

Executive Summary

Shared service organisations in the finance function of European companies are going after the next frontier

In the larger context of deciding on the strategic delivery model for the support functions of an operation, most companies are distinguishing clearly between their core and non-core activities. In the non-core area, they are viewing the shared services model as the best choice. Most successful companies support a localised and empowered core business model through an international, or even global, standardised support services operation. Hence, Shared Service Organisations (SSOs) have been a well-established Best Practice in Europe.

The sophistication of the shared services model has grown significantly from its “transactional factory” origins and now encompasses all dimensions. Functional alignment is giving way to cross-functional business support centres. The shared services centre’s scope is creeping up the value chain by adding value, e.g. decision support processes in Finance.

Sourcing is a relevant question for any support services operation. It becomes a pivotal strategy for top performers when their own demand drivers do not allow for additional optimisation. By failing to seize upon performance improving opportunities, the “bad performers” are caught between growing demand and mounting cost pressure. They will seek external help for their salvation.

The eastward expansion of the European Union brought an expected eastward move in labour sourcing. The next wave of EU expansion will bring another eastward move toward the newly joining countries. However, most companies have a longer-term view of building sustainable operations. These companies are focussing more on high-quality migrations and operations. Location choice is most critical for those companies chasing the wage arbitrage. While the best performers are clearly taking advantage of lower labour rates, they also consider other buckets of opportunities, i.e., productivity gains, synergies and economies of scale. The ultimate prize for the best support operations is ironically their own abolishment.

As the leading source of empirical information on shared services usage in Europe, The Hackett Group surveyed for the fourth consecutive year a broad range of more than 100 Europe-based companies, documenting their activities in planning, designing, implementing and operating SSOs for Finance. This study defines processes covered; the most common reasons for implementing SSOs; the benefits gained from SSOs; which countries are most often targeted; where SSOs are located; and what IT landscape is used. In addition, the study documents how progress is measured via KPIs; what Best Practices are used; and whether European management teams typically have enough reliable information to make an informed decision about the potential benefits and drawbacks of SSOs for their particular situation. Here are some of the study’s major findings:

- 82% of study participants have more than 2 years experience in running an SSO (up from 63% last year) making the study results extremely valuable and reliable.

- The large majority of 85% (up from 64%) of participants currently have a Finance SSO implemented. 84% plan to extend the operations further.
- High-volume transactions account for the majority of activities in SSOs, led by accounts payable (99%), general accounting (92%), intercompany settlement (90%) and accounts receivable (88%). Travel and Expense increased from 65% to 86%. Most processes have increased in usage. Order entry increased from 7% to 34%. 45% of companies now include decision support processes in their SSO.
- The central-local-split differs significantly between processes. Only 17% of companies perform above 75% of order entry activities inside the SSO while 86% of companies perform that portion inside their SSO for accounts payable.
- For the first time, quality issues are a more dominant reason for setting up shared services, than cost. The list and order of major motivations for implementing SSOs in finance starts with improvements in service and quality, accuracy and timeliness at 86% (up from 68%) followed closely by administrative cost reduction at 85% (up from 76%). In 56% of the companies, shared services have become part of the corporate strategy.
- The internationalisation of Shared Service Centres (SSC) continues. 69% (60%) now run regional SSCs and 20% have gone global (11%). Only 32% operate (additional) national SSCs (47%). Greenfield locations have increased from 22% in 2004 to 33% in 2005, but a majority of 55% is still located at headquarters.
- 8% of SSOs are outsourced, but 48% consider outsourcing to be an option to the internal SSO.
- Realised savings have improved. Only 2% has experienced a cost increase of 2% plus. 83% have reached cost savings of 11% or more, 15% have savings over 40%. Payback is slower with 39% at 2 years or less (48%) and 64% reaching three years or less (69%). 95% consider their SSO a success.
- Quality and other effectiveness improvements from shared services are significant, showing delivery against promise and expectations. 97% experience productivity increases, 94% have quality improvements and 91% measure customer service improvements while perception is even better at only 1% of customers not satisfied.
- Top management support remains the major success factor (93%) and poor service quality remains the biggest problem (79% up from 62%). With competition for skilled, shared service centre employees becoming more and more of an issue, the right employee mix (70%) has risen to the number two success factor.

- SAP remains the most widely used ERP platform (68%), but Oracle and PeopleSoft now sum up to 24%. Other providers have increased slightly with CODA and Lawson at 3% each. Imaging/Scanning is now considered the most critical IT tool (69%) in SSOs, followed closely by workflow solutions at 68%. ERP has lost in importance to now 57% although, or because, uniform IT landscapes have increased further from 46% to 53%. One integrated ERP platform is stated to be the most effective best practice tool (66%) followed by EDI and global Chart of Accounts (both at 43%).
- Existing SSOs are made up of mainly transactional centres (88%), but 65% also include competence centres and 29% customer contact centres. The cross-functional set-up has increased significantly from 26% to 44%. Most SSCs remain organised by process (79%) with a flat-team hierarchy (96%).
- Service-Level Agreements (SLAs) are standard with 81% using or currently setting them up. 7% have abandoned SLAs after using them. SLAs mainly cover roles and responsibilities (85%) and service descriptions (73%). SLAs are extremely different in size and depth, e.g. 20% of companies having SLAs with 26-50 pages but 25% at 1-5 pages.
- SLAs are less focussed on pricing (58%) than before (81%). Pricing itself is still mainly set up based on cost or cost-plus allocation (58%) or by services or products (33%).
- Key Performance Indicator (KPI) usage has increased further. The most popular process to measure is accounts payable and the most popular KPI remains “incoming invoices per FTE” (64%). Half of the companies have 1-10 KPIs in their SLAs, while only 10% have over 50 KPIs.

As focus shifts away from cost towards quality, total savings improve but the results are less immediate. In order to improve quality, Best Practices need to be incorporated into strategy, a strategy which enables decision support processes and leverages the use of metric tools in the planning, execution and measurement of results. With a quality enabling strategy in place, improvement becomes more objective than intuitive.

Running and costing the increasingly complex shared services operation will impose new challenges. The regulatory environment remains complex with compliance and risk management staying on the agenda. Tax driven corporate structures are being compared against, and in conjunction with, SSOs. Insight into tax related issues is difficult to attain, but the activity in this area is definite.

Based on the study results and our global benchmarking knowledge on the overall performance and remaining performance gaps in Finance, we continue to see shared services in Europe being a key structural factor for improving performance. In addition, we believe Europe’s companies will accelerate their learning curve and performance improvement speed via peer learning opportunities and by adopting shared Best Practices to their own benefit.