Shared Services in Hungary: Towards New Directions

Based on the *Global Business Services survey*

pwc

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In the base data, responses were collected in ranges regarding the majority of questions (e.g. 10-19%, 20-29%, etc.). In the charts expressed in averages, the average was calculated using the mean value of the ranges (e.g. range: 90-100%, used value: 95%).

September 2021

Preface

Shared Service Centres (SSCs) have become an important part of business strategy. They evolved from providers of transactional, highly repetitive accounting activities into **multifunctional organisations with global focus and additional functions:** and now they are shifting **towards global business services (GBS).** As part of this development, the integration of non-core business activities into one consistent service organisation is becoming apparent, with a specific focus on end-to-end processes. This has been further accelerated by the global pandemic: technology-driven market disruption and market trends gained strength and speed, therefore pushing multinational companies to **reconsider the scope of their SSCs.**

In the last few years, Hungary has become a popular location for SSCs. **In 2020 the sector employed ~64,000 people in 131 companies.** Most Hungarian SSCs operate in the manufacturing industry, with business and financial industries also representing a large segment.

In this analysis, we will highlight how the pandemic has affected Hungary-based SSCs, with a focus on their digital and HR agenda after such a considerable impact on their operations. Our results show that the pandemic **put the emphasis on employee expectations** in order to decrease turnover and extend talent pools, thereby developing GBS.

The findings of this study are based on a survey conducted from November 2020 to January 2021, with more than 300 participating companies from all over the world[3]. This publication highlights the results of the Hungarian companies and compares them not only to the global responses, but also to the outcomes of the 2016 survey.

We hope you will find valuable insights in the Hungarian results and will be able to gain inspiration for further growth. We would like to thank PwC Germany for conducting this survey and providing us with access to the Hungarian data.

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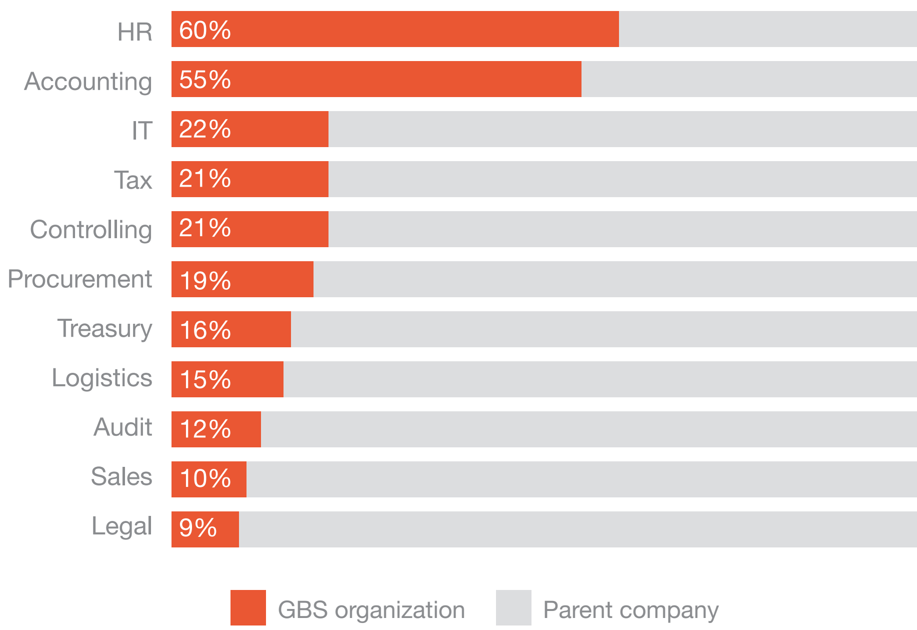
Profile of Hungarian SSCs

The majority of Hungarian SSCs provide accounting and tax services, however HR, sales, and legal tasks are also offered by many organisations, although they represent a lower percentage than in SSCs globally, therefore there might be room to expand these functions.

Figure 1. Services provided by SSCs in Hungary and globally
Multiple answers allowed

Among Hungarian SSCs, **the highest percentage of outsourced services can be found within HR and accounting,** where around 60% of activities are carried out by the centre (Figure 2). Other functions usually only move a small proportion of tasks (10-20%) to the SSC. Among the respondents, these percentages vary significantly, and they strongly depend on the age of the SSC. Service centers **usually start off with a limited scope that is gradually extended and shifted towards the direction of managing end-to-end processes.**

Figure 2. Activity splits between Hungarian SSCs and parent companies



Human Workforce Challenges in Hungarian SSCs

According to the survey, the **greatest challenges that SSCs face are related to the workforce:** the labour market situation (e.g. labor shortage), high rate of staff turnover, and growing employee expectations are all significant (Figure 3). This shows that **focusing on employee satisfaction is the key to overcoming the majority of challenges.**

In the meantime, **skilled staff is required to facilitate the orientation towards end-to-end processes.** The so-called talent pools are the main reason behind the development of Global Business Services: over half of the CEOs interviewed in Hungary believed that lack of employee skills drives up costs, hampers quality, impacts their ability to innovate, and affects customer experience.

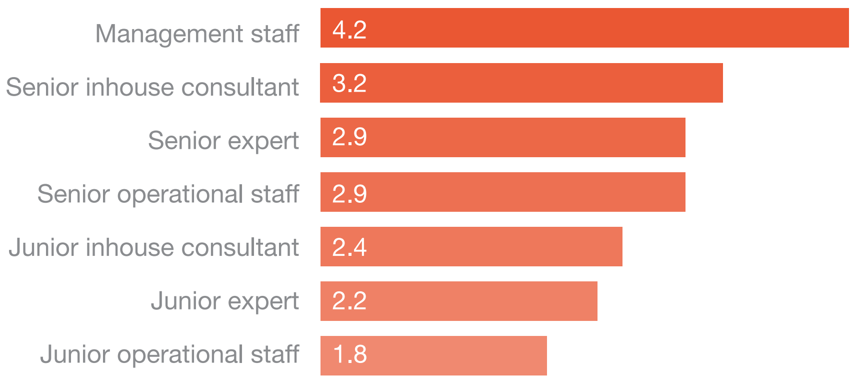
Figure 3. Biggest challenges faced by Hungarian SSCs (% of respondents)

Recruitment

The increased competition for suitable talent (suggested by Figure 3) has incentivised Hungarian SSCs to **position and assert themselves on the market as attractive employers. Employer branding has an inevitable impact on the final distribution of talent;** in fact, employers need to spend more to acquire talented staff.

Apart from money, finding the right people also takes time, especially in senior grades (Figure 4). Average recruitment time increases with seniority, with the shortest hiring process taking up to 7-8 weeks (1.8 months) on average. These numbers are mostly in line with global statistics, but Hungarian recruitment processes generally take 1-2 weeks longer across almost all seniority levels.

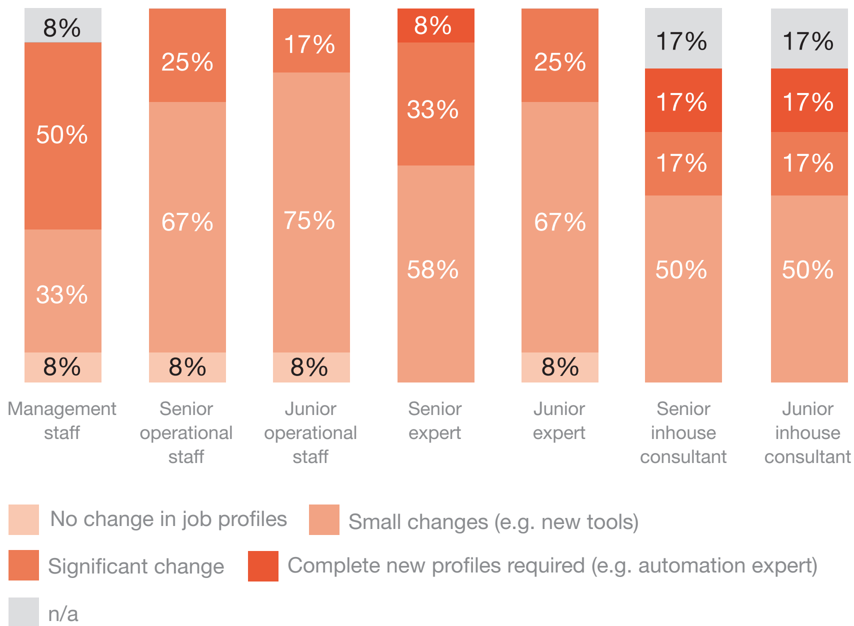
Figure 4. Average hiring time in months (number of months)



At almost half of the surveyed companies, **significant changes have taken place in employee expectations and job preferences,** likely as a result of the global pandemic. These findings resonate with other studies: according to [PwC Hungary's Employee Preference Survey](), support for higher education studies (#10) and **job security** (#12) are new items on the top 15 list. However, base salary, flexible work options, and predictable work schedule also remained important factors when choosing a workplace. These findings verify that companies should **support and take responsibility for their employees, and strive to retain them in the event of an economic downturn.**

The survey also revealed that the **most significant changes in hiring time took place on the management level** and **new job profiles** (with formerly non-existent job descriptions, such as: "automation expert") **appeared mostly among internal consultants** (Figure 5) — this also displays an orientation towards new directions. Furthermore, the majority of SSCs tend to take **advantage of external hiring:** they want to meet new requirements and solve new problems with external help, and have no preference between external hiring or upskilling existing employees.

Figure 5. Changes in job profiles (% of respondents)

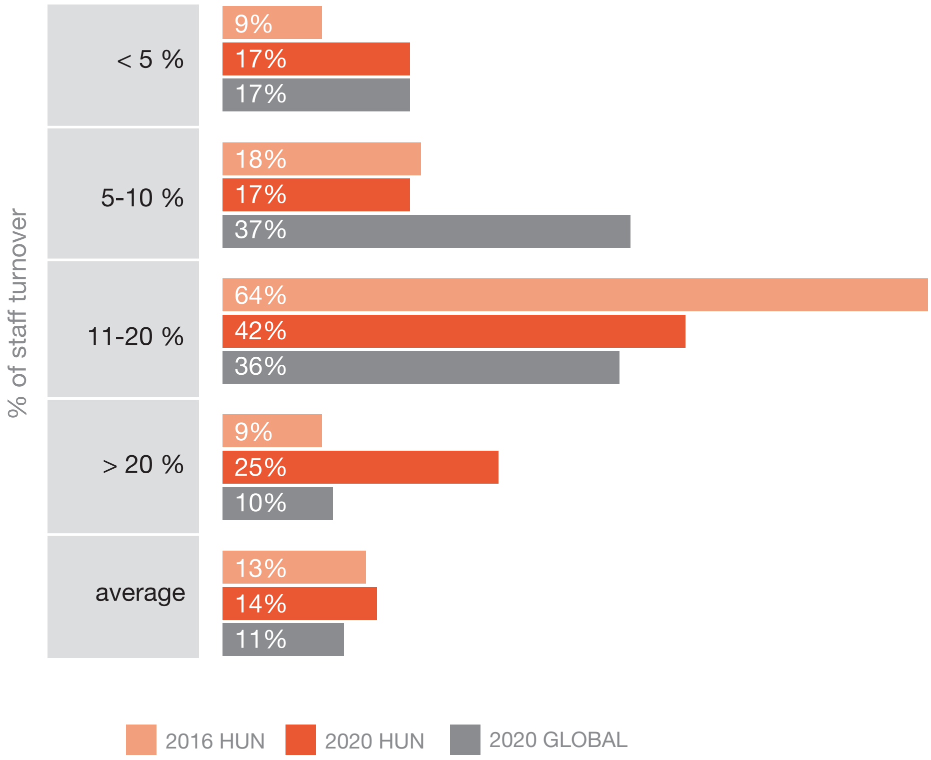


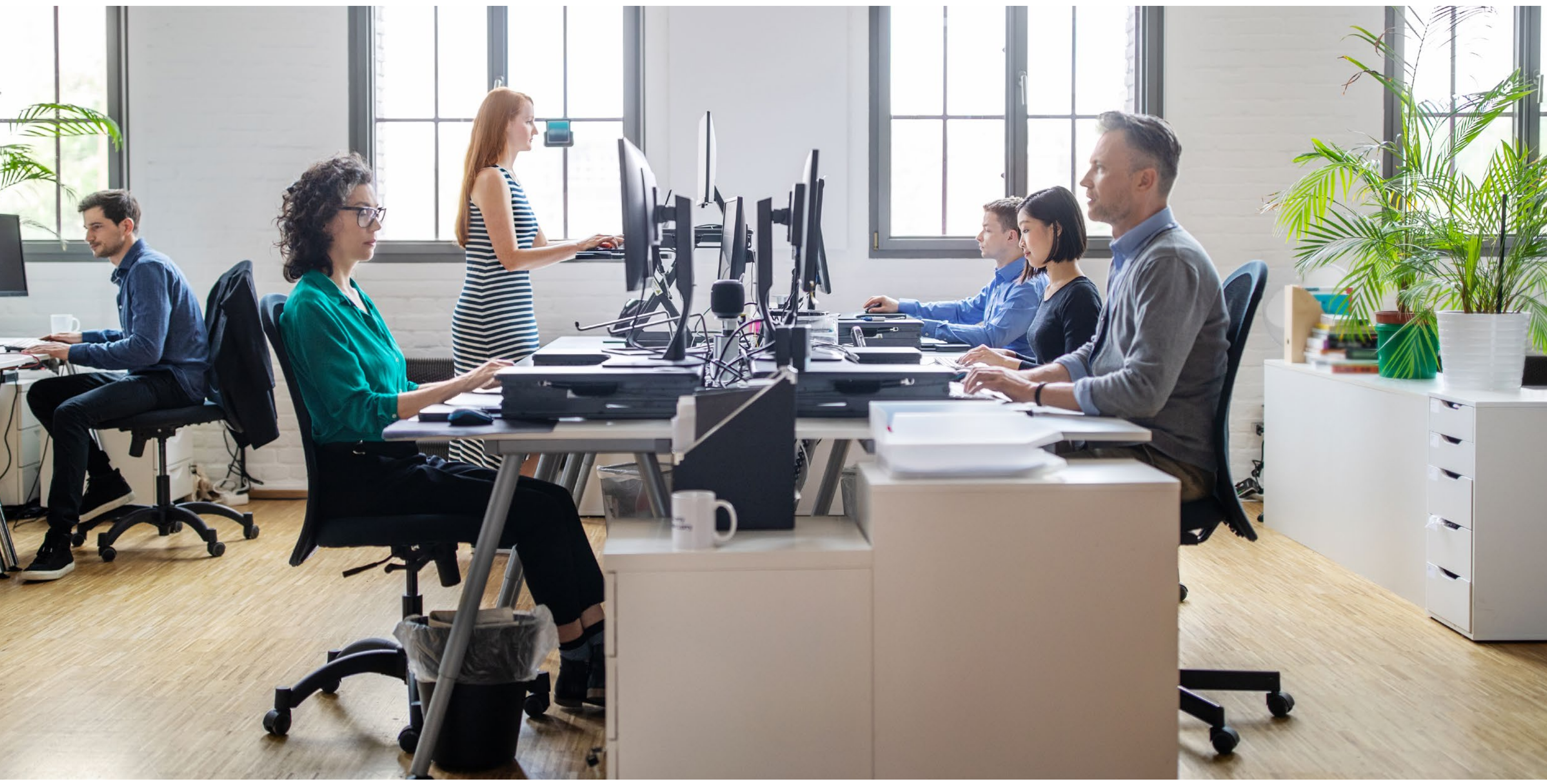
Retention

Hiring and retention is difficult in the current labor market, due to the shortage of skilled staff. This results in service centers trying to strengthen their GBS culture and increase employee satisfaction. This hypothesis is consistent with the result of the survey: over half of the respondents considered **talent management and employee engagement as a strategic goal for the upcoming years.**

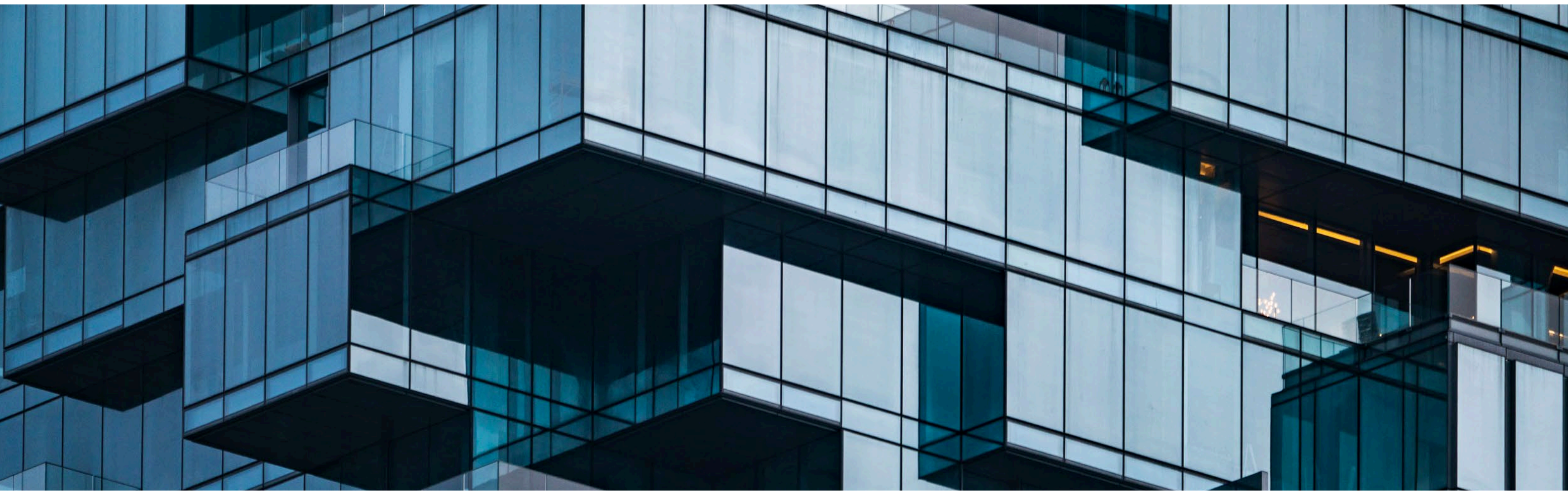
Regarding staff turnover, Hungarian results showed an interesting dynamic in 2020 (Figure 6): over half of the surveyed companies have experienced staff turnover of 5-20% throughout the last three years, but when compared to the 2016 survey results, we can see highly increased respondent ratios in the extremities (<5% or >20% turnovers) in 2020. Examining the averages[1], Hungarian SSCs in 2020 faced a larger turnover than in 2016, or than the global average in 2020.

Figure 6. Annual staff turnover over the last three years in Hungarian SSCs (% of respondents)



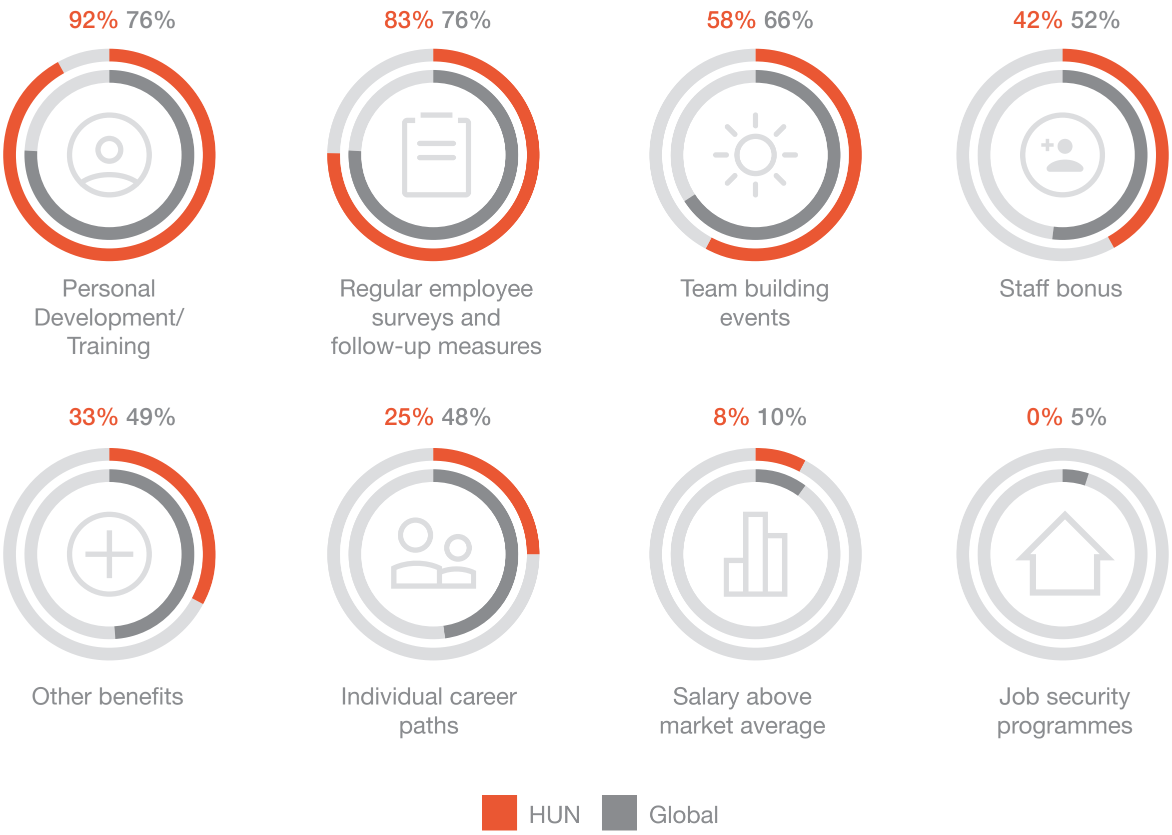


1 Averages were created based on the occurrence of responses following the weighted average method, using the following mean values as an assumption: <5% - 2.5%; 5-10% - 7.5%; 11-20% - 15%; >20% - 25%.



Surprisingly, Hungarian SSCs who have <5% turnover do not match in profile. This suggests that **low turnover is not an industry-specific feature and therefore there are more ways to further decrease it.** As Figure 6 shows, the proportion of companies with annual staff turnover exceeding 20% is significantly higher in the Hungarian market than it is globally. There is no clear explanation for such a large difference, but **there are several incentives on the Hungarian market aiming to reduce staff turnover** (Figure 7). Compared to averages, a larger percentage of Hungarian respondent firms offer personal development and training programs, together with regular employee surveys & follow-up measures. However, **individual career paths** are rare to find in Hungary while the global results show that almost every second respondent company utilizes this incentive. Salaries above market average are not common either in Hungary or globally, and job security programmes are currently not on the incentive list in Hungary.

Figure 7. Incentives to reduce staff turnover (% of respondents)



Restructuring GBS strategies

What can a company do if it faces an employee shortage and its incentives do not result in lower turnover rates? What are the possible tools to enhance the efficiency of the group? Based on our survey, **SSCs focus more and more on standardising and digitising processes.** These actions are unable to solve all HR challenges by themselves, but they can reduce the human resource need and help put focus on more exciting tasks for employees, possibly resulting in higher retention levels.

As demonstrated by the answers, most SSCs focus on technology-based development options. **Standardization has become the main GBS initiative** in the last few years as performing activities in a single and consistent way for multiple companies, countries or regions ensures **cost savings and consistent quality.** There are also several digitization initiatives on the market, and their main target is to achieve **faster processing and shorter throughput times, thus reducing costs.**

Based on PwC's 2019 analysis, RPA was the leading technology, and SSCs believed that artificial intelligence will have the largest impact on their future. Today, S4/HANA is considered to have the largest potential impact, but none of the initiatives stand out significantly from the rest. It is interesting that PwC's global survey results have shown different expectations: the three major digitisation initiatives globally are AI (31%), S/4HANA (27%) and RPA (25%), and other solutions or chatbots were not considered to have any major impact in the next five years. Hungarian companies are less focused on implementing AI in their operation, as they are concentrating on other areas before taking the big step with AI.

Figure 8. Which options best describe your GBS strategy for the next five years? Multiple answers allowed (% of respondents)

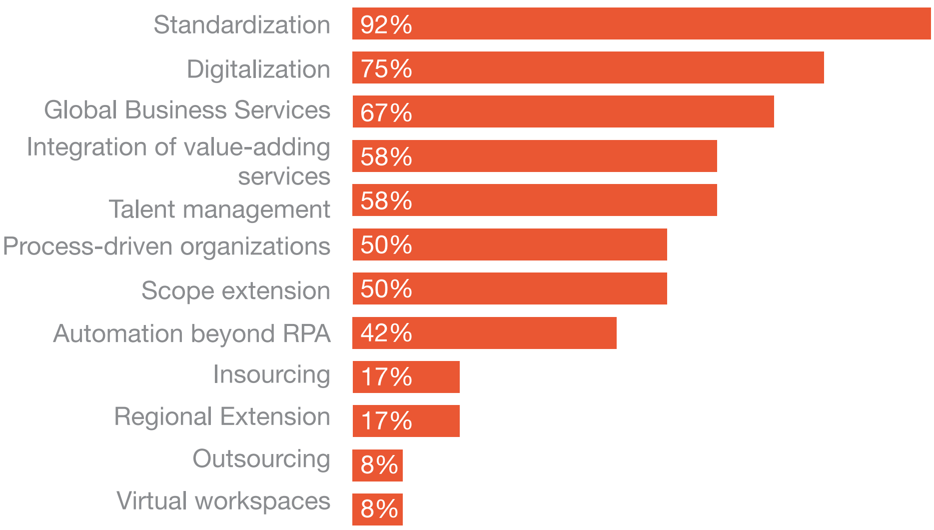
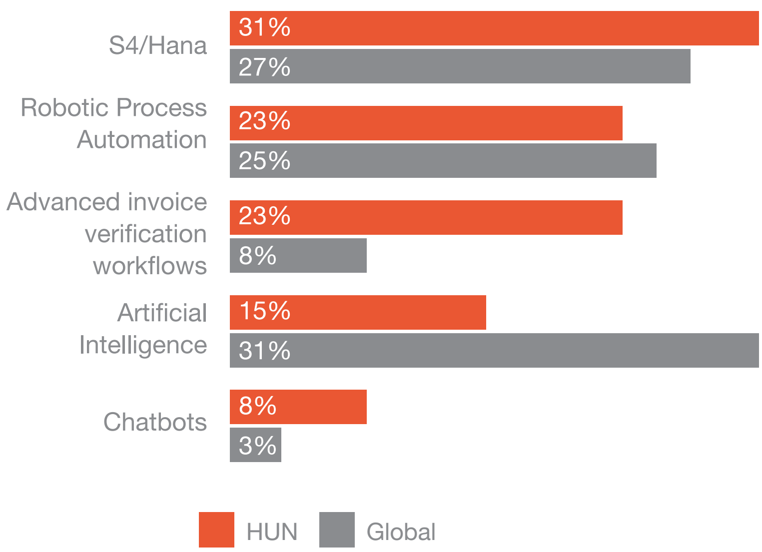


Figure 9. Digitization initiatives with the highest future impact in Hungary Multiple answers allowed (% of respondents)



S4/Hana is a revolutionary platform and an application, designed to run on the SAP HANA (High-Performance Analytic Appliance) database. In a nutshell, it is SAP's ERP (Enterprise Resource Planning) for large enterprises: it helps faster system implementation, makes it easier to create specifications and requirements, simplifies a company's IT landscape, and reduces its data footprint. Most of the SSCs provide services within the company's ERP system (e.g. accounting) - so introducing and installing S4/Hana will have a great effect on these firms.

Robotic Process Automation (RPA) is often referred to as software robotics, because it is a software technology that is used across industries to automate various processes. It is mostly applied to repetitive, transactional, rule-based digital tasks. SSCs are handling many of these tasks, making RPA a very relevant digitization initiative.

It goes without saying that **advanced invoice verification workflows** help the company reduce throughput times while eliminating errors caused by human mistakes. The implementation of these tools can take the form of an application, software, or something as simple as a process with precisely defined steps. Managing back-end, non-core functions such as accounting are increasingly present in SSCs, and choosing the right vendor for an invoice automation solution is considered a priority in many cases.

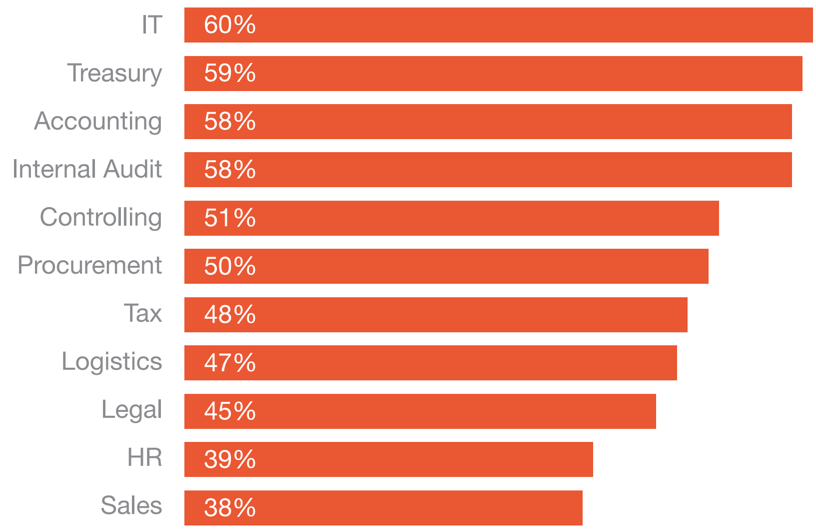
In the shared services industry the ability to scale is critical for success, yet a great percentage of the data - processed by SSCs - is unstructured. With the help of **AI,** companies can eliminate more than 90% of manual data entry in their process with high accuracy. They can transform their customer experience while handling high demand, not to mention automating multiple workflows across their enterprise processes. Therefore, AI can also clearly benefit SSCs greatly.

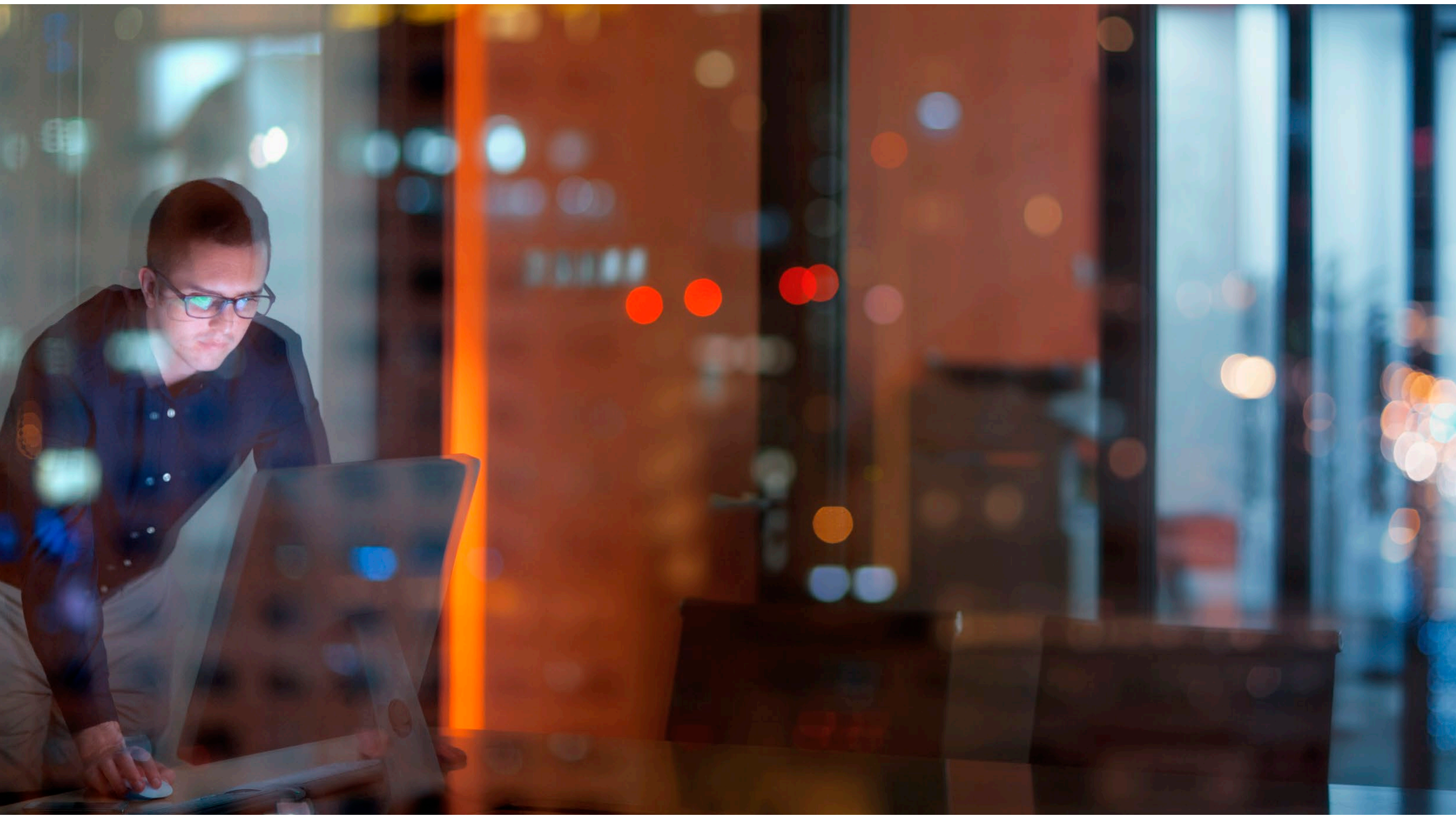
Chatbots help to add convenience for customers and cost little to nothing to engage with. The SSCs' HR function can be increased and simplified via chatbots: employees can quickly and easily check an attendance time sheet, or the remaining days of vacation. They can also request a pay slip or even order a certificate from the place of work, not to mention getting information about sick leave or any novelty within HR.

Reality of digitalisation & standardization goals

The technological developments presented here contribute greatly to standardization, so it is also important to see how well SSCs are doing in this area. According to our survey, there is **still a long way to go:** even the most standardized function (IT) reached only a 60% average standardisation rate (Figure 10), while in the global survey 45% of firms had a degree of standardisation above 70% in the most standardized function (Treasury). However, when an activity requires significant connection with people or personal interference — such as in HR and Sales —, the national and global results showed almost the same (relatively low) degree of standardization (for HR processes globally 45% of companies surveyed had a standardization level below 50%, and 60% of companies have standardized less than half of their Sales processes).

Figure 10. Degree of standardization

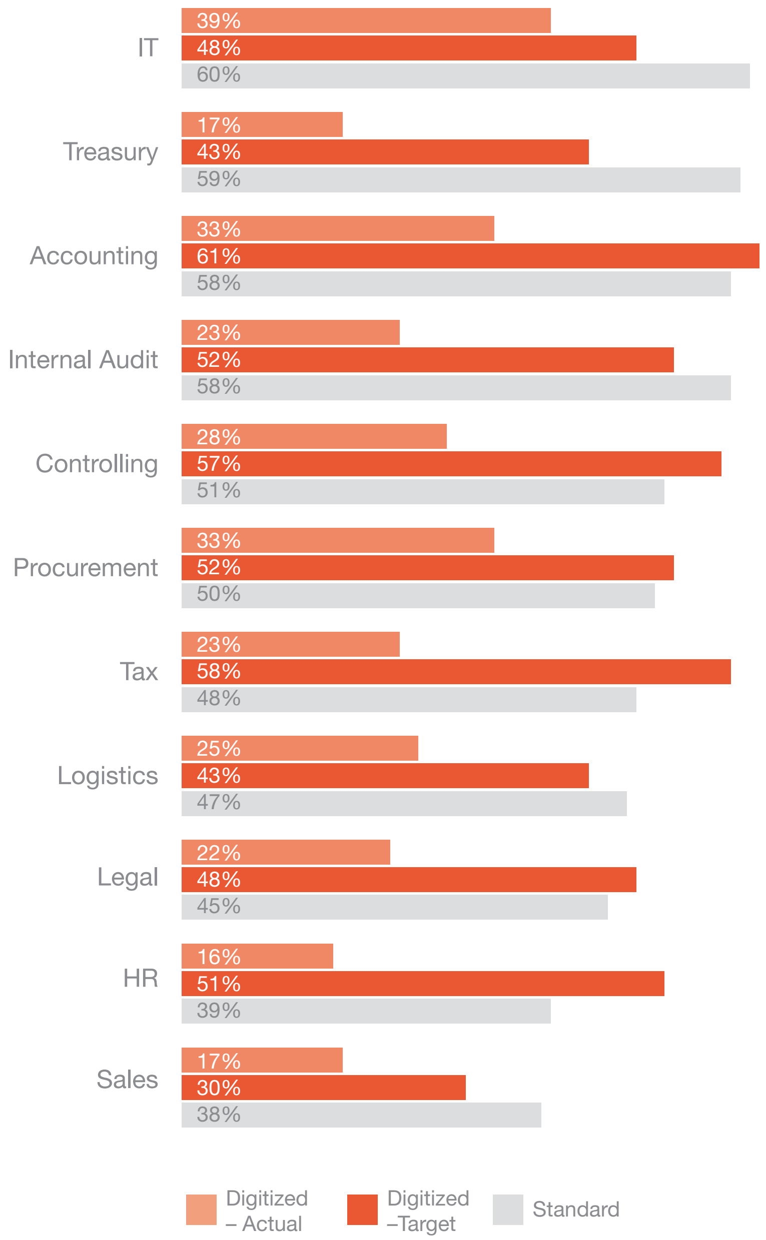




Standardization and automation go hand-in-hand, as standardized activities get automated first. IT, Accounting and Procurement were the most automated activities within Hungarian SSCs (Figure 11). This is consistent with the global picture, as 8% of GBS organizations had a level of automation above 70% in IT services, and 5% of them had it in Accounting. It is also apparent that the analyzed Hungarian SSCs have a high automation target: ca. 21% of them plan to reach 50% of automation in almost every area. But still, these targets could be higher: on a global level, approximately 26% of the surveyed companies aim to reach not only 50%, but 70% of automation.

Employee Task Management (ETM) tools can be one of the first steps towards efficiency improvement. These tools are based on digital footprint tracking, capturing and analyzing usage data for each application, with no integration needed. User activity can be automatically connected with the appropriate task, workflow and project, thus mapping and analyzing user data at click level. ETM tools can also serve with data on internal operations and the productivity of employees, providing a basis for standardization and digitization goals.

Figure 11. Average rate of automation



Reaction to the pandemic

The effects of the pandemic resulted in the slowdown of national economies which caused changes in the operations of SSCs. The effects vary by SSC: 25% reported no effect on operations and 8% even plan to expand their scope. Around 50% had to implement some adjustments to cope with the new situation (e.g. further digitalization). This heterogeneity is understandable as **the impact on SSCs depends a great deal on their industry of operation.**

On the other hand, the pandemic has also demonstrated that working remotely does not necessarily disrupt operations, so it will not be too surprising if **companies decide to move more activities into their existing shared service centers.** In addition, Hungarian SSCs can also expand their scope and capacities through recruiting workforce from further locations within the country. For industries heavily affected by COVID-19, the need to cut costs could also be a motivating factor to outsource. SSCs are already considered entities where optimization can lead to a cost efficient operation, and **the pandemic may be able to further strengthen this belief and optimization process.**

Figure 12. The effect of the COVID-19 pandemic on GBS strategy