Shared Services:

The Evolving Direction to Success

Insights from Survey 2012

‘Shared Services Adoption by Indian Organizations’

September 2012

Rakesh Sinha (Vice President & Business Leader), Arup Banerjee (Principal Consultant)

Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight…. *Henry R. Luce*

Survey 2012: ‘Shared Services Adoption by Indian Organization’

Analyst Panel (RvaluE Consulting):

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About the Survey

First of its kind Survey on: 'Shared Services adoption by Indian Organizations'

The success story of India becoming a preferred location for providing business process management services to global organizations, and looking to remain competitive, is well known.

Interestingly, from an **India-to-India perspective**, there is limited information available on how well Indian companies are adopting similar strategies, including setting up of **Shared Service Centres (SSCs).**

RvaluE, in partnership with **Delhi Management Association (DMA)**, conducted a survey, designed to understand the current state and trend of adoption of the shared services concept in India for staff functions in multiple domains. The survey focuses on, and provides visibility to, the benefits and challenges faced by organizations that have already adopted shared services as a strategy and shares insights on organizations considering such strategies in the near future.

Survey Objective: The primary objective is to capture and disseminate understanding of business process management (BPM) in India, and developing its adoption by fully leveraging the best practices from global shared services and off shoring operations.

Importance of the Survey: The Survey Report captures the current state of BPM adoption by Indian companies, whether in shared services mode, or otherwise – the drivers, requirements, challenges, functions, processes, practices, technologies used, value realized, as well as emerging trends for such adoption in the future.

Survey Coverage: The Survey Report covers multiple staff/ support functions extending to Finance & Accounting, Human Resources, Procurement, IT, Operations and multiple domains in Manufacturing & Services, with some large verticals including Pharmaceuticals, Retail, Telecom, Diversified, Banking, Financial Services, Insurance etc. A beginning has also been made in covering the Public Sector.

Participation: Survey invites were sent to ET 500 companies, DMA Members, and other large corporate houses, with target audience focused on CXOs and Shared Services leaders, to receive responses. In addition, the responses were supplemented by personal interactions and telephonic conversations as required to gather/validate relevant information for the Report.

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I. Executive Summary

SSC Adoption: Gaining Momentum for Indian Organizations!

The survey indicates that SSCs are gaining momentum as a strategic option for Indian organizations to improve service levels and process efficiencies. In the period 2006 to 2010, the number of SSCs set up by Indian organizations has almost tripled compared to the prior five-year period.

The demographic profile of the respondents demonstrates that the SSC concept finds acceptance across a wide range of industries.

The SSC concept is also finding acceptance amongst the government sector – the Income Tax Central Processing Centre (CPC) is an excellent example in this segment.

Scope: F&A processes lead the journey of Shared Services!

Finance and Accounting (F&A) dominates the landscape from the process perspective (96%), followed by Human Resources (51%). Clustered next are IT, Supply Chain & Procurement, Customer Contact Centres and Operations (for service industries).

While processes of a transactional nature dominate the current landscape, trends indicate that SSC's are evolving to manage higher-end processes like taxation (in F&A), performance management (in HR), systems integration (in IT) and analytics (in Supply Chain).

Key Benefits: Shared Services of Indian Organizations deliver cost saves...and more!

69% of the respondents said they were able to obtain cost savings of at least 10 %, of which 38% said that saves are more than 20%! This dispels the notion that SSCs catering to customers in India do not have a positive cost impact because wage arbitrage benefits equations are not available.

Beyond the expected benefits of better process performance and management, SSCs are also seen as a facilitator for cultural change and better financial management.

Many respondents have indicated that their teams are spending a significant amount of time on transactional activities compared to time spent on strategy and decision support – an issue that SSCs address very effectively.

Key Challenges: Change Management holds the key for effective Shared Services Operations!

A critical success factor in the SSC scenario is the ability to overcome the challenges faced - first during setting up and subsequently when the SSC hits steady-state.

The biggest challenge faced during the set-up stage is change management, followed by relocating existing employees, which is also a change management issue.

The primary challenge faced post set-up is maintaining customer buy-in, implying that SSC managers need to be always alert to signals coming in from their customers.

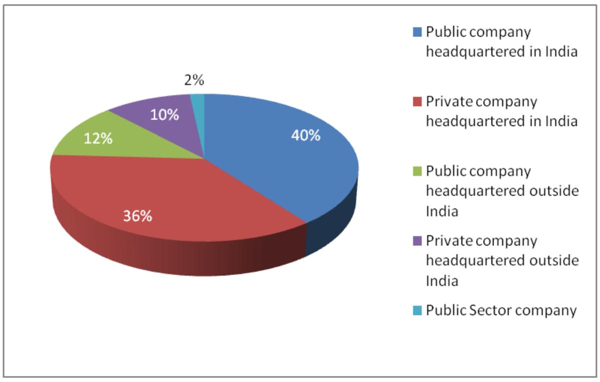
Way Forward: Greater momentum can be expected through success stories and business cases.

There is no doubt that SSC's are here to stay and SSC managers are looking to expand overseas, reduce cost and build skills to expand scope of services.

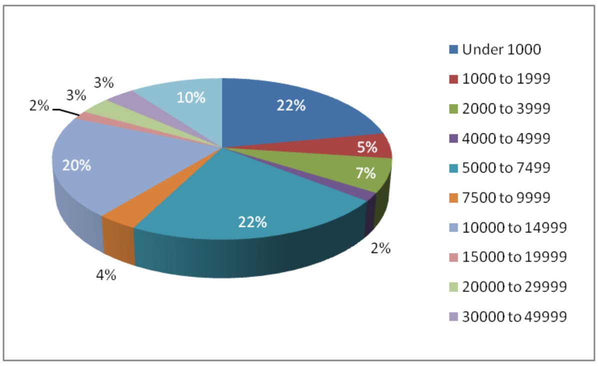
The key question is what needs to be done to increase the rate of adoption. Major drivers in this context are sharing success stories to build awareness of the value of the concept and creating strong business cases that enable decision making.

Profile of respondents

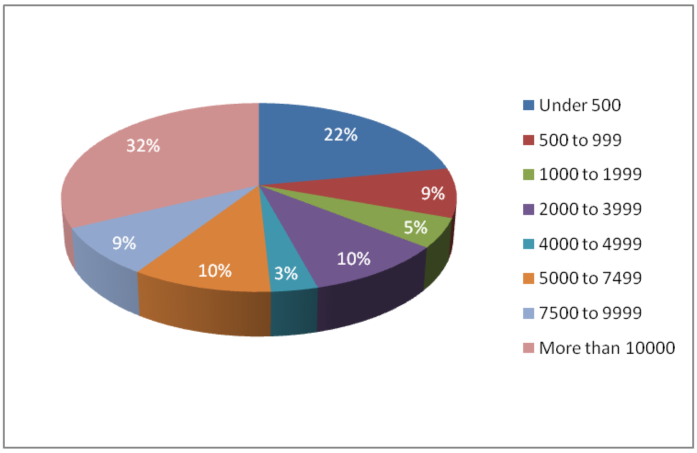
Organization Type



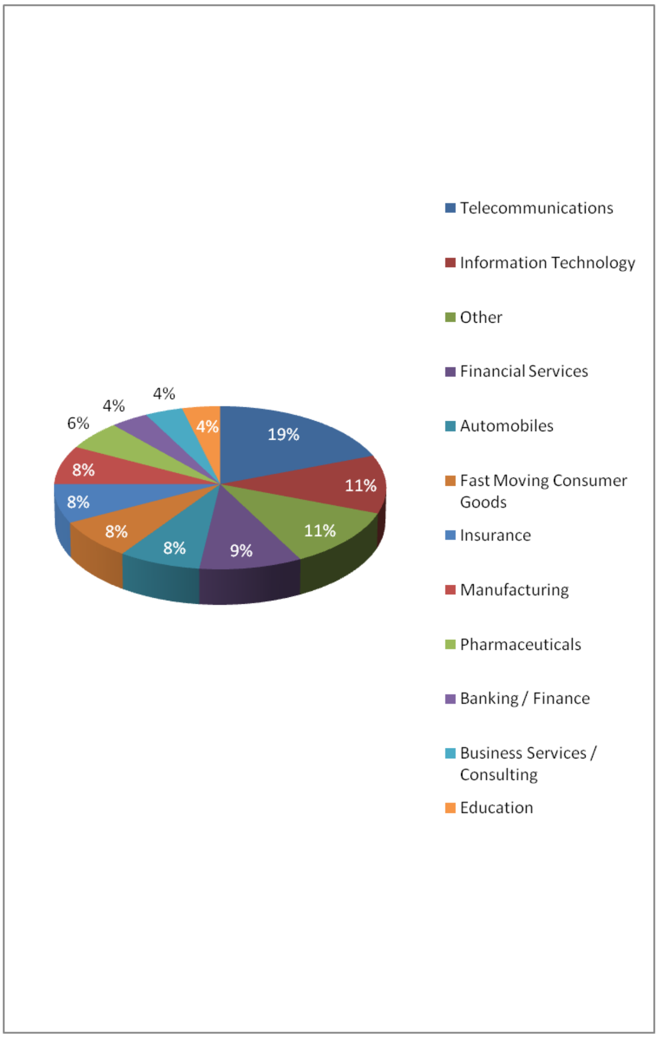
Revenue (Rs. Crores)



Number of Employees



Industry Type



II. Shared Services Landscape

Global Context of Shared Services

India's journey as a global hub for services goes back to the mid 1980's when Texas Instruments set up an R&D facility in India. Interestingly, the first global shared service centres in India were set up for providing services in the fields of Engineering and R&D.

Besides British Airways and Swissair initiating shared services operations, the mid-1990's was the real launch of the evolution of India as a global destination, with two large American companies – American Express and General Electric setting up captives in India. American Express is seen as the pioneer who consolidated its back office operations for Japan, Asia-Pacific & Australia (JAPA), by establishing its Financial Resource Centre in New Delhi. Soon thereafter, General Electric set up its India captive which was a fully owned subsidiary of GE Capital.

The success of the American Express and GE captives encouraged several global companies, particularly in the Banking, Financial Services & Insurance (BFSI) segment, to set up captives (also called as Global In-house Captives or GICs) in India between end-1990 to mid-2000. The list of companies includes HSBC, Standard Chartered Bank and Bank of America. Subsequently, global companies in manufacturing, IT and other domains commenced off shoring their back office operations. These include Daimler, Ford, Honeywell, Dell, Du Pont, Shell, Coca Cola, to name a few.

The figure below depicts the growth of captives from 1990 to 2010.

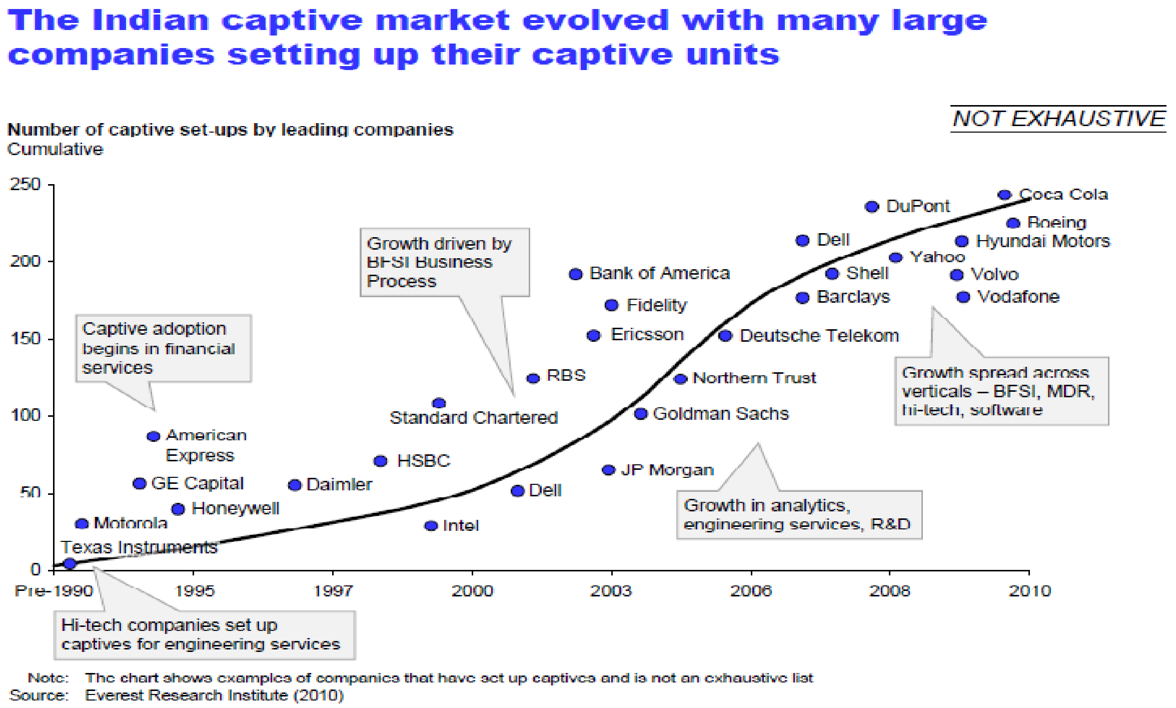


Figure 01: Global Context of Shared Services

The growth in global shared services centres (SSCs) is best seen from the number of Forbes 2000 Companies who set up their SSCs in India between **2000 and 2008**:

Year	Number of Captives
2000	44
2003	99
2006	180
2008	225 (Approx)

Source: Everest Research Institute

India as an Offshore Destination - SSCs & BPOs

In addition to global SSCs, the early 2000's also saw several Indian companies setting up independent entities offering outsourcing services to overseas corporations, similar to those offered by the global captives. This marked the beginning of the third-party BPO movement in India, with early movers being Spectramind (subsequently bought by Wipro), Daksh (subsequently bought by IBM), EXL, Infotech Enterprises and eFunds. At almost the same time, several large Indian IT companies such as Infosys and Satyam set up BPOs as independent entities. This was followed by international third-party BPO's such as IBM, Convergys, Sitel and Accenture setting up operations in India.

Post 2000, India emerged as the leading off shore destination in the world, with a 48% share in the combined global market (Shared Services + BPOs) of almost US$92 to 96 billion. Of this, the share of global shared services is about 24%, and continues to rise!

Off-shoring of services started with Travel Operations and Finance & Accounting processes, and over a period of time, has extended to almost all service functions – Customer Service, BFSI Operations, HR, Supply Chain, Analytics and Equity Research,

Sourcing & Structuring Models - Captive, Third Party and Hybrid, Others

In the context of managing business processes, there are several approaches that an organization can take.

The first approach is to set up the entity providing the services under the same ownership as the entities receiving the services. In this model, the entity providing the services is called a 'captive'.

The Shared Services Centre in India in an off-shoring scenario is usually a separate legal entity that is a fully owned subsidiary of the overseas corporation. However, most of the domestic Indian organizations structure their SSC as a division or unit of the company and not as a separate legal entity.

The second approach is to engage the services of a 'third-party' that is completely independent (from an ownership perspective). This approach is called 'outsourcing'. It is possible for 'captives' to evolve and be 'spun-off' as a third party. GECIS (GE's captive) evolving to Genpact is a good example in the Indian context.

The third approach is a combination of the above where some processes are managed by the captive and some are outsourced. This is the hybrid model.

Another approach is to set up a joint venture where the entity providing the services is partially owned by the entity receiving the services. In this scenario, the entity providing services has the option of engaging with other organizations as a third party.

A relatively new approach (in the outsourcing world) is the BOT (Build-Operate-Transfer) model. This model borrows the BOT concept that is often used in infrastructure projects. In the context of outsourcing, what an organization does is engage a third party to set up a facility for business process management. The third party bears all the costs of setting up and running the facility for a period of time. Ownership is subsequently transferred to the customer based on the terms agreed upon.

Service Provider Landscape

Many of these global BPO/ITO players are now focusing on the Indian market. In the last couple of years India-to-India outsourcing initiatives have shown encouraging trends. In the next 12 to 18 months we anticipate substantial growth and movement in this space. The primary functions being considered are Finance & Accounting, Human Resource and Information Technology.

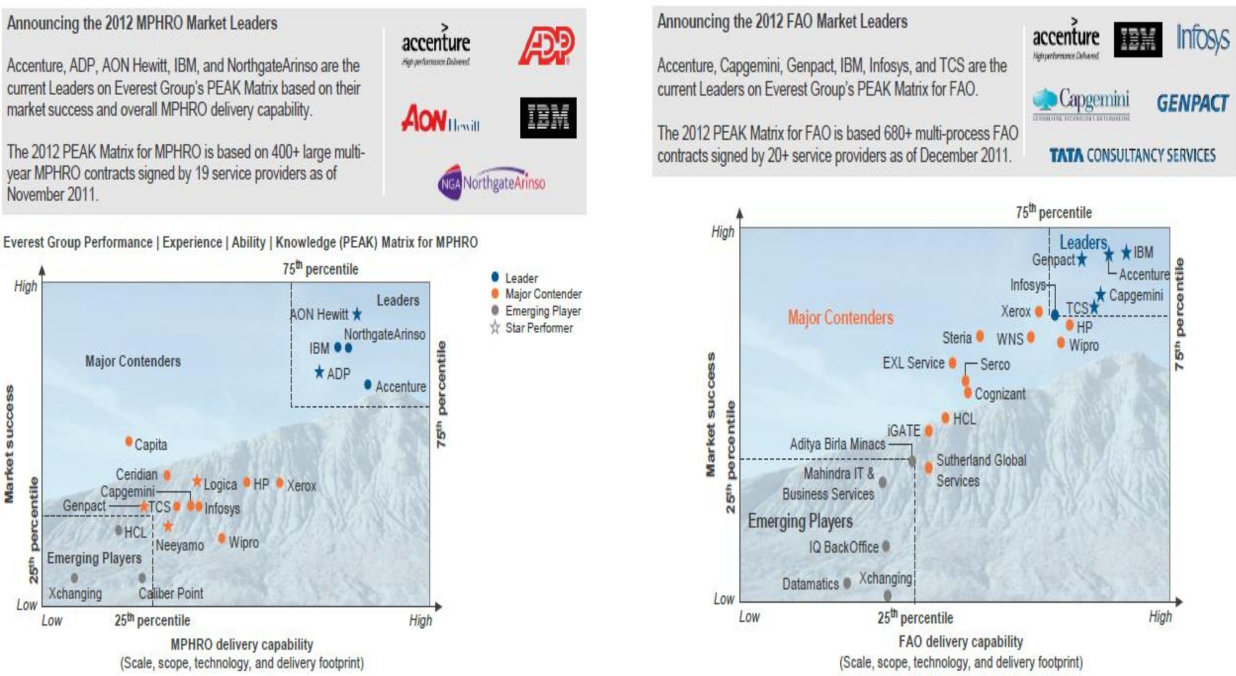


Figure 02: Service Provider Landscape

Source: Everest Group PEAK Matrix

III. SSC adoption in Indian Organizations

With the proliferation of India-based GICs and BPOs servicing overseas operations, several Indian organizations began considering the shared services model as a viable strategic option for their Indian operations as well. Indian companies like Hindustan Unilever, Dr, Reddy's, Tata Motors and Ranbaxy set up SSC's in the mid-2000's that managed business processes for their business units in India. Interestingly, all these companies started their SSCs with F&A processes. Simultaneously, the BFSI segment of India also considered multiple structuring models – SSCs, Outsourcing and Hybrid Models(In house + Outsourcing), to manage their back office operations.

The first phase of the Indian captive market started in 1998 when several banks initiated setting up shared services. For example, HDFC set up an independent associate company (ADFC) to manage transactional activities.

The second phase started in 2003 and continued till 2006, when many Indian companies from multiple domains like HUL, Tata Motors, Dr. Reddy's and Ranbaxy set up SSCs. Hindustan Unilever is considered to be one the pioneers to set up shared services for its India operations in line with global best practices. The HUL SSC was a separate legal entity (Indigo), operating out of Bangalore and Chennai.

The third phase (from 2007 to 2010) saw many telecom companies and other large corporations setting up shared services.

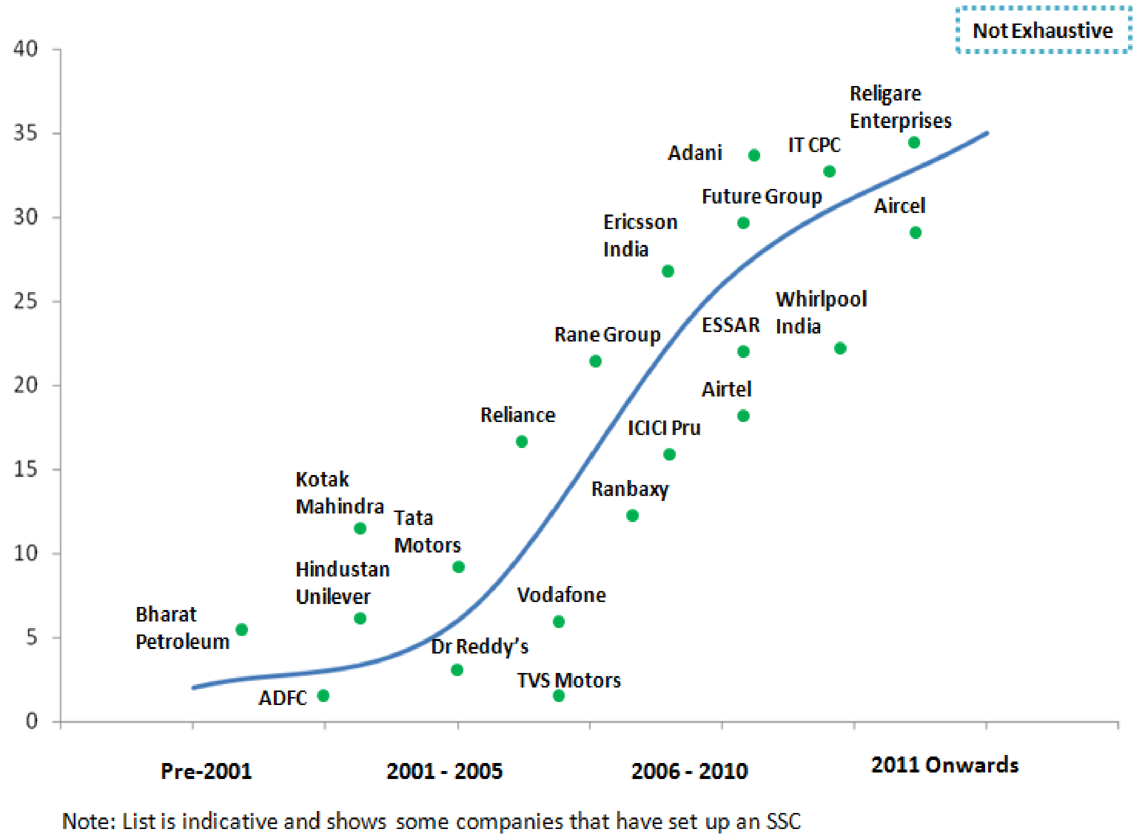


Figure 03: Evolution of Indian SSCs

65% of respondents (details below) said their SSC has been operational for at least two years.

- Between 2 to 5 years (35% of respondents)
- Between 6 to 10 years (23% of respondents)
- More than 10 years (7% of respondents)

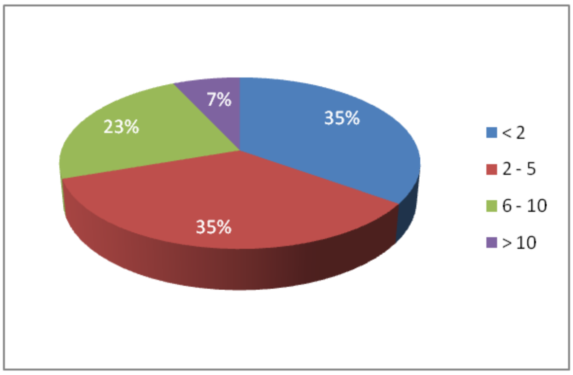


Figure 04: Number of years operational

35% of respondents said the SSC was less than two years old – an indication that organizations in India continue to be convinced about the benefits of the SSC model.

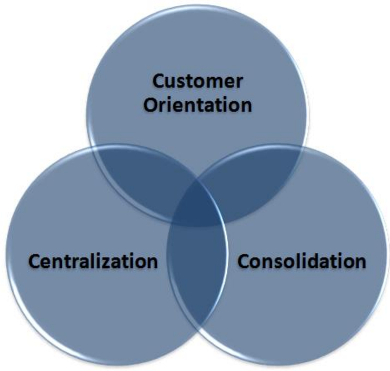


Figure 05: Essentials of Shared Services

Essentials of Shared Services

Shared Services (SS) or Business Services (BS) is a collaborative strategy, combining the best of BOTH – Centralization & Decentralization, in which, processes of existing common functions across various locations / business areas are brought under a new, self governing business unit that has a management structure designed to promote efficiency, improve service, generate cost savings and create value for the internal customers of the parent and group companies, working as a service partner to eventually become an extension of the businesses, at rates that compete with the open market.

Focused on all three components to gain the best of Centralization & Decentralization while moving along the Evolution Path

In the recent past, there have been some changes in the structuring of SSCs. Some organizations have explored the route of hybrid sourcing or spinning off their Shared Services Centers as third party BPO players.

Challenges in Service Functions

The changing business needs and demands of a modern globalized business are forcing support or service functions to transform themselves from just being managers of transactions to a “strategic function” enabling business growth. However, challenges such as complex internal collaboration structures, deployment of right skills at right levels and not having an appropriate technology solution, are preventing rapid progress for service functions in many organizations.

Some of the key challenges faced by service functions are:

- How can we reduce costs and improve quality simultaneously?
- What measures are in place to track the efficiency and effectiveness of support functions?
- How far are our business processes documented and standardized?
- How can we realign back office transactions to enable business processes?
- How can we avoid duplication of effort?
- How well are we oriented towards internal/ external customers?
- How do we enhance compliance and control at the transaction level?
- How far are we leveraging IT investments to improve business processes?

The figure below provides a list of primary challenges/pain areas faced in service functions by many organizations.

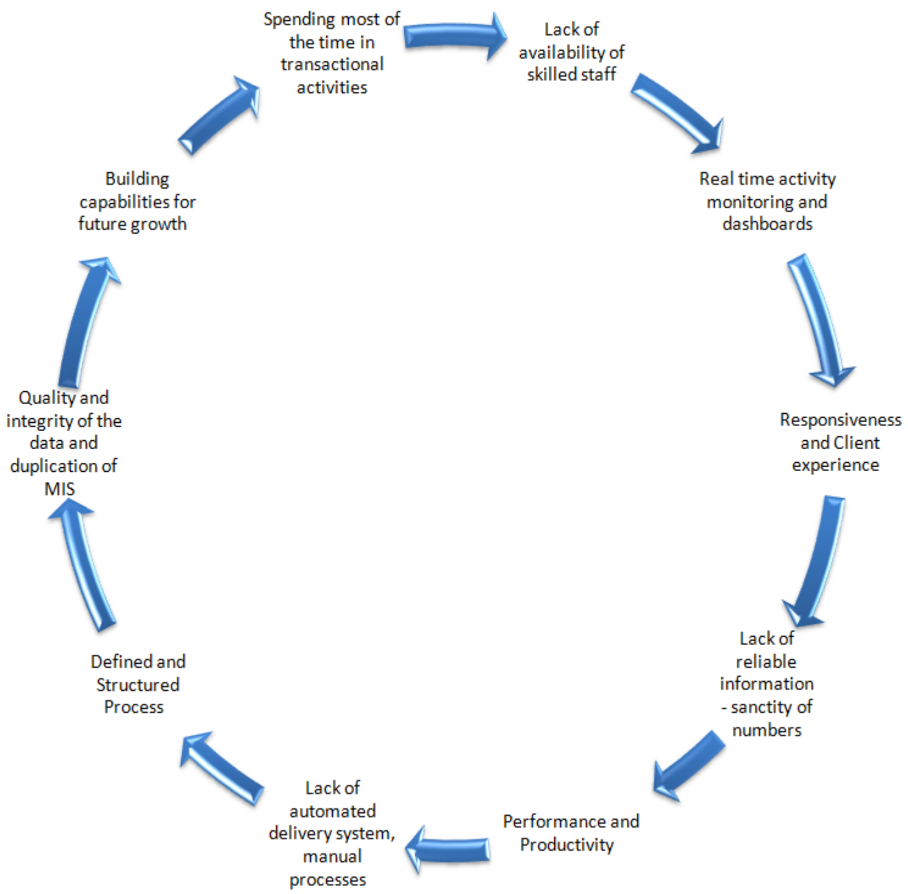


Figure 06: Primary Challenges/pain areas faced in Service functions

Upon setting up of a Shared Services Centre for any service function, these issues are addressed and benefits accrue to the business.

Trigger for Shared Services

With increasing intense competition, businesses are looking for any competitive advantage that they can get. To build this competitive edge, companies are required to focus on core business strategy, decision supporting analytics, customer acquisition and risk management. When processes are fragmented, non-standardized and spread across multiple geographies/locations with each business unit having its own way of operating with multiple systems, information required for strategic decision making starts to become limited.

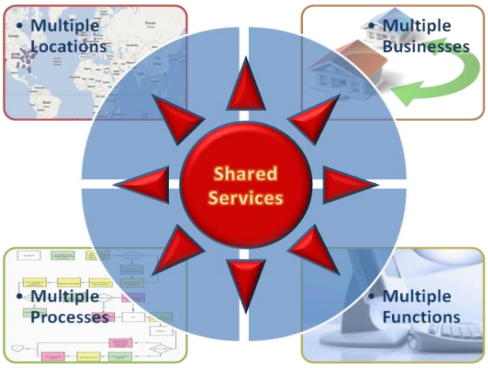
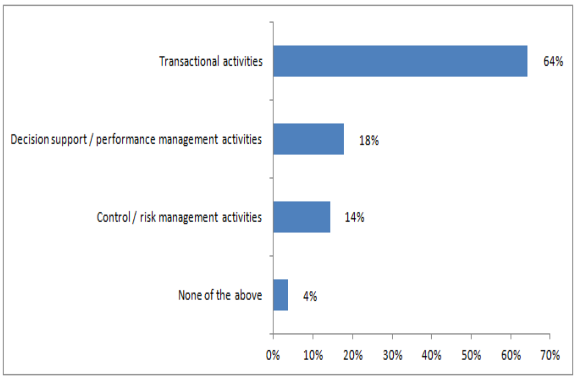


Figure 07: Trigger for Shared Services

Time spent by employees on different types of activities



In addition, to above, the core leadership is more focused on transactional back office activities rather than on core business activities.

Leaders have intent to spend more time on strategic/business-focused and decision support activities. Having said that, due to the current spread of work, functional/business leaders are spending a large chunk of their and their team's time, on ***'Transactional Activities'!***

Figure 08: Time spend by employees on different types of activities

Shared Services Providing Strategic Focus to Business

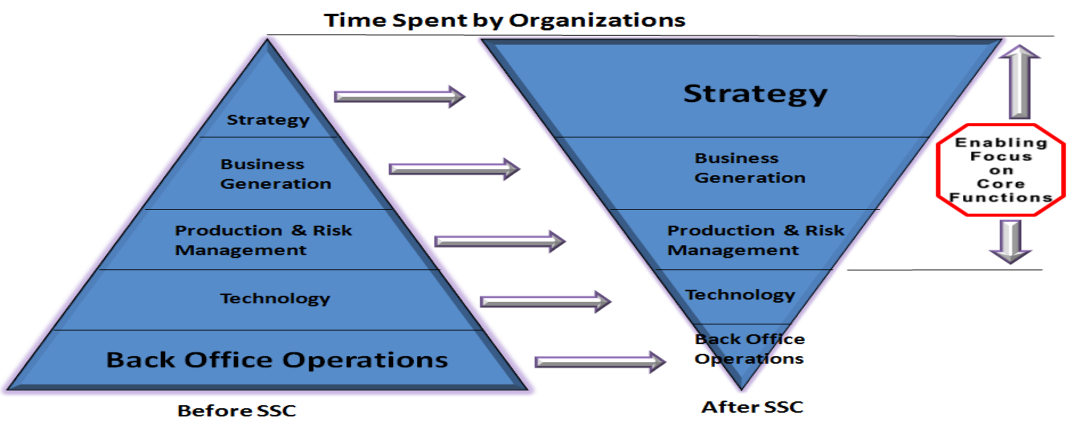


Figure 09: Enabling Organization to Grow and Move up the Value Chain

Potential benefits expected from an SSC in case a decision is taken to set up

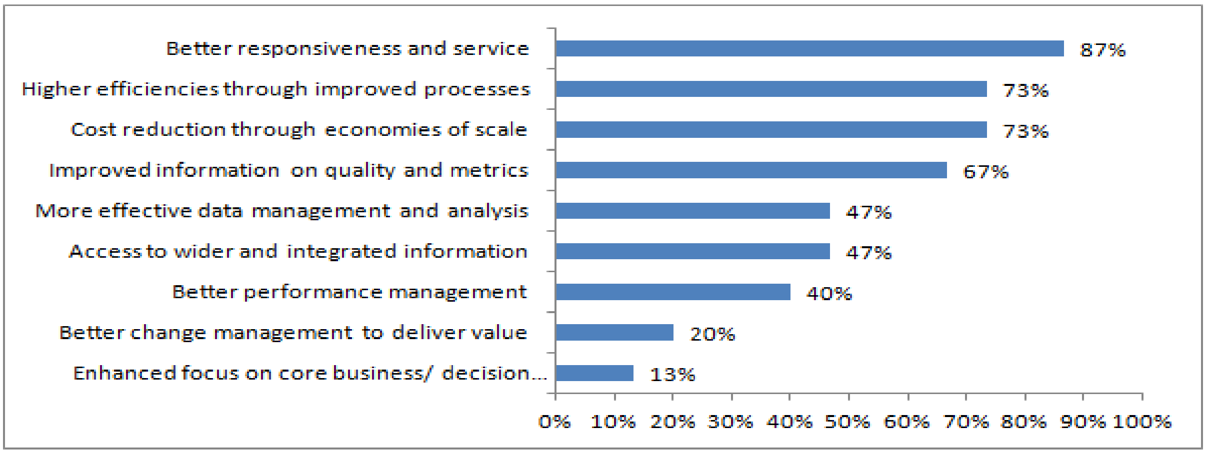


Figure 10: Potential Benefits in case SSC Strategy opted for

Benefits through Shared Services

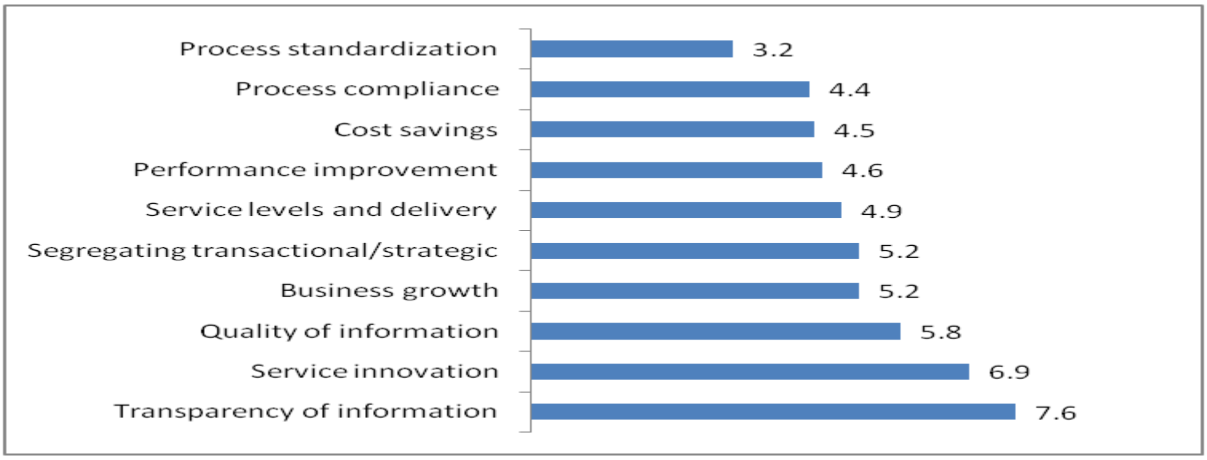
Organizations that treat their Shared Services as a strategic service or a business partner are realizing the most value in terms of both tangible and intangible benefits. Shared Services provides enterprises a different strategic and economic value proposition.

The successful implementation and application of SSCs enables companies to improve service quality, reduce operation cost and enhance core competency

Primary reasons for setting up an SSC

The reasons with the highest ranks indicate that process performance and costs are the primary reasons for setting up an SSC.

Transparency/quality of information and innovation were reasons with relatively lower ranks.



Ranking scale: 1 (most important) – 10 (least important)

Figure 11: Primary reasons for setting up an SSC

Impact of SSC on organisation goals – financial and process perspectives

A significant finding of the survey puts at rest a matter of great debate for Indian SSCs – do they achieve cost saves or not?

69% of respondents said they were able to achieve at least 10% cost savings by adopting the SSC model.

38% were able to achieve a cost savings level of more than 20%.

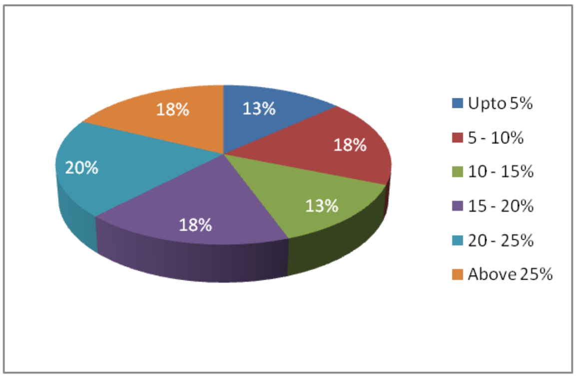


Figure 12: Cost Savings due to setting up SSC

Clearly, based on experience, the cost saves can arise on account of multiple factors:

- Consolidation,
- Right skilling,
- Right span of control
- Process improvements
- Effective financial discipline

It goes unsaid that, astute change management is called for to realize these benefits!

Other benefits obtained from the SSC

The top benefits (in addition to cost savings) are improved quality, process standardization, better monitoring and control, ability to scale up operations and improved efficiency.

Respondents also reported non-process-oriented benefits such as a starting point for cultural change (58%) and improved financial management (33 %).

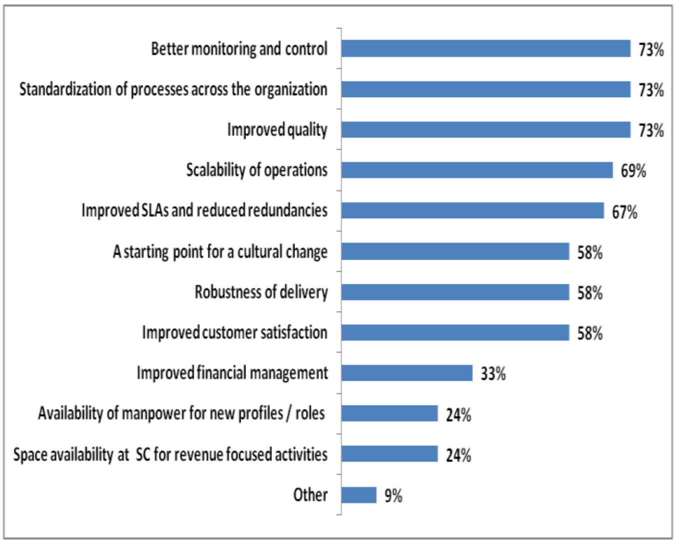


Figure 13: Other Benefits of an SSC

Before setting up an SSC, many of the staff functions tend to focus on control over business units rather than control for business units. Accordingly, service orientation to internal customers and measuring the service levels are not essential for their performance. However, while considering to set up an Shared Services Centre the top benefit expected by internal customers are as below:

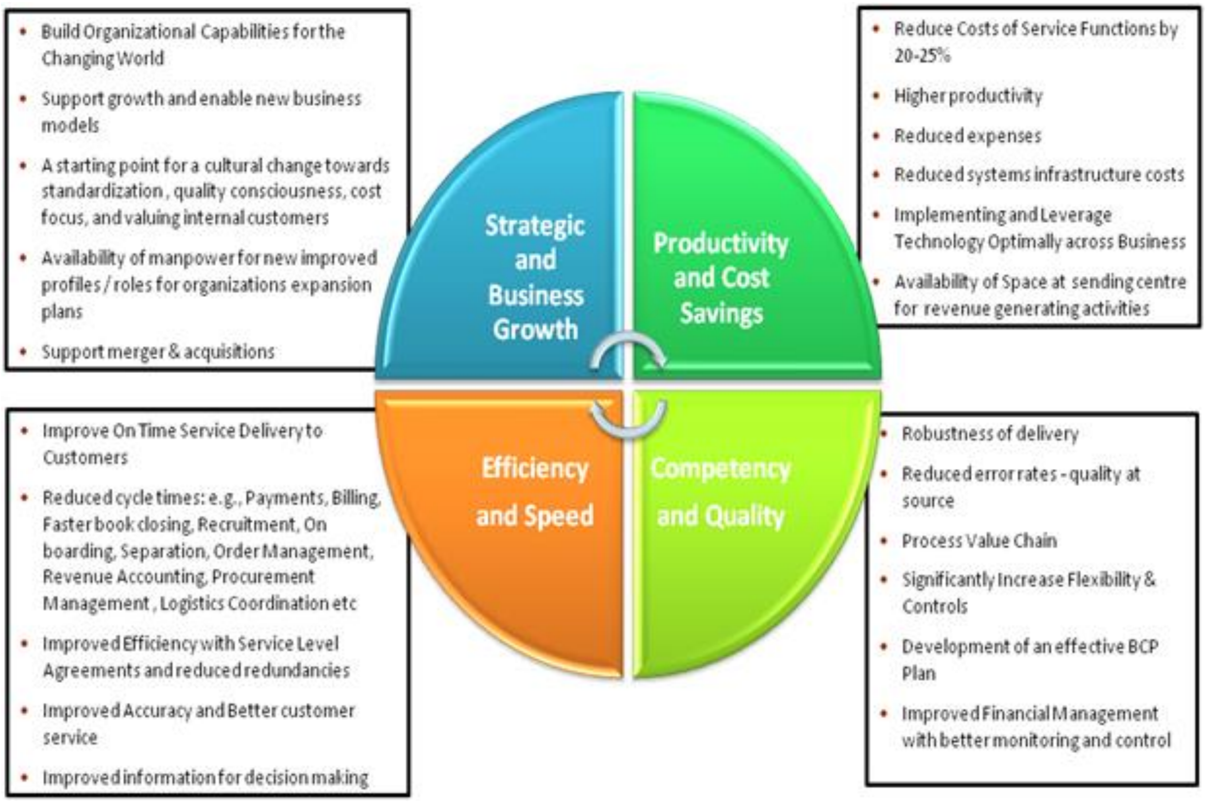


Figure 14: Benefits of setting up Shared Services Centre

What Differentiates SSCs

FOUR key factors that differentiate SSCs.

1. ***Relationship: Collaborative partnership***. The SSC works in collaboration with business units and partners with its internal customers to deliver value to external customers. The purpose of an SSC is to evolve a relationship that enables strategic focus by business units, by freeing up time from transactional/operational activities.
2. ***Services: Service with Control.*** By design, an SSC is in the business of providing quality services while enabling controls 'for' business and not 'on' business. The SSC needs to ensure process discipline with enabling technology for enhanced service and embedding controls in the process itself.
3. ***Operations: Interdependent***. An SSC needs to become an independent business unit from which its customers prefer to buy cost- effective services. Such a relationship removes the notion of a simple centralization or a departmental way of working towards a shift in operations in line with the concept of a center of excellence.

4. ***People & Leadership*: *Dual Focus.*** The (re)orientation and culture of people of SSC needs to be tuned to 'simultaneously' focus on 'dual' dimensions – 'function & process' from an operations point of view, and on 'customer & business', from services point of view! This is a critical requirement to make SSC operations really effective, and needs greater focus when existing people are moved from various locations into an SSC.

Function-wise view of SSC adoption

Majority of respondents (96%) indicated that Finance & Accounting was in the scope of processes being managed by their SSC. This reflects the fact that several F&A processes (such as Accounts Payable, Accounts Receivable and Reconciliations) have characteristics that facilitate integration into the SSC model.

<u>Finance & Accounting</u> is followed by Human Resources (51%) – another function that has several processes that are transactional.

Only 2% of respondents mentioned Engineering Services was within the scope of the SSC.

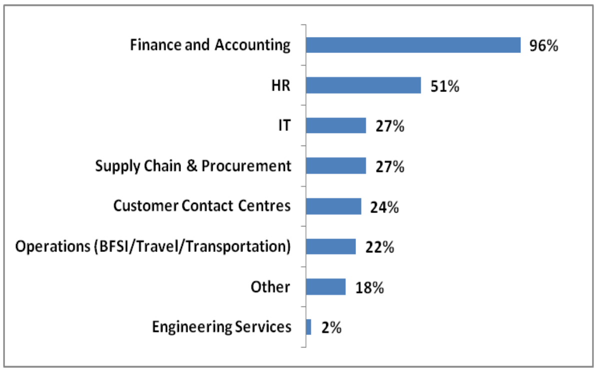
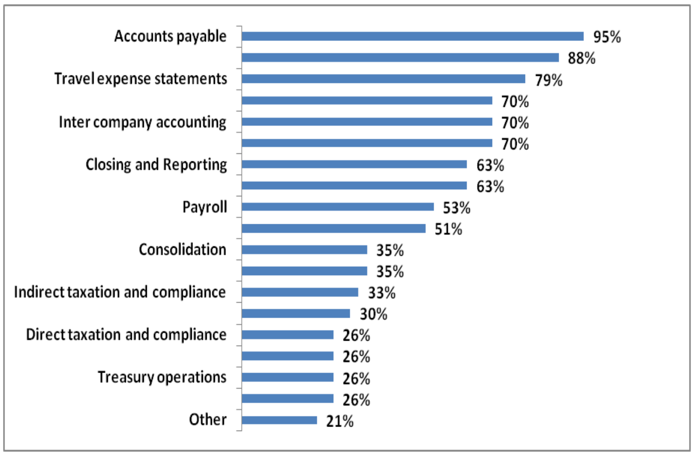


Figure 15: Function-wise view of SSC

The top five processes in **<u>F&A</u>** are:

- Accounts payable
- Reconciliations
- Travel expense statements
- Accounts receivable
- Intercompany accounting

While processes of a transactional nature dominate, SSC's are widening their scope to include non-transactional processes such as Financial Analysis, Consolidation, Taxation & Compliance and Cash Management.



*Based on number of respondents for function.

Figure 16: F&A Function process-level view

As far as **<u>Human Resources</u>** processes are concerned, the top processes are Payroll and Compensation, HR Information Systems/ Employee data management, Benefits administration and Relocation Services.

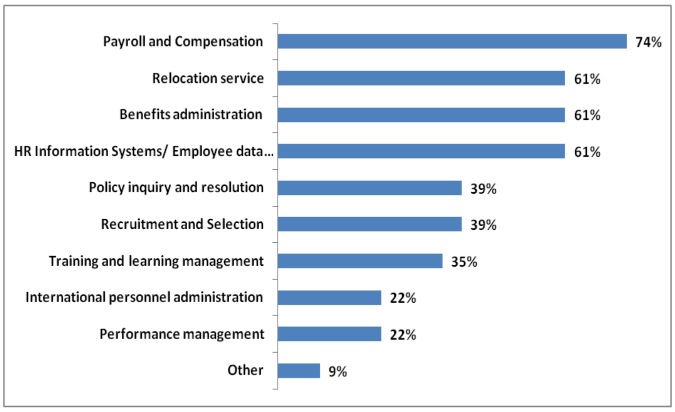


Figure 17: HR Function process-level view

For SSC's covering **Supply Chain or Procurement** processes, the top processes are PR/ PO Maintenance, Help Desk & Procurement Management.

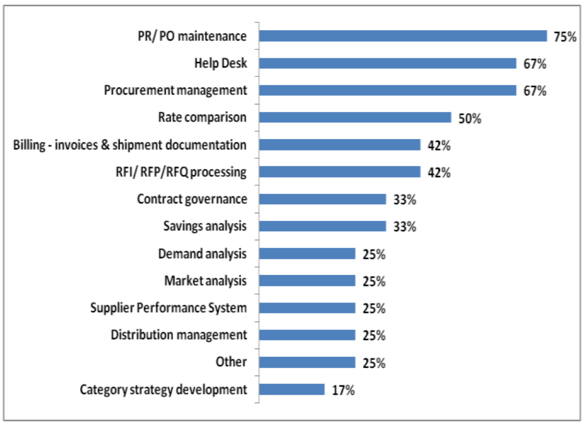


Figure 18: SCM Function process-level view

For SSC's covering **Information Technology** Services, a high percentage of respondents said the following processes were included in the SSC scope.

- Network/ Help Desk support
- Network and systems management
- Application management
- Data Centre support
- Database management

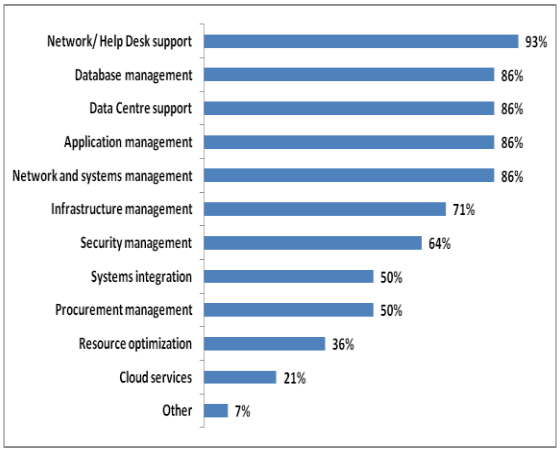


Figure 19: IT Function process-level view

For SSC's covering the **Operations** processes shown, the top processes (more than 50%) are Forms/Applications Processing, Know-Your-Customer, Indexing and Policy Administration and Maintenance.

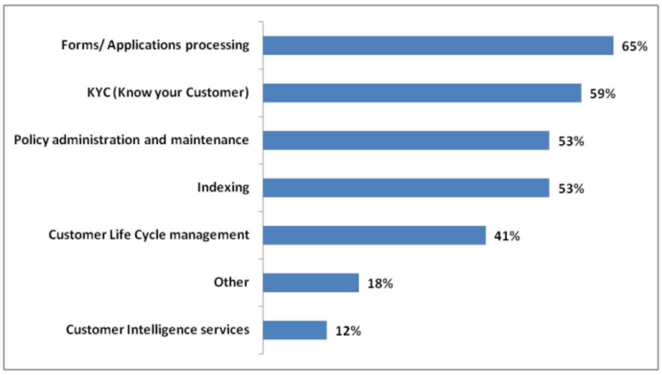


Figure 20: BFSI Operations process-level view

Focus Areas depend on Business Priorities & Organizational Alignment

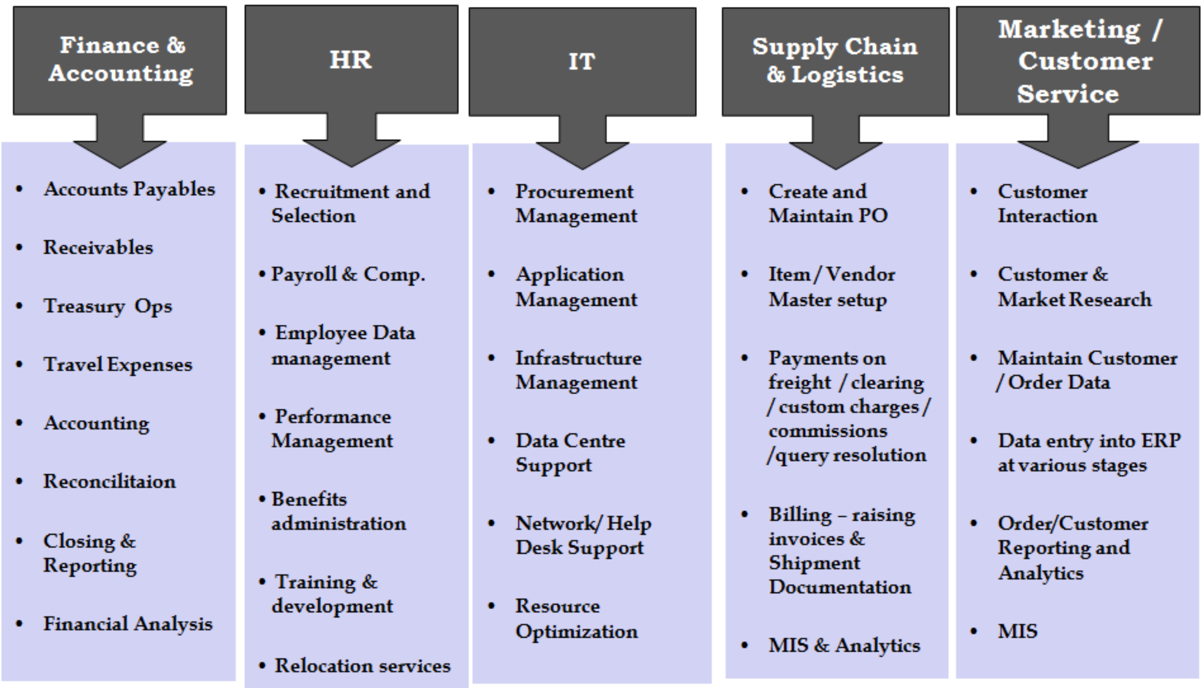


Figure 21: Business Process Spectrum

IV. Redesigning Service Functions

Business Process Integrates Services Function

If we split the organization largely into two parts - one could be the core Production functions with no direct intervention with customer and other would be customer interfacing Business Generation and Customer Service functions. The other functions such as F&A, HR, IT, Supply Chain, Logistics, IR, etc. are commonly called service or staff functions. These functions play a vital role in enabling the production function and connecting it with the customer facing functions. Generally, service functions such as F&A, HR, Supply Chain, Logistics, etc. have their own goals and focus areas and work in silos. In far too many instances, these functions act alone and fail to provide a convincing cross-functional business case. For example, IT organizations may attempt to invest in applications without close linkage to operations, marketing or other important functions. At other times, functions focus more on their own operational efficiencies, instead of their contribution to broader corporate objectives. For instance, HR organizations may build robust processes for recruitment or learning & development, but fail to build an alignment with the requirement of developing highly talented, cost-effective human capital for multiple operating units.

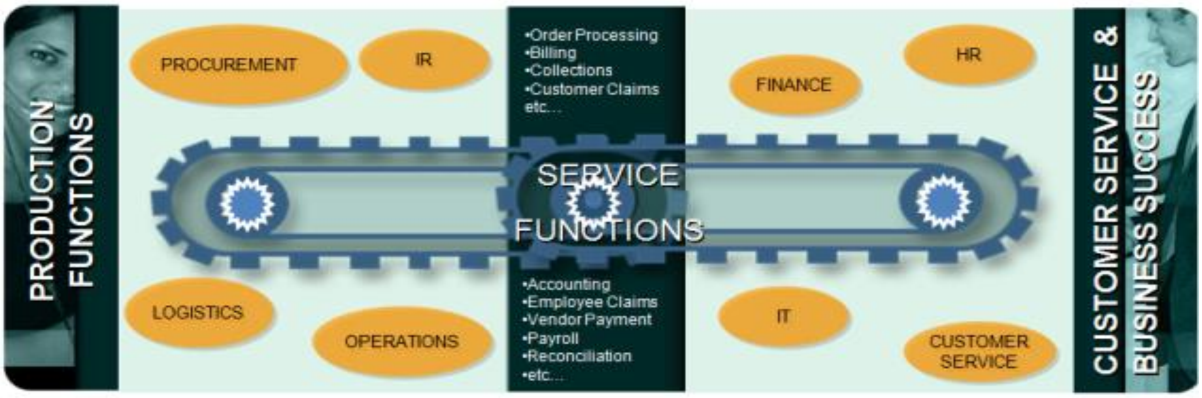


Figure 22: Redesigning Service Functions to drive Corporate Goals and Business Unit Requirements

Business Process Integration improves Collaboration across the enterprise's ecosystem. A business process is a collection of related, structured activities or tasks that produce a specific service or product (serve a particular goal) for a particular customer or customers. A business process can be decomposed into several sub-processes, which have their own attributes, but also contribute to achieving the goal of the super-process. Business process integrates the Service functions for every business! Hence, the strategy starts with an interaction with the Top Management to plan a review of the various staff/service functions like Finance & Accounting, Human Resources, Procurement, IT and Customer Support Operations with the objective of reviewing and assessing how to redesign the 'staff' functions into 'line' functions i.e. with metrics to determine its performance and contribution, and convert the 'support' function into a 'service' function in a way that it does not merely become a cost but adds value to the business unit and the customer.

Approach & challenges in setting up an SSC

Not surprisingly, **change management** was considered the primary challenge faced by majority of respondents followed by relocating existing employees.

Only 20% of respondents considered top-management sponsorship to be a primary challenge.

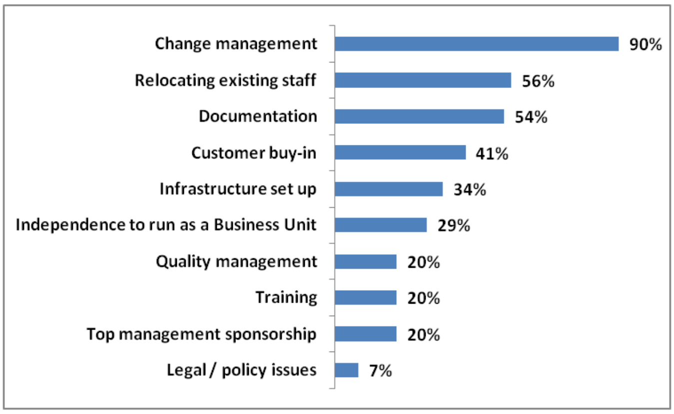


Figure 23: Challenges in Setting up an SSC

Strategic Framework

With years of global and India experience, RvaluE has evolved a strategic framework to Realize Business Value - the **SET™** framework.

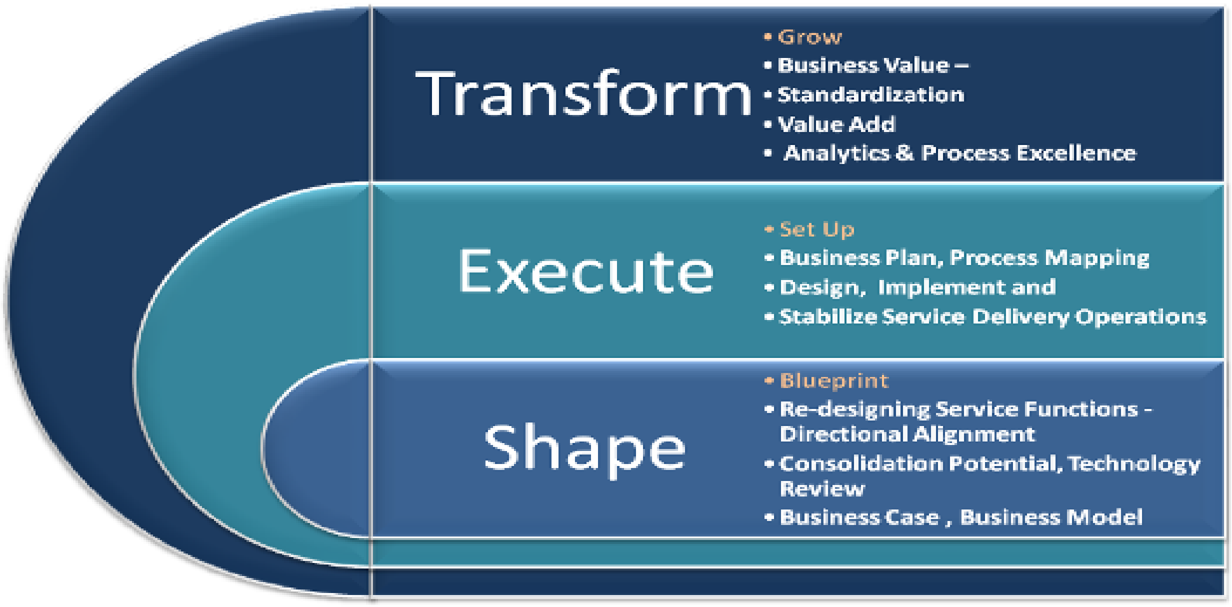


Figure 24: 'SET' Strategic Framework

Shaping the Business Services model, in directional alignment with strategic objectives and goals, is the first major step for successful redesigning of service functions.

The sourcing strategy for each organization depends upon the strategic direction of the organization, its growth plans, the current business priorities and how the various staff/support functions enable the business units and the organization to achieve their key goals. Quite often, the staff functions act as a department, without being able to measure their output and their benefit/ impact on the organization.

Shape: the strategy and direction

During this stage, establish the need for Shared Services and the directional alignment required to progressively transform the function.
With the help of the senior leadership team, the elements of the strategy focused are to:

- Assess indicative functions, processes and head count,
- Understand technology platform and requirement of tools,
- Determine the Mix of make vs buy, and
- Evolve governance and change management requirements

The above elements will enable to create a strategic blue print with an executable roadmap and applicable business case to gain sponsorship and stakeholder buy-in, to progress with execution.

Execute: the design and plan

Execution Excellence is key for this stage. Based on the strategic blueprint, through a structured program and change management:

- Design process transition of identified functions/processes,
- Set up space and infrastructure for the Shared Services
- Enable work flow automation and knowledge transfer to the team on process, metrics and service orientation
- Create a flat organization design with the right span of control to achieve desired cost saves, and
- Transition and stabilize the operations.

The Shared Services Centre is operational, delivers services to customers and achieves cost saves of ~ 20% in the first year.

Transform: the process and partnership

Business Excellence is achieved in this stage. The focus is to:

- Report and improve service levels through reliable metrics,
- Standardize and streamline processes, and embed controls
- Enhance capabilities and expertise of the team to expand functions and services,
- Explore hybrid models for effective delivery,
- Build partnership with customers to participate in projects, and
- Deliver value to all key stakeholders.

Simply put, grow the Shared Services to transform the business process and become an extension of the customer's business.

Concerns/ risks while implementing a decision to consolidate business processes under an SSC

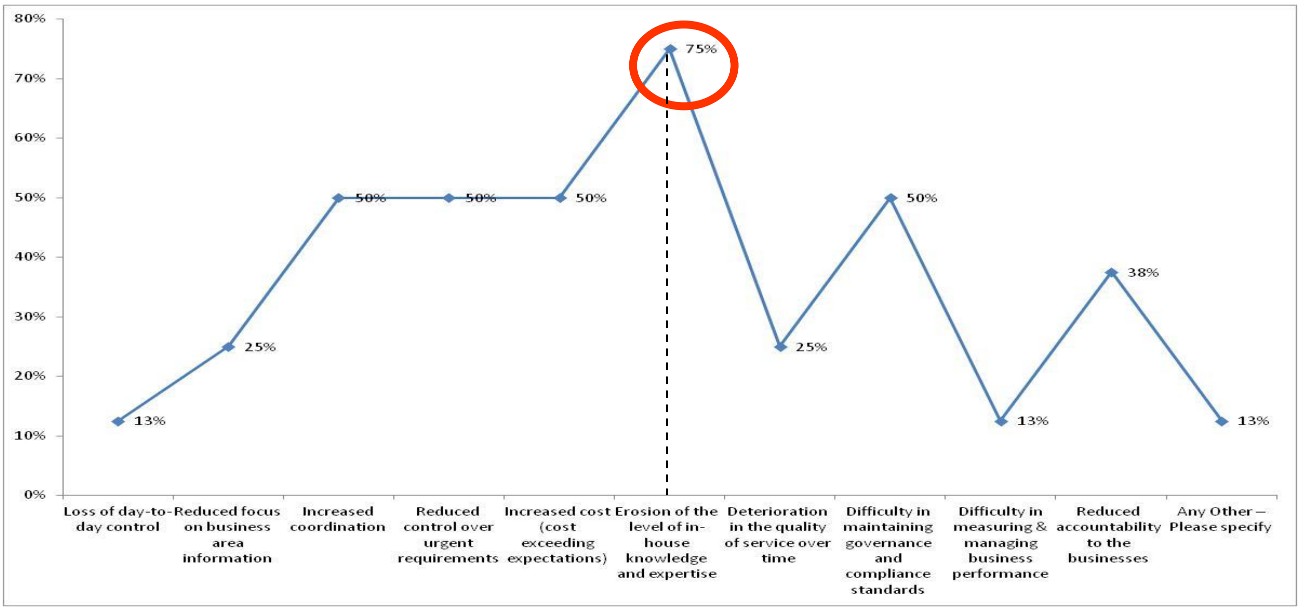


Figure 25: Major concerns/risks highlighted while exploring consolidation of business process

Based on the complexity /business criticality of the process, some processes (e.g. T&E Claims Processing, Payroll Processing) are outsourced to third-party vendors whereas remaining processes are delivered from an in-house SSC.

Key considerations when selecting a particular operating model should be:

- The company's strategy including corporate imperatives and anticipated future moves
- Management's philosophy for running the business
- How management wants to control and manage risk
- Beliefs about decision-making, accountability, and delegation
- Viewpoint on the nature of organizational change required
- The nature of the functions being considered
- Are there economies of scale? If so, what types?
- How common or different are the needs across business units?
- Are there sufficient numbers of employees with the specialized skills required?
- Current performance
- Are customers satisfied with cost and performance?
- What outsourcing options should be considered?

Beyond Private Sector

Redesigning of service functions is equally important for Public Sector or Government departments. An excellent example in recent times is the Income Tax – CPC (Centralized Processing Centre).

Public Sector/ Government – Income Tax CPC case study

Central Processing Centre (CPC)

The Central Processing Centre (CPC) is a pioneering initiative from the Income Tax Department (ITD), a government body and an arm of the Central Board of Revenue, responsible for administering the Income Tax Act as per the Constitution of India.

This has been set up aptly recognizing 'citizens as customers' of the Government, fully leveraging global practices in automation and services.

Need Assessment

The ITD needed a comprehensive system for e-filing, processing and refunding of income tax returns. It was also looking to expedite the processing of returns and issue of refunds, thereby encouraging tax payers to e-file returns, through an IT enabled process and electronic data capture.

The Plan

The ITD decided to establish a Centralized Processing Centre (CPC) in Bangalore for mass processing of income tax returns in an automated manner.

Initial Scope of the Project

The ITD specified the initial scope in October 2008 as under:

- Setting up and operating a CPC to manage bulk tax administration functions such as receipt, scanning, data entry, processing, issue of refunds, etc.,
- Providing technology (including software development/integration,, hardware integration) to automate back-end processes in line with international practices
- Establishing a call centre
- Maintaining paper records in a secure, robust and scientific manner

Solution

ITD established a Project Management Office to set up the CPC at Bangalore in collaboration with a technology partner and ensured a comprehensive transitioning and implementation plan. The CPC took planned actions in respect of user education on e-filing of returns, role of CPC, and FAQs through interactive sessions involving professional bodies like ICAI and its members, structured induction for new Income Tax officers, site visits, and publishing metrics through a CPC newsletter.

The project was well executed and CBDT issued a Notification in September 2009 to confer powers on CPC to process specified transactions and actions.

Benefits

The CPC when implemented created a central governing mechanism to ensure processing of income tax returns across the country. It brought the much desired transparency and independence to complete processing with least bureaucracy. The benefits included:

- Significant reduction in cost
- More people e-filing returns
- Most of the refunds were issued within three months of a tax filing
- A call centre was set up for answering tax payer queries

- Refined processes were established for e-filing IT returns

FY 2012 Update

In FY 2012, CPC processed 1.32 crore returns, a 47% increase over FY 2011. Rectification requests received by CPC has dropped from over 10% of returns filed in AY08-09, to 6.5% in AY 09-10, to 3.8% in AY 10-11 and further to just about 2.9% in AY 11-12.

FY 2012 saw several milestones / records set by CPC. Between October 2011 and December 2011, the Financial Accounting System (FAS) at ITD CPC was revamped completely with three rounds of enhancements which resulted in a quantum jump in daily throughput. This resulted in:

a. Highest ever weekly processing of 7.06 lakhs in the week ended 30th December 2011
b. Highest ever monthly processing of 22.35 lakhs in December 2011
c. Highest ever quarterly processing of 53.6 lakh returns for Q3 2011
d. Week ended 6th January 2012, CPC generated and issued 1.9 lakh refunds
e. Consequent to the increase in throughput, the average time for processing a return from the date of receipt of the ITRV has dipped to below 40 days
f. Faster processing has also helped in a significant drop in refund reissue requests from 10% of refunds in AY 2009-10 to about 3% of refunds generated in AY 11-12.

Particulars	FY 2012	FY 2011
Total Returns Processed (Rs Lakhs)	132	88
Average Processing Time	59	151
Total Refunds sent (Nos.)	46.39	27.36
Total Refunds calculated (Amt, Rs Cores)	14,000	10,670
Total Rectification Requests handled	553,516	95,432
Average processing time of Rectification Requests	63	102

Assessment Year	Average Interest paid u/s 244A (as a % of refunds)	Total collections from returns processed in CPC (Rs Crs.)	Arrear Demand set off (Rs Crs)
AY 09-10	7.9%	289.76	128.63
AY 10-11	5.4%	156.71	1533.12
AY 11-12	3.9%	26.14	1201.27

End-to-End Integration

State Bank of India has set up a unit at CPC for printing refund orders and will use our Postal facilities for dispatch of refunds. This will ensure better coordination and speedy issue of refunds and also ensure end to end integration of CPC processes.

Source: Income Tax Department communication, Notifications and CPC Newsletters.

V. SSC deployment – Current State

Staffing: Employee strength of the SSC - both frontline and supervisory combined

29% of respondents said the employee strength of the SSC was less than 100.

32% of respondents said the employee strength of the SSC ranges from 100 to 200.

27% of respondents said the employee strength of the SSC ranges from 200 to 500.

13% of respondents said the employee strength of the SSC was above 500.

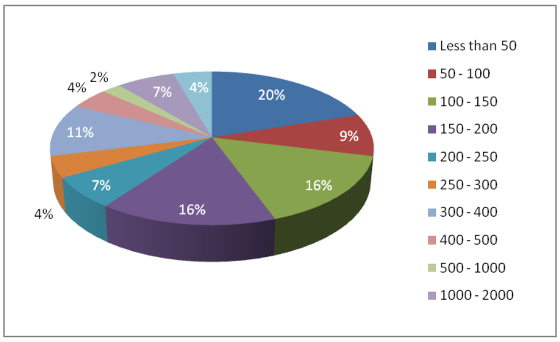


Figure 26: Employee Strength of SSC

Average team size (front-line staff per supervisor/team lead) in SSCs

Responses on team size are evenly distributed between the four options. The maximum percentage was for a team size of 6 to 9 (36%).

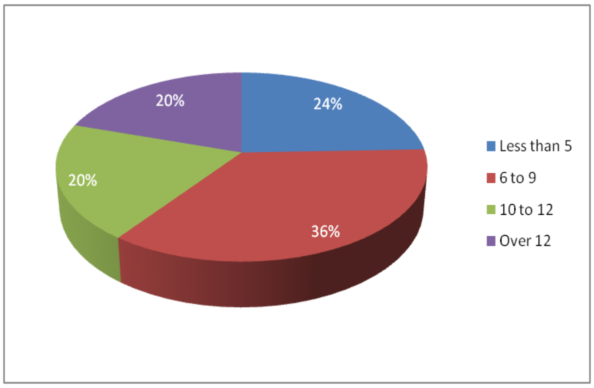


Figure 27: Average Team Size

Software / tools implemented in the SSC

Majority of respondents (84%) said they had an ERP in place and a significant percentage (60%) said they were using a workflow management tool. This reinforces the hypothesis that technology is a key enabler for adopting the SSC model.

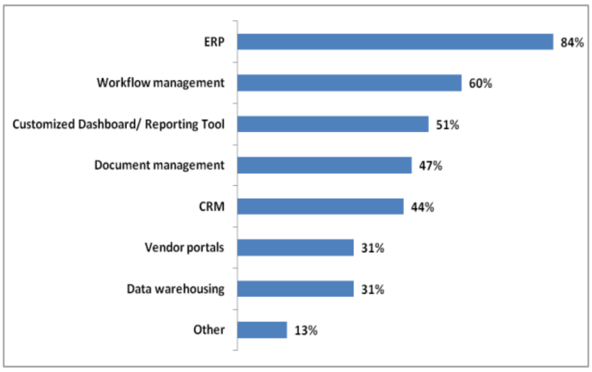


Figure 28: Software/tools implemented

Technology and ERPs

ERP implementation

As expected, SAP (67%) and Oracle (13%) are the most popular ERPs adopted.

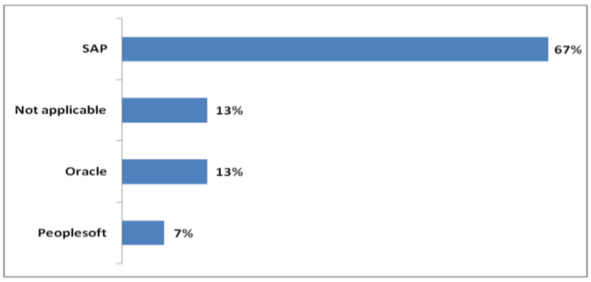


Figure 29: ERP Implementation

Governance and Performance of SSC

Key performance measures for processes managed by the SSC

Timeliness (responsiveness), quality and customer satisfaction are the top three performance measures, reflecting the fact that these are the widely used measures for effectiveness.

Productivity (measure of efficiency) and cost savings follow. 33% of respondents mentioned 'Cost per transaction' as a measure indicating that there is a move to transaction based pricing over the traditional FTE-based pricing model.

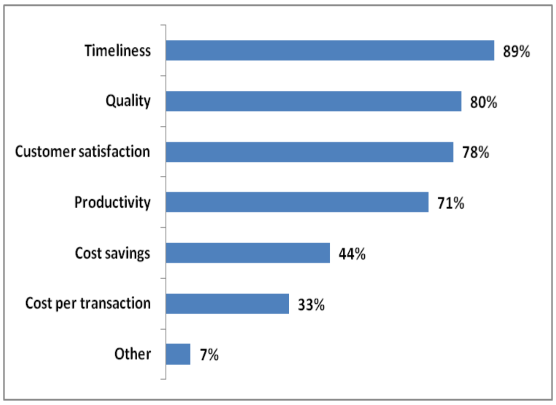


Figure 30: Key performance measure

SSCs reporting into

87% of respondents said the organization's SSC reported to a C-level officer – a reflection of the fact that most decisions to set up an SSC are driven by the corporate office. A significant percentage reports to the CFO.

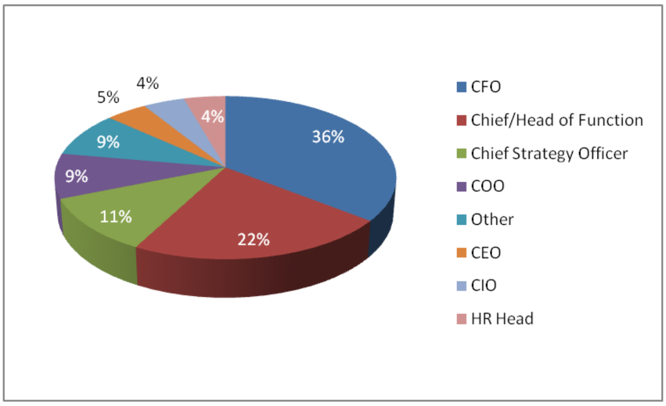


Figure 31: SSCs reporting into

Some best practices adopted in SSCs

Organizations have adopted several best practices to ensure that their SSC operations are sustainable. The top practices (adopted by at least 75% of respondents) are process documentation, automated workflow and regular reviews with the customer.

These are followed by metrics base lining, capturing voice-of-customer and an operational governance mechanism.

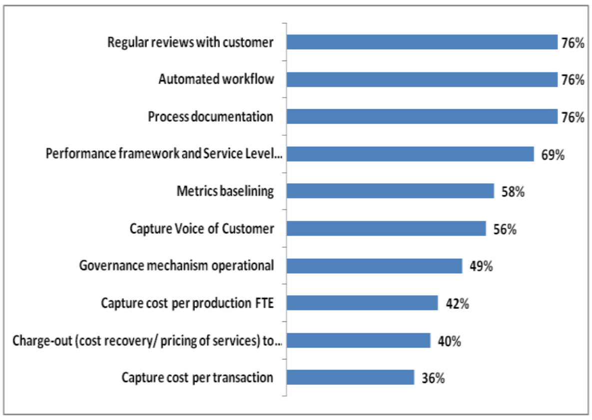


Figure 32: Best practices in SSC

Primary challenges faced in managing SSCs

As indicated by the responses, SSC managers face a wide range of challenges while managing their operations.

The highest ranked challenge is internal customer buy-in, an indication that SSC managers need to focus on all aspects of customer management – both hard and soft.

The next set of challenges (overall score of 2 to 3) include:

- Existing staff not oriented to SSC culture or requirements
- Employee attrition
- Customer/service orientation
- Talent management
- Maintaining service levels / quality management

Ranking scale: 1 (High) to 5 (Low)

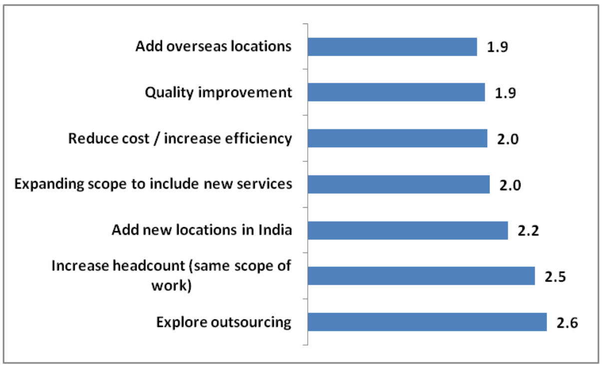
Figure 33: Challenges in managing SSCs

Priorities of the SSCs in the near-term (1 - 2 years)

The top priorities for SSCs in the near-term are:

- adding overseas locations
- improving quality
- reducing cost / increase efficiency
- expanding scope to include new services

The responses indicate that the near-term focus is to expand size and reach by strengthening the value proposition.



Ranking scale: 1 to 3

Figure 34: Near term plan

Business Metrics

Average annual Day Sales Outstanding (DSO)

24% of respondents said their average DSO was less than 30 days

16% of respondents said their average DSO was more than 30 days

42% were not aware of their organization's DSO.

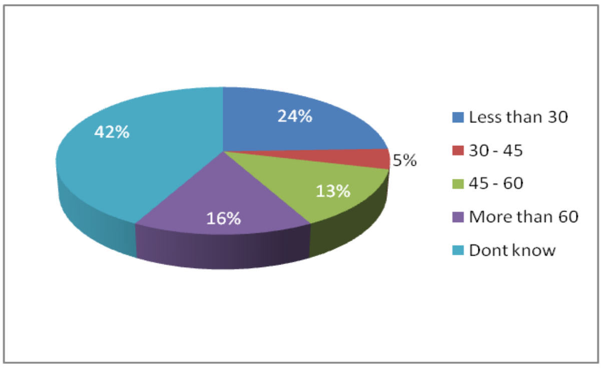


Figure 35: Day Sales outstanding (DSO)

Payment On Time to vendors

69% of respondents said their Payment-on-Time ratio (to vendors) was more than 60 %.

24% were not aware of the organization's performance level.

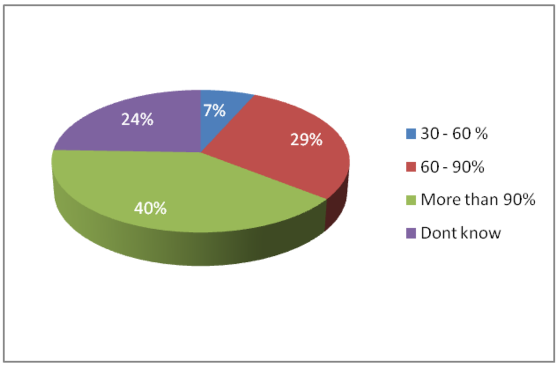


Figure 36: Payment on time

Month-end Book Close timeline at entity level

66% of respondents said they were able to close month-end books within 7 days of month end.

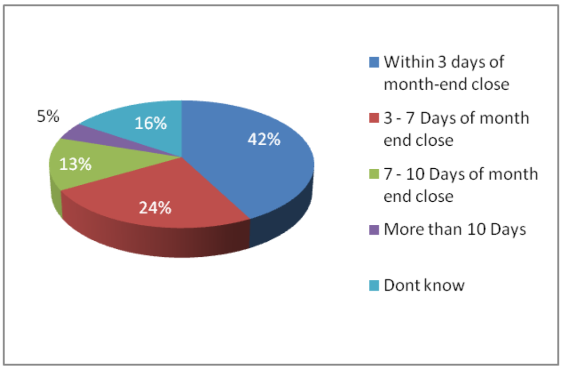


Figure 37: Month-end Book Close timeline

Overall attrition % of the company up to middle management level

64% of respondents said the overall attrition rate was less than 15% and only 4% reported an attrition rate of over 25%.

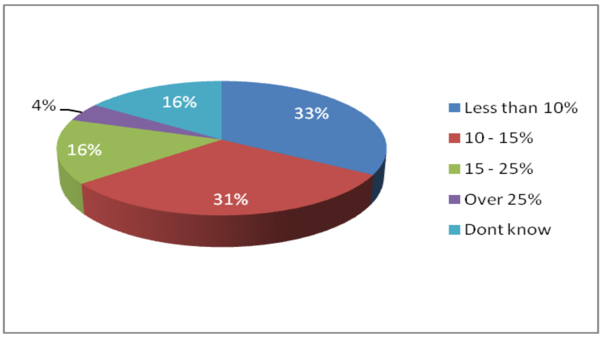


Figure 38: Attrition

% of total spend controlled by the centralized sourcing organization

36% or respondents said the centralized sourcing organization controlled more than 50 % of total spend.

49% were not aware how much of total spend was managed by the centralized sourcing organization.

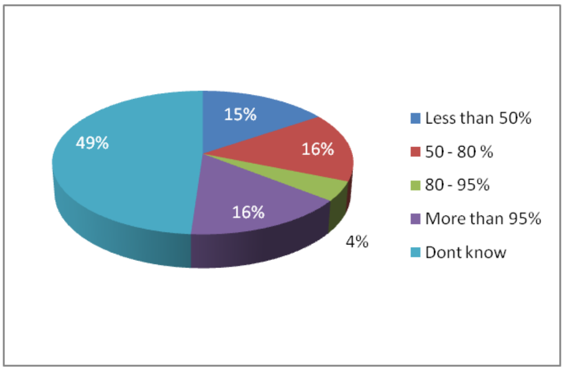


Figure 39: % total spend controlled centrally

A large set of respondents who are yet to implement shared services had limited information of these critical business metrics. Further, performance on these business metrics for organizations yet to have SSCs was substantially lower.

VI. Emerging Trends

As mentioned previously, over the last two years many shared services centres have been set up by Indian organizations and adoption of the shared services model is on the rise.

Functions / areas being considered

95% of respondents confirmed that Finance & Accounting processes followed by Human Resource processes would be the priority functions to implement

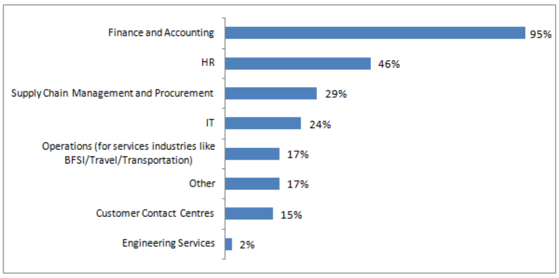


Figure 40: Functions being considered for SSC

More than the 53% of respondents indicated they were looking to explore the shared services model in the next 6 to 12 months.

Expected timeline for decision making

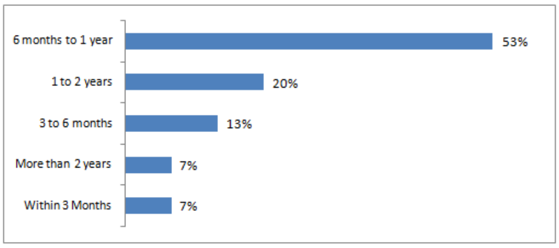


Figure 41: Expected timeline for deciding

Survey findings reveal the top three reasons for not yet implementing an SSC are:

- Not yet a priority for the organization
- Lack of awareness about the shared services strategy
- Lack of a strong business case

Reasons for not implementing as of now

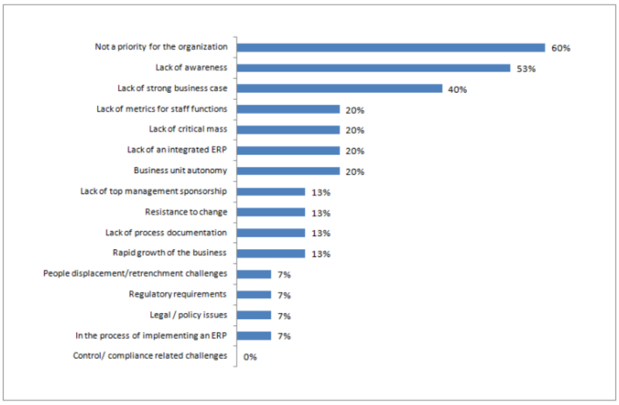


Figure 42: Reasons for not implementing Shared Services as of now

It seems that lack of awareness and lack of understanding of the possible business impact results in CXOs not assigning high priority to the shared services strategy. Findings from this survey will help Indian organizations to explore the adoption of shared services.

In order to facilitate the decision making process:

- 53% of respondents believe better understanding of the shared services concept along with information on industry experience will be useful.
- 47% respondents mentioned case studies of successful SSC implementations, including the cost - benefit story and change management requirements will facilitate decision making.

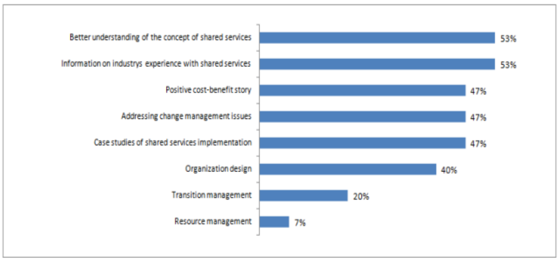


Figure 43: facilitating decision making

Conclusion:

Increasing complexity and volatility of today's business environment is demanding a redesigning of service functions. In the current economic scenario, visionary CEOs & CFOs are looking at building "best in class" business functions with embedded and enhanced controls, enabling metrics-based decision making to lead and support their enterprise cost saving mandates, and ensuring effective use of information, costs and capital to deliver value to all key stakeholders.

With India emerging as a leading global destination for off shoring of IT and IT-enabled services (for captive Shared Service Centres as well as outsourcing operations), Indian corporations have commenced exploring shared services as a strategy to achieve cost saves, focus on core business, increase processing efficiency, enhance controls & compliance, ensure information flow for decision making, provide customer visibility to operations and enable business growth.

Many global and Indian organizations across multiple domains have set up their shared services across multiple functions. These include, Tata Motors, Airtel, Ericsson, Hindustan Unilever, Future Group, Nestle, American Express, Citibank, HDFC, ICICI Prudential, etc.

Public sector organizations and government departments have also commenced consolidation of their back-office processes and restructuring public services with a focus to recognize 'Citizens as Customers'.

Survey responses indicate increased adoption of the shared services concept in India, fully leveraging best practices from global shared services and off shoring operations.

The key to further build on this evolving path of success would be to build greater awareness through sharing of successful case studies!

Appendix:

Definitions of terms used in the survey

Shared Services Operations or Shared Service Centres (SSC) *is a strategy in which processes of existing distributed support functions like F&A, HR, Marketing, Procurement, IT, etc. previously carried out by a number of locations/ divisions/ departments/ business areas are consolidated under an 'in-house' self governing unit to provide services to other internal customers / groups /business areas of the parent and group companies.The groups providing and receiving the services have the same financial owner, i.e. no third party is involved.*

Centralized Processing Centers (CPC) *relates to consolidation of back office processes by Banking, Financial Services and Insurance companies from multiple locations into one or more centers for processing operational transactions.*

For the purposes of the Survey, the term ***'Captive Centers'*** *as well as* ***'Centralized Processing Centers (CPCs)*** *of BFSI companies can be used interchangeably with* ***Shared Service Centers*** *SSCs or SSOs.*

Conventional ***Centralization*** *is* ***NOT*** *Shared Services, as these two have different features.*

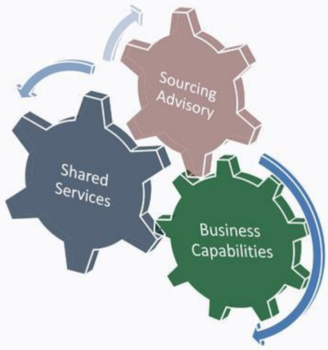
Outsourcing *in this survey refers to 'services rendered by a third party BPO' Organization.*

With changing business needs, growing companies redesign staff functions...
...to **achieve Value and Excellence**

RvaluE offers three major service in business processes: **Sourcing Advisory, Shared Services** and **Business Capabilities to enhance business performance.** Our team comes with **strategic, operational** and **hands-on experience,** having been part of the global team to set up and grow the pioneering global shared services centre for American Express.

In the last few years, we have set up and partnered with more than **10** Shared Service Centers (SSC) within India and overseas in multiple functions including F&A, Marketing, HR and Supply Chain. We have worked with large domestic and global corporations in multiple domains – Banking, Financial Services, Insurance, Pharmaceuticals, Retail, Manufacturing, Telecom etc.

Recently we have advised one of the largest Business Process Management deals in India - to spin off the F&A SSC of a Pharma major (with India to India Ops and US/ UK) to one of the global BPO Players!



Our Services

Sourcing Advisory

- Service Function Review
- Sourcing Strategy & Structuring Models
- SSC/ BPO Expansion
- RFP Management
- M&A Opportunities

Shared Services

- Program Management
- Designing Shared Services
- Transition to Delivery
- Stabilize the Operations
- Engagement Models

Business Capabilities

- Performance Framework
- Operational Reviews
- Voice of Customer (VOC)
- Moving Up the Value Chain
- eSCM and Capability Review

We customize our engagement to deliver on the client's strategic and operational requirements with a focus on execution and business excellence.

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Realizing Business Value

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