that standardisation will remain high on each SSC's agenda. Less mature centers will focus on the migrated but still diverse processes in-house. More mature and already well-established centers will continue to be on the hunt for more value-adding services that are currently sitting in local operations and will work on how these could be migrated into the SSC environment and then standardised even on a global scale.

### ***Automation***

Since the benefits and positive outcomes of standardisation are limited, automation – another evergreen topic of the industry – will assume increasing importance going forward.

Automated processes lower cycle times, reduce error rates and personnel costs, and enable staff to focus on handling more value-adding and complex tasks. Therefore automation results in advanced productivity, service quality and customer satisfaction. Especially transactional activities that have already reached high maturity in the field of Shared Services have great potential to become fully automated



We expect the next big thing in the SSC industry will be the rise of robots. Our global experience shows that rule-based automation becomes a priority for SSCs. Robotic Process Automation makes it possible to fully automate highly rule-based processes by adding specific tools for automation to existing IT infrastructure. Taking one step beyond this, Artificial Intelligence will enable automation of more complex activities, for example via machine learning algorithms. Consequently, we expect a shift from the HR budget towards the IT budget.

### ***Scope enhancement***

In addition to standardisation and automation, the variety and scope of activities performed by SSCs will continue to grow. The functional scope of SSCs are gradually shifting from transactional based activities towards knowledge-based and more complex services. As part of the latter, expert services like predictive analytics, business intelligence and data management will be provided. This will create more complex SSC organisations, a need for flexible support for new business models. The strict separation of different SSCs will be increasingly difficult and the creation of global networks will be unavoidable.

### ***Job enrichment***

Expanding the service scope of SSCs – especially integrating more knowledge intensive and complex activities – will require new qualifications and job profiles as well. In future, SSCs' operational service employees for transactional processes will become less relevant due to increasing automation. The focus will shift to know-how owners and experts for end-to-end processes, such as data scientists, analytics and process experts.

### ***Organisation***

As a result of standardisation, automation and scope enhancement SSCs will need to revisit their organisational set-up. With the core business's increasing trend towards global delivery models, the Shared Services Organisation becomes global and multi-functional and it also follows its own global delivery model. Existing local and single function SSCs are most likely to be integrated into the Global Shared Service Organisation. Companies should aim to create a strong "business backbone" by stabilising and harmonising their administrative services and by integrating them into a global service organisation. With the growing level of automation, the benefits of labour arbitrage will decrease and geographic presence in low-cost countries will become less relevant.

### ***Service orientation***

Future SSCs will be characterised by an increasing focus on service orientation and customer satisfaction. Within this context, Shared Services will evolve from being an "extended workbench" to an overall and extensive Global Business Service Center which provides both high quality and diverse services to the customer. The concentration of services in a Global Business Services framework and the ongoing automation of processes will lead to increasing transparency for the customer, and fosters customer relations.

All beneficial levers such as location, multi-functionality and automation will force companies to rethink their service delivery strategy and to develop new business models in order to realise advanced efficiency and improve effectiveness of services.



## ***Data as the base of basically everything in business***

### ***Why data is so important?***

In today's companies, basically all processes, all activities, all decision points, all services can be traced back to the data. You have tons and tons of data, and the volume keeps growing rapidly. So it should be no surprise in that this data - its quality, timeliness, consistency, insight potential, chosen amount, and even the way it is visualized – is one of the most fundamental factors in a company's success. Data is vitally important; already today, even more so tomorrow. However, this is nothing new at all. We hear this every day. But this doesn't mean we are handling our data well. This problem has not been fully solved in any of the organizations I have ever worked for during my career. It's like what they say about perfection: you can strive for it, but you can never reach it, but still, you need to try all the time. Most companies have been struggling with this for a while, and there are no easy magic solutions. But certainly there is still significant room for improvement in that area.

How about SSC-s? We think that data is and will be even more important for the success of SSCs. Availability of common, good quality and consistent data is a fundamental precondition for efficient SSC operation, where the participants in the processes and workflows are often located geographically (and even working- and organizational culturally) very far from each other.

If we take a closer look at the six trends in the SSC industry that are introduced in our study, we can see that data, and the right management and exploitation of it, will be crucial indeed. There is no automation without the data to be used for automating (or e.g. robotics and RPA – Robotic Process Automation) any steps or decisions. There is no "Automation" if the data can only be produced through manual processes. It is often the case that long hours of investigation are needed to solve the inconsistency between two numbers. Furthermore, it is often done cross-border, for example with the involvement of a few IT specialists in India as well. Another related key issue is whether the final data needs to be worked on by our most experienced key experts. "Standardization" is also an area where data is critical: in daily operations, measurement of our performance, or in identification of improvement opportunities as well. However, standardization does not only require the right data, it also helps to produce it. "Service orientation" can only work if the people in an SSC can deal with the actual service and value, not the base and the data. On the other hand, "job enrichment" and "scope enhancement" brings in new aspects that should not be ignored. In this case data and related competences are not only for "fixing and providing the basis" but can emerge as new services that generates values for the customers of an SSC. These can be strongly related to predictive analytics, business intelligence, data management and data science competences. Nowadays we can see, for instance, Big Data SSC-s as well. Had you ever imagined, for example five years ago, that this service could ever come from an SSC?

## What can you do?

You can do several things. We have highlighted a few ideas that we believe are worth considering:

- First, you need to be conscious of it, not suffer from the consequences, and accept that it was and will always be the same. You need to take control of your data asset, focusing on proper data governance, data quality management, looking for permanent and maintainable solutions that solve the root causes instead of choosing daily firefighting and daily survival. It could also help you enhance your existing services (generating more value) or even help find new ones. Accordingly, you need a conscious data strategy and data governance, not only globally, but locally as well. It shouldn't be somewhere else, it should be with you (of course in alignment with your global environment, clients, policies, etc.). We can help with all of these. In this case, from data point of view, however, we can and usually combine that with our strategic or organizational efficiency perspective as well.
- Another great opportunity can be that there is still much room for automation of data processing and related manual processes. Probably some of your best employees have already developed their own local tools, and macroed Excel sheets and SQL scripts for that. You could benefit a lot from these. On the one hand this is really useful for revealing the data issues that obstruct your operation the most. It can also give you very good concrete ideas and areas for SSC-wide improvements. Or you can even think these opportunities through further, and synthesize them. For example you could initiate IT developments with well-supportable cost-benefit analysis. There is real business potential in that. Probably that's why one of our team's most common services is creating transparency over the actual data flow, reviewing several manualities, even optimizing data processing scripts. It is often a real shock to the management when they are confronted with their actual operation. However, it is the right place to start, from where you can go further with smaller steps or even significant jumps ahead towards automation, better data quality, more efficient human resource usage, etc.
- You need to build in data and reportability (BI) aspects in all the processes that result in change (e.g. any IT system development), you need to be very conscious about this again. It needs to be examined already in the request phase, and the BI consequences need to be integrated into the scope of development. You cannot allow every change in your organization to erode your data asset and its quality. It is a cultural, process-related, regulatory issue as well. The real difficulty in these cases is that several areas of the organization are or can potentially be affected, however there is no clear knowledge of who they really are. The transparency and end-2-end data flows implied in the previous paragraph can help, but it is not enough. You need to operate cross-functional mechanisms and groups who are able to manage and make sure that changes are executed the right way end-to-end. All consequences are managed or at the least one or two are being consciously ignored. Some of our clients call that the BI stamp, which means all changes are examined and dealt from data, BI, and reporting consequence perspectives. The word "stamp" symbolizes that control.

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These are only examples, however we recommend investing in your data and data-related capabilities. Take the initiative and strengthen your efforts on this area; it will bring both financial and non-financial returns well. On the other hand data-driven thinking and operation, data-based automation and RPA, new data-based services and all these data-related topics will be a powerful trend that no SSC can avoid, nor are they worth avoiding.





