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Background of the Survey

Deloitte has been preparing biennial Global Shared Services survey’s since 1999 polling organizations around the globe on their shared services journey. Deloitte’s 2017 Global Survey attracted 333 respondents from a wide variety of industries. Organizations are headquartered in 37 countries and represent over 1,100 business centers across all regions of the globe. Joining the global initiative, this is the first time that Deloitte Hungary has published its own local survey.

Hungary is the second largest market for shared services in the Central Eastern Europe region. Business centers employ more than 40,000 employees and are present in 90+ companies on 100+ SSC sites in the country.¹

Considering the size of the market and remaining open to Hungarian shared service leaders’ interests, during our survey we focused on insights and trends related to the growth and evolution of the Hungarian shared services industry. We understand that business service firms located in our country are becoming increasingly interested in the principles their competitors are following to manage the key challenges facing the industry and in how peer leaders are building and operating successful business centers.

Bearing in mind these perspectives, our aim was to carry out a survey focusing primarily on current and relevant future trends. Instead of using impersonal questionnaires, we conducted in-depth interviews with senior leaders of Hungarian centers to assess various elements of their operation and understand the different considerations behind their strategy and actions.

Our interviewees represent a wide range of service centers and outsource providers i.e. we interviewed leaders within various types of centers (from 10+ years’ of presence to very recent ones). We included centers of varying size (small, medium-size and large centers), and varying scope (global, regional and local service providers). We also covered a wide range of functions (IT, finance, HR, sales support etc.).

We conducted interviews with 27 business service centers employing approximately 19,000 people, representing approximately 47% of the total number of employees working in the sector.

We are of the view, that considering the total number of employees and the manifold features of the interviewed centers, we have reached representative conclusions in our report that will provide in-depth insight into the prevailing trends in the entire Hungarian shared service industry.

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¹ Source: Shared Services Centers in Hungary, HIPA, 2016
Executive summary

During our interviews we discovered that despite the organizational and operational differences key trends seem to converge or to be the same among the centers. These trends clearly reflect the future evolution of this continuously evolving sector that may easily become one of the key drivers of FDI targeting Hungary. Therefore, the coordinated and focused approach of these firms with special attention to their needs is in the interest of all related players i.e. local governments, state government, employees, educational institutions as well as the actual service centers.

We have identified 9 prevailing trends in the shared service sector that we believe will shape the future strategy, operation and organization of Hungarian business centers.

1. **Emerging centralized governance with functional focus**
   In the quest for enhanced efficiency and improved controls, shared service operators tend to organize their shared service portfolio by functions reporting to the central management for each function. This operating model leads to changes in the management and working methods with the appearance of virtual teams and remote management.

2. **Focus on complex activities to create insight and high value for the business**
   In nearshore locations labor arbitrage has started to lose significance while the quality of workforce with several years’ of experience gained importance enabling the centers to import complex, high value-add activities. In line with that, central leadership provides new challenges for their nearshore shared service providers to act as business partners, create insight and support top management in decision-making and strategy development thus driving higher business performance.

3. **High-end automation with the help of robots**
   New-wave automation with the help of robots is a trend that no service center can ignore. The shared service sector has been a pioneer in implementing robotic process automation and several sectors have their own robotic software. Robotic automation expands horizons for increasing positioning in the value chain and create value for the core business by enhancing efficiency, freeing up employees and supporting employee retention.
Talent acquisition and employer branding ... the key to managing recruitment and retention challenges

In today’s fast paced labor market recruiting and retaining talent are the key challenges that shared service centers face. Creating an attractive employer brand increases competitive advantage and puts the center on the cutting age. However, achieving this aim is a combination of complex processes. One major factor is overall workforce experience, which requires high levels of engagement and attractive career opportunities. Additionally, business centers are expected to be both present and active in social media and at universities in order to create and maintain a well-known and attractive employer brand. The vast majority of service centers have already realized the importance of branding their companies on the labor market and, depending on their financial background and strategic objectives, apply various methods and tools to meet their objective.

Further expansion of the shared service sector

Shared service centers are satisfied with Hungary as a location and as a result would choose Hungary again if given the opportunity. The survey indicates that the majority of centers plan to expand their Hungarian operation. The key drivers of expansion are expanding functional scope, migrating new countries and in some cases mergers & acquisitions performed by the Headquarters. The collaboration of local governments, the state government and educational institutions with business centers is a key enabler for this potential growth.

Going international to leverage recruitment and operational benefits

Shared services are increasingly operating at an international level. Most large companies have global coverage of service centers, employ their workforce from the international labor market, ensure international development and professional opportunities, spread best practice globally and organize their centers without taking into account geographical boundaries. It is also a trend to operate regional business centers where each center operates in different countries with a different focus under regional management. The main objectives are to take advantage of a larger talent pool in order to balance workforce shortages, to enable specialization of each country within their unique areas of expertise, to leverage knowledge and experience as well as to develop a common strategy under a common leadership.
Developing the workplace of the future

There are several factors that drive the shift towards atypical working methods in business centers such as the expectations of new generations and alternative workforce, the reduction of office space costs, the creation of more and more international teams and the scarcity of skilled workforce in the labor market.

Several service centers have already launched programs to develop their future workplace using tools such as agile workplace including mandatory home office, flexible working hours and 168-hour concepts as well as virtual teams with remote management. Simultaneously, management styles are also expected to adapt to new situations flexibly. Examples include green spaces, sporting opportunities, community events, CSR opportunities. The overall aim is to transform the office into a friendly and motivating environment.

All these trends are putting pressure on business centers to rapidly rethink and adapt their work culture. In order to fully take advantage of these trends modern HR with clear communication strategies, innovative and open-minded management are the key enablers.

Millennials: Challenges of a new generation

Generation Y or the Millennials have a dominant presence in the Hungarian shared service centers. As such it is essential to understand their needs in order to keep them engaged and ensure talent succession and ample workforce for this ever expanding sector. The Millennials are more sensitive to social and environmental issues and they are willing to take action for a better world. These employees need to feel that they are able to create value for the company, their community and themselves. This is the generation that wants to make a difference.

If an employer is able to satisfy these needs and expectations, then they can count on increased loyalty which is a key factor in success.

Develop, educate, train

Complex service activities are increasingly gaining importance as opposed to the transactional activities of the past. As a result greater capabilities are required from employees, the significance of competent people with developed soft and technical skills has increased. The trend shows that shared service centers need to run internal training sessions, implement coaching and mentoring practices in-house to satisfy the changed requirements. There are several initiatives where service centers collaborate with educational institutions to run specific educational programs for students.

However, not all service centers have the financial means to accomplish their goals. Therefore, there is a growing need among the members of this sector to establish industry-wide cooperation and make use of associations to shape education according to their needs. At the same time the support of the government both local and national is also required.

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2 There are several definitions for the term Millennials, we are considering members of the Y generation every individual born between 1982 and 1995.
Which are the greatest challenges for your firm currently?

Based on the interviews Deloitte conducted with senior managers several challenges were identified within five different areas. Most of the shared service centers indicated employee retention as the greatest challenge they face due to the limited availability of highly-educated, multilingual employees. This trend echoes the results of Deloitte’s 2017 Global Shared Service Survey where respondents highlighted the fact that the battle for talented employees continues. These challenges however include several opportunities.

**Figure 1: Key challenges and opportunities**

**HR**
- **Challenges:**
  - Talent recruitment
  - Talent retention
  - Engagement and loyalty building
- **Opportunities:**
  - A pool of employees with relevant experience gained in the shared service sector
  - Potential involvement of different employee segments e.g. disabled and 50+ employees, young mothers

**Leadership & Management**
- **Challenges:**
  - Poor decision-making authority of local GMs
  - Long global decision-making process
  - Different culture and mentality of international teams
  - Changing governance resulting in business model changes
- **Opportunities:**
  - With the increasing importance of business centers there is an opportunity to get closer to the corporate governance and decision making

**Services and Infrastructure**
- **Challenges:**
  - Scarcity of appropriate office space
  - Higher level of value-add support required from HQ
  - New trends in automation urge quick actions
- **Opportunities:**
  - Government focus on the development of the infrastructure
  - Employees are keen to perform value-add services
  - Developed change management experience and skills

**Education/Skills**
- **Challenges:**
  - Investment needed into skill development
  - Limited impact on higher educational curriculum
- **Opportunities:**
  - Fresh graduates have general but high capabilities to build on
  - Supporting the cooperation of the corporate and educational sector is in focus

**Clients**
- **Challenges:**
  - Support customers during their digital journey
  - Improve customer satisfaction
  - Create business value via business partnering
- **Opportunities:**
  - Proven track record of service excellence
  - Employees with good service mentality grown up
What is the key to the success of a shared service center?

- Supporting innovation and being open to your employees' good ideas
- Clear communication and achieving employee commitment is crucial
- Expectation management and fair attitude towards employees and the headquarter
- Making people feel proud to work at your company
- Value-add tasks are key to further growth
- Only those companies can be successful that are ahead of changes and can easily adapt
- Digital is default now, the key is how we prepare for this future
- Providing a vision to employees who don’t see the future are hard to retain
- Motivating and inspiring corporate culture created by highly skilled management
- Educating complex way of thinking
- Learning how to handle different cultures
- Delivering values that can’t be represented by money
- Spreading best practices across the organization thus demonstrating the consequences of doing a work in a certain way is a great method of the enhancement of our services
- Focusing on high value creation and automation is the future
- CULTURE AND OPERATION
This question proved to be a thought provoking one as there are so many factors effecting the success of a service center. Some of the SSC leaders could state one success factor but most of them listed several. Based on the answers we have identified 3 key areas. Likely the ultimate answer is a combination of all the responses. We cannot state that one factor is more important than the other. Successful business centers need to focus on each of the factors in order to provide competitive and high-quality support to the business. The levity of company culture also impacts the degree of success.

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**STRATEGY AND LEADERSHIP**

- SSC establishment needs to have a full support of the leadership, a clearly defined scope and it has to be part of the overall strategy.
- Maximizing the professional capacity and building a good community.
- We need to accept changes and take advantage of them and not conceive change as a fallback.
- Each SSC has its development phases. We need to be aware in which phase we are and start our initiatives based on that.
- Automation is very important today that simplifies our work but leaders tend to project this simplification to working with people as well. We need to invest energy into our employees and get to know them.
- Necessary unified goals and expectations with regards to quality as the main objective.
- Efficient and effective services are necessary, but people who are delivering it are adding the value to the countries.
- For success continuous learning is necessary, being open for new things, being flexible and having a good change management in the service center.
- The competitive advantage lies in clear career development opportunities and cross functionality.
- Trust will give space for creativity.
- Several different views are strengthening each other, which can bring big success.
- There should be more collaboration among shared service centers to move this sector a step forward.
- At the beginning of the journey shared service centers should be considered in the headquarters as investment.
- Building trust at the very beginning with the business is necessary.
- Success lies in delivering fast and flexible service to the countries that can be performed by flexible leadership and employees.
- Transformation takes long and we need to give enough time for mind-set shifting and understanding the new environment.
- Trust will give space for creativity.
- Effcient and effective services are necessary, but people who are delivering it are adding the value to the countries.

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**CUSTOMER**

- Necessary unified goals and expectations with regards to quality as the main objective.
- Aim for partnership with the markets - they should look at the business service center as an extended team.
- Success lies in delivering fast and flexible service to the countries that can be performed by flexible leadership and employees.
- Several different views are strengthening each other, which can bring big success.
- Transformation takes long and we need to give enough time for mind-set shifting and understanding the new environment.
- Trust will give space for creativity.

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1. Emerging centralized governance with functional focus

Over the past decades shared service centers have become important facilitators of operational efficiency and effectiveness for the companies. To date the primary tool for realizing the efficiency agenda has been process standardization and simplification and in most cases synergies have been realized on regional levels e.g. for Asia, Europe or America.

However, these opportunities have already been exploited and the time has come for new initiatives to emerge in order to reach new levels of development. Realizing that the influence of shared service centers on the company’s results is significant, leaders have been trying to gain more control over their shared service activities.

To achieve further synergies and benefits, most companies have started to focus...
on a more concentrated coordination among centers thus moving towards new means of business service governance. The efficiency of each function within a shared service portfolio can largely vary, however, strengths and good practices can be spread among centers to leverage this diversity.

This tendency has led to establishing centralized global control above each function where knowledge sharing and leveraging potential synergies among different business service operations is a primary objective. Centralized leadership of global functions enables the Headquarters to drive decisions and leverage functional specialization.

In most organizations for certain processes accountability and responsibility are split between the shared service and the markets meaning that some tasks are performed in the countries in cooperation with the shared service center. Therefore, knowledge and good practice sharing between the centers and the countries is also key to making the most of the service functions.

In the vast majority of companies participating in the survey the functional leadership is on global level. Local functional heads report directly to their regional/global superior with regards to functional issues while local issues are handled in cooperation with the local leadership team.

A typical operating model supporting the centralized governance is where each function builds up as a separate pillar of the organization with their functional decision making and efficiency targets. Experience shows that this structure has its challenges too, firstly to ensure smooth cross-functional cooperation and coordination, secondly, to keep local staff engaged for a virtual global team.

With the evolution of the centralized functional operating model where teams are scattered throughout various locations, the management of global teams requires the introduction of atypical leadership and organizational methods such as remote management, virtual teams, etc. Most shared service centers use these tools where success lies in the accessibility of the line managers and the power of the local unit to create engagement to the firm. Therefore, despite all operative benefits, this model can be challenging when trying to sustain the engagement and motivation of team members and to retain talent. Some shared service centers have already identified the inherent risks, and as a response have increased local influence on operations.

Openness and flexibility, both global and local, are key to success as global support is crucial for local efficiency. Furthermore, developing a partnership and operating shared service centers as an extended team of a global function are vital to successful cooperation.

Figure 2: Primary business model drivers

![Figure 2: Primary business model drivers](chart.png)
2. Focus on complex activities to create insight and high value for the business

Originally the primary key objective of the companies establishing and operating shared service centers was cost reduction by taking advantage of labor arbitrage in low labor-cost countries as well as by simplifying and standardizing their processes on global/regional level. In the case of nearshore service centers efficiency and cost reduction remain the main motivation but stressed labor markets result in increasing labor costs that negatively impact the labor arbitrage advantages of Hungary.

Over the past two decades SSCs have nurtured a group of highly qualified professionals with the appropriate, service-focused capabilities, socialized in the shared service sector. As a result, Hungary
has become an attractive and profitable location for transferring complex, high-value add activities from the different markets. Based on our survey, the trend appears to be that many business centers operating in Hungary are following the practice of transitioning transactional and repetitive tasks to low-cost locations, dominantly to Asia, while bringing complex, high value-add support activities to the Hungarian service center such as financial controlling, FP&A, product development or treasury functions.

In case of newly established shared service centers the trend shows that highly transactional processes are either not transferred to the Hungarian center or they are immediately automizied/robotized. Instead, complex, high value-add processes are established in the nearshore center requiring a high level of professional competence and business partnering skills.

Bringing high-complexity processes to the center results in increased expectations towards the centers to create value especially on strategically important business areas. The SSC is to support commercial areas and global leadership in decision-making by providing timely and correct information for the successful management of core activities. Therefore, the value and significance of shared services are augmenting rapidly, not only regarding operating costs and efficiency but also in business performance. This will result in indistinct boundaries between the shared service and other business areas. As a result these actors will need to work together as one team.

Putting together and developing a group of employees with the appropriate competencies is a challenge for the shared service firms, which requires significant investment i.e. training of internal staff, recruitment of high-competency, costly professionals and also mindset change is required with regards to the service features. However, investing in value-adding processes would bring about long-term results as it would improve employee retention and attract highly skilled employees. Complex, high-quality tasks provide an added incentive to employees and also allow for further professional development. These are essential motivating factors for new generations.

Due to changes in the competency requirements, recruiters tend to broaden the scope of their search. This means that the best candidates are being recruited from various industries such as the financial, FMCG or technology sectors. The evolution of automation and robotics is going to be another driver of transferring value-added tasks into shared service centers. The trend shows that in most centers transactional activities are being performed by robots, which makes it possible to re-allocate resources to more complex tasks requiring subjective decisions, business partnering and other technical and soft skills. This trend increases the value of the shared service centers moving up the value chain thus turning into a value engine for the company. Simultaneously Hungarian centers are serving as role models for other business centers in the portfolio by strengthening good practice service operation.

A further essential aim of several Hungarian centers is based on the trend that the service activities are becoming more and more complex and offering higher professional standards and development opportunities to employees. Therefore, the brand of the shared services sector in Hungary is expected to ameliorate and as such to become increasingly attractive to candidates in the future.
3. High-end automation via robots

The exponential evolution of technology is transforming how businesses operate. As a result, organizations need to revise their current practices in order to maintain their competitive advantage. Robotic Process Automation (RPA) tools can increase business effectiveness and support the provision of services at a more rapid pace while significantly lowering costs. Compared to other automation opportunities, RPA implementation requires less effort as rapid results may be achieved within as little as a few weeks. This quality makes it highly attractive to shared service leaders.

RPA technology has evolved quickly and is expected to be implemented in most large businesses by the end of 2017.
Due to this considerable growth market expectations predict a 60% CAGR through 2020. The basis of this positive prediction is that almost half of the roles in back office functions have the potential to be automated and increasing automation has become one of the most important strategic points for shared services. Hence the priority to automate and the potential to automate finally correspond.

Business centers are one of the pioneers in recognizing the benefits of implementing robotics technology in their organization. As such they have already initiated the process of robotizing their tasks and processes. There are few big robotics software providers on the market but technology driven companies have their own solutions for automation i.e. business centers of technology companies and IT service centers use their own solution and have been pioneers in implementing robotics capabilities in their service operation.

Robotic driven automation, especially combined with cognitive science, certainly changes today’s workplace. Several companies plan to or have already introduced RPA in their service centers as a part of their strategy.

According to our survey 71% of the companies are planning to explore or have been actively exploring RPA opportunities: some of those have implemented only a pilot so far while others have already connected the “dots” to the organization delivering complex programs. Companies expect a relevant cost reduction and FTE savings as well as quality improvement as a result of RPA. In addition to cost cutting the further advantages of robotics are the ability to move the center up in the value chain and provide more complex services for the parent company. This would also support employee retention.

Survey results show that enhancing process efficiency with the help of robotic process automation is a clear trend among business centers. Although there is a common feeling of unease related to the new solution due to the novelty of this tool, the majority of SSC leaders see RPA as an excellent tool to drive further efficiency and service excellence, to increase employee satisfaction thus supporting retention and to pave the way for applying more enhanced technologies such as cognitive tools. Therefore, the implementation of robots is a trend that should not be ignored.

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3 Compounded Annual Growth Rate
4 Industry 4.0: Challenges and Solutions for the Digital Transformation of Exponential Technologies, Deloitte AG, 2015 and Deloitte proprietary research
4. Employer branding...the key to managing recruitment and retention challenges
Talent sourcing and retention of employees put tremendous pressure on companies. Talented and skilled people are a shortage and hence in great demand on the Hungarian market. Employees are demanding new careers and career models. Attracting and retaining skilled resources is no longer simply the responsibility of HR - it has become a top priority for business leaders as well.

Finding talent has moved far beyond traditional recruiting to encompass the broader scope of talent acquisition. Once the sole domain of HR, talent sourcing now involves multiple teams across the organization. Adding to the complexity, the accelerating pace of technology offers a dizzying array of new solutions, even as the nature and sources of talent markets continue to shift. The retention of talent puts increasing pressure on shared service centers. Thus more and more tools and actions require implementation on various platforms.

Shared services labor market is a demand market currently due to the recent boom in the number of centers expanding their scope of services and new ones entering Hungary. This challenge also increases the need to focus on talent retention to prevent losing key capabilities in the fierce battle for talent. Currently the attrition rate at 59% of the asked business centers is between 10-20% and basically all companies are willing to go under 10%. Solely 18% of the centers have managed to achieve this target.
In today’s transparent digital world, a company’s employment brand must be both highly visible and highly attractive because candidates often find the employer and not the reverse. To leverage this interest, companies are intensively managing their employment brand, which can improve talent attraction and employee engagement.

Most service centers have realized these challenges and have moved towards investing funds and energy into developing their brand as employers both externally on the talent market and internally towards their employees. According to our survey 20% of the companies are just starting their initiatives and 60% of the companies already have an extensive focus on employer branding. Those players which are not yet focusing energy on this task have specific reasons e.g. HQ due to a lag in business has not invested in branding.

Companies whose parent company’s brand is well-known on the retail market are in a slightly better position, while for centers with a less widely known brand it takes more effort to create a well-known and respected brand.

Creating an attractive employer brand involves a complex combination of forces. One major factor is the overall workforce experience, which requires high levels of engagement and strong career opportunities. In fact, outreach campaigns to educate and attract candidates may be just as important as customer-focused advertising. Employers must also reconsider how they communicate their value proposition to the workforce.

Several different tools of employer branding have been applied by Hungarian business centers in different areas. The largest opportunities in employer branding and talent acquisition currently lie in experimentation with tech solutions and services. Many of these are evolving toward cognitive capabilities that build on mobile and cloud technologies, as well as social networks such as LinkedIn.

One of the most commonly used tools is developing social media presence using platforms such as Facebook, Twitter and LinkedIn to spread information about the workplace environment of the firm. Information is spread incredibly quickly and centers have realized that via social media presence they have the possibility to leverage the flow of information.

Figure 5: Most common employer branding tools
Future-focused organizations are also beginning to employ simulations and gaming to connect with talent, particularly Millennials. These tools are useful for determining whether candidates are primed to succeed in a given role.

Corporate culture is also a key factor in employee engagement and therefore, has crucial impact on a company’s brand as an employer. Centers with several people in their 20s tend to focus on building a team with outside working time activities such as parties, team building events, competitions. In other firms where the average age of employees is above 30 the focus shifts to corporate social responsibility, family friendly events and flexible working time to improve family-work relations and enable employees to be responsible members of the society while working hard. Still, the general rule is to be people focused, listen to employees’ needs and aspirations in order to support their professional development, create work-life balance and make decisions taking into account employee interests.

Employer branding cannot be started too early. Most organizations have developed good relations with one or more higher educational institutions and pursue common programs to prepare students for their employment and raise awareness and acceptance of the shared services sector as a future potential employer.

Employer branding is increasingly in the focus for future oriented shared service centers using several tools and platforms to reach out to their present and future employees. Most companies in the survey think of it as must-have and all of them feel the necessity to invest into building and further improving their brand.

Figure 6: Employer branding activities

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5. Further expansion of the shared service sector

The shared service sector in Hungary has become one of the most dynamically developing employers in the past decade and is still growing. On one hand, new companies establish their centers in the country, on the other hand business centers with existing operation in Hungary are planning for significant growth. According to the Hungarian SSC Survey almost 83% of the respondents plan to expand their shared service operation in Hungary.

The major part of the growth comes from the migration of new processes and functions. Additionally, new acquisitions and mergers of the parent company may also drive expansion. New lines of business are also often incorporated into the existing shared service organizations and the current trend shows a move toward the in sourcing of previously outsourced activities.
The Hungarian shared service market is Budapest-centered. 83% of the respondents plan to expand their operation in Hungary and 17% plan expansion in the countryside. 33% of the companies have indicated that they have already established a shared service center outside of Budapest. The main reasons why SSC leaders do not plan to expand their operation in the countryside is that they are afraid of the scarcity of qualified workforce and the uncertain quality of infrastructure e.g. lack of A-level office buildings. There are several initiatives of the central and local governments to invest into the development of the countryside. The dominance of the capital is still evident because of its population, accessibility, the developed infrastructure and its talent pool. The service centers present in the countryside usually operate in university cities. The helpfulness of local governments is key to their success. It is evident that for towns where the leadership is open to dialogue and is supportive in meeting the requirements of service centers these companies bring large development opportunities investing in education and the development of the infrastructure as well as contributing to keeping the young population in the respective town.

The large majority of center leaders asked are satisfied with Hungary despite the recruitment challenges and would choose again Hungary as a location. Leaders have mentioned that the quality of workforce is high in Hungary and students leaving universities have good capabilities although further investment is needed in their training. The geographical location of Hungary also makes it a good choice to establish near-shore shared service centers and the stable political and economic environment is also a facilitator of successful operation.

As a result of the sector’s ongoing growth the availability of qualified candidates with specific service skills is a challenge for the SSC industry. In order to secure their activities in the future a strong collaboration is required between the shared service sector and the government especially in the field of education. Service centers are seeking opportunities to establish cooperation with higher educational institutions in the form of financing and organizing their own programs focusing on the preparation of students for SSC employment. According to our survey, it appears that currently the Hungarian higher educational system is slow to re-shape their programs in order to meet the needs of the service centers. This creates a situation where investment is necessary and only large SSCs can afford to make large investments into developing their own educational programs.

However, an increasing amount of business centers tend to be open to an industry-level collaboration to mold higher education to their requirements and, despite the competition on the labor market, create joint training programs for students.

Overall, developing the infrastructure of the countryside is an essential component of motivating the expansion of companies in Hungary, while the collaborative approach of the government, local governments and educational institutions is another. Additionally industry associations and chambers play a crucial role in enhancing cooperation among the industry stakeholders.
6. Going international to leverage recruitment and operational benefits

Shared service centers define themselves globally both for recruitment and operational purposes and are expanding their geographical coverage across the globe. Being present globally offers plenty of opportunities such as enhanced labor supply, knowledge sharing or cost savings.

Hungarian business service leaders have recognized that besides the Hungarian labor market they can extend their scope of recruitment by turning to the international labor market for hiring purposes and are increasingly recruiting from other countries.

Most respondents have stated that roughly one-quarter of their employees are foreign nationals. Deloitte predicts that this trend will increase significantly in the near future. This tendency is due to both the
continuous narrowing of the Hungarian labor market and the increasing need for workforce with foreign language skills. In addition to “classic” employment, telework or commuting from other nearby countries to Hungary is expected to expand in the near future mainly in centers with countryside operations.

Simultaneously, most of the companies surveyed provide international job opportunities to their employees, which facilitates retention as most people see temporary assignments as a means of both professional and career development. International assignments also contribute to sharing good practices and implementing these practices into the business processes adds to developing the capabilities of SSC employees. Furthermore, it also serves to enhance the connection among markets and centers.

By going international companies acquire process efficiencies while reducing costs and maintaining high quality work. The tax consequences of this trend continue to be a lower priority when making both strategic and operational decisions within the organizations.

Operating an international labor pool has many advantages. However, SSCs are often not familiar with the immigration, tax and social security consequences of an international hire, foreign assignment or frequent and regular business trips which might cause significant additional tax administration and unexpected tax/social security payment liabilities for the company and also for the employee unless identified prior to implementation. In many centers unregulated case (e.g. business trips, telework, commuting from other countries) liabilities are typically not investigated and related actions, costs, etc. only come to light at a later date. This carries with it an inherent risk.

Deloitte is of the view that in the near future business centers should pay more attention to tax planning. If this is not taken into account significant additional tax or operational costs may be incurred which would decrease cost efficiency. Operating international teams requires atypical management methods such as remote management and virtual teams. Leading a virtual team with limited personal relationships, commitment, involvement and coordination within the group is challenging and requires a developed work culture to operate successfully. Mature organizations have already ensured the cultural environment to enable remote teams to operate efficiently. However, such coordination (and limited personal contact and control) may still result in inefficiencies in less mature organizations. The cooperation of local and remote leadership is key to create employee engagement. Most companies operate a portfolio of shared service centers globally. According to survey respondents it is worth transferring transactional processes and routine services to emerging locations e.g. in Asia due to cost saving. However, knowledge-based procedures are increasingly being moved to nearshore locations due to the higher quality of workforce and the geographical proximity. Major criteria for the nearshore operations are mainly more qualified labor pool enabling high-quality services and timely responses. Nearshore locations could also deliver cultural synergies with the operations and customers in close markets.

According to our survey, a future trend in the Central European region will be the creation of regional service centers. Each center would operate in different countries with different focuses under regional management. The main principles behind developing regional business centers are firstly to take advantage of a larger talent pool to balance workforce shortages and secondly to enable specialization of each country in their area of expertise to improve capabilities. The third reason is to leverage knowledge and experiences as well as develop common strategy under a common leadership.

By achieving a healthy balance of internationalization the company can maximize the benefits of their shared service portfolio to reach the highest levels of efficiency and customer satisfaction while simultaneously lowering operational costs.
As previously mentioned, recruiting and retaining talent are two of the core challenges SSCs face, as the number of potential candidates are limited and continuously decreasing. The current 9 to 5 working day is no longer attractive to potential employees.

We believe that in order to make recruitment more efficient and to adjust to the shift from transactional tasks to more complex tasks employees will have to perform, service centers need to become open to new employee segments and need to improve their brand from the inside-out.

The future workplace will build on a diverse workforce that expects ample and diversified opportunities in order to satisfy their current and future professional requirements. There are specific groups, such as the disabled, candidates above
50 and mothers, who are not generally targeted by SSCs. They also have the capabilities to deliver great performances and are perfectly able to handle complex tasks. However, creating opportunity for flexible working hours, in terms of working hours and location, is a must to attract them.

Currently students play a significant role in the recruitment strategy of most business centers in Hungary, and in the coming years leaning upon the next generation of employees, Generation Y and Z, and developing the future workplace in a way to adjust to their aspirations is going to be crucial for all organizations. Given the nature of the new generations - e.g. Generation Z considers workplace flexibility more important than any other generations before -, there is a gap between their expectations and current offers of the centers.

What should SSCs do to resolve these issues? One of Deloitte’s visions for the future is the shift to ‘focus on delivery’ approach rather than strictly checking the standard or core working hours. ‘Focus on delivery’ is a management attitude in which the employee is expected to deliver a high quality task by a given deadline without specifying where and when the work should be completed. This could potentially satisfy the flexibility needs of the new employee target groups as new working and management trends such as home-working, virtual workplace, etc. will replace the current status quo. As a result of these changes the employee of the future will be mobile and not bound by location. The “focus on delivery” work approach will also be more suitable for delivering tasks of higher quality as employees will have the option not to be constantly surrounded and disturbed by the office environment.

In addition to the expectations of new generations and alternative workforce, there are several other factors that drive the shift towards atypical working methods such as the reduction of office space costs, the creation of more and more international teams and the scarcity of skilled workforce in the labor market.

Several service centers have already launched programs to develop their future workplace using tools such as agile workplace including mandatory home working, flexible working time and 168-hour concepts as well as virtual teams with remote management.

In order to be able to target the appropriate candidates and to retain employees, business centers need to adapt to the demands of their employees and to the evolution of internationalization. Simultaneously, management styles are also expected to adapt to new situations flexibly. Examples include green spaces, sporting opportunities, community events, CSR opportunities. The overall aim is to transform the office into a friendly and motivating environment.

All of these trends are leading business centers toward rapid changes in their work culture. In order to facilitate this process, a modern HR and communication strategy and innovative, open-minded management are required.

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6 Generation Z is a segment of the population born after the Millennials, in the mid to late-90s through the 2010s
When discussing the key challenges shared service centers in Hungary face, employee recruitment and talent retention are in most cases a top priority. Additionally, it seems SSCs are intrigued by the presence of the Millennials, a group of employees representing an increasing share of the workforce with high expectations and often different values than the previous generations.

“They want everything immediately.”

“Non-financial benefits, like free coffee, tea and fruit are default for them.”

“Even the name of the position they get is an important factor in their retention/recruitment.”

“Millennials believe they are irreplaceable.”

8. Millennials: Challenges of a new generation
These are some of the descriptions about the Millennials we heard during the survey interviews and most companies have had similar experiences with this generation of employees i.e. they are not willing to stay too long in the same position; they want to fill senior positions very quickly, without sufficient experience, which makes their retention and attraction more difficult.

Based on the survey responses, the average age of employees working in the shared services sector in Hungary is not much above 30. This means that the Millennials have a dominant presence and special attention needs to be assigned to keep them engaged in order to ensure talent succession and ample workforce for this ever increasing sector.

Engaging the Millennial generation from an early phase, in higher education, is a great first step to attract their interest by transferring knowledge of the sector and managing their expectations about the benefits shared service centers are able to offer. Some service centers actively co-operate with educational institutions, devise unique educational programs or try to use the tools of gamification to find and engage talent.

It is equally important to provide ample training programs as this generation has strong need for professional development. Designing a career path can also be an efficient tool to create a professional vision.

According to Deloitte’s recent survey the Millennials believe that “the success of a business should be measured in terms of more than just its financial performance”. The Millennials are more sensitive to social issues, feel more responsible for the environment and they are willing to take action for a better world. These employees need to feel that during work they create value for the company, their community and themselves and that they are able to make a difference. If an employer is able to fulfil these expectations, they will in turn receive a high level of loyalty. Therefore, Hungarian shared service firms are trying to become more involved in several charity and social initiatives to satisfy these needs.

Another trend has emerged where business centers redesign their organization by operating a flat structure while creating more levels within one grade. This may partially fulfil the employees’ needs to quickly climb the corporate ladder.

Finding a balance between the Millennials, Generation Z and the older generations also creates a challenge. Some shared services like to have some representatives of the older generation in their teams. They believe that this previous generation has a positive influence on younger, impatient, less experienced people and lends the team a certain stability.

For Millennials the use of technology is very natural as they have grown up using constantly developing tools. Online presence and leveraging social media is widely used by SSCs to attract and retain employees. Regarding technology the next question in the near future will be how employees, including Millennials, will be able to adapt to the fast changing environment due to the development of automation, robotics, cognitive technologies, and possibly artificial intelligence.

There is no doubt that winning the loyalty of the Millennials is a key factor that can lead business centers to success and it is highly recommended to devote effort on this topic when creating their strategy. As a tool employer branding can be very effective means of attraction and retention, and corporate culture is a crucial retainer as well. Company image is very important to this generation. They want to work in an attractive environment, while being professionally challenged and having the opportunity to grow quickly. Shared Service Centers provide these opportunities.

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7 There are several definitions for the term Millennial, we are considering members of the Y generation every individual born between 1982 and 1995.
8 The 2017 Deloitte Millennial Survey – Apprehensive Millennials: seeking stability and opportunities in an uncertain world
Develop, educate and train

Complex, high value-add processes and customer based approaches require highly qualified employees with in-depth business knowledge. Therefore, simultaneously to the development of knowledge-based business processes the workforce should also be trained. Additionally, recruiters should be focusing on different skill sets than previously.

There is a significantly higher responsibility on business centers to ensure the satisfaction of their internal clients. They are communicating increasingly with senior leaders thus communication, business partnering and other soft skills have become highly valued capabilities. Based on the opinion of most survey respondents if a potential new hire has the required soft skills, qualification is secondary as is the development of technical skills. Therefore, the importance of internal training has grown significantly. Challenging career opportunities together with a wide range of internal trainings have proved to be effective tools for attracting and retaining employees.

Recognizing the needs and ambitions of the new generations, Hungarian SSCs offer “quick” career paths and have introduced several band levels. Talented employees in possession of the appropriate skill set can step up the career ladder almost every year and within 3-5 years may achieve the position of team leader position. The largest challenge is, however, to develop and retain senior employees as there is a shortage of middle manager candidates within the scope of survey respondents. Newly established centers can offer better career opportunities in the first years of their operation while in other centers potential expansion, international
Cooperation with tertiary education is common among large Hungarian business centers while smaller centers do not have the means to build beneficial relations with educational institutions. Various training programs supported by service centers are widely in place and some candidates are already engaged while still studying and intend to continue their career at the service center after graduation.

In the near future the strong collaboration of shared service centers, educational institutions and the government is crucial to ensure that more and more high-quality candidates leave schools with qualifications corresponding to the needs of the service sector.

Assignments and horizontal career moves can drive development. Many have introduced coaching/mentoring systems to identify and synchronize the need of the employees and the expectations of the employer.

Based on the survey SSCs will continue to hire employees with alternative qualifications (e.g. faculty of arts) who might have excellent communication and language skills but lack technical (e.g. IT, finance, HR) qualifications. Nevertheless, as it is more challenging to find potential employees with ‘ready-made’ technical and soft skills SSCs will focus on providing specific training packages to adapt their employees to using new tools and materials, to becoming familiar with company strategies and expectations and even to learning a new language.

Languages are key to serving different countries. However, currently there is a limited pool of people who possess knowledge of the rare languages. Rather than hiring employees with specific language skills, SSCs are providing language training to develop their employees and satisfy the language requirements of their organization.

According to survey respondents the Hungarian higher education does not focus enough on service industry specialization although some good examples exist e.g. the SSC faculty at Edutus High School and at the universities of Debrecen and Szeged.
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