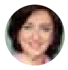
Second generation Shared Service Centers

by

Alica Pavúková, Partner, PwC

Monika Smižanská, Director, PwC

Shared Service Centers (SSCs) are internal service providers which bundle competencies and provide standardized services for various business divisions within a company. The main goal of implementing shared services is to achieve a higher level of service quality at a lower cost level. This has prompted companies in various industries and different countries to move towards shared services in recent years. But leveraging their benefits in the long run requires more than just a one-off effort. Rather, it is about taking the next step to reach a higher level of evolution.

Companies which have established an SSC are confronted with a number of challenges. These include both internal and external challenges, such as corporate strategy, competition and cost pressures, improvements in technology, cost development of locations, changes in legal regulations, labor turnover, M&A activities, organic growth, etc. In order to overcome these challenges, generate sustainable benefits and ensure long-term added value, an SSC needs to anticipate changes in requirements and to adjust its service portfolio in an effective and efficient way.

SSC Evolution

In recent years, a new trend in SSC implementation has developed, namely that the frequent decision to base site selection on aspects of quality rather than cost tends to provide far better possibilities to realize a continuous improvement process. Typically once an SSC has been implemented, the continuous improvement of processes and service levels is initiated by the SSC (see table below). In order to provide services of significantly optimized cost and quality, appropriate payment models and structures should be established. These measures are essential in order to keep staff motivated and ensure their future development is at a high qualitative level.

If an SSC is optimized so that all processes are performed efficiently, it can extend the scope of the services it provides. This stage is typically the starting point for considering selective outsourcing of specific services. However, according to our experience, selective outsourcing often proves to be less beneficial than expected. The main reasons for this are the outsourcer's profit margin, loss of business flexibility and a number of specific risks related to outsourcing.

A 2nd Generation SSC goes a step further (Level 4). Its focus is no longer limited to internal SSC optimization – it encompasses added value for the entire company. The SSC develops into an internal service provider, which increasingly assumes the role of an operational and strategic consultant. The basis for this is the establishment of a service-oriented culture via the systematic development of human resources. Thus, an SSC can gain competencies in anticipating changes related to a company's service requirements and will be able to implement service adjustments on its own authority and to introduce process optimization proactively.

PwC's SSC Maturity Model

Our SSC maturity model allocates SSCs to one of four levels of development, with the 2nd Generation SSC being the highest level. The four maturity levels are differentiated based on the following eight evaluation criteria:

1. Strategy,
2. Organization/governance/compliance,
3. Continuous improvement,
4. Business processes,
5. Customer relations,
6. Performance management,
7. Human resources management,
8. Systems and technology.

Converting your SSC into your best business ally requires the necessary maturity in implementation processes and on-going improvements. SSCs intent on delivering the best performance will have a very clear strategy and carefully determined objectives. Other attributes which need to be taken into account are clearly established performance metrics, as well as plans for on-going optimization, relationships with clients and performance management.

PwC's SSC Maturity Model

	Local departments (no SSC)	SSC	Optimized SSC	2nd Generation SCC
CHARACTERISTICS	Duplication of effort Inconsistent service standards No consistent management culture Redundant structures	Process optimization • Bundling of competencies • Economies of scale • Standardization and harmonization Implementation of • Performance Measurement System (incl. KPIs) • Service Level Agreements (SLAs) • Workflow management	Continuous improvement process Development of Performance Measurement System (incl. KPIs) Quality management Refinement of controlling tools/instruments Reward and incentive systems Selective sourcing	Establishment of service culture Modular expandability of services Professionalization of management Quality improvements through Six Sigma Self dependent optimization Systematic human resources development
FOCUS		SSC operations are stable	SSC operations are efficient and effective	SSC maximizes added value for entire company