Shared services shines in challenging times
Insights from Deloitte's 2009 global shared services survey

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Shared services shines in challenging times

Since the 2007 installment of Deloitte's global shared services survey, the world economy has performed a 180-degree turn, presenting a whole new set of challenges to businesses everywhere and to the shared services organizations (SSOs) that support them. Then, most shared services leaders were focused on helping their organizations pursue growth in a robust economy. Now, SSOs are being called on to support intense efforts to reduce costs and improve efficiency in what has become, for some organizations, a struggle for survival.

This economic storm cloud, however, offers many shared services leaders a silver lining. The overwhelming emphasis on cost control has made shared services an even greater asset today than it was when the economy was strong — and fostered a new appreciation of shared services among internal customers and corporate leaders alike. At the same time, the urgency of the survival imperative has made many organizations more willing to tackle tough organizational and structural issues and push through difficult changes. Taken together, these shifts in perceptions and priorities can give shared services leaders a unique opportunity to both reinforce shared services' value to the enterprise during the downturn and to prepare their SSOs to help drive renewed growth when the economy recovers.

At many organizations, opportunities are likely to abound for turning today's increased appetite for change into lasting improvements. The most obvious of these usually lie in what might be called "mopping-up" efforts: moving legacy processes to the SSO that were left behind in previous waves of consolidation or adding new customers that the downturn has made more receptive to shared services. But the possibilities don't end there. The renewed customer and corporate appreciation of shared services' value can help shared services leaders lay the groundwork, not just for incremental improvements, but for significant enhancements to shared services' role in business strategy.

This paper highlights several key themes that emerged in our 2009 respondents' descriptions of their continuing pursuit of enhanced strategic value. Our survey revealed that their SSOs are extending their contribution to the business in a wide variety of ways: through the delivery of advisory services traditionally deemed too close to the business to share; the support of International Financial Reporting Standards (IFRS)-based reporting; and, most of all, the deliberate use of shared services to support broader business goals in areas ranging from enterprise growth to talent management. We also explore the ongoing evolution of shared services issues related to tax, location, and governance — ubiquitous areas of concern that require close attention to align with the larger organization's overarching objectives.

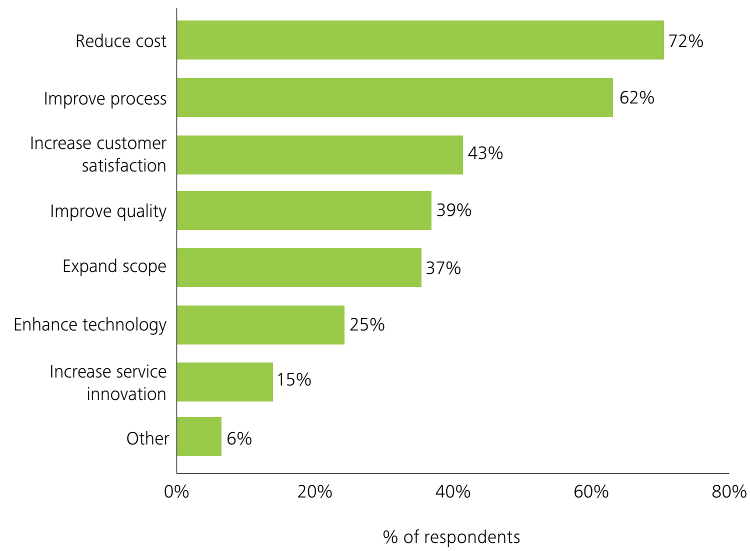
About the survey
Two hundred sixty-five shared services leaders representing 702 individual shared services centers (SSCs) responded to an online survey in December 2008 and January 2009. Participant organizations were distributed across all major industry groups. Their annual revenue ranged from less than $1 billion to more than $100 billion, with a median annual revenue of $10.5 billion. See the Appendix for full demographic information.

Cost reduction is top of mind — and that's a good thing

Cost reduction is central to shared services' business case under any economic circumstances. However, the recession has greatly increased the sense of urgency about delivering financial savings to the bottom line. Reflecting this concern, cost reduction headed the list of priorities among our survey respondents, 72 percent of whom identified cost reduction as one of their top three priorities over the next two years (Figure 1). Sixty-three percent also said that process improvement, a key driver of cost reduction, would be one of their top three priorities over the next two years.

At first glance, a relentless focus on cost reduction might sound like bad news. But conversations with survey respondents reveal a very different perspective among many shared services leaders. "I think the recession has actually been good for shared services overall," said a respondent from a global media company. "Obviously, I wouldn't wish a recession on anyone, but the problems experienced in the wider economy have really helped people appreciate the value we generate." He is one of many respondents who reported that the recession is driving both new customers and new services to the SSO. Said one respondent from a diversified global company: "More businesses are coming to me and saying, 'Can you do such-and-such for me now? I've had to reduce operations in these countries, and it doesn't make sense to have a full team there anymore.'"

Figure 1. What are your organization's top priorities for driving incremental value from its SSCs in the next two years?

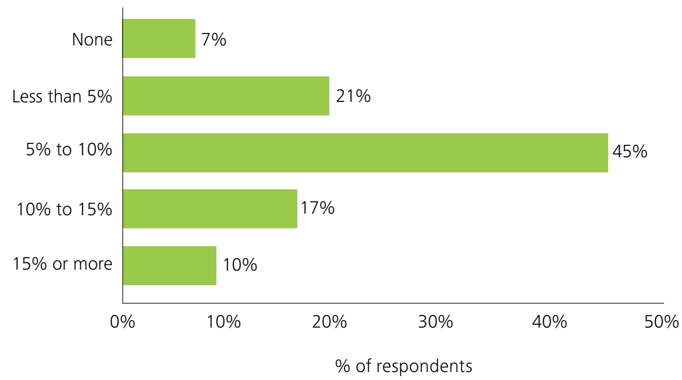


Besides taking over more work from local operations, shared services has also helped some respondents cut costs by implementing and/or improving enforcement of controls over spending. "Previously, much of the decision-making on rewards payments and pay changes was at the local manager's discretion, which allowed for significant increases in cost," said an HR shared services leader at a U.K.-based global manufacturer. "When we took over processing these requests from local HR, we had the capability to install controls to escalate them to more senior people in the business for approval. That's probably where we're adding more value in terms of cost reduction, as opposed to cutting our own costs."

Of course, as reflected in our online survey results, SSOs also share in the general pressure to control their own operating expenses. Headcount caps and reductions, the deferral of infrastructure and information technology (IT) projects, and cuts in discretionary spending in areas such as travel and entertainment were some common cost-reduction approaches respondents described. In addition, many respondents have intensified their focus on improving productivity as a complement to their cost-reduction efforts. "With this economic environment, the drive for improvement is stronger — not just from our customers, but from our own internal groups," said one SSO leader. "We've stepped up our productivity targets, and we have created detailed action plans on how to execute on those targets." Like many respondents, however, he emphasized that the recession has simply given additional impetus to the SSO's existing continuous improvement process: "It's all pretty much along the lines of what we have been doing anyway: eliminate, simplify, standardize, and automate." The good news here is that our survey suggests that many SSOs are well versed in improving productivity. More than 70 percent of our respondents consistently achieved at least a 5 percent increase in productivity every year, with an average annual productivity increase of 8 percent among all respondents (Figure 2).

On the whole, our respondents' experiences suggest that, for all its challenges, the downturn has helped shared services much more than it's hurt. Cost control, after all, is shared services' classic sweet spot — and a priority that the recession has taken to unprecedented heights. "The way people are making money now *is* by cutting costs," remarked a respondent from a global manufacturing company. "Shared services is a necessary group — it's the new way of doing business."

Figure 2. Annual SSO productivity improvements after the first 12 months



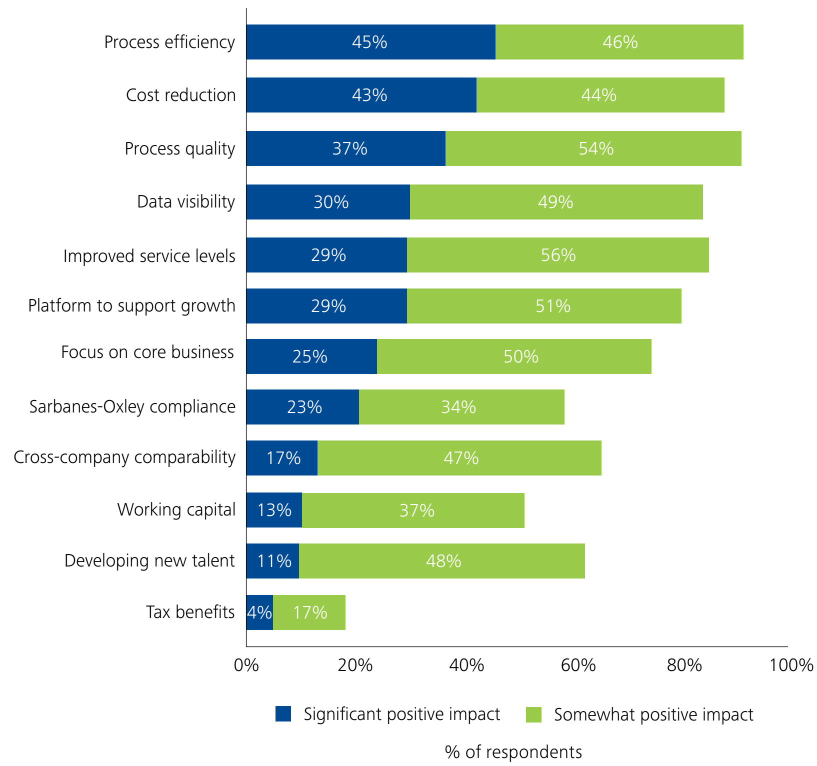
"For all its challenges, the downturn has helped shared services much more than it's hurt."

SSOs are strategic enablers, not just supporters

Though cost reduction may be the top priority in a recession, our survey confirms that an SSO can deliver many other benefits that can be just as important to an organization in both surviving the downturn and taking advantage of the recovery (Figure 3). Conversations with respondents revealed that many organizations are consciously using shared services as a tool to facilitate enterprise growth, improve business focus, and enhance talent management, among other strategic pursuits. The growing view of shared services as a strategic enabler, as well as an administrative supporter, is one that we believe holds great promise for shared services leaders looking for ways to take their SSOs to a new level of value.

One major source of shared services' strategic value is the high-quality data it can make available from across the enterprise for analysis and subsequent action. The process of establishing an SSO and continuously improving its performance almost inevitably requires consolidating enterprise-wide data; it often also improves data consistency and reliability, as processes are rationalized, data are standardized and cleansed, and information is aggregated for the SSO's use. The resulting cleansed, consolidated data represents a potential gold mine of information that can help guide decisions on everything from strategic sourcing and customer relationship management efforts to marketing programs and total rewards design. One company in our survey, in fact, has taken this concept to its logical conclusion by creating a shared group within its supply-chain organization specifically dedicated to master data management itself. "The basic reason we went to a single Enterprise Resource Planning (ERP) system was to have more accurate data," said the company's Data Director. "Having a dedicated team to manage the data is just part of the whole business transformation, because if you don't have the data right, any benefits are going to be marginal at best."

Figure 3. In what areas has shared services made a positive impact on the business?



The power of shared services data

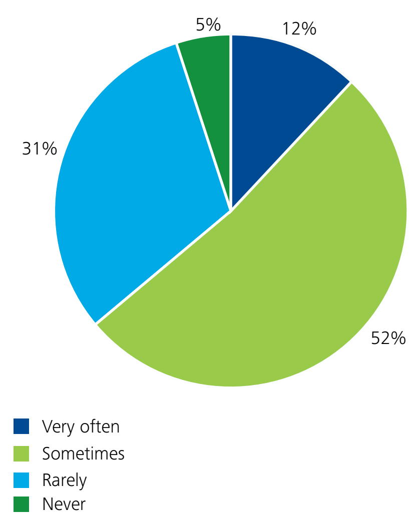
One example from our experience in the field illustrates the benefits an organization can gain by leveraging shared services as a source of business data. The CEO of a multinational consumer products distributor had a standing practice of personally visiting the company's top 10 clients every year. Because inconsistent naming conventions prevented analysts from aggregating customer transaction data across the company's seven business units, the company derived its annual top 10 rankings by identifying each business unit's top 10 customers and adding up the company's total sales to each. When the company set up a finance SSO, however, an analysis of the consolidated accounts receivable data revealed that one customer that had never made the top 10 list at any one business unit was actually the company's third-biggest customer in sales overall. By rationalizing and aggregating the accounts receivable data, the shared services effort made this insight possible — and allowed the CEO to provide a formerly absent personal touch to one of the company's most important accounts.

SSOs are also delivering on their long-standing promise to enhance the core function's focus on the business. "When transaction accounting was done out of the various countries, the operations people used to say, 'We can't get any finance support because they're all too busy paying vendors and doing transactional work,'" recalls one respondent from a global energy services company. "As we pulled transactional work out of the countries, they've redeployed those people to provide more value-added support at the country level." Another respondent from a European-based retail company views shared services as a key step in repositioning the finance function as a strategic business advisor: "By optimizing the routine, labor-intensive work, shared services frees up resources for delivering advisory support, turning us into a world-class finance organization."

Supporting growth, particularly growth through acquisitions, is another area of shared services value that organizations are coming to appreciate. "IT shared services was an important enabler of the three-way merger that created our present company," said one respondent. "We found that it was the best way to put all of the systems and applications together into one consistent IT platform." Another respondent said, "We recently helped one of our internal customers integrate a newly acquired business that was struggling along with a 4 to 5 percent operating profit. Through integration, we helped take their back-office costs down by 25 percent, adding 3.5% to their margin. This has done wonders for reminding people in our business of the value of shared services."

Perhaps the biggest transformation in the historical view of shared services is the clear emergence of shared services as a talent sourcing and development tool (Figure 4) — a phenomenon that seems to have gained even more steam since our 2007 survey. "Talent is one of our SSO's greatest benefits — we hear it from the businesses all the time," said one respondent from a diversified global company. "About 15 percent of our workforce [eventually] transfers into the business, and it happens at all levels, from accounting associates up to the CFO level." At another organization, a global financial services company, talent considerations were critical to the decision to maintain a combined captive/outsourced shared organization in India rather than fully outsource the work. "We saw the opportunity to create a new talent pipeline, and you can only do that if you have it on your payroll, not the vendor's," said this respondent. He noted that shared services' role as a training ground for talent not only helps the company find and develop business-bound employees, but improves attraction and retention among SSO personnel. "We have a clear commitment to the staff in our Centers of Expertise (CoEs) that their careers could eventually lead to working a front-office role or in one of our principal financial centers," the respondent said. "Because of this, we have been able to attract very good talent away from other banks, and we are becoming one of India's premier on-campus recruiters. It has also had a good impact on attrition: Many other organizations have attrition rates of between 40 and 45 percent, but ours is as low as 10 percent on an annualized basis."

Figure 4. How often do SSC employees move to positions in the business?

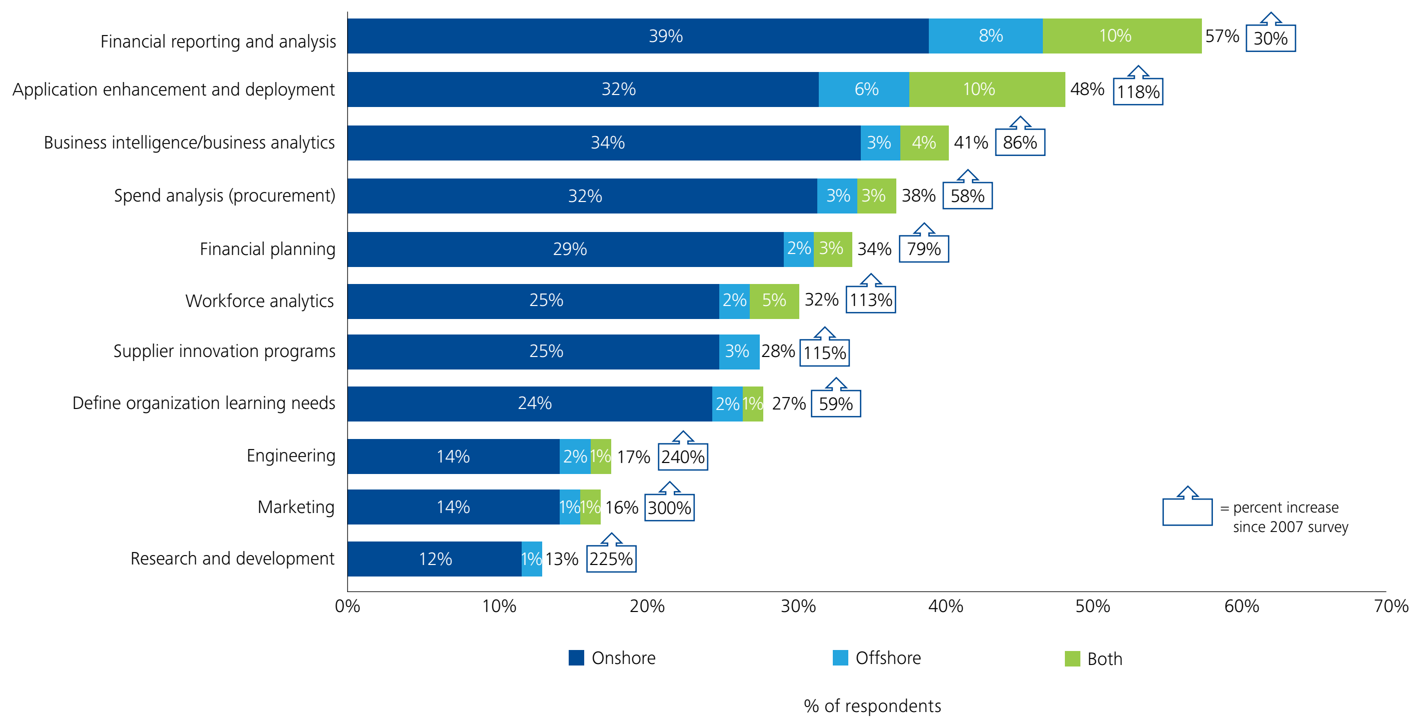


The broad-based value that organizations derive from their SSOs is a testament to the progress of the shared services model past the "growing pains" stage to a fruitful, productive maturity. As long-established SSOs become steadily more sophisticated, and organizations newer to shared services draw on an increasing body of knowledge to speed their own return on investment, we expect that organizations will continue to find new ways to leverage shared services' value-driving potential to pursue their strategic objectives.

Services continue to march up the value chain

This year's survey documents the continuing movement of a variety of advisory services — services that require a greater degree of business judgment to deliver than rules-based, transaction-processing tasks — into a shared environment.[1] As shown in Figure 5, many of the advisory services covered in our 2009 survey showed a substantial increase in the percentage of respondents that performed them in a shared environment, compared to our 2007 results. Further, the adoption of a shared model for advisory service delivery seems to be accelerating: 57 percent of our 2009 respondents said that they plan to increase the number of advisory processes in shared services in the next two years, up from 47 percent who said the same in 2007.

Figure 5. Representative advisory processes in shared services



Note: For purposes of this survey, we defined an "onshore" SSC as a center located on the same continent as the business units it serves, and an "offshore" SSC as a center located on a different continent from the business units it serves.

[1] In this paper, we use the phrases "shared services," "shared model," and "shared environment" to refer broadly to any customer-focused service group that consolidates work across multiple organizational entities, whether that work is transactional or advisory in nature. Our usage of these terms encompasses shared groups that may be known at some organizations as "Centers of Expertise," a term sometimes used to differentiate shared advisory service groups from transactional SSOs.

Organizations considering migrating advisory services to a shared model should keep in mind that creating an effective shared advisory capability differs from managing transactional shared services in several important ways. One major difference is that a shared advisory capability is often more difficult to "sell" to internal customers than a strictly transactional SSC. To lessen resistance, we often find it helpful for an SSO to establish a solid track record of meeting or exceeding expectations in transactional service delivery before attempting to expand into advisory services. An acknowledged history of transactional competence can be extremely helpful in raising an SSO's credibility to the point where internal customers are willing to consider the SSO for advisory services as well. Just as important, achieving this level of maturity means that the SSO can effectively collect and organize the transactional information needed to support advisory service delivery — something that an SSO still struggling with the basics is unlikely to be able to do.

Another distinction between advisory and transactional shared services is that a shared advisory capability typically delivers long-term value, not primarily by reducing service delivery costs, but by improving business outcomes. As one respondent put it, "Going up the value chain to knowledge-based services isn't just about cost reduction; it allows you to create a lot of value for the organization." For example, consolidating work from across the enterprise can make it economically feasible for an organization to maintain highly specialized capabilities — such as strategic pricing or strategic sourcing — for which the critical mass of work simply would not exist at any single division or location, and that can yield ongoing benefits far beyond any savings realized through consolidation alone.

Performance measurement is a third important area of divergence between advisory and transactional shared services. While production management metrics such as cost, error rates, and turnaround time can be valuable indicators of transactional performance, it's difficult to pin similar metrics on advisory services whose inputs and outputs vary from project to project, whose value lies in improving business outcomes rather than reducing service costs, and that may not be tied to any objective standard of accuracy. Instead, many organizations find that project management metrics based on customer feedback are more useful in tracking and managing shared advisory service performance. "You can't put a dollars-and-cents measurement on something like a regulatory analysis report," said one respondent. "The measure has to come from the customer's experience. How well did the team provide the information? What should have been done differently? That's why you can't put a standard service-level agreement (SLA) on advisory services; you have to maintain an ongoing interaction with the customer."

Finally, we believe that shared advisory service groups, in many cases, should view the corporate functions rather than the business units as their end users and customers. "I don't get into discussions with the business units about the advisory services in my organization, such as statutory reporting or legal services," said one respondent from a global manufacturing company. "I have those discussions with the corporate finance department or the legal department, because they're really the ones our advisory services support." Treating the functions as the customers for advisory services has several advantages over dealing directly with the business units. It allows the functions to better integrate the shared advisory capabilities into their own support of the business. It allows the businesses to maintain their historical working relationships with the functions instead of establishing new relationships with the shared advisory organization. And it can increase acceptance of the shared model among functional leaders who may otherwise perceive the shared capability as leaving their control completely.

With transactional shared services well established among marketplace leaders, we believe that the next wave of competitive advantage will accrue to those that can effectively use a shared model for advisory services as well. A healthy appreciation of the distinctive challenges of managing shared advisory capabilities is vital to achieving the desired results.

Who should own shared advisory capabilities?

Are shared advisory services different enough from transactional shared services to require a separate organizational home? For some organizations, the answer is a clear "yes." "As I understand it, there is a clear distinction between the definition of shared services, which provides transactional processing and customer support to individual users, versus a CoE, which provides strategic support to business leaders," said one HR shared services executive at a U.K.-based global manufacturer. "For HR, we have CoEs that handle learning and development, resourcing and deployment, rewards policy, and strategic workforce planning. Those groups, however, are managed separately from the SSO."

One reason some organizations separate shared advisory groups from their transactional SSOs is to give them better access to the information and resources they need to do their jobs. For example, one manufacturing company respondent stressed that the effectiveness of his shared data management group depended on its placement within the supply-chain organization. "We knew we were not going to be successful unless we gave ownership of the data to the business," the respondent said. "IT sets up the tools and the infrastructure, but they're not intimate with the data itself on a day-to-day basis." Another benefit of managing advisory groups separately from transactional shared services, especially at organizations where the SSO is seen mainly as a back-office cost center, is that it can help give the advisory groups greater credibility and organizational influence. "Being in supply chain gives us a little more authority than we would have had in IT," said the same respondent. "Even though IT's gotten a lot of press about being strategic, it can still be viewed as a cost center, not yet as something that gives you a competitive advantage."

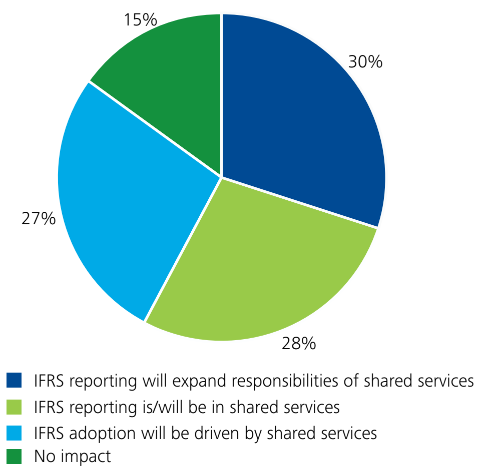
Such segregation isn't always necessary, however. At one consumer products company, for example, the finance SSO includes a delivery route accounting service whose capabilities run the gamut from simple data verification and route settlement to forensic accounting, fraud auditing, and training program development, all working as an integrated group. Another respondent acknowledged that an advisory group's responsibilities may require a certain amount of separation from transaction-processing activities, but said that he had no difficulty in maintaining the appropriate distance between the groups in his SSO. "Along with transactional processes, shared services runs a compliance group that covers a whole range of different activities, such as Sarbanes-Oxley, business continuity planning, data protection compliance, and others," said the respondent. "I don't want my compliance group to get too cozy with the teams they support, so they do have a degree of management independence. But they're still all in the same SSO."

Our view is that it's less important where a shared advisory capability sits — or whether it's called an SSO or a CoE — than how the capability is run, as well as what resources and relationships it needs to be effective. The different natures of transactional and advisory services, as well as the distinctive value proposition of placing each in a shared environment, drive real differences in the governance, management, and internal PR approaches needed to make a shared model work. But the extent to which an organization needs to reinforce those differences by creating separate organizations, using the CoE label, or otherwise formally separating the two types of shared activities will depend on the culture and needs of the individual business — and may even vary with the particular advisory service under consideration.

IFRS could be finance shared services' next big value-add

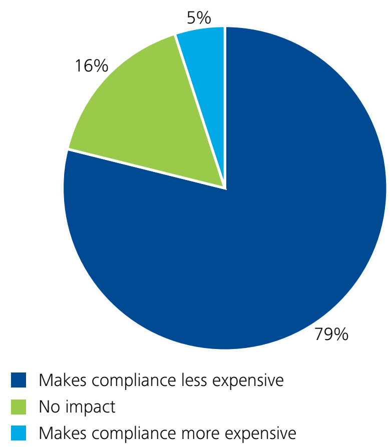
The global movement to the use of IFRS represents an "obvious opportunity," as one respondent put it, for shared services (Figure 6). In fact, several respondents whose finance SSOs serve IFRS-using jurisdictions said that they have been delivering IFRS-based statutory reporting services to these customers for several years. Among respondents whose finance SSOs do not yet serve IFRS-using jurisdictions, or whose organizations have not yet been affected by IFRS, many expect that the spread of IFRS will eventually lead shared services to assume new responsibilities related to IFRS reporting, or even that shared services will drive enterprise-wide IFRS adoption.

Figure 6. How do you foresee your SSC(s) supporting IFRS?



In many ways, shared services' prospective value to an organization's IFRS efforts parallels its role in facilitating compliance with the Sarbanes-Oxley Act of 2002. Seventy-nine percent of this year's respondents said that their SSOs reduced the cost of compliance with internal control requirements (Figure 7), and many said that shared services improved internal control effectiveness as well. Similarly, placing IFRS reporting in a shared environment can yield cost savings through consolidation and process efficiencies. It also may help increase enterprise-wide financial reporting consistency — and thereby could improve cross-entity comparability — by having the same group of people handle the reporting for all of the organization's IFRS-using entities.

Figure 7. What impact does your SSO have on the cost of control requirements?



Beyond its potential benefits in efficiency and consistency, we think that a shared IFRS capability can also be a valuable resource for supporting efficient, effective financial reporting governance. Properly staffed and empowered, a shared IFRS capability, whether within the SSO itself or housed in a separate CoE, could apply its deep subject-matter knowledge to value-added activities such as evaluating the impact of IFRS on financial results; evaluating IFRS interpretations made by local subsidiaries; developing, managing, and updating accounting policies and procedures; and assuming decision-making responsibilities over the organization's Chart of Accounts. In effect, the shared IFRS group could be the "brains" behind the organization's IFRS-related reporting activities — a resource that would likely not exist if each local entity prepared its own IFRS reports.

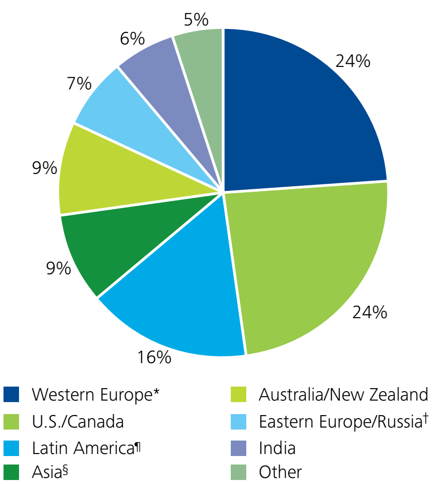
Even for organizations that do not yet have the critical mass of IFRS usage for consolidation to yield potentially significant cost savings, a shared IFRS group's potential governance and knowledge management value may make it worthwhile to establish one sooner rather than later in order to support any anticipated future IFRS transitions. Organizations that are highly decentralized, diverse, and complex may find a shared IFRS group of particular benefit in this regard. Establishing such a group ahead of time can both help guide and coordinate the organization's various local entities in their adoption of IFRS, and lay the foundation for an eventual enterprise-wide shared IFRS capability that can assume responsibility for both reporting governance and reporting execution for the entire company.

Geography is a continual work in progress

The decision of where to site an SSC is complex and not to be taken lightly, as location can have a huge impact on the outcome of an organization's shared services effort. Labor cost, labor quality, local regulations, international taxes, political and economic risks, the organization's own operational scope — all these factors and more play into the choice of SSC location, and they rarely if ever point to a single clear answer. With organizations expanding their global shared services footprints and adding more advisory services to their SSOs, the marketplace of potential locations is a continual work in progress.

Figure 8 shows the regional distribution of the SSCs in our survey for which our respondents identified the country, while Figure 9 shows the countries in which these SSCs were located. The U.S., India, the U.K., Mexico, and Australia were the five top countries among our respondents. The large number of centers in the U.S., the U.K., and Western Europe — all high-cost locations — is likely at least partially due to the large percentage of respondents whose organizations were headquartered in the U.S. and Western Europe, as well as the early and enthusiastic adoption of shared services in these regions.

Figure 8. Regional distribution of respondents' SSCs



Percentages represent the percent of the total number of SSCs in the survey for which respondents gave location information.

* Countries represented in Western Europe included Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Republic of Ireland, Spain, Sweden, Switzerland, and the U.K.

† Countries represented in Eastern Europe/Russia included Czech Republic, Hungary, Poland, Romania, Russia, and Slovakia.

§ Countries represented in Asia included China, Japan, Malaysia, Philippines, Singapore, South Korea, and Thailand.

¶ Countries represented in Latin America included Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru.

Figure 9. Where are your organization's SSCs located?

Regional highlights

Americas: More than 40% of survey respondents had centers in the Americas, with nearly two-thirds of these centers in the U.S. and Canada. Among this year's respondents, Latin America's[2] share of the SSCs in the Americas jumped to 38 percent, compared to 30 percent among our 2007 survey respondents. Mexico, a large consumer market that is home to a number of larger Latin American organizations and to many multinationals' regional headquarters, was the most common Latin American destination among our respondents, with Argentina, Colombia, Costa Rica, and Brazil following.

We expect the number of centers in Latin America to continue to rise as more U.S.-based and global organizations establish regional centers in Latin America and more Latin American organizations adopt the shared services model. This increased activity, especially by global organizations seeking to place more advisory shared services in the region, is introducing greater complexity to Latin American location strategies. Our recent experience suggests that the demand for higher-skilled, English-speaking employees has begun to tax a number of local labor markets.

Europe, Middle East, and Africa (EMEA): Seventy-seven percent of the European SSCs in this year's survey were located in Western Europe. The U.K. had the largest number of these centers, followed by Poland, the Netherlands, Germany, Spain, and Sweden. We typically find that centers in the Middle East and Africa tend to serve a regional niche, usually supporting a relatively small corporate and business base in the region.

We have witnessed a steady increase in shared services activity in Central and Eastern Europe (CEE) as a growing number of global organizations, especially U.S.-based organizations, turn to CEE as a low-cost location for SSCs serving EMEA. While most early forays into CEE focused on the larger metropolitan areas in Poland, the Czech Republic, and Hungary, organizations seeking lower costs are now starting to turn to less well-established cities in these countries or in alternative countries such as Romania and Slovakia. One challenge in establishing SSCs in these more pioneering locations is to find a sustainable depth of talent that provides an appropriate mix of education, experience, and language skills.

Asia-Pacific: As might be expected, India was the top Asia-Pacific country for SSCs among our respondents, followed by Australia, China, Malaysia, the Philippines, and Singapore. The majority of our respondents' SSCs in Australia served Australian-based organizations.

The location dynamics of the Asia-Pacific region have changed considerably since it first became a prime shared services destination. Although India has long been a common choice among organizations looking for a low-cost, English-speaking location, escalating costs and competition for talent in the large metropolitan areas — at least before the recession — are driving a growing number of organizations to place their SSCs in smaller cities in India or in another country entirely. Similarly, some organizations that previously established centers in China are now moving south as the strong yuan and new labor laws make Chinese locations less attractive. Manila, a large, diverse metropolitan area with strong English-language skills, and Kuala Lumpur, with a culturally diverse labor pool skilled in multiple Asian languages, are emerging as attractive options for regional and global centers.

Because labor costs are generally very low across the region (except in Japan, Singapore, and several cities in China), consolidating existing regional operations into a single center usually offers less opportunity for labor arbitrage than in other global regions. Thus, the benefits of Asia-Pacific regional consolidation tend to come more from process standardization, controls standardization, and economies of scale. Language is also a significant consideration: Cantonese, Mandarin, and Japanese are disproportionately important because of the size of the Chinese and Japanese markets and the extent of many organizations' operations in these countries. In our experience, a growing number of organizations are using a two-center strategy to deal with these factors, with one center in China to serve China (and possibly Japan), and another center in Southern Asia to cover the rest of the region (and possibly also to serve as the global "hub" in a "hub-and-spoke" deployment strategy).

[2] Defined in this survey as Mexico, Central America, and South America.

Table 1 lists the cities identified as SSC locations in several countries in which our respondents had a large number of SSCs. Our experience suggests that the variation among cities, even in the same country, can be greater than the differences between countries, making it critical to evaluate each site within a country on its own merits instead of ending the initial analysis at the country level. For example, pioneering cities are often viewed as being riskier than cities with a well-established history of supporting SSCs. However, a relatively new, untried city may offer compensating advantages such as lower operating costs and a more stable talent pool.

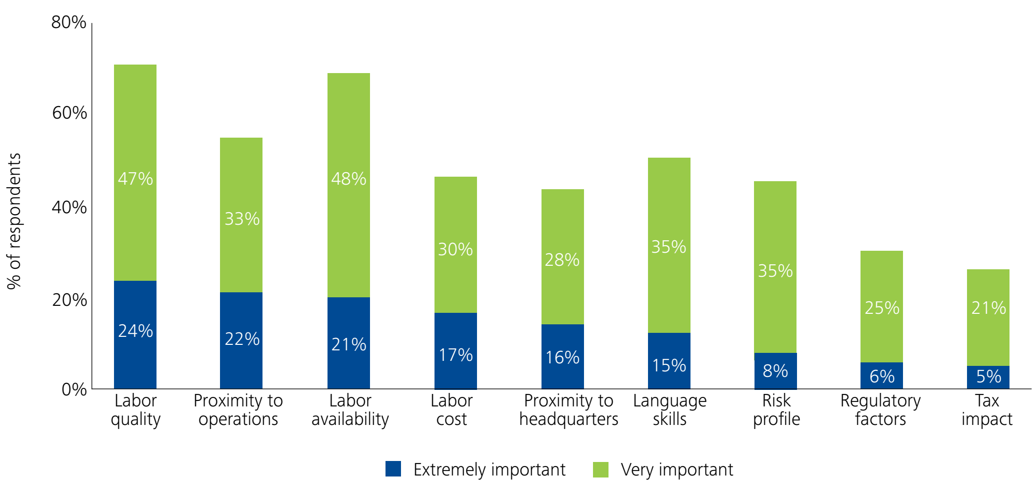
Table 1. Representative SSC sites in selected countries

China	U.K.*	India	Mexico	Poland
Beijing Dalian Fujian Province Guangzhou Hong Kong Shanghai Shenzhen	Blackburn Coventry/Henley Green Derby Glasgow Hull London metropolitan area† Manchester Nottingham Warrington	Bangalore Chennai Delhi metropolitan area§ Hyderabad Jaipur Kolkata Mumbai Pune	Aguascalientes Celaya Culiacan Guadalajara Mexico City Monterrey Morelia Queretaro	Bydgoszcz Katowice Krakow Lodz Lublin Poznan Warsaw Wroclaw

* The U.K. list includes only sites that had two or more SSCs among our respondents.
† London metropolitan area sites included Basingstoke, Harlow, Hemel Hempstead, Letchworth, London, and Luton.
§ Delhi metropolitan area sites included Gurgaon, New Delhi, and Noida.

In order of importance, respondents placed labor quality, proximity to current operations, and labor availability at the top of the list of factors influencing the selection of an SSC location (Figure 10). As in 2007, labor quality and availability outranked labor cost as a major concern — understandably so, given the critical role of labor in SSC productivity and efficiency, the increasing use of the shared model for advisory services, and the increasing importance of shared services in organizational talent recruitment and development. At the other end of the scale, tax impact ranked last among the set of location drivers, even though SSC site selection can carry significant tax implications depending on the geographies served, the scope of the SSC's activities, and the degree to which the SSC uses or helps develop standardized processes, customer data, and other intellectual property.

Figure 10. What were the key factors in selecting your organization's SSC location(s)?



Our findings on respondents' future SSC location plans suggest that most organizations' overall shared services location strategy, as distinct from the choice of any particular SSC site, is driven mainly by cost. Of the 36 percent of respondents who planned to relocate one or more SSCs, nearly all (92 percent) identified cost reduction as one of the most important reasons for the anticipated move (Figure 11). Cost reduction was also the most frequently cited reason for changing the number of SSCs, especially among respondents who expected to reduce the number of centers in the next five years (Figure 12). One bright spot with regard to cost reduction, noted by several of our respondents, is that the recession has mitigated the challenges of tight labor markets and rapid wage escalation in several popular global SSC locations, at least for the time being.

Figure 11. Reasons for relocating SSCs

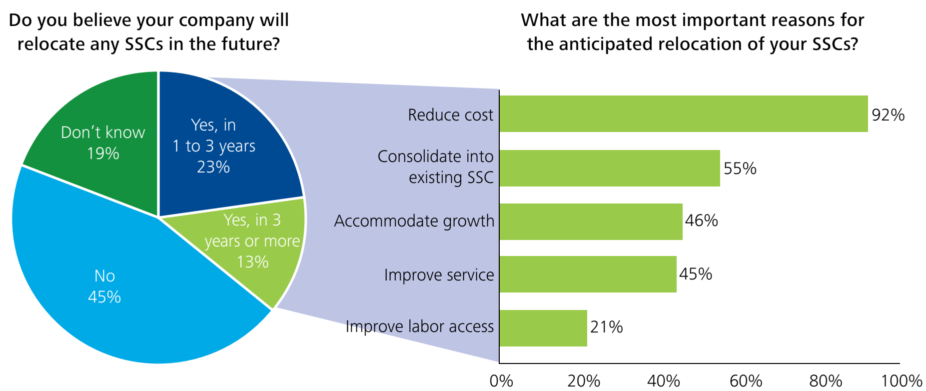
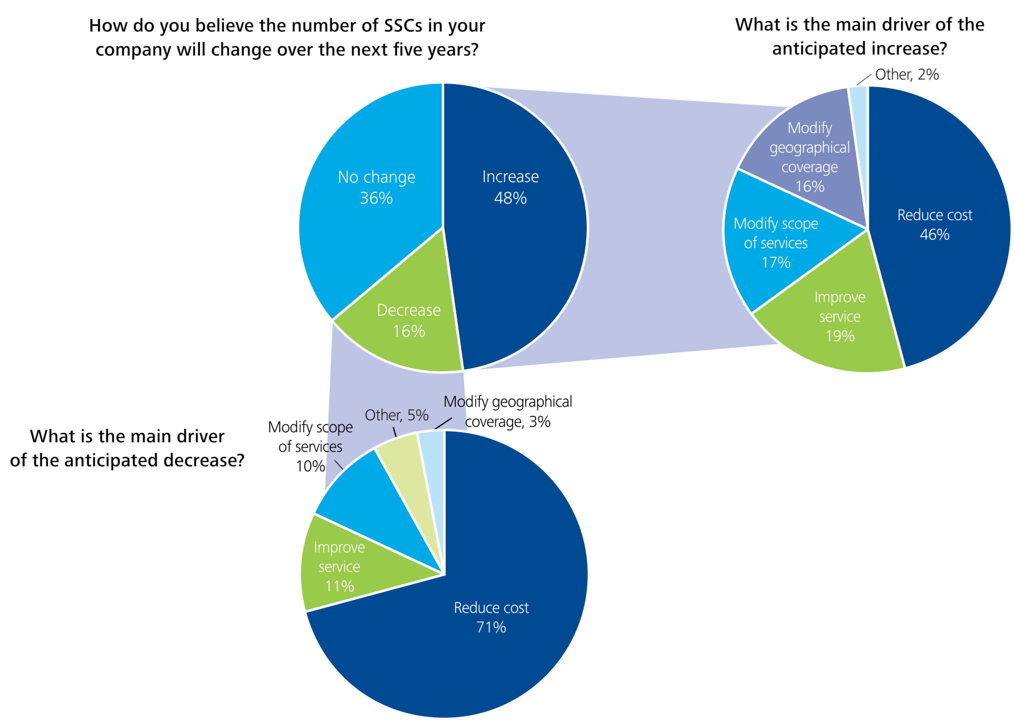
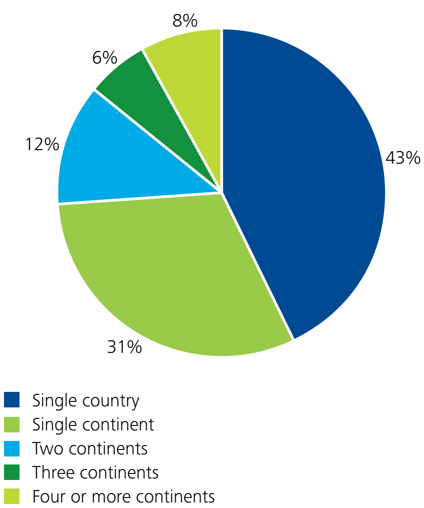


Figure 12. Reasons for changing the number of SSCs



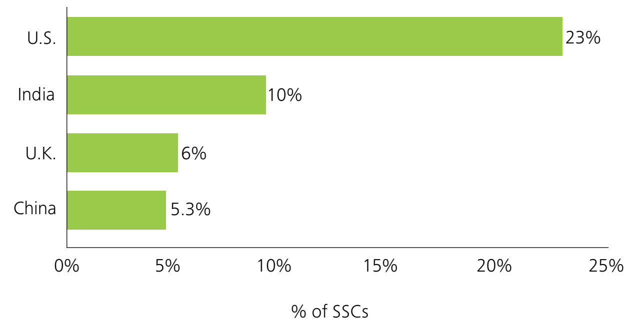
With respect to geographic service area, a scant majority of the SSCs in our survey (57 percent) served multiple countries or multiple continents (Figure 13). The U.S. and India had the greatest percentage of SSCs serving four continents or more, followed by the U.K. and China (Figure 14). Often, we find that SSCs serving three or more continents represent the "hubs" in a "hub-and-spoke" global service delivery model, where a single global center consolidates location-agnostic transactional processes while regional centers ("spokes") deliver location-specific and/or language-dependent services.

Figure 13. How many SSCs provide services across or within geographies?



Percentages represent the percent of the total number of SSCs in the survey for which respondents gave this information.

Figure 14. Top four locations of SSCs serving four or more continents



Maintaining an effective shared services geographic footprint can often require an organization to reconcile a multitude of competing priorities. The overall global deployment strategy, as well as the placement of each individual SSC, should consider not just the pros and cons of various sites but also factors related to the functions and processes to be placed in the SSC, the businesses and geographies to be served, the mix of internal versus outsourced service delivery, and internal organization dynamics. The challenge is to develop a strategy that results in a geographic configuration stable enough to allow for long-term planning — yet flexible enough to respond to a constantly changing business, economic, and political environment.

Increasing value means bigger tax challenges

Whenever value is created or transferred, at least one government will likely lay claim to its "fair share" of that value through taxes, duties, and/or other levies. With respect to shared services, three developments reflected in this year's survey — shared services' growing global footprint, its expansion into advisory services, and the continuing focus on process standardization — make it increasingly important for organizations to carefully examine and manage the tax implications of their shared services efforts.

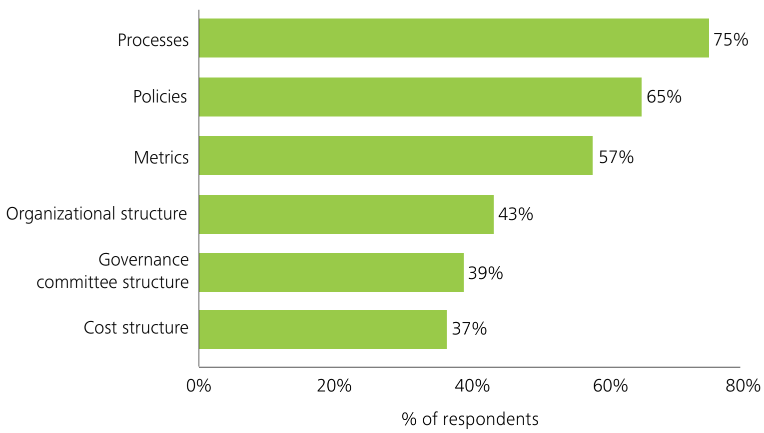
As with any international activity, the more countries an SSC transacts with, the more different tax regimes come into play. One important international tax issue involves the development of appropriate pricing for the SSC's services, which must be established in light of the transfer pricing rules of both the country where the SSC is located and the countries in which the services are delivered. In general, transfer pricing rules seek to place the prices charged on transactions between different units of the same enterprise on a par with the prices that would be charged between independent third parties. Thus, for example, the applicable transfer pricing rules may require an SSC to charge prices at a level that would generate profits for the SSC similar to what an independent service provider may earn for the same services. Additional tax concerns may include questions about whether the SSC's service recipients will be able to deduct the charges in their own tax jurisdictions, the extent to which transaction-based taxes (such as value-added tax) and withholding taxes may be imposed on the charges, and how the SSC's placement and role within the larger organization's legal structure could affect the organization's overall tax posture.

In some organizations, such tax considerations can be important enough to shape the decision of where to locate an SSC and what functions or business units it should serve. For example, one respondent, a shared services leader from a global high-tech manufacturer, cited tax as the major driver of the decision of where to consolidate its four Latin American locations. "The economies of scale from consolidating in Latin America can easily be upset by the tax impact of cross-country charges," explained the leader. "The tax impact of importing services to Brazil, in particular, is huge. So instead of having one center for all of Latin America, we decided to set up a center in Brazil that will serve just that country, and serve the rest of Latin America from a second center elsewhere in the region."

The placement of advisory services in a shared environment raises the stakes from a tax perspective. Absent negotiated holidays or the like, an SSC must generally pay taxes on all of the profits it earns from rendering services. This applies to the profits earned for transactional services as well as advisory services — but taxing authorities generally expect SSCs to earn higher profit levels from performing advisory services than from performing transactional services, as advisory services are typically viewed as adding more value. This presents both opportunities and risks. As the potential level of profits (and thus taxes) rises, an organization may find it worthwhile to explore ways to legitimately arrange the SSO's structure and operations so that some portion of the profits earned from advisory services are generated in one or more lower-tax jurisdictions. (This structuring must place substantive business activities in the low-tax jurisdiction.) In these cases, it's especially important to properly document transfer pricing of related-party transactions with the SSC entity, because they are likely to receive more scrutiny from tax authorities that will question or challenge whether the SSC charged the correct transfer price for its services.

Moving advisory services to a shared environment can potentially affect tax efficiencies quite apart from those associated with the SSO's actual operations. As companies look to consolidate more functions and responsibilities into a shared model, a shared services initiative can be a springboard for much broader transformational changes that may result in greater tax efficiencies. For example, an SSO implementation can provide the impetus and business justification for the development of a tax-advantaged regional principal company to provide oversight for functions often considered more "core" to the enterprise, such as sales and operations planning, supply-chain management, or contract manufacturer management.

Figure 15. In what areas does your organization attempt to drive consistency across its SSCs?



A third source of shared services tax impact is the drive for cross-SSC consistency in technology and processes, which many respondents viewed as a priority (Figure 15). From a tax standpoint, the development of standardized technology and processes can represent an intangible to which value attaches — and tax authorities around the world are becoming increasingly sensitive as to which organizational entities earn the profits (and pay the taxes) that may be associated with such intangibles. In very broad terms, international tax principles hold that any profits from the use of an intangible belong to the legal entity or entities that engaged in developing the intangible. This can present both a risk and an opportunity with respect to shared services technology and process standardization. On the risk side, an ad hoc approach to standardization can present a latent tax risk if the SSO's geographic footprint should change. For instance, if an organization relocates an SSC that helped to develop standardized technology and/or processes, the SSC's former tax jurisdiction may assert that it is entitled to an "exit tax" on the grounds that the SSC's move created a taxable disposition of the intangible assets used in its service business. On the opportunity side, it may be possible, with proper planning, to consolidate the development of standardized technology or processes into a single organizational entity that is then considered to "own" that intangible, charging the SSO and/or its customers a fee for its use. This structuring allows organizations to efficiently disseminate the use of technology, systems, and other intellectual property throughout the global organization.

In sum, the continuing development of shared services into a global value engine heightens the importance of taking tax into account from both a cost savings and a strategic planning perspective. Proper attention to the tax implications can help companies align an SSO's activities with the pursuit of global tax efficiency — an objective that will increase in importance as shared services' value to the business continues to grow.

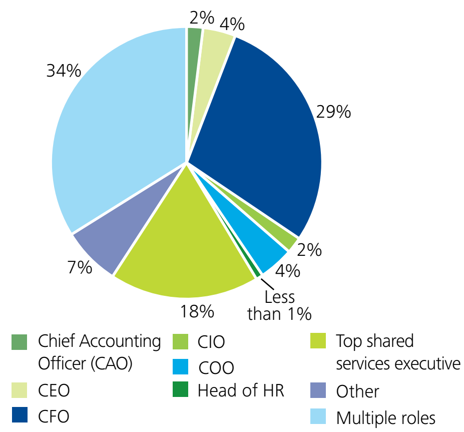
Reporting relationships are branching out

"Who should be in charge?" is a common question for many business leaders new to shared services. The answer is less obvious today than it seemed in shared services' younger days, when most SSOs included only one function, usually finance, and served a relatively limited geographical area. This year's survey shows that, while finance is still shared services' most common home, respondents are starting to find more varied answers to the "org chart" question that reflect a corresponding diversity of underlying needs.

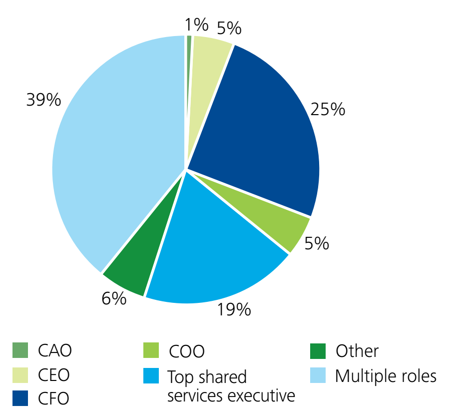
Figure 16 shows the percentage of respondents that named various corporate roles as having "overall responsibility" for shared services. Of note, respondents answering for multifunctional SSOs, which represented 78 percent of the SSOs in our survey, were much more likely to identify multiple roles as having overall shared services responsibility. This typically corresponds to a reporting structure in which each shared function reports up to its own functional head. At one company, for example, the SSO's finance, HR, procurement, and IT groups report separately to their respective functional leaders, with a common infrastructure management leader responsible for managing worldwide SSO operations. Such a functionally aligned reporting structure can have the advantage of keeping the shared portions of each function in closer touch with the functional front office, which can streamline communication and improve the coordination of processes that traverse both front- and back-office personnel. It can also ease buy-in to shared services by functional leaders who might otherwise feel they are losing control of the proposed shared activities. On the other hand, a functionally aligned reporting structure can make it more difficult to share leading practices across functions or run SSO-wide continuous improvement initiatives, which can result in unnecessary duplication and inefficient improvement efforts.

Figure 16. Who has overall responsibility for shared services at your company?

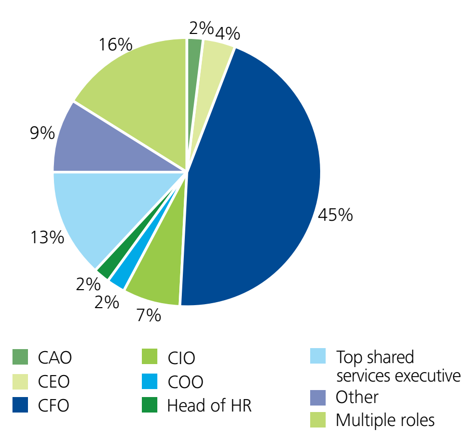
All SSOs



Multifunctional SSOs



Single-functional SSOs



At other organizations, the choice of where to place ultimate shared services responsibility depends only tangentially on what functions the SSO includes. The decision instead hinges more on the role that shared services is seen to play in the business — administrative, operational, strategic, or a combination. As one respondent said, "Everything that has to do with front-end operations, including [my shared data management group], ultimately reports to the CEO. The back-office functions, [including the company's shared accounting, HR, and IT organizations], ultimately report to the CFO." Why the CFO? Not because shared finance processes outnumber shared HR or IT processes, said the respondent, but because the CFO role has broadened to include "responsibility for the financial health of the business" as well as financial reporting and accounting.

Also notable was that a respectable fraction of this year's respondents (18 percent) said that their SSO reported to a top shared services executive rather than directly to a functional or corporate head. Creating a dedicated top shared services executive role can offer several benefits, including raising shared services' organizational visibility, reinforcing the SSO's accountability to customers rather than to corporate, and reducing the possibility of functional biases in shared services management. At one consumer products company, these considerations played a major part in the company's decision not just to establish a top shared services executive position, but to house the SSO in its own legal entity. "People lose focus if shared services is not run as an independent organization," the respondent explained. "Even if all the shared functions are in the same physical location, they all have different priorities and different directions. The only way to make shared services consistent and sustainable is to have it report to an independent organization, with a strong leader that does not have a conflict of interest in managing the different teams."

Whoever the titular head of shared services may be, one of his or her foremost responsibilities is to promote effective shared services governance.

Clearly, multiple reasonable answers often exist to the "who's in charge?" question, and organizations should base their choice less on typical marketplace practices than on their own strategy, culture, and needs. Still, we offer one thought that organizations may wish to consider when making the decision. Whoever the titular head of shared services may be, one of his or her foremost responsibilities is to promote effective shared services governance — something that, as we discuss below, we believe is vital to realizing shared services' full business benefits. Given its importance to shared services' value, we recommend that the ability to enable effective governance be given significant weight in any shared services leadership decision.

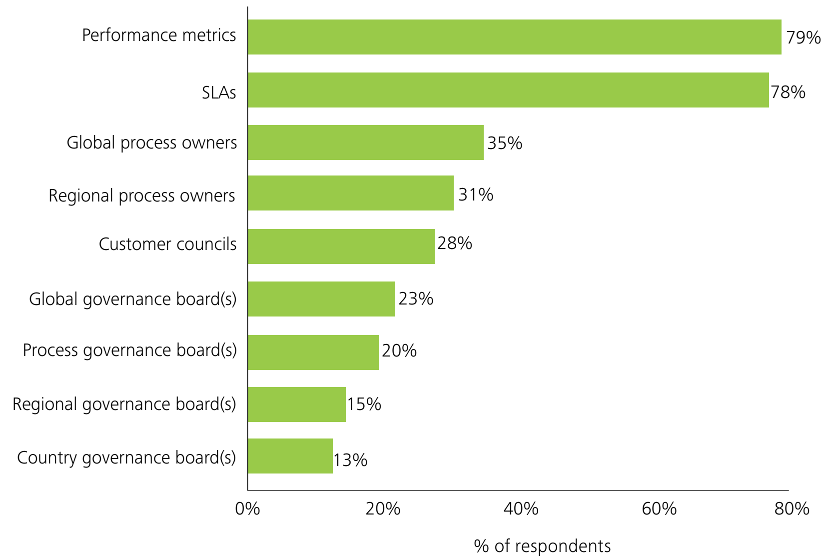
Governance is a perennial challenge

A service-oriented mindset and an end-customer focus are two of shared services' key advantages over traditional corporate centralization, in which headquarters determines service delivery scope, processes, and levels with relatively little input from end users. To pursue these advantages, organizations have developed a variety of shared services governance tools and techniques — SLAs, performance metrics, governance boards, customer councils, and the like — to enable productive dialogue between the SSO and its customers in setting service standards, streamlining end-to-end processes, and monitoring and improving performance. When effective, such governance mechanisms promote operational excellence by enlisting both the SSO and its customers in the effort to align service delivery with business needs, making the SSO directly accountable to end users for service cost and quality based on customer-defined requirements, and fostering a sense of ownership of the shared services program among the customers.

Consistent with our findings in past years, performance metrics and SLAs were in extremely widespread use among our 2009 respondents (Figure 16). In contrast, respondents showed greater variation in their use of process ownership, customer councils, and governance boards to support shared services governance. This suggests that while SLAs and performance metrics are widely viewed as essential governance tools, organizations vary much more in the forums in which they put these tools to use.

Regardless of the specific mechanisms used, we strongly believe that effective processes for enabling customer-SSO collaboration are critical to realizing shared services' cost and performance benefits. One encouraging finding in this regard is an increase in the use of global, regional, and/or process governance boards among our survey respondents since 2007. Fifty-five percent of this year's respondents, compared with 42 percent of respondents in 2007, used at least one of these types of boards; when country-level boards are also considered, the use of boards among this year's respondents rises to 69 percent. On the other hand, these findings also suggest that a significant minority of organizations do *not* institutionalize collaborative decision-making around shared services, at least not in the form of a governance board. This may indicate that a fair number of organizations manage shared services as essentially a corporate overhead function rather than as an SSO-business unit service relationship, which can negate many of the advantages that effective customer-focused governance can provide.

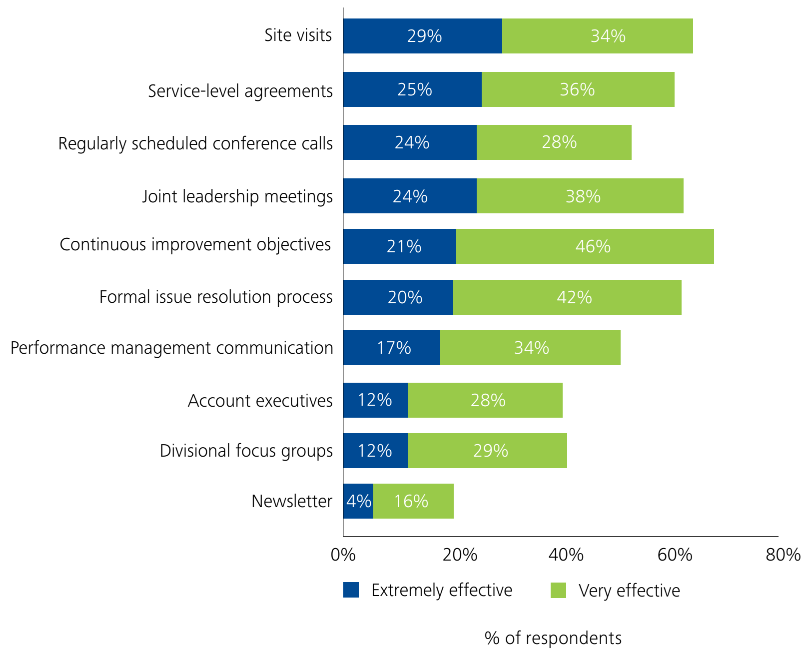
Figure 17. What elements are part of your organization's shared services governance structure?



Our survey also showed that many shared services leaders put considerable effort into the cultural and communicative aspects of shared services governance (as distinct from the decision-making and operational management forums discussed above). As shown in Figure 18, respondents viewed a variety of methods as effective ways to "keep connected" with their customers; on average, respondents indicated that they used four methods that were extremely or very effective.

Conversations with respondents shed light on several additional facets of shared services governance. One respondent from a Latin American consumer products company noted that implementing metrics and SLAs benefits the SSO's internal culture as well as its relationships with customers. "At the beginning, the people we moved into the SSO asked, 'Why do we have to have metrics and SLAs? We're just a support organization,'" said the respondent. "It took a while for them to realize that they were now a *service* organization, and the metrics and SLAs helped them make that mindset change."

Figure 18. What mechanisms are used to effectively keep SSCs connected to their customers?



Another respondent from a global media company reported challenges in governance arising from differences in his internal customers' business models, sales cycles, and culture. "The two main businesses I support are in very different phases of their evolution," he explained. "One is very mature with a small sales growth model; yet, despite this, culturally they are somewhat relaxed in terms of process discipline and compliance. The other is expanding rapidly; they are very cost-conscious, very focused on delivery, and much more amenable to standardizing work and methodologies. Because so many of our systems are integrated and shared, it's sometimes hard to balance their competing priorities." Partly because of this, the company maintains "a lot of governance" around the SSO — including SLAs and service metrics, quarterly meetings with senior business-unit executives, and regular meetings with customers on an operational level — much of which, said the respondent, is focused on achieving a workable balance.

Finally, a third respondent described his experience with what, in our view, is one of the biggest shared services governance challenges of all: the tendency for customer-focused governance to give way to a traditional centralized approach. "When we first set up our transaction centers, we created an independent SSO that reported up to its own vice president," said the respondent. "But after a while, it became clear that that wasn't working, so we eliminated the VP of Shared Services role, stopped using SLAs, and put the centers under the finance function. Now, we don't even use the term 'shared services' at our company."

Despite the shifts in terminology and reporting structure, the respondent described above has still been able to maintain a shared services-style relationship with the business units, negotiating cost allocation rates during the annual planning and budgeting cycle and using those meetings to explore the businesses' service needs. But we have also seen other cases in which the service organization, although still called an SSO, operates essentially as an extension of corporate headquarters, accountable to and centrally administered by corporate instead of managed through customer-focused governance. The danger in this is that it often results in service delivery that is less connected with the customer, less responsive to end-user needs, and less aligned with the business' requirements — and, consequently, yields fewer cost and service quality benefits than a true shared services approach.

The tendency to treat shared services simply as centralization by another name is one of the most damaging traps that we have encountered in our work with organizations on shared services governance. Unfortunately, it's also a very tempting route to take, especially for organizations whose management style tends toward the command-and-control. Customer-focused governance processes can be challenging to develop; they require time, effort, and commitment to execute; they can lead to contention that stalls service delivery and damages intracompany relationships; and, most of all, they only work to the extent that the participants *want* them to work. But in our view, the remedy for flawed shared services governance is to improve shared services governance, not to centralize service delivery management. Effective customer-focused governance, we believe, is at the heart of the cost, quality, and business alignment benefits that shared services is meant to deliver; without it, the greater part of shared services' value is lost.

The way forward

Based on our data and our experience in the field, we believe that the shared services model has matured to the point where most organizations have a solid grasp of the basic principles of achieving cost and service quality effectiveness in their SSOs. This is most clearly seen in the generally high annual productivity improvements our respondents reported at their SSOs. In addition, the increasing placement of advisory services in a shared environment, the ongoing adjustments to many SSOs' geographical footprint, and the continuing emphasis on cost reduction and process improvement all point to the widespread pursuit of a number of well-established shared services improvement strategies.

What's next? Obviously, SSOs will continue their efforts to reduce costs and improve quality through further standardization, consolidation, and customer and capability expansion. But beyond this, we believe that business leaders today are increasingly coming to recognize — and systematically exploit — the value of shared services as a strategic enabler. Many of our respondents have established a productive linkage between shared services strategy and business strategy in a number of areas: data transparency, enterprise growth, and talent development, to name only a few. We anticipate that as more executives come to appreciate shared services' potential contribution to these and other strategic goals, a wider range of variations on the basic shared services theme will emerge, as organizations pursue shared services approaches that follow sound shared services principles, yet are highly tailored to their unique business needs.

In summary, this year's survey paints a picture of a robust shared services community for which the recession represents a growth opportunity rather than a setback. As we see it, the task for shared services leaders now is to consolidate past gains and plan future initiatives in a way that not only helps organizations weather the downturn, but sets the stage for creating long-term strategic value.

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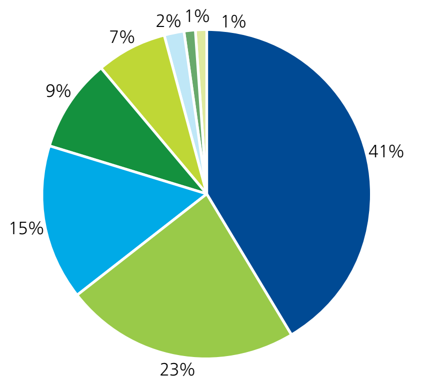
Appendix: Respondent demographics

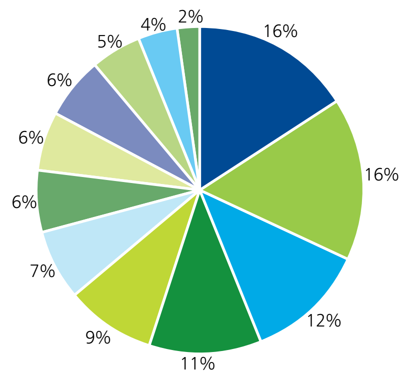
Figure 19. Respondent company headquarters



U.S./Canada
Western Europe
Not specified
Latin America
Australia/New Zealand
Eastern Europe
Asia/India
Middle East/South Africa

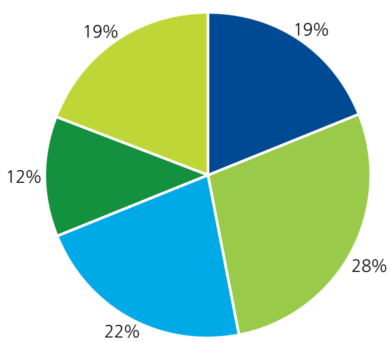
Note: Figures do not total 100% due to rounding.

Figure 20. Respondent industry



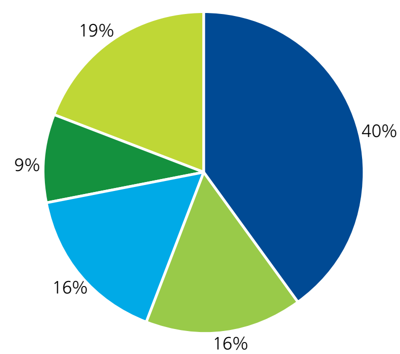
Consumer business
Manufacturing
Energy
Financial services
IT/telecom
Public sector
Health care
Transportation
Other
Retail
Media
Real estate

Figure 21. Respondent annual revenue



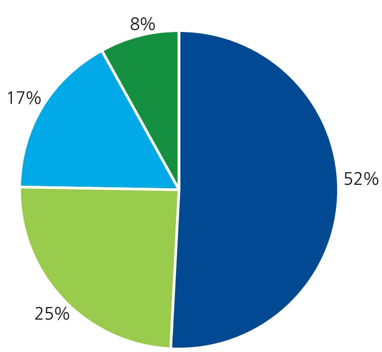
Less than $1 billion U.S.
$1 to $4.9 billion U.S.
$5 to $14.9 billion U.S.
$15 to $24.9 billion U.S.
$25 billion U.S. or more

Figure 22. How many SSCs does your company have?



One SSC
Two SCCs
Three SCCs
Four SCCs
Five or more SCCs

Figure 23. How many people does each SSC employ?



100 or fewer
101 to 250
251 to 999
1,000 or more

Percentages represent the percent of the total number of SSCs in the survey.

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