KPMG

FINANCIAL MANAGEMENT

# Finance shared services – Delivering the promise

## Insights from 2008 research into leading European organisations

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Measuring the Impact:


# ABOUT THE RESEARCH

In 2008 KPMG in the UK commissioned CFO Europe Research Services, part of the Economist Group of companies, to conduct research into 'Finance shared services – delivering the promise', based on a survey of 230 senior finance executives from large European organisations, all of which use SHARED SERVICE CENTRES (SSCs). All but one of the responding organisations have annual revenue of over €350 million and half have more than €700 million. Most of those taking part have global operations and represent a broad cross-section of major industries.

## COMPARING "TOP" AND "UNDER-PERFORMERS"

To better understand why some SSCs are successful and some less so, we compared results from organisations with top-performing SSCs with those from under-performers, asking respondents to rate the overall performance of their centres on a scale of one to five, ("five" being "excellent" and "one" being "poor"). The 59 respondents who rated their SSCs performance as a "five" became our top-performers. The 41 respondents rating their SSCs as a "one" became our under-performers.

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# FOREWORD

Over the last fifteen years, finance SHARED SERVICES have become an essential part of the finance function for most large European organisations. Having already made substantial investments in establishing SHARED SERVICE CENTRES (SSCs), many of our clients are now looking for ways to maximise the value of their investment and take their SSCs to the next level of performance. We commissioned CFO Europe Research Services to carry out this survey to gain an insight into the characteristics of high performing SSCs and understand how the next generation of SSCs will look.

The research shows that the best performing SSCs are those which have ruthlessly driven process standardisation and formally tracked performance from business case through continuous improvement and customer satisfaction.

Global businesses will increasingly manage their SSC's as a single globally integrated network, managing processes seamlessly across locations as they continue to move up the finance value chain. Governance will become more complex as operational management extends to outsource providers in addition to the traditional 'internal' stakeholders. To succeed in this increasingly complex world, businesses and SSC leaders will need to make much greater investments in managing and developing people as talent becomes the next limiting factor for shared services.

This report would not have been possible without the participation of the 230 finance executives from across Europe as well as our specialists who kindly agreed to be interviewed for the report – we thank you for your support and insights.

I hope that you enjoy our report and that you find it useful in developing plans for your own SSC journey.

PATRICK FENTON
HEAD OF EUROPEAN SHARED SERVICES
KPMG LLP (UK)

# EXECUTIVE SUMMARY

The successful future model for shared services will undoubtedly encompass global processes, systems and data allowing the business to truly leverage its scale.

**Our survey shows that top-performing SHARED SERVICE CENTRES (SSCs) are distinguished by their senior executive support, providing excellent interaction with the business, driving continuous improvement to service quality and achieving high levels of standardisation.**

However, despite the increasing popularity of SSCs over the past decade, our survey also reveals that almost one in five respondents rate the performance of their SSC as "poor" and nearly a third of respondents feel that they have not delivered the promised business benefits.

It seems that many organisations have underestimated the scale of change and management effort involved in setting up and maintaining an SSC, with disparate processes brought together in one central location. Those participants with under-performing centres admit to getting insufficient support from senior management and such neglect can stall momentum. The top-performers, on the other hand, have received the necessary executive sponsorship allowing them to deliver the business case without losing quality.

Key insights from the survey include:

### 1. POOR PROCESSES AND LACK OF STANDARDISATION ARE LIMITING THE BENEFITS CASE

More than 90 percent of top-performers delivered the business case benefits for their finance SSCs compared with less than 10 percent of under-performers. What's plaguing the under-performers? A key insight is that under-performers tend to suffer from poor processes combined with a lack of standardisation across their systems. Moreover, processes in general are predominately managed at the local rather than global level or at best regionally – a challenge to the realisation of benefits.

### 2. CONTINUOUS IMPROVEMENT PROGRAMMES ARE NOT FULFILLING THEIR POTENTIAL

Although most of the respondents are running some kind of programme, two thirds of these are achieving annual cost savings of just five percent or less. For many organisations, the combination of inadequate processes and a lack of investment in people and technology are restricting efforts to improve performance. Attempts to introduce technology have been limited to activities such as workflow, scanning and optical character recognition, which are unlikely to have a dramatic impact on efficiency. Only a handful of those taking part have committed to more advanced technologies, such as call centres and Customer Relationship Management (for call and skill routing), self service reporting, and electronic trading all of which can really give their SSC a competitive edge.

### 3. MOST SSCs DO NOT HAVE A STRONG FOCUS ON CUSTOMER SATISFACTION

Surprisingly, the majority (59 percent) of those surveyed fail to measure customer satisfaction. Getting regular feedback on service performance and responsiveness is vital if SSCs want to deliver their promised improvements and this is backed up by our findings: those organisations that do measure satisfaction have also claimed higher service quality.

### 4. TOP-PERFORMING SSCs RECOGNISE THE POTENTIAL TO MOVE UP TO HIGHER-VALUE PROCESSES

Having enjoyed the benefits of successful shared services, the top-performers now have the ambition to take on more complex and sophisticated activities - with 85 percent looking to graduate to higher-value processes such as management information and analysis - and opening the SSC to other back-office functions such as procurement. Such a move will require SSCs to evolve, creating centres of excellence that sit alongside the existing high-volume transaction teams.

### 5. STAFF IN SSCs SUFFER FROM A LACK OF CAREER OPPORTUNITIES

The career path for those working in shared finance centres appears to be limited, with four fifths (81 percent) of all respondents saying that their SSC staff have never worked anywhere else in the business. Such narrow experience can lead to a high turnover of people, as well as making it harder for those in the SSC to build effective relationships across the organisation. Indeed, more than 60 percent of the under-performers in the survey believe that the interaction between the SSC and the rest of the business is poor, which inevitably inhibits the quality of service provided.

# DELIVERING THE PROMISE

Even though top-performers have delivered on their business cases, our survey shows that few (under 20 percent) have comprehensively provided the flexibility and scale expected or freed finance to concentrate on value-add activities. Thus for both top and under-performers there is more to do and SSC leaders need to consider whether they have:

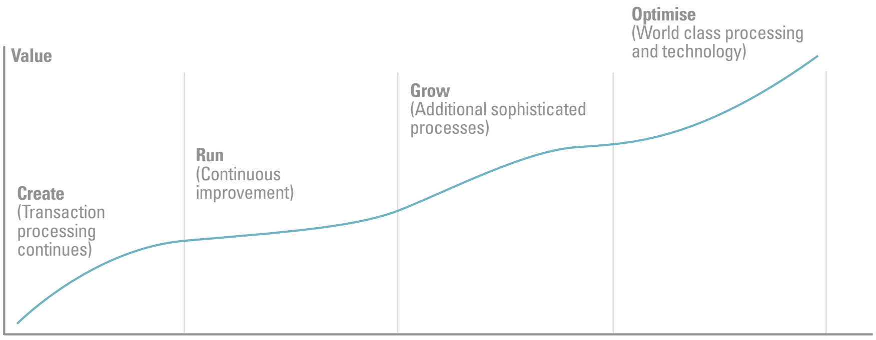
- maximised scale and the standardisation of processes, information and data at a regional or global level rather than local;
- driven through continuous improvement by implementing formal programmes and re-invigorating the drive towards automation and 'lights out' processing;
- measured the SSC's performance rigorously and have a regular dialogue with their customers;
- introduced succession planning within the SSC and rotation of SSC staff into the broader finance community;
- added more sophisticated processes such as management information and analysis; and finally
- opened the SSC to other functions to drive cross functional process improvement and maximise the return on investment in shared services infrastructure.

# INTRODUCTION: MOVING ALONG THE SSC 'MATURITY CURVE'

Investors and business leaders are looking for simpler, leaner internal structures that allow organisations to focus on their true competencies.


For many, the initial attraction of SSCs was to reduce costs by cutting staff numbers and relocating to lower-cost locations. Over time the top-performing SSCs have recognised that they can realise more sustainable benefits by moving up the 'maturity curve'. This involves: CREATING a centre with the right processes to take advantage of scale without compromising quality; RUNNING it so efficiently that it exceeds previous service levels; GROWING the SSC's size and scope to take on higher-value tasks that can bring savings to many parts of the organisation; and finally, where appropriate moving towards OPTIMISATION and making decisions on whether to outsource or offshore, to drive further automation or to support a global shared services agenda.

## THE SHARED SERVICE CENTRE MATURITY CURVE




The survey results show that even the top-performing SSCs have not comprehensively provided either the scale or flexibility anticipated or freed finance to concentrate on value-add activities. In the worst cases the initial enthusiasm that accompanied their introduction has diminished leaving centres to stagnate or even decline.

Yet with greater competition, rising costs of energy and materials and a growing regulatory burden, investors and business leaders are looking for simpler, leaner internal structures that allow organisations to focus on their true competencies. Such an approach demands a finance function that can make a real contribution to business decisions – as opposed to simply processing data.

The successful future model for shared services will undoubtedly encompass global processes, systems and data allowing the business to truly leverage its scale. These in turn will support a shared services framework that contain multiple centres from high volume transaction processing to the more sophisticated processes managed in the high value centres of excellence. For many organisations, outsourcing will be a viable option once the target operating model is clear. When there is ambiguity in this respect, outsourcing arrangements and their benefits are more difficult to implement successfully.

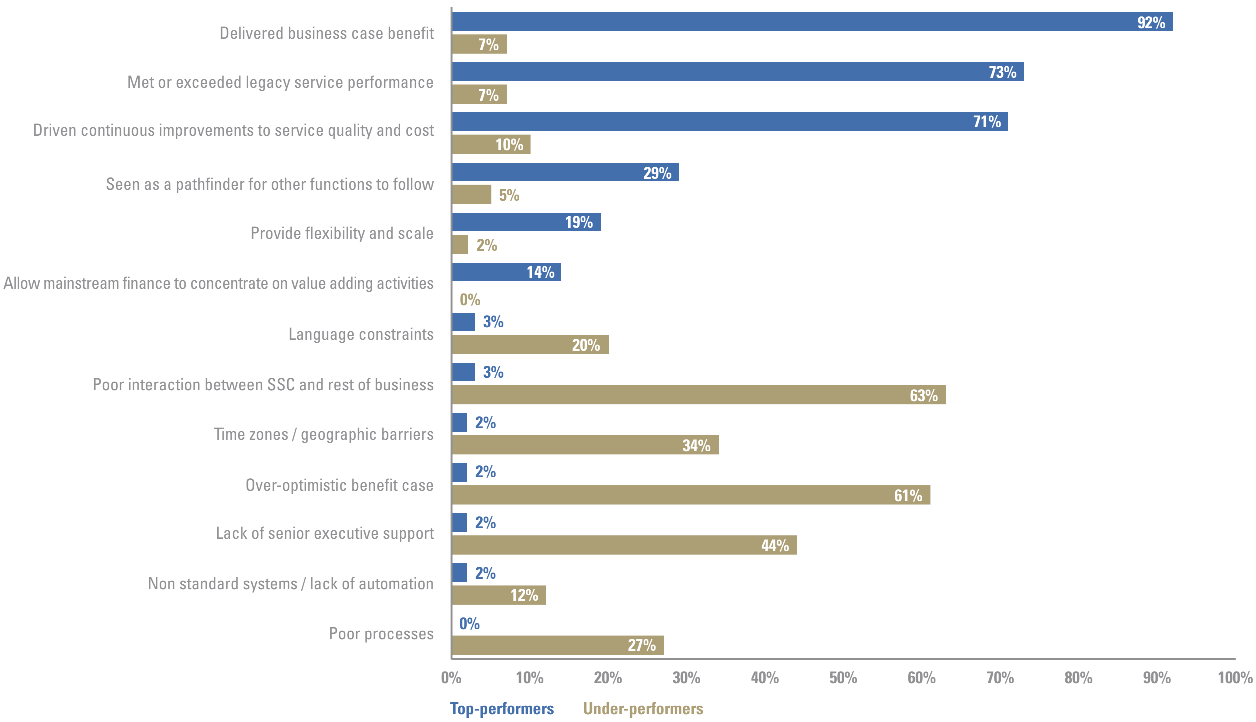
# CREATING THE SSC: GLOBAL FROM THE START?

Almost a third of respondents have not seen the expected business benefits from SSCs.

What are the secrets for those starting the finance SSC journey? Our survey suggests that the key to success is standardised processes, close working relationships with the rest of the organisation and a realistic business case that the top echelon supports.

It is clear that while many have succeeded in migrating core processes to SSCs, a significant minority have struggled. Around a fifth (18 percent) rate their overall SSC performance as "poor," whilst almost a third (31 percent) believes that they haven't seen the expected business benefits.

## WHICH OF THE FOLLOWING APPLY TO YOUR FINANCE SSCS?




Respondents were allowed to choose **multiple** responses

## TOP-PERFORMERS ALMOST ALWAYS DELIVER WHAT THEY PROMISE

There is clear blue water between top-performers and under-performers on how effectively they deliver the business case. Virtually all (92 percent) of those with excellent SSCs claim to have met their goals, compared to less than one in ten (seven percent) of under-performers. It also pays to be realistic in setting expectations; with over 60 percent of under-performers admitting that their business case had been over-optimistic. Those who delivered the benefits case also tended to maintain or exceed service delivery levels thus demonstrating how these two areas are closely aligned.

## IT IS CRITICAL TO ENGAGE WITH THE BUSINESS

Staff in SSCs can sometimes be forgiven for thinking that they have been exiled, as their traditional links with the mainstream business become limited to transactions. The under-performers in our survey confirm this disconnect, with a majority (over 60 percent) reporting poor interaction with the business and over four in ten (44 percent) citing a lack of senior executive support. Such disengagement can have serious consequences for service levels, as SSC staff lose touch with the needs of their customers as well as executive sponsorship. It is therefore no surprise that the top-performers are ten times more likely to meet or exceed service performance and overcome issues such as time-zone/geographical barriers and language constraints that are still posing challenges for under-performers.

## STANDARDISE, STANDARDISE, STANDARDISE

For the less successful SSCs, poor processes, non-standard systems and lack of automation are major stumbling blocks that have a significant impact on their ability to provide a high quality service. "Standardisation" is certainly a mantra at German automotive supplier Continental, which has operated shared services since the 1990s. Dr Alan Hippe, Chief Financial Officer (CFO) at the firm, believes that standardisation is something that many organisations overlook when attempting to migrate to a shared services model.

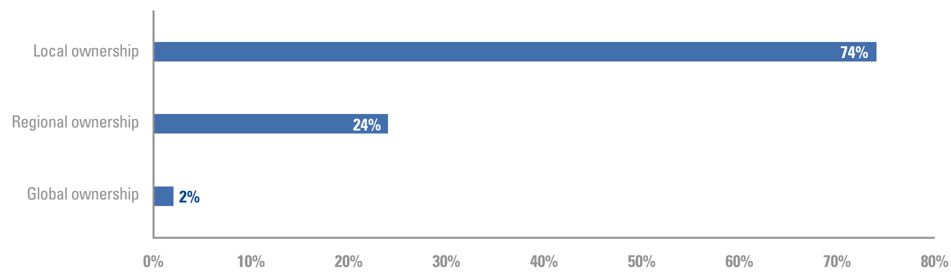
"Very often with an SSC, people relocate services purely because they think the labour costs will go down. But they forget to standardise the processes. And that means you have a heck of a lot of work to bring them together and standardise them in the offshore location."

## SSCs ARE STILL NOT REALISING THEIR FULL STRATEGIC POTENTIAL

Even the top-performers in our survey acknowledge that their finance SSCs do not yet provide the flexibility and scale to take them to the next, global level. Indeed, only a small minority (14 percent) feel that mainstream finance has been freed up to concentrate on more value-add activities. Nearly all of these organisations govern, manage and configure processes locally or at best regionally, which limits their true potential to move to a worldwide, standardised model.

However, the success of the SSC has also raised the bar and expectations of what can be achieved with nearly one third of top-performers seeing their SSCs as a pathfinder for the rest of the business.

## HOW ARE YOUR PROCESSES GOVERNED AND MANAGED?



Creating the SSC – whether a ‘centralise and standardise’ or ‘standardise and then relocate’ approach is adopted, the end game should be the same.

Here we contrast two successful approaches from Royal Dutch Shell and Continental.

Case study **Royal Dutch Shell: centralise, standardise, improve**

George Connell, Head of Strategy and Business Development for Royal Dutch Shell’s Finance Shared Service organisation says he’s learned crucial lessons in the decade since the company established its first SSC in Glasgow. Today the oil giant operates six centres in six different countries, covering finance, HR, contract and procurement and customer services activities. *George Connell’s comments relate to finance activities only.*

One of the key lessons is don t look to substantially re-design the processes during the work transfer period and don t defer migrations until you have the perfect processes!” Connell says. “If you’ve got a busy migration agenda and there are lots of activities transferring into the SSC, then don t look to reinvent the wheel while you’re doing it. Royal Dutch Shell’s approach is essentially to ‘lift and shift’ the processes as they are, moving them warts and all into the SSC and over time look for opportunities to improve. Each of these migrations typically takes up to nine months and relies on strong collaboration between the sending and receiving organisations covering aspects such as early consultation and communication; the business case; detailed risk analysis; scope of the activities and identifying the centre(s) to support these activities; stakeholder alignment; work transfer programme design; process documentation and training materials; and recruiting and training to the right resource levels.

The strategy of moving one set of processes to fewer centres, where possible, then driving improvements from within means the company can benefit from consolidated scale although the associated concentration of risk has to be managed. As Connell says, “The services and scope that may have been challenged in the past as not supportable by an SSC, for example, statutory accounting, direct taxation support, budgeting, planning or MI (Management Information), can now be considered as candidate activities for the SSC. Take India: you see some very interesting services being delivered from the centres there; for example, where sizeable organisations are staffed by PhD students dedicated to providing complicated finance analytics and conducting deep technical market intelligence surveys .

To many organisations, these are essentially local activities, but as Royal Dutch Shell leads the drive to standardise and simplify the processes and moves towards a more converged global accounting environment, Connell sees fewer limitations. “By concentrating the processes in specific centres it allows you to build critical mass and specialism within that process and that then provides the scale to optimise your continuous improvement agenda.”

“The services and scope that may have been challenged in the past as not supportable by an SSC, for example, statutory accounting, direct taxation support, budgeting, planning or MI (Management Information), can now be considered as candidate activities for the SSC.”

George Connell
Head of Strategy and Business Development – Finance Shared Services
**Royal Dutch Shell**

Case study

## Continental: standardise, automate, relocate

**Since helping Continental's introduction into shared services in 2002, Chief Financial Officer Dr Alan Hippe has developed a simple pattern. "First, when we look at processes we standardise them; and then we automate them," he says. "It's an important point and often forgotten. The third point is to relocate."**

It sounds simpler than practice would suggest at the €16.6 billion German automotive supply giant, which employs 150,000 people in 36 countries. Hippe has learned from experience that SSCs are not the answer to every problem – he insists that only selective use of the SSC model will yield the best results. "The best way for us is when the operational parts of the business come to us and say, ok we have an idea to reduce cost and administration.

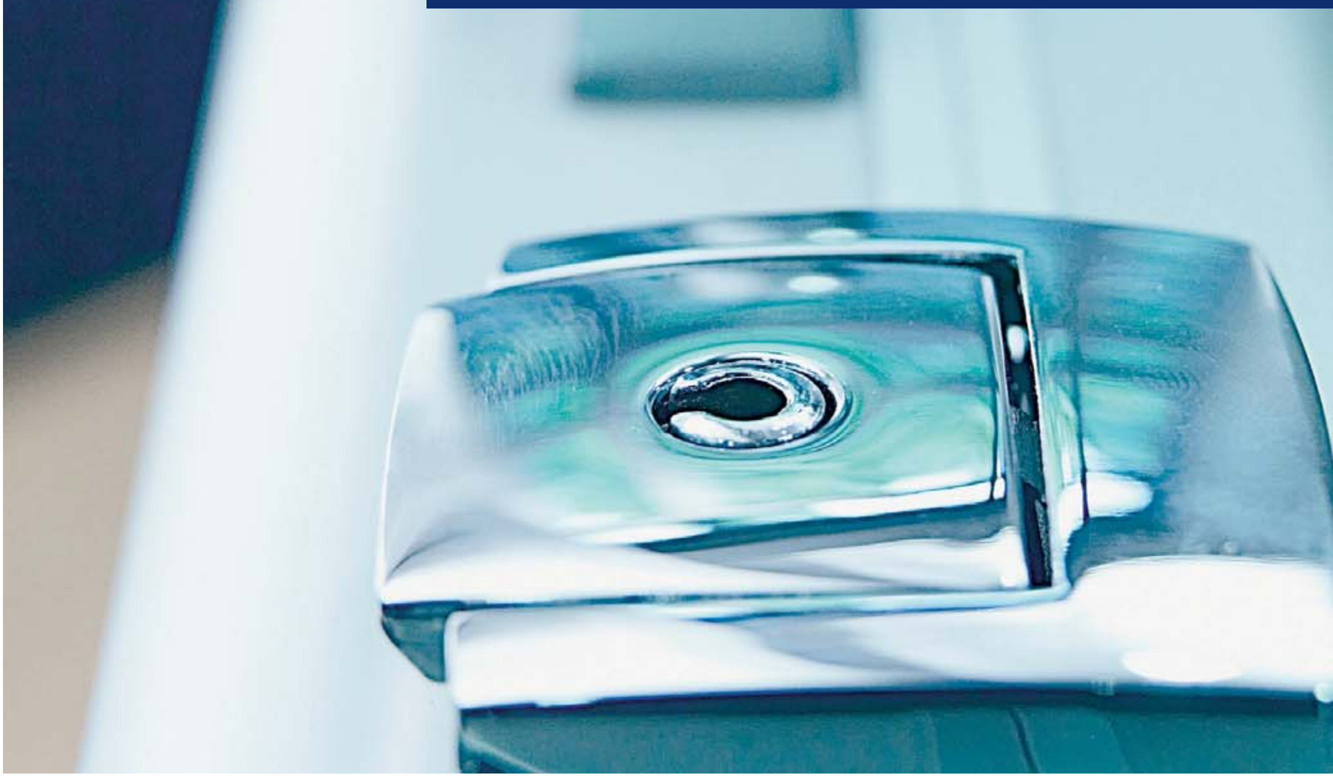
The CFO points to developments in transaction processing as proof that Continental is continuously monitoring and improving its activities. "For us it often starts with payables because we ve invented a process that not only standardises but also automates the booking of payables," he explains. And then we ve also rolled out automated payment of payables. We use spot checks and in Europe alone we have reduced more than 70 people in that area through using the process. And we ve recently rolled it out to Asia to reduce the people involved in finance significantly.

So the SSC offering is working and undergoing continuous improvement, which has led the CFO to look at ways of integrating more services. "The service spectrum is very wide and we are opportunistic," Hippe explains. "We look at the regions and what they need and ask ourselves what they need and what we can improve. In Hippe s view, many processes such as asset valuation can be standardised since there are certain methods that can be simply applied across a given region. "We do that certainly where we use US GAAP," the CFO says. And we have a dedicated team doing that, while in other regions you look at it differently. But my overall approach can be summed up as: if I can move higher-value processes to a SSC, I will do it.

"…if I can move higher-value processes to a SSC, I will do it."

Dr Alan Hippe
Chief Financial Officer
**Continental**

# GOING GLOBAL TO PROVIDE FLEXIBILITY AND SCALE



Global process ownership drives global process standardisation.

Few organisations, including top-performers, have provided the anticipated flexibility and scale desired, nor have they truly allowed mainstream finance to concentrate on value-adding activities. Worryingly, there appears to be some hesitation in taking the step towards a global set of common operating processes – thus limiting the available benefits from standardisation and scale across the business.

Simplifying the business model through global process ownership is one mechanism that can be used to support the drive towards process and data standardisation and exploiting the return on IT systems. With a simplified set of processes, underpinned with a worldwide data set, organisations have the ability to leverage their scale to process transactions and to capture and provide insightful information to the business. The alternative is a series of disparate systems and processes around the world working to different objectives and timetables, which generate data in varying formats and underlying definitions, ultimately causing considerable re-work for the centre and disconnecting them with the realities of the local businesses.

# RUNNING THE SSC:

## PERFORMANCE: BUILDING MOMENTUM TOWARDS EXCELLENCE

## TECHNOLOGY: ROOM FOR IMPROVEMENT

## PEOPLE: INTEGRATED OR ISOLATED?

"What you want is a culture where people… are incentivised to look for continuous improvement".

Simon Fanning
Managing Director within Investment Banking Operations
**Deutsche Bank**

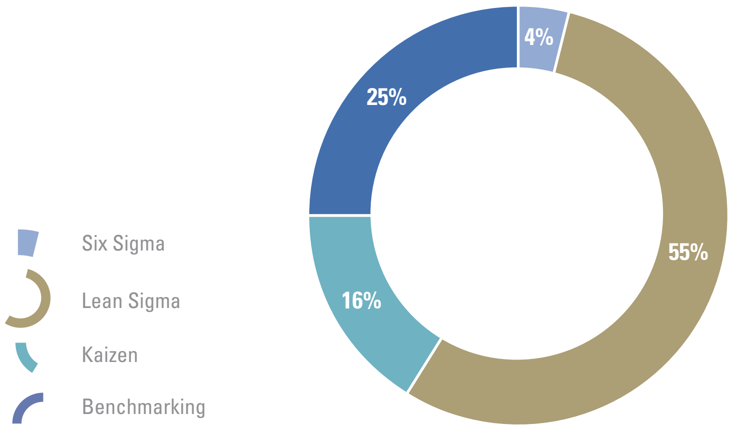
# PERFORMANCE: BUILDING MOMENTUM TOWARDS EXCELLENCE

Less than one in ten continuous improvement programmes see annual savings above ten percent. SSCs are in an ideal position to standardise, automate and lead the move towards 'lights-out' processing, yet few are really driving hard towards this.

Any efforts to develop SSCs appear to be hampered by a poor return on investment in continuous improvement programmes. And with over half of those organisations surveyed not even measuring customer satisfaction, there is a danger that centres will fail to keep up with the demands of those that they serve.

Continuous Improvement (CI) programmes are well established among virtually all survey participants. Yet it seems a lot more could be achieved as two thirds of these programmes are achieving annual cost savings of only five percent or less, and less than one in ten see annual savings above ten percent. Although not a CI methodology in its own right, benchmarking was credited as the approach that delivered the highest level of savings by the respondents, closely followed by Six Sigma and Lean Sigma CI programmes.

## IF YOU RUN A CONTINUOUS IMPROVEMENT PROGRAMME, WHICH TECHNIQUE DO YOU USE?



Simon Fanning, Managing Director within Investment Banking Operations at Deutsche Bank, believes that the key to driving ongoing improvements is to embed the concept of process enhancement into the mindset of SSC staff. "What you want is a culture where people who do the job are incentivised to look for continuous improvement. So it becomes part of their day job to look for it," he says.

Continental is one company that has significantly reduced its finance staff through their implementation of an SSC. "In Europe alone, finance has reduced by more than 70 people," says CFO, Dr Alan Hippe. "We've recently rolled it out to Asia to reduce the people involved in finance significantly." A series of KPIs are in place to gauge the effectiveness of specific shared services. "We have a payables scheme in the SSC and we measure how many payables [our team] can deal with on a headcount basis and we monitor how efficient we are," Hippe says.

The governance structure is crucial too. At InterContinental Hotels Group, each global process owner – for example account-to-close, procure-to-pay, compliance – reports to Ralph Wheeler, Financial Controller, and is responsible for continuous improvement within their end-to-end process. "The task is not just to transform, but also to continually improve," Wheeler says.

## MEASURING CUSTOMER SATISFACTION BRINGS REWARDS

Only four out of ten respondents have formal customer satisfaction measurement programmes in place within their SSCs, with such practices being far more common in the organisations with top-performing SSCs. And this proactive approach to customers is clearly beneficial: those SSCs that do measure satisfaction are seeing positive results in terms of service quality, reduced costs and responsiveness.

The joint venture between the UK's Department of Health and Xansa (now Steria) is a good example of measuring customer satisfaction successfully. "As well as the eight formal KPI metrics we have, we probably have 100 informal ones, where I can test the temperature of my service on a daily basis", says Mike Wood, Chief Operations Officer for the joint venture company. It's essential to check continually, he says, because you can be sure "our customers are doing that themselves".

In addition, four times a year Wood invites all his customers to feedback on the quality of service they receive and the changes they want. Accordingly, the joint venture company set aside a budget specifically for customer requests. "That process is unusual in my experience in the complex environment we work in", Wood says. "We say [to customers], "Unless we can't do it because the whole system will fall apart, or it's illegal, then if that's what you want, that's what we'll do".

Although Deutsche Bank also employs a range of KPIs to measure the performance of its shared services, Simon Fanning cautions against using too many performance indicators. "The trick, and it comes from experience, is measuring the appropriate KPIs," he says. You need to apply some common sense to the risks and impacts of the process in determining what the KPIs should be."

InterContinental Hotels Group uses SLAs, but they are also developing a comprehensive customer survey to be rolled out in the next few months. "It's like a guest satisfaction survey for our hotels," explains Wheeler. "Are we doing the right thing? Are we doing what you want us to do? How was your interaction?"

Marcus Alexander, Adjunct Associate Professor of Strategic and International Management at the London Business School argues that listening to internal customers and responding to their feedback is a cornerstone of an effective shared service model. "It ought to be something where the customer has a real say, and where they have some power so that if they don't like the service they can say so," he says. "The better the customers are at expressing what they need, the more you can go to global approaches," he adds.

As George Connell, Head of Strategy and Business Development for Finance Shared Services in Royal Dutch Shell notes: "One of the challenges for us in finance is that we do operate within an end-to-end process, and if you look at the requisition-to-pay process, for example, then finance is only one constituent part of the end-to-end process. Others include the purchasers (e.g. engineers, sales and marketing staff etc), central procurement staff, and so on, all of whom have a responsibility within the end-to-end process". Connell explains "one of the key lessons is to have clear delineation of responsibilities and expectations within the end-to-end process. When operational performance is based on the input from the SSC, be very clear on the kind of service level that is expected from you and what you expect in return from others!"

Those centres that measure satisfaction also have more satisfied customers.

## OVERVIEW OF MAJOR CONTINUOUS IMPROVEMENT METHODOLOGIES

### SIX SIGMA

A highly disciplined, data-driven process that helps organisations strive for near elimination of defects using the application of statistical methods. It centres on systematically identifying and eliminating causes of failure in business processes. The methodology places a clear focus on achieving measurable and quantifiable returns to the bottom-line of an organisation and utilises well developed tools and techniques for resolving process defects in a sequential and disciplined fashion. However, the unavailability of quality data and suitable definitions of defects that fit the Six Sigma statistical definition could prove to be a challenge.

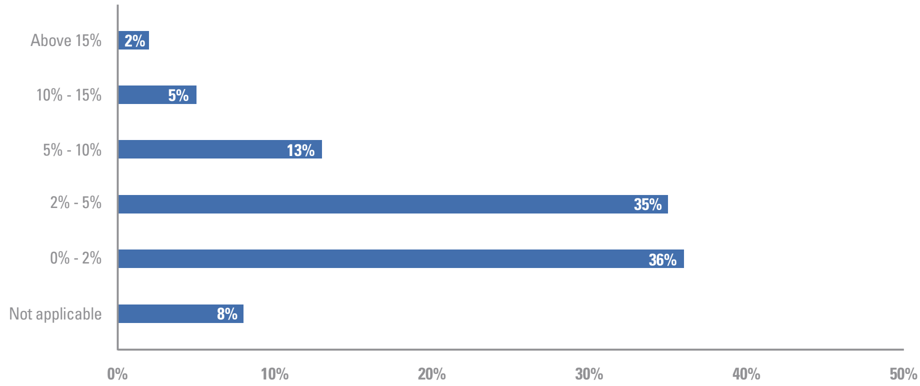
### LEAN SIGMA

An integrated and balanced combination of the speed and variation reduction power of both Six Sigma and Lean process management. Lean process management focuses on removing waste and streamlining flow through processes, as opposed to batch and queue. The methodology re-designs processes to be more responsive to changes and minimises resource wastage through its aim to eliminate batching and queuing. However, the focus on eliminating waste and variation can sometimes obscure how to eliminate the source of the waste.

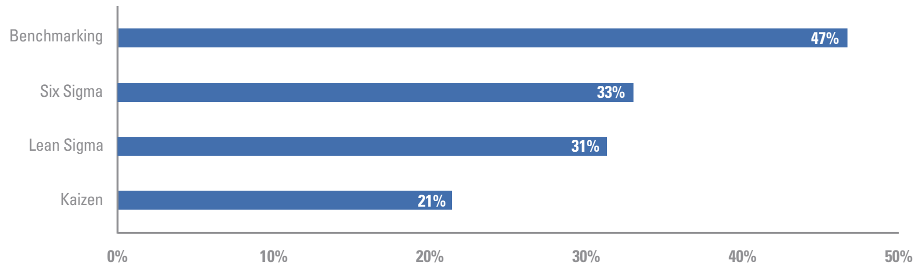
### KAIZEN

An approach that encourages small but continuous improvement of processes across all functions of a company from management to assembly line workers. It is a daily activity, the purpose of which goes beyond simple productivity improvement, to encouraging people to perform experiments on their work with the intention of identifying and eliminating waste in business processes. The systematic evaluation of the entire process instead of just immediate problems helps avoid creating or missing problems in other parts of the process. However, cultural change is sometimes required across the organisation to empower and encourage all staff to improve their work practices.

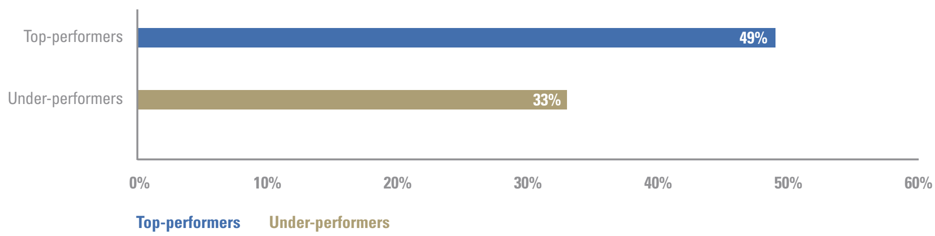
## WHAT PERCENTAGE OF ANNUAL SAVINGS HAVE YOU ACHIEVED THROUGH YOUR CONTINUOUS IMPROVEMENT PROGRAMME?




## WHAT PERCENTAGE OF RESPONDENTS ACHIEVED ANNUALS SAVINGS OF 5% AND GREATER FOR THE FOLLOWING:




## WHAT PERCENTAGE OF RESPONDENTS MEASURE CUSTOMER SATISFACTION FOR THEIR ORGANISATION'S SSCs?



Case study

## Proving performance at the NHS

NHS Shared Business Services Ltd (NHS SBS) is a joint venture between the Department of Health in the UK and Xansa (now part of Steria Group) and offers BPO services in finance, payroll and procurement to NHS Trusts. Serving over 90 clients, it processes 3.6 million invoices a year and issues over 1 million purchase orders worth over £6bn. Its performance has been recognised externally, gaining SAS 70 accreditation and winning the National Outsourcing Association's prestigious award: Outsourcer of the Year 2007.

Imposing a one-size-fits-all approach on such a huge and heterogeneous organisation as the UK's National Health Service is near impossible. With 1.5 million employees, only the Chinese army, the Wal-Mart supermarket chain and the Indian Railways directly employ more people. The job is made harder by the fact that there are more than 400 semi-autonomous entities that deliver care across the country (Hospitals, Primary Care Trusts (PCTs) and Arms Length Bodies). "We can't mandate it, so Trusts need to prepare a business case in order to prove the value of coming in and using the service," says Peter Coates, Deputy Finance Director for the UK Department of Health. "It means we need to prove that NHS SBS provides value for money before a Trust migrates. And we need to prove that each time around."

To help bolster the business case for migrating services, NHS SBS can point to many metrics that prove performance is being sustained to the highest levels. All the key performance measures such as speed of processing, help desk response times, speed of debt collection and quality of ledger reconciliations are rigorously measured, led by eight formal KPIs and around 100 informal measures. These KPIs are then supported by continuous improvement training through seminars, webinars and master classes and a post implementation assurance review. This has enabled it to make significant improvements, increasing productivity in key service areas by as much as 60 percent.

As with its corporate cousins, NHS SBS makes use of the off shoring model by having a centre in India. That, Coates believes, will allow NHS SBS to drive more savings from its processes and provide a platform for growth, something on which he s keenly focused. "We need to continue our efforts to get more of the NHS on board for the finance services we offer," he says. "There s a huge customer base out there to get hold of. On 1st October 2008 the Department of Health s financial management is moving across to NHS SBS because it wants to lead by example and show the benefits.

"It means we need to prove that NHS SBS provides value for money before a Trust migrates. And we need to prove that each time around."

Peter Coates
Deputy Finance Director
**UK Department of Health**

# DRIVE CONTINUOUS IMPROVEMENT TO GET THE MOST OUT OF THE SSC

As the survey indicates, the best efforts to continuously improve SSCs have yielded disappointing results. After the fanfare of its introduction – and the early gains in headcount reduction and standardisation – there is a danger the centre becomes sidelined and starved of investment and management attention.

As noted earlier, a lack of management buy-in to the investment and the retaining of local ownership are limiting the potential benefits from process improvement. Crucially, we do not see many shared services leaders driving towards 'lights out' processing. By controlling processes and having continuous improvement teams at their disposal shared services leaders should be driving to automate processes to an extent where the SSC becomes very small or even obsolete, and savings more clearly attained.

Organisations also need to shift their thinking on how they evaluate success in a SSC. For their long term success, SSCs must move beyond cost reduction to deriving value from efficiencies and service quality. Setting the measures around customer requirements is a key starting point.
By tailoring any improvements closely to customer requirements, it is possible to introduce innovative solutions around self-service applications, seamless end-to-end processes, as well as providing the mandate to enhance the skills of staff, enabling them to offer support of a more strategic nature.

For long term success SSCs need to move beyond cost reduction towards improving service.

# TECHNOLOGY: ROOM FOR IMPROVEMENT

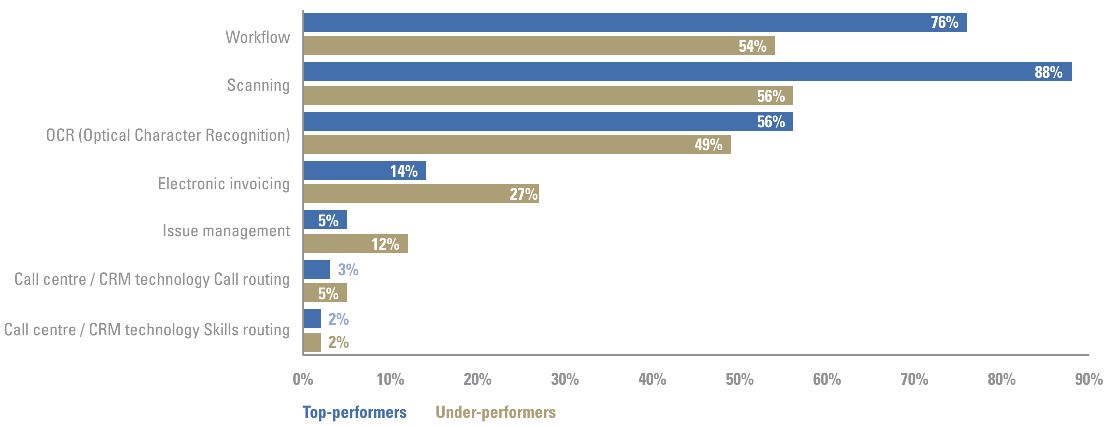
**The top-performing SSCs are distinguished by their greater use of technology, but so far have limited its use to certain basic tasks (e.g. scanning and workflow).**

Approximately a quarter of respondents complained of below-average standardisation in their systems, processes and data. Those respondents with under-performing centres typically suffer from poor processes and a lack of automation and standardisation, so it's no surprise to discover that these same organisations have been slower to adopt basic technology such as workflow, scanning and optical character recognition, all of which can speed up efficiency and reduce work hours.

Even the top-performers make little use of advancements in technology such as issue management, call and skills routing, customer relationship management technology, electronic invoicing, self service reporting and master data entry. All of which offer the potential to radically improve the cost and the quality of their customer service.

In addition to these shared service enabling applications, one ERP system platform is a major key to success. Ralph Wheeler, Financial Controller at InterContinental Hotels Group, highlights the importance of "one system" (in their case Peoplesoft) for accounting and transactions. Technology, he points out, has never really been a barrier: "We don't have any issues with driving technology to keep up with where we want to be," he says. "Lack of enablement has not slowed us down. There are obviously important technologies on the purchase-to-pay side such as scanning or e-billing or e-settlement. But the issues are more about connectivity – it all comes down to that side of things."

## WHAT SSC ENABLING TECHNOLOGY HAVE YOU IMPLEMENTED?




Respondents were allowed to choose **multiple** responses

# SCRATCHING THE SURFACE

Lessons from top-performing organisations demonstrate that technology is an important enabler to driving standardisation and improving service quality. The impact is starkly illustrated by the under-performers' high incidence of poor processes, non-standard systems and poor interaction with the business. If the gap between top and under-performers is to be closed, poor performers must adopt tried and tested technologies such as workflow tools, scanning and OCR to enable them to leverage their scale.

This will not only drive standardisation across processes, data and systems but create a seamless experience for SSC customers. Despite the use of certain forms of technology, even the best performing SSCs have yet to fully embrace the kind of automation that could transform them into world-class operations and maximise the exploitation of their investment in IT. By studying how other areas of the business have applied technology, finance functions will observe how, for example, the use of call centre techniques such as call and skill routing is increasingly prevalent in service driven organisations.

Call centre technology is being used to great benefit by NHS Shared Business Services. With more than 90 customers, this shared services provider to the UK's National Health Service registers, tracks and assigns priorities to incoming enquiries. With 3.6 million invoices a year to process, technology ensures resources are effectively deployed and customer enquiries are answered promptly and effectively.

To close the gap with top-performing shared services, technology can not only be used to drive standardisation across processes, data and systems but to create a seamless experience for SSC customers.

# PEOPLE: INTEGRATED OR ISOLATED?

With limited exposure to the wider organisation, it's not surprising that those working in SSCs feel cut off from the mainstream business. The finance executives we spoke to stress the importance of integration; they worry that when staff do not feel they are part of the business, quality will suffer and people will leave.

Dr Alan Hippe, CFO at Continental is keen to emphasise the importance of ensuring that those working within an SSC do not remain cut off from the rest of the business: "It's not like they are integrated into the overall operation. So they lack the feeling of how the products meld, how certain things go on, so to a certain extent they are isolated," he says.

George Connell, Head of Strategy and Business Development for Royal Dutch Shell's Finance Shared Services organisation agrees: "There is a learning curve to go on, so mistakes will be made and there will be problems along the way. The important thing is to put it into perspective and to work collaboratively. The centres have to be seen as an integral part of the business."

Our survey confirms these concerns, with the vast majority (81 percent) of respondents reporting that their SSC staff have never worked anywhere else in the organisation.

Continental has a clear solution to this potential challenge: "On a regular basis, we send these guys into the operations to get a sense of how operations are doing and what is important," Hippe says. "If you don't have an idea of how the business and its processes work, then you have a problem to perform well, since you're only focused on a certain portion of the business."

Nearly two thirds of under-performers say they suffer from poor interaction between the SSC and the rest of the business, compared with just three percent of top-performers.

"[Staff turnover] is less of a problem where you have standard global processes and a critical mass of people operating them…the simpler and more standard the processes are, the easier it is to sustainably support these processes from the centres."

George Connell
Head of Strategy and Business Development – Finance Shared Services
**Royal Dutch Shell**

81 percent of respondents say their SSC staff have never worked anywhere else in the organisation.

Indeed, our survey shows that the top-performing centres are far more successful at integration; nearly two thirds of under-performers say they suffer from poor interaction between the SSC and the rest of the business, compared with just three percent of top-performers.

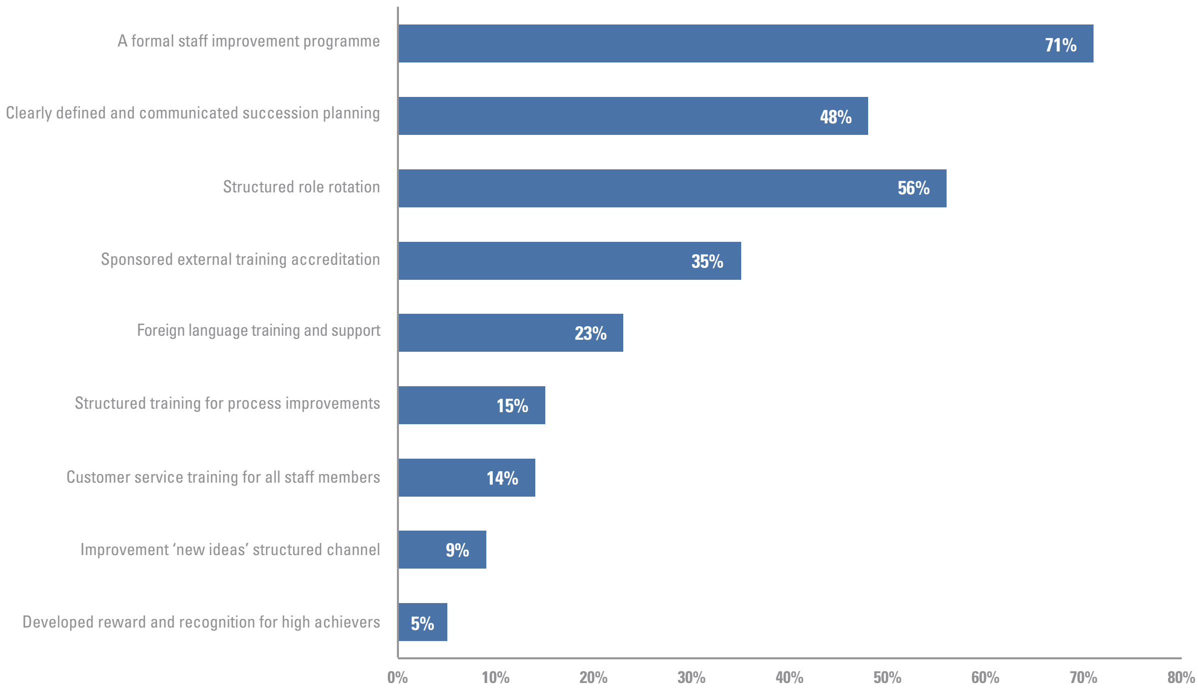
However even those with top-performing SSCs concede that gaps between the SSC and the rest of the business can be a formidable hurdle to overcome. "It's a challenge of dislocation of people from management – and that's a challenge for any kind of off-shoring, near-shoring or out-sourcing," says Simon Fanning, Managing Director within Investment Banking Operations at Deutsche Bank. The solution? The key, says Fanning, is to create a "partnership" between the shared services function and the core business, ensuring that those working within the SSC do not feel that they are acting in isolation.

## SUCCESSION PLANNING CAN MAKE A DIFFERENCE

Top-performers distinguished themselves by providing more opportunities for structured role rotations, external training and training specifically in process improvement.

In addition, many of our interviewees emphasise the importance of succession planning, believing high staff turnover to be one of the major challenges facing organisations adopting a shared service model. Interestingly, Royal Dutch Shell's George Connell believes that many staffing challenges become easier to overcome when scale supporting standard processes are established. "[Staff turnover] is less of a problem where you have standard global processes and a critical mass of people operating them" he says. "The simpler and more standard the processes are, the easier it is to sustainably support these processes from the centres."

## WITHIN YOUR SSCS WHICH OF THE FOLLOWING APPLY?




Respondents were allowed to choose **multiple** responses

Case study

## Attacking the attrition challenge head-on at Deutsche Bank

**Financial services, with its process-heavy business model were one of the first industry sectors to wake up to the efficiencies and potential wins from shared services. Simon Fanning, Managing Director within Investment Banking Operations at Deutsche Bank says their team has learnt a lot from past experiences. As Fanning explains "We drive a 'One Bank' culture, rather than a One Culture Bank. We have learned to take the best from operating cultures around the world and bring those together to work in unity".**

The Deutsche Bank model involves one main centre located in India with two smaller centres in Jacksonville, US and Birmingham, UK. They have adopted a locally focused approach, allowing regional managers from around the world to offer feedback and suggestions as to how best to run the SSC. "I think the key thing here is to create a mature partnership." Fanning says. "So the way we look at it is that the centre is a fully integrated part of our operation. It's not a group of people in a country no one ever goes to, to whom we throw tasks at and who operate in isolation. This dialogue between off-shore/near-shore centres and main hubs allows management on all sides to quickly identify glitches and get remedies in place fast. Fanning explains: "We have moved on from the mind set of 'on-shore is always right; off-shore is always wrong'. Global equality means a more mature partnership.

One of the challenges in running a successful SSC has traditionally been greater staff turnover than in the traditional, operational parts of the business. It's an issue Deutsche Bank has tackled head on. As Fanning says, "We learnt a great deal from other organisations that had already set up in these off-shore and near-shore locations. As a generalisation, they set up planning to hire graduates, who they then put on the phone answering customer queries; which is a clear mismatch of skills and expectations. Then they put qualified accountants on night shifts and wondered why they left. So you have to carefully plan to make sure you offer the right things at interview stage; matching people s real capabilities and desires to the job as well as describing what opportunities would be planned for them for further growth. This is key and is why you see huge turnover in call centre style jobs and less in jobs that add value to an organisation.

"…the key thing here is to create a mature partnership… the [shared services] centre is a fully integrated part of our operation."

Simon Fanning
Managing Director within Investment Banking Operations
**Deutsche Bank**

# CREATING A FULFILLING CAREER PATH WITHIN SHARED SERVICES

The survey highlights the failure of many SSCs to effectively manage their talent through the provision of exciting and rewarding careers. Such a lack of investment in people can have serious consequences leading to high attrition and poor interaction with the rest of the business isolating the SSC from the needs of the business. Yet paradoxically a growing number of retained finance functions are tackling the very same issue with vigour, recognising the urgent need to move people away from mere number crunching to higher-value activities. This has involved a radical re-think on how finance engages with and supports the mainstream business, leading to the creation of new roles such as Finance Business Partners and the bringing in of new skills such as change management, influencing and project management through hiring MBAs and other experienced business talent.

The development of this talent pool can also provide the business with a larger pool from which to develop its leaders of the future. As the role of the CFO becomes more demanding, so their CV is now expected to demonstrate excellent delivery across many geographies and cultures; tackling major issues such as improving cross functional processes and exploiting the benefits of technology. Shared services could act as an important stepping stone for future finance leaders, giving them the opportunity to manage technology and process driven change, lead large groups of people and manage operational services.

Shared services could act as an important stepping stone for future finance leaders, giving them the opportunity to manage technology and process driven change, lead large groups of people and manage operational services.

# TO THE HIGHER GROUND: GROWING THE SSC

71 percent of respondents plan to expand their SSCs to higher-value processes.

The majority of organisations in the survey have bold ambitions for their SSCs, wanting them to take on higher-value processes and build global networks. Under intense pressure to be more efficient, can they bring in such changes quickly enough?

With corporate margins under attack from global competition, rising input costs and an increasing regulatory burden, business leaders are eager to accelerate their progress along the shared services "maturity curve" to better support their business and reduce the overall outlay on finance.

A natural first step will be to take on more transaction-based processes not just in finance but also across other functions such as HR (e.g. payroll and expenses) and procurement. The real gains however will come from a truly global set of systems and processes for standard accounting procedures such as accounts payable, accounts receivable, general ledger and trial balance. These will help organisations achieve significant economies of scale and simplify and speed up the whole process of data collection, allowing management to make more informed financial decisions.

"…it [global ownership] is the only way that you're able to drive consistency and standardisation across the whole of an organisation."

Ralph Wheeler
Financial Controller
**InterContinental Hotels Group**

Only 4 percent of respondents expect their SSC to be under global ownership by 2011.

## THE SLOW MOVE TOWARDS GLOBAL NETWORKS

Although most SSCs remain local in scope, 57 percent of respondents say a global network is in their future plans. Don't expect this to happen soon however, as only a fraction – four percent – expect to be under global ownership by 2011. Indeed, only a quarter have even progressed beyond local to regional ownership.

Dr Alan Hippe, CFO at Continental has a simple answer for this: it's easier to roll out a global SSC in some parts of the business than in others. "It's more about looking for opportunities division by division," he says. "So, for example, in our Automotive Divisions like Chassis & Safety we have SSCs running in China, Mexico and Eastern Europe. This works well because in our Automotive Divisions we have a lot of standardised processes." This, he says, contrasts with Continental's tyre business, which "has a lot of retail and also wholesale customers – much more compared to the automotive systems divisions. So automation is much more of a challenge."

Royal Dutch Shell has already made significant headway in migrating from local to a global network of SSCs. "The centres were initially established to support local geographies, apart from our Manila centre, which was there for the US," explains George Connell, Head of Strategy and Business Development for the company's Shared Services organisation. "Now we support all of the businesses across the world through a globally connected network: upstream and downstream, training, global solutions, central functions."

## OFFERING MORE SOPHISTICATED SERVICES TO THE BUSINESS

A large majority of all those surveyed – 71 percent – plan to expand shared services to higher-value processes. This figure is significantly higher for top-performing SSCs, who clearly recognise the benefit of centralising as many processes as possible, building further economies of scale and running more and more activities on common systems.

Deutsche Bank has a three-year-old global SSC in India that covers primarily infrastructure and processing activities. Simon Fanning, Managing Director within Investment Banking Operations, sums up the path that many top-performers are choosing: "You tend to focus first on the core simpler functions to gain traction," he says. "And then, as you gain success with these, you then start to move further up the value chain." He argues that the potential for migrating processes has very few limitations. "Really the only functions that can't move are those which require client proximity, specific language skills, time zone equality, or functions that are controlled by laws or governed by industry regulators."

Royal Dutch Shell, for example, covers its finance activities from a network of centres around the world. The company is now looking to bring in more "higher-end" processes, not to be confused with "higher-value". Connell indicates that '….we strive to ensure that all our processes be they transactional or analytical, deliver 'high value". Shell has successfully moved hydrocarbon accounting, data mining, period end reporting and most recently, management information and reporting analytics to its SSCs.

"Going forward the centres are becoming fundamental for Royal Dutch Shell to deliver on the finance vision and much more integral to the overall business strategy. I don't think there's any end in sight to where the shared services journey can go."

George Connell
Head of Strategy and Business Development – Finance Shared Services
**Royal Dutch Shell**

Connell explains further "Shell will continue to assess what activities can be delivered from the shared service network." He has an expansive vision: "I think the top quartile bar will continue to rise in terms of activity penetration. So you'll continue to bring more services into the centres. One of the results of this increased scope and controls penetration is that the people in the centres will assume more responsibility for the total service delivery and be responsible for the design, documentation, operation and continuous improvement of their core processes. In the past the centres might have been seen by some as a peripheral part of finance, used solely for labour arbitrage benefit. Going forward the centres are becoming fundamental for Royal Dutch Shell to deliver on the finance vision and much more integral to the overall business strategy. I don't think there's any end in sight to where the shared services journey can go."

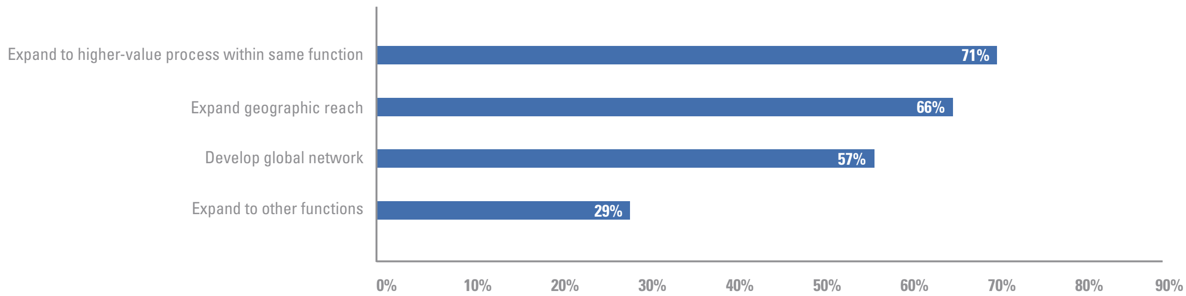
## PROCUREMENT

Marcus Alexander, Adjunct Associate Professor of Strategic and International Management at the London Business School, sees another trend – the rise of the procurement function. "Just as we saw finance and marketing becoming critical skills, in the future we'll see the rise of procurement as a critical skill set that all sorts of people need to use across lots of disciplines," he says.

The relationship and interdependencies between corporate back-office functions have often been over-looked. For example, effective procurement processes are dependent upon Finance and HR as well as other functional areas such as IT and logistics. Now that finance SSCs are being successfully established, organisations are now beginning to see that the Procurement function presents an opportunity to extend the current use of their SSC by providing an operating platform and infrastructure that enables procurement to centralise, standardise and streamline many of its processes and operations; as well as provide better integration with other corporate back-office functions.

By extending the SSC offering to other corporate functions such as Procurement, organisations are able to achieve truly better cross functional processes as well as maximise the ROI from the investment that has already been made in a shared services infrastructure. In fact, in many cases procurement savings may be used to fund wider activities in the SSC.

WHAT ARE YOUR ORGANISATION'S FUTURE PLANS FOR SHARED SERVICES?




Respodents were allowed to choose **multiple** responses

Case study

## The benefits of moving to a global shared services model at InterContinental Hotels Group

**When the InterContinental Hotels Group (IHG) group launched shared services a decade ago it was very much "regionally focused," with centres in the US, UK and Australia, says Ralph Wheeler, IHG's Financial Controller. From 2006 though, the company changed direction. "We created a global model," he says. "Global process ownership, global account management, and global performance."**

Today, the company operates a centre in Delhi employing three hundred people focused primarily on transactions, and is still in the midst of moving processes from the regional centres into India. "To my mind, it's the only way that you're able to drive consistency and standardisation across the whole of an organisation, Wheeler explains. "If you have three or four centres then you're going to have three or four ways of doing things, and you are inherently inefficient. It's only when you start to look globally that you can see whether you are inefficient. The real benefits are one owner who can say, "I understand this process. I understand what I have to do. Then you can action those things.

The transition has not been without its challenges. "Communication is absolutely vital. You have so many different stakeholders that you have to get your communication right. And IHG has learned lessons along the way. "We've tried hard, and a couple of times we've missed it." He emphasises the importance of identifying all the stakeholders and assessing how they might be affected – and then making sure that they learn about these changes. The issue is so important that the company has brought on board a communications manager specifically for the finance function. "We are now absolutely one hundred percent focused on getting the communication right," he says.

For Wheeler, the main advantage of moving to global processes is to create a leaner, more efficient operation: "Don't think about labour arbitrage, it's all about efficiency," he says.

"Don't think about labour arbitrage, it's all about efficiency."

Ralph Wheeler
Financial Controller
**InterContinental Hotels Group**

# MOVING FROM COST TO QUALITY

As finance leaders gain greater confidence in SSCs, they will look to add more sophisticated processes such as tax, contracts, reporting and analytical tasks. The drivers for this, however, will not be solely cost reduction but more an improvement in service quality that can be gained from the centralisation of higher skilled people with access to the right systems and data.

Therefore, the ethos and measurement of these centres will have to be handled very differently to the traditional high-volume, transaction-based services. Managing these 'higher-value' activities calls for specialist technical accounting knowledge and a deeper understanding of the business and industry issues. Organisations will be able to undertake new and more demanding activities in centres of excellence within the SSC, which previously were curtailed by a lack of critical mass in such skills and knowledge.

As their SSC framework grows to support multiple shared service delivery formats, from the traditional transaction based service to now include specialised centres of excellence, organisations will once again face the challenge of managing processes that cut across multiple centres around the world. Once again, the value of global processes, systems and data is a key enabler to success.

Centres of Excellence will enable SSCs to take on more sophisticated processes.

# OPTIMISING THE SSC: WHEN IS IT RIGHT TO OUTSOURCE?

The right outsourcer can provide access to world-class capabilities and the latest technology and also provide a rewarding career to its people given its wider range of clients.

**As leading organisations expand and develop their centres along common lines around the world, outsourcing may be the next step to even greater savings or a direct route to gain the benefits of SHARED SERVICES through the use of a specialist third party.**

However, whether the organisation is at the start of, on course or completing their initial journey to CREATE, RUN or GROW their SSC, it is key that the future operating model is defined and used as a framework for discussions with potential outsourcers.

Having gone 'global,' with fully standardised, automated systems and processes that handle sophisticated activities for finance and indeed other functions, how can organisations continue to enhance their approach? Periodic reviews of the sourcing strategy, such as the most appropriate location, are essential as the organisation's business model evolves. In some cases, change will be forced upon them; established Shared Service Centres may prove too expensive, requiring a relocation to a cheaper country, whilst advances in technology could necessitate heavy investment to upgrade their systems.

It is anticipated therefore that finance outsourcing will become increasingly prevalent as established SSCs are outsourced to Business Process Outsourcers (BPOs). Indeed in a recent Gartner survey, nearly half of all respondents achieved savings of more than 20 percent when outsourcing finance processes. (Gartner user survey analysis: finance and accounting BPO, Western Europe, 2007). And it's not just about reducing costs – outsourcing allows organisations to focus on strategic issues rather than managing financial processes.

The right outsourcer can provide access to world-class capabilities and the latest technology, as well as processes and reporting that are geared to satisfy regulatory demands. And, as a third party specialist, it also brings further economies of scale that can be passed onto its customers.

Nevertheless, there are a number of well-documented challenges in outsourcing, namely differences in language and culture and the relatively short track record of most providers. At present, a considerable number of outsourcers lack the experience and flexibility to take on higher-value tasks, so for the foreseeable future organisations are likely to only outsource activities with fixed procedures which are relatively easy to measure.

Any company considering outsourcing should also look closely at how continuous improvement will be managed – and how they can benefit from this. Outsourcers do not typically have a natural incentive to reduce the size of their managed business and share costs reductions with clients beyond those agreed in the contract, so improvements must be built into any commercial negotiations. As Simon Fanning, Managing Director within Investment Banking Operations, Deutsche Bank says "If the shared service centre is owned by the company there's more incentive to do process transformation and innovation because all the benefits are retained by the company." To him, owning the process (and the intellectual property) is a key element of driving transformation. He explains: "What can tend to happen is that a company will negotiate so hard on price with a vendor that any improvements are done to the vendor's advantage in order to protect their margin. There's nothing wrong with that type of negotiation, but the incentive to transform and innovate then isn't as powerful as it could be".

# CONCLUSION:
# HOW TO ACCELERATE ALONG THE SSC 'MATURITY CURVE'

In striving towards a global shared services model there are lessons to be learned from the top-performing firms taking part in our survey.


**Despite the proliferation of European organisations using SSCs, many are struggling to meet their objectives and maintain momentum. At the same time a harsher economic environment is putting even more pressure on the finance function to reduce costs and provide strategic support to the business.**

As many of the high-performers will testify, centres are becoming integral to strategy, with no real limits on the range or complexity of services that they can offer. This is quite a journey from the SSC's earlier incarnation as merely a 'number-crunching' factory. In moving forward, organisations should embrace the following:

– Maximise scale, standardisation of processes, information and data as far as possible. This will help ensure that processes are built on a common understanding of good practice across the organisation to maximise efficiency and effectiveness. Common information will deliver faster and more consistent management information

– Re-invigorate or introduce continuous improvement programmes. These must be well led, resourced with trained people and have the right sponsorship to implement change (that may be across functions). Clear plans and a target operating model must be in place to guide these programmes and track their success. A clear on-going understanding of the SSCs customer's perspective is essential

– Ensure SSC people are motivated and well trained. Maximise SSC people's career opportunities by opening roles both inside and outside of the SSC

– Once core processes are working well, begin looking at other areas across the organisation where the SSC may deliver more value

CREATING, RUNNING, GROWING and OPTIMISING SSCs requires considerable investment and management attention, but as the top-performers will testify, SSCs have the potential to improve efficiency, cut costs and bring real value to the business.

# SPECIAL THANKS

To supplement the survey, CFO Europe Research Services interviewed a number of leading executives and experts in the field and we are grateful to the following participants for their valuable time and insights. Our special thanks go to Marcus Alexander, Peter Coates, George Connell, Simon Fanning, Dr Alan Hippe, Ralph Wheeler and Mike Wood.

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We chose the imagery in this research report to describe the journey leading European organisations and their SSCs have undertaken over the past 15 years.

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