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Shared services optimisation

Elevation to the next generation of shared services

May 2013
We live in an increasingly competitive economic environment. Wider variation in market performance, greater market volatility and ceaseless pressure on margins has compelled organisations to intensify their focus on operational agility and cost competitiveness. Governments are also looking to make productivity improvements as they struggle to work through a tough fiscal environment. To help achieve this, organisations have also been transferring activities into Shared Service Centres (SSCs) – which are now very much part of the fabric of leading organisations.

However, 28% of organisations are yet to embrace SSCs and of those that have over 50% are immature (under two years old). For more mature SSCs, common issues are restricting their performance and limiting their ability to help organisations ride out the current economic storm. Similarly, in the government context the effectiveness of many SSCs is being questioned as they struggle to build larger scale economies.

Organisations with high-performing SSCs are considerably better placed to handle the uncertainties of today’s market place and deliver better results for stakeholders. For organisations implementing SSCs for the first time and those with underperforming SSCs, a strategy that focuses on standardisation, scalability and scope will deliver the greatest flexibility and agility for their organisation.

1. **Standardisation** increases flexibility by improving the organisation’s ability to integrate new operations (such as acquisitions) or remove activities no longer required (such as divestments).

2. **Scalability** is achieved through centralisation and performance management. Centralisation increases the visibility of resources and their responsibilities, supporting effective management. Performance management provides clarity over who is doing what, where, how and at what cost. It enables faster, more effective decisions to be made.

3. **Greater functional and geographic scope** increases agility and flexibility through increasing the influence of the SSC over operations. It is also much easier to take advantage of alternative sourcing options whether offshore and/or outsourced.

Achieving these changes can feel daunting. They can encompass all elements of the back office operating model, from technology to people. The first step is to really understand how the SSC operations are performing today against a simple set of criteria that determine the opportunities an organisation has to rapidly improve performance and flexibility. Ernst & Young’s rapid assessment methodology provides SSC organisations with the foundation for making a step change in performance and establishing an SSC that is best positioned to support the organisation ride out today’s uncertain market conditions.

1 ACCA ‘Finance leaders on sourcing success’ May 2012

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“The traditional outcomes targeted by shared services remain important; cost reduction, efficiency and capability improvement. However, organisations are now looking to gain more value from their shared services operations. The ability to scale up (or down) back office functions in response to acquisitions, mergers, divestments, growth and decline is a valuable commodity in today’s uncertain economic climate and a characteristic our clients are increasingly looking for.”

David Fincher
Partner, Ernst & Young Advisory

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Managing performance in uncertain times

Organisations today are facing a constant dilemma. How can they contain costs in stagnating, developed markets whilst exploiting the potential of high-growth emerging markets? There are risks and uncertainties inherent in achieving both of these conflicting objectives, which only the most agile of organisations will successfully mitigate.

Remaining competitive, growing the business and building a foundation for less uncertain times in the future is a huge challenge. The characteristics of organisations most likely to succeed in this environment are:

1. Flexibility: can quickly exploit new market opportunities and effectively integrate these into existing operations
2. Leanness: operate at high efficiency, ensuring that revenue delivers the greatest possible profit
3. Scalability: able to change the size of operations up or down at speed, in the face of downturn or recovery, divestments or acquisitions.

Shared service models are an excellent way for organisations to support these objectives. The consolidation of activities and visibility of performance they offer make it simpler to reduce costs, make more of the cost base variable and allow for a faster response to changes. Strong shared service models provide a great opportunity to move towards more sophisticated outsourcing arrangements, as more and more activities can be consolidated and ring-fenced in preparation for the next step in cost and efficiency gains that outsourcing brings.

The SSC concept still presents significant opportunities for organisations to improve performance

Although the value of SSCs has been recognised for many years, most organisations are not fully exploiting the concept, leaving them more exposed to today's economic uncertainty. In a recent survey by the ACCA, 28% of respondents had not implemented shared services or leveraged outsourcing. This percentage increased to around 45% for smaller organisations (under $100m of annual revenue). Where SSCs have been established, they are often immature —over 50% of respondents implemented their SSCs in the last two years presenting further opportunities to improve performance.

Even for mature SSCs that have been in place for five years or more, many fail to maximise their return on investment. This can undermine the SSC and in turn limit support for further investment, because the broader organisation does not recognise the value it can deliver.

What is driving the public sector shared services agenda?

The business case for shared services in the public sector is just as compelling. In a tight fiscal environment where government revenues continue to fall, costs are increasing and community expectations are at an all time high, there is increasing pressure on governments to focus on improving productivity.

The key drivers for implementing SSCs within the public sector are:
1. Cost savings
2. Human resource efficiencies
3. Better service for the end customer
4. Access to new capabilities

Linked to these drivers is the concept that, freed from the need to perform their own non-strategic functions, government agencies will be able to focus more on their core activities, improve their performance and focus their resources on high impact areas targeted towards delivering results for the community.

2 ACCA ‘Finance leaders on sourcing success’ May 2012
A typical shared services evolution path is depicted in Figure 1 below. Many SSC's complete the transition and stabilisation phases, but then never exploit the new model that has been implemented through continuous improvement and expansion.

Organisations can assess whether their SSCs are stagnating by comparing them to some of the typical indicators listed below:

Table 1: Indicators of stagnation in mature SSCs

- Users complaints
- Business case not achieved
- Business units take back or duplicate process activities
- Lack of business trust

- Manual processing and reconciliation activities
- Business unit/geographic processing ‘silos’
- Process standardisation not completed
- Policy execution weak

- Key person dependencies
- Inability to attract and retain appropriate staff
- Retained team performs low value transactional activities
- Limited career paths into and out of shared services

- Different regional business models
- Different functional operating models
- Multiple IT systems and interfaces

- Unclear or insufficiently visible SLAs and KPIs
- Weak process control and associated management information
- Irregular and informal interactions between SSC and BU leadership

Figure 1: Typical shared services evolution path
Implementing shared services in the public sector

Experience demonstrates there is no silver bullet to implementing SSCs successfully; in fact it is often difficult. Many organisations have approached the challenge differently with some seeking to centralise initially and drive process standardisation before addressing technology consolidation. Whilst others have sought to take a ‘big bang’ approach and initially drive technology reform. Research conducted has found that successful SSC implementations follow five vital rules of engagement:

1. **Benefits to all stakeholders**: Business cases must be strategic, offer a clear plan and provide incentives for all stakeholders beyond aggregate cost reductions.

2. **Strong leadership and support**: A shared services strategy must have active high-level support and sponsorship from senior executives and politicians. Successful implementations include appropriate consultation and participation, while avoiding the trap of ‘death by committee’.

3. **Align timelines to capacity to implement**: Implementation strategies must be credible and provide certainty around the benefits they deliver (even if these benefits come in stages, over a number of years).

4. **Strong change management and transition skills**: Change management and transition requires meticulous execution to prevent cost blowouts, delivery on customer needs and to ensure stakeholder satisfaction. The key to success is a focus on instilling a service and continuous improvement culture.

5. **Get the governance right**: A good governance structure requires a clear delineation of roles and responsibilities between the purchaser and provider of shared services.

SSCs therefore present one of the best and most well-understood models that can be deployed to help organisations ride out economic uncertainty and exploit new markets. However, many organisations either have not implemented them or are not realising the greatest return on the investments they have made in this model.

Organisations that are yet to implement SSCs should target moving directly to a ‘second generation’ SSC operating model. Second generation SSCs incorporate a greater number of functions beyond the traditional areas of HR and finance such as IT, procurement, risk, etc. and more ‘high value’ activities such as treasury, management accounting and tax analysis within the finance function. In addition, the global reach of a second generation SSC is much greater than that of earlier SSC models with fewer outliers beyond the boundaries of the SSC’s operations.

Organisations with new or mature but stagnant SSCs should refresh their SSC strategy and business case. The refresh should focus on:

- Extending functional and geographical scope
- Improving the scalability of the existing model
- Improving levels of standardisation to support future business integration
- Opportunities to take the next step to outsourcing their shared service activities to leverage capability and scale
Great SSCs deliver business flexibility and agility

**Standardisation, scalability and scope build flexibility**

Flexibility and agility are characteristics that are vital for an organisation to successfully respond to and exploit changing external markets. An SSC delivers these traits through three key factors:

- **Standardisation**
- **Scalability**
- **Scope**

**Standardisation**

The standardisation of process, technology and people (roles and responsibilities) increases flexibility by improving the ability to integrate new operations (such as acquisitions) or remove activities no longer required (such as divestments). Through consistent ways of working, new staff can be trained quickly and at low cost. New activities can be integrated rapidly with existing technology and processes. This allows economies of scale to be realised in the fastest possible time while also minimising risk.

**Scalability**

The success or failure of many an organisation is linked to its ability to manage its cost base quickly in response to market changes. Revenue growth should be accompanied by a relatively smaller increase in costs as the organisation exploits increased economies of scale. Revenue decline or divestments should be linked with rapid, visible and controlled reductions in overheads. Both these scenarios are often not achieved.

A successful SSC model builds in scalability through centralisation and performance management. Centralisation increases the visibility of resources and their responsibilities, enabling management to effectively increase or decrease numbers as required. Flexible outsourcing arrangements and locating SSCs in locations with good resource pools also increases flexibility. Quality performance management provides clarity over who is doing what, where, how and at what cost. This knowledge enables faster, more effective decisions to be made when scaling operations up or down.

**Scope**

Greater functional and geographic scope increases agility and flexibility through increasing the influence of the SSC over the organisation. A broader base of activities and geographies served by shared services increases standardisation, centralisation and visibility of activities, enabling change to be implemented faster across the entire organisation.

The SSC should take on as many of the scalable, routine activities as possible from business unit teams to leave them the time to focus on high-value decision support activities. The organisation benefits from having high-quality analytical support resources close to operational teams whatever their functional (HR, finance, procurement, etc.) domain.

**High performing SSCs achieve excellence through continuous improvement**

The traditional path can be altered by refreshing the SSCs strategy and objectives and ensuring they are aligned to those of the organisation. This strategy must be supported by an empowered management team, board level sponsorship and investment in continuous improvement initiatives.

Figure 2 below demonstrates how an organisation can build on the investment in SSC’s to deliver greater performance.
Great SSCs deliver business flexibility and agility

SSCs that deliver the greatest value focus on aligning their strategy to the organisation, extending their scope and influence and supporting the retained functions to focus on higher value services. The following seven components describe what high performance SSCs can achieve (see Appendix A for full maturity framework):

1. Strategic direction targets flexibility and agility
   - SSC vision and strategy is a sub-set of the organisation strategy and clearly articulated
   - Increasing standardisation, scalability and scope are central to the strategy
   - The business case is regularly tracked and achieved, new SSC initiatives are wholly driven by benefits cases

2. Functional scope is extended to give the SSC greater control over back office operations
   - Multi-function shared services are implemented covering finance, HR, IT, procurement, legal, sales and marketing
   - Services extended to include high value-add processes (e.g. FP&A, PB&F, management accounting commentary, analytics)

3. Global scope is extended to ensure regional variation that reduces agility is limited
   - Globally consistent approach for all regions deployed
   - SSCs provide round-the-clock support from low-cost locations
   - Specialist centres for major transactions (e.g. AP, AR) provide global service

4. Retained function is freed to focus on high-value activities to enable faster and improved decision making
   - Retained team focus on leading the organisation; all low value activities performed in the SSC
   - Centre of excellence structures in place to gain greater specialism and deliver improved service

5. Control and governance is standardised, visible and incentives are aligned to increasing agility
   - Common scorecards used by SSC and business units to increase visibility of performance
   - SSC is incentivised to improve business performance and to support business partnering
   - Shared services seen as an integral part of the organisation, regularly represented at C-suite meetings

6. People and organisation roles are standardised and staff co-located to enhance management control
   - Roles and responsibilities standardised, resources co-located and co-managed
   - Advanced talent management programs deployed to retain the best staff
   - Individuals motivated and incentivised to deliver great customer service

7. IT and processes are consistent to support acquisition integration and organic growth
   - Single globally-accessible IT platform
   - Globally consistent processes with high degree of automation
   - Globally consistent and governed data structures

Figure 3: Features of an agile, high performance SSC
Practical and pragmatic steps can be taken to increase performance

Each of the components present different opportunities for improving performance. An SSC that is targeting a step change in performance should be evaluated against each lever and the opportunities prioritised based on which best support the organisation’s overall strategy.

1. Fund a continuous improvement team targeted with resolving the top ten issues faced by the SSC
2. Empower SSC management to implement strategy
3. Ensure board level sponsorship and visibility of SSC
4. Align SSC strategy directly to organisation strategy
5. Target transitioning the highest cost functions not yet deployed in the SSC (e.g. HR, IT, procurement)
6. Revisit existing activity scope, target activities not originally transitioned to the SSC
7. Identify critical SSC staff and develop individual retention plans
8. Implement recognition and incentive plans for all staff based on KPIs and achieving strategic aims
9. Ensure management incentive plans are aligned to the strategy
10. Deploy and report simple KPIs monthly
11. Perform an analysis of the retained teams’ activities
12. Interview business leaders to assess the value provided by the retained team and what they need
13. Build gap between the two into the case for change for bringing more activities into the SSC
14. Refresh the business cases of geographies not yet transitioned, target bringing them into the SSC
15. Target transitioning the highest cost functions not yet deployed in the SSC (e.g. HR, IT, procurement)
16. Revisit existing activity scope, target activities not originally transitioned to the SSC

Figure 4: Practical step to increase performance
Focus on critical areas to make the biggest changes quickly

All seven areas should be addressed when looking to shift performance to the level of a second generation SSC – the following areas should be prioritised:

Control and governance

Ensure SSC management are motivated, empowered and supported to deliver an SSC organisation that delivers flexibility and agility.

The motivations of the SSC management team should be reviewed to ensure that they are clearly aligned to the objectives of the organisation and SSC. Measures and incentives should be implemented for critical staff to align personal and organisation objectives. Staff should be empowered to make the changes and be supported by board level sponsorship to drive through change initiatives.

Retained function

Ensure the retained teams are truly freed from traditional, lower-value activities enabling them to focus on business partnering.

Often, the business case for an SSC includes a plan to free up the local ‘retained team’ to become business partners. When properly implemented, business partners add great value by ensuring that high-quality analysis and decision support is available close to where the organisation needs it. In reality, this objective is frequently not achieved. The reasons for this include many lower-value activities still being left in local operations; staff not being trained or redeployed; and the lack of role definition. An analysis of what the retained team should be focused on versus what they are actually doing is the first step to the successful implementation of business partnering.

Typical actions required to deploy true business partnering include:

1. Clearly define the role of the business partner.
2. Remove activities from the retained team that block business partnering (for example, payroll, financial reporting and regulatory reporting). It is often best to outsource some of these last remaining activities.
3. Conduct detailed staff impact assessments, develop and deploy training and redeployment initiatives.

Functional and regional scope

Extend functional and regional scope to give the SSC greater control over back office operations and reduce regional variation that can limit flexibility.

The ability of an organisation to scale up or down its back office operations quickly and in line with changes in revenue is limited by the scope of the functions and geographies managed by its SSC organisation. Where the SSC organisation controls the back office operations for the majority of functions, processes, geographies and business units, the control it has over these activities is high. Therefore, it is able to adjust the scale of these operations quickly, SSCs with an objective to increase flexibility should strive to expand their geographical and functional scope as fast as possible.

Targeting less traditional functional areas such as IT, and the higher value processes such as management reporting or recruitment, are good initial objectives. Ensuring that global and business unit coverage is complete is also highly recommended.

Case study 1

Leading international packaging company

Following a downturn in its sector, the client decided to review its finance function in a bid to restructure costs whilst also preparing for future growth by building in to the model greater scalability. The company had previously streamlined its finance function by introducing three country–based shared service centres. A lack of governance and alignment between the centres meant that the benefits derived from them had plateaued.

Ernst & Young was brought in to perform a rapid feasibility study to assess options that would drive further improvements. In a joint effort, the client and Ernst & Young developed a new finance operating model based on:

► Consolidating remaining local transactional activities into one SSC and consolidating country accounting services
► Centralising and aligning controlling operations
► Outsourcing major parts of transactional finance using a combined near shore/offshore solution

The combination of these measures led to a cost reduction of more than 30%, and increased quality, standardisation and scalability.

Case study 2

Global professional services firm

This private equity–owned business wanted to redesign its global operating model (operating in over 22 countries) to support 100% revenue growth over the next two years and a 25% reduction in the corresponding cost base.

Ernst & Young designed a new agile operating model utilising SSCs for finance and customer contact in three regional hubs. The model offered the client 25% cost savings and delivered flexibility through the standardisation of core processes, consolidation of activities into three sites and visibility of performance. This new structure produced a cleaner view of operations and provided the Board with a platform from which to launch new customer solutions.

Shortly after the new model was implemented, the global financial crisis of 2007 hit this business hard. Revenues declined by nearly 50% and the business was close to missing critical banking covenants. One of the main factors that enabled this business to survive was the flexibility it had built into its back and front office operations. It was able to quickly reduce its head count and cost base in line with declining revenues, maintaining margins and cash.

The business has now grown back to revenue figures greater than the period prior to 2007 through mergers, acquisitions and organic growth. Recently, it has been successfully sold by its private equity backers to a US firm, and is now quickly integrating its back and front office operations into the existing SSC model.
A rapid SSC health check provides leadership with the information required to drive change fast

Understanding your current situation and the options you have to improve quickly is the first step. Ernst & Young’s five week SSC Rapid Health Check delivers this. Highlighted outputs are:

1. Rapid independent assessment of the current state mapped against our maturity framework
2. Prioritised opportunities for change
3. Alignment of SSC leaders on the required next steps
4. Pragmatic, action orientated 10, 30 and 90 days plans

An accelerated approach

Our SSC Rapid Health Check is supported by tools that enable a fast yet deep assessment of existing performance. Our leading practice and case study database enables real, tangible options for change to be presented and considered by the SSC leadership team. Underpinning the approach is the SSC maturity framework which is detailed in the Appendix.
Conclusion

SSCs are widely recognised as excellent ways to reduce costs and improve performance, however, many organisations have not fully embraced this delivery model and are not maximising the returns on their investments. More than ever, SSCs are crucial to helping organisations ride out the current economic uncertainty. They can deliver greater flexibility through improved standardisation, scalability and scope. Organisations should revisit their shared services strategy to ensure that they are utilising their SSCs to the greatest advantage. They should move fast to increase flexibility and understand where opportunities exist to leverage offshore and/or outsourced capability from a strong shared services base.

Why Ernst & Young?

Ernst & Young has a strong track record supporting clients move to leading class standards. We believe that the following are the main drivers for our project successes.

► Client centric account organisation that helps to tailor project approaches around client needs.
► Global network of shared services and outsourcing practitioners undertaking continuous knowledge exchange with leading organisations.
► Strong focus on alignment within the client leadership team and stakeholder change management within all areas of our approach.
► Specific second generation shared services methodology to move clients to the next performance level.
► Detailed function-specific process expertise to drive process standardisation and simplification.

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Understanding current performance levels is the foundation for developing a high performing SSC

### Appendix A – SSC maturity matrix

<table>
<thead>
<tr>
<th>Category</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic direction</strong></td>
<td>◆ Role and purpose of SSC not identified or clearly articulated</td>
<td>◆ Role and purpose of SSC identified but not clearly communicated</td>
</tr>
<tr>
<td></td>
<td>◆ Inconsistent approach to serving customers</td>
<td>◆ An increased focus on contributing real value to customers</td>
</tr>
<tr>
<td></td>
<td>◆ Benefits cases loosely defined</td>
<td>◆ Few components of the benefits case achieved</td>
</tr>
<tr>
<td></td>
<td>◆ No partnering or outsourcing strategy defined</td>
<td>◆ Point partnering or outsourcing in place but not consistent</td>
</tr>
<tr>
<td><strong>Functional scope</strong></td>
<td>◆ Limited functional scope of processes that typically includes just finance</td>
<td>◆ Functional scope grown to include some HR processes in addition to finance</td>
</tr>
<tr>
<td></td>
<td>◆ Low depth of processes within functions (e.g., AP and AR only for Finance)</td>
<td>◆ Processes are offered to an increasing level of complexity within functions</td>
</tr>
<tr>
<td><strong>Global scope</strong></td>
<td>◆ Local, country-focused SSCs in place</td>
<td>◆ Regional SSCs providing support for most countries in a region</td>
</tr>
<tr>
<td></td>
<td>◆ No linkage between individual centres</td>
<td>◆ Some regions still have country-focused SSCs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>◆ Regional SSCs not linked</td>
</tr>
<tr>
<td><strong>Retained functions</strong></td>
<td>◆ Limited or no business partnering activity happening within the retained team</td>
<td>◆ Inconsistent and low levels of business partnering activity in place</td>
</tr>
<tr>
<td></td>
<td>◆ High proportion of low-skilled resources still exist in retained team</td>
<td>◆ Increasing proportion of medium-skilled resources in the retained team</td>
</tr>
<tr>
<td></td>
<td></td>
<td>◆ More transactional activities transitioned to SSC and plans in place to transition more</td>
</tr>
<tr>
<td><strong>Control and governance</strong></td>
<td>◆ Few or no KPIs, SLAs or OLAs in place</td>
<td>◆ Small selection of KPIs, SLAs, OLAs in place</td>
</tr>
<tr>
<td></td>
<td>◆ Internal SSC perceived as a ‘no alternative, must-use’ function that offers little added value</td>
<td>◆ SSC produces output that is consistent and reliable, but offers little added value</td>
</tr>
<tr>
<td></td>
<td>◆ Pricing for SSC is on a cost recovery basis</td>
<td>◆ Pricing for SSC is on a process-usage basis</td>
</tr>
<tr>
<td></td>
<td>◆ Minimal controls, and overlap between segregation of duties</td>
<td>◆ Several high-level controls in place to provide oversight on major operational risks within the SSC</td>
</tr>
<tr>
<td></td>
<td>◆ Loose governance structure for operating the SSC</td>
<td>◆ Governance structure is in place but shared services concepts not yet incorporated</td>
</tr>
<tr>
<td><strong>People and organisational efficiencies</strong></td>
<td>◆ Duplication of effort between process teams which are organised by business units for simple processes (e.g., AR, AP)</td>
<td>◆ Simple processes delivered by single teams for all business units</td>
</tr>
<tr>
<td></td>
<td>◆ No talent management in place</td>
<td>◆ Some talent management in place, but inconsistently applied</td>
</tr>
<tr>
<td></td>
<td>◆ Culture of ‘turn up and do it’ amongst SSC staff</td>
<td>◆ Improving culture of taking responsibility for service improvement</td>
</tr>
<tr>
<td><strong>IT and process efficiencies</strong></td>
<td>◆ Multiple legacy applications</td>
<td>◆ Legacy applications integrated into a single location</td>
</tr>
<tr>
<td></td>
<td>◆ Processes not standardised</td>
<td>◆ Some level of process standardisation</td>
</tr>
<tr>
<td></td>
<td>◆ Fragmented and misaligned data structures</td>
<td>◆ Limited level of coherence between data structures</td>
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### Level 3

- Comprehensive set of SSC strategic objectives in place and known to all
- Consistently strong level of service to customers
- Business case tracked, continuous improvements in place to realise majority of benefits
- Some consistent partnering or outsourcing approach in place

### Level 4

- SSC vision a sub-set of corporate strategy, increasing standardisation, scalability and scope are central
- Delivery approach focused on exceptional customer service
- The business case is regularly tracked and achieved, new initiatives are wholly driven by benefits cases
- Comprehensive partnering and outsourcing strategy

### An honest, critical evaluation of current performance is necessary to determine how an existing SSC can be developed to better support a business’s objective to build flexibility into its operating model. The following framework provides a summary of performance maturity against each of the categories that a business should focus on when striving to embed flexibility into their organisation.