

# Shared service centres: delivering the promise

Pan-European research into HR and  
Finance shared service centres



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Delivering business transformation



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## Research background

In today's economic environment – characterised by relatively low interest rates, intensifying competition and steady but unspectacular growth – companies are focusing on building revenues incrementally while keeping costs under tight control. As part of these efforts, HR and Finance functions are under constant pressure to reduce their cost bases and simultaneously improve service quality by standardising processes and driving out inefficiencies.

Shared Service Centres (SSCs) – whether in-house or outsourced, onshore or offshore – promise a way to achieve all these objectives through a model that is not only effective but also flexible. Even an in-house SSC established onshore can exploit the cost benefits of outsourcing and offshoring, by acting as the gateway to different sourcing structures for various processes, ranging from payroll to accounts payable.

But while SSCs promise a lot, the question remains: do they always deliver on that promise? And if not, how can companies ensure they do so?

## Why is this survey important?

Adopting shared services in the private sector has been a resounding success, a fact which is supported by findings throughout this survey. The majority of companies surveyed (and most of the top companies throughout Europe) have already established shared services, achieving savings worth tens of millions of pounds and at the same time improving services.

As this survey demonstrates though, there is far more which can be achieved through the shared services transformation. HR and Finance directors should be asking themselves why a service can't be delivered as a shared service as well as identifying what might be stopping them offering services through an SSC. Shared services is an essential for key players in the HR and Finance industry, from adviser to director level, providing them with the opportunity to focus on what matters – in driving the business forward to achieve their organisational goals.

**Figure 1:** Analytical framework



## Our study

PA Consulting Group (PA) has researched the views of HR Directors, Finance Directors and other senior executives involved in the shared services decision from 141 companies across Europe. Each company surveyed employed an average of almost 39,000 people. To provide a balance and contrast to the client perspective we also interviewed ten leading outsourcing providers.

We have compared and contrasted our findings from this research study, completed in late 2006, with those from an earlier survey we conducted in 2001. This has enabled us to highlight major changes in approach and identify some key emerging trends.

Having analysed our findings within four key areas, (outlined above in Figure 1) we then blend them with our wider industry knowledge and experience to formulate conclusions about future approaches to SSCs in HR and Finance.

## Who should read this report

This research is primarily designed to help business leaders and HR and Finance decision-makers make better-informed decisions as they consider the creation, development or ongoing optimisation of SSCs. Our analysis includes benchmarking data, future trends and best practice for maximising the benefits from a SSC-based approach.

PA would like to thank all the respondents for the time and insight they have contributed to the survey.

# Key findings

A transitional phase – creating opportunities



HR and Finance SSCs are in a state of transition. Respondents clearly indicate that the SSC model is working and companies are keen to maximise the available benefits from their SSCs by migrating a wider range of higher-skill and value-added activities to the SSC environment.

Our research shows that setting up an SSC is in many respects more challenging today than in the past. For companies operating in a relatively stable, low-interest rate environment, efficiency is a long-term objective rather than an immediate necessity for survival. This is being balanced against the parallel need to improve quality. Since our last survey in 2001 many respondents may have implemented significant cost-cutting and process improvement initiatives, thereby reducing the scope for further incremental cost reduction. This will have affected the cost expectations and targets set for SSCs.

Significantly, as the scope and sophistication of SSCs continues to increase there is an emerging trend towards the adoption of 'hybrid' models, combining an in-house SSC with outsourced and/or even offshored elements. This development revitalises the opportunities for companies to realise further cost and service benefits in the future. However, managing this more complex hybrid entity demands greater focus and effort from CFOs, HR directors and SSC directors.

Our top line findings:

1

### The market today

It is not all about cost – service quality is a key driver for shared services

- There has been a shift in sentiment around the use of SSCs. In 2001, companies primarily used SSCs as a way to cut costs and reduce staffing levels. Today, there is more emphasis on improving service quality and delivery.

### SSCs are kept close to home

- Surprisingly, most but not all companies still choose to site SSCs in their home country rather than lower-cost regions such as Eastern Europe or India. By locating their SSC in a more mature economy, companies are able to tap into the expertise and the size and quality of the substantial resource and language pools available in these locations.

2

### Expectations

SSCs are meeting expectations...

- 92% say that their SSCs have either met or surpassed their initial expectations.

...but those expectations are lower than before – with cost-saving goals markedly down from 2001

- Companies have become more realistic about what shared services can achieve, reflecting their practical experience and the reduced scope for savings following the cost reductions already made in recent years. In 2001, most companies wanted payback within two years, but on average only achieved it in four. Now ambitions are more modest, but are largely – though not always – realised.
- Companies planning new or expanded shared services now target an 11% headcount reduction and 13% cost reduction. This compares with 22% and 26% respectively in 2001.

# 3

## The market tomorrow

SSCs are now handling more complex, value-add processes

- The scope of services offered by SSCs is broadening and moving up the complexity scale, with companies increasingly keen to include processes such as compensation, benefits and management accounting.

The future model now emerging is a hybrid of in-house shared services and outsourcing

- The majority of respondents currently prefer to establish shared services in-house, because they feel this allows them to retain 'control'.
- Today this perception needs to be balanced against the challenging task of delivering sustainable cost savings. As a result, 94% of respondents are exploring the potential for realising future savings – firstly by expanding the scope of services offered, and secondly by adding outsourcing to the mix. This results in a move towards hybrid models that combine in-house SSCs with targeted outsourcing of specific processes or components.

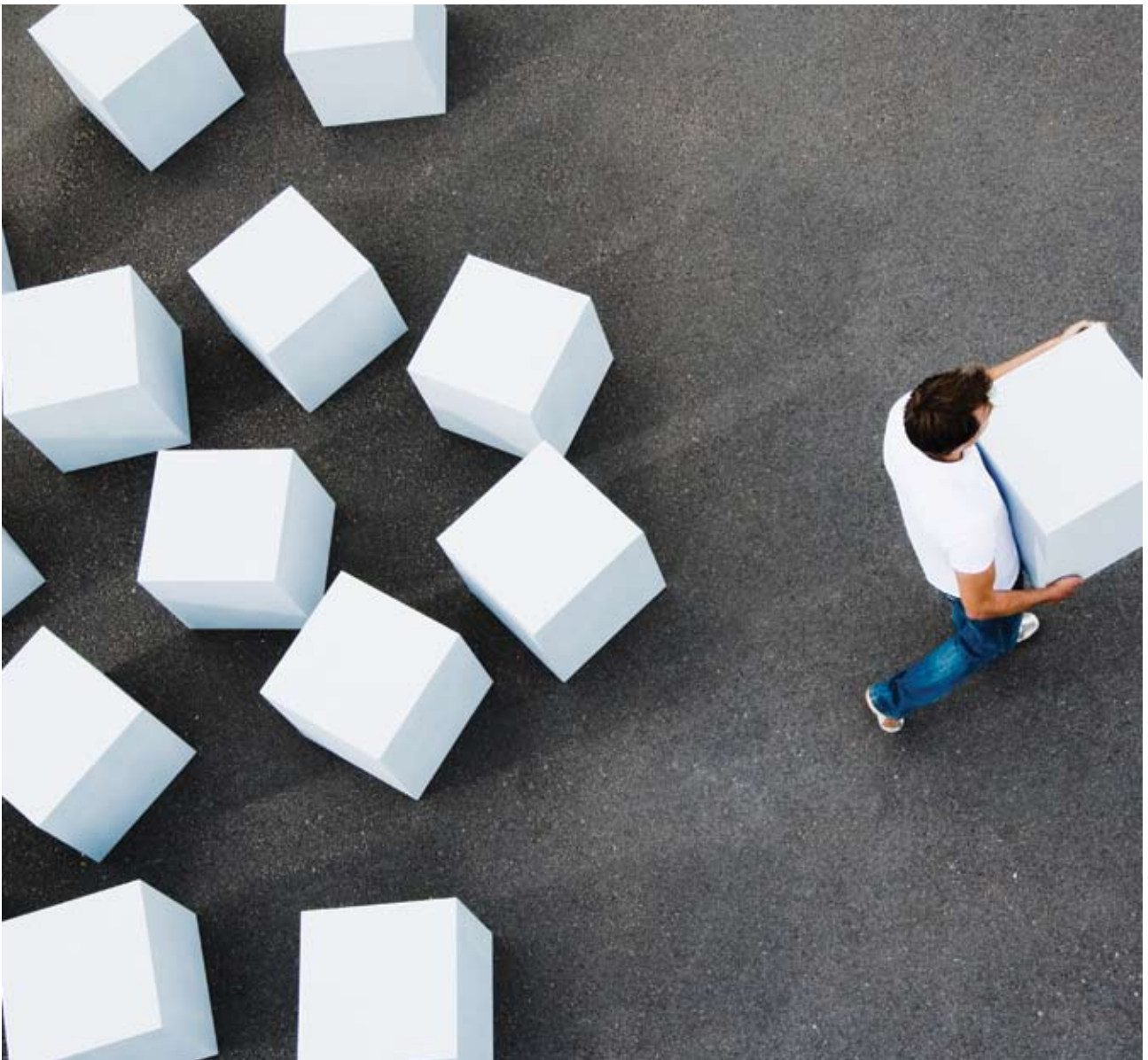
# 4

## Lessons learnt

The transformation journey is challenging

- Establishing shared services can raise short-term challenges, often manifesting themselves during a period of pain before the company starts to reap the long-term benefits.
- Companies need to plan meticulously to ensure buy-in from senior management and standardise their processes before moving to the shared services model.
- While planning should be thorough, implementation needs to happen at real pace or the project risks losing momentum.
- Companies must understand and address the scale of cultural change required and the heightened need for education of both SSC staff and internal customers.
- Implementation is just the start; ongoing improvement in service quality and scope remains vital to the long-term viability of SSCs. Companies need to recruit the right people, manage them expertly, and continue to invest in training and technology throughout the life of the SSC.

## Detailed findings



# 1. The market today

## It is not all about cost – service quality is a key driver for shared services

Traditionally, process standardisation and the resulting increase in efficiency represented a principal reason for implementing shared services. However, our research shows that the quality of the service offering has now risen to replace economies of scale as the second most important driver. 'Quality of service offering' was rated as either 'very' or 'extremely' important by 87% of respondents in their decision to implement shared services.

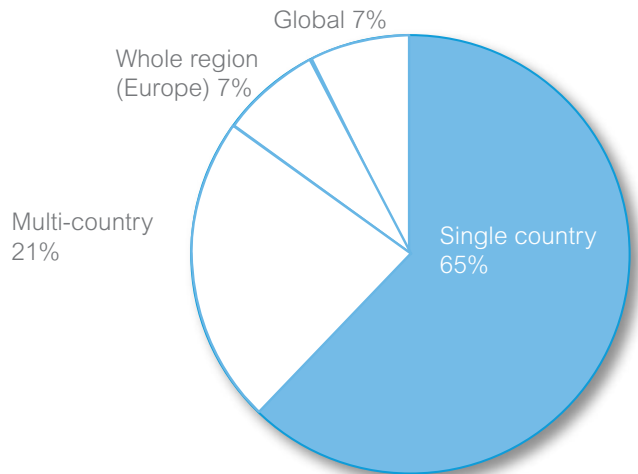
Companies' increasing level of sophistication in their approach to shared services is reflected by a move to a more balanced set of objectives. In the early days, the primary focus was on minimising headcount, costs and the payback period. Now companies set out to achieve a good balance between cost reduction and quality improvement.

## SSCs are kept close to home

In choosing the location for an SSC, proximity to the parent company is still an important factor. Most organisations we surveyed are choosing SSC locations in their home country, rather than in the low-cost offshore locations that have been catching the headlines. In 75% of cases, our respondents' organisations have sited SSCs in the mature economy where their company is based – a decision primarily based on the ready availability of high-quality staff in these locations. Language is a further factor in favour of home-country SSCs, especially in cases where the first language is not English. More generally, the tendency to keep SSCs close to home reflects a perception that the company will have greater operational control, and that the SSC will therefore be less risky and easier to manage.

While in-house SSCs tend to remain in the home country, the picture is quite different with outsourced SSCs run by specialist external suppliers. In our interviews with outsourcing providers, several developing countries emerged as popular locations for today's facilities – particularly India, China and Brazil.

**Figure 2: SSC geographic coverage**



**Question 7: What is the geographic coverage of your SSC?**

### A single-country focus

As well as being located in the home territory, most SSCs cover a single country rather than multiple geographies. As Figure 2 shows, almost two-thirds are focused on one national market, compared to just 35% with a cross-border remit. This tendency towards a relatively concentrated focus is underlined by the fact that nearly three-quarters (72%) of the SSCs in our research operate as stand-alone business units, as opposed to being part of a larger organisational department.

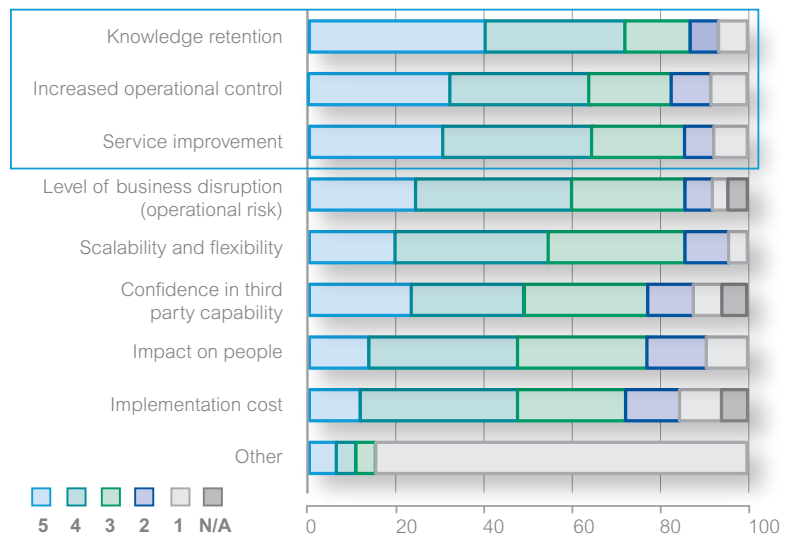
According to our respondents, trying to create one SSC to service multiple countries is made more difficult in certain cases by cultural issues and the complexity of managing many stakeholders across borders. This is particularly the case with the HR function, where language and culture are important considerations. In contrast, these issues tend to present less of a challenge with a more transaction-focused function such as Finance. As a result, companies tend to choose different single or multi-country models for different support services.

### The practical problems of distance

Similar considerations come into play around siting SSCs offshore. Our survey respondents believe that choosing an offshore location can create practical and cultural problems, such as resistance from management and/or workers' councils. These concerns are particularly strong in Continental Europe, where there is a deep and entrenched reluctance to offshore functions. In contrast, countries such as the US and UK have historically been more open to using locations such as India, the Philippines and China.

Practical problems can also arise in managing and retaining control over distant centres, partly because regular, informal contact is much more difficult. After all, if there is an issue to sort out, it is much easier to set up a meeting with key personnel if everyone is on the same continent.

**Figure 3: Importance in deciding to implement an in-house shared services model**



### Preference for in-house rather than outsourced SSCs

Just as our respondents mostly prefer to site their SSCs geographically close to home, they also prefer to own them in-house, at least initially, rather than outsourcing them. While our research analysed both in-house SSCs and outsourced models, the in-house model still appears to be the preference for most organisations. This is a somewhat surprising finding given the substantial size of the respondent companies, but nevertheless it comes through clearly.

As Figure 3 shows, the number one reason for preferring an in-house model is knowledge retention, followed by increased operational control. Service improvement also emerges as a key consideration, ranking third. This is a much more important issue than concerns about third party capability or the impact on people.

**Question 5:** Please rate the importance of the following reasons in governing your choice to develop an internal SSC model as opposed to outsourcing, on a scale of 1 – 5 where 5 = extremely important and 1 = not important at all.

## 2. Expectations

### SSCs are meeting expectations

In an apparently ringing endorsement some 92% of our respondents say their SSCs have either met or surpassed expectations (see Figure 4).

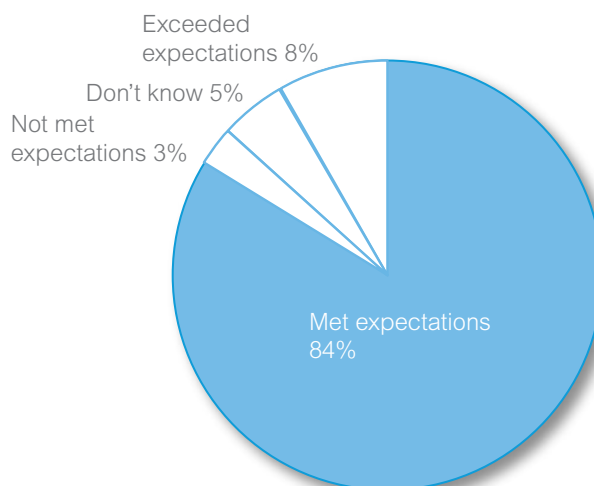
Respondents add that SSCs can deliver numerous benefits.

“We can deal with greater volumes with greater speed and fewer resources.”

A particular operational benefit is that SSCs make it easier to manage peaks and troughs in workload.

“Costs are low and volume of paper work processing is high. It is easier to deal with fluctuations in the amount of work, as we can spread it around and get the built-in flexibility from the workforce.”

**Figure 4:** The majority of SSCs meet expectations



**Question 12:** Overall do you feel your SSCs have...

### Cost-saving goals have become more modest...

One of the striking findings from our research is the degree to which companies have reined back their ambitions to cut costs (see Figure 5 overleaf). In 2001, companies were aiming for a 22% headcount reduction and a 26% cut in costs. While substantial savings were made, these ambitions were rarely met.

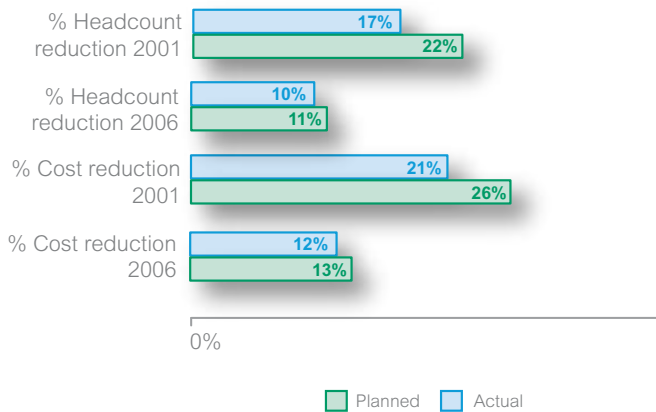
Now the picture is very different. As Figure 5 shows, companies today are aiming for only an 11% reduction in headcount and 13% cut in costs.

### ...as have payback period targets

A similar pattern emerges with the estimated period in which an SSC is expected to pay back the initial investment (see Figure 6 overleaf). In 2001, organisations were looking for a payback within two years, but on average were only achieving it in four.

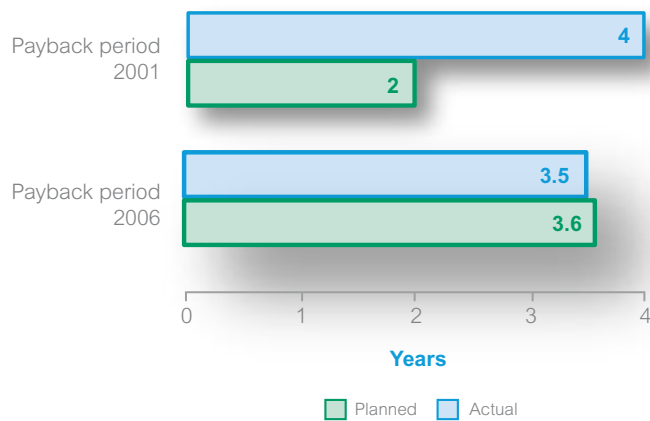
In 2006, expectations were more modest, but were largely achieved. The average planned payback period was 3.6 years, and the average actual payback period was 3.5 years. So, while the expected payback time has lengthened since 2001, actual payback periods have moved the other way, improving by over 10%.

**Figure 5: Planned vs actual shared services results**



**Question 17:** Please list the planned and actual results for the following tangible benefits.

**Figure 6: Planned vs actual payback results**



**Question 17:** Please list the planned and actual results for the following tangible benefits.

### Providers claim greater cost savings through outsourcing

These targets and expectations can be put into context by analysing the savings that outsource providers say they can achieve for their clients. They are much more bullish, claiming that costs can be cut by 30% for a typical HR outsourced SSC and 40% for Finance. They add that payback periods of between one and three years are the norm for an outsourced solution.

While some of this may be positioning for marketing purposes, the reality is that savings of this magnitude are achievable and the providers are willing to contract to deliver these levels of savings. It seems that many of our respondents on the buy-side prefer to stay within their in-house/onshore comfort zone with their SSC, and are prepared to accept lower savings and longer payback as a trade-off. However, such figures highlight the major opportunities offered by outsourcing and offshoring, even when sourced from within an in-house SSC.

## Do lower targets mean less ambition?

Given that companies have reduced their expectations of the scale and speed of the payback, the question is: have they become more realistic about potential savings – or are they not setting a sufficiently stretching ambition?

To an extent, both responses carry some truth, with our research pointing to several factors. Successive waves of cost reduction since 2001 have reduced the scope for further savings. At the same time, companies now have far greater practical experience with SSCs – especially around the critical role of ongoing investment in systems and training to achieve and maintain the desired service quality. This continuing investment inevitably affects the expected payback. At the same time, wider availability of SSC benchmarking information has also helped to make expectations and targets more realistic, and companies' greater maturity around shared services has seen them progress from a narrow cost focus to an approach based on seeking a sustainable balance between quality and cost. There is also a trend towards putting higher-skilled, more value-add processes within the SSC, such as talent management or product development, where it is harder to strip out costs.

## More stretching goals – and greater benefits

Our results suggest that organisations are now at a critical juncture with their shared services, where only those who are bold and creative will sustain success.

There are many opportunities to meet this challenge, and create greater cost and service benefits through a more creative and ambitious approach to shared services. Such an approach would include more stretching targets, a broader portfolio of services, more use of global or regional delivery, and targeted outsourcing of specific processes or tasks. In our view, goals of 25% – 35% cost savings should still be achievable, while also improving service quality.

# 3. The market tomorrow

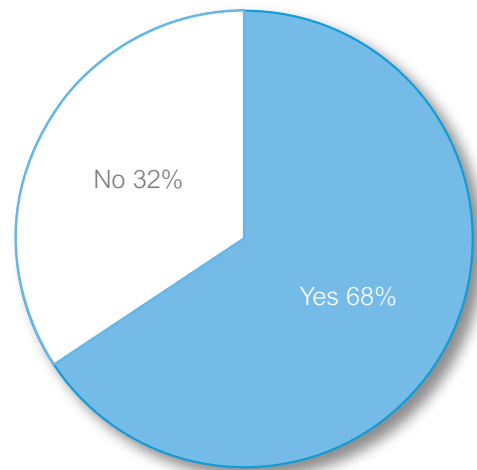
## The future will be more complex

As Figure 7 shows, more than two-thirds of respondents agree that more higher-level processes will become part of shared services in the future. The shift is more pronounced among respondents responsible for Finance SSCs, of whom 83% believe an increased number of knowledge-based processes will be moved to a shared service environment.

In particular, the services that companies are now planning to include within the scope of their SSC include talent development and employee relations for HR and customer billing and management accounting within Finance SSCs.

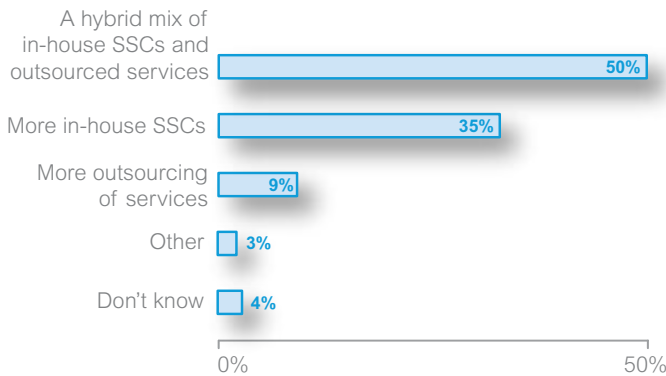
In parallel with this broadening in scope, there is a move to outsource some services that are currently carried out by in-house SSCs, notably payroll and accounts payable.

**Figure 7:** Trend towards moving an increased number of higher level knowledge-based processes to a shared services environment



**Question 36:** In the next five years do you think there will be a trend within your organisation towards moving an increased number of higher level knowledge-based processes to a shared service environment (eg management accounting, financial reporting HR, strategy and policy, HR disciplinary case work)?

**Figure 8:** Trend towards in-house SSCs, outsourcing or a hybrid mixture



**Question 35:** In the next five years do you think there will be a trend within your organisation towards...

### The move to hybrid solutions

This change is part of a wider move towards a richer blend of in-house and outsourced services. As we have already pointed out, the cost and process efficiency initiatives mounted in recent years means it is now harder to secure substantial savings purely through an in-house SSC. So, as companies become more convinced of the benefits of SSCs and develop greater readiness to embrace risk, they are seeking to revitalise their SSC's cost/value contribution through two routes: firstly by expanding the scope of services offered into more and higher value-add areas; and secondly by adding outsourcing to the mix to drive down cost still further.

As a result, hand-in-hand with the shift towards more knowledge-based processes highlighted above, companies are increasingly exploring a hybrid mixture of in-house SSCs and outsourcing (see Figure 8). Over the next five years, 93% of companies are planning to further extend the remit for shared services with 50% selecting a hybrid mix, compared to 35% mentioning more in-house.

This shift also reflects a more sophisticated and segmented view of the various processes within both HR and Finance functions. The old model of creating an in-house or outsourced SSC was 'all-or-nothing', with all processes in the function being allocated and sourced in the same way, be it in-house or from a third party supplier. Now specific processes are increasingly being stripped back to component level and sourced in the most appropriate way – whether from the in-house SSC itself, an outsourced service provider, or the retained organisation. The result is a more diverse, complex but optimised portfolio of sourcing arrangements specifically geared to the needs of the function itself.

The preference for a hybrid model reflects companies' desire to strike a healthy balance between cost savings and quality improvements. They recognise that greater cost efficiencies can be achieved and maintained by outsourcing processes such as payroll and accounts payable, while retaining higher-value, core and advisory services in-house. This reflects a more sophisticated approach to shared services as a performance management engine alongside its service delivery remit.

## 4. Lessons learnt

As our findings confirm, the long-term benefits of establishing shared services are clear and widely recognised. However, setting up an SSC can be challenging and often involves short-term pain. Our survey respondents highlighted seven key lessons they learnt while going through the process.

### 1. Get senior management buy-in

To maintain momentum it is important to keep senior management firmly committed to shared services. Any wavering in support from the top can be very damaging, resulting in too much debate and too little consensus.

“You may find that most of the management support will disappear during the project. The management is very happy that costs will be reduced but they are not readily available as they see this as a support service rather than a business issue.”

As well as management support, a successful SSC needs a strong governance structure.

“Ensure that the decision is taken by the top management, and have clear governance for the SSC.”

In this context, it is vital to manage the expectations of the business, give a realistic idea of what can be achieved in terms of cost savings, and show success as early as possible. It is especially important not to let rumours of any hitches spread unchallenged, as buy-in will wither away.

“Management support is very important, as is showing small benefits as soon as possible.”

This is particularly important in highly-devolved businesses, where there is a need to build consensus among many independently-minded business unit heads. This can make the project much longer and more difficult – and therefore more costly.



## 2. Carry out careful planning and standardise processes prior to implementation

Careful planning is critical.

“Planning is essential if you wish to avoid any complications further down the line. Contingency planning is part of this.”

A key part of this planning is ensuring that processes are standardised before migrating to the SSC, not afterwards.

“Process standards must be consistent across the business. They need to be agreed by all parties concerned before going ahead. It is very time consuming but could be more costly if you don't get this all ironed out initially.”

This need for process standardisation is closely linked to the technology investment issue (see lesson 7).

## 3. Keep the project moving

Most shared service design and implementation programmes take between 14 and 22 months from start to finish. While it is worth investing time in the planning phase, it is important to hit the ground running and implement quickly. The longer it is spread out, the more difficult it becomes to make the changes, and the more likely that the momentum will dissipate.

## 4. Focus on quality and training

Quality of service is vital to ongoing success. When SSCs fail, this is usually due not to a failure to reduce costs, but to service difficulties that have the effect of alienating internal or external customers.

Our respondents stress that companies need to recognise the need to recruit the right people, manage them expertly, invest in training and have the right technologies that enable good service.



## 5. Understand the cultural change required and the need for education

Moving to shared services requires significant cultural changes and challenges both for SSC staff and internal customers. Experience shows that a failure to understand and address these issues is the single most common failing in SSC implementations across all sectors and geographies.

The problems in this area may be due to social and economic factors that have not been taken into account. For example, in some countries it is usual to pay people in cash. If an SSC is set up, this would ideally be replaced by bank transfer payment. Change such as this can create resistance.

There are also challenges in changing the attitude of SSC staff so they are more customer-centric.

“One learning point is that the service organisation and employees have to understand the difference between their cultures eg reactive vs proactive, colleague vs customer.”

## 6. Don't just think about your business case for launch; think also about ongoing investment in the SSC

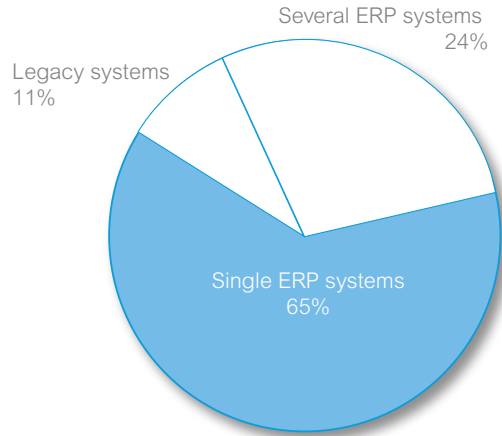
Investment will be needed not only to get the SSC up and running, but also from then on to ensure service quality is maintained and hopefully improved. The initial long-term planning should allow for this investment, which will include expenditure on a combination of process optimisation, progressive technology upgrades, and ongoing training for SSC staff to drive service quality upwards over time. This continuing financial commitment is imperative if the SSC's success is to be sustained over time. Without ongoing investment, service quality will suffer, complaints will rise and the value of the service centre may come into question.

### 7. Leverage existing technology investment

If a company has invested heavily in organisation-wide technology or ERP systems, then it is logical to take the next step and implement an SSC.

The process standardisation generally required with an ERP system means the organisation is already some way down the road to a level of process standardisation which supports setting up an SSC. Once processes have been standardised for the ERP system, it is much easier to then move those processes to an SSC.

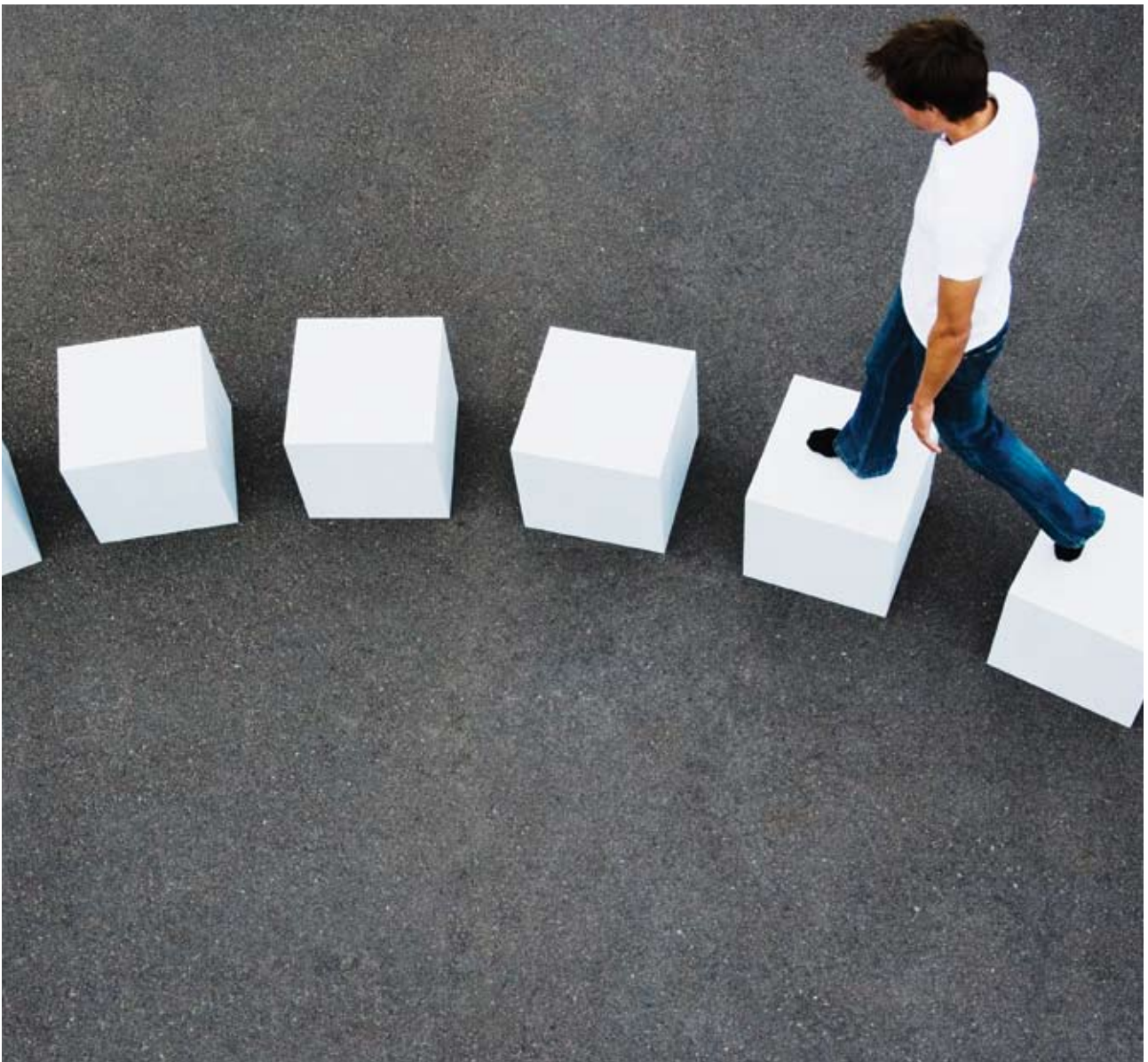
Figure 9: Application technology



Question 7: Please specify the following demographics for your SSCs.

Given this background, it is hardly surprising that two-thirds of our respondents operate a single ERP system (see Figure 9). As well as underlining the benefits of pre-existing standardisation around a particular technology platform before migrating to the SSC, this also reflects the fact that they have applied a ‘fix-and-shift’ approach, using existing technology to help transform the processes before migration. This appears to be preferred to the ‘lift-and-shift’ approach, where the legacy processes are moved first and then optimised within the SSC. Both the ERP implementation and creation of the SSC present valuable opportunities for standardising processes.

# Key success factors



As our respondents are aware, the migration towards an SSC is a one-way street; once an organisation starts down this path, it is highly unlikely it will ever come back. This is one of the factors that makes companies cautious about each step.

But why do some SSCs fail to deliver? And how can companies maximise their chances of success? The SSC directors in our research highlight four key challenges that need to be met:

1. Choosing the right structure and location
2. Managing the transformation journey
3. Ongoing management of the SSC
4. Recognising the evolutionary potential

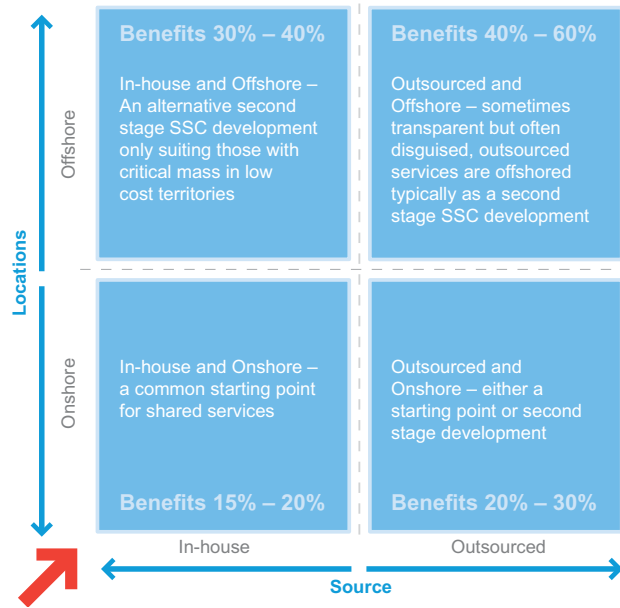
### 1. Choosing the right structure and location

This decision is more difficult than it was in the past, because companies are not only looking to make a location decision merely to cut costs but also to improve quality. There is also a wider range of structural options available, with more companies opting for a hybrid structure rather than a simple choice between outsourcing or in-house. Additional challenges are posed by the need to migrate more high-skilled, knowledge-based processes to the SSC, leading decision-makers to opt for more local options. At the same time, companies should be seeking to stretch cost-saving targets – many of which are currently on the conservative side.

### 2. Managing the transformation journey

Our research shows that the transformation journey can be challenging, requiring the programme director to negotiate with multiple stakeholders, overcome cultural differences and manage complex process changes. The key lessons are to plan well in advance, make the transformation swift so momentum is maintained, hire the right talent, remain culturally attuned and actively manage the expectations of internal customers.

**Figure 10: Shared services evolution from transactional to value-adding services**



### 3. Ongoing management of the SSC

Once the SSC is established, it is not the end of the story, but actually the beginning of the journey. Continued investment of time, effort and money will be required to maintain quality and train staff. Executives should not let the SSC stand still, but should be constantly re-examining how it can be evolved to do its job better, including looking at whether services within it can be outsourced to improve the benefits.

### 4. Recognising the evolutionary potential

The underlying SSC market dynamics that emerge from our research are illustrated in Figure 10. The bottom-left quadrant – combining in-house and onshore – is where the majority of our respondents start their SSC transformation. The momentum and cost savings achieved by undertaking an initial move then become the imperative behind further changes such as moving offshore in an in-house environment or outsourcing elements to a third party provider either on or offshore.

### Conclusions

It is clear that the trend towards shared services in HR and Finance will continue. Experience shows – and our respondents confirm – that SSCs result in greater efficiencies, cost savings, headcount reductions and quality improvements. The logic for using them is irresistible. The increasing acceptance of the SSC model is underlined by companies' intention to incorporate more higher-knowledge processes into their SSCs, whether sourced internally or through selective outsourcing. This trend, together with the emergence of newer variants such as hybrid SSCs, shows that the SSC model is not only robust, but capable of evolving continually to suit changing needs. This alone underlines the strength and relevance of SSCs – both today and into the future.



# Research methodology

## The research

PA Consulting Group (PA) commissioned Lighthouse, an independent research consultancy, to survey senior HR and Finance executives from 141 companies. The companies surveyed came from a variety of industry sectors and employed on average nearly 39,000 people each.

The objective of the research was to learn more about:

- why companies set up SSCs
- which model is best – in-house SSC or outsourced
- where companies choose to locate SSCs
- pitfalls to avoid when setting up an SSC
- whether SSCs have delivered on their promise
- what cost-savings and headcount reductions have been achieved
- how companies have chosen to structure their centres
- how they see the SSC model evolving in the future.

This report provides a voice for the people on the frontline – the executives responsible for setting up and managing SSCs.

This is the second study PA has conducted, with a previous study carried out in 2001, allowing us to track changes over time. It is a comprehensive analysis covering HR and Finance SSCs, both in-house and outsourced. The research was carried out using a combination of telephone and internet methodologies.

# For more information:

This report offers research findings, insights, hints and tips which are invaluable for organisations considering or implementing a shared services transformation.

To discuss any of the results in further detail, please contact:

**sharedservices@paconsulting.com** or call **+ 44 (0)20 7333 5406**.

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