THE STORIES BEHIND THE NUMBERS

Research on shared services and outsourcing trends and developments in Central & Eastern Europe
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CHAPTER 1
INTRODUCTION

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Shared services and outsourcing to Central and Eastern Europe (CEE) has been on the agenda in many board rooms in the past decade. Previous KPMG publications and reports of other market specialists have been supporting this attention by recording a solid growth in both the number of captive shared services centres as BPO delivery centres in the region. The countries included in this study host around 1,000 centres employing approximately 283,000 employees making the shared services and outsourcing industry a significant contributor to the Central and Eastern Europe economy.

Service centres’ supporting various back-office functions and processes in areas such as IT, F&A, HR, and procurement continue to grow, while at the same time front-office activities such as analytics, sales and marketing support are being added. Recent studies indicate this growth is not stagnating. To the contrary, KPMG’s “The State of Services and Outsourcing in 2014” report shows that the investments intentions in shared services and outsourcing solutions by organisations are on a record high, while a study executed by the Shared Services and Outsourcing Network (SSON) shows that 59% of the organisations involved in the study expect further growth in their shared services initiatives. This topic has evolved in an industry of a significant size and relevance for the region and shared services or outsourcing to the CEE region shall remain a viable option for many companies in the near future.

A DIFFERENT RESEARCH ANGLE

The fast majority of the reports on this topic only reflect in numbers the state of the shared Services and outsourcing in the CEE region. We have all seen the metrics and graphs showing the inflation percentages, the economic growth, the availability of talent and language skills, presented in a wide variety of market reports. This study does not try to come up with new numbers; it approaches Central and Eastern Europe from a different point of view, trying to capture the real stories behind the numbers.

The objective of this study is to gather, define and explain the factors behind the success of the shared service and outsourcing industry in the CEE region and most importantly the service centres itself, to capture the leading practices and latest developments and to provide a glimpse of the future of this industry in the CEE region. To get these insights, we conducted more than 50 conversations with service centre managers, delivery centre managers, investment agencies, recruitment agencies and industry experts in the period January-November 2014. By doing so, we were able to get the real ‘war stories’ on the table for discussion, that can help organisations in the implementation of their shared services and BPO strategies. We focus on five themes that dominate the agenda of service centre managers in the six countries studied.

STORIES ABOUT A REGION TO STAY

GEOGRAPHICAL SCOPE OF THIS RESEARCH

We focus on a number of countries and locations within this study. By including more sophisticated shared services and outsourcing destinations (e.g. Czech Republic, Poland) as well as the relative newcomers (e.g. Bulgaria, Latvia) we were able to obtain a balanced view of what is happening in the sector in this region.

Although we kept an open perspective, our conversations with the service centre managers were focused around five central themes that are introduced in the figure on the next page.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th># of centres</th>
<th># of employees</th>
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<tr>
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<td>&gt; 470</td>
<td>&gt;128,000</td>
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<tr>
<td>Czech Republic</td>
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<td>&gt; 50,000</td>
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<td>2,04 million</td>
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<td>Romania</td>
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<td>&gt; 45</td>
<td>&gt; 22,000</td>
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<table>
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<th>Main Service centre / BPO location(s)</th>
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<th>Czech Republic</th>
<th>Hungary</th>
<th>Latvia</th>
<th>Romania</th>
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</tr>
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</table>

Figure 1 / Geographical scope of the research

1 In this report the term service centres shall refer to both captive shared services centres as ITO / BPO delivery centres.
CHAPTER 2
SELECTING THE RIGHT LOCATION:
FROM A QUANTITATIVE TO A QUALITATIVE FOCUS

FIVE CENTRAL RESEARCH THEMES

Selecting the right location

Making the right location decision is more than comparing numbers, it is about getting a sense of the location and experiencing this is the place where an important part of the business can be executed.

Implementing a service centre

The complexity of transitions are no longer underestimated. It is considered as the key factor for success in the service centre journey by our service centre managers. We capture the latest trends and developments on this aspect.

Managing talent

Service centres are a people business. Recruitment is as important as retention and having the right talent management approach is a real differentiator.

Executing governance

The theme that has been and will be on the agenda for a long time. The panacea has not been found, yet experiences of service centers on how to organize yourself internally and how to position the service centre within the organisation as a whole results in valuable insights.

Driving evolution

Service centres have to continuously reinvent themselves by adding new services and clients. It’s the best way to keep delivering added value and thus to survive. We discussed with service centre managers how they approach this and what is happening in the CEE region.

Selecting the right location – in terms of cost and quality benefits – is an important step in the strategic phase of establishing a service centre. It is definitely not all about cost levels: service centre managers allocate more value to factors such as the available talent, language availability, talent pool competition.
STARTING WITH A QUANTITATIVE COMPARISON

The majority of the service centre representatives indicate that their organisation executed a detailed location analysis. As one service centre manager said: “Many potential locations were tossed around, with many people having opinions on the potential of these locations. We felt we needed a detailed location analysis to enable objective decision-making. And we were right to do so.” Some of the organisations did not execute a detailed location analysis, but leveraged on existing sites. At a first glance, this makes sense, as those organisations know the existing market and culture and already have the infrastructure in place, however one service centre manager did comment that a more detailed location analysis would have made sense, “Because the stakes are high. You probably stay there for at least 15 years and once you have established yourself, you want to be able to explain to your business partners why you preferred this particular city. It helps to build your story if your argument is solid. Starting a service centre in an existing location did diminish that in our case”. The first stage of a location analysis may involve taking a large number of quantitative factors into account. By comparing locations using these factors as criteria, organisations arrive at a shortlist of two or three locations from an initial list of between seven and ten. KPMG continuously gathers and structures data regarding these locations in order to be of value for organisations considering shared services or outsourcing. Most of this data is publicly available or can be acquired from country investment agencies. As these analyses are confidential most of the time, organisations tend not to reach out to potential locations during this phase of the location analysis. During the interviews, we identified the most relevant factors in evaluating a delivery location. Although cost was always mentioned, more value was placed on the available talent, language availability, talent pool competition and the ease of employing staff. Figure 3 shows the relative importance of location analysis factors as rated by the practitioners who contributed to this study.

![Figure 3 / Relative importance of location analysis factors.](image)

AND ENDING WITH A QUALITATIVE ASSESSMENT

Our conversations show that qualitative factors carry weight in the final decision-making process. After having short-listed two to three cities in the initial phase of the location analysis process, organisations execute a deeper analysis of these cities. Project teams will visit those locations and have conversations with investment agencies, recruitment agencies and existing service centres, which gives a more subjective view of the location. As one service centre manager noted in response to our study, “We executed quite a rigorous desk research on potential service centre locations. In the end, two locations were left and senior management visited those locations. An important deciding factor in the end was the presence of an international expat community and English private schools. This actually turned the decision from city X to city Y.”

“As a new entrant, you don’t want to disrupt the existing service centre.”

Shared service centre manager, Budapest

Service centre managers stress that proactive support from a government investment agency is appreciated in this phase. Experiences in this area differed by country and/or city ranging from highly supportive in arranging meetings to limited support. Many interviewees see some room for improvement when it comes to the government support factor. As one service centre manager indicated, “Government support is too limited.”

The service centre environment is not being promoted. Students hardly know this is a strong employment sector and foreign investors do not realise we are good at this here. It would really help us and the economy if our government were to invest more in this.” From a macro economic perspective governments can have high (positive) impact by addressing this topic in their policies. In our view, it is important that leadership teams actively participate in the location analysis to develop real understanding and to create commitment. One of the options is to organise a site visit with a duration of at least two days for each of the final two to three locations, which should include meetings with other service centres, investment agencies, political representatives and recruitment agencies. Additionally, this is an important step towards understanding the atmosphere, culture and social life in the city as part of the qualitative comparison.
ESTABLISHED VERSUS UPCOMING LOCATIONS IN CENTRAL AND EASTERN EUROPE

Should organisations locate in a proven mature city or in a growing, less mature service centre location? The established service centre locations in the CEE region are capital and main second-ties as Prague, Brno, Budapest, Warsaw, Krakow, and Bucharest. Locations such as Sofia, the Baltic States, second-tier cities in Poland and Romania, and recently also in Serbia are currently seen as the newer upcoming service centre locations. In most cases, this leads to a discussion about cost effectiveness versus risk.

Service centres have strong opinions on this topic. One interviewee said, “The newer greenfield locations often look attractive, but, as a captive centre, you don’t want to be the first in a certain location. The risk is simply too high. If number two moves in, your attrition rates will go through the roof!” and another service centre manager said: “As captive you only want to move to a certain location if there is a reasonable number of similar organisations already active with the same service scope you want to offer”.

Bear in mind the size of your centre compared to other centres at the location; you don’t want to start a centre of 250 people in a location with an industry size of 80,000. This also works the other way around: you cannot start a centre of 2,500 FTEs in a location with a current industry size of 12,500 FTEs. Balance is the key here.

Service centres can encounter difficulties in establishing a brand for the service centre and attracting top talent if their size is not in line with the market size.

Service providers can be more aggressive in this respect as they are able to temporarily backfill locations with staff from other delivery centres. One delivery centre replied, “When starting a new delivery centre, we often start by transferring the non-complex activities from an existing centre. This allows us to gently introduce a new delivery centre into a network and let it grow from there”. The ITO / BPO service providers are experienced in setting up delivery locations, training staff and getting a centre up and running.

“The ability of a location to attract sufficient talent does not only depend on the number of universities but also on the locations’ social life such as the number of clubs.”

Delivery centre manager, Budapest
A SUCCESSFUL TRANSITION IS THE KEY FACTOR FOR ESTABLISHING A SERVICE CENTRE

A well-executed transition is the key to achieving a successful service centre. Nearly all service centre managers confirmed this: without a proper transition, the service centre strategy is doomed for failure or at the very least it can take a long time to regain the trust of (internal) clients and reach a stable situation.

“The transition is king!”
Shared service centre manager, Budapest

The prerequisites for a successful implementation are robust project management, sufficient investment capabilities, senior management support, and the involvement of experienced service centre practitioners (“those who have done it before will help you deliver throughout the process”) in combination with team members with a high level of company knowledge. A last prerequisite confirmed by nearly all service centre managers is that of perseverance. There will always be issues and resistance and overcoming this resistance requires huge effort.

“Be persistent, stay in control, and have stamina. Expect to be blamed, but keep going.”
Shared service centre manager, Poland

Overall, we are impressed with the methodologies used by the organisations who contributed to this research. The majority of the organisations use formalised transition methodologies that involve detailed project plans, planning overviews, handover documentation and sign-off criteria. The implementation of a completely new captive service centre generally takes about eight to ten months: three to four months to complete a contract for the establishment, three to four months to arrange for furniture and fixtures and two to three months for the recruiting and training of personnel. “We used extremely detailed transition plans. It was very clear to everyone what work and which employee was being moved in what timeframe. It also included detailed training plans and dual location visits.”

A handover plan is applied in most cases, in which the work is gradually migrated towards the centre. Some organisations apply a formal sign-off methodology in which business units must complete a checklist before it is allowed to move services towards a service centre; other organisations offer more latitude to the business units. In general, organisations apply a gradual approach in which initially, for example, 50% of the work is performed by the service centre and 50% by the business unit to secure performance and prevent backlog. In most cases, service levels need to be met for a number of consecutive weeks before the service centre personnel is allowed to take over activities completely. This more formalised method requires a lot of effort in preparing the organisation for the transition. Phased transitions are most often organised along the axis of processes, more so than along the lines of business units. This means that for example all accounts receivable activities from various business units/countries are moved into the service centre instead of on boarding all the in-scope processes from one business unit before moving onto the next business unit. The latter approach has rarely been applied in the organisations we spoke with as part of this study. Hybrid alternatives tend to make things too complicated.

Many organisations wonder what the best practice transition strategy is. In general, organisations design their own organisation specific implementation strategy selecting the best ingredients from the jungle of ‘lift and shift’, ‘move and improve’, ‘shifting with some fixing’.

“We have a standard approach to doing a transition, but we always tailor it to fit the context of the organisation from whom the services are being taken over.”
Delivery centre manager, Prague

While some organisations execute transitions using a ‘lift, shift and fix’ approach in which activities are moved ‘as-is’ from the originating location to the service centres, other organisations apply a ‘standardise, fix and shift’ approach in which activities are changed to the ‘to-be’ state before they are moved to the service centre. Some organisations apply both, depending on the maturity of the business unit or country organisation. We have not identified a single best practice in Central and Eastern Europe.

“Make sure you prove yourself from day one. During the start-up phase commitment, budget and resources are available. After go-live it becomes much harder to acquire this level of support.”
Shared service centre manager, Krakow

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A big bang approach is a recipe for disaster.”
Shared service centre manager, Riga

After a preparation and planning period, the implementation usually starts with a pilot in which the knowledge transfer methodology and the service centre on boarding concept is tested.
THE CHANGE OF KNOWLEDGE TRANSFER METHODOLOGY

Although there is a need for experienced personnel in more senior positions, most service centres hire new graduates for non-managerial positions. In the past this new inexperienced personnel was trained by means of job shadowing. This type of knowledge transfer methodology means that the bulk of service centre employees sit next to ‘(job shadowing)’ the personnel of the originating business unit to be trained in the processes to be executed.

“It is crucial to know the baseline performance levels, because otherwise it is impossible to accurately compare service centre service levels and measure improvement.”

Shared service centre manager, Riga

After this initial period the service centre employees perform the work, while the former personnel are sitting next to them (‘reverse job shadowing’) to make sure the work is performed correctly. Although this is a well-proven method, it is a rather expensive way of training personnel. Over the last few years, the knowledge transfer methodology has increasingly switched to the cheaper concept of ‘train the trainer’. In this alternative, a limited number of employees, so called subject matter experts (SMEs), are in charge of capturing the current way of working by learning from the originating business units. These SMEs, who require less time to fully grasp the process, are then appointed to train the new hires of the service centres at the service centre location. This latter approach is currently the preferred option as it is more cost effective and less confrontational towards existing personnel.

The use of experienced resources for a transition is key. Some organisations tend to use the existing talent pool within the organisation, using this type of project as experience programmes. However, these transition projects require specific knowledge and expertise. Involved practitioners who have done it before can prevent time-consuming discussions and bring the necessary authority to the project team. The transition manager therefore should be a person who has overseen a similar transition at least once or twice before. Secondly, the transition manager should be accompanied by an employee who has worked in the existing organisation for at least 10 years. To guarantee the connection with the local recruitment market, it is wise to hire a local HR manager who is familiar with the talent pool and the culture of the targeted workforce.

INCREASING FOCUS ON THE RETAINED ORGANISATION

More and more organisations acknowledge the significant impact on an organisation when establishing a service centre, leading to an increased assistance in guiding the retained organisation to the new situation. The broadened scope of change management activities underpin this increasing focus on that part of the organisation transitioning activities to the service centre.

“The energy is automatically driven towards the new setting, with fresh people, new offices and systems. That’s where you immediately see the change!”

Shared service centre manager, Warsaw

“Based on our prior experience, we now reserve a budget for supporting the retained organisations as part of a transition initiative. The operations in the respective countries also need training on their new role in a changed operating model.” Organisations that have gone through the transition process a few times strongly recommend managing the expectations of the retained organisation. The correct message has to be spread, openly, honestly, and concretely. The worst thing that can happen is that rumours start and key personnel decides to leave. We have seen the following practices being applied by the more mature organisations:

• Establish co-ownership of local senior management of the targets to be achieved by the service centre. By doing this, the management of the service centre is not seen as just the ‘bad guys’;
• Gain buy-in from local senior management, activities which are seen as problematic or underperforming in the current situation are tackled first by the service centre transition team;
• Implement improvements (‘quick wins’) are implemented immediately by the service centre in order to convince non-believers;
• Take sufficient time to prepare, take one step at a time. Do not apply short-term fixes, but instead apply a ‘first time right’ methodology;
• Gain buy-in from local senior management, activities which are seen as problematic or underperforming in the current situation are tackled first by the service centre transition team;
• Ensure early identification of affected staff and clarity on a per employee basis about potential redeployment or redundancy;
• Increase commitment from former personnel to support knowledge transfer using retention bonuses and transition performance bonuses;
• Implement improvements (‘quick wins’) are implemented immediately by the service centre in order to convince non-believers;
• Take sufficient time to prepare, take one step at a time. Do not apply short-term fixes, but instead apply a ‘first time right’ methodology;
• Gain buy-in from local senior management, activities which are seen as problematic or underperforming in the current situation are tackled first by the service centre transition team;
• Ensure early identification of affected staff and clarity on a per employee basis about potential redeployment or redundancy;
• Increase commitment from former personnel to support knowledge transfer using retention bonuses and transition performance bonuses;

“For the business itself the continuity of the services is more important than getting cost advantages.”

Shared service centre manager, Bucharest

It is advised to start an implementation with the end in mind, not only for the centre but also for the retained organisation. The organisation needs a vision of where it will stand in five years’ time, not just a vision of the moment of go-live.
CHAPTER 4
EXECUTING GOVERNANCE: SUPPLIER OR PARTNER?

STRETCHING THE INTERNAL SPAN OF CONTROL

Service centres across Central and Eastern Europe follow a traditional approach to how they are structured internally. The centres apply the usual pyramid organisation structure and a simple management approach. The build-up of staffing levels are alike with the following role structure being applied (from most senior to most junior): shared service manager, functional managers, manager, supervisor, team lead and (junior) agent/clerk. Depending on the process executed, job titles may differ, however the principles applied remain the same. Management staff of the service centres continuously focuses on the span of control being applied to the operational staffing levels. Two perspectives, which contradict each other to some extent, play a role here:

- From a cost perspective, it makes sense to stretch the span of control of Supervisors and Team Leads as much as possible;

- From a talent management perspective, a more relevant approach to the span of control makes sense as employees demand the opportunity to move up and want to see opportunities. Service centres introduce intermediate levels within their operations to distinguish between less and more experienced operational staff as well as recognising these differences among the staff at hand.

On average, the span of control applied for team leads is somewhere between 1:15 to 1:20, although it has to be said that more extreme ratios have been recorded. One respondent mentions: “For the more transactional processes we try to push the ratio to 1:30 but this doesn’t always make sense as according to me these teams require more attention as the attrition in these teams are higher than in others”. Team leads still take a part of the work to be executed upon themselves, while for the supervisor role the focus shifts to managing the teams. Naturally, a service centre requires supporting departments such as HR and Finance well. In the course of this research, we record from 5% up to 10% of the total service centre staff as being employed in supporting functions.

“The to allow employees to have ample opportunity for growth and to support Supervisors in handling the complexity difference between countries, we had to introduce the Team Lead layer.”

Shared service centre manager, Krakow

Despite all these similarities, we recorded differences in how the execution of operational activities is structured, which is represented in Figure 4 (see next page). In the first years of their operation, service centres tend to organise their teams around business units, the geographies being serviced and they execute scoped activities (e.g. finance and procurement operations) within this team structure. Processes have not been standardised yet for all clients of the service centre and the IT landscape is not harmonised. We characterise this as the regional structure.

“It provides us with a straightforward structure, not raising too many staffing question while enabling us to achieve efficiencies.”

Shared service centre manager, Sofia

Over time, once a stable state has been achieved and when IT systems and process designs allow, team structures are increasingly formed around the functions and processes being executed. We characterise this as the functional structure. This implies for example that procurement activities for all the service centres’ clients are executed within same team (with sub-teams for meeting the language requirements) to achieve maximum levels of standardisation and efficiency. This structure may therefore be preferred over the regional structure. The majority of the service centres we visited are organised around this principle. As one responded replied,

The most mature centres however go one step further and apply end-to-end ownership, implying that teams are structured around business processes which transcend the functional activities being executed. Examples are purchase-to-pay and order-to-cash processes, which both include activities performed within the finance and procurement functions. Service centres applying this structure strive to achieve the most sophisticated method of process execution. We have not seen many service centres achieving this end-to-end stage. The question to be asked is whether this should be the level which centres should aspire as it requires significant investments and change management effort.
THE CHANGING BALANCE IN EXTERNAL GOVERNANCE

Compared to internal governance, our conversations on external governance have been more diverse. It transpires to be a delicate topic as it is much discussed within organisations. These discussions focused on the level of authority of the service centre, the role of the client’s headquarters and the operational freedom of the clients of the service centre. Topics such as decision-making, process ownership and investment decisions are debated.

In the situation where a service centre is non-existent (T0), the client’s headquarters and the respective business units (in this context the sphere represents the clients of the service centre, which also can be the country organisations) are operating in an equilibrium. This equilibrium is affected when the decision is made that the client shall make use of a service centre for central delivery of certain services. In this stage (T1), the role of the business seems to decline and the attention moves to the creation of the service centre, which is sponsored by the client’s headquarters. The focus is on the creation of the service centre, transferring services from the business units into the Service centre and creating a new stable environment. Process ownership for the services being executed in the centre is allocated to the service centre management and the headquarters show a high level of interest in how the service centre is operating. The service centre management reports to the COO/CFO. Over time, a change occurs in this balance. Multiple service centre managers confirm that after this first implementation stage, a more balanced relationship between the business units and the service centre develops.

When service centres reach the stage of maturity where they are used as a strategic vehicle to optimise business performance, and the scope of activities being executed in the service centre increases, the role of the client’s headquarters increases again (T3). Some of the organisations with whom we spoke have installed global process owners at headquarters’ level: a single person who is responsible and accountable for the consistent design and deployment of a given process as well as the standard for process performance. As the scope of the service centre increases, the relevant importance and risk profile of the service centre also increase significantly. The global process ownership model is installed to improve compliance with, and performance of, the business process.

Service centre manager, Riga

“We had to give our clients a bigger say again. Now they can even determine whether we should use more resources in our centre to improve quality for example. This is only to a certain extent of course, but in essence we have become more an extension of their operations whereas in the beginning we acted too much as two different entities.”

Service centre manager, Riga

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Global process owners determine which processes and activities are executed in the service centre and which processes and activities remain within the business functions. They advocate standardisation, improvement, and professionalization. They increase the equilibrium in the business unit, client headquarters and shared service centre triangle. As one service centre manager said:

“The installation of the process owners have both helped us as our clients. They streamline the discussions we have with our clients on responsibility issues and scoping elements.”

Delivery centre manager, Warsaw
FROM SERVICING TO PARTNERING
All the service centre organisations with whom we spoke in the course of our research have invested heavily in service level management and key performance indicator measurement. Performance reporting is not only used to communicate performance to external stakeholders but is also applied internally in the service centre, up to and including being used to judge the performance of individual employees. Although this was to be expected, it remains impressive to see what service centres are able to achieve at the level of performance improvement.

“Although cost-saving objectives were the primary objective for us in creating this Service centre, the level of transparency we have created in business performance may be of equal value. We have taken a quantum leap forward in how we execute the activities under our influence compared to the situation where there was no service centre operating in our organisation...”
Shared service centre manager, Bucharest

Service centres formally agree on the services to be delivered and the quality thereof (and in some instances the financial settlement thereof as well) with their clients which in most instances is confirmed via a service level agreement (SLA). The quality of the services and the most important issues arising are discussed in frequent performance meetings. It has become common practice now that a service centre client is assigned a single point of contact for all the services being delivered by the service centre, as clients do not want to speak with different managers for each different service. As the relationship develops and the service centre becomes more accepted by the organisation, the focus of performance management changes. Whereas at the beginning of the relationship, clients are critical and sceptical about the performance of service centre, once the it has proven its value, the clients tend to make more use of the service centre’s critical and analytical capabilities where they can improve the client’s own processes and add value. Figure 6 represents this development.

“We don’t speak of service level agreements, we apply partnership agreements. We want to focus on the overall business performance.”
Shared service centre manager Krakow

Where in the beginning clients are mainly interested in the performance of the service centre and its employees, over time they tend to become more interested in the overall execution of the processes, which may include activities executed by the client itself. In the end, it is the overall performance that matters.

Talent management is seen as a core competence in operating a successful service centre. Stability in the workforce is extremely important for optimal performance. What is important to realise is that the young and ambitious workforce in the service centre industry in the CEE region require a specific management approach and expect more from than work environment than providing a salary alone.
RECRUITING THE RIGHT TALENT IS NOT EASY, BUT KEEPING THEM ON BOARD IS THE REAL CHALLENGE

One aspect of talent management is getting this young workforce in. In the conversations we conducted, it was confirmed that recruiting new talent is an ongoing activity. Based on our research, we conclude that service centres are running with a continuous vacancy rate ranging between 3% and 10%. Service centres usually establish a strong connection with local universities to tap into the young workforce and make sure the curriculum is aligned with the desired competences. Alternatively, organisations utilise their own international network to attract young professionals through internal rotation. Service centres typically tend to make use of recruitment agencies when a combination of a minority or less common language and specialised skillsets is needed or in a situation where a significant ramp-up in employee numbers is required (e.g. seasonal peaks).

“We are continuously in touch with the talent market and, to do so, you need to have an excellent HR manager.”

Delivery centre manager, Krakow

The biggest challenge in employee recruitment is finding employees with the right combination of language capabilities and the right professional skills. The centres we visited support eight to ten languages on average, with one delivery centre even supporting 38 languages, but keeping required language support up to standard can be a struggle and organisations do have to invest heavily in it. Employees who speak more than two languages often receive a bonus on top of their base salary. This bonus increases when it is more challenging to find speakers of the language, for example Arabic. One organisation even offered three months of full-time language courses to its employees to safeguard their language capabilities.

Once in, talent management is about retaining those employees who are difficult to replace. In general, these are the middle management and senior management functions and those employees with rarer language capabilities. Replacing these employees is costly and can take a lot of time and there are numerous centres eager to compete for and acquire their talents. The majority of service centres in the CEE region demonstrate double-digit attrition rates. Such a competitive environment makes the job of HR directors and managers more difficult.

“We do not only ask why employees leave, but also why they stay.”

Delivery centre manager, Krakow

As previously stated, generation Y gets bored fast, learns fast and is not solely focused on monetary compensation. Service centres need to consider these factors as part of their retention programmes. Our service centre managers therefore mostly emphasised the importance of providing sufficient career opportunities, challenging work and facilitating social activities (e.g. voice of the employee programs, community-building events, charity events and wellbeing programs) and service centres invest heavily in these types of employee conditions. Providing the right contractual terms, conditions and fringe benefits is often just a hygiene factor. Another key to retaining talent is continuously proving to employees that growth opportunities do exist. This can be challenging as not all employees can actually be offered such a next step. One organisation even has adjusted its role structure and introduced two additional hierarchy levels for operational employees, simply to create more growth opportunities. Another organisation has pictures hanging on the wall of past employees who had successful careers, both inside and outside the organisation. One service centre manager responds; “It is my personal objective that my replacement will be an employee who comes from this region and has worked for us for several years. It would be a good statement if we were able to achieve this.”

“Employees have to be convinced that at a certain moment they can take the next step. You need to offer career paths or else be prepared to let them go.”

Shared service centre manager, Budapest

MANAGING A HEALTHY ATTRITION RATE

Attrition rates are an important performance indicator for captive shared service centres and the delivery centres managed by service providers. It is an important topic in the shared services and outsourcing industry. Although the figures were not always shared with us, we are able to establish from the figures received that the attrition rates of the centres included in our research ran between 10% and 25%. It is important to realise that attrition is not necessarily a bad thing. Attrition is simply part of the shared services and outsourcing industry and a method used to manage the cost base. Too low attrition rates eventually affect the cost effectiveness of a centre. Attrition rates between 10% and 20% are what organisations should aim for.

“I want to get worried when our attrition rates fall below 10%. It means that I have too many employees who have been here for quite a while, which is more expensive.”

Shared service centre manager, Bucharest

One important method for managing attrition is to have a succession plan in place. In this sense, succession planning is similar to having a disaster recovery plan. We advise having a back-up plan in place for at least 75% of the key positions (middle management, resources with specific language capabilities) within a service centre, the ‘75% ready now target’. This can be challenging, but it is important to ensure stable delivery and quality of services.
Service centres are constantly challenged by (internal) customers, business owners and other stakeholders to improve quality and lower operational costs. Continuous improvement is therefore a fundamental principle that requires to be anchored in the organisational structure and culture. Our service centre managers acknowledge this and emphasise they actively invest in process improvement to meet client expectations.

“Innovation, innovation and more innovation.”
Delivery centre manager Budapest

Service centres adopt the Lean Six Sigma methodology as strategy to continuously improve performance. We came across impressive examples. For example, one service centre has trained over 1,000 of their resources in Lean and Innovation principles. To support these resources, a Performance Excellence Team of 30 experience Black Belt practitioners is installed. Multiple simultaneous Improvement Project Teams consisting out of trained operational personnel mentored in Lean Six Sigma are constantly identifying and implementing (process) improvements. Continuous improvement is simply part of their responsibility and a track record on this aspect is essential for moving up. As the service centre manager mentioned:

“Improving execution is where we can deliver the added value to our clients. It’s our ticket to success. We are simply better in it than our clients. We have been able to achieve approximately 10 to 13% efficiency improvement per year and as reward, the clients gave us the responsibility to adopt more complex processes in our portfolio which is good for employee motivation.”

From our conversations we conclude that continuous improvement are addressed from two different angles:

1. Inside the centre: This focus is currently still formal agreements as SLAs (see chapter 4 “Executing Governance”). As said, Lean Six Sigma is the most dominant methodology applied to accomplish this.

“Driving a Lean Six Sigma program does not only benefit the performance, but also the development and ambitions of our high-potential staff.”
Shared service centre manager Bucharest

2. Outside the centre: When service centre’s become more mature, the focus of improvement management shifts from internally focussed towards being more externally focused. Organisations realise that continuous improvement does not affect only the service centre, but also those delivering input for and receiving the services. In other words, the clients of the service centre. To really harvest the potential value of a service centre, clients also have to adopt a different attitude and change their way of working. More and more clients expect service centres to be in the driver’s seat in improving process execution from an overall perspective. This creates inroads for end-to-end process ownership across organisational units.

“Right now, we drive a company wide improvement project named “Bureaucracy Buster.””
Shared service centre manager Warsaw
One remarkable point, when speaking about driving improvement, is that our service centre managers often mentioned the existing IT environment as a limiting factor in achieving the full improvement potential. Continuous improvement inevitably is linked directly to IT and automation. Having to work with multiple systems and applications in combination with limited standardisation has a negative impact on process optimisation and workforce scalability. Rationalising the IT landscape is high on the wish list of many service centre managers.

“We could achieve double-digit efficiency improvement in the centre if our IT environment was rationalised.”

Shared service centre manager, Warsaw

Although it was acknowledged by centres that they do not have full control over the IT landscape of their clients, and therefore are limited therefore in really driving the IT innovation agenda, we did see a number of interesting initiatives in IT innovation. More mature service centres indicate they spend more than 20% of their budget on IT innovation. The following interesting examples were mentioned in our conversations:

- Digital service offering – one service centre ambitions to execute up to 80% of their service offering via insiders’ workflow and thereby limiting the capacity required;
- Use of robotics – we have seen examples of service centres (predominantly external service providers) testing the use of robots which can replace operational staff (ratios of 1 robot replacing 7 FTE have been mentioned);
- Data analytics – a number of service centres where standardizing their database with aligned formats and forms with highly-integrated external data components. Use of highly advanced data analysis and visualisation is coming to the surface more and more;
- Dynamic reporting – service centres are adopting predictive modelling which provides service centre staff with prescriptive analysis of real-time data from internal and external sources that informs future direction.

EXPANDING THE SCOPE; GOING MULTIFUNCTIONAL AND MOVING UP THE VALUE CHAIN

One conclusion which is apparent from our research: gone are the days when single-function homogeneous towers dictated the service centre landscape. The majority of the service centres we visited supported multiple functions for their clients (see Figure 7). As one service centre manager mentioned:

“We have been able to prove to our organisation we can deliver, we can improve and we can integrate. The decision to expand our scope is a direct result of that and I see it as our biggest accomplishment.”

Shared service centre manager, Krakow

Two kinds of expansion are clearly present in the market:

1. The integration of multiple functions in the service centre offering – we see organisations broadening the scope of the services they offer to include Finance and Accounting, Human Resources, IT, Procurement and more;
2. The move towards more value adding, expertise-driven processes in the value chain – more complex knowledge base processes such as Controlling, Data Analytics and Strategic Sourcing are becoming part of the service centre offering.

In our research, we have seen examples of service centres executing sales support activities (e.g. tracking orders, follow up calls with customers etc.) from the Central and Eastern European region for the complete business geography of the organisation, which included the US and Asia. These teams have operate in shifts on a 24-hour basis to support different time zones. As one service centre manager strikingly explained:

“Our value is not sought exclusively in cost efficiency anymore, but increasingly in transparency. By executing these processes for the entire organisation from one place under one responsibility results in better insights and information.”

Shared service centre manager, Riga

Service centre managers see a change in the way in which centres operate, the service portfolio they offer and the potential added value for their clients. Existing language capabilities and skillsets within service centres are used more extensively and new skills are developed to ensure their success in a competitive market.
“We see great value in adopting new services as we broaden our staff-development opportunities. Eagerness can be rewarded.”

Shared service centre manager Krakow

A related benefit of the move towards value-adding activities support by nearly all service centre managers is that the HR agenda is supported. Employees active in the service centre sector differ from employees active in other sectors such as manufacturing or retail. They are younger, more ambitious and work in a fast-growing sector. This creates many opportunities for them, but also results in many challenges for the centres. By organising and more value-adding services, service centres can offer employees more development opportunities and thereby reduce attrition, but also attain economies of scale.

HYBRID MODELS ARE BECOMING THE STANDARD

An upcoming trend in the Central and Eastern European region is the fact service centres themselves are taking a critical view on their service delivery approach. As service centres are growing in the services they execute and are moving up the value chain, they now have sufficient scale to start outsourcing certain services to a professional Service Provider.

We foresee the route across CEE that hybrid models shall become the norm whereby organisations balance the usage of their delivery channels. Finding the right combination of delivery models between captive near-shore, captive offshore and outsourced shall be the challenge for the upcoming years.

As such, Central and Eastern Europe is increasingly used as a location to crystalize processes so that they can be sourced to more cost effective locations as India or the Philippines. Less complex transactional processes are replaced by more complex processes. As one responded indicated;

“Tell me, why should we organise the non-client facing processes in CEE if that piece of work can be done cheaper offshore. We are not creating value by doing that in Europe.”

Shared service centre manager, Krakow

A fast majority of the organisations opt for a combination of outsourcing transactional processes to a professional Services Provider while retaining more complex value-adding services in Central and Eastern Europe. Outsourcing is perceived as bringing additional advantages as further reductions of cost and increased risk mitigation. Risks are expected to be mitigated, because not all activities will be performed at one location and the organisation can steer upon expected results while operational risk is allocated to a Service Provider. One international investment bank, for example, has sourced the more complex valuation processes in a service centre in Eastern Europe, while the less complex transactional processes are sourced in a captive centre India. Another international beverages company uses its primary contact point for its service centre in Eastern Europe, while the less complex transactional processes are sourced in a captive centre India. Another international beverages company uses its primary contact point for its service centre in Eastern Europe, while the less complex transactional processes are sourced in a captive centre India.
The five service centre management themes outlined are likely to remain dominant agenda items in the coming years. We expect Talent management, Governance and Evolution to keep demanding management focus as these factors enable management to position the centre in a unique way both within the client organisation itself as well as in relation to other centres. This is what makes the difference in the services provided and value added and makes a centre stand out from the crowd.

“Even if robotics are kicking in seriously, talent management remains a top 3 item for my management team”

Shared service centre manager Budapest

To further sharpen the view of the way ahead, we conclude this research with three items.

A REGION TO STAY!

Our journey across Central and Eastern Europe has shown energy across centre management, investment and recruitment agencies and our Central and Eastern Europe colleagues. The state of the service market is attractive in many ways. The numbers simply add up and our conversations with various people – managers, clients, recruitment agencies and investment offices – have convinced us that this market has a lot of potential to become a sustainable contributor to the regional economy. We expect that the service centre market in this region will continue to grow by at least 10% per year for the next five years. This is based on a number of strong ingredients:

- Availability of talent and languages for value-adding services;
- Accessibility and infrastructure;
- Alignment with European culture;
- Flexibility in locations.

In addition to the locations we investigated, new countries are getting into the industry as well. Serbia and Estonia are just examples of destinations that could become important players in the coming years.

THE EVOLUTION OF GLOBAL BUSINESS SERVICES

Even though it does not dominate the current service centre agenda in CEE, it is likely that global business services (GBS) – the integration of organisations’ end-to-end processes across service delivery models for both back and front offices – will become the new standard in the next five years. This new phenomenon focuses on optimising the combination of human capital, service delivery models, process innovation and technology to deliver various type of services (e.g. HR, finance and accounting, supply chain management, IT) on an enterprise-wide, cross-functional basis, to support the business strategy. As a logical continuation from the hybrid models we saw in the course of this exercise, global business services is the perfect integrated platform to deliver enterprise business services and thereby drive efficiency and business outcomes and evolve with the market and company needs.

“Global Business Services seems to be somewhere around the corner, not sure when it will hit us though.”

Shared service centre manager Krakow

The key capabilities of GBS are:

- Multi-functional business processes (including operations);
- Shared information technology;
- Multi-channel service delivery – outsourced, shared services and centres of excellence;
- Process ownership and management;
- Enterprise-wide governance.

Continuous improvement is essential to remain competitive.

The service industry is constantly seeking ways to improve and grow, either in the scope of the processes executed or the client base to which services are delivered. Additionally centres need to match the expected performance improvements for each specific process year-on-year.
Even though organisations will cherry-pick from the listed key capabilities, we believe that centres will drive the further integration and alignment of business support processes, including value-adding services.

**GREATER ROLE OF DISRUPTIVE TECHNOLOGY**

Remarkably, disruptive technological changes are not dominating the service centre strategy while all major service providers currently investing in this new technology. The understanding and implementation of for example robotic process automation (RPA) has moved on very significantly the last year. This technology enables non-engineers to automate certain business processes quickly and cheaply. In a couple of months RPA has moved from the margins of the BPO market place to a central component of the strategy and delivery plans of every major service provider. RPA strategies are now in place or under development across the service provider landscape where in 2013 they didn’t exist and now are beyond the proof of concept or pilot stage.

Although the potential influence of robotics or cognitive platforms does not seem to be on the agenda (see also our comments and findings regarding IT and innovation) we believe that it is just a matter of time before the entire landscape of the service centre industry is dramatically altered by the use of disruptive technology. Effecting the type of work, necessary skills, processes, roles and most important strategic decisions regarding the future of the service centre.
WHAT WE DO

OUR SERVICES SPAN ACROSS INDUSTRIES, WE ADD VALUE THROUGH MULTI DISCIPLINARY TEAMS

The Service Delivery Lifecycle is a complex journey that requires a clear strategy, meticulous planning, solution definition and rigorous implementation control and optimization to ensure full value realization.

OUR VALUE PROPOSITION

• The team has deep functional expertise with over 1000 Advisors experienced in IT, Finance and accounting, Human Resources and Procurement;
• We are solution agnostic, our independence from technology or providers means we can provide objective advice to clients;
• We apply focused research, automating tools, proprietary data, clear business acumen, and a mindset to get quickly to what matters in providing actionable advice and practical answers to clients;
• KPMG provides access to broader set of global capabilities in risk, transactions, tax and compliance.

THE CORE RESEARCH TEAM

The research team conducting this research consists of Alexander Raaijmakers, Maarten van der Wolf, Else de Meijer, Jasper de Gier and Erik van Zeijl. All part of the Dutch KPMG Shared Services and Outsourcing Advisory practice.

Alexander Raaijmakers is director at KPMG and responsible for the shared services and BPO team within the broader SSOA team. Alexander has more than 15 years of international experience with shared services and outsourcing projects.

Maarten van der Wolf is senior manager at KPMG the Netherlands and has been working in the shared services and outsourcing industry for over ten years. Maarten has supported multiple organisations with their implementation of a service centre and is specialized in executing location analysis projects.

Else de Meijer is senior manager at KPMG with over 20 years of experience and deep shared services expertise. She is subject matter expert on change management topics as part of design and implementation of service centres.

Jasper de Gier is manager at KPMG the Netherlands and has experience in shared services and outsourcing industry. Jasper has supported organisations in selecting service providers and analyzing locations for the development of a shared service centre, mostly focusing on the business case from a cost efficiency, quality and risk perspective.

Erik van Zeijl is advisor at KPMG the Netherlands and has experience in shared services design, service provider selection and performance evaluation of shared service centres. Additionally Erik conducted comprehensive research towards the impact of governance on the perceived performance of shared service centres.