



SAP White Paper

SHARED SERVICES

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INTRODUCTION

Multinational companies were not unusual during the whole 20th century. However, these monopolistic organizations with their subsidiaries can hardly be compared to the complex multinational corporations of today.

Some of the major differences lie in their organizational structure. Companies in the 1900s were a group of more or less independent units serving solely their respective local markets or acting as suppliers for headquarters. Ties among them were based primarily on capital.

This has changed significantly since then:

- First, centralization and standardization allowed greater economies of scale. However, centralized organizations became slower to react to changes in customer behavior and often lost the ability to address differentiated markets effectively.
- Then, the management pendulum swung the other way; a decentralized business model was en vogue. The front office could better discern customer needs and respond faster to changing market conditions. However, duplication of effort, functions, and departments increased.

American companies were the first to approach this problem and tried to make certain back-office functions work in a more competitive and business-like way by trying to achieve an internal client-vendor relationship. The aim was not only to save cost, but also to improve quality and responsiveness. This is how a new organizational structure called a “shared service center” (SSC) was coined.

Meanwhile, some prominent multinational players can look back on 5–10 years of experience in shared services and business process outsourcing (BPO). For example, Diageo has 10 years of experience with BPO and Proctor & Gamble has 5 years. Therefore, we are able to have a more distant view on the pros and cons experienced by these pioneers.

SSCs concentrate their offerings on a defined set of services. The more homogeneous these processes are per SSC, the more they are standardized, and thus, efficient in time, quality, and cost. The centralization thereby takes place both on a process level and on an organizational level. When new SSCs are being established, companies often choose an offshore location, away from headquarters, but with a comparable amount of education and cost of labor.¹

THE BENEFITS OF SHARED SERVICE CENTERS

As organizations grow, bureaucracy and administrative burdens increase. But administrative and support functions too often do not feel directly responsible for the company’s results and tend to drift into a “comfortable mode,” since they are not exposed to pressing customer needs and market forces every day. SSCs are often a means to transform such back-office functions into flexible, responsive, effective, customer-oriented teams. (This, by the way, is not so true when speaking about pure centralization.)

The main advantage of the shared services model lies in the change of the activities and roles of different departments: a former context² process of a department (for example, invoice processing) becomes the core³ process of the SSC. The concen-

1. Key characteristics of SSCs are: services are owned, paid for, and directed by clients. Focus is on what the client needs, not on what the group wants to provide. It’s also possible to outsource the services (competition aspect). Service activities are separated from governance function, separate business unit, or legal entity. Geographical location is usually away from headquarters. It is targeted to reach economies of scale. There is a concentration of knowledge and it is a center of excellence.

2. Context process – Process that is not core to the company activities (see description of core process below).

3. Core process – “The most important or largest part of a company’s business activities, which it depends on in order to continue trading,” Cambridge Advanced Learner’s Dictionary.

tration of homogenous tasks in an SSC brings economies of scale and a significant decrease of costs,⁴ which is the number-one reason for the creation of SSCs.⁵

The second most frequently mentioned reason is quality improvement. The concentration of employees at one location also concentrates expertise. Continuously repeated processes are more often improved and streamlined, reducing errors and saving time. Managing the process's complexity, assigning process owners, and eliminating errors by experience and simplification speaks in favor of SSCs as a powerful tool, for example, to address the requirements of the recent Sarbanes-Oxley Act in regards to documentation and process control.

With proper IT system support, companies cannot only achieve process improvements, but also gain better data. The concentration of all major contact and operational data eliminates redundancies and opens new opportunities for analysis.

However, the realization of the full benefits of SSCs seems to be restricted to a certain company size. "Companies . . . need at least \$500 million in revenues to benefit from the economies of scale that shared services can provide," says Martin Hammer, partner at PriceWaterhouseCoopers.

CURRENT SITUATION

In our research, we were unable to find a company that had stretched (or planned to) the SSC concept to its fullest extent to implement a single, worldwide SSC. Usually, companies choose a smaller region as a pilot project and extend the SSC from there. Regional SSCs covering each one of the three major continents (the Americas, Europe and the Middle East, and Asia Pacific) prevail. The typical return on investment (ROI) of an SSC is about three years.⁶

Leading benchmarking and analyst firms⁷ have found that about half of the FORTUNE 500 companies have already implemented shared services. The most common processes put into an SSC are (in order of importance) financial transactions, human resources, and information technology (IT). As ideal processes for SSCs have a high transaction volume and a high degree of standardization, 75% of the companies using SSCs have deployed accounts payable (AP) and accounts receivable (AR) processes (see Figure 1).⁸

Companies have also gradually implemented professional and advisory services into SSCs, such as legal services, business case preparation, and financial analysis. However, operational processing prevails by far.

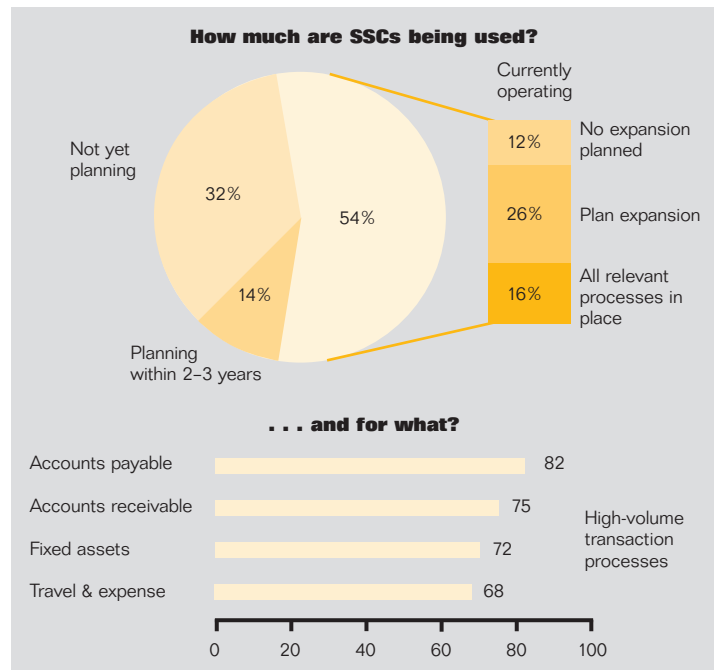


Figure 1: Current Situation on the European SSC Market

4. "On average, cost savings resulting from a shared service center can be 30-40%," Roy Barden, senior consultant, Partners for Change. "Since 1997, productivity cost savings from Bristol's Global Business Services (GBS) has yielded about \$1.5 billion a year," Jack Cooper, CIO, Bristol-Meyers Squibb.

5. Hackett Best Practices – European Finance Shared Service Organizations Study, 2002.

6. Roy Barden, senior consultant, Partners for Change

7. Hackett Best Practices, Gartner Group, Partners for Change, PWC, and so on

8. Hackett Best Practices – European Finance Shared Service Organization Study, 2002.

With 54% of European companies using SSCs, the concept has proven viable. But what will the future bring: slow evolutions, a revolution, or a complete change to the organizational structures we know today?

EVOLUTIONARY STAGES

Successful SSCs are designed according to company culture, strategy and goals, and the structure of business units. In the 15 years SSCs have existed, the industry has recognized four major usage models, which sometimes are steps in the evolution of an SSC:

- Basic model
- Marketplace model
- Advanced marketplace model
- Independent business model

These vary in attributes, such as what kinds of processes are being handled by the user (operational and transactional versus professional and advisory); and if services are compulsory for the business units or not (see Figure 2). Most companies' SSCs will probably be a mixture of the attributes.

The Basic Model

The main objective of this type of SSC is clearly to reduce costs and to keep quality levels stable while standardizing business processes. Examples of the most common SSC processes are AP/AR, general ledger, and payroll processing. The SSC provides its services solely to internal departments and business units for an agreed price or its costs are simply allocated across the business units. Hence, the SSC is not under a lot of pressure to be efficient, as its services are mandatory to the business units. Often, the SSC is also responsible for the adherence to company rules (that is, there is no separation of governance function). An example is travel expense processing, where the SSC employee would not only check the documents provided and process them, but would also check if the right means of transportation (such as economy versus business class) or a preferred provider of services (such as hotel chains) was chosen.

	Basic	Marketplace	Advanced Marketplace	Independent Business
Objective	Reduce costs, standardize processes	Reduce costs, improve quality	Provide choice of most effective supplier	Generate revenue and profits
Consolidation of:				
■ Trans./admin. services	■	■	■	■
■ Professional/advisory services		■	■	■
Charging for services	Full costs	Full costs	Market-based profit returned	Market-based profit retained
Possible external sales?			■ (if surplus cap.)	■
Separation of governance function?		■	■	■
Services mandated?				
■ Trans./admin. services	■	■		
■ Professional/advisory services				
Entity	BU, department	BU, department	BU, department	Separate entity

Figure 2: SSC Stages

Source: "Shared Services: Mining for Corporate Gold," Barbara Quinn, Robert Cooke, and Andrew Kris.

The Marketplace Model

The marketplace model builds on the basic model and extends its reach. The main objective is still cost reduction but with a higher level of service quality. Often, the SSC also broadens its processes' scope and offers professional and advisory services beyond pure transaction processing. Pricing is as in the basic model and the SSC's services are still compulsory to the business units; however, line managers oversee the governance function.

The Advanced Marketplace Model

This model is very close to what a company would receive from an external service provider in an outsourcing agreement. The objective is to let the business units choose the most efficient service provider, so the SSC must compete with external service providers. Usually, the SSC has the advantage because of the necessity for the business units to supply sufficient, qualified reasoning for going external. The SSC may also provide its services externally, but only with surplus capacity. Prices do not have to be "fully based," but they still must cover the full costs of the service. If the SSC makes a profit, it is allocated to the business units.

The Independent Business Model

Here, SSCs are completely independent businesses. Their objective is to generate revenue and profits by delivering services under competitive conditions. There is a regular market price charged, with profits retained by the SSC. Usually, headquarters grants a certain level of contracts in the first years of the SSC's independence to get it started.

NECESSARY PROCESSES TO OPERATE A SHARED SERVICE CENTER

The reason for forming an SSC is to focus on a company's context and overhead processes and make them the SSC's key capabilities.

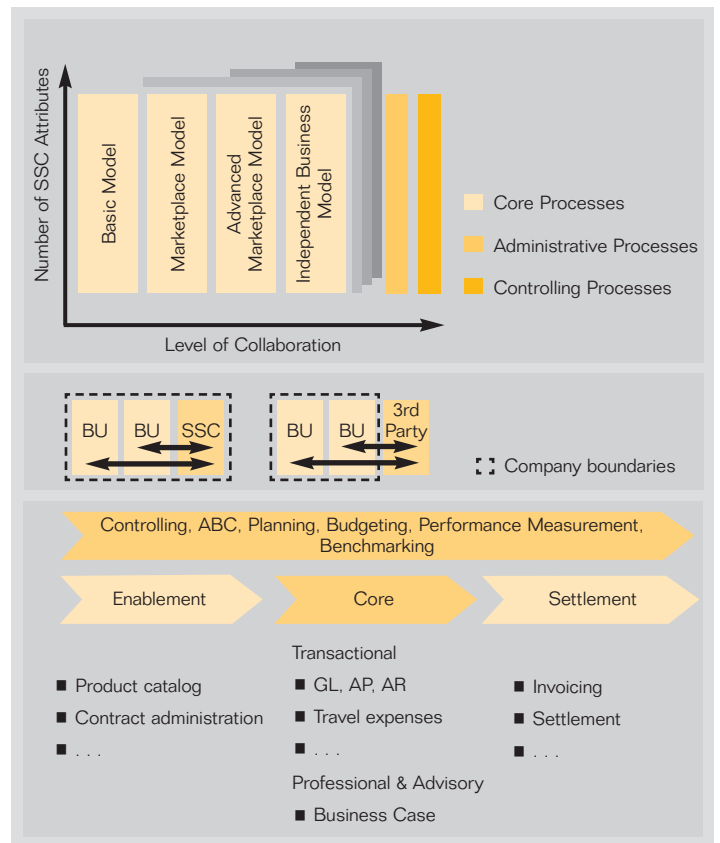


Figure 3: Grouping of SSC Processes

Processes become "core processes" the more standardized and stable they become. Moreover, this increases the chances for a successful "track record" for an SSC and BPO.

Eventually though, an SSC's purpose is to concentrate a company's energy on serving its customers, production, and so forth, instead of wasting time with administrative things. An SSC itself needs to be managed and controlled in some way, as well. This means, the SSC must administer the service catalog – defining and updating content, administering contracts, billing and settling services, and so on.

9. Fully based – Covers the costs of the whole process.

Another area is the management and controlling of the SSC. Charges for the services cannot be calculated only from direct costs, but must contain fully loaded costs, and sometimes even profit. Yet the final price still has to be competitive in comparison with external service providers. The SCC needs to plan resources based on the business unit's needs.

THE FUTURE OF SHARED SERVICES

The future development of the shared services concept will surely have a significant impact on practically every company. Corporate headquarters will have to adequately adapt company structures. Software vendors will have to make and keep their applications fit for the use in distributed environments.

Most likely is the further growth of shared services, as its improvements in quality, efficiency, and cost are overwhelming. More processes will be incorporated into SSCs. Moving to the advanced SSC models, as described above, will bring even greater cost reduction and even profits. As IT systems evolve further, an even higher level of automation and usability will move data entry to the front office where employees are in the best place to evaluate its necessity and correctness, and let the SSC handle the lengthy exceptions. Therefore, the rollout of company-wide self-services for employees and managers goes together nicely with the establishment of shared services.

In comparison, feedback from early adapters to BPO is that these companies selectively outsource specific context processes (or even parts of them) and others keep them "in house." The Sarbanes-Oxley Act clearly defines the obligation for the management of internal controls as the responsibility of the management. Therefore, the company needs to know well the processes and controls for the outsourced processes, too, so that they do not realize BPO as "corporate Alzheimer's."

Many consulting companies have been talking about the possibility of completely outsourcing certain processes. Even though there have already been successful attempts, the majority of global companies researched consider outsourcing too high of a

risk.¹⁰ Nevertheless, Gartner, for example, has researched the market size for BPO. Gartner's results indicate that there should be a steady growth of this market segment.¹¹

Some companies devised an interesting combination of SSCs and BPO. All of the processes remained inside the company, but they hired an external firm to manage them. This approach is called business process management (BPM). A recent example of a global company that has decided to go this way is Procter & Gamble, which outsourced AP, payroll, and pensions first to EDS and then to IBM.¹²

The BPM solution – in comparison to BPO – is considered safer as all systems and sensitive data are located inside the corporate system landscape. The personnel of the BPM provider bring expertise and the latest level of knowledge to the partnership.

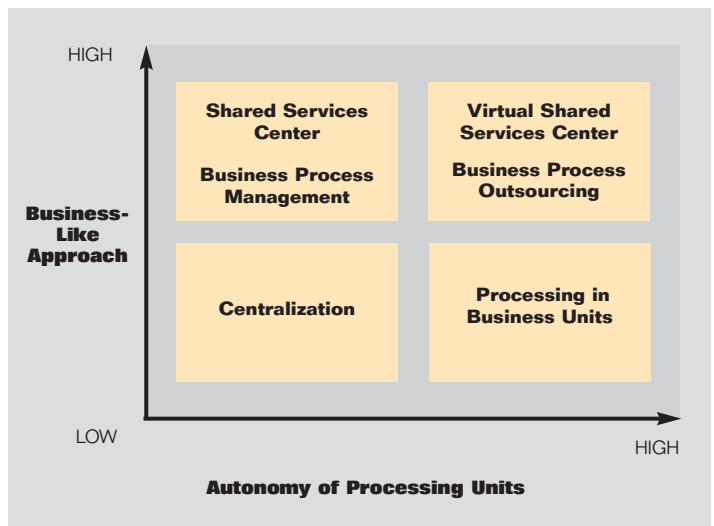


Figure 4: How to Operate Using a Business-Like Approach and Still Maintain Autonomy

10. "Companies are purchasing BPO services in a piecemeal way; 84% of survey respondents outsource only a portion of their noncore business processes, and only 16% outsource an entire process," Gartner.

11. "Worldwide, BPO will grow from \$119 billion in 2000 to \$234 billion in 2005, at a 14.4% compound annual growth rate (CAGR)," Gartner.

12. "Procter & Gamble announced an \$8 billion BPO outsourcing deal of payroll, AP, and pensions to Electronic Data Systems over a period of 10 years," CFO.com, Sept. 19, 2002. P&G later exchanged EDS for IBM as the outsourcing provider.

CORE PROCESSES

SSCs need to adopt a customer- and market-oriented work style since, at least in the advanced SSC models, the business units can choose their service provider. The new work style helps them to be perceived no longer as self-centered bureaucrats, but as a value-adding factor that is true to the meaning of the word “service.” The SSC adds value to the whole company by letting others focus on their primary tasks.

Many processes within human resources, finance, and administration are well suited for moving into SSCs. We have chosen some of the most significant ones to demonstrate how the process would change, what challenges the SSC could face handling them, and what possible IT solutions and support could be set up. We based our findings partly on the survey of the Hackett Group.¹³

ACCOUNTS PAYABLE

Accounts payable (AP) represent a transactional process with a high demand on processing large volumes of data while keeping or improving quality. As it has a direct influence on the calculation of financial results, not to mention cash flow, the whole process has to be very transparent and auditable. An SSC can achieve all of this easily, which is why the majority of companies have made AP their number-one process in their SSCs.

Process

It is interesting to see how different companies approach their AP process. The most common is a partially decentralized processing of AP, as it developed over time. How this works is that companies keep invoices at the local subsidiaries and only the financial data gets passed over to the SSC for processing. In order to minimize the administrative effort of transferring paper invoices into electronic formats, more advanced companies have centralized the AP processing completely; so, invoices are sent to the SSC.

As a prerequisite, a purchase order needs to be issued before actual purchases are made. This system entry allows for easier tracking of incoming invoices and allows for an efficient approval process. When the goods arrive, the receiving clerk begins the process with a quality and quantity check to assure that the goods delivered match the items and quantities on the invoice. Optionally, the invoice is scanned to be available electronically in the system. If the purchase has not been approved based on the purchase order yet, this is handled now. The payment is then posted into accounting and released for payment by the bank.

As we can see, the AP process is not very complicated, but it can include significant effort in the communication between involved parties when exceptions happen (such as a wrong delivery, delay, and so on).

Challenges

One of the challenges with AP moving to the SSC is the physical location of paper invoices. Historically, they have been stored at the individual business units for tax and audit purposes. Now that they are sent to the SSC, their location would need to be tracked somehow.

A solution to this problem is having the invoices sent directly to the SSC where they are not only processed, but also stored. Otherwise, they need to be scanned and archived electronically.

Another challenge can be communication. If a delivery is incomplete or an invoice amount needs to be disputed – even as an internal employee, you can soon get lost with the number of persons involved and the status of the clearing process. A solution is to carefully review the current AP process and optimize it from an organizational point of view, adding clear guidelines and authority levels. A computerized workflow can make it easier to enforce the guidelines, speed up the whole process, help keep track of proceedings via workflow, and decrease the risk of errors.

13. Hackett Best Practices – European Finance Shared Service Organizations Study, 2002.

Possible IT Solutions

The most important part of the overall AP solution will be the backbone accounting system, which should be tightly connected to the purchasing system. As data volumes will be quite high on a regionally working SSC, we suggest not underestimating the necessary robustness of the solution. A company can use its current accounting system if it does not plan to outsource the SSC in the future.

In case such outsourcing plans exist, the system should be designed to make it easy to spin off the SSC unit later. This means a more modular approach and the demand for a robust enterprise-application architecture would be even higher. The AP system should have the option to automatically post payments for preapproved invoices in case delivery has been complete and in expected quality. The AP clerk will then only have to deal with exceptions, leaving routine work to the system.

The second important system to consider is a combination of a workflow and self-service solution. A workflow will allow for the design and enforcement of standardized processes on a regional level, eliminating many costly errors and delays. A workflow solution can be understood as a communication framework and backbone. Deployment of self-service portal scenarios can simplify the interaction for the company's employees. For example, a user is notified of a necessary action by an e-mail or through an in-box within the portal. A simple Web interface will empower the user (be it the employee placing an order or the approving manager) to quickly complete their part of the AP process in several easy steps, thus eliminating the need of one-to-one phone communication with involved parties. Such a communication framework will automate the whole process considerably.

The advances of storage devices have made invoice scanning on a larger scale possible. Before making a final decision on what document solution to use, a company should consider how closely it is integrated with the AP system and how much effort

will be necessary to include the user interface into the portal solution. Preferable are of course solutions that come with pre-defined interfaces. This will eliminate personnel and implementation costs and significantly simplify future upgrades.

If the company already has implemented or plans to implement a dispute management solution,¹⁴ we suggest also making it part of the AP process. Disputes account for between 5–10% of all invoices and can be very difficult to manage effectively. A dispute management solution will help you track the whole dispute history and persons involved and have it directly connected with your data within other systems, such as AP, purchasing, and so on.

The mySAP™ ERP solution provides an ideal fit for all the needs discussed above. Its AP system is closely linked with both general ledger in accounting and with purchasing and customer relationship management (CRM) systems. mySAP ERP uses a workflow backbone supported by a portal presentation layer. A financial supply chain management (FSCM) capability within mySAP ERP further supports the payment settlement process.

ACCOUNTS RECEIVABLE

Accounts receivable (AR) is the second most often-deployed process by SSCs. Companies generally keep AR inside the company because a close relationship to its customers is often considered a company's most important asset.

Process

The SSC takes over the processing of customer orders as soon as the goods have been sent to the customer and the appropriate posting has been made to the AR system. The processing clerk checks that all ordered items have been shipped and then issues an invoice.

Invoicing the customer can happen in various ways. The most usual one is sending a paper invoice. Modern technology and changes in country legislation now also allow for electronic

14. Invoice dispute means a case when there is a discrepancy of some kind between what has been ordered and delivered.

invoicing. Electronic invoices can be sent directly to the customer or routed via a so-called “consolidator.”¹⁵ The customer reviews the invoice for accuracy and compares the line items with the goods delivered. If they find any inconsistencies, it should be easy for them to report them to the invoice issuer.

The SSC in this case will regularly review incoming payments and match them with outstanding invoices. If a customer pays only partially or it is not possible to reconcile the payments automatically with issued invoices, the SSC clerk contacts the customer to resolve the issue.

When the invoice is past due, the SSC employee determines the best way to deal with the customer, depending on legal and cultural conditions and the customer relationship. Therefore, information on how to proceed should ideally be kept in a CRM system or AR itself per customer.

Challenges

The distance between the front office, which normally takes care of the customer, and the SSC will probably be the major challenge in moving AR into an SSC. The majority of transactions can be processed automatically. But when a dispute arises, the physical distance between the customer-serving personnel and the SSC employee has to be overcome with the help of appropriate tools to react in a timely manner.

Centralizing AR processing into one place could also mean higher costs for invoice distribution. Sending invoices abroad can prove to be too expensive and the SSC will have to look for other alternatives. One would be to retain cost-efficient administrative personnel in all countries. Electronic invoicing will be the easiest choice, when legislation allows it.

Possible IT Solutions

The IT backbone for AR processing within an SSC is an accounting system. In almost 100% of the cases, companies nowadays use an integrated enterprise resource planning

(ERP) solution to support their financial function. The AR system receives all the processing data from a billing system, which is also part of the ERP system or within a CRM system.

The Internet led to electronic bill presentment as an alternative to paper invoicing. The customer can access all of their invoices in an Internet-based portal. Some solutions in business-to-business (B2B) scenarios even allow for the automatic transfer of electronic invoices to the customer’s systems, so the customer does not have to retype all of the details. Currently there are either specialized solutions that are built on top of the ERP systems or integrated solutions in the ERP packages.

A dispute management tool can help the SSC track all complaints and their resolutions in a very cost- and time-efficient manner; and at the same time, collect valuable data for analysis and future improvement of the process.

The payment area has also introduced a very innovative approach. Customers do not have to use only the traditional means of payment (for example, a bank transfer), but can leverage “electronic money” payments. While the common usage of this kind of payment is still far away, there are already some communities of buyers and sellers showing its future viability.

AR in mySAP ERP is closely linked with both the general ledger in accounting and the billing system within the CRM system. All systems make use of the workflow backbone supported by a portal presentation layer. FSCM within mySAP ERP further supports the payment settlement process. Orbian is an electronic payment community using Orbian credits as virtual currency and is integrated into mySAP ERP.

TRAVEL MANAGEMENT

Travel has become an imperative factor of doing business in a global marketplace, and video and telephone conferencing will probably not completely replace it anytime soon. Unfortunately, reporting one’s travel expenses is still a major administrative effort. It is heavily dependent on a country’s legislation and can

15. A consolidator gathers invoices from different invoicing companies and sends one consolidated invoice to the recipient.

involve extensive communication between the processing clerk and the traveling employee. Those two factors can make it a challenge for an introduction in an SSC.

Process

Most companies have some kind of travel policy that states which group of employees can use what level of services and also defines preferred travel suppliers (for example, those offering discounted rates for its employees).

Each business trip starts with its planning. The employee chooses his or her preferred means of transportation and accommodation (according to the travel policy) and sends a travel request to his or her manager for preapproval. Planning can either be done on an individual basis by each employee or through a travel agency.

Once the employee returns from the business trip, he or she needs to report the travel expenses incurred during the trip. Ideally, the employee can use the preapproved trip file to add all receipts and calculate the total reimbursement amount. The whole trip is then routed to the travel expense clerk who checks compliance with the company travel policy and approves the reimbursement payment. If there is any discrepancy, the clerk contacts the employee and starts the problem-resolution process.

Reimbursement is then executed as a part of the AP process or within payroll if the travel expenses are based on country-specific payroll tax rules.

Challenges

Challenges with the travel expense reporting process are not much different when administered by the SSC than when each business unit manages its own operations. However, the following challenges influencing process effectiveness have been identified: adherence to the corporate guidelines, completion of the expense reimbursement forms, and communication between the involved parties.

We have already mentioned the corporate travel guidelines. If travel and expense management is done in an SSC, it will be even more difficult than before to enforce paper-based travel guidelines. An IT solution – wherever it is being used – can automatically block inappropriate bookings or expense types, or start a workflow for exception handling. Linking the system to the most up-to-date guidelines is easy.

The same is true for communication: if, for example, employees report higher expenses than allowed, they need to consult their manager to clarify the appropriateness or inappropriateness of that particular case. Such a discussion usually takes place between all three parties involved – the employee, the manager, and the processing clerk. Moving the processing clerk away from the local office to an SSC will aggravate the situation and pose a higher effort in organizing a joint phone call or sending several e-mail messages. Supporting the whole process with a computerized workflow will make it easier to enforce the guidelines, speed up the whole process, and eliminate the possibility of errors.

Possible IT Solutions

Decisions on how comprehensive the company's IT solution for travel and expense management will be depend on the role of the SSC. The SSC can be responsible only for travel expense processing or can also manage travel planning.

The first step in taking a business trip is planning the means of travel and the accommodation. A travel planning solution should firmly lead the user and only offer choices that comply with the company's travel policy. Such a solution must be directly connected to leading travel-service brokers, the so-called "global distribution systems" (GDSs), such as Amadeus, Galileo, or Sabre, to obtain accurate and current information about schedules, rates, and so on. If the SSC creates a travel call center as the customer-facing interface and does all the travel planning for the employee, portal access is not necessary. On the other hand, the company will have to think about investing in a call center solution. Another option is to introduce an

employee travel portal and let the employees do the planning themselves. The SSC is then in a supporting role in case the user gets lost or when he or she requires a complex itinerary.

Exceptions from the company travel rules should be automatically routed to the responsible manager for consideration. Workflow technology is an ideal supporting framework in this case.

The most modern solution for expense reporting is offline reporting via mobile phone, PDA, and other mobile tools using an offline solution. All entries will be automatically synchronized with the company travel solution the next time the employee connects to the company network. The rest of the travel expense reporting will then be completed in the office using Web access to the travel solution.

The travel system should automatically match the value and type of reported expenses against the company's travel rules, and when everything is correct, it should automatically post the expenses into AP. Exceptions should first be routed to the travel clerk, and when necessary, to the responsible manager for approval. A very convenient feature is also information about the status of the reimbursement payment so that the employee knows whether the system has approved the trip expenses, and approximately when he or she will receive the payment.

The mySAP ERP solution is closely linked with AP in accounting or HR payroll and contains predefined interfaces to leading travel-service brokers or GDSs. All systems make use of the workflow backbone supported by a portal presentation layer.

PAYROLL

Companies usually start with financial processes to form their SSCs, but HR processes are a close second place. The most frequently selected area is payroll processing.

Process

The personnel department gathers all relevant data for payroll processing on an agreed day each month and passes it over to the SSC for processing. The personnel department has to define the scope of payroll beforehand, but it usually includes the salary, deductions, bonuses and commissions, pay reviews, increments, and so on. Passing data over to the SSC can mean either a step in a workflow within one company or a physical delivery of data on CD, for example.

The SSC processes the payroll details for each employee, taking into consideration all contractual agreements, local tax rules, and so forth. Payment runs have to immediately follow the payroll run to guarantee timely bank transfers to all employees. The system automatically posts the accounting data and it also appears in controlling. The level of such automation depends on whether the SSC uses an external payroll system or if its system is integrated seamlessly with the accounting platform.

Parallel to the monthly payment cycles is the ongoing maintenance of personnel information. Employees can either contact the HR department (SSC) the traditional way – by phone – or use newer means of communication in the form of a self-service. Letting employees maintain the basic information themselves will have a positive impact on accuracy and will relieve the SSC personnel from non-value-adding activities. This is, however, possible only in knowledge-intensive industries, where the employees have regular access to a computer. Industries with manual labor will find it necessary to form an HR call center within the SSC.

Challenges

Local country regulations and currencies can present several challenges when moving payroll processing to an external location. Concentration into the SSC will pose higher demands on the clerks, because they will not be solely responsible only for one country, but a group of countries. The clerks have to be proficient in all relevant country regulations and constantly update their knowledge about these changes.

Communication, especially for larger SSCs, can also pose a problem. Employees were used to resolving all issues directly with the processing clerk in the local office. Moving the clerk away and making the communication only virtual can make the interaction difficult for some employees. Payroll is a sensitive matter; therefore, you should not downplay the effects of this transition.

Possible IT Solutions

There are many solutions that can help with payroll data processing. They can be either from specialized vendors on this topic or a part of a company-wide ERP solution. Specialized solutions are usually used by companies that specialize in accounting and HR processes and act as an independent SSC. On the other hand, midsized to large companies generally use company-wide ERP solutions. These solutions are tightly integrated into the current system landscape and therefore eliminate the demands on data transfer, its security, and integrity.

A multinational company considering a payroll solution should pay extra attention to factors like vendor-supported legal change updates, multicurrency processing, and direct connection to the accounting system(s). Every change in legislature must be automatically reflected in the system in a timely manner so as not to disrupt the SSC's operations. Handling multiple currencies has become very important for several reasons. Companies use only one system to process payroll data for a whole region or even globally, therefore all multicurrency translations must be available throughout the system. The increasing level of employee mobility is an even more important factor. The actual payroll run is only part of the process, which ends with the payment to the employee. Preconfigured connection to the accounting system and automatic processing of the payment runs benefit the company with the minimized level of possible errors and elimination of tedious work.

Payroll processing systems should offer various means of communication with the employees. A self-service scenario where they can easily maintain all personal data (for example, address, bank account number, traveling distance to work, and so on) would best serve knowledge workers. On the other hand, workers without access to a PC will need other communication channels. A simplified call center tool used by the SSC representatives to capture the interaction with the employees is the best solution.

The mySAP ERP solution provides an ideal fit for this IT infrastructure. Its HR capability offers unparalleled country-specific functionality, systemwide use of multicurrencies, and is linked closely with the accounting system. All systems make use of the workflow backbone supported by a portal presentation layer. Its interaction center capability offers the right support for a call center solution.

ADMINISTRATIVE PROCESSES

An SSC fulfills not only the core process for which it has been created. Imagine an SSC as a company within a company. In order for it to function properly, it also needs proper handling of its supporting administrative processes.

Before the people in the SSC can start with their daily work, the SSC and its customers have to sign a contract. Such a contract defines general conditions, under which the SSC will deliver services to the business units and external clients. A service catalog will have detailed specification of the services offered, different service levels, and the respective prices. All incoming service orders then have to be administered the same way as a company itself would for its customers. Once the SSC delivers the service, they will issue an invoice and track the payment process.

Administrative processes are an important part of the SSC's processes. The proper management of these will assure that the SSC is able to concentrate fully on its core tasks.

SERVICE LEVEL AGREEMENT

A service level agreement (SLA) is a contract between the shared service center and the business unit and defines the service relationship. This document should be kept as simple as possible to avoid a voluminous publication that lists every possible situation. The more complex the relationship is, the more it costs to maintain it on all levels (for example, project, legal, IT, and so forth).

Process

Major chapters of an SLA include a definition of the client's expectations, what is going to be part of the service delivery, what frequency is required, and to what quality standard. Very important parts include the obligations of both sides – what happens when the SSC does not deliver according to the contract or when the client does not meet their obligations. Recourse actions should be added as a closing statement.

Another important aspect to consider is whether the SLA is legally binding or not. An internal SSC with no external sales will most likely create only an internal document and escalate potential issues through corporate hierarchy. In the case of external sales, the SLA should be handled as legally binding for both sides. A survey of the largest European companies using SSCs shows that 50% of the SLAs are exclusively internal, 38% are legally binding, and 12% of companies do not use SLAs at all.¹⁶

The preparation and then signing of such a document is a clear signal to both parties that something has changed significantly. There is no longer this centralized group that was not responsive and employed the push model for all activities. The client will now order only those services that are of value to their organization.

Challenges

Often interchanged are concepts of centralization and shared services. An SLA can be the first clear sign of how serious the company management wants to be about an SSC implementation. When the SLA does not contain a clear definition of the business units being in the customer role that chooses the services and their levels based on their needs, the SSC will more likely shift into a centralized model. Motivation to provide a businesslike environment will not be as strong and the main benefit will reside in the consolidation and potential reduction of people. It is the client–service center's relationship that makes the SSC offer the best services possible.

Possible IT Solutions

Economic rationale for IT automation of the SLA is only marginal. The SLA is a document that can be posted on an internal Web site so that it is accessible for everybody.

16. Uwe Kagelmann, *Shared Services als alternative Organisationsform* (doctoral study).

PRODUCT CATALOG

An SSC has to choose the means of presenting the range of services to its clients: either through the business units or external companies. A product catalog lists all the possible services and levels and states the prices.¹⁷

Process

Business units either choose required services in defined intervals (on a yearly or quarterly basis) or in special situations (on-needs basis). Streamlining of service orders will make the internal planning of necessary resources and their utilization easier and therefore will drive down the costs.

Choosing from a catalog is often directly connected with an order system. This is especially convenient for larger SSCs. Centers servicing only a handful of clients can use a scaled-down version and take orders by e-mail or phone.

Challenges

Fixed pricing per unit or volume means higher risk for the SSC. Prices and structure of the main services should stay constant for an agreed period, usually one year. Such a requirement is not always possible to fulfill; therefore, there should be a clear procedure defined for changes to the catalog when the market environment changes considerably.

When first creating a service catalog, many managers are tempted to design a complicated structure distinguishing services and prices for different audiences. The general recommendation here is once again simplicity. Highly differentiated offerings are technically possible to manage, but will require extra effort and costs. In addition, increased complexity usually leads to unperceived complications.

Possible IT Solutions

A suggestion on the reasonable level of IT support heavily depends on the size of the client base and the range of services offered. Generally, a sufficient solution is a document-based

product catalog for when there is a limited number of clients using a standard portfolio of services. The catalog can be posted on a Web site and orders can be taken via e-mail or an externally created purchase order.

However, if there should be many clients ordering services (the best example would be an IT SSC in a large corporation), we would suggest introducing an electronic procurement solution. Such a solution will let you dynamically maintain your service catalog in an electronic form and, at the same time, manage all of the clients' orders.

SAP offers support for both options. The first would leverage the portal technology within the SAP NetWeaver™ platform. Leveraging the Internet sales capability of the mySAP ERP Operations solution would be the second best option.

INVOICING AND PAYMENT SETTLEMENT

The final step in the administrative process is invoicing the clients and getting paid for delivered services. The complexity of the whole process very much depends on the clients and method for setting up the prices. Dealing with internal clients will be more informal when the business units are in a different organizational unit (such as a subsidiary in other country) or when it can be managed only through internal communication (such as a business unit within the corporation). The type of pricing will have an impact on how the payments are processed. Allocations based on cost-center postings will not require a formal document (such as an invoice); on the other hand, profit-based pricing strengthens the customer service culture in the SSC.

Process

Before describing the regular invoicing and payment settlement process, let's mention a simpler possibility that is being used by roughly 42% of the companies in Europe.¹⁸ Those companies decided to stay closer to the centralization model and did not put so much weight on the motivational factor of pricing.

17. An explanation of different pricing possibilities is in the next chapter of this White Paper.

18. Kagelmann, *Shared Services als alternative Organisationsform*.

Costs incurred while providing the service to the business units were allocated back based on a defined key. One example of the allocation key could be the number of people processing the transactions for the respective business unit as a percentage of the total number of people in the SSC.

However, companies that are thinking about spinning off their SSC in the future (roughly 43%), will be better off setting up an invoicing and payment settlement process.¹⁹ The SSC starts with an evaluation of the amount of actual delivered services and matches it with the agreed prices. Then they issue an invoice referencing the purchase order and send it to the business unit. Payment conditions are automatically tracked and the administrative staff is alerted in case of late payment. Payments will then be matched with the invoices and the whole service contract will be closed. In case the business unit does not agree with the invoice, a regular dispute process is started to resolve the issue.

Challenges

The second type of the invoicing and payment settlement process will pose a challenge with the invoice medium. If the SSC sends regular paper invoices and resolves issues with the mail or over the phone, there will be additional personnel costs for the administrative personnel. One way to address this issue is to transform the whole process into an electronic form (of course, this is possible only in countries where digital signatures are a recognized and allowed form of signing the invoice).

Possible IT Solutions

Cost allocation between the cost centers will be done only within the corporate accounting system and will not require any new investment.

The AR system can be fully leveraged as long as the SSC is part of the company (not a separate organizational unit). Purchase order entry will be automatically matched with the invoice details and the system will also track the status of the payment.

A valuable extension of the AR system is using a Web-based portal to present the invoices and matching them with payments in a self-service scenario for the client. Potential issues with the invoices are then handled through a dispute management system with a predefined escalation workflow.

Previous descriptions of possible uses of IT solutions should be understood as an ideal scenario. An SSC will most likely not invest in such solutions alone; rather, they may use the parts of the solution currently implemented by the corporation. One other possibility is to use the SSC unit as a pilot for new software implementations within the corporation.

The mySAP ERP solution provides an ideal fit for the IT infrastructure. Its AR system is closely linked with both the general ledger in accounting and with the purchasing and CRM systems. All systems make use of the workflow backbone supported by a portal presentation layer. FSCM within mySAP ERP further supports the payment settlement process.

19. Kagelmann, *Shared Services als alternative Organisationsform*.

CONTROLLING PROCESSES

So far, we have covered reasons why SSCs exist, what their major focus is, and how they administer their business. What we have yet to describe is how an SSC can – and should be – managed.

Companies usually start with a definition of their service portfolio and its corresponding prices. Pricing can be well leveraged as a market driver that will help distinguish a purely centralized unit from an SSC. There are many ways to price services and we will look at some possibilities.

The next step taken is the planning of future requirements for resources and capital, together with forecasting the revenues. A selected approach to planning and forecasting will determine the accuracy of the estimation.

Closed-loop management requires not only on-time decision making on the direction in which the SSC is going. Even more important is an ongoing evaluation of the performance and its subsequent adjustments.

Overall, managing an SSC does not differ much from managing a small company. The fact that the clients are primarily internal may simplify some of the processes; regardless, the staff still has to follow them.

PRICING

As mentioned before, your most challenging work is setting the prices. Management at many companies is not certain of the feasibility of the fully loaded costs model, so they often decide to go only with cost allocation.

Cost allocation creates a distortion in the shared services model and makes it very hard or even impossible to benchmark the service unit with external suppliers. There is no direct push or incentive to constantly optimize the cost structure. Services might seem cheaper for the business units, because they do not include all of the costs incurred. The company as a whole, however, still has to pay those costs. Cost allocation is used by a

very large group of companies in Europe (42%).²⁰ It is possible to infer that those SSCs are still in their basic form in the majority of these organizations.

A step further is the transfer price concept. In their simplest form, transfer prices can include only direct costs with a profit margin (9%), or can also include allocated costs (34%).

The most sophisticated approach to pricing is market pricing. Such pricing includes all costs incurred by the service unit, and profit, and is still competitive when benchmarked with the external providers. The complexity of creating such a model can be seen given the small share of companies that have already mastered this pricing method (9%).

Process and Challenges

Transactional processes are usually highly standardized and lead to economies of scale. Shared service has to decide about what is going to be the base for charging for the transactions. It can either choose a unit price per transaction or charge a certain volume of transactions for a fixed price. If different levels of service are desirable, transaction prices should reflect it. There could be, for example, a standard price per transaction, a higher price for fulfilling the transaction in a shorter time, and an even higher price for immediate action. Just remember one simple rule: the more complex the pricing is, the more complex the supporting structure to track the whole process will be. Project-based pricing is also possible and would be used for activities that occur on a regular basis (for example, period-end close).

This being said, we have to admit that it is more of an academic approach to pricing of transactional services than reality. The majority of companies do not set any pricing model and simply allocate the costs back to the business units based on a chosen key (for example, proportion of revenues brought in by the business unit). This means that the business units are still viewed more as a cost center than as a client.

²⁰ Kagelmann, *Shared Services als alternative Organisationsform*.

Cost allocation = 42%, transfer pricing = 49%, market pricing = 9%.

Professional services usually involve a mix of daily rate charges and a fixed fee for the project. The design of the daily rates is up to the SSC, but here the complexity rule also applies. You can design different rates for different time periods (a one-day or a half-day rate is usual; an hourly rate is not recommended), but be aware that you will have to provide a reliable infrastructure to track them.

One question still remains unanswered – how should the SSC determine the price? Determining an agreeable price that would be acceptable for the business units and would also cover all the costs and possibly profit is a complex process that depends heavily on the corporate environment.

A stable environment gives the SSC a very good basis to plan the future service quantities. Actual quantities delivered in the past can be extrapolated and form an acceptable prediction for the first draft of the price scheme. The service group can then offer the prices in the planning cycle and check whether the response from the business units will meet the expected demand. Several iterations will make it possible to arrive at an acceptable price for the service. In general, this approach is recommended for transactional services.

A dynamic environment poses a challenge for the pricing exercise. First of all, there is a constraint in the form of external vendor prices. If the price offered by the SSC is too high, it will be very hard to defend it. If it is too low, it will not cover all the costs. Probably the best start is to ask the business units what quantity of services would be needed ideally. Gathered quantity requirements will provide a basis for the preparation of the first draft's price scheme. The rest of the iterative process is then the same as previously described. This approach is best suited for professional services within SSCs.

In the end, it all comes down to measuring costs and revenues. Making the service self-supporting (covering all costs or even making profit) should be included in the design concept of each SSC.

The main decision is probably which controlling concept should be used. We can see a great challenge for the companies here. The concept of fully loaded costs suggests that we have to know the price of the whole process, not what was budgeted for respective departments that are part of this process. Activity-based costing would be the preferred solution; however, most of the companies still stick to the cost center model. A probable explanation is that it is easier to implement, because they already use the cost center concept for the business units.

The complexity of the controlling processes highly depends on what services the group offers and how differentiated the portfolio is. The easiest is the processing of unified transactions that have only limited variations. There is usually a unit price for one transaction or a volume price for a set. The service center records the number of transactions and multiplies them by the final price. A little bit more complicated is when the transactions have different prices depending on the priority of the service (the higher the priority, the higher the price).

Professional services bring more factors into play. The service group has to account for a service it is offering plus it has to keep a time sheet for all employees. Time sheets should not be very complicated, otherwise the infrastructure costs would rise and the time spent on recording them would become a real burden. Ideally, a client should be billed on a daily rate basis. The half-day rate is also acceptable, but hourly is too detailed.

The issues described above deal primarily with direct costs. It is essential that the price for the client also involves indirect and administration costs. In case there is only a cost allocation back to the business units, such costs should be transferred on the service usage ratio (whichever business unit uses the services the most should also pay for most of these costs). If the price is set, controlling has to constantly monitor whether the indirect and administration costs are covered at all times. There should be an agreement about price adjustments in place between the service unit and the business units in case unexpected situations occur.

As you can see, there are many factors to watch for. The best advice is to keep the service conditions as easy as possible and to limit the number of possible differentiations – at least in the beginning, before the new structure establishes itself and the SSC gathers some knowledge about its costs structures.

Revenues should be handled the same way in order to allow for an easy comparison. After some time, it will automatically be obvious which services are the profitable ones and which ones need to be changed or abandoned.

Market environment has been changing with dizzying speed, which also has a high impact on the relevance of the pricing. Calculated prices should be regularly checked so that they still cover the fully loaded costs, but are compared to other SSCs at the same time using equivalent levels. Such an analysis should be performed at regular intervals at least once a year. Depending on the agreements within the SLA, prices can also be adjusted during the year; but we would suggest doing that only in exceptional cases. This way the SSC is forced to plan better by solving the market changes in the beginning by optimizing its processes.

Possible IT Solutions

The main supporting tool that can help with price calculations is a controlling module usually delivered together with financial accounting by all major ERP vendors. It must be linked closely to all other IT systems within an enterprise to be able to obtain information about employees, processes, costs, and revenues. Previous years brought a fast ascent of analytical tools using multidimensional analysis and data warehousing. Data from operational controlling system(s) is transferred to the data warehouse to take advantage of more flexible analysis and simulation.

The end of the 1980s introduced activity-based costing (ABC) as another approach to dealing with costs, which is especially well suited for service industries. ABC allows for a more exact allocation of costs to processes and therefore provides a better

answer to the question, “How much does the whole process of delivering this service cost us?” With this said, we have to note here that ABC has not experienced a wide adoption. Even though this concept would be well suited for SSCs, only a minority of the current practitioners use it. ABC is either available as a separate tool that can connect to ERP systems or it is offered by the ERP vendor.

Analysis of the outcome of the selected pricing level can be well performed within the data warehouse leveraging its multi-dimensional nature. Results can be connected directly with prior calculations and can serve as a basis for simulations. Therefore, introducing a data warehouse should be a high priority for an SSC.

SAP, with its mySAP ERP solution, provides an ideal set of the tools mentioned. Prices can be calculated by the controlling module using both the traditional and ABC approaches. SAP delivers the SAP® Business Information Warehouse component with out-of-the-box interfaces to the operational system and contains a predefined set of data structures that the customer can quickly customize to its particular situation. All systems make use of the workflow backbone supported by a portal presentation layer.

PLANNING, BUDGETING, AND FORECASTING

The SSC in our examples has already agreed to a certain commitment stated in the SLA and issued prices that it will charge for the services (or even different levels of services). It should now plan future activities throughout the year to make sure it is able to meet the obligations.

Process

Planning can be instituted on different levels; ideally it should contain both top-down and bottom-up approaches. Service units have a great advantage in their position within a company. Their services are usually mandated, so their clients are already known. The planning group should try to contact the

business units and agree on the types of services demanded, its volume, and distribution of demand in time. Such information will help the SSC tremendously in planning the output levels.

With the information about output levels, the SSC can plan all the remaining resources and activities to be able to meet the time and quality expectations. We also highly recommend introducing a risk-rating factor into the planning process to better reflect the changing market environment.

The yearly budgeting process is usually enough for most of the SSCs. A major prerequisite is an environment with a low to medium level of dynamics. This is the case at SSCs providing transactional services.

SSCs in highly dynamic environments would quickly find out that the budget is not an accurate basis for the planning and evaluation of future activities, and should employ forecasting or “beyond budgeting” methods instead. Professional services will most likely require this type of planning.

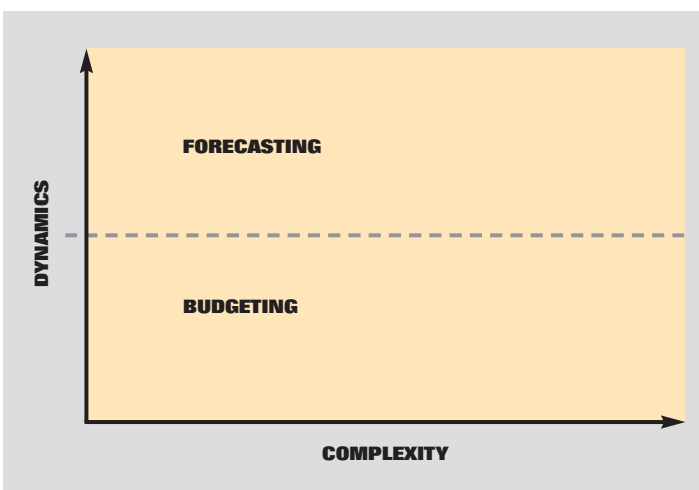


Figure 5: Complexity and Market Dynamics as Deciding Factors in Choosing Budgeting or Forecasting

Challenges and Possible IT Solutions

The size of the service unit, the differentiation of the service levels, and the volume of processed transactions and projects are key decision factors for planning support tools. Management has to choose how sophisticated the planning framework should be. One extreme is having only a simple planning spreadsheet; the other could be a highly sophisticated and complex set of planning tools. The reasonable solution is usually somewhere in the middle.

Cost controlling systems can be used as a support for cost planning; however, they do not offer acceptable flexibility. Planning is viewed in general as an extension of actuals tracking; therefore, a change of the planning structures is almost impossible. The same statement about flexibility is true for the levels of detail used in cost controlling, because it leads to exaggerated levels of planning detail. The whole system is built on a centralized model, where every dependency has to be predefined before the start of the planning cycle. Therefore, a sophisticated planning process is very problematic with such tools.

Spreadsheet calculations probably exist in every company. They were first introduced to help with simple ad hoc models, but have grown into sophisticated planning models over time. A major issue with such growth was the initial approach. Starting small also meant a relatively unstructured approach. Steady growth of the content led to exponential growth in its overall complexity and became a major roadblock at some companies. The possibility of decentralized processing was also an attribute valued by every controller. Different departments processed their particular sheets and returned them back to controlling for consolidation. Lack of a centralized component in the planning framework led to a serious number of errors during consolidation of the different sheets and made a lot of manual work necessary.

Planning objects are generally multidimensional; therefore, the use of data warehouses is the current best approach. Simpler planning frameworks can be developed directly on top of a data

warehouse. A more sophisticated and dynamic approach is to use specialized planning, budgeting, and forecasting software. It focuses not only on the framework itself, but also on the reconciliation of all levels and on support of versioning.

The following figure shows suggested planning tools with regards to the combination of dynamics and complexity in an SSC environment.

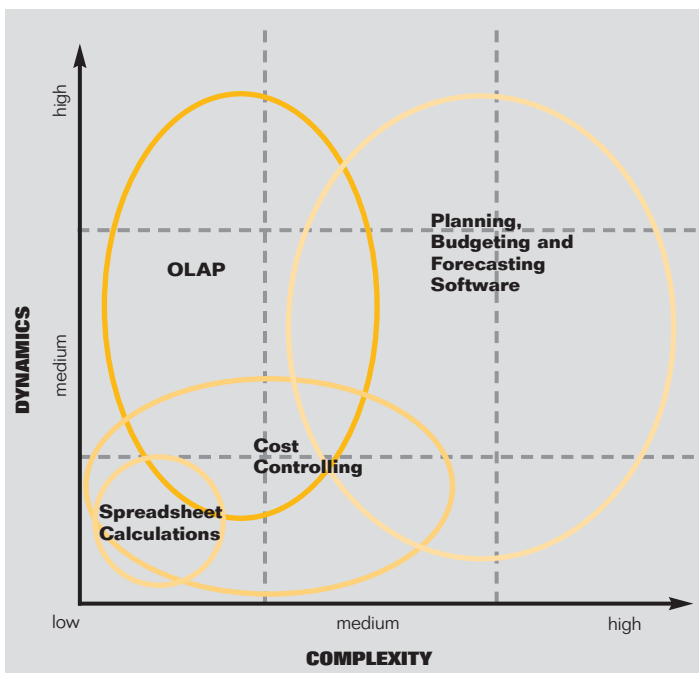


Figure 6: Planning Tools in an SSC Environment

PERFORMANCE MEASUREMENT

Customer service is the single most important factor in the SSC's activities. Therefore, there should be an effective system in place for monitoring and evaluation of performance in this area. Performance means not only delivering the service, but also delivering it on time, in a desired quality and quantity, and to the full satisfaction of the client.

Process

All of the companies employ at least a basic level of performance measurement. From the financial point of view, management usually tracks how the group and its team members stick to the budgeted numbers. This can work quite well in a stable environment. Some include a comparison of the internal performance with a benchmark of other companies. Benchmarking is a suggested approach if the organization considers the independent business model for its SSC.

One step further would also be to employ nonfinancial measures or key performance indicators (KPIs) to measure the performance. Financial measures are a good indicator of results that the group reached in the past. Nonfinancial indicators can help track information relating to the possible future performance. Examples of such indicators can be customer satisfaction, level of expert knowledge among the members of the team, or the average time for processing a transaction.

Management consulting firms offer service centers many methodologies for performance measurement. The Balanced Scorecard concept developed originally by Norton and Kaplan is the most popular one. Balanced Scorecards can be structured into hierarchies and offer each management level in the organization the right granularity of information. An even more innovative approach is to use the scorecard as a "strategy communication" medium to execute relevant parts of corporate strategy within the SSC.

Challenges

Challenges with performance measurement are more business than technological in nature. Management has to make a clear decision on how to evaluate the performance of the employees, regardless of whether they are within corporate, the business unit, or the SSC.

Budgets have been used as a tool to track and evaluate performance for decades. So employees are most often evaluated according to meeting planned financial targets.

Some companies tried to extend the performance tracking to nonfinancial measures and introduced a Balanced Scorecard in addition to the budget. This caused serious confusion within the workforce. Two tools now evaluated them, but only one had direct influence on the remuneration. The result of such a decision was clear: Balanced Scorecard KPIs became “nice to have” measures, but nobody paid much attention to them afterwards.

There must be a clear decision up front. Either people should be evaluated by conformance with budget or on reaching the set KPIs within the Balanced Scorecard. Budget numbers are absolute numbers; Balanced Scorecards are mostly relative numbers. Mixing those two performance evaluation tools together has not yielded satisfactory results. If corporate still uses budgets, but would like to test the Balanced Scorecard mechanism as a pilot, an SSC is a very good opportunity to do so.

Possible IT Solutions

The ideal approach is to closely tie the planning process with the performance measurement process. The number of chosen indicators, management levels at which they will be tracked, and the size of the service center are all major factors when deciding about proper application support.

The simplest way to analyze performance is using a spreadsheet. The same way as for planning, it has some advantages and many disadvantages. It is a very flexible tool for very small

implementations. Increasing the scope of performance measurement, either by adding people or KPIs, increases geometrically the complexity.

Regional or global use will require a more sophisticated solution. Some companies start building their performance measurement solutions from scratch using an analytical environment of data warehouses. Such a solution will be able to satisfy all system performance and scalability requirements; however, it will be very costly to implement and maintain.

Only in the last several years have companies gained one more possibility to address all previous issues. Specialized solutions for performance measurement emerged as parts of “business performance management” suites from leading software vendors. These should be built on a data warehouse platform, should be closely linked to other parts of the suite, and offer tools such as Balanced Scorecard or a KPI dashboard. Some vendors are going even further by offering specific predefined content for selected industries. Such a solution can and will drive down the total cost of ownership (TCO) dramatically.

Benchmarking became a vital source of comparison with other companies in the industry. Several benchmarking suppliers offer the data in a structured electronic form, which is perfectly suited for automated import into a customer’s performance measurement system.

SAP, with its mySAP ERP solution, provides an ideal set of all the mentioned tools. Performance measurement is part of the strategic enterprise management capability. It comes with tools supporting all leading methodologies (for example, shareholder value management, Balanced Scorecard, management cockpit, and so on). A customer obtains a set of best practices content specifically selected for their industry to minimize the time of design and implementation. Benchmarking data can be automatically exchanged with external providers via the Extensible Markup Language (XML) standard. All systems make use of the workflow backbone supported by a portal.

IT STRATEGY FOR SSCs

SSCs have been made possible by the rapid developments in IT technology. Without those advances, processes could not be effectively concentrated into regional centers, the communication between people would be very hard to structure and moderate, and the vast amounts of data could not be reasonably processed. Therefore, IT appears as a necessary condition for SSC deployment and needs to be managed accordingly.

GENERAL IT SUGGESTIONS

We have tried to explain possible IT solutions while describing all major processes within the SSC. All those solutions have many unifying intersections that should be pointed out one more time. The following technologies and applications should be part of the strategic plan of the future IT landscape within your SSC.

Portal Access

The shared services concept brings, first of all, increased demands on structured communication and information sharing. Traditionally, information was sent and received using many communication channels – telephone, fax, paper, e-mail, and so on. Merging the majority of those channels into one brings significant advantages. Users (SSC clients and SSC employees) have one place to find everything in a structured form. Every user obtains only relevant data sets for their daily work that are incorporated into the individual portal structure. This way, an employee sees relevant information about the status of their travel expense reimbursement and, at the same time, personnel of the travel SSC has all the information needed for expense processing at their fingertips.

A portal always represents two views: first, to have all relevant information on the employee's workplace, and second, as a way to roll out company policies (such as travel guidelines for hotel and flight categories or planning and budgeting procedures for managers). By means of a portal, you may filter offers individually, and influence the employee's behavior according to company rules.

Using portals is convenient not only for its ease of customization and personalization, but also for its positive impact on costs. Portal deployment drives down the IT maintenance cost significantly, contributing to an overall lower TCO.

Robust Workflow

Resistance to change is often a major issue with the implementation of shared services. Employees that will suddenly be in the position of clients fear losing direct contact. They were used to talking directly to the processing clerk in the office around the corner and valued such a personal approach. Workflow will be able to bring a personal touch into the process, though not on the previous scale. Clients of the SSC will be able to see who is processing their items and will be regularly informed about the processing status. When the number of clients is limited, it is highly recommended for the SSC processing clerk to spend some time with them at the beginning. Employees in the SSC will not be just names where the items are being sent for processing.

Workflow should run across all the IT systems to deliver a seamless integration. Only then will the whole SSC process be manageable.

Core Process Support Platform

Each core process should be supported by an application specifically developed for this purpose. Such a system can either be part of the corporate system landscape (like most of the accounting systems) or even stand separately and communicate through interfaces (like some of the payroll systems).

It is the core process support platform that companies want to retain in-house, even when talking about outsourcing. This is especially true when considering high-volume item processing like accounting systems. Interfacing and the volume of communication would mean higher costs and security risks. Companies usually overcome such risks by leveraging one ERP system from a trusted vendor. Such systems are already highly integrated and offer an ideal platform for key back-office processes.

Processes that do not involve mass-item processing can be supported either by systems within or outside of the corporate system landscape. The communication involves only limited data transfers at the beginning and at the end of processing. A good example of such a core process would be payroll processing. Clerks can be connected to an internal ERP system or use their own SSC as well.

Analysis Platform

A vital piece of feedback that has been identified is closing the loop in the management processes. The same is valid for SSC management. All aspects of core processes, SSC employee performance, benchmarking with external SSC vendors, and so on should be continuously evaluated. Such analytical feedback will function as an early warning system, giving the SSC management enough time for corrective reaction.

Data warehouses have proven themselves as an ideal solution for multidimensional analysis. Users can gather information from various sources and then view it from different perspectives. Vendors just started coming out with the next generations of data warehouses offering the first useful applications of automated data-structure recognition, allowing users to find patterns and insights in otherwise unworkable data.

Some vendors have gone even farther and developed specialized applications on top of the data warehouse. Such applications help manage performance, structure strategy direction and make it executable, or offer analysis of specific parts of the operational processes. Those applications are evolving more and more into whole suites copying the same evolution pattern as ERP. We could therefore view them as “analytical ERP” suites.

Analytical platforms for SSCs are deployable either as part of the corporate system landscape or as an SSC-specific application. Deciding which route to choose depends on the long-term strategy for the SSC evolution. When the company thinks an SSC could be outsourced sometime in the future (we mean

a complete spin-off here, not just personnel outsourcing), it would be a smart move to design the analytical platform separately from the corporate landscape right from the start.

HYPOTHESIS FOR THE BEST SOLUTION

A critical decision management has to make when evaluating the best form of shared services for the organization is determining how far it is willing to go. We have identified three objectives that companies usually pursue (see Figure 7).

The first objective is pure cost reduction while maintaining the quality levels. A company intends to use the shared service solely for internal purposes within the corporation and there are also no short- to midterm plans to offer the service externally.

The second possible objective is to primarily serve the business units, but eventually also sell the overcapacity to external clients. The corporation does not rule out the possibility of outsourcing completely, but has no current plans to move in this direction.

The third and most complex objective is to build the SSC group with the vision of outsourcing it completely. Everything has to be designed in such a way that separation of the service group in the future will not pose a major infrastructure issue.

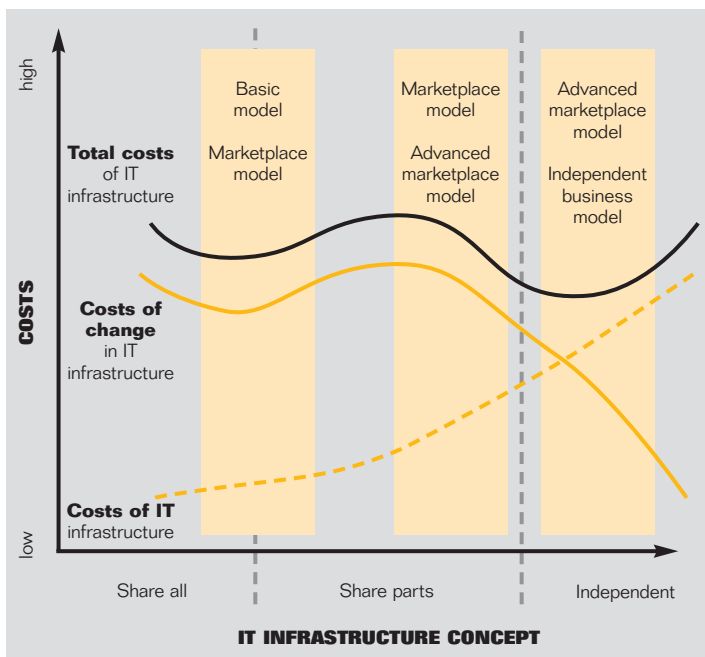


Figure 7: Three SSC Objectives and IT Cost Schemes

**Objective: Serve Only Internal Clients
(SSC Stages 1 and 2)**

If the service group stays internal in the future, there is little incentive to create a separate IT infrastructure. The SSC should try to use the corporation's systems as much as possible.

The design team can start with the infrastructure that the corporation already has in place. An operational system to support the SSC's core processes (such as AP or AR) can stay almost as it is. Processes will be streamlined and the number of users will decrease. The effect on IT costs should be minimal.

We would recommend investing some effort into analytical applications. They will help the SSC with most of the controlling challenges described in the previous chapters. The service group does not have to install a completely new system, but should instead use the corporate one and give some thought to what the data model could be. Development of such content will correspond with the slight cost increase, as shown in the figures.

Reasonable use of analytical applications for the purpose of planning and performance measurement will drive down the costs of changes in the IT infrastructure. Extracting those processes from operational systems that are too rigid for such a task will provide for higher flexibility and better decision support in the future.

We have described this SSC as either a basic or marketplace model. The group was formed to process large volumes of transactional data for the internal clients (business units) only. The complexity of the SLA document is low, because it is only defining the general framework for the relationship between internal departments. Corporate management will deal with any arising issues.

The group is using the corporate ERP system with controlling based on the cost center accounting. Each service that will be offered should have its own cost center to allow for easy tracking. Price negotiations will have only a limited number of rounds. Demand can be safely estimated, because there is already a known history of performed transactions. All costs incurred by the SSC should be included in the price calculation. Calculated price should then be checked with the business units to guarantee acceptance. If both sides cannot come to a conclusion after several rounds, management should make a decision about what price will be used and what the next steps to prevent such a pricing problem in the future are.

Planning can be simplified, because the SSC group is operating in a relatively stable environment. What application system support to use depends on the corporate IT infrastructure. If no analytical application is available, you can also plan in the Online Transaction Processing (OLTP) environment. Planning will be sequential and in the predefined structure, and this should be sufficient. However, if the group has a data-warehousing solution, the SSC should make use of it. This is the point where the IT costs are rising a little bit, because a new planning model has to be developed. The new planning infrastructure will deliver a significantly more flexible framework.

Such a framework supports collaborative planning, even in a distributed manner when using portal access. Costs of adaptation are therefore reduced.

Demands on IT regarding performance measurement can vary. One way is to use the budgets as a basis for tracking the performance and meeting the objectives. Planning within the OLTP system or using the analytical model will be sufficient. If the management would like to introduce a more complex approach to performance measurement, it will need the analytical framework. Information from various sources and systems has to be gathered and evaluated. Graphical presentation of the results is usually in the form of a Balanced Scorecard, relating together financial and nonfinancial measures to better disclose cause-and-effect relations. We suggest investing in a prebuilt solution that is capable of working with the SSC's planning framework.

Reporting will vary from company to company, depending on general practices. Many companies use printed reports, others send text files using an electronic mail system, and others distribute them through secured access over a corporate intranet. We suggest using the corporate solution, because this will provide for minimum change. If you want to pilot a new reporting framework, an SSC is a very good candidate.

Building application support for the simplest SSC is not very complicated and should not pose major challenges.

**Objective: Serve Both Internal and External Clients
(Stages 2 and 3)**

The decision to also render the services externally (such as in cases of overcapacity or for profit that will lower the operating costs) will have an effect on the IT infrastructure. This is why we suggest using as much of the corporation's infrastructure as possible, but also introducing some of the SSC's own systems.

We need to distinguish between the types of services offered. Transactional services can basically use the same infrastructure as when they are offered only to internal clients. The security system poses the only potential challenge for the design team – and only when it is providing information to external clients (such as collaborative planning or reporting). If the group decides to offer professional services as well, they need to consider many more factors.

Professional services are different in nature from transactional ones and the processes will look more like those of consulting companies. They can be better monitored using an ABC framework instead of cost centers. A thorough examination of future processes should be made before deciding about the necessary IT infrastructure.

In either case, bringing in an external factor (that is, a client) will make the whole system more dynamic. All processes will have to be designed to become flexible so it can react to changing market conditions.

Let's look at another possible example: corporate management has decided to create a shared services group that will provide both transactional and professional services. Primary clients will be the internal business units, but external sales are also possible. Outsourcing of the SSC is not expected in the near future.

The SLA will have to be adapted to provide a sufficient level of assurance when dealing with external clients. But even then, make it as simple as possible. A complicated legal framework will mean broader demands on the IT infrastructure.

In order to make a price proposal, we need to know all the costs incurred by the SSC. ABC has been shown as a better solution than the cost center system. Processes track costs, so we can more easily assign a price to every service process. A decentralized collaborative framework for price planning and reconciliation is highly recommended. The client (internal or

external) will be able to electronically maintain the planned amounts of service for the proposed price. Prices must be also benchmarked with prices on the market to assure the SSC's competitiveness. After the first pricing draft is issued, the process runs in iterations the same way as in the previous example. Complexity of the process and the time required to come up with an acceptable pricing depend on how many services the SSC offers and how differentiated the services are.

A planning framework should be built using the analytical environment. The OLTP system would most likely prove to be too rigid. A further decision about what kind of planning would be the best depends on the level of dynamics of the environment. When the environment changes, but the changes are not dramatic and take more time, use the familiar budgeting system complemented with forecasting. Budgeting will form a framework and forecasting will adjust the differences. Your analytical system should be flexibly adaptable. If this were not possible within the corporate system, it is highly recommended that the SSC builds its own. The planning system must be capable of working in a decentralized and collaborative environment (for example, through portal access).

Performance measurement must be more than tracking the adherence to budgeted numbers. Because professional services make use of intangible assets on a larger scale than transactional services, the SSC needs to get a tool to manage them. Balanced Scorecard will help you connect results from different perspectives. The customer perspective should include customer satisfaction as a goal. In the case of external sales, benchmarking of the SSC with the rest of the providers will display a clear position of the shared services group on the market. The system should provide the possibility to automatically track as many of the measures as possible. Measures that need to be obtained externally should be supported by portal access.

Reporting will vary from company to company, depending on their general practices. We would suggest using a Web-based portal to give personalized access to both internal and external clients.

Governance function separated from the service group's responsibilities will pose another requirement on the OLTP system. Data in the system must support the service group, but also must be easily accessible by the audit group. Most of the audit groups today will use spot-checking and search for the most common anomalies. If you would like to thoroughly check all the data and build an early warning system, you should consider transferring the operational data to a data warehouse and using data mining methods.

The objective of offering both types of services to internal and external clients will require a better IT framework. You should try to make your infrastructure as flexible as possible to minimize the total costs.

Objective: SSC Is Planned to Be Outsourced (Stages 3 and 4)

If management decides to outsource the service unit within the near future, they must plan a completely new IT framework. Corporate design can be used as a blueprint, but the systems must become completely flexible. No system (operative or analytical) should be tied to only one company (for example, corporate), because the relationship with this company may not last forever.

Plans for such stages of an SSC make sense for core processes that do not involve high-volume item processing (payroll, travel management, professional services, and so on). Accounting SSCs would meet with technical difficulties trying to outsource part of the accounting system. There would be very high demands on adequate throughput, security, and reconciliation between the systems, which would lead to high IT costs. It is therefore advisable to keep the accounting systems inside the corporate IT landscape.

Analytical systems can be handled the same way as described for stages 2 and 3.

IT Best Solution Conclusion

There is no silver-bullet solution that can be offered to all companies. Management has to first evaluate its future intentions with the SSC and design the IT landscape accordingly. Previously described stages should help you to understand the major differences and leading factors in such decisions.

SAP's POSITION ON THE SSC MARKET

SAP has been a widely used solution for SSC support among large- and mid-sized companies worldwide. Its mySAP ERP solution delivers all the necessary technologies and applications to make the SSC deployments as easy and straightforward as possible. Wide success of mySAP ERP has been supported by many customer successes and surveys. Figure 8 shows the software vendor situation in the European market as observed in a study by The Hackett Group in 2002.

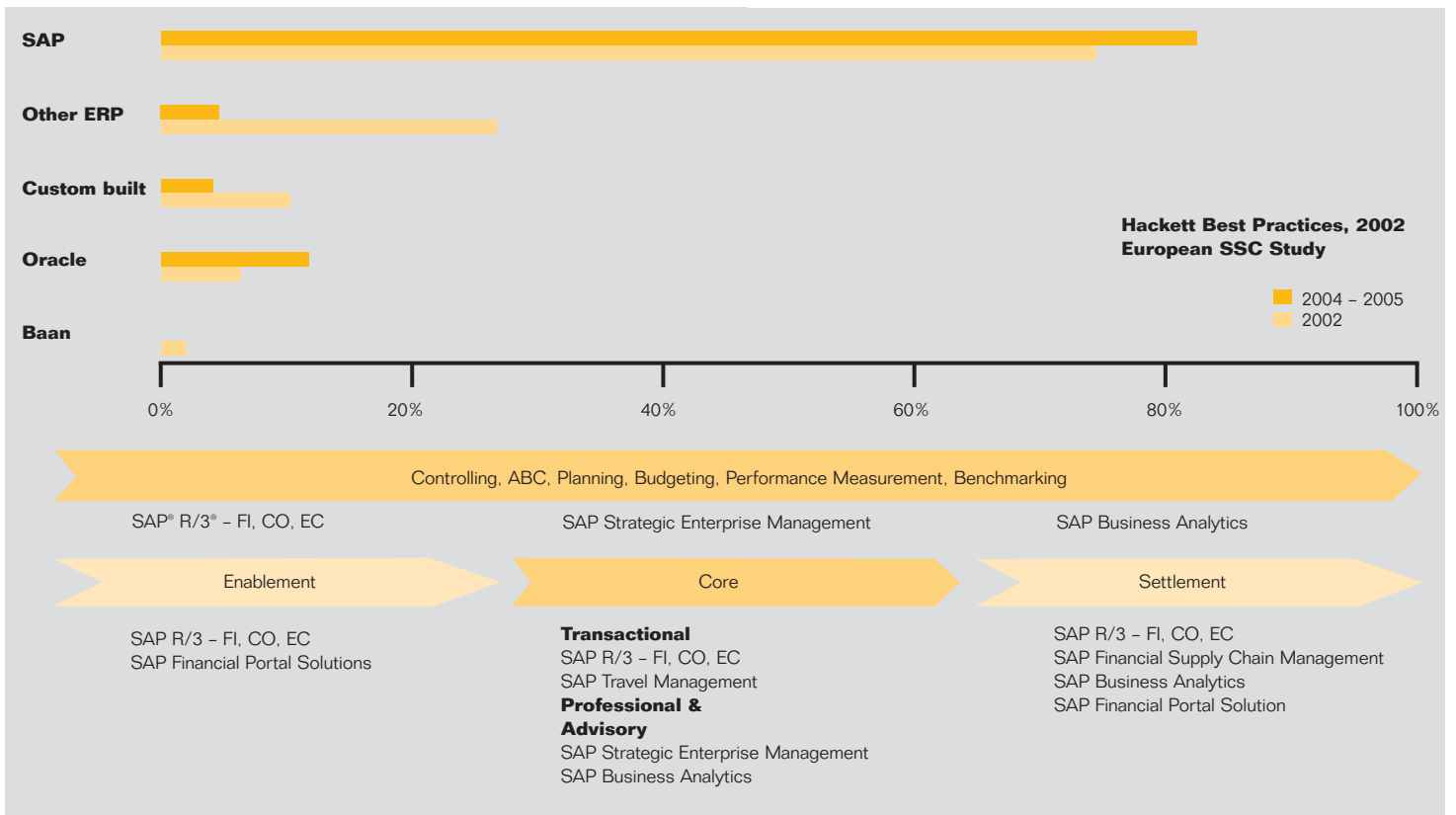


Figure 8: Software Vendor Situation in the SSC Market in 2002

This whitepaper was prepared by SAP's Business Solution Architects Group. This group of experienced solution architects does consulting for and with strategic customers of SAP on their path of the "Transformation of Finance" on the Level of the Finance Function and the CFO. We enable the exchange on business trends, Finance- and IT-Architectures as well as Best and Next Practices among our clients and towards SAP and guide them through realization and implementation.

The current challenges such as Corporate Governance, Shared Services, Business Process Outsourcing, Enterprise Performance Management etc. are being discussed in customer-tailored workshops as well as in a number of events in our SAP Finance Best Practice Network.

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