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Shared services: From "if" to "how"
Insights from Deloitte's 2011 global shared services survey

Contents

Foreword: The more things change …

… the more they stay the same. Or do they? There's little doubt that today's shared services organizations (SSOs) operate in a world very different from the one that first gave rise to the concept some 30 years ago. Where North America and Western Europe were once the only viable locations for shared services centers (SSCs), companies today can find suitable talent and infrastructure for shared services in virtually every corner of the world. Formerly, an SSO only needed to outperform relatively high-cost local service providers to satisfy its customers; now, the maturity of the large-scale business process outsourcing (BPO) industry puts tremendous pressure on captive SSOs to excel or be replaced. The enabling technology for shared services has gone from rotary-dial phones and heat-sensitive faxes to wireless data capture, global enterprise resource planning (ERP) systems, and the cloud. Meanwhile, an increasingly stringent regulatory environment is putting all types of functional enabling processes under the microscope – processes that more companies than ever are placing in shared services.

What hasn't changed, however, is the core set of challenges involved in creating and maintaining an effective SSO. Then as now, the business case for shared services almost always revolves around cost. Then as now, the extent of customer buy-in can make or break the outcome. SSO staff may hail from a wider range of cultures, but keeping them motivated and productive is as important as ever. Disparate functional and business-unit stakeholders still need to collaborate to effectively align shared services with business needs. And getting an enterprise to do all this, and to do it well, is still an enormous challenge.

There is one significant difference between 30 years ago and now, however, that works in the shared services community's favor. Shared services is no longer a radical new idea, but a mainstream business strategy that has repeatedly demonstrated its value – if a company gets it "right." As a result, today's leaders can not only have greater confidence in the model, but also draw on almost 30 years' worth of collective knowledge and experience to guide their own organization's shared services journey. And for many of these leaders, the question before them is not *if* they should pursue shared services, but *how*.

What follows is an exploration of the "how" as described by respondents to Deloitte's 2011 global shared services survey, accompanied by our own views developed through our experience working with organizations at all stages of the shared services journey. We hope you find it useful in helping your own organization pursue its shared services goals.

About the survey

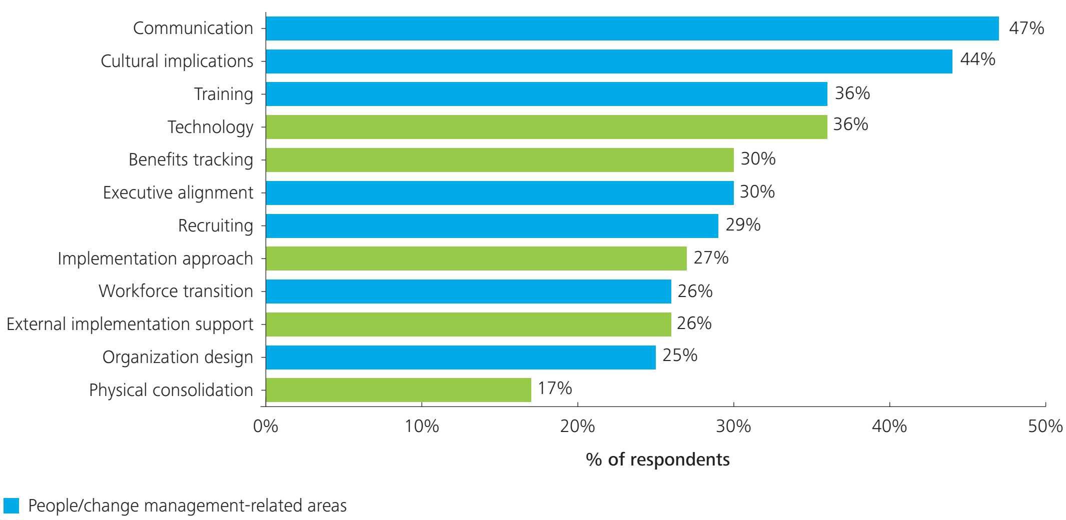
Two hundred seventy executives representing 718 individual SSCs responded to an online survey in December 2010 and January 2011. The online survey results were supplemented with telephone interviews with a subset of respondents. Participant organizations were distributed across all major industry groups. Their annual revenue ranged from less than $500 million to more than $25 billion U.S., with a median annual revenue of approximately $12 billion U.S. See Appendix 1 for additional demographic information.

Managing culture and change is even harder than most people think

An effective shared services implementation requires significant changes in both the way people work and the way they think. The challenges of bringing about these behavioral and cultural shifts, according to this year's survey, are often even greater than leaders anticipate.

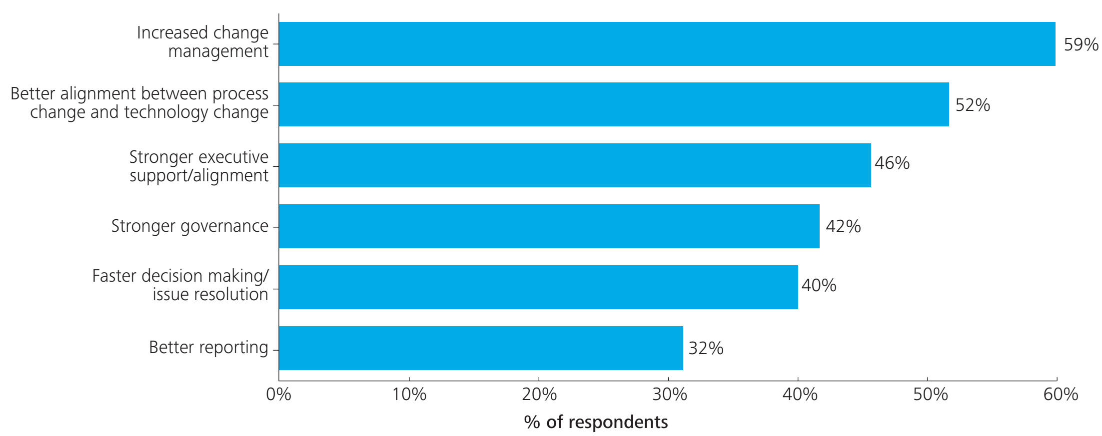
Communication and cultural implications topped the list of areas in which respondents felt their companies underestimated the level of effort required to implement shared services (Figure 1), outranking even such notoriously problematic areas as technology and benefits tracking. Fifty-nine percent of respondents also said that increasing change management would have improved their shared services journey (Figure 2). In conversations, respondents underscored the importance of addressing culture and change issues among SSO staff as well as with internal customers, reinforcing the need to consider both "sides" of the people equation.

Figure 1. How well did your organization estimate the level of effort required for each of the following aspects of shared services implementation?



Percentages represent the percent of respondents who indicated that they "underestimated" the level of effort required. Respondents were allowed to select multiple options.

Figure 2. What changes would you have made in your shared services journey based upon your experience to date?



Respondents were allowed to select multiple options.

The customer side

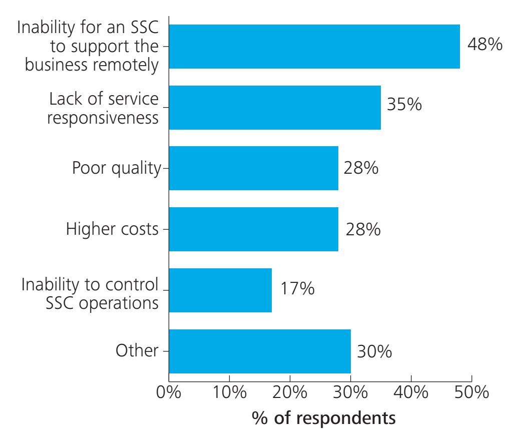
To judge from our respondents' comments, almost every shared services initiative meets with some degree of resistance from the SSO's future customers (the business units and/or divisions). Yet an SSO's performance depends so greatly on its customers' support that companies can ill afford to leave customer buy-in to chance. Even at companies that mandate shared services use, as did 77 percent of the organizations in our survey, the strength of customers' commitment to the idea can make a tangible difference to the outcome. Business leaders who genuinely support shared services are more likely to enforce required behavior changes within their operations and engage in governance to set appropriate mutual expectations, resolve issues, and improve processes. They are also more likely to follow through with reducing headcount in their local support organizations as specified by the shared services business case, as well as less likely to subsequently create shadow organizations of local support staff.

To help gain customers' buy-in, respondents overwhelmingly stressed the importance of "sitting down one-on-one with the customers, listening to what they are saying, and showing them what you are doing," as one respondent put it. It's important to choose the "right" person to represent the SSO as liaison in these conversations, as the ability to inspire trust and develop strong personal relationships is critical to achieving the desired results. In addition to excellent interpersonal skills, an effective liaison will have the authority to make commitments on the SSO's behalf and drive needed changes. He or she should also have enough organizational stature and/or previous shared services experience to command customers' respect.

Whoever assumes the role of liaison, his or her basic goal should be to understand what a successful relationship would look like from the customers' perspective and collaboratively develop plans to help realize that vision. A formally named shared services leader, assuming he or she has the requisite interpersonal skills, may be a natural choice for the role. Even companies that have not created a formal shared services leader role can likely identify one or more appropriate individuals among the executives involved in the shared services effort.

Our experience suggests that reaching out to customers during the shared services development process, well before the SSO goes live, can smooth the buy-in process enormously. Proactive outreach can give customers a sense of ownership in shared services; equally important, it can allow the implementation team to consider customer input when developing shared services policies and processes. Early and frequent communication can also help address common concerns that may lead business units to opt out of using the SSO if given the choice (Figure 3). As identified in our survey, these concerns often include a perceived inability of shared services to support customers remotely, lack of responsiveness, poor service quality, and higher costs.

Figure 3. What are the reasons and/or perceptions that lead business units/segments to opt out of shared services?



Respondents were allowed to select multiple options.

Connecting with customers continues to be essential after the SSO goes live, when the focus shifts from gaining initial acceptance to managing ongoing performance. Several respondents noted that reaching agreement on key performance indicators (KPIs) for both service cost and service quality can set the stage for productive future conversations with customers. KPIs can help focus discussions on specific issues and possible solutions rather than on "broad-brush statements that shared services isn't working," in the words of one respondent. KPIs can also be invaluable in demonstrating that shared services is performing up to expectations, which can help gain customers' confidence: "Once customers realize that the trends of the metrics are going in the right direction, it quiets them down very quickly," said a respondent.

Support from customer leaders can be a key factor in encouraging appropriate behavior among shared services users. One SSO, for example, was able to dramatically increase users' compliance with standard procedures by implementing a "rule of three" escalation process ("They get three warnings before we escalate the issue to their boss – and it can go all the way up to the regional vice president of finance.") Another company used a top-down approach to pursue the same goal: "At every monthly meeting with our customers' CFOs, we tell them about the bad inputs we get, and they push the message down to their operations."

However, an SSO shouldn't rely solely on leaders to drive behavior change. The most effective transitions we have seen target customer stakeholders at all levels – from CxOs down to end users – with focused communications, training, and alignment efforts designed to help them understand how shared services will affect their own tasks and responsibilities. A key point to remember is that shared services can affect people *outside* the function(s) being moved to shared services as well as those within it. Identifying and addressing these "non-obvious" stakeholders from the start can ease the transition as well as improve the SSO's long-term effectiveness.

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The shared services side

While the challenges of gaining customer support are well known, some companies may underestimate the need to address culture and change issues among SSO staff as well – and that can be a costly mistake. To begin with, companies that staff their SSOs with redeployed local support personnel may run the risk that "culture shock" among the reassigned staff may lead to unwanted attrition and/or substandard performance. Adjusting to a shared services environment can be especially difficult for people who feel highly affiliated with "the business" and/or who value face-to-face contact with their customers. "When you're at a site, you're tuned in to what's going on, and you feel like part of the team making the product that's generating the revenue," said one respondent. "Here [in the SSC], it can feel more like an academic setting that is somewhat disconnected from the business." To counter feelings of disengagement, this respondent encourages SSO staff to go to the front line "to see what the processes are, meet the people, and get that sense of ownership."

Companies moving legacy local staff to shared services may also have difficulty changing the way that SSO personnel interact with their former colleagues in the retained local support groups. One respondent recalled: "If someone needed a piece of information for a reconciliation, for instance, they'd call their former colleague in the business unit – who is now their customer – and ask for it instead of looking it up in the system. We had many inappropriate requests going back and forth, and nothing was documented, which slowed things down tremendously." To address these issues, leaders started to measure "indicators of service," such as turnaround time, as part of a larger effort to "develop a service culture" within the SSO. "We started telling people that they were being measured on these indicators and that the results would affect their recognition and their development." Partly as a result, the respondent said, "we've cut the time to process an invoice in half."

That said, rigorous performance measurement and management can be a double-edged sword. A metrics-driven culture can be off-putting to people accustomed to a less exacting local service environment. Moreover, measuring and rewarding the "wrong" things can lead to unanticipated problems even among experienced shared services staff. One respondent, for instance, cited "the human element" as a reason behind the increased error rates the company experienced after moving accounts payable to shared services. "When people are under time pressure to yield a certain number of outputs every day," she explained, "they're going to make more mistakes than people in the [business units], who aren't in that kind of production environment."

A final change management consideration mentioned by many of our respondents was to keep the magnitude and speed of change to a level that people can handle. "You can't implement a new ERP, move to shared services, *and* restructure the company as a whole all at the same time," said one respondent. Echoed another, "We made the decision to go to shared services four months before our new ERP went live. This was nowhere near enough time for a smooth transition, and we are still suffering from it 10 years later."

Our view is that it is often safer to err on the side of caution when deciding how much change is too much. As one respondent said, "We kind of bought into the assumption that it would be easy to move accounts payable – 'Oh, we'll just move everyone to one building, no problem.' I would definitely do it differently now."

The above discussion draws upon insights provided by Kimberly Betts, Ken Kunkleman, Daniel McHugh, Peter Moller, Abbey Seaboyer, and Hugo Walkinshaw.

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Spotlight: Getting a grip on change

An effective change management program usually requires considerable "behind the scenes" work to determine whom the change affects, how to reach them, and what messages to convey. To prepare an organization's people for shared services, the change team should consider the following steps:

- **Perform a change readiness assessment.** Rigorous survey techniques can help leaders quantify the level of willingness and ability to execute the shared services vision in different parts of the organization. This information can help leaders decide whether to implement shared services in the first place, as well as help inform the change management program if the decision is to move forward.
- **Obtain top leadership support.** Influential leaders who can affect the shared services effort may include functional executives, budgetary committee members, business-unit and/or corporate CxOs, and so on. Regular communication can help garner their support, as can efforts to engage them in planning and even executing the shared services implementation (e.g., by encouraging their people to use the SSO).
- **Drill down into shared services' specific impacts.** The change team should clearly identify which groups and roles will be affected by shared services and understand the specific changes that shared services will require in their day-to-day jobs. The results of a systematic change impact assessment can guide the development of a communications plan and/or training strategy specifically tailored to various stakeholders' needs.
- **Establish a change advocate network.** Representatives from the business should be involved throughout the development and execution of the change management program. Input from people "on the ground" can help a company customize messaging tactics and content to different stakeholder audiences. Once the change management program is underway, ongoing feedback from representatives can help leaders determine how well the program is working and how it might be improved. In addition, the knowledge that they are represented in the change management process can in itself help increase stakeholders' commitment to shared services.
- **Measure user adoption on an ongoing basis.** A company should develop measurable criteria for what "healthy" SSO usage looks like and regularly track the company's progress toward the desired goals. This information can not only help identify areas for intervention (e.g., increased communication, more effective training, or changes to processes), but also give leaders another way to measure overall SSO effectiveness and communicate progress to stakeholders.
- **Emphasize customer service skills among customer-facing SSO personnel.** Because customer perceptions are shaped by both the substance and the style of service delivery, it's vital that customer-facing SSO staff both be able to deliver high-quality service *and* deliver it in a way that cultivates customer support.
- **Build personal connections through site visits.** Site visits, both by customers to an SSC and by SSC personnel to customer locations, can be a straightforward and surprisingly effective way to increase business-leader confidence in the shared services model, develop productive relationships between customers and shared services employees, and demonstrate leadership support for shared services. In fact, our survey found that site visits were the most commonly used mechanism for keeping SSCs connected with their customers, with 85 percent of our respondents rating site visits as "effective" or "very effective" for that purpose.

The sequence of change can affect the effectiveness of change

In a shared services implementation, leaders must decide not only how but when to consolidate work, standardize processes, and implement supporting technology. Should they "lift and shift"? Change everything at once? Or follow another one of the nine possible paths? It's not a trivial question, as the sequence of change can have a noticeable impact on the ease and effectiveness of the transition.

In our view, the choice of when to do what depends on several factors, including the timing of any concurrent or planned technology initiatives, the extent to which processes and technologies are currently standardized, and the company's culture. Within these parameters, leaders can also strive to sequence people, process, and technology changes so that they reinforce each other in pursuing the desired outcomes.

Table 1 gives the breakdown of how our respondents' organizations approached the three dimensions of people, process, and technology change. As in previous surveys, the most widely used approach was the "lift and shift" (consolidating work into an SSO before standardizing processes and implementing technology). One obvious attraction of this approach is that it can allow companies to realize labor- and scale-related cost savings relatively quickly. Another potential advantage is that it restricts immediate change to a single dimension, which can be useful from a change management standpoint. "It's hard enough to get people to hand over their processes without telling them, at the same time, that their processes weren't so great in the first place," explained one respondent. Companies that are relatively decentralized, as are many that have developed their businesses quickly across multiple diverse geographies, may find that a "lift and shift" approach can make later process and technology changes easier for the businesses to accept. "When we go back to change a process [after it's in shared services]," said the respondent quoted above, "the customers aren't as difficult to persuade because it's no longer 'their' process." The advantages of "owning" a process before changing it may be one reason that 51 percent of our respondents waited to standardize processes until after moving them to shared services, regardless of when they implemented the supporting technology.

Technology change itself can sometimes help catalyze process change, whether serendipitously or through leadership intent. "Now that the company is preparing for an ERP rollout, it gives us a burning platform for standardizing processes," said one respondent. However, this dynamic may not apply at other companies with different cultures. "We spent millions on a single instance of [ERP], but we still had over 500 different ways of processing an invoice," said one respondent. "The culture in the centers was that, if a specific customer wanted to put an asterisk in a certain field, we'd go ahead and configure it just for them." Fortunately, the respondent said, customers have been responding positively to more recent standardization efforts. "When we talk to a customer, we can usually resolve 30 or 40 percent of the exceptions right off the bat. They'll tell us that they don't need it any more, or that they didn't know someone had requested it, or that they wouldn't have asked for it if they'd known the impact it would have."

Table 1. Respondents' approach to sequence of process change, technology change, and physical/organizational move to shared services

		Technology change			
		Before move	During move	After move	Totals
Process change	Before move	8%	6%	5%	**19%**
	During move	5%	17%	8%	**30%**
	After move	9%	13%	29%	**51%**
	Totals	**22%**	**36%**	**42%**	**100%**

Percentages represent the percent of respondents.

The major disadvantage of a "lift and shift," as several respondents pointed out, is the difficulty of driving efficiency and continuous improvement in a disparate process and/or technology environment. Common sense suggests, and our experience confirms, that high process and/or technological variation makes an SSO more cumbersome to operate and more frustrating to improve than SSOs with less variation. Because of this, companies with greatly disparate processes and/or technologies may want to consider options other than a pure "lift and shift." Even if the desired changes are not necessarily complicated, they can still take time. "We could have saved ourselves six years of pain if we'd done the enabling technology first," said one respondent. "It wasn't hard, and it wasn't that expensive. It just wasn't done."

After "lift and shift," the next most widespread implementation approach was to simultaneously move, standardize, and technologically enable shared processes (17 percent), while the third most popular approach was to implement technology and move to shared services at the same time, then standardize processes (13 percent). Respondents varied in their assessments of the effectiveness of these approaches; some were pleased with their outcomes, while others reported difficulties. One respondent noted that implementing ERP concurrently with shared services may have undeservedly tarnished the SSO's reputation: "People lumped any problems they were having with the ERP into their perception of shared services." An unexpected additional outcome of doing both at the same time, he added, was the negative impact of the project on some members of the implementation team. "A great deal was asked of a few people, and as a result, those people are burning out," he said. "Some of them have actually left the company."

No matter what the sequence of change, the respondents we spoke with universally stressed the importance of achieving an effective fit among shared services' people, process, and technology elements. Processes and technology, in particular, should be designed in tandem – and in a way that takes appropriate advantage of the capabilities of both. The experience of one respondent highlights the value of close process-technology alignment. "When the SSO's processes were first developed, they tried to replicate the legacy processes within [our new ERP system], which is absolutely the wrong thing to do," he said. "If you have a world-class system, you should go to world-class processes, not mimic the processes you used to have." Subsequent "extensive" rework has resulted in an "excellent" fit between processes and technology today – and an SSO that meets or exceeds all of its performance targets.

The above discussion draws upon insights provided by Jessica Golden, John Haughey, Susan Hogan, Peter Moller, and Aprajita Rathore.

Spotlight: The human factor in technological enablement

In theory, developing the technology to enable a process is a straightforward matter of defining the business requirements, translating them into code, and *voilà!* improved efficiencies all around. But as anyone who has ever participated in such an effort can describe, it hardly ever works that way. The programmers grumble about unclear or extravagant business requirements. The businesspeople complain that the tool fails to perform as expected. Meanwhile, the process continues to clunk along on a manual or legacy-system basis, frustrating users and potentially sabotaging the SSO's KPIs to boot.

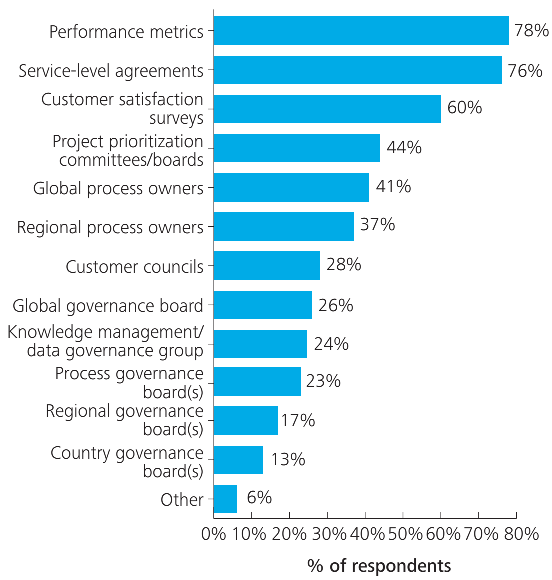
Why is the tool development process often such a painful one? In a phrase, the human factor. Frequent, timely communication between the businesspeople and the programmers is crucial to effective technological enablement – and not every company has the culture or the collaborative mechanisms to support the needed communication. The resulting difficulties and delays may be even more damaging to shared services than to the rest of the enterprise, since so much of the business case for shared services may depend on technology-driven enhancements to service.

Improving communication between the business and the information technology (IT) team begins with building in touch points at all organizational levels throughout the enablement project. The team selecting the technology, for instance, should talk to users beforehand to understand what the tool should be able to do; otherwise, the chosen technology platform may struggle with (or, in the worst case, completely lack) functionalities needed for efficient process execution. Conversely, the process design team should understand the capabilities and limitations of the available technology so that they can more effectively take advantage of the former and work around the latter. To the extent that the business requirements leave room for interpretation, mechanisms should exist for the IT team to raise questions and discuss alternate solutions with the business team. And allowing enough time for multiple rounds of testing and feedback is always desirable – if not always feasible.

Governance mechanisms should complement organizational structure

Companies have two primary mechanisms for managing shared services strategy and operations. One is organizational structure: An SSO's priorities and activities will naturally be colored by where and to whom it reports. The other is governance: Companies can institute a variety of processes, policies, and procedures, collectively known as "governance mechanisms," to help give stakeholders an appropriate say in shared services management (Figure 4).

Figure 4. Which elements are part of the governance structure for your SSCs?



Respondents were allowed to select multiple options.

Fundamentally, organizational structure and governance mechanisms are complementary means to the same end – aligning shared services strategy and operations with business needs. On a practical level, however, very few companies we know of design their SSO's organizational structure and governance mechanisms to work as a cohesive system from the outset. Fundamentally, organizational structure and governance mechanisms are complementary means to the same end – aligning shared services strategy and operations with business needs. On a practical level, however, very few companies we know of design their SSO's organizational structure and governance mechanisms to work as a cohesive system from the outset. We find that the common tendency is for business leaders, especially if they are new to shared services, to overestimate the impact of organizational structure on shared services effectiveness and underestimate the need for additional processes and policies to plug the gaps. A great deal of effort goes into creating organizational charts and debating whom to put in charge; correspondingly less effort is invested in developing the governance structure, with the choice of governance mechanisms often depending on "leading practices" rather than the SSO's specific oversight needs. The frequent result is a costly learning curve in which leaders make repeated adjustments to both the SSO's reporting relationships and its governance mechanisms as undesirable incidents occur.

It may be understandable for leaders used to other business environments to focus on organizational structure as *the* way to get things done. However, much of the value that shared services adds beyond simple corporate centralization comes from two distinctive aspects of the shared services model that can be hard to enable with organizational structure alone.

First, unlike many other parts of a business, an SSO has the explicit mandate to benefit the enterprise as a whole rather than any particular function, business unit, or geography. This means that the SSO may sometimes need to reconcile – or even override – conflicts of interest among different organizational silos. At many companies, the usual strategy for aligning silos that may otherwise work at cross-purposes is to either change the organizational structure to have them report to a single individual, or change the compensation and goal system to support common objectives. But while these approaches can be helpful for shared services, many SSOs deliver such a breadth of services and have so many different stakeholders that a pure organization- or goal-based solution is impractical. Adding appropriate governance mechanisms to the mix can help manage the risk that the SSO will inadvertently benefit some parts of the company more than others.

Second, the shared services model makes the fundamental assumption that an SSO must consider its stakeholders' views in order to understand the interests of the enterprise as a whole and determine how to pursue them. These stakeholders may include business units, geographies, functions, and corporate, as well as the SSO itself. However, the process of gathering and reconciling input from disparate stakeholder groups typically requires different corporate silos to collaborate far more closely with each other than they are likely to have done in the past. The "right" organizational structure may facilitate such collaboration to a certain extent, but leaders should be alert to the need to supplement the organizational structure with governance mechanisms that help stakeholders effectively share information, coordinate investments, negotiate priorities, and reach balanced decisions.

The benefits of effective cross-silo collaboration, however accomplished, were clearly appreciated by many of our respondents. "Even though our three regional SSCs reported centrally to the corporate controller, he didn't have the bandwidth to coordinate them, which meant that they were able to operate pretty much autonomously," said one. As a result, the SSCs not only failed to standardize processes across the enterprise, but also "made a lot of investments in [tools] that could have been avoided if we had first agreed on what to use." The fix, currently underway, includes multiple elements: a movement toward global process ownership; regular meetings among the SSC's general managers and global process owners; and, most importantly, the creation of the respondent's role to oversee the global shared services effort. "[My role] was the missing link," said the respondent. "When compromise doesn't happen, I have been given the authority to make the decision."

The lesson here, we think, is threefold. First, companies should develop their shared services governance model with the same care they typically devote to deciding where the SSO should report. Second, companies should deliberately design the shared services organizational structure and governance model to complement each other in driving cross-stakeholder communication and collaboration. And third, in developing and refining their approach, companies should strive to keep pace with – or even a step ahead of – their SSOs' growing maturity. "When we were small, governance was not top of mind, but it's become more important as we've grown," said one respondent. "We haven't put ourselves in a terrible position, but we do have some housekeeping to do. It's really amazing what a huge improvement [some of our changes] have made."

The above discussion draws upon insights provided by Susan Hogan, Peter Miller, Peter Moller, Richard Sarkissian, Gina Schaefer, and Hugo Walkinshaw.

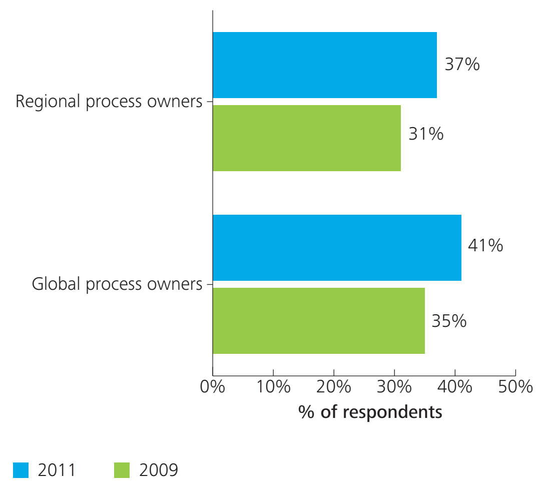
Spotlight: Process ownership gains in popularity

This year's survey saw a rise in the use of both regional and global process ownership among our respondents (Figure 5). Our impression from the field is that global process ownership, in particular, seems to be gaining ground as a way to pursue greater standardization, efficiency, and effectiveness.

As the phrase implies, process ownership places each shared process under the oversight of a single "owner" whose responsibility for the process cross-cuts organizational and geographic lines. Within this basic model, a variety of implementation approaches exist. At some SSOs, the staff executing each process report to the process owner outright; at others, the process owner has an advisory role with no direct authority over execution. Similarly, some companies' process owners "sit" in the SSO, reporting to the shared services leader or equivalent, while other companies may house process owners at corporate or even within one of the businesses.

A process owner's responsibilities typically include maintaining and improving process quality and efficiency, enhancing standardization, and monitoring and enforcing adherence to controls. By making a single individual responsible for the entire process regardless of where the component activities take place, a company can reduce the risk that multiple minor changes across process steps will compound over time and compromise performance. The potential benefits can include improved process efficiency and effectiveness, enhanced control, greater data consistency, more effective data governance, reduced organizational complexity, and streamlined decision making around process improvement initiatives. By helping to standardize processes across SSCs, global process ownership can also help companies more effectively consolidate centers and/or prepare to outsource a process.

Figure 5. Percentage of respondents indicating the use of process ownership, 2011 and 2009 surveys



Global deployment models are on the rise

The basic drivers of companies' shared services location choices can be summarized in a sentence: Cost determines whether to create or move SSC operations, and talent shapes the decision of where to go. Although these drivers have, if anything, become more clear-cut over the years, the specific choices around strategy and execution – how many centers to have, where to put them, and how to organize their services – remain complex.

A considerable uptick in new SSC activity has been taking place: More than one-third of the SSCs in our survey were established within the past three years. Consistent with our observations of the marketplace, much of this growth has been in the emerging markets of Latin America and Asia-Pacific (APAC). Meanwhile, SSC presence has declined in more mature, higher-cost markets, particularly Western Europe and Australia/New Zealand (Table 2). As a footnote to these observations, we believe that the relatively low percentage of SSCs in India reflects the dominance of the BPO industry in that country. Companies determined to source services from India often find it faster, easier, and more cost-effective to hire a BPO provider than to create a captive center there, while many companies that want to create captive centers prefer to go elsewhere rather than make the considerable up-front investment that would likely be needed to compete with BPOs in India.

Table 2. Regional distribution of respondents' SSCs, 2007 and 2011 surveys

	2007 survey	2011 survey
U.S./Canada	28%	29%
Western Europe*	36%	24%
Latin America†	10%	17%
Asia-Pacific (excluding Australia, New Zealand, and India)‡	11%	13%
Australia/New Zealand	4%	2%
Central and Eastern Europe§	4%	5%
India	5%	8%
Other**	2%	2%

Percentages represent the percent of individual SSCs in each location.

* For this table and all charts in this section, the countries represented in Western Europe include Austria (2011 only), Belgium (2007 only), Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

† For this table and all charts in this section, the countries represented in Latin America include Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador (2011 only), Guatemala (2011 only), Honduras (2011 only), Jamaica, Mexico, Netherlands Antilles (2011 only), Panama (2011 only), and Peru (2011 only).

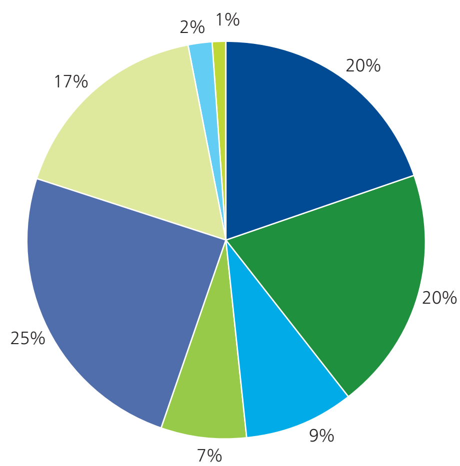
‡ For this table and all charts in this section, the countries represented in Asia-Pacific include China, Japan, Malaysia, Pakistan (2011 only), Philippines, Singapore, South Korea, and Thailand.

§ For this table and all charts in this section, the countries represented in Central and Eastern Europe include Bulgaria (2011 only), the Czech Republic, Estonia (2007 only), Hungary, Lithuania (2007 only), Poland, Romania (2011 only), Russia (2011 only), Slovakia (2011 only), and the Ukraine (2011 only).

** For this table and all charts in this section, the countries represented in "Other" include Egypt (2011 only), Kenya (2007 only), Mauritius (2011 only), South Africa (2011 only), and the United Arab Emirates.

Figure 6. Regional distribution of SSCs by age of center

"New" SSCs (established within past three years)
(235 centers)



"Mature" SSCs (established three or more years ago)
(459 centers)

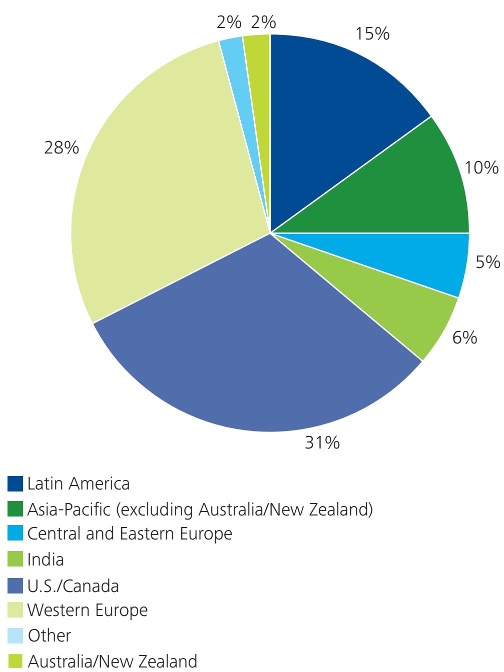
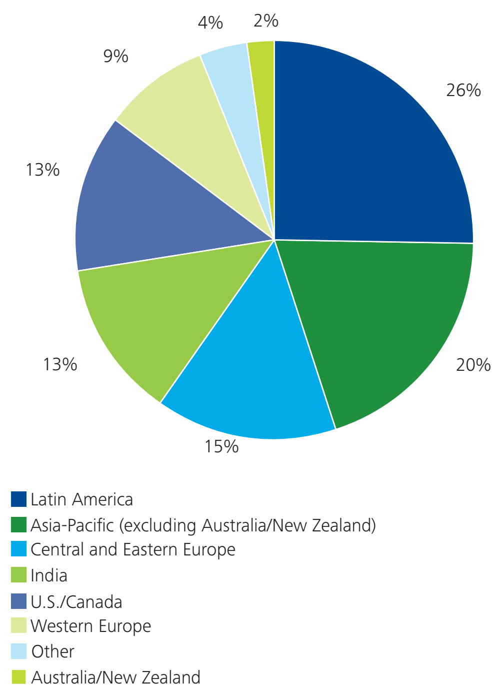


Figure 6, which compares the regional distribution of the newer SSCs in this year's survey (operating for less than three years) with the more "mature" centers (operating for three years or more), highlights the relatively lower percentage of newer SSCs in Western Europe and North America and the increasing popularity of APAC (excluding Australia/New Zealand), Central and Eastern Europe (CEE), and Latin America. Latin America, APAC, and CEE were the most frequently named regions as potential locations among respondents who planned to relocate one or more SSCs (Figure 7).

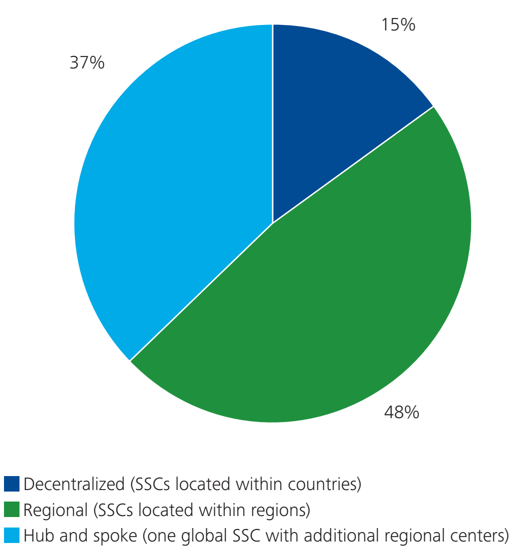
Figure 7. Location options for SSCs being relocated



Percentages represent the percent of a total of 112 locations identified by respondents as potential sites for a relocated SSC. Respondents were asked to name up to three possible locations.

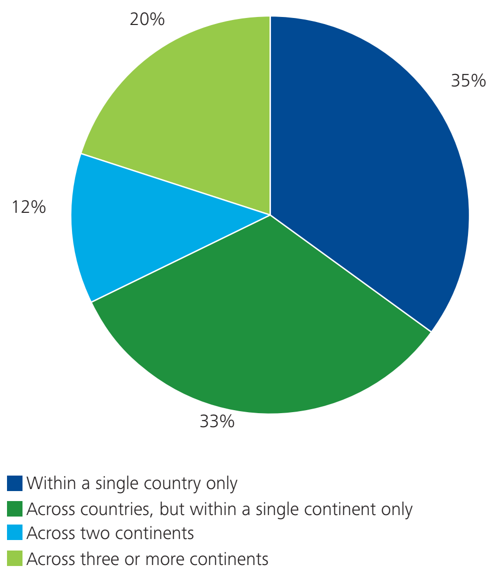
Our results on SSC geographic service area and deployment models reflect what we believe is a growing drive to increase economies of scale and better leverage the global geography. More than a third of our respondents said that they had adopted a hub-and-spoke deployment approach in which a "hub" center (either a captive SSC or an outsourced service provider) performs location-agnostic, transactional processes for the global enterprise, while regional "spoke" centers deliver other processes deemed less suitable or less ready for global standardization and/or consolidation (Figure 8). Further suggesting a movement toward global hub-and-spoke deployment models, 20 percent of the SSCs in this year's survey served three continents or more (Figure 9), up from 14 percent in 2009; another 45 percent of this year's SSCs served one or two continents, as is characteristic of regional centers.

Figure 8. What is the predominant geographic deployment model for your SSCs?



Percentages represent the percent of respondents.

Figure 9. How many geographies do your SSCs serve?



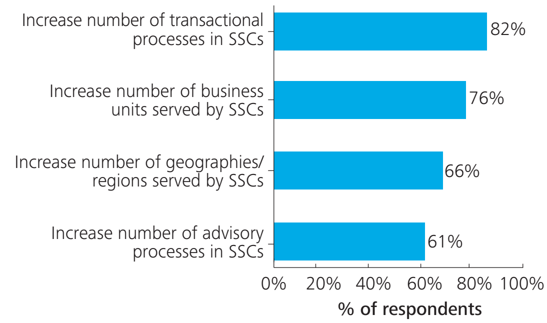
Percentages represent the percent of individual SSCs in each category.

Compared with a purely regional approach, in which processes may be duplicated in different regional centers, the attraction of a global hub-and-spoke model is its potential to yield greater cost reductions through a combination of labor arbitrage and economies of scale. We anticipate that the next few years will see more companies moving from a regional to a hub-and-spoke approach for exactly that reason. In addition to performing region-specific services, we find that the regional centers tend to function as "incubators" for new shared processes, which may later migrate to the global hub as the business gains greater comfort with their placement in shared services.

Sixty-one percent of our respondents indicated that they planned to increase the number of advisory processes in shared services (Figure 10; see Appendix 2 for additional results on process and functional scope). From a location standpoint, the adoption of a shared model for advisory services may translate into the increasingly frequent use of "Centers of Expertise" (CoEs) that we have observed in recent years. While a CoE, like a transactional SSO, consolidates skills into a single internal organization that serves multiple customers, its value lies more in giving the business access to specialized competencies rather than in reducing costs through scale, labor arbitrage, and process efficiencies.

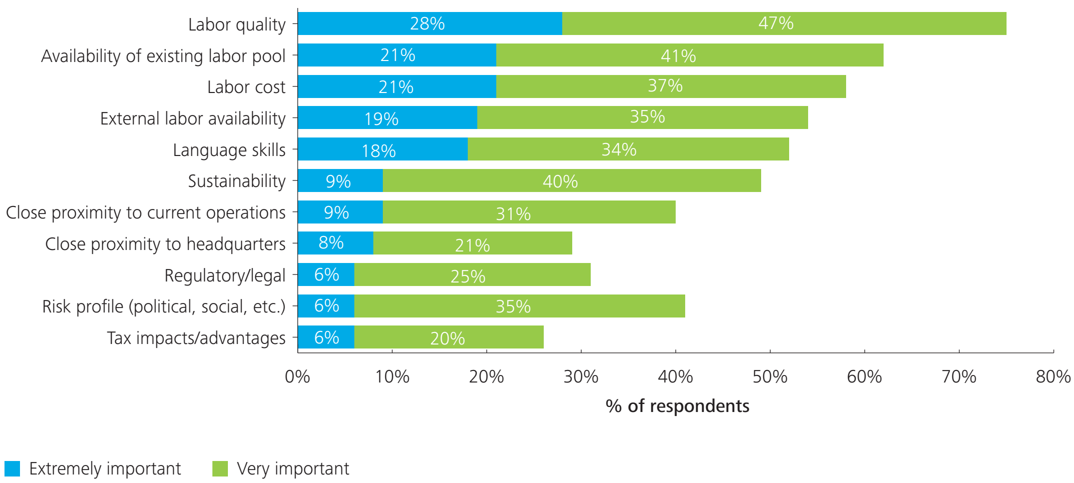
We see CoEs developing along two main geographic models: Regional CoEs that are physically close to the customers they serve, often located on-site with current company operations and focused on region-specific issues, and global CoEs that serve the entire enterprise, located in high-talent areas where the required skills are readily available. A third model – the "virtual" CoE, which centrally coordinates remote service delivery by a geographically dispersed team – is also emerging, driven by a combination of talent availability patterns and alternative workplace innovations. A virtual model may be especially appropriate for CoEs that require hard-to-find skills, which can make it challenging and/or costly to either find enough qualified employees in a particular location or relocate qualified employees from multiple places to a single site.

Figure 10. How do you expect your organization to change its use of shared services over the next three to five years?



One striking finding in this year's survey is that companies appear to be more willing to physically separate their SSCs from their other operations than in the past. Only 9 percent of this year's respondents rated proximity to operations as an extremely important location driver, down from 22 percent in 2009. Similarly, only 8 percent of this year's respondents rated proximity to headquarters as at extremely important location driver (Figure 11). The growth in the number of viable SSC locations around the world, coupled with a potential greater willingness to go farther afield, implies that companies should consider both more cities and different cities for their SSCs than they might have several years ago. To effectively capitalize on the available opportunities, leaders should be careful not to allow their perceptions to lag behind their options. For some types of operations, a location need not be especially well known or even especially sophisticated to be a potential SSC site.

Figure 11. How important were the following factors in selecting the organization's current SSC location(s)?



For companies developing their shared services location strategy, we recommend an iterative process that considers location and deployment options in tandem with strategies for the SSO's functional scope and customer footprint. We find it effective to first develop a provisional operating model that specifies the desired geographic deployment model, the countries to be served by each SSC, and the functions and processes to be placed in shared services, as well as any other high-level requirements or constraints (e.g., cost objectives or tax considerations that point strongly toward or away from a particular country). Once the provisional operating model is in place, a company can begin to investigate the pros and cons of specific locations and combinations of locations, with a particular eye toward labor factors and total costs of ownership. The site selection process should begin with a comprehensive study of potential locations that draws upon diverse, disinterested sources of information. Thorough due diligence of the short-listed locations, including visits to each, can then help guide an effective decision. Importantly, we encourage leaders to be receptive to new information that may surface during this process, remaining open to the possibility of revisiting the operating model in light of their findings.

Above all, we strongly advise leaders to map out each SSC's long-term labor needs – based on factors such as the anticipated functional and geographic scope, the scale of operations, and the nature of the skills required to meet business needs – to guide its shared services location strategy and site selection approach. Without such a long view, a company may find that they have placed an SSC in a location that lacks a sufficient talent pool to meet labor needs over time.

The above discussion draws upon insights provided by Donal Graham, Elias van Herwaarden, Mark Klender, and Hugo Walkinshaw.

Spotlight: Regional highlights

Europe/Middle East/Africa (EMEA)

Shared services activity in the EMEA region has increased in the past two years, with companies creating centers in both established and "pioneering" cities. Although many companies continue to choose less well-known cities for their SSCs, several factors related to the downturn – including higher unemployment rates, a leveling-off of wage increases, and greater available office space – has driven down costs in established locations in Western Europe and CEE as well, making them more attractive from a shared services standpoint. However, the temporary nature of these drivers may still discourage companies from placing large transactional centers in well-established locations. Our experience suggests that many of the new centers in Western Europe may be CoEs, which tend to be located where the company already has a nucleus of like operations. In addition, we have witnessed a clear strategy among larger companies to locate their language- and culture-sensitive shared processes in EMEA, paralleled by a transition of transactional English-language processes to low-cost locations in the APAC region.

While countries east of the European Union's border have seen relatively little shared services activity, the Central European countries of the Czech Republic, Hungary, Poland, Bulgaria, and Romania continue to be "hot" shared services destinations for companies searching for lower-cost alternatives to the increasingly competitive talent markets in major Western European cities. Besides low labor costs, Central Europe's attractions include many cities with large labor pools and stable infrastructures; breadth of skills, particularly language skills; an enthusiastic, highly motivated workforce; and, in some cases, physical and cultural proximity to the markets and/or operations an SSC would serve. We have seen some companies take advantage of Central Europe's strength in languages to bifurcate their shared services operations along linguistic lines, with one SSC in a secondary or even tertiary Central European city (e.g. Lublin [Poland] or Varna [Bulgaria]) to support the more widespread European languages, and the other in a larger city (e.g., Budapest [Hungary] or Warsaw [Poland]) to accommodate less common languages such as Dutch, Danish, and Portuguese.

A potential but likely temporary disadvantage of putting an SSC in Central Europe may be a reduced level of governmental incentives, since some Central European countries are deemphasizing efforts to attract foreign investment in favor of supporting domestic companies that suffered significantly in the financial crisis. Longer-term drawbacks include the possibility of rising attrition rates and/or higher labor costs as Central European cities grow to become economic centers in their own right, able to offer workers a wider range of more rewarding job opportunities.

An additional development concerns the way companies are configuring their SSCs to serve operations in the Middle East and Africa. The prevailing model has been to centralize European- and generic Arabic-language service delivery in a regional SSC, which would be located in Central Europe to accommodate its European language needs. The regional SSC's services would be complemented by in-country support in Middle East and Africa. Recently, however, there have been signs of companies seeking to consolidate service delivery across the Middle East and Africa as well, establishing SSCs in cities such as Istanbul, Rabat, Tunis, and Cairo. The Arab Spring and the resulting uncertainty about many Middle Eastern countries' political outlook have put a halt to this development. It remains to be seen whether the trend will pick up where it left off if and when the political situation stabilizes.

APAC, Australia/New Zealand, and India

The APAC region has also seen a great deal of shared services activity in the past two years. Ongoing global economic struggles have prompted some companies to transfer their shared services operations from Europe and/or the United States to lower-cost cities in APAC, while low labor costs – and the large pools of skilled talent in many APAC cities – are also making APAC attractive to companies establishing shared services for the first time. As well, companies' aggressive pursuit of both organic and inorganic growth in the region has increased the demand for support services, which in turn has led some companies to adopt shared services as a platform for growth.

As in EMEA and Latin America, the number of shared services destinations in APAC continues to grow. In India, for example, companies are establishing SSCs in satellite locations close to major cities that already have a strong shared services presence, as well as in newer cities such as Kolkata. Some cities in China's western provinces, such as Chengdu, are also emerging as destinations for both captive SSCs and outsourcing hubs. One challenge companies may face in both China and India is that location incentives tend to be offered at the state or provincial level rather than by a coordinated national program. This may make it more complicated to negotiate terms than in countries with a national-level incentive structure, such as the Philippines, Malaysia, and Singapore.

(continued on page 19)

(continued from page 18)

The countries served by SSCs located in APAC are also starting to shift. In particular, Japan, which has historically not offshored work, is starting to establish shared services hubs elsewhere in Asia. In addition, some organizations are beginning to serve operations in Africa and the Middle East from APAC, partly to align with changing geographical business groupings, but also as a consequence of increasing costs and risks in key Middle East locations.

Organizations headquartered in Australia and New Zealand have also been establishing and/or expanding their shared services operations. Greater interest in shared services by state governments, especially in New South Wales, has led to the creation or expansion of a number of in-country SSCs, while a growing number of private companies, both mid-sized and large, are creating SSCs offshore, mainly to support IT and finance.

Although much of APAC is still the preferred low-cost location for shared services, the region's growing demand for business support capabilities has put increasing pressure on the labor pools in markets that contain a large number of centers, including China, India, the Philippines, Malaysia, and Singapore. As a result, labor costs are rising: Organizations are looking to ramp up their shared operations quickly, forcing them to acquire the needed capabilities at a price premium rather than developing untrained workers. We expect that this phenomenon, in addition to the region's anticipated economic growth and subsequent increase in average earnings, will continue to narrow the gap on current levels of wage arbitrage relative to other regions.

Americas

The shared services landscape in the Americas region contains two distinct blocs: North America (the U.S., Canada, and Puerto Rico) and Latin America (everything else to the south), each with its own characteristic pattern of shared services activity. Over the last year, we are seeing the blocs become increasingly intertwined. Many North American companies have established or are considering establishing SSCs in Latin America, and both North American companies and global multinationals headquartered outside the Americas are coming to view Latin America as a location from which to serve the entire Americas region. The U.S. in particular, home to many multinationals and possessing some of the world's highest operating costs, remains a primary source of shared services activity in Latin America and worldwide.

Historically, companies have first gravitated toward low-cost locations within North America for SSCs serving North American operations. More and more companies today, however, are looking to Latin America, with its range of options at substantially lower costs, as a potential site for SSCs serving both North America and Latin America. The increasing interest in Latin America is being fueled by several factors, including the desire for a low-cost platform to serve the region's fast-growing markets, incremental or M&A-driven growth by companies operating in various Latin American countries, and a shift in focus by companies that have tackled shared services in the more mature North American and EMEA markets.

Companies investigating potential SSC sites in Latin America often face a trade-off that pits operating costs against talent availability, language skills, and risk. The cost of labor in "tier 1" locations, generally the larger metropolitan areas, may run between 40 to 80 percent of U.S. labor costs – substantially higher than the 30 to 40 percent of U.S. labor costs that companies may find at "tier 2" or "tier 3" sites. On the other hand, "tier 1" locations offer deeper talent pools, broader language capabilities, and lower geopolitical risk than "tier 2" or "tier 3" locations, which generally have smaller, predominantly Spanish- or Portuguese-speaking populations. "Tier 1" sites also tend to have a higher number of SSCs already operating there, which can give a company greater confidence in the physical infrastructure as well as access to an already trained labor pool – although it may also expose an SSC to greater competition for talent. An SSC's projected language needs can be a critical factor in determining viable location options. An SSC that requires only Spanish has many more location choices than one that requires additional capability in English, Portuguese, or both.

As in EMEA and APAC, increasing activity in Latin America coupled with a "follow the herd" mentality are leading to labor stress in some markets. For instance, we know of one city, a favorite before the global economic downturn and home to five SSCs at the time of this writing, in which companies are trying to fill more than 2,000 finance shared services positions in a relatively small labor market. We predict considerable wage inflation, increased turnover, and a blip in productivity as the Latin American shared services market becomes more crowded.

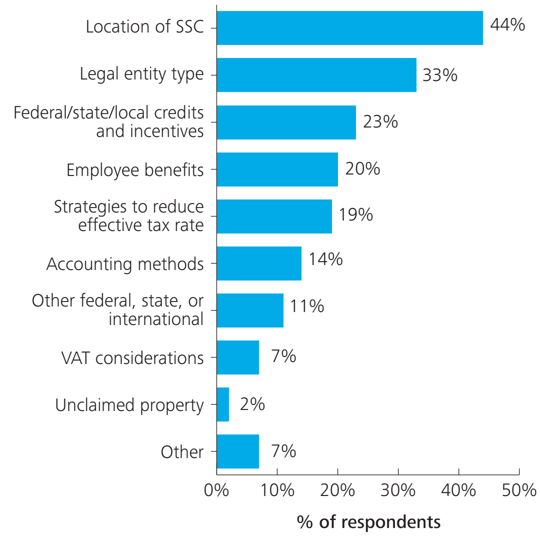
Tax adds more value early

Most companies, in our experience, are well aware that shared services may generate both tax risks and opportunities. In this year's survey, 76 percent of respondents considered at least one of the tax areas listed in Figure 12 as part of their shared services effort. However, only a minority of respondents (31 percent) felt that shared services had a positive or significantly positive tax impact on their business (Figure 13). This percentage seems somewhat low, given the large proportion of respondents who recognized that shared services could have tax implications.

Conversations with respondents revealed a possible reason for the gap between respondents' tax awareness and their companies' realization of tax benefits. While all of the respondents we spoke with knew of shared services' potential tax implications, their companies' appetite to pursue shared services-related tax incentives varied greatly. Focus and priority, along with time, seemed to be the determining factors. "We were so focused on cutting costs quickly that we didn't have the luxury of pursuing tax incentives," said one respondent. Said another: "For our first [offshore] center, we chose not to focus on tax because we were much more concerned about putting it in the right place to find talent, which was a big reason for going offshore in the first place. However, now that we're bigger and more established, we will absolutely pursue tax incentives for our other locations [there]."

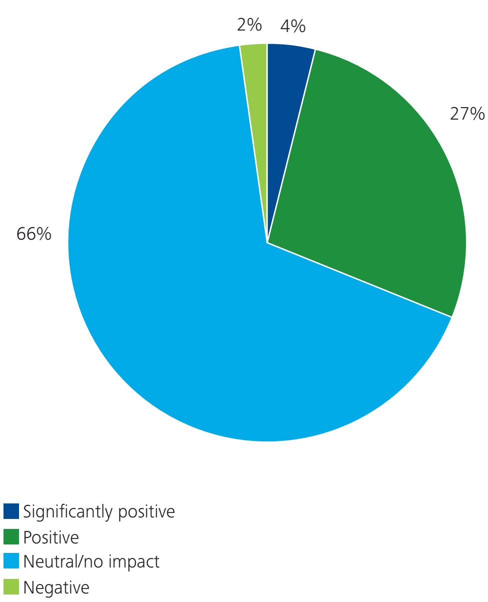
One way companies may be able to increase the time and focus available for tax in a shared services project can be to involve the tax team from the very beginning – even before developing the formal business case. The earlier a company consults tax leaders about a possible or planned shared services project, the more time the tax professionals will have to research relevant issues, evaluate different scenarios, and identify resources to assist the shared services team at the appropriate times. This, in turn, can help the company create and evaluate the shared services business case on an after-tax basis, helping to reduce the risk of leaving value unrealized, inadvertently incurring penalties, and/or unnecessarily complicating compliance. Early tax involvement can also improve a company's ability to execute its planned tax initiatives, since the appropriate specialists are more likely to be notified in advance instead of being pulled in at the last minute.

Figure 12. What tax considerations were taken into account prior to or in connection with the formation of your SSCs?



Respondents were allowed to select multiple options.

Figure 13. What were the tax impacts of moving to shared services?



Percentages represent the percent of respondents.

Executives may want to explore questions like these with the tax team when planning a shared services project in order to identify and prioritize its tax-related efforts:[1]

- **How does shared services fit into our global tax planning?** Especially at U.S.-headquartered multinationals, a company's global tax planning can both influence and be influenced by decisions related to shared services. For instance, the establishment of an SSC can help support a company's assertion of business purpose.
- **Are there any tax reasons to fund the shared services initiative from a certain country or countries?** Issues related to intellectual property ownership, repatriation of earnings, and other considerations may play into a company's decision of how to fund part or all of a shared services project.
- **What tax implications should we consider when determining an SSC's location?** Many countries offer tax incentives for locating operations in their jurisdictions. Beyond this, an SSC's location can affect whether its services are subject to value-added tax (VAT) and how much VAT it must pay. Locating an SSC in a jurisdiction that imposes VAT could lead to VAT compliance requirements and require the SSC to build VAT costs into the transfer prices it charges for its services.
- **What legal entity structure should an SSC adopt?** Because jurisdictions often tax corporate branches differently from separate corporate entities, leaders should consider the tax consequences of alternative structures when selecting an SSC's legal entity.
- **How might tax considerations affect the timing of certain implementation steps?** In some cases, the tax impact of when a decision is made or announced can be as great as or greater than the substance of the decision itself. Announcing definite plans to build a center in a certain location, for instance, may affect a company's bargaining position with the selected local government around potential tax incentives.
- **Who will be responsible for local-country tax compliance after in-country headcount is rationalized?** In-country finance function personnel are often responsible for local tax compliance as well as for statutory reporting. If the shared services effort includes finance processes, the local finance functions should take care to rationalize headcount in a way that preserves coverage for these responsibilities. Alternatively, a company may wish to consider using a shared services model, or at least drawing on finance data an SSC collects, to execute certain country-specific tax activities (see sidebar, "Spotlight: Tax as a potential shared service"). Or the company may choose to outsource its local tax compliance obligations, which can enhance access to in-depth local tax knowledge as well as help clarify the cost of tax compliance.
- **What are the potential tax drawbacks, if any, to moving operations out of a particular jurisdiction?** Some jurisdictions may impose "clawbacks" in an effort to recapture the value of tax credits, deductions, or other incentives provided to a company that moves operations out of a jurisdiction before it has completed its obligations pertaining to the incentives. Identifying such jurisdictions and any potential forfeitures up front can help companies avoid unexpected additional costs of moving local operations to an SSC.

The above discussion draws upon insights provided by Raffi Markarian, Alan Mickelson, Peter Moller, and Hugo Walkinshaw.

[1] For additional questions to raise with the tax team, see page 8 of "Service delivery transformation: 10 ways to get more from your service delivery organization" (Deloitte Development LLC, 2009), available online at http://www.deloitte.com/view/en_US/us/Services/additional-services/Service-Delivery-Transformation/ef24b4009b3cb210VgnVCM3000001c56f00aRCRD.htm.

Spotlight: Tax as a potential shared service

Companies with finance processes in shared services may have good reason to consider putting at least some tax activities in shared services as well. While some might argue that variation among local-country tax laws makes tax processes inherently unsuitable for shared services, our respondents' experience may suggest otherwise. At least one company in this year's survey has been able to place VAT reporting and compliance activities, as well as income tax filings, in its SSO. Even if some specialized tax filings must be prepared locally, there may be others that are similar enough across jurisdictions – or that require little enough specialized knowledge – to be consolidated.

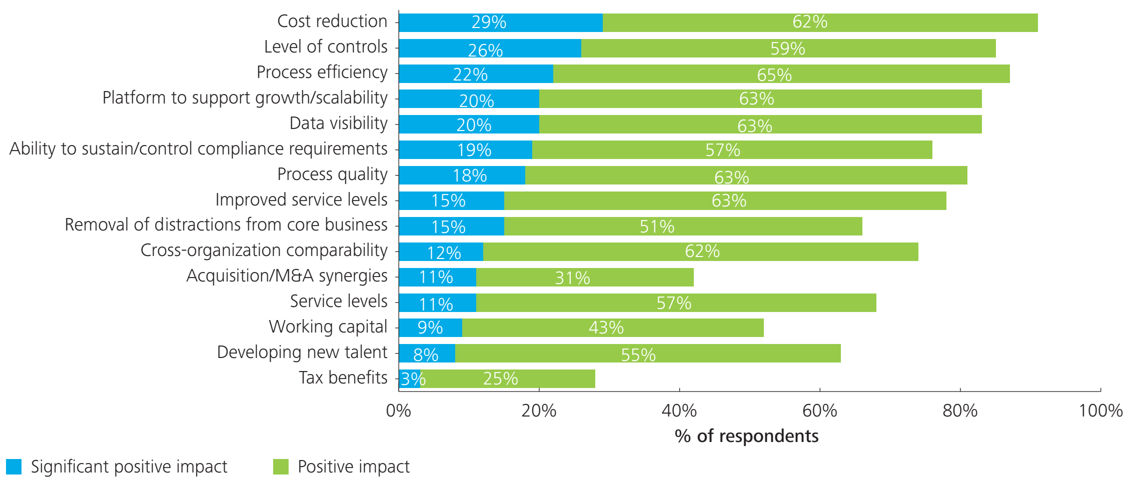
One reason to consider transferring local tax activities to shared services can be to help facilitate reductions in local finance headcount. If a local resource's knowledge of tax compliance processes is the only reason to retain him or her after the finance part of the job is moved to shared services, reproducing that knowledge in an SSO can allow additional personnel realignments and potential cost savings. Moreover, because many tax filings depend heavily on data produced by finance processes, placing tax resources in a finance SSO may potentially help improve access to the required information. Companies exploring the idea of putting tax in shared services should take care that the SSO's finance processes collect and appropriately organize the data needed for the tax activities the SSO will support.

Shared services offers multiple internal control improvement opportunities

Shared services often has a positive impact on a company's level of controls, a benefit experienced by 85 percent of this year's respondents (Figure 14). "Going to a single location with a single process has reduced complexity, increased consistency, and simplified oversight," said one respondent. "In the long run, it will also reduce oversight costs." However, while consolidating processes may make control easier and less burdensome, our experience suggests that such improvements may sometimes be "an unintended favorable outcome" (as one respondent said) rather than the result of a deliberate effort. We have further noted that companies that explicitly address risk management as part of their shared services effort may experience greater benefits than those that do not.

We see at least three opportunities for companies to use shared services to strengthen internal controls beyond the "baseline" gains that may accrue simply because of the standardization, consolidation, and automation that shared services often entails. The first opportunity can arise whenever a process is being redesigned for placement in shared services. An effective process redesign effort can be one of the few occasions that a company systematically examines a process from end to end. While the main focus of the redesign will likely be on standardizing and improving the process itself, the project can give risk and control specialists the opportunity to inspect, standardize, and improve the associated controls as well.

Figure 14. To what extent have your organization's SSCs had a positive or negative impact in the following areas?



Spotlight: The case for sharing internal control and risk management capabilities

An SSO may be a logical home for some internal control and risk management capabilities. For instance, a company may be able to improve the efficiency and effectiveness of certain control activities by putting them in shared services alongside the processes they address. With respect to risk management, giving risk managers access to the broad data set collected by an SSO, as opposed to purely local data, can allow them to use more powerful technology tools for activities such as risk assessments and compliance monitoring. A risk analytics capability might also be placed in or be associated with an SSO for the same reason.

The second opportunity lies in the possibility of using the consolidated, enterprise-wide data housed in an SSO to conduct analytics. A broad-based view of the company's financial transactions, for example, can help risk managers identify control gaps and weaknesses that could be difficult to recognize without access to the data on an enterprise level. Although an SSO may not accumulate the necessary volume of data until it has been up and running for some time, risk and control specialists can advise a shared services implementation team on what data the SSO should collect and how that data should be organized to support the desired analyses.

The third opportunity, exemplified by one responding company's finance SSO, is to leverage shared services personnel as another defense against breakdowns in control. "Risk is part of everyone's job description," said the respondent. "As you embed risk awareness into the makeup of people's job responsibilities, they become more proactive in looking at the little things, and those are often where the biggest risks can be." This respondent's SSC also includes a risk and controls group that regularly monitors the controls and processes executed by finance personnel as well as the SSO's self-testing, self-reporting controls.

The above discussion draws upon insights provided by John Haughey, David Hodgson, and Hugo Walkinshaw.

We see at least three opportunities for companies to use shared services to strengthen internal controls beyond the "baseline" gains that may accrue simply because of the standardization, consolidation, and automation that shared services often entails.

Managing shared services talent is an art unto itself

As SSOs continue to mature and evolve, a growing number of companies are realizing the significant role that shared services talent plays in meeting business objectives. Leaders should not view shared services positions as low-skill jobs with limited upward mobility, or underestimate the challenges of managing talent in an SSO – especially one that supports different countries and regions.

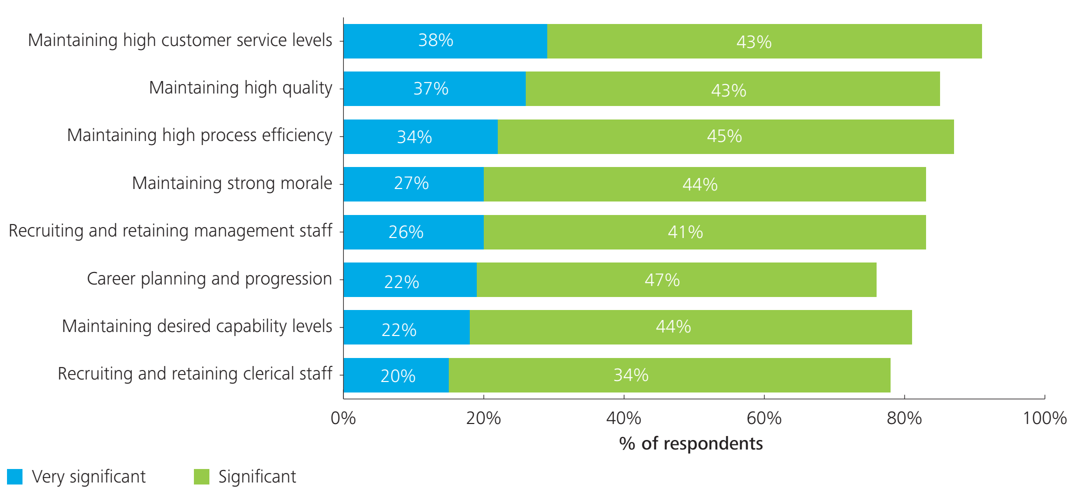
How do leading SSOs make the grade when it comes to overcoming people-related challenges such as those listed in Figure 15? Forward-thinking SSOs are implementing an integrated talent strategy that recognizes that finding highly skilled talent is only the first step. An effective talent strategy provides a comprehensive view of the talent requirements needed to support the delivery of the SSO's services. It should address the following critical dimensions of talent management:

- Attracting, sourcing, and selection
- Engagement and retention
- Training, coaching, and development
- Performance management
- Rewards and recognition

Attraction, sourcing, and selection. An SSO can use leading recruitment practices such as developing a value proposition and brand, accurately describing roles and career paths to applicants, using a roundtable approach to interviewing applicants and making hiring decisions, and using psychological assessments in the candidate selection and evaluation process. "I do detailed psychological testing on everyone – both when they apply, and after they're hired so that we can put development plans in place," said one respondent. He stressed the importance of evaluating candidates for "temperament and character … not just [technical] skills."

It's also important to clearly define the competencies and skills required for each role within the SSO to help hire the "right" people into the "right" roles. These competencies and skills should reflect, not just each role's technical, soft, and language skills, but also the type of culture leaders want to build in the SSO. Effective supervisory skills are particularly essential, as study after study has found that an employee's supervisor has a direct impact on his or her job satisfaction. Leadership skills such as dependability, the ability to motivate others, and the ability to lead by example are also valuable. As one respondent put it: "Leadership is of utmost importance in shared services. One of the key reasons my performance levels are high is that I surround myself with people who could take over from me someday."

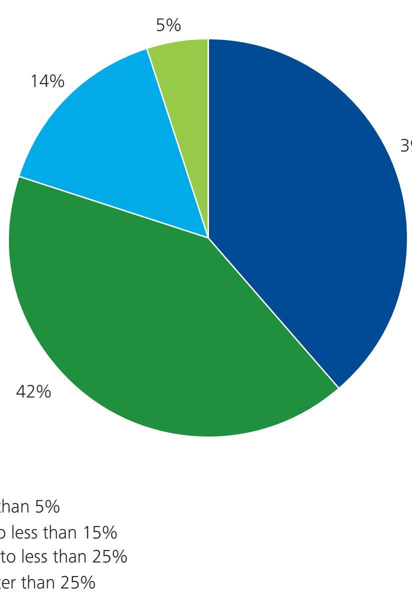
Figure 15. How significant are the following people-related challenges within your organization's SSC(s)?



Additionally, don't underestimate the power of telling applicants about the formal and/or informal retention programs offered by an SSO. This information may tip the scales for a recruit who has the opportunity to choose among several jobs with comparable pay.

Engagement and retention. As shown in Figure 16, 81 percent of the SSOs represented in this year's survey experienced an annual turnover rate of 15 percent or less. This low turnover rate, however, may be due to the economic downturn of the past few years. If so, some SSO leaders may see turnover rates increase when the economy improves and dissatisfied employees seize the opportunity to seek employment elsewhere. Ways to monitor and help address this risk include regularly surveying SSO employees to measure engagement and diagnose issues; performing exit interviews to identify and address possible drivers of turnover; and developing formal retention programs, especially for critical workforce segments. Once leaders understand what factors may underlie turnover, they can apply tactics such as those listed in Figure 17 to address these areas. Many of these tactics – such as providing opportunities for advancement, offering monetary and non-monetary awards and recognition, creating formal and informal career paths, and maintaining an appealing work environment – can help bolster an SSO's overall image as an attractive career destination, which can aid in sourcing and attraction as well as further support engagement and retention.

Figure 16. What is your annual employee turnover rate?



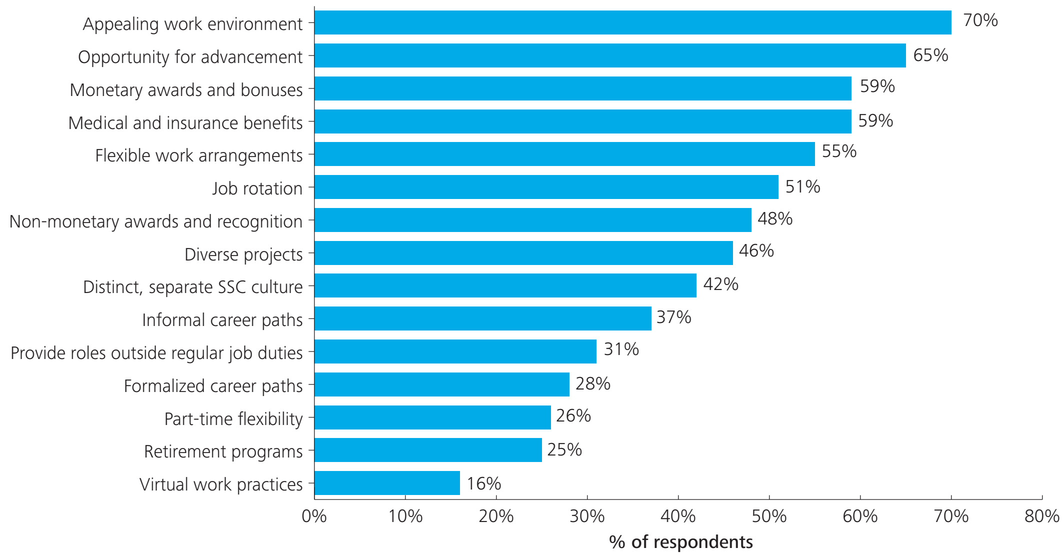
Percentages represent the percent of individual SSCs in each category.

Training, coaching, and development. Training received multiple mentions from respondents as a way to foster high performance in both task execution and soft skills. One respondent, for instance, described a shared services curriculum that included courses on topics such as emotional intelligence and influencing skills as well as core technical competencies. "The reason we have courses in 'softer' areas is because shared services is very much about building trust at every level of the organization," said the respondent. "An accounts payable clerk should know more than how to process accounts payable; he or she should also be able to connect with customers." Formal assessment tools can help SSOs identify organizational and individual capability gaps, connect learning strategies with career paths and performance management, and reward leaders for developing their teams.

Performance management. As shown in Figure 15, a large majority of our respondents reported "very significant" or "significant" challenges in maintaining high customer service levels (81 percent), high quality (80 percent), and high process efficiency (79 percent). To address these areas, many respondents emphasized the need for a disciplined approach to measuring performance and holding people accountable for it – at the team or even the individual level. "We have built a can-do culture where people are measured individually," said one respondent. "They understand that if they perform and do the work, we will put effort into developing them. But they also understand that if they don't perform, we won't hesitate to get someone else."

Performance metrics are typically divided into and reported by categories based on metric purpose. These categories are used to monitor and drive the SSO's effectiveness and efficiency. To develop meaningful performance metrics, shared services leaders must first understand what attributes their customers and other stakeholders (such as corporate executives) value in service delivery. They can then establish metrics and goals for individuals, teams, and the SSO itself that align with broader organizational objectives. The SSO's rewards and recognition programs should include metrics-based incentives that reinforce

Figure 17. Which of the following methods does your organization use to attract, motivate, and retain its SSC associates?



Respondents were allowed to select multiple options.

performance goals. It is also important to continuously measure the SSO's progress against performance goals, as well as to communicate the results to stakeholders on an ongoing basis.

Metrics aside, certain cultural factors – specifically, employees' perceptions of how improvements could affect their own jobs – can have a major impact on performance. An SSO's continuing efforts to automate, standardize, and improve its processes, if successful, may lead to efficiencies that allow fewer people to do the required work. SSOs that can find ways to redeploy the employees thus displaced, such as by assigning them to new shared processes as the SSO's service scope expands, can create a potent dynamic that encourages shared services personnel to actively pursue improvements rather than resisting them for fear of losing their jobs.

Rewards and recognition. In order to remain competitive, leaders should regularly evaluate an SSO's rewards and recognition strategy. As stated above, rewards and recognition programs should align with the SSO's performance management process. In general, we find that an approach that balances team-level rewards with individual rewards is effective in motivating performance.

The above discussion draws upon insights provided by Kimberly Betts, Amelia Boisseau, Michael Corrie, Ken Kunkleman, Peter Miller, Peter Moller, Candace Rogers, Marc Solow, and Hugo Walkinshaw.

Spotlight: A sampling of talent management tactics

Although an SSO's talent management tactics may look similar to those at other business operations, applying them effectively to shared services personnel can require a nuanced approach that takes an SSO's distinctive work environment and position within the enterprise into account. For instance:

- **Job rotation.** Job rotation can include sending shared services employees to work in other areas of the larger support organization, such as a retained local support group or a CoE, as well as bringing non-shared services staff to work in the SSO. This strategy can help employees throughout the support organization gain greater exposure to different areas of the business, expand their networks, learn new processes, understand the impact of their own jobs on outcomes, and appreciate the various people issues that can arise among work groups in different parts of the company – all of which can help develop future leaders.
- **Career pathing.** An SSO can help attract and engage talent by clearly defining and articulating the career paths open to its employees. These career paths may lead not only into other areas of the SSO, but also out of the SSO into other parts of the business. "[My customers] are quite fond of pulling people out of my organization," said one respondent. "My attitude is, if we can continuously develop people to become a feeding source for the business, that's another big way we contribute value." Especially at SSOs with a flat organizational structure, the perception that a job in shared services can be a stepping stone to advancement elsewhere in the business can enhance attraction, retention, and engagement.
- **Competitive intelligence.** Understanding what competitors are doing can help an SSO evaluate and improve its attraction, engagement, and retention programs or gain insight into new and potentially useful talent management practices. Astute shared services leaders can tap into recently hired employees to learn what made them leave their former employers, what drew them to their current employer, and what would make them likely to stay and thrive.
- **Engagement activities.** Adding fun engagement activities to the workday (e.g., jeans day on Fridays, team-colored shirts on Wednesdays, employee-of-the-month programs, sports awards, and potluck lunches) can be low- to no-cost ways to add value and bring a convivial atmosphere into the workplace.
- **Leadership visits.** Periodic appearances by senior business leaders, up to and including the corporate CEO, can send a powerful message to shared services employees that they are a valued and vital part of the organization.
- **Connection with the business.** As discussed earlier in the paper, fostering a sense of connection with the company's revenue-generating activities can help boost morale and engagement among shared services employees. In addition to encouraging visits between the business units and the SSO, a company can use tactics such as integrating marketing and promotional material into the shared services work environment or giving shared services staff free samples of the company's product(s) or service(s).

Afterword: "Everyone is unique …

… just like everyone else," cracked one respondent about his customers. The same might be said for the shared services community as a whole. Every enterprise has unique needs, and every SSO faces unique challenges. Yet the common threads that run through most shared services executives' experiences can be a valuable jumping-off point for an SSO's efforts to find new ways to deliver business value.

In the spirit of putting our own and our respondents' combined experience to use, we offer the following high-level guidelines for executives to consider:

Choose an effective leader. Effective leadership and advocacy for shared services can make the difference between grudging acquiescence and honest acceptance, both during implementation and during ongoing operations. Whether it's a formally named shared services leader, a functional executive, or even a member of the corporate C-suite, it's vital for *someone* to take on the job of building trust for shared services throughout the organization. The "right" person will have enough status within the business to command stakeholders' attention, enough influence at the SSO to address legitimate stakeholder concerns, and most importantly, enough interpersonal skill to build relationships based on trust.

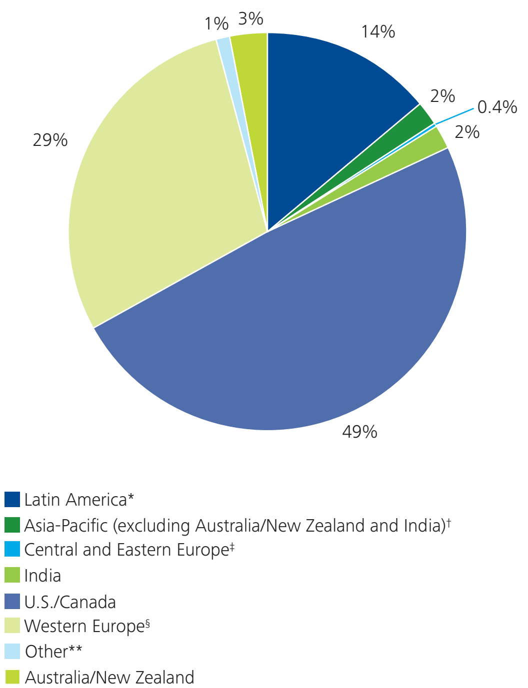
Look for the competitive advantage. Leaders within both shared services and the business should constantly ask themselves: "How can our SSO help us stand out from the competition – even if it's never been done before?" The nature of the business and the role shared services plays within it can suggest potentially productive approaches. It might be to plug shared services leadership tightly into the strategic planning process to keep SSO operations aligned with the company's growth strategy. It could be creating CoEs to improve cross-enterprise access to critical specialized skills. It might be using the SSO as a source and proving ground for talent. Or it might be leveraging shared services skills – in process improvement, project management, and change management, for example – in front-line improvement initiatives. The underlying point is that an SSO can be more than a transaction-processing shop; it can also help a company pursue strategic goals.

Learn from each other. A vast amount of shared services-related knowledge and experience exists in today's marketplace, and more is being generated every day. We encourage shared services leaders and those who work with them to attend conferences and seminars, take each other to lunch, tour each other's facilities, and generally make it a priority to connect with others who may bring new perspectives to the same or similar issues.

It's the last point, perhaps, that may be most useful in the long run. The shared services journey may be never-ending, but the basic path has already been cleared – and learning from others can be a huge help in both getting the basics "right" and developing an organization's unique shared services value proposition. So don't be shy about seeking information from others or offering one's own experiences and opinions. View each insight through the lens of one's own situation to see if it might apply, if not immediately, then further down the road. The goal is not to slavishly copy, but to broaden one's knowledge of potential strategies and options. The bottom line: Sharing the shared services journey with one's fellow travelers can help smooth the path for everyone – wherever they may be bound.

Appendix 1: Respondent demographics

Figure 18. Respondent company headquarters



* Countries represented in Latin America included Argentina, Brazil, Colombia, and Mexico.
† Countries represented in Asia-Pacific included China, Japan, and Singapore.
‡ The country represented in Central and Eastern Europe was Poland.
§ Countries represented in Western Europe included Austria, Denmark, Finland, France, Germany, Ireland, the Netherlands, Portugal, Scotland, Spain, Sweden, Switzerland, and the United Kingdom.
** Countries represented in "Other" included Bermuda and South Africa.

Figure 19. Respondent industry

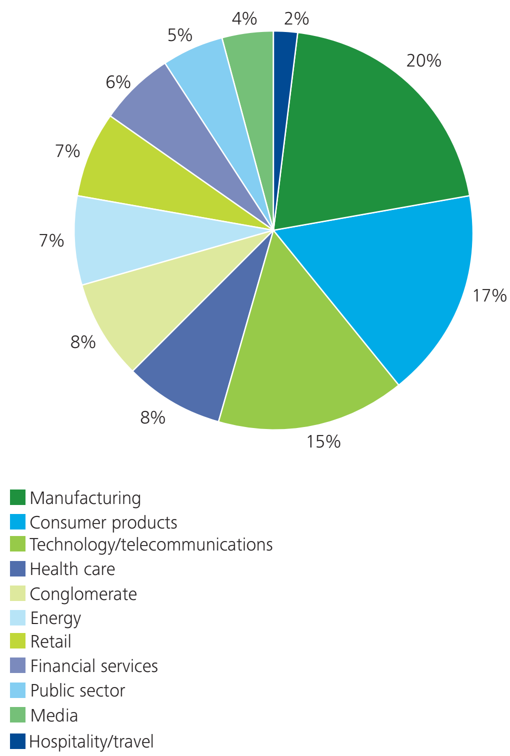


Figure 20. Respondent company annual revenue

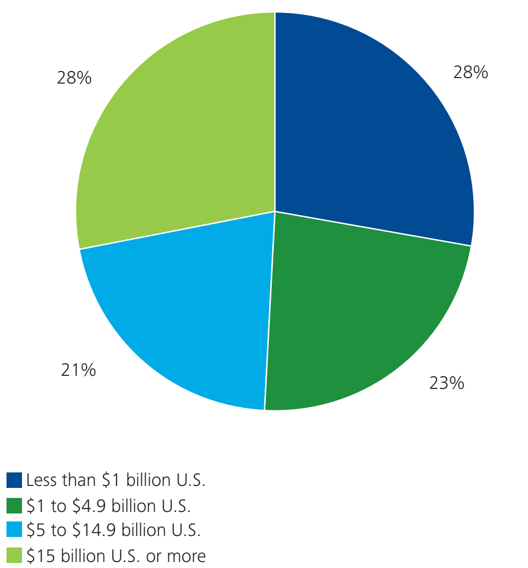


Figure 21. How many SSCs does your organization have?

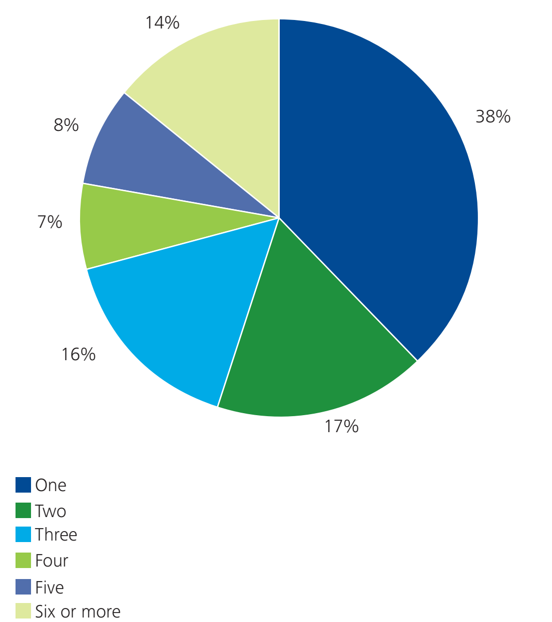
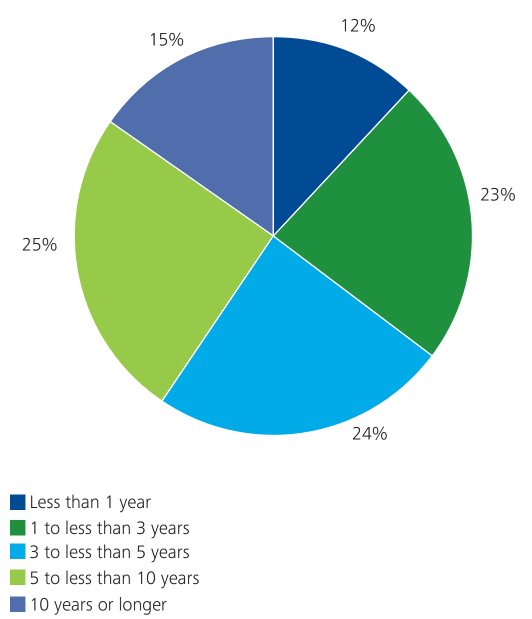


Figure 22. How long have your organization's SSCs been operating?



Percentages represent the percent of individual SSCs in each category.

Appendix 2: Functions and processes in shared services

Figure 23. What functions are in your organization's SSCs?

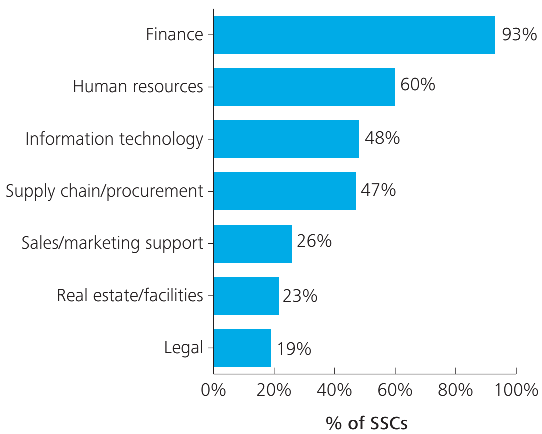
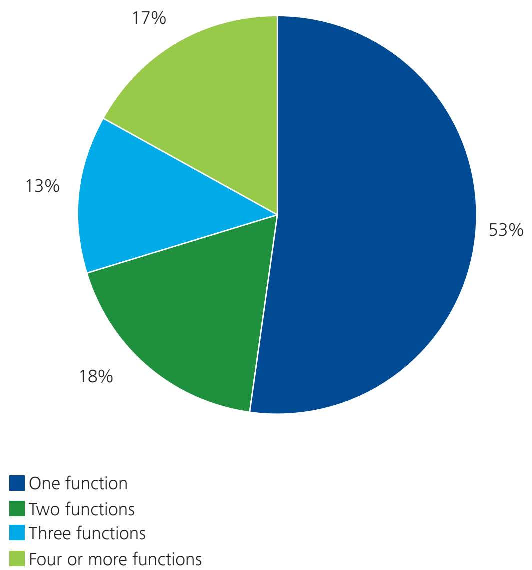


Figure 24. Number of functions in each SSC



Percentages represent the percent of individual SSCs in each category.

Figure 25. Which financial processes does your organization perform in shared services?

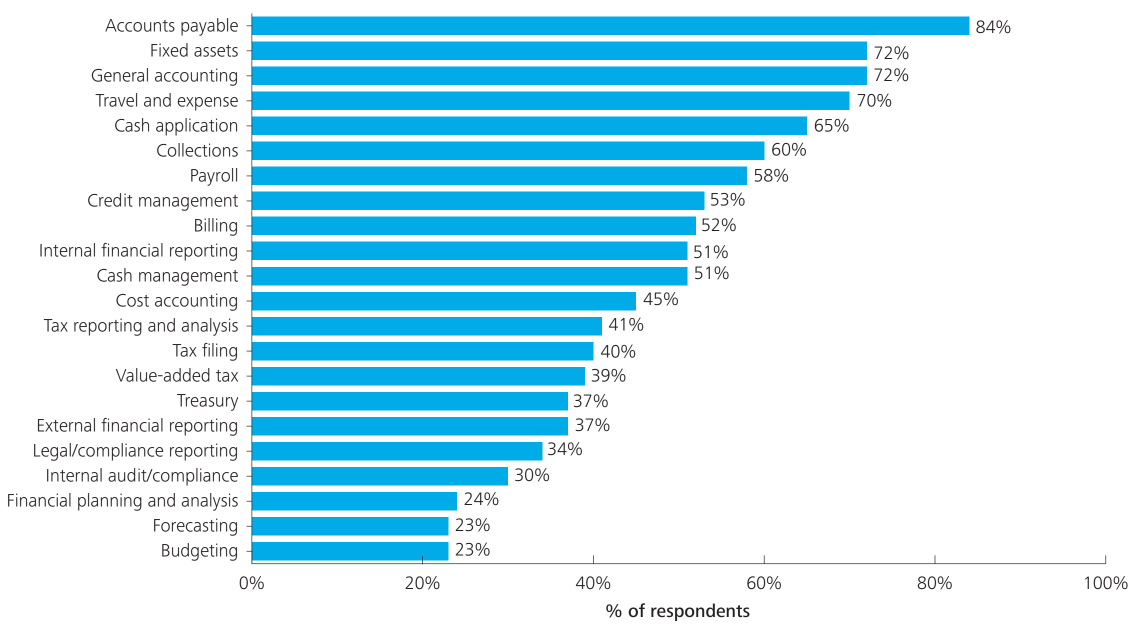


Figure 26. Which human resources (HR) processes does your organization perform in shared services?

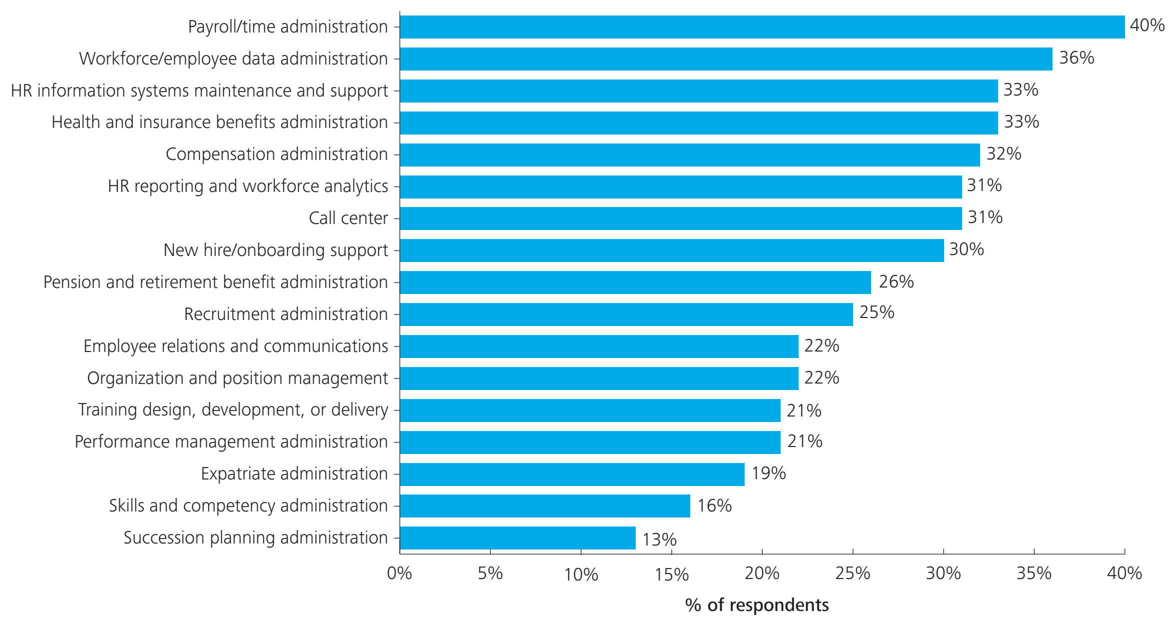


Figure 27. Which technology processes does your organization perform in shared services?

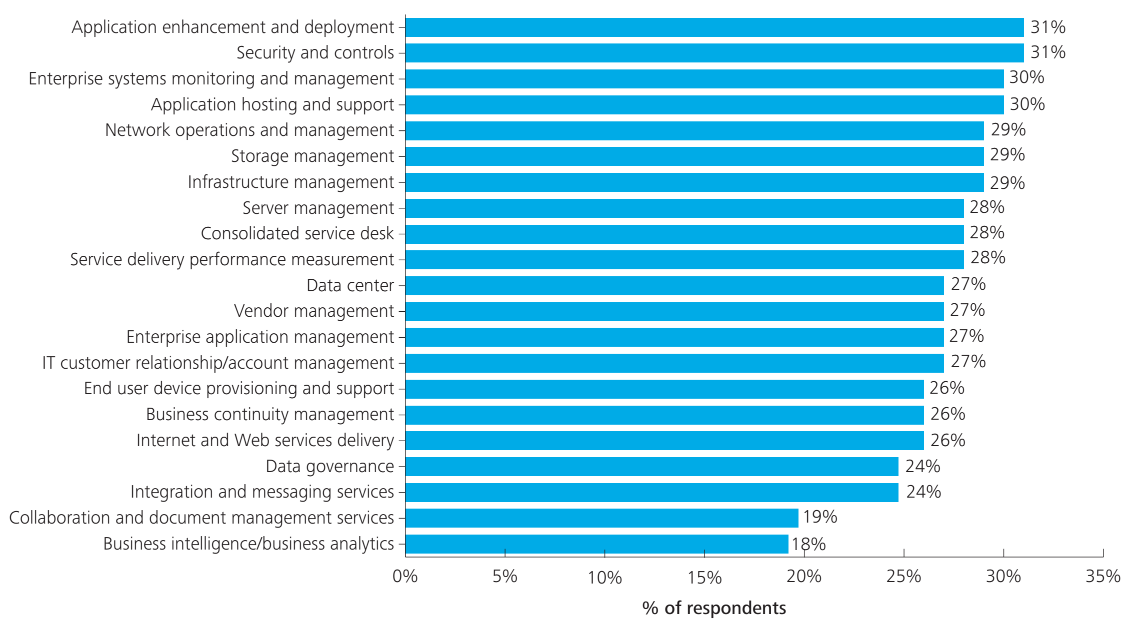


Figure 28. Which supply chain/procurement processes does your organization perform in shared services?

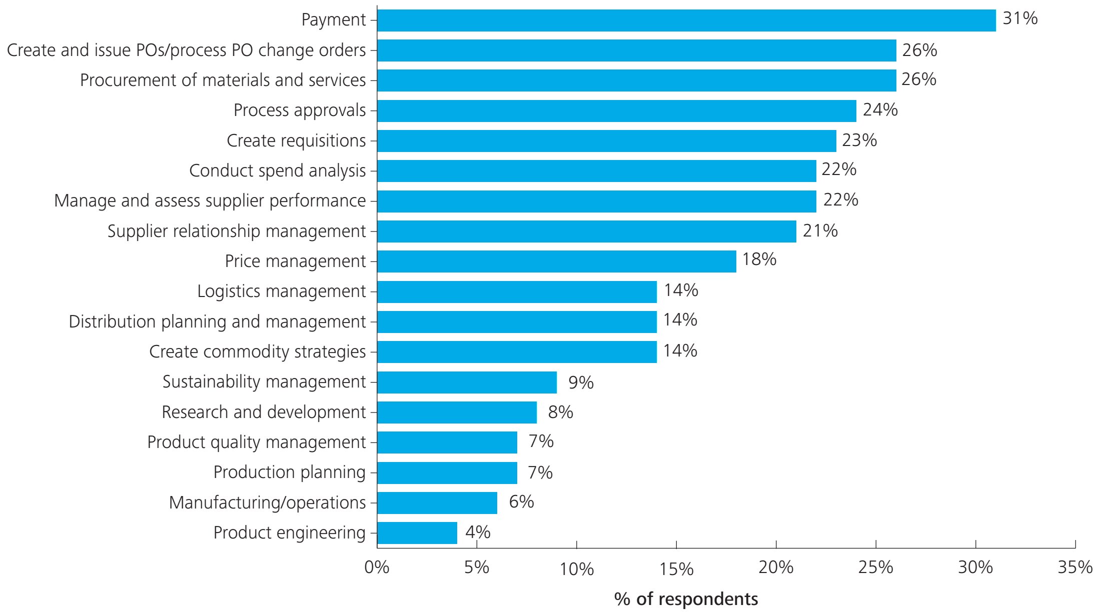


Figure 29. Which sales/marketing processes does your organization perform in shared services?

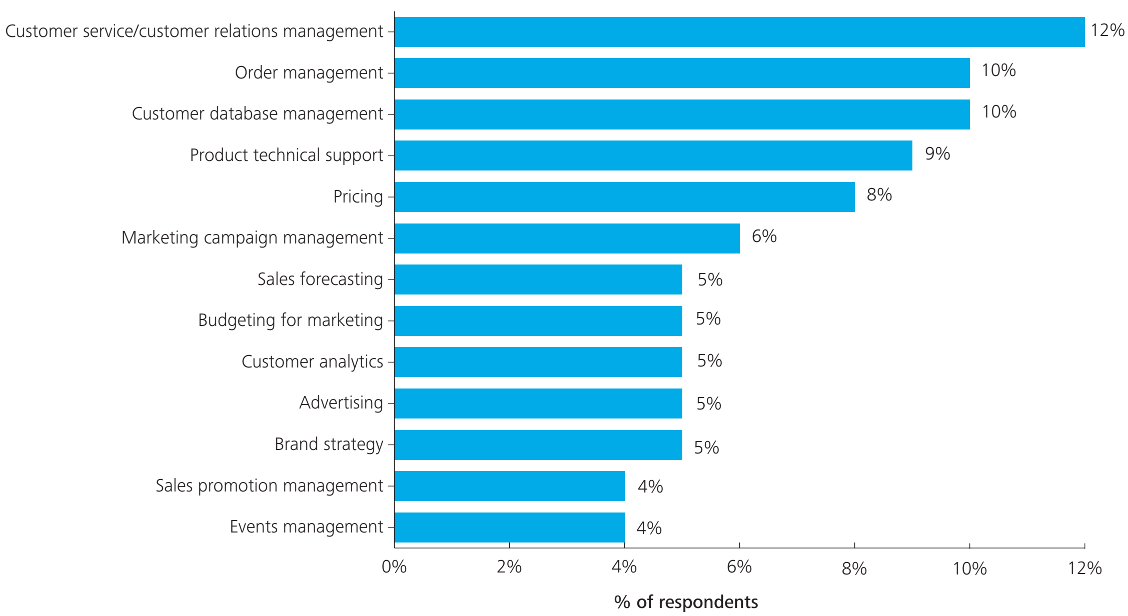


Figure 30. Which real estate processes does your organization perform in shared services?

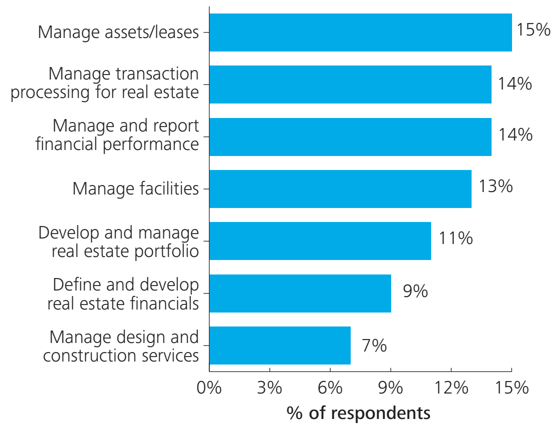
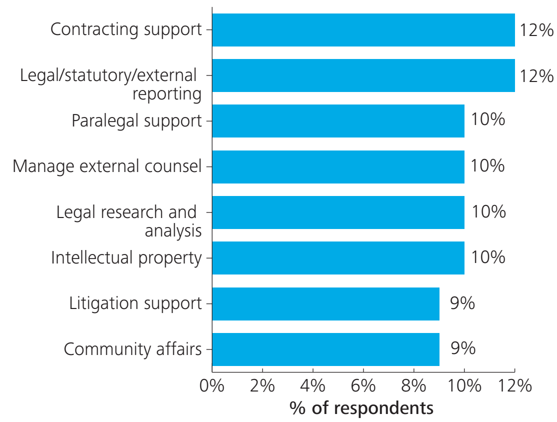


Figure 31. Which legal processes does your organization perform in shared services?



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