

Business Service Centres: Top Performance Drivers

Major drivers of changes in the BSC
sector - Key data and trends

*Slovakia and Czech Republic
February 2017*





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Executive Summary

We are pleased to share with you the results of our findings from the 2016 Business Service Centres (BSC) survey that we performed in Slovakia and the Czech Republic (the “Survey”). The results of our Survey have been compared to the results of our 2016 Global Business Services survey.

As the title suggests, for 2016, we have taken a more strategic focus than in previous years, and have focused the Survey on areas of strategy, continuous improvement and human capital and less on the size and operations of centres.

Our 2014 Survey showed that centres were moving “up the value curve” and were offering higher value for their organisations. The clear aim of most centres was to become the first choice advisor to businesses for operations in their scope by providing top quality service.

Our 2016 Survey reinforces the strategic focus on quality as outlined in the 2014 Survey. Centres are evolving by integrating multi-functional services with a global focus. Growing market competition is calling for higher levels of efficiency and effectiveness. The conventional continuous improvement tools to gain efficiencies and to remain effective are still relevant, but organisations are increasingly focused on automation of processes and use of predictive analytics. Lastly, centres are facing increasing challenges on the labour market due to a high demand for skilled resources and are fine tuning their HR strategies to continue to attract and retain employees with the right skill sets.

Our CEE region still continues to be one of the most popular regions in the world for BSCs, though the potential of individual countries has changed. Countries within Central Europe compete strongly against each other to win new international investments. Whilst Slovakia and the Czech Republic have and remain highly sought after by companies considering new BSC locations, other countries in CEE have become more popular due to a lower cost base. Many companies contemplating a BSC set-up in Central Europe are dealing with the trade-off between established quality and skilled resources in some countries and the perceived cost benefit of other countries. For existing BSCs, this is an opportunity for established centres to move up the value chain and perform more complex services for their stakeholders, with the possible movement of lower value services to a lower cost country.

This Survey is the third PwC biennial publication. In the summer and autumn of 2016, 31 centres in total (17 from the Czech Republic and 14 from Slovakia) took part. We would like to thank all of the participants for their time and very valuable input.

We hope you enjoy reading this report and gain valuable insights.

Asif N. Khoja
Partner, BSC Leader, PwC Slovakia

Mike Jennings
Partner, Advisory, PwC Czech Republic

Monika Smižanská
Director, Assurance, PwC Slovakia

Key Findings

Strategy

Service centres on the Slovak and Czech markets are set to grow. Growth in FTE numbers is planned, as is the variety of services and customers. Growth is also expected outside existing portfolios of BSCs.

The major focus is on improving the quality of currently provided services and the creation of capacity within existing structures for new initiatives without losing key staff.

Centres are looking to evolve into Global Business Services (GBS) providers by offering integrated demand, service management and global governance on a common infrastructure.

Continuous improvement

To meet customer requirements as regards quality and costs, most centres have set up their own continuous improvement programs. In most cases, this leads to significant process improvements. However, there is still room for further optimisation of existing processes.

Centres have adopted a variety of methods to reach their goals, and decentralised their process improvement teams to give more responsibility to individual departments. There is still a large number of centres which, for various reasons, are not concentrating on structured, programmed improvement initiatives. Opportunities for improvements are visible in areas such as automation.

Digitisation is a strong enhancer of service quality. An area of focus is robotic automation, which achieves a high level of automation for transactional processes.

Human capital

The biggest challenge for centres when expanding is the availability of skilled labour. This mirrors the situation on the labour market as a whole. Centres also face challenges as regards middle management positions due to a lack of leadership skills.

Training courses are offered at most of the centres to address the skill gaps and centres are actively dealing with the above issues using various initiatives and by fine tuning their HR strategy.



Strategy

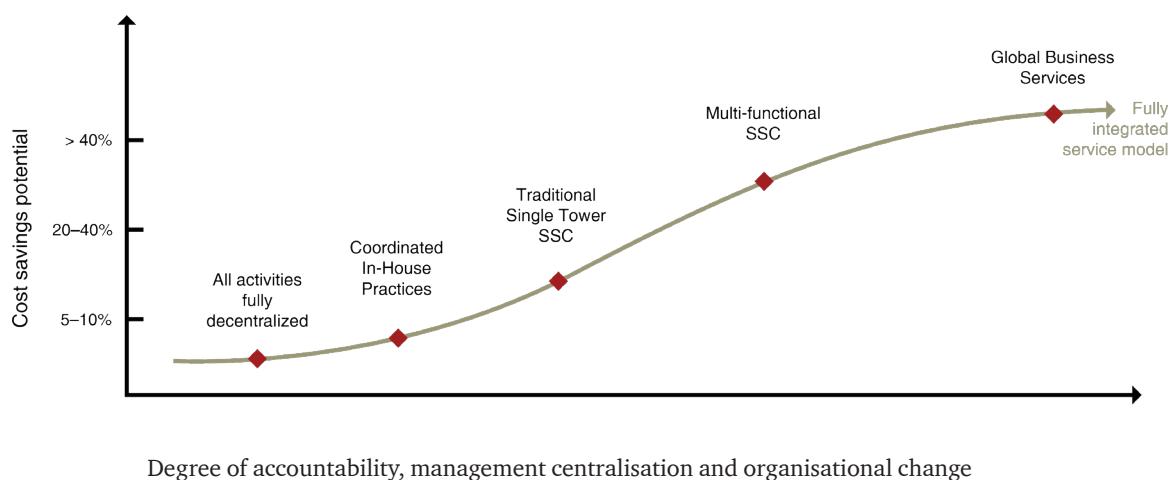
This section discusses the outlook, expectations and priorities for BSCs. In the past, we saw a strong focus on cost reduction initiatives. Even though cost reduction is still an important goal for most centres (regardless of whether they have been on the market for some time, or have just started operations), increased importance is placed on quality and achieving efficiency via process automation.

Evolution of BSCs

BSCs continue to be widely recognized as an established method of reducing costs and improving efficiency and effectiveness. For more than two decades, it has been common practice to rely on single-function, stand-alone centres, which often achieved cost reductions of up to 40%, driven by standardisation, economies of scale, labour arbitrage, and increased flexibility. Growing competitive pressures have led corporate leaders to rethink their organisational structure with the aim of creating value beyond labour arbitrage.

As depicted in the chart below, the services in centres are continuously evolving.

Recent evolution of service centres to Global Business Services model as revealed by PwC 2016 Global Survey that covers over 300 service centres in 24 countries.



Degree of accountability, management centralisation and organisational change

Source: PwC Shared Services: Multiplying Success, Global Survey 2016

As stated in our global survey, the traditional Service Centre model is becoming obsolete and leading organisations are taking the next step. Instead of operating numerous centres and managing outsourcing vendors independently, organisations are implementing the GBS model, providing integration of governance, locations and business practices to all shared services and outsourcing activities across the business. This development creates cost advantages via integrated demand and service management, global governance, common infrastructure, cross-functional synergies and the consolidation of IT systems.

With the GBS model, while traditional drivers such as cost efficiency remain important, the relevance of customer service and quality increases. The model delivers highly standardised processes, policies and procedures and maintains a constant focus on continuous improvement.

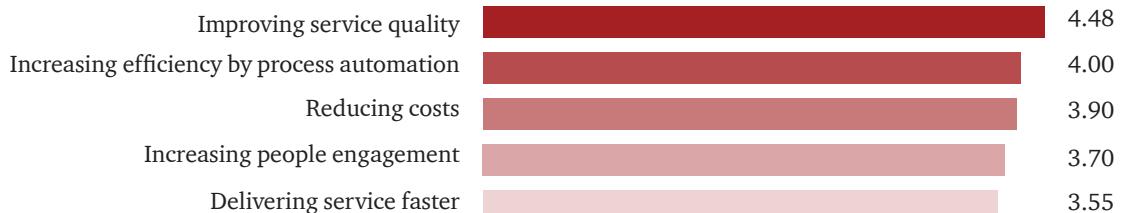
Strategic priorities

Most Slovak and Czech centres are part of global corporations and their development and strategies reflect global trends. For more than 5 years, centres have attained cost and efficiency objectives and are moving towards the GBS model. In our 2014 survey, the trend towards quality was visible. The 2016 survey reinforces the focus on improving quality and highlights the shift to process automation to achieve efficiency.

50%

of surveyed companies use the current multi-functional model and 53% of companies are moving towards a GBS strategy.

Strategic priorities in centres

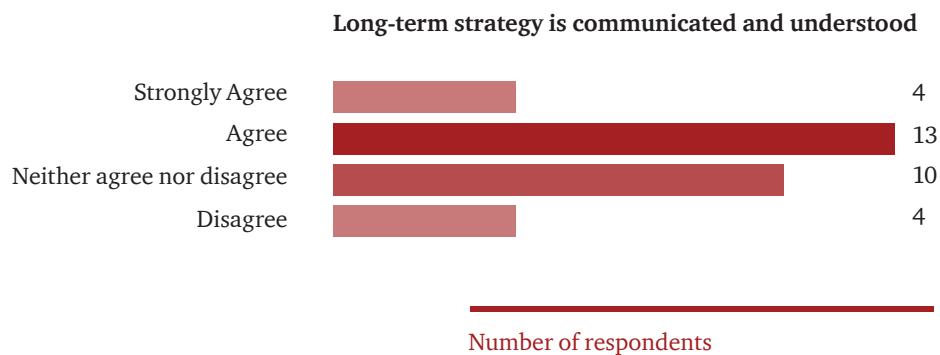


The scale of answers: 1 - not important; 5 - very important

However, it is still important to note that whatever change is undertaken at a centre, management will look to calculate the cost reduction that the change is expected to bring in the long term.

Communication and understanding of the strategy

Communicating long-term strategic goals and their potential change can be a difficult task. In our survey, 55% of participants reported a positive understanding by employees of strategic goals. However, a significant number (45%) are dissatisfied or see potential for improvement in how the strategy is applied by their local staff and would like to see an improvement in the future.



Effectively communicating the company's business strategy to employees is important to ensure that each employee is involved and understands company goals and where long-term plans will lead them in the future. In addition to communicating the overall business strategy to employees, it is equally important to communicate how their work will play a vital role in the company's overall success.



“The most essential role of local BSCs is to combine the strategic goals of all business lines and create a strong strategic approach, which leads the centre and its employees.”

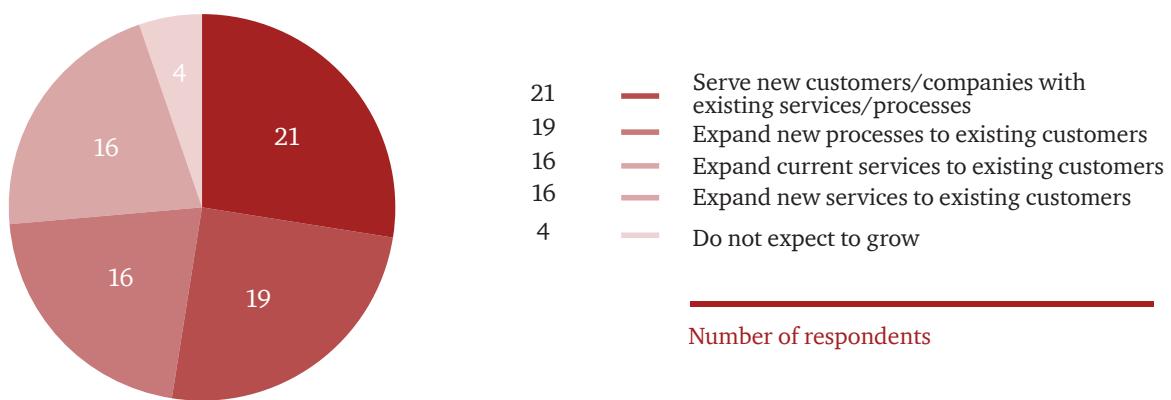
Asif N. Khoja
Partner, BSC Leader, PwC Slovakia

Growth Expectations

As indicated above, centres continue to evolve and are embracing a broader set of processes. Almost 75% of respondents from the global survey stated that transactional processes remain a substantial part of their service scope. However, in terms of strategy over the next two years, centres are focused on more sophisticated activities such as predictive analytics.

The Slovak and Czech Survey shows that 87% of centres plan to expand either the scope or customer base or both.

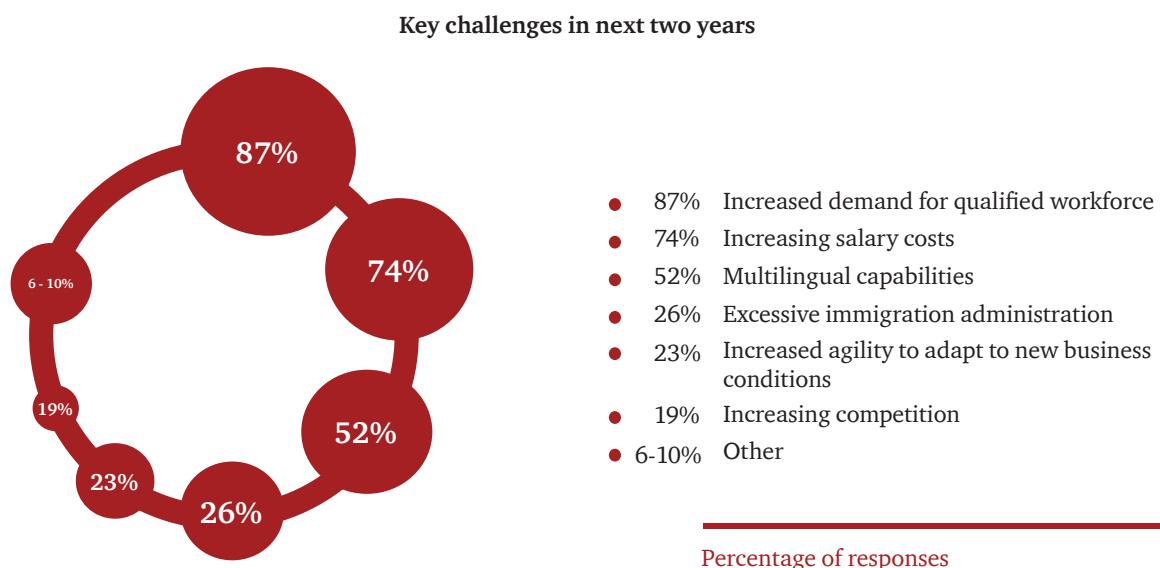
Expected growth over the next 12 months



The survey reveals that expanding the functional scope will be one of the biggest areas of focus over the next few years. This requires that centres decide which services should be integrated and the best way to streamline processes and bring them under one governance model.

Key challenges facing centres in Slovakia and Czech Republic

As indicated in our global survey, functional scope enhancement also implies integrating new functions and extending existing functions, with the goal of incorporating the whole end-to-end process. To pave the way for GBS and deliver an end-to-end process, respondents often stated the need for further standardisation and automation. Digitisation will become ever more important, as organisations invest in advanced IT solutions to reduce manual processes. Although costs remain a primary focus, other factors, such as staff qualifications, are becoming more important. Employees need to meet higher requirements, especially when it comes to language and process knowledge. Managing turnover rates and addressing the increased demand for skilled employees are seen to be important challenges.



“Maintaining a steady supply of qualified workforce is key in keeping our region’s competitive advantage.”

Monika Smižanská
Director, Assurance Services, PwC Slovakia

Continuous Improvement

This section measures optimisation efforts of centres from the perspective of costs and the quality of output over time. All centres participating in the survey regardless of their size and maturity strive for continuous improvement in all areas. Continuous improvement is initiated by process management and optimisation, continues with automation of processes and is followed by long-term improvement methodologies and initiatives.

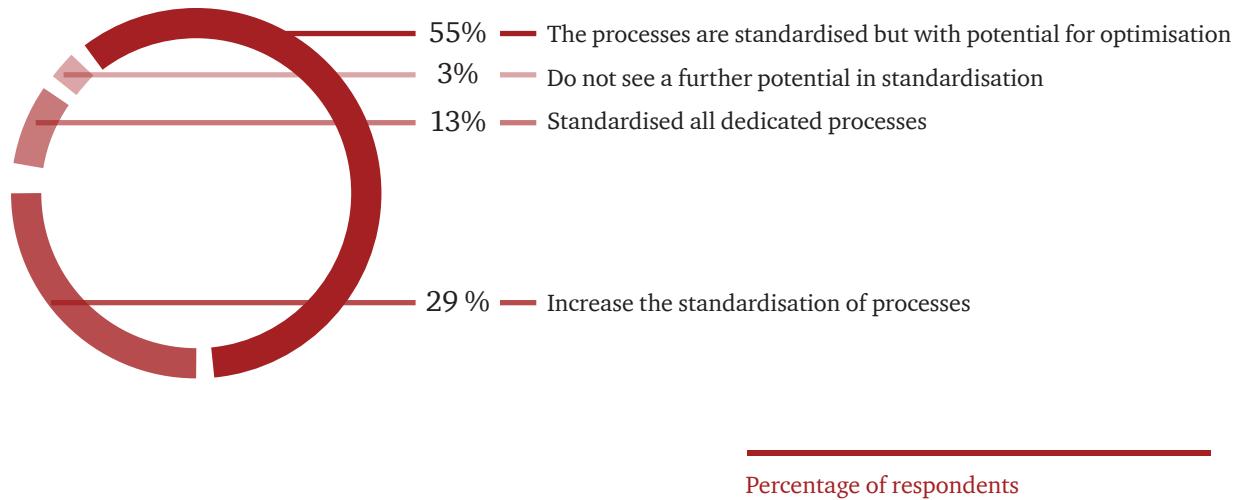
Process Management

The main objective of process management is to ensure processes at a centre run efficiently. This requires the design of efficient process flows, enabling technologies and an ongoing review of compliance with defined processes and their measurement (KPIs).

Process standardisation

As regards the level of standardisation, all the surveyed centres have introduced some degree of process standardisation. 55% of survey respondents have highly standardised processes, but still see potential for further optimisation. Almost one third see a benefit in a fundamental increase in process standardisation. These results are similar on the Czech and Slovak markets and this corresponds to the global survey results. Global survey respondents are either defining and developing (30%), or implementing (15%) a standard process library. There have been two major reasons for increased process standardisation during the last two years. The first, is an ever-growing automation level, where standardisation serves as a first step and companies invest their resources into such initiatives. The second, is a higher number of new centres in our respondents' group which are still setting up their processes and standardising.

Level of process standardisation



KPIs - level of use

Our Survey showed that most centres have KPIs in place for all major processes and have incorporated these KPIs into their employee targets. In comparison to the results from two years ago, the significance of performance management has increased. We observed that although most centres have set up these KPIs, only a few set initiatives based on KPI results. In contrast to overall global trends, this indicator continues to show a low level of independence of centres, despite their extensive qualitative progress.

The level of KPI usage at centres



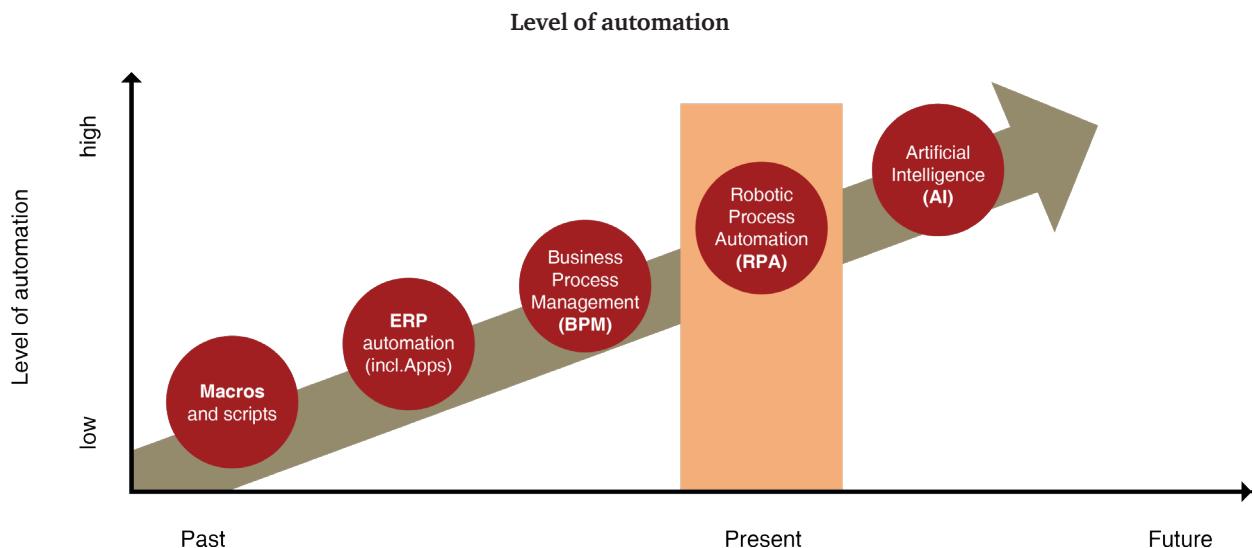
The scale of answers: 1 - strongly disagree; 5 - strongly agree

Automation

Taking into account the key processes at BSCs, we see that the automation level is generally low and there is great potential in all areas and parts of the end-to-end processes, whether the responsibility for a process is in the hands of a centre or an internal customer. There are various approaches to automation, the key ones are: Enterprise Resource Planning (ERP), Business Process Model and Notation (BPMN) and Robotic Process Automation (RPA). RPA makes it possible to automate transactional processes without changing existing systems. RPA sits on top of current systems and is deployed across various functions and applications.

The future of process automation

From a global perspective, we see increasing interest in rule-based automation at BSCs. RPA allows full automation of highly rule-based processing by adding specific automation tools. While rule-based automation is now becoming part of the BSC landscape, the development of the next level of automation is already in progress. Artificial intelligence will enable the integration of tools at BSCs so that more complex and sophisticated activities can be automated.



Source: PwC Shared Services: Multiplying Success, Global Survey 2016

The view of centres with regard to automation varies. The following quotes illustrate a number of common themes:

Client quote 1:

"Helping people understand that the automation of tasks doesn't mean a reduction in the workforce size, but rather more time spent on meaningful tasks."

Given the continued focus on costs, many BSCs are being pushed to do more with the same number of people. Only continuing efficiency initiatives, such as automation, can provide the capacity for taking on new work and increasing productivity.

Client quote 2:

"We are concerned that if we invest time and resources into automation development we will lose the added value of our centre along the way. We always compare current low costs against the high potential costs of automation."

Many BSCs are focused on short term KPIs which measure cost management and service delivery because many companies are managed that way. This can, in some cases, mean that longer-term improvement activities are never started, because of the focus on short-term KPI delivery.

Key drivers of process automation

The main reasons companies automate their processes have changed over the past two years according to our Survey. Although process automation increases quality outcomes (by decreasing the error rate, decreasing the length of processes, and increasing the overall customer satisfaction index), BSCs identified that cost reduction is one of the main reasons for pursuing an automation strategy. This is followed by the wish to offer a higher service quality and process standardisation.

Key reasons for automation

- 1. Cost reduction***
- 2. Service quality***
- 3. Process standardisation***
- 4. Faster delivery***



Data analytics

The survey reflects the growing interest in using data analytics at centres. The trend is in line with the increasing amount of knowledge-oriented tasks and activities performed in our region. As the centres change from pure transaction-oriented processing to more knowledge-oriented work (e.g. reporting, controlling, data analysis), the ability to gain insight from data grows.

We are seeing significant growth in the use of data analytics compared to previous years. One third of respondents confirmed the importance of data analytics and their contribution to overall performance improvement at their centre.

Areas that benefit from data analytics

Almost all the respondents recognized that data analytics can help give better customer insights. They also see the benefits of using data analytics to obtain process and workforce insights. Some respondents also use data analytics for sales forecasting.



The scale of answers: 1 - not important; 5 - very important



“With more and more companies turning to data analytics, we expect a scarcity of talent to be a limiting factor for centres as regards further leveraging of data analytics. Some respondents face difficulties with the deployment of data analytics. The challenge is data collection, its correct interpretation and steps to determine strategies based on results.”

Pavol Adamec
Director, Risk Management and IT, PwC Slovakia

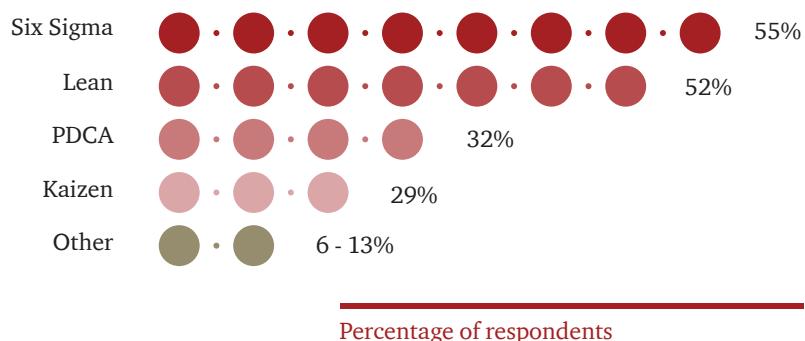
Data analytics is one of the growth areas as management strives to move up the value chain and provide more insight and analysis to stakeholders.

Improvement Methodologies

Performance improvement methodologies commonly used at centres

The most common tool for continuous improvement remains Six Sigma. The use of other methodologies has increased and 52% of respondents use Lean. Other approaches, such as PDCA, Kaizen and Agile Management are also used. When comparing the most recent surveys on this topic, we conclude that centres find a range of methodologies to be effective and are willing to adopt various approaches. As regards continuous improvement methodologies, BSCs are no different than other companies on the market.

Performance improvement methodologies



“Most service companies wish to improve and their goal is to obtain faster results, therefore, they seek Agile methodologies. These methodologies help the improvement teams to deliver quickly and obtain maximum value with a limited budget.”

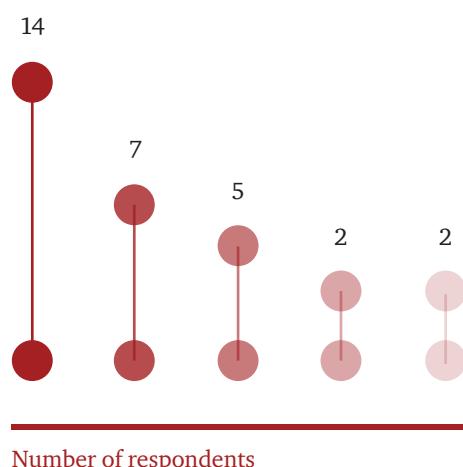
Janina Pätopršá
BSC Specialist, PwC Slovakia

Organisation of Continuous improvement programs

As regards the current organisation of continuous improvement, we see a slight trend towards decentralisation of this function to individual departments in both countries. Some centres stated they do not have a dedicated function at their organisation.

Organisation of continuous improvement programs

- Continuous improvement roles are distributed within each function
- This role is not specified at our centre
- Centralised continuous improvement team within one function
- Continuous improvement role with business owner/process owner at the parent company in cooperation with the centre function
- Combination of all functions



Key improvements over the past 2 years

We looked at the current focus areas and their rate of improvement at the centres over the last two years. Most centres believed that they obtained their best results using improvement methods and improvement projects for increasing their quality targets. However, actual results differ. Out of the 31 respondents, the majority of respondents had results of 5-20% and above in their quality improvement projects over the past 2 years. In comparison to quality improvement projects, cost reduction projects showed significantly higher results. Based on the current focus on quality, we expect these results to change over time.

Biggest challenges as regards improving project management

The Survey results provide us with a more detailed view of project management. The most significant challenge according to a majority of respondents is project delivery times and keeping to the initial project scope. There is also evidence that centres see conflicting targets of various initiatives as a possible challenge. The least important challenge is keeping to the original project budget.

The biggest challenges as regards improving project management



The scale of answers: 1 - strongly disagree; 5 - strongly agree



"In our opinion, the problems faced by other service companies on the market differ from those faced by BSCs. For example, misalignment between the project and business objective is a key challenge, while challenges related to delivering projects on time and dependency conflicts are secondary. Delay in delivery of projects usually goes hand in hand with unrealised business value and resource conflicts."

Janina Pätoprstá
BSC Specialist, PwC Slovakia

Human Capital

This section covers our analysis of the survey results as it relates to planned growth in FTEs at the centres, staff turnover and challenges faced by the centres with respect to attracting and retaining the best employees. There is a shortage of skilled employees and the centres need to fine tune their HR strategy to focus either on aggressive recruitment practices (with lucrative job offers), or on continuous employee training and development programs. Centres not only need to focus on their value proposition to become an attractive employer but they also must be able to manage a multicultural and multigenerational environment.

One of the key elements supporting a high performance culture at centres is employee motivation and development, which should be accompanied by standardised development plans. Our Survey results show that there is still room for improvement as regards current people development investments.



“An essential prerequisite for sustainable growth of BSCs is the development of human resources, specifically, at the middle management level. The management of BSCs should also focus on strengthening employee competencies and motivation to encourage proactive and collaborative behaviours.”

Ján Uriga
Senior Manager, Innovation and Change Management,
PwC Slovakia

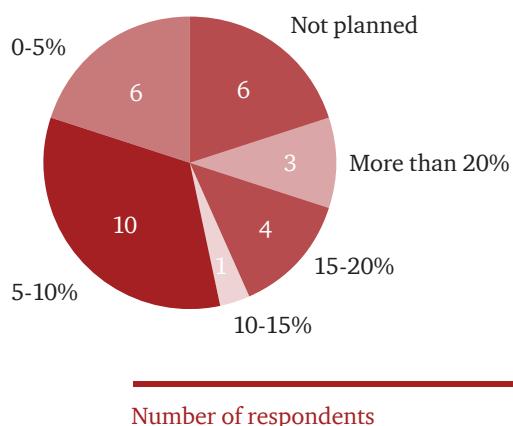
Client quote 3:

“The average employee age at our centre is increasing. We are now at the stage when our people are staying longer, but we do not have enough rewarding career opportunities offering development to retain them.”

Overall increase of FTEs

Our Survey results revealed that the vast majority (80%) plan to increase staff numbers, with 10% of centres planning an increase in numbers exceeding 20%. Most centres planning to increase numbers are small or medium-sized centres in the Czech Republic.

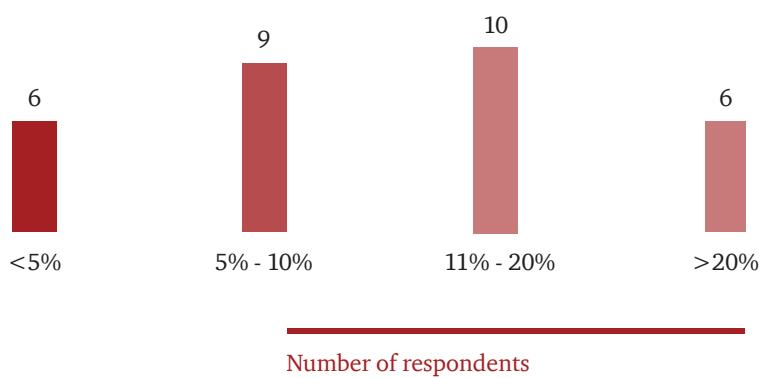
Planned increase of FTEs in near future



Annual staff turnover

The overall trend of average employee turnover at centres in Slovakia and the Czech Republic was stable (11-20%) over the last 2 years. A closer look reveals that turnover results have improved at centres in Slovakia, where the average rate is 5-10%. More than 75% of Czech centres state that their annual staff turnover is above 10% and at approximately one fifth of centres this figure exceeds 20%. Globally, results were similar to the Czech Republic, where 44% of companies reported an 11-20% staff turnover rate.

Annual level of staff turnover

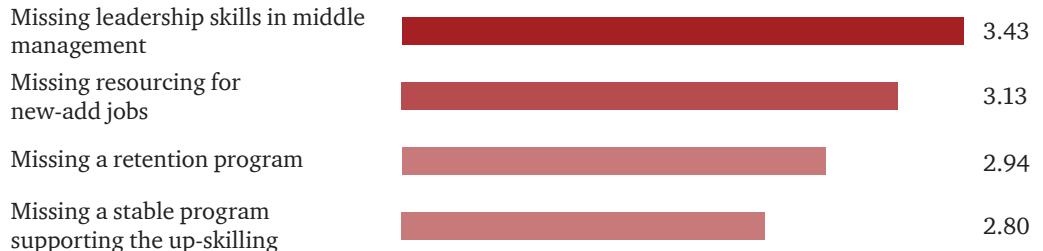


The main reasons for the higher turnover rate are the number of other centres in the vicinity and the willingness of employees to move to another employer for a small salary increase.

Middle management leadership skills

According to the survey results, leadership skills at the middle management level is one of the top people management challenges. Centres in Slovakia did not see an extensive challenge in any of the stated areas apart from missing leadership skills (which had the highest result of 3.43). Czech centres consider that all areas of people management need improvement.

The biggest challenges as regards people management



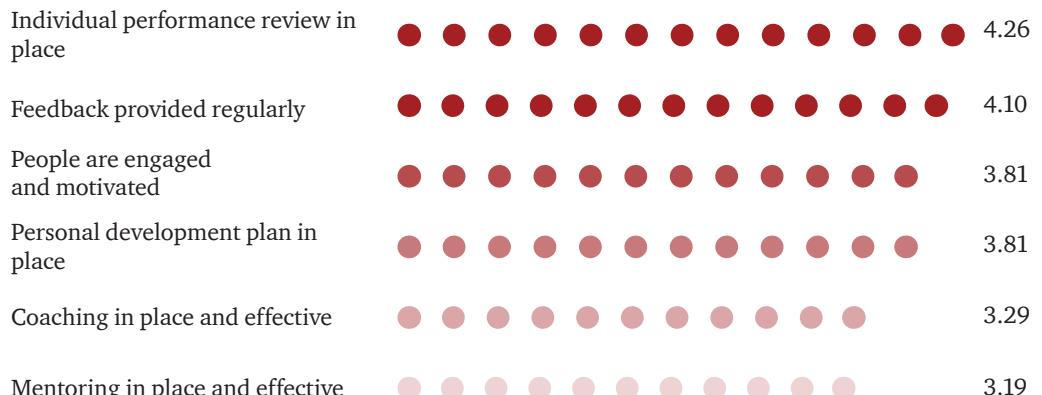
The scale of answers: 1- strongly disagree; 5 - strongly agree

Various analyses indicate the following reasons why middle management in the BSC environment has become a challenge: early promotions based on criteria other than experience, limited avenues to change the processes that employees have responsibility for and an insufficient training program geared towards managerial skills.

Employee development initiatives at BSCs

This section looks at activities connected with employee development. Centres evaluated the extent to which the following practices are used at their organisations (as indicated in the chart below). Every activity is considered to be in place as the scores are all above 3.1. We see room for improvement with regard to long-term staff development via mentoring and coaching. These two elements confirm that employees need to be either instructed (mentoring = what and how to do it), or accompanied (shadowing and assistance to prevent mistakes = coaching).

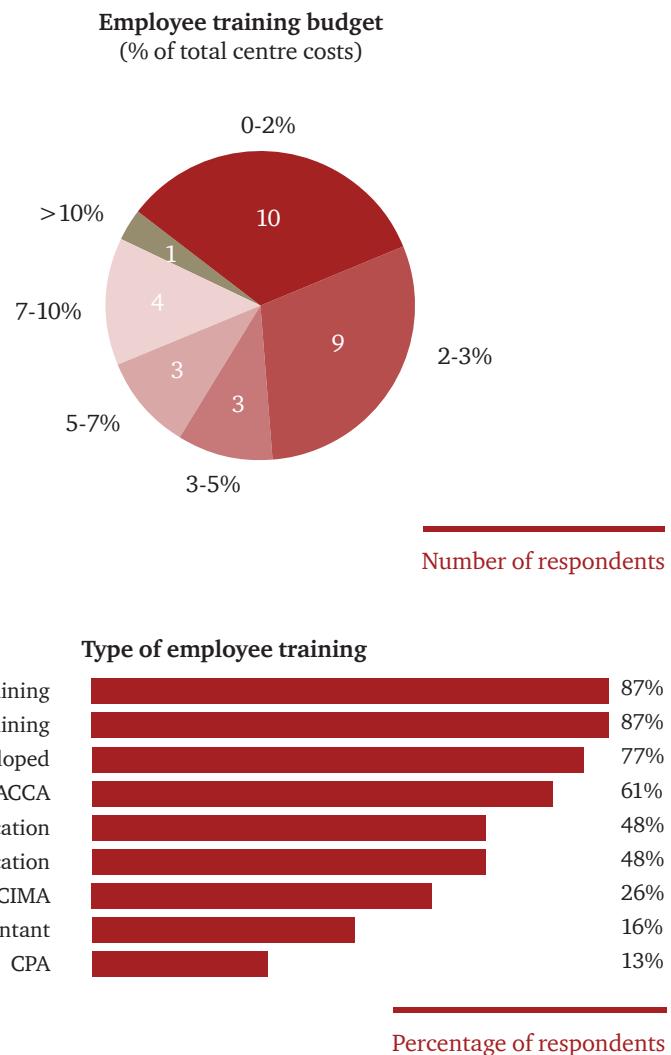
Human Capital development activities performed at centre



The scale of answers: 1- strongly disagree; 5 - strongly agree

Training budget for employee development

If we take a closer look at employee training, we see that a majority of centres devote less than 3% of their overall costs to this area. The most popular training types include soft skills and language training. Many programs are connected with accounting education and mostly internally developed.



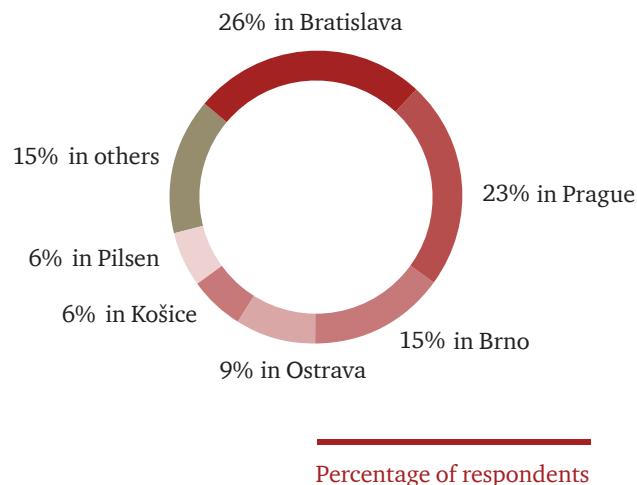
“Having a talented and engaged workforce is one of the critical success factors in creating and operating a successful BSC operation.”

Mike Jennings
Partner, Advisory Services, PwC Czech Republic

Survey Profile

Centre locations

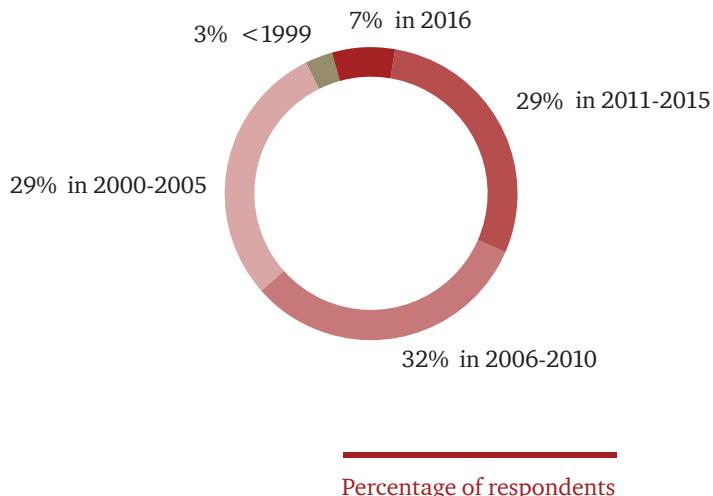
Almost every centre is located in a large city. Within the group of participants in our Survey, Bratislava is the most frequented location, followed by Prague, Brno, Ostrava, Košice and Pilsen. The location of centres is mainly determined by the availability of skilled labour, labour costs, and good infrastructure.



The remaining centres are widely spread and the number of companies leaving the capital cities is increasing, mainly due to rising labour costs.

Year of establishment

As regards the date of establishment, we see that more than 50% of centres were founded till the year 2010. Half of these were established in Slovakia. The majority of recently established players on the market were set up in the Czech Republic.



General profile of respondents

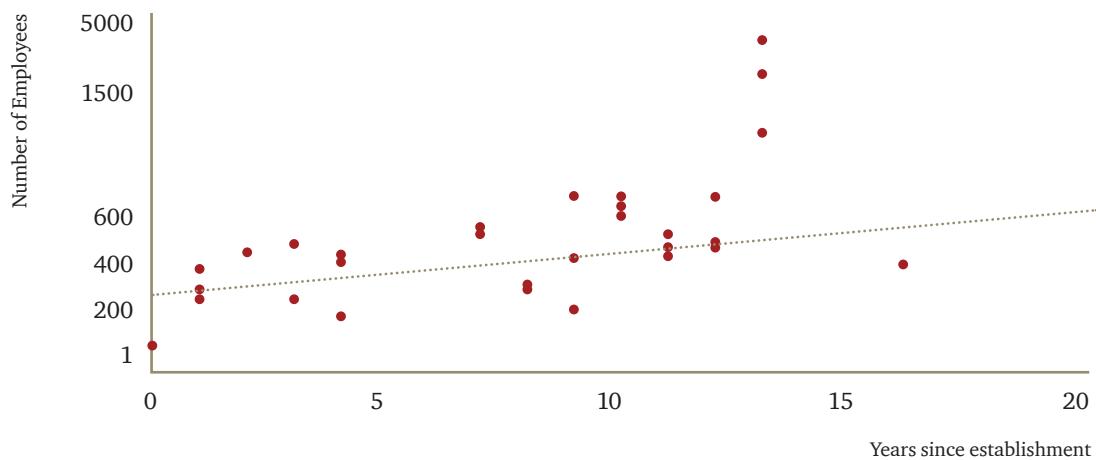
The 2016 BSC study was conducted at 31 centres in Slovakia and the Czech Republic. The most significant participation of centres was from the following sectors:

- **Energy, Technology and Telecommunication** ~32%
- **Services** ~16%
- **Manufacturing** ~16%
- **Banking and Insurance** ~13%

The remaining respondents provide services to other large industries.

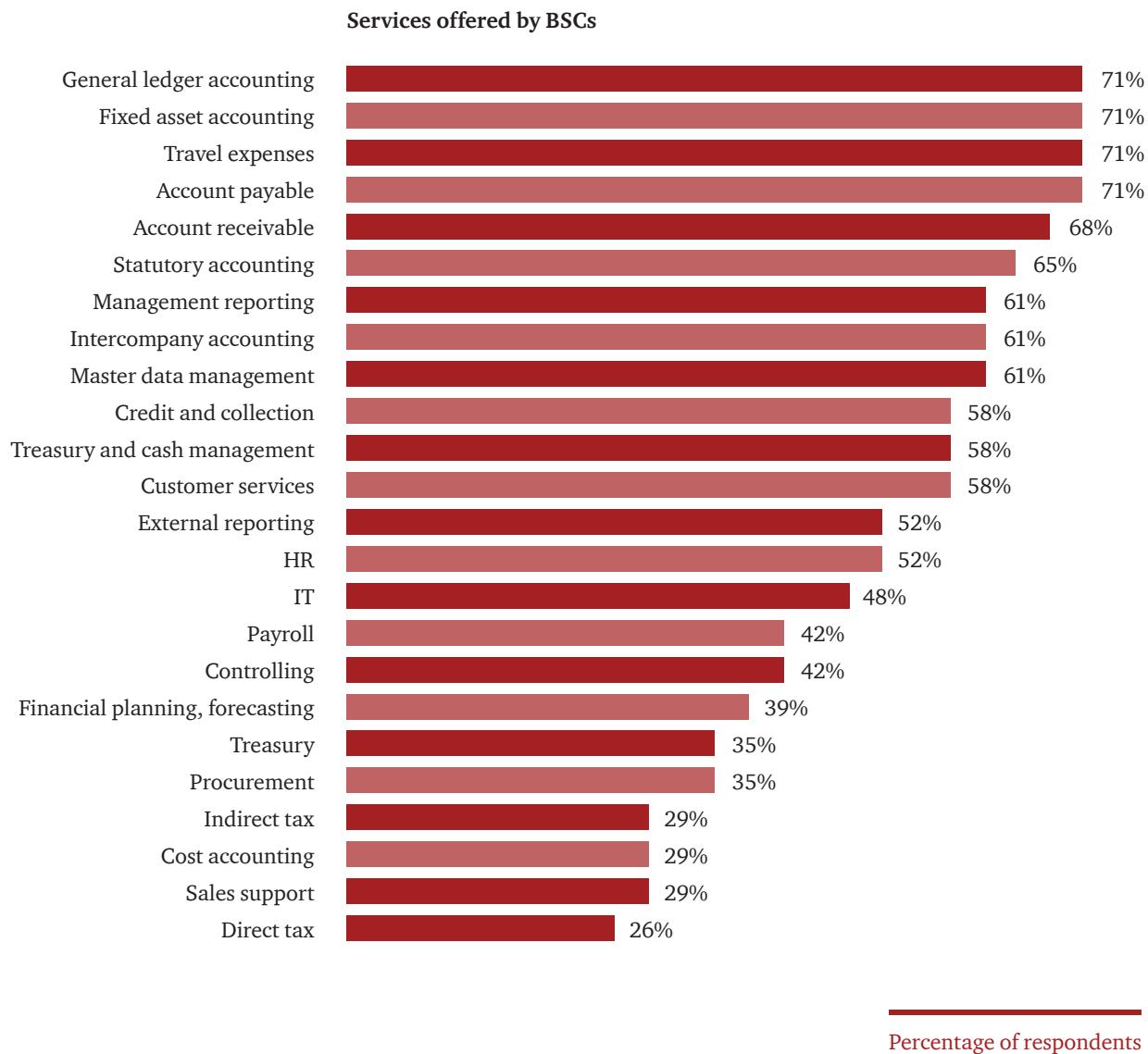
Staff numbers

The overall trend in the BSC industry in our region shows that centres are becoming larger and are employing more people. Especially in western Slovakia, centres are becoming a significant employer, with a strong influence on the labour market. 42% of centres had more than 400 FTEs. These changes are driven by higher demand and greater awareness of shared services. In general, the older the centre is, the larger it is. In line with the global study, centres are growing at 15% p.a. on average.



Variability of processes

As shown below, centres provide a broad portfolio of services including many types of primarily transactional processes, although non-transactional processes are also offered. The most commonly offered services (by over 70% of respondents) include general ledger accounting, fixed assets, travel expenses and accounts payable, followed by accounts receivable and statutory accounting which are included in the service portfolios of more than 65% of the centres.



Geographic spread

10 respondents provide their services globally across 31 locations, a further third provide services across the EU and the remainder in Europe, Middle East and Africa. Those who operate worldwide are amongst the largest and oldest centres on our markets.

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About the Survey

The Survey was conducted by PwC in Slovakia and the Czech Republic. BSCs replied via an on-line questionnaire, or in person at an interview.

This report looks at the key findings in the BSC sector and gives a comprehensive analysis of the business model. It provides an assessment of the 2016 results, key factors and an outlook for the future. This was the 3rd survey of BSCs conducted by PwC (2012, 2014, 2016).

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