Financial shared service center on the rise toward valuable business partners – 2nd generation FSSCs

A study into the current performance and development of FSSCs in the financial services sector and their growing value as business partners.
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A study into the current performance and development of FSSCs in the financial services sector and their growing value as business partners.
Companies in the financial services sector generally put a concrete focus on saving costs and increasing quality, efficiency and transparency by optimizing their administrative and back-office functions, particularly as a result of the financial crisis and often changing regulatory requirements. Practice shows that shared service center are an effective instrument to assess this task. In our experience, companies employing shared service center realize major advantages (e.g., quality, efficiency, compliance and transparency) over decentralized administrative organizations. To develop and sustain these benefits, shared service center must be developed and optimized constantly. This study shows the performance of today’s shared service center and provides an outlook on shared service centers’ future potentials exclusively for the financial services sector.

The shared service center analyzed all provide finance and accounting processes to their internal and/or external clients. Thus, we will refer to them as financial shared service center (FSSCs) below.

During the period from July 2011 to January 2012, a standardized questionnaire was completed by 33 financial services companies across the globe that have implemented at least one FSSC (representing 94 FSSCs in total).

Priority was given to large, globally operating financial services companies ranked among the Fortune Global 500 (70% of participants) and listed on other major national indices. Almost all of the participating financial services companies are listed on at least one of the following indices: DAX 30, S&P 500, FTSE 100, CAC 40, S&P/Tsx, S&P/ASX 50, OMX Stockholm 30 and FTSE MIB.

We would like to thank all of the organizations and individuals that took the time and effort to contribute to our unique survey and added their valuable input. We are happy to provide readers with a range of interesting insights in the area of FSSCs in the financial services sector.
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How to read this survey

The core of this survey is the maturity model that evaluates the performance and consequently allows the assessment of optimization potentials of existing FSSCs. Evaluation criteria from participating FSSCs were compared with each other, and their performance was measured based on the maturity results and relevant key performance indicators (KPIs). The goal was to identify causal relationships between the different FSSC characteristics in order to detect performance gaps and optimization potentials, develop recommendations and depict future trends for the financial services companies’ FSSCs.

The main parts of the survey are structured as follows:

Section A, the executive summary on page 11, gives a brief overview of the survey and the distribution of the maturity model’s results, and highlights key success factors that were found to influence the FSSCs’ performance.

Section B summarizes the survey’s key findings on page 17 with regard to
• the FSSCs’ objectives and scope of services,
• necessary strategic decisions and possible pitfalls before FSSC implementation and
• FSSC optimization levers.

In section C on page 20, the FSSC maturity model and its components are explained. The model assesses the performance of existing FSSCs based on the eight evaluation criteria: strategy, organization/governance/compliance, continuous improvement, business processes, customer relations, performance management, human resources management as well as systems and technology.

Section D starting on page 24 presents the detailed survey results and implications and is divided into the maturity model’s eight evaluation criteria (chapters 1–8). It analyzes the status quo, finds relationships between certain FSSC characteristics and identifies optimization potentials and future trends. In order to supplement the findings, relevant practice examples, based on PwC’s experience, are discussed at the end of each chapter. The goal is to make readers aware of typical issues where practice sometimes differs from theory and to point out success factors.

Section E on page 52 identifies and analyzes certain qualitative and quantitative KPIs that allow an overall comparison of the FSSCs’ performance.

Section F on page 58 assesses the outlook for the FSSC field in the upcoming years, based on the surveys participants’ plans, and derives common trends.

The appendix on page 63 summarizes the participants’ characteristics, company profiles and FSSC profiles, e.g., with regard to their business area, size and organizational structure.
A Executive summary
This study investigates how existing FSSCs in 33 global financial services companies are performing today in order to identify potential for optimization, which organizations can exploit to enhance their performance tomorrow. The core status of the study is the maturity model developed by PwC that assesses the development of FSSCs. Additionally, the survey shows future trends and gives insights through practice examples.

The maturity model evaluates each FSSC based on eight evaluation criteria. These criteria are aggregated to represent the FSSC’s overall performance score. According to its specific scores, each FSSC was assigned to one of the model’s four maturity levels.

Fig. 1  Distribution of maturity model results

The survey indicates that the analyzed FSSCs have still not exhausted their full potential regarding effectiveness and efficiency – only 6% are assigned to the highest level, where FSSCs meet the characteristics of business partners within the company. This is even more unexpected given the fact that almost 70% of them belong to Fortune Global 500 companies.
Executive summary

The distribution shows for each evaluation criterion the median of all participants’ results, the corresponding best-in-class participant and the gap between the median and the best in class.

Only in three evaluation criteria – strategy, continuous improvement and human resources management – at least one company has reached the highest possible result. It is noticeable that the median is always in the region of Level 2 and Level 3 (except for human resources management). In particular, the criteria business processes, customer relations, performance management, and system and technology show significant room for improvement.

The detailed analysis of the survey identifies the following key success factors for shared service center in the financial services sector:

**Key success factors before implementation:**
- According to the company’s situation and set-up, the right FSSC implementation strategy needs to be selected. The best results achieve organizations that first improve the processes and implement them afterward in the FSSC.
- The choice of the FSSC location should be based not only on possible cost-saving opportunities (e.g., low labor costs), but also on sustainable access to a qualified workforce to successfully run the FSSC.
Executive summary

- Before FSSC implementation, the full commitment of senior management and an early communication strategy are key factors to avoid resistance, especially from local key management teams.

**Key success factors after implementation:**

- Exploit optimization potentials by using an end-to-end process and an IT system view (e.g., by establishing global process ownership) and not just by focusing on the FSSC processes alone, as upstream and downstream processes are often less standardized and automated than processes within the FSSC’s responsibility.
- Learning curve effects are not guaranteed by a certain number of years with operational experience. To benefit from their experiences, FSSCs need to invest in their continuous improvement management and/or use consultant expertise to reach the next level.
- Optimizing the sourcing strategy by consolidating FSSCs, reorganizing the sourcing portfolio with regional and global FSSCs and pursuing (selective) external outsourcing is beneficial to reduce the overall operating costs.
- Implementation of an advanced performance management, including a developed balanced scorecard and an appropriate set of KPIs, helps in detecting and managing performance improvements.
- Continuous focus on cost optimization and cost reduction, in particular managing the impact of rising costs while at the same time continuing to be the service provider of choice.
- Manage FSSC expansion, adopt additional processes requirements (e.g., transfer of more non-standardized and complex processes to the FSSC), and stabilize the FSSC’s operations and growth.
- Drive operation excellence programs and move up the value chain.

The combination of these key success factors is the foundation for implementing and leveraging the FSSCs to the next level. Most participating financial services companies are generally satisfied with their FSSC’s performance: Only 6% of the participants have already scaled down their FSSCs and returned the processes back to the local business units. One third have consolidated their existing FSSCs or are in the process of doing so. This leads to a decreasing number of FSSCs in Europe, the Middle East and Africa (EMEA) and North America. The total number of FSSCs in the Asia Pacific region will remain stable, as participants with headquarters in America and EMEA seem to favor offshore locations for future FSSCs.

The most frequently stated objectives for FSSC implementation were cost reduction and quality improvement. From today’s perspective, however, quality is the most important factor, while transparency and faster service are also increasing in importance.

The processes transferred to the FSSC vary significantly with regard to the complexity and the number of processes for a single FSSC. It includes transactional processes (e.g., accounts payable, fixed-asset accounting or travel-expense calculation), as well as more skill-intensive tasks (e.g., internal reporting, general ledger accounting or intercompany accounting). The total number of services provided by each FSSC seems to increase over time. Among the participants, the average number of transferred processes is 5.4. Additionally, FSSCs in the Asia Pacific region and Central and Eastern Europe (CEE) deliver more transactional processes, on average, than those in other regions. On the other hand, particularly in Western Europe, FSSCs focused more on complex and skill-intensive processes. This fact supports the common understanding of setting up cost-efficient FSSCs in the Asia Pacific region and CEE and quality-focused ones in Western Europe.
Many processes transferred to the FSSCs have a transactional nature – e.g., accounts payable and fixed-asset accounting. However, the process transferred to FSSCs by most of the companies (64%) is internal reporting. General ledger accounting is also a common FSSC process among the participants. Taxes are processed by FSSCs in only 36% of all cases. The total number of processes transferred to FSSCs varies; some use their FSSC for a single process only, while others have transferred over 13 processes.

<table>
<thead>
<tr>
<th>Process</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal reporting</td>
<td>64%</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>61%</td>
</tr>
<tr>
<td>General ledger accounting</td>
<td>61%</td>
</tr>
<tr>
<td>Intercompany¹</td>
<td>58%</td>
</tr>
<tr>
<td>Fixed asset accounting</td>
<td>55%</td>
</tr>
<tr>
<td>Regulatory reporting¹</td>
<td>47%</td>
</tr>
<tr>
<td>Travel expenses calculation</td>
<td>39%</td>
</tr>
<tr>
<td>External reporting</td>
<td>39%</td>
</tr>
<tr>
<td>Taxes</td>
<td>36%</td>
</tr>
<tr>
<td>Account management¹</td>
<td>26%</td>
</tr>
<tr>
<td>Payroll</td>
<td>24%</td>
</tr>
<tr>
<td>Treasury</td>
<td>18%</td>
</tr>
<tr>
<td>Procurement</td>
<td>18%</td>
</tr>
<tr>
<td>Customer service</td>
<td>18%</td>
</tr>
<tr>
<td>Other²</td>
<td>42%</td>
</tr>
</tbody>
</table>

¹ Smaller peer group
² Other include: IT infrastructure, back-office, cash controls, administrative functions etc.
The survey results find FSSCs located in the Middle East and Africa and Western Europe to have the lowest maturity levels on average. Also with regard to the FSSCs’ value contribution to the company as a whole (self-assessment by participants), the Middle East and Africa and Western Europe show the lowest results. Interestingly, before implementation, participants establishing their FSSC in Western Europe had their highest focus on quality improvements. A deeper analysis of West European FSSCs shows maturity criteria impacting quality, such as continuous improvements, business processes, IT and customer relations, to be relatively poor developed. However, right next door in CEE, FSSCs perform quite well and show the best maturity results of this survey’s peer group on average. Those FSSCs also managed to realize the highest savings in operating costs and consequently rate themselves as contributing high value to their organization as a whole.
Key findings

1. **FSSC objectives and scope of services**
   - FSSC objectives – Cost reduction and quality improvements were the main objectives when implementing FSSCs. While cost cutting remains a priority in the near future, the qualitative aspect increases significantly and is the most important factor from today’s perspective. (p. 25)
   - Services provided – The picture of services provided by the FSSCs is quite heterogeneous. A lot of transactional processes (e.g., accounts payable, fixed-asset accounting or travel-expense calculation), as well as more complex activities (e.g., internal reporting, general ledger accounting or intercompany accounting), are delivered by the majority of FSSCs. In general, the total number of provided services seems to increase over time. (p. 15)
   - Tax issues – The majority of companies do not seem to consider any tax issues when setting up their FSSCs. Those companies that indicated they did consider tax issues mentioned that their major concern was regarding transfer pricing between the companies’ operational departments and the FSSC. (p. 29)

2. **Strategic decisions and pitfalls before FSSC implementation**
   - FSSC location – Locations for FSSCs are chosen primarily based on availability of qualified staff and local labor costs. However, regarding future decisions, most companies give high priority to qualified staff as the situation on the market in terms of finding well-qualified employees is going to be significantly competitive. CEE seems to be the most successful location, as on average the best maturity levels combined with the highest savings in operating costs and a good value contribution to the organization characterize those FSSCs. (p. 25)
   - Implementation strategy – Companies that standardize processes before transferring them to the FSSC achieve the highest cost savings and show the best maturity scores particularly in customer satisfaction as well as strong customer relationships. A simultaneous approach – process standardization and transfer to FSSC in one step – on the other hand, requires the companies to have mature accounting and finance departments in place by then. (p. 26)
   - Biggest challenge – Resistance of local key management teams is a major challenge for successfully implementing an FSSC. An early communication strategy as well as strong support and commitment from senior management are essential for overcoming and dealing with these issues. (p. 28)
3. **FSSC optimization levers**

- **Process standardization and IT** – Participants see large optimization potentials in terms of process standardization (97%) and automation (100%), even if they stated to have already established a high degree of standardization. The results show that FSSCs with higher standardized processes save more operating cost and intensively apply enterprise resource planning (ERP) systems, which leads to higher productivity rates. (p. 36 & p. 49)

- **FSSC upstream and downstream processes** – Process parts that are not under the FSSCs’ responsibility are less standardized. A complete end-to-end process orientation, combined with a single end-to-end process ownership and reach-through power, can help to realize process optimization potentials for FSSC upstream and downstream processes as well, since complexities in interfaces can be scaled down. (p. 37)

- **Sourcing arrangement (selective outsourcing)** – Optimizing the sourcing strategy by using an optimal mix of internal outsourcing (FSSCs), external outsourcing (outsourcing to external providers) and local handling brings the highest savings in operating costs. (p. 60)

- **Learning and experience curve** – Older FSSCs tend to have more mature business processes. They have standardized and automated many processes due to learning curve effects. Nonetheless, to become a business partner (“2nd generation FSSC”), the operating time alone is not sufficient. Additional efforts, especially in continuous improvement, are required to reach the next level. (p. 54)

- **FSSC maturity model** – The majority of FSSCs reach an average maturity score. Only 6% are assigned to Level 4, “business partner”. Thus, most of the participating FSSCs show large optimization potentials in the maturity model’s different criteria. (p. 12)
C Description of the FSSC maturity model
1 Structure and composition of the FSSC maturity model

The PwC maturity model assigns each FSSC its individual maturity stage, with Level 4 representing the highest level. Reaching this level implies that the FSSC has turned into a value-adding business partner (“2nd generation FSSC”) within the organization. The FSSC maturity model is a general approach to evaluating shared service center and is not limited to FSSCs. At the core of the maturity model are eight different evaluation criteria. Their aggregated scoring determines the position an FSSC is assigned to in the model. The evaluation criteria are explained below.

1. **Strategy**
   - Criteria used to select the FSSC location, and their respective ranking
   - Implementation strategy chosen
   - Evaluation of the objectives since FSSC implementation from today’s perspective compared to when the FSSC was founded

2. **Organisation/governance/compliance**
   - Center concept of the FSSC (cost center versus profit center)
   - Cost allocation method for services provided
   - Scope and revision cycle of service level agreements (SLAs)
   - “Process owner” approach to manage processes
   - Governance of the FSSC
   - Monitoring of process compliance and use of automated controls

3. **Continuous improvement**
   - Systematic and regular analysis of costs and quality
   - Continuous search for and implementation of optimization measures
   - Deployment of quality improvement tools
   - Approach to measure whether an FSSC is meeting its objectives

4. **Business processes**
   - Degree of standardization and automation of processes within the FSSC
   - Degree of standardization and automation of processes in upstream and downstream processes outside the FSSC
   - Level of process documentation

5. **Customer relations**
   - Customer structure (share of internal and external customers)
   - Service structure and customer orientation within the FSSC
   - Deployment of tools for customer management

6. **Performance management**
   - Sophistication of performance management systems in place
   - Transparency of the performance measurement process
   - Availability of information related to operational and strategic management
   - Definition of measurable performance targets and monitoring of target achievement
   - Extent of financial control systems within the FSSC

7. **Human resources management**
   - Use of different training tools and training types by staff group
   - Quality of communication between management and staff in the FSSC
   - Approach to linking the performance evaluation of employees with the definition of development measures
   - Use of employee satisfaction surveys
### 8. Systems and technology
- Degree of process automation and standardization of IT systems
- Continuous optimization of IT systems
- Extent to which workflow and integrated ERP systems are deployed
- IT governance supporting financial control processes

The matrix below shows the eight evaluation criteria and the corresponding performance levels for the four different maturity levels.

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>Level 1: Rookie</th>
<th>Level 2: Developing</th>
<th>Level 3: Advanced</th>
<th>Level 4: Business partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategy</td>
<td>• No SSC-specific targets, strategies, measures or implementation plans set</td>
<td>• Some SSC-specific targets, strategies, measures or implementation plans set</td>
<td>• SSC-specific targets, strategies, measures or implementation plans set</td>
<td>• SSC-specific targets, strategies, measures or implementation plans set</td>
</tr>
<tr>
<td>2. Organization/ governance/compliance</td>
<td>• SSC run on cost center basis with no allocation of SSC costs</td>
<td>• SSC run on cost center basis with fixed allocation of costs</td>
<td>• SSC run on cost center basis with costs allocated on services provided</td>
<td>• SSC run on profit center basis with services allocated based on market prices</td>
</tr>
<tr>
<td></td>
<td>• No SLAs in place</td>
<td>• Some SLAs in place</td>
<td>• Comprehensive SLAs in place</td>
<td>• Comprehensive SLAs in place and regularly adjusted</td>
</tr>
<tr>
<td></td>
<td>• Unclear process owner</td>
<td>• Multiple process owners</td>
<td>• Single end-to-end process owner per business unit</td>
<td>• Single corporate end-to-end process owner</td>
</tr>
<tr>
<td></td>
<td>• Manual controls</td>
<td>• Many automated controls</td>
<td>• Many automated controls</td>
<td>• Controls automated wherever possible</td>
</tr>
<tr>
<td>3. Continuous improvement</td>
<td>• No improvements made in relation to costs, quality and time</td>
<td>• Slight improvements made in relation to costs, quality and time</td>
<td>• Some improvements made in relation to costs, quality and time</td>
<td>• Major improvements made in relation to costs, quality and time</td>
</tr>
<tr>
<td></td>
<td>• Continuous Improvement Process (CIP), Six Sigma, Total Quality Management (TQM) not deployed</td>
<td>• CIP, Six Sigma, TQM in process of implementation</td>
<td>• CIP, Six Sigma, TQM in process of implementation</td>
<td>• CIP, Six Sigma, TQM in continuous use</td>
</tr>
<tr>
<td>4. Business processes</td>
<td>• Not standardized, harmonized or automated</td>
<td>• Mainly standardized and harmonized</td>
<td>• Optimization and automation of business processes</td>
<td>• Optimization across the organization</td>
</tr>
<tr>
<td></td>
<td>• Simple mass transactions</td>
<td>• Simple mass transactions and some expert services (center of expertise)</td>
<td>• Simple mass transactions and expert services (center of expertise)</td>
<td>• Total services in terms of holistic processes</td>
</tr>
<tr>
<td>5. Customer relations</td>
<td>• Internal clients</td>
<td>• Mostly internal clients</td>
<td>• Internal and external customers</td>
<td>• Focus on external customers</td>
</tr>
<tr>
<td></td>
<td>• Non standardized structure and management</td>
<td>• Standardized routine processes and transactions</td>
<td>• Focus on efficiency and effectiveness within SSC</td>
<td>• Concentration on contributing value to the whole company</td>
</tr>
<tr>
<td></td>
<td>• No implementation of customer support tools</td>
<td>• Ongoing implementation of customer support tools</td>
<td>• Ongoing implementation of customer support tools</td>
<td>• Implemented and regularly updated customer support tools</td>
</tr>
</tbody>
</table>
### Description of the FSSC maturity model

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>Level 1: Rookie</th>
<th>Level 2: Developing</th>
<th>Level 3: Advanced</th>
<th>Level 4: Business partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Performance management</td>
<td>PM tools (BSC, benchmarking) not deployed, used infrequently</td>
<td>PM tools (BSC, benchmarking) being developed</td>
<td>PM tools (BSC, benchmarking) being implemented</td>
<td>PM tools (BSC, benchmarking) in continuous use</td>
</tr>
<tr>
<td></td>
<td>No internal control system (ICS) implemented</td>
<td>ICS implemented</td>
<td>ICS in place</td>
<td>Comprehensive ICS and continuous optimization</td>
</tr>
<tr>
<td></td>
<td>No quality/performance targets</td>
<td>Quality/performance targets introduced</td>
<td>Extensive quality/performance targets defined</td>
<td>Continuous adjustment of quality/performance targets</td>
</tr>
<tr>
<td></td>
<td>PM tools (BSC, benchmarking) being developed</td>
<td>ICS implemented</td>
<td>ICS in place</td>
<td>Comprehensive ICS and continuous optimization</td>
</tr>
<tr>
<td></td>
<td>Extensive quality/performance targets defined</td>
<td>Continuous use</td>
<td>Continuous improvement of quality/performance targets</td>
<td></td>
</tr>
</tbody>
</table>

| 7. Human resources management | Non standardized structure and management | Combining existing expertise and focus on professional expertise | Professional expertise and management development | Service and leadership culture established |
|                              | Relation of employee development to performance evaluation unsupported | Relation of employee development to performance evaluation non-standardized | Relation of employee development to performance evaluation extensively designed | Relation of employee development to performance evaluation continually reviewed |
|                              | No training/advanced training system introduced | Introduction of training/advanced training system | Comprehensive training and advanced training system | Continuous improvement to training and advanced training system |
|                              | | | | |

| 8. Systems and technology | Multiple systems, no standardization of ERP platform | Partially standardized ERP platform | Standardized ERP platform | Optimized, modular ERP systems |
|                          | No workflow systems introduced | Workflow systems implemented | Extensive deployment of workflow systems | Organization-wide workflow systems |
|                          | No IT governance set up | Low level of IT governance | Average level of IT governance | High level of IT governance |
Detailed analysis of the FSSC evaluation
1 Strategy

FSSCs performing well in this criterion are guided by a clear FSSC strategy with smartly defined objectives. Further attributes are clear FSSC performance measurables as well as defined implementation (for new FSSCs) and optimization (for existing FSSCs) plans. Also notable is the positive correlation between the maturity results of the criterion strategy and the other evaluation criteria continuous improvement, customer relations and performance management.

Criteria for FSSC location

As the most important criteria for their previous decision on the FSSC location, participants stated access to a qualified labor market as well as the corresponding labor costs and legislation. From today’s perspective, both factors gain even more importance; the qualification of the workforce is especially outstanding here. Proximity to core business locations and co-location with other functions also had a high impact on the location decisions when the FSSC was founded; however, the importance of both factors decreased significantly. This change might stem from more efficient communications that no longer require physical presence. In contrast, it was found that soft criteria such as quality of life become more important when deciding the FSSCs’ locations.

Objectives for FSSC implementation

Originally, the most important objective of financial services companies in establishing an FSSC was to reduce costs, followed by quality improvements. Even though cost reduction remains an important factor in the future, it slightly decreases, and other criteria – such as quality improvements, transparency and faster services – become more and more important.
Further analysis showed a dependency between the objectives for the FSSC implementation and the FSSCs’ geographical location. The greatest importance for cost reduction was indicated for FSSCs located in the Asia Pacific region and CEE, whereas a higher quality was expected from FSSCs in Western Europe and North America. FSSCs in the Asia Pacific region seem to promise a faster service as well. If companies could decide again on the location without restrictions, CEE would have the most significant increase here.

**Fig. 7** Comparison of the importance given to objectives before FSSC implementation and today

<table>
<thead>
<tr>
<th>Importance of the objectives at the time the FSSC was implemented</th>
<th>Importance of the objectives from today’s perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td>5.3</td>
</tr>
<tr>
<td>Quality improvement</td>
<td>4.8</td>
</tr>
<tr>
<td>Transparency improvement</td>
<td>4.0</td>
</tr>
<tr>
<td>Faster service</td>
<td>4.0</td>
</tr>
</tbody>
</table>

**Implementation route**

Starting from an organization with several administrative departments and unstandardized processes and systems, companies have different options regarding the route of the FSSC implementation.

Route 1, which almost 30% of participants chose, describes a direct approach where both the FSSC implementation and the improvement of processes and systems are conducted in a single step. Transferring and improving the processes simultaneously is a good option for companies that already have a mature finance function in place and strong experience in establishing FSSCs or have set up a homogenous system landscape. Furthermore, through parallel process roll-out and improvements (quick wins), the resistance of local key management can be reduced.

In route 2, existing processes and systems are first improved at their old locations and then transferred to an FSSC. Only 6% indicated that they applied this approach. However, companies which chose route 2 showed on average the best results in almost all maturity criteria, and companies choosing this route realized, on average, the highest cost savings. Participants who decided on route 2 perform especially well in the criteria business processes and customer relations, which is quite intuitive as both require well-shaped and standardized processes. The good results of route 2 can also be observed in practice, especially when companies establish their first FSSC. An explanation for the low number of participants choosing this route is the downside of a longer implementation time. At the same time, there is still the risk that upon improvement of the processes, the FSSC will not be seriously implemented as the need for internally outsourced processes will no longer be seen.
Companies that choose route 3 first transfer activities to the FSSC and then start improving the processes and systems. More than half of the study’s participants preferred this route, probably since it appears to be manageable with less effort than route 2. The improvement can be done centrally at the destination instead of local standardization at every single location. Disadvantageous is the fact that once the processes are rolled out to the FSSC, the momentum for shifting them might get lost (e.g., through budget cuts, personnel changes or new priorities).

Fig. 8 Implementation strategy

Companies in the financial services sector are currently optimizing their service strategy by combining several sourcing options and setting up a new sourcing structure. The aim of this approach is to get the ideal mixture of external outsourcing, local handling and internal sourcing (shared services and service companies). This trend aligns the major targets set for the FSSC organizations of improving quality and reducing costs. About half of the participants already have a selective outsourcing structure in place, and they were able to exploit cost reduction potentials better than those who rely on FSSCs only.

Selective outsourcing enables companies to realize higher cost savings.
Resistance from key management in countries was the biggest challenge in setting up an FSSC.

Challenges of an FSSC implementation

The implementation of FSSCs implies different challenges companies have to face. Almost half of them stated resistance from key managers in the affected countries as a main issue, followed by the difficulty in defining and developing SLAs and KPIs to measure performance. Part of the solution can be a well-defined change, communication and stakeholder management (including gaining senior management’s commitment), as well as strong expertise when implementing FSSCs. 39% indicated that the recruiting of the key management team was difficult, which also correlates to the increasing importance of qualified employees when choosing the FSSC location.

In asking the participating financial services companies about the challenges their FSSCs will face in the near future, the issues stated most often were cost reduction, quality maintenance or improvement, effectiveness and efficiency of the processes, transfer of additional processes to the FSSCs, and optimization of processes already handled by the FSSCs.
Detailed analysis of the FSSC evaluation

Fig. 11  Greatest challenges to overcome when setting up the FSSCs
(multiple selections possible)

- Resistance from the key management in countries: 48%
- Developing the SLAs and the KPIs to measure performance: 42%
- Recruiting the key management team: 39%
- Timing of transitioning countries to FSSC: 24%
- Deciding how many people to recruit in the new FSSC and when: 18%
- Finding the location that ticked all the requirements: 12%
- Other¹: 21%

¹ Other include: Support from local management teams, efficiency of operations, sourcing staff with niche skills, etc.

Tax issues
Since costs are considered a major issue by the companies, it could be expected that tax issues also play a role when implementing an FSSC. However, almost 80% of the participants indicated that tax issues were not considered at all when establishing the FSSCs. Those companies that did consider tax issues stated that transfer pricing issues were their major concern, but with a quite low importance. For the implementation of future FSSCs, tax issues still do not seem to play a significant role, even though their importance increased slightly.
FSSC projects do not always result from the implementation of a global target operating model strategy reconciled at the board level. Several FSSC initiatives are often driven by one or more corporate departments or areas. Furthermore, practice shows that a global target operating model is not mandatory for a successful FSSC implementation. However, the commitment of senior management in all affected areas must be secured before the project launch. Occasionally, several stakeholders considered in an FSSC project are not involved before the concrete implementation. For local management, the changes can lead to a reduction of competencies which may consequently cause resistance. Experience shows local management sometimes successfully lobbies against the project if senior management lacks sufficient power or is not totally committed to the project. Reconciling incentives with local management, an early stakeholder analysis and communication strategy, and full support from senior management are therefore key factors for a successful FSSC implementation.

In general, when deciding how the right implementation route will be chosen, it is important to implement processes in an ascending order, i.e., that allegedly elementary and transactional processes, such as accounts payable or fixed-asset accounting, are transferred first and the more complex processes are transferred afterwards. These roll-in transfers are ideally implemented in a wave pattern, i.e., starting with the implementation of a few processes, followed by a stabilization of the implementation and then the next roll-in waves. Companies choosing route 1 (simultaneous improvement and roll-in) should consider having a homogenous system already in place before improving and roll-in processes into the FSSC. Route 3 (first roll-out and then improvement) is in particular recommended if resistance of key management might occur. The best way to transfer processes using route 3 is also a roll-in in wave pattern as described above.

In the case that selective processes are to be outsourced externally, it is important to keep in mind whether the process is already optimized to the highest possible standard. In this case the decision whether to outsource the process externally or not can be made on a cost efficiency basis. A huge task several companies have to face is the consolidation of their existing FSSCs. Especially after mergers and acquisitions and in large companies the sourcing structure can be quite complex and intangible. A well designed sourcing strategy helps to create targets on the way to get a more efficient structure.

Experience shows in many cases companies are not able to fully implement the reconciled target operating model because they struggle to transfer key countries and key processes into their FSSCs. An immediate lift of processes into the FSSCs before optimizing them can be very helpful in this context.

A clear trend for the future is to transform existing local/regional FSSCs into global FSSC hubs and additionally to establish further local/regional FSSCs to deal with specific local requirements. The benefits are further optimization potentials with regard to cost, quality and faster service times. The main challenges are the identification of the optimal transfer potential, the right combination of transactional versus complex/regional specification, and the definition of clear responsibilities/interfaces between the regional centers and the global FSSC hub.
2 Organization/governance/compliance

Among all study participants, less than 10% are performing at the highest maturity level in the sector organization/governance/compliance. This result prefigures the existing optimization potentials in this area. The data indicate that more developed FSSC organizations show especially good results in the criteria continuous improvement, business processes and performance management. The reason for that are clearly defined and embedded responsibilities as well as SLAs and a high focus on value contribution usually lead to well-shaped and continuously improved processes and governance structures.

Center concept

The evaluation of the results shows that 70% of the polled FSSCs are set up as cost center, with costs allocated based on services provided. Almost non-existent are pure cost center with no allocation of costs (9%) and profit center with services allocated on a market-price basis (3%). However, developing an FSSC toward profit center principles implies several advantages. According to this survey and benchmarks from former FSSC surveys, these FSSCs achieve higher values, on average, for the criterion customer relations since the focus on profits usually leads to better offered services as well. It also correlates with the degree of process documentation (which enhances process transparency and thus process optimization) and a clearer definition of process end-to-end ownership.

Service level agreements (SLAs)

Almost all polled FSSCs (97%) have SLAs in place. Well-defined SLAs enable the FSSCs and their customers to maintain beneficial relationships and provide clear roles and responsibilities. A comprehensive use of SLAs also provides a good basis for performance monitoring and continuous improvement activities, which can also be confirmed by the survey data. Less than 30% of the participating companies have established SLAs that are continually reviewed and updated for changes, which indicates that even though almost all companies do have SLAs in place, the majority of them still forego optimization potentials here.

Process ownership

Process ownership bears several potentials for FSSCs and the affected processes. Factors such as quality, automation and standardization can be better improved when single end-to-end process ownerships are established. In this study, single process owners are defined in 36% of all cases. The majority of companies have assigned multiple process ownerships, and almost 10% show an inconsistent and not well-communicated process ownership definition. Practice shows that the key to success is not only a well-defined end-to-end process ownership, but that the responsible persons also need the required hierarchical power in order to drive cross-departmental optimization programs.
Detailed analysis of the FSSC evaluation

**Fig. 13  Governance of end-to-end processes in the FSSC organization**

- End-to-end process ownership is unclear in the organization (process owners are not consistent and clearly communicated across the organization) - 9%
- Multiple process owners defined by activity and business entity (each process within each business entity has a discrete owner which is clearly communicated across the organization) - 55%
- Single end-to-end process owner within each function or business unit (either a single owner in the division, business unit or region is accountable for the end-to-end process spanning multiple functions, or there is a single functional owner) - 12%
- Single corporate end-to-end process owner (there is a single owner in the organization who is accountable for the end-to-end process spanning multiple functions) - 24%

**FSSC governance**

Less than half of the surveyed FSSCs act as stand-alone units within the company. As a consequence, the other half does not benefit from this organizational advantage. FSSCs acting as stand-alone units have the possibility and the responsibility to improve their operations on their own and in a more flexible way. This means less supervision is needed to ensure a beneficial performance of the FSSCs, and the business partner approach is enhanced through this independence.

Less than a third of the FSSCs are governed by a board of FSSC service providers and receivers. This shows that many companies forego the opportunity to implement an efficient institution that can intervene in case issues between the FSSC and its customers arise. Consequently, there exists an opportunity to expand and increase services in order to be more adaptive to customer value. Nonetheless, 63% of the FSSCs indicated that they have a clearly defined set of procedures they use in case of operational issues.
The sponsors and key players of an FSSC project cannot always be found in the finance and accounting departments only. Additional sponsors or – more effectively – a global functional lead (equipped with the necessary reach through power) may be required as an end-to-end process view often affects several departments that operate autarchically (“silo mentality”). A good example is the purchase-to-pay process (end-to-end process from the purchasing process [purchase demand/order] to the accounts payable process [posting of invoice]), where the purchasing and finance departments especially need to work together very closely. Also, if processes will be changed, for instance due to changing regulatory requirements or just for optimizing reasons, it is advantageous if the end-to-end process owner encourages the communication flow between all involved parties.

Clearly defined SLAs and a profit center concept create the prerequisites between the FSSC and the service demand unit. Applying a profit center concept with distinctly defined and transparent processes has the following advantages:

- The service demand side disposes transparency, and potential discussions about cost allocation will no longer occur.
- The FSSC has an influence on its cost allocation (e.g., reducing redundant internal reports that are billed per unit to the service demand side [e.g., business unit]).
- Productivity increases within the FSSC through the possibility of applying its own performance management and the implementation of derived optimization levers.
- The FSSC can manage opportunities for general cost reduction or quality improvements independently:
  - Charge the responsible party for differences in intercompany accounting accordingly
  - Charge the requested amount of internal reportings
  - Increase cost per invoice without purchase order significantly, compared with invoices with purchase orders
  - Impose check payments with penalties
  - Practice shows that costs should only be allocated by segments rather than for every single cost center (an allocation by cost center would increase costs unnecessarily).
- With stable prices, the FSSC is able to generate additional profits for the company by optimizing its processes, which leads to cost reductions.
- Furthermore, agreeing on targets including profit sharing or bonuses might increase the incentive for productivity.

An FSSC should be established as a matrix organization. However, the main responsibilities should be based on a process- not a country-view. The reason for this process driven organization is a higher focus on process efficiency as all staff supporting one process can communicate in a much easier way. Nonetheless, an additional exchange per country should also be considered on a frequent basis.

Practical insights

The sponsors and key players of an FSSC project cannot always be found in the finance and accounting departments only. Additional sponsors or – more effectively – a global functional lead (equipped with the necessary reach through power) may be required as an end-to-end process view often affects several departments that operate autarchically (“silo mentality”). A good example is the purchase-to-pay process (end-to-end process from the purchasing process [purchase demand/order] to the accounts payable process [posting of invoice]), where the purchasing and finance departments especially need to work together very closely. Also, if processes will be changed, for instance due to changing regulatory requirements or just for optimizing reasons, it is advantageous if the end-to-end process owner encourages the communication flow between all involved parties.
3 Continuous improvement

Continuous improvements are essential for a successful and beneficial FSSC organization, and most participants already show quite good results in this maturity dimension, especially compared to other criteria. A well-established continuous improvement process leads to well-shaped business processes and usually goes along with a high usage and degree of systems and technology, which can be confirmed by the survey results. The findings also imply that continuous improvements, in particular when the FSSC is developing toward profit center principles, trigger higher scores in the criteria customer relations and human resources. This shows that continuous improvement initiatives and programs positively affect customers and employees alike.

Continuous improvement tools

Continuous improvement requires methods that constantly review all aspects of the FSSCs with regard to optimization potentials. Participants of this study were asked to what extent they use Six Sigma and total quality management (TQM) or similar tools in their FSSC organization. 40% of the FSSCs either have Six Sigma in continuous use or stated they currently implement it in their organization. TQM is in continuous use or being implemented and developed by almost 40% of participants. The other most frequently mentioned methods are lean management concepts. The use of Six Sigma and/or TQM is in an early stage among most participants.

Degree of improvement during the last year

A further analysis regarding an improvement of functions and business processes that are in scope reveals a positive development within the last year. In terms of cost, quality and time, all participants realized at least slight improvements during this time. However, only 27% of the FSSCs have significantly improved the in-scope functions and associated business processes during this period. This corresponds with the finding that continuous improvement tools are still not comprehensively in place.
Roles and responsibilities for change projects
Change projects in finance and the FSSC organization require a structured approach with clear roles and responsibilities in order to effectively and efficiently realize continuous improvements and optimize the FSSC organization. Around 80% of all FSSCs stated that they have these roles already defined. On average, those center score high in performance management and human resources, not to mention that defined and communicated roles and responsibilities within projects are probably appreciated by FSSC staff.

FSSC contribution to the overall company
Around 80% of the polled participants are convinced that their FSSC makes a substantial contribution to the optimization of their company; more than 70% believe that the FSSC’s innovations in products and services support their company’s success significantly. Over 60% carry out regular analyses of the value contribution of their FSSC.

Practical insights
To increase the efficiency of a continuous improvement process, practice shows several helpful measures:
• The tracking of benefits makes the improvements visible to staff and management and also helps to take corrective actions where necessary.
• The announcement of responsible for implementing and tracking optimization initiatives makes it easier to manage the improvements.
• Continuous improvement also means looking at the optimization potentials of FSSC upstream and downstream processes or even transferring more process (parts) to the FSSC.
• Renewing the continuous improvement process itself can lead to new impulses.
4 Business processes

The results for the criterion business processes show high potentials for comprehensive standardization and automation improvements. Only 6% of the participants are assigned to the highest maturity level, business partner (“2nd generation FSSC”). Standardized, well-shaped and documented processes are essential to realizing productivity and cost savings potentials as well as quality improvements. High results in the business process dimension also show a positive correlation with customer satisfaction.

**Process standardization**

Two third of the companies stated they would have a medium standardization rate (between 25–75%) with regard to their FSSC processes. In combination with the 15% of FSSCs that realize a standardization rate below 25%, this supports the need for actions regarding further process standardizations in the survey’s peer group. The results imply that FSSCs with a high level of process standardization also achieve high scores in the criterion systems and technology. The more processes are standardized and automated, the more improvements in transparency, costs, processes, data and service quality can be realized. The data also shows that companies with higher standardized processes were more successful in reaching their quality goals.

Further analysis supports the importance of process standardization. A high standardization percentage is accompanied by a higher rate of savings in operational costs. Regarding the degree of process standardization, CEE and Western Europe as FSSC locations seem to have a small advantage over other regions.

**Fig. 16** Weighted average percentage of operating cost savings depending on level of process standardization

<table>
<thead>
<tr>
<th>Level of Process Standardization</th>
<th>Weighted Average Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High (&gt; 75% of processes standardized)</td>
<td>43%</td>
</tr>
<tr>
<td>Medium (25–75% of processes standardized)</td>
<td>34%</td>
</tr>
<tr>
<td>Low (&lt; 25% of processes standardized)</td>
<td>15%</td>
</tr>
</tbody>
</table>

Almost all participants see large room for improvement in process standardization and automation.

**Optimization potential for process standardization and automation**

Almost all participating financial services companies are aware of their large optimization potential regarding their level of process standardization and automation. Only 3% see few optimization potentials when it comes to process standardization, and all confirm a high potential regarding automation. Even those FSSCs that already have high standardization rates indicated that there is more room for improvement regarding further process standardizations.
According to the results, participants are convinced that the processes directly under the FSSCs’ responsibility are more standardized and automated than upstream and downstream processes that are not under their responsibility. This indicates that interfaces in particular, as well as non-transferred process parts, should be considered when looking for optimization potential.
High process documentation standards lead to higher customer satisfaction.

**Process documentation**

Process documentation ensures that relevant processes are transparent and thus can be regularly reviewed and challenged against ‘best practices’ and adjusted if necessary. More than 50% of the FSSCs indicated that their process documentation was optimized by a top-down approach. In contrast, 44% stated that their process documentation does not fulfill their company’s risk and compliance requirements. FSSCs that indicated high standards of process documentation showed, on average, better customer relations results. An explanation might be the better monitoring and updating possibilities of processes and consequently more satisfied customers.

**Fig. 20  Maturity level of process documentation**

![Maturity level of process documentation chart]

- **Little or no**: 3%
- **Insufficient to risk and compliance issues**: 44%
- **Optimized by a top-down approach**: 53%
A main supporting factor in shaping efficient processes is IT. The minimization of workarounds and manual processes reduces operating costs and increases process quality and faster service. Therefore, it is important that IT acts as a service provider and sticks to the to-be functional and IT specifications as close as possible. Further criteria which should be considered are:

- A flexible IT infrastructure (platform for growth) is very supportive in this context.
- The end-to-end process owner, together with the operating department, should take the lead for automation projects, and it is their responsibility to define unambiguous requirements and also track them during and after the project.
- Good communication between the operating and IT departments must take place over the whole project and beyond.

For a continuous documentation of all processes, a demand supply organization (DSO) can be used. The DSO has the function of supervising standards and supports the end-to-end process owner with the implementation and documentation of new processes. Therefore, a coherent and current documentation of all processes can be secured. Moreover, it is important to illustrate a process documentation that is comprehensible to third parties in a short period of time without losing important details. An integrative Web-based tool for process documentation and modeling ensures the required transparency for all stakeholders. Additionally, such tools can be used for a regular review of the processes’ efficiency. It is recommended that a responsible person is announced for process documentation of an end-to-end process.

Sometimes the standardization rate of a process is limited to, for example, specific system issues as well as to specific country requirements as changing regulations (e.g., Foreign Account Tax Compliant Act [FATCA], Financial Transaction Tax [FTT]) within the financial services sector differ from country to country. Therefore, even with large investments, it should be considered that 100% standardization is not always possible.

It should also be considered that new processes are not always faster. Sometimes the efficiency of previous processes was traded against (too) high risks that the new process is, in contrast, accounting for.
5 Customer relations

Regarding customer relations, only 6% of the participating FSSCs reached the level business partner (“2nd generation FSSC”), leaving a lot of room for improvement in this area. Customer relations is one of the main drivers for establishing a real business partnership between the FSSC and the service receivers, as high customer satisfaction also indicates high service quality, fast cycle times and low costs.

Customer base

Around half of the FSSCs reported that they serve not only internal but also external customers. A decision to extend the customer base to external customers has to be based on several considerations. It depends on the kind of process and, of course, on an overall strategic decision to provide financial services to external customers. Also, the possibility of generating additional profit has to be analyzed in detail, and a business case should be calculated in advance. The data shows that FSSCs that also serve external customers show, on average, a tendency toward higher maturity levels – in almost all evaluation criteria – than other FSSCs.

Fig. 21 Customer base for FSSC services

The participants’ customer bases are equally divided between internal and external.

Tools supporting customer relations

In order to become a business partner, the FSSCs have to monitor customer satisfaction and therefore need a sufficient way to measure and increase it. Across the financial services companies surveyed, the used tools vary. Besides the installation of help desks (30%), automated complaints management and tracking tools (19%) as well as customer satisfaction surveys (82%), the participants have established additional tools to ensure and improve customer satisfaction, e.g., regular meetings, customer workshops or manual tracking tools.
Deeper analysis of the customer satisfaction surveys shows that in order to monitor customer satisfaction, not only does the survey deployment need to be established, but surveys also have to be conducted regularly. Almost one-third of the organizations indicated that they use the surveys only occasionally, and only half of them use them once a year or more frequently.

**Fig. 22  Deployment of tools to ensure customer orientation** (multiple selections possible)

- Customer satisfaction surveys: 82%
- Help desks: 30%
- Automated complaints management and tracking tools: 19%
- Other¹: 17%

¹ Other include: monthly meetings, manual tracking tools, customer workshops/forums, etc.

**Service provider culture and customer orientation**

Most participants are convinced that their FSSC has a strong service provider culture, i.e., FSSC staff always try to provide high-quality services and further improve them, including from a customer's perspective. They reported having a good customer orientation that is expressed in flexible responses to customer requests and in the implementation of customer suggestions. However, with regard to the surveyed customer satisfaction level, there is still much room for improvement left.

A good service provider culture and customer orientation seem to be established at most participating FSSCs.
A myth is that standardized processes lead to a lack of flexibility that negatively influences customer satisfaction. Practice shows that a high process standardization rate does not necessarily reduce customer satisfaction as standardized processes are the basis for efficient, transparent and secure sequences. Also, the data shows FSSCs with a low process standardization rate to have, on average, less satisfied customers; for medium and high standardization levels, customer satisfaction seems to settle on a consistently high level.

In addition to a high standardization rate, FSSCs acting as business partners (Level 4) also need to respond somehow flexibly to customer requests and discover new or changing process requirements. The main information source here can be the daily operative business as well as regularly scheduled customer workshops to develop new and adjust existing solutions together and convert them into new process standards.

A major prejudice is also the assumption of a negative influence of cost reduction initiatives (e.g., through the reduction of service availability and service quality) on customer satisfaction. The aggregated data disprove this assumption and shows an opposite picture. The surveyed FSSCs’ customer satisfaction even increases with higher cost savings, possibly because cost reductions positively influence the cost of services and savings are passed on to the customers.

An automated process is generally recommended for customer satisfactory surveys. Apart from the survey, regular communication flows between the FSSC country/entity manager and the service demand site (finance, local businesses, etc.) should take place as well.

With the implementation of an FSSC comes the opportunity to improve the communication within finance and between finance and other service demand units. Ideally, personal meetings or any type of socializing between the FSSC staff and its customers increase the sense of belonging. The FSSC’s employee will be seen as an individual and not only as the person on the service line. From the other perspective, the FSSC employees feel more responsible to their customers as both parties were able to establish a relationship. The integration of an FSSC, especially for one that is physically away from the service demand unit is a vital part of becoming a business partner and will enhance the overall collaboration.
6 Performance management

The findings indicate that the setting, reviewing and especially regular updating of precise performance objectives leads to an advanced continuous improvement process (“what gets measured gets done”). Optimization potentials are actively searched and the value contribution of the FSSC to the company increases, which supports the business partner role.

Degree of performance targets

The measurement of target achievements allows the assessment of the performance of processes and individuals. Regarding processes, the majority of participants use performance targets from a medium to a high degree. The picture for individuals is more heterogeneous as the degree of performance targets is, on average, on the high side, whereas 15% set no targets at all. A performance measurement is important in setting further targets and in identifying performance issues as well as optimization levers by using target/actual comparisons.

Performance measurement and reporting

In this study, 67% of the participants indicated that they use management information systems to steer their FSSC. A balanced scorecard is an appropriate tool to establish a link between strategic and operative objectives. More than 70% also see the need for a balanced scorecard or similar process that combines operational and financial measures, and are at least currently developing it.

Mature balanced scorecard programs are established at only 13% of the organizations. The data confirm a positive correlation between the development of mature balanced scorecard programs and customer relations and continuous improvement. Organizations should therefore consider further developing their balanced scorecard initiatives.

![Fig. 23](image)

Management information systems and balanced scorecards are the most common performance management tools.

A frequent benchmark process also only exists in 6% of the cases, and for 12% this survey is their first benchmark participation and analysis. The deployment of benchmarks identifies both performance gaps against a certain peer group and optimization levers and is therefore an important performance measurement method for FSSCs. According to the data, a higher deployment of benchmarks results in a higher observed customer satisfaction rate.
A wide variety of KPIs is used to track the performance of FSSCs.

Another prominent tool for performance management are key performance indicators (KPIs). Below are the favorite KPIs from this survey’s participants.

**Costs**
- Cost per head/full time equivalent (FTE)
- Cost per transaction (e.g., invoice)

**Efficiency/time**
- Average number of transactions processed per hour
- Average number of transactions processed per FTE

**Quality**
- Number of complaints as a percentage of total transactions
- Errors as a percentage of total transactions
- SLA/OLA performance

**Customer**
- Customer satisfaction rating
- Response time to complaints

**Staff**
- Employee satisfaction rating
- People engagement
- Attrition rate
The implementation of a mature performance management system is an important factor in monitoring and adjusting the FSSC performance according to the corporate/finance department strategy. Practice shows the saying “what gets measured gets done” is simple, but in most cases hits reality. With concrete performance numbers it is also easier to convince senior management of the necessity of certain improvement actions and programs. For a successful implementation of resulting optimization programs, it is essential to clearly define project roles and responsibilities as well as to implement a benefits management based on performance measurements.

As described in chapter 2, the implementation of profit center principles and the corresponding cost allocation systematic is recommended. With the establishment of profit center calculations, activity-based costs need to be collected for the cost allocation. Internal/external benchmarks can be performed by applying cost allocation predicted on activity-based costs, which can drive further optimization initiatives. Principally, in terms of cost allocation, the right balance between total transparency and pragmatic charging of process costs is to be ascertained. Due to a transparent and ideally influenceable cost allocation, FSSC internal costs could additionally be reduced. These should, however, not be compensated by an oversized process and cost controlling. The aim should be to gain an added value for the company and not a highly detailed and cost-intensive cost allocation.
7 Human resources management

Human resources is the evaluation criterion where participants showed the highest maturity on average. For an FSSC, motivated and satisfied employees are a required basis for delivering high-quality services. This assumption is also backed by the survey data, according to which customer satisfaction (percentage of customers that rate the FSSC’s services as ‘very good’ or ‘good’) increases along with staff satisfaction (percentage of staff that scores the working conditions as ‘very good’ or ‘good’).

**Fig. 25  Weighted average of customer satisfaction depending on staff satisfaction**

| Percentage of customer/staff that rate the FSSC’s services as ‘good’ or ‘very good’ |  
|---|---|
| > 70% | 85% |
| 60–70% | 63% |
| < 60% | 44% |

**Staff qualification**

Trainings to develop and motivate employees are also used by most polled companies. Remarkable is the use of professional technical training by the complete survey peer group. Such trainings allow the employees to perform their jobs more effectively and efficiently, especially with regard to the companies’ specific guidelines and process designs. Soft-skills training and customer-oriented training are also implemented by the majority of the companies. Those trainings show an especially positive influence on customer satisfaction and should be further improved to drive the FSSC more into the business partner direction.

**Staff satisfaction**

An opportunity to increase staff satisfaction are employee development plans that are used in combination with performance evaluations. The survey results show that all participating FSSC organizations support a proactive human resources management – 66% have even standardized the employee development plans and linked them to staff performance.

88% of the polled FSSCs are conducting employee satisfaction surveys on a frequent basis, which is necessary to monitor and improve employee satisfaction proactively. Nevertheless, 12% rarely or never conduct employee satisfaction surveys and therefore are not able to give an estimation of their staff satisfaction.

**Staff communication**

Open and prompt communication of information among employees on the same and across hierarchical levels allows all affected employees to work more effectively and improves the working atmosphere as rising issues can be identified early. FSSCs that enhance such a culture of open communication are found to achieve higher performance levels regarding cost and customer satisfaction as they look for optimization potentials more actively.
**Staff turnover rate**

The distribution of staff turnover rates among the survey participants seems to be quite moderate, with most participants having a turnover rate on the lower end. Only 9% occur to have a turnover rate of over 20%, which bears the danger of a know-how loss and too many necessary staff investments (onboarding, trainings, etc.).

The assessment of the staff turnover rates by geographical locations indicates that staff turnover is highest in the FSSCs in the Asia Pacific region (13%), followed by those in CEE (9%). This could be caused by the local labor markets’ conditions: As more FSSCs are established in these highly regarded regions (e.g., Bangalore, Mumbai, Krakow, Budapest, etc.), FSSCs compete against each other for qualified staff and therefore offer employees more incentives to switch employers. Staff turnover rates in Western Europe and North America are on the same low level (8%).
Staff turnover rates are individual KPIs. There is not a certain percentage of turnover that every company should aim for. On the one hand, companies that focus on innovation often target higher turnover rates to introduce fresh ideas and support “out of the box” thinking. On the other hand, popular FSSC locations often face competition in the local labor market and therefore aim to reach lower levels of staff turnover.

To tie FSSC key players or potential management staff to the company it is necessary to establish and communicate clear career paths and opportunities within the FSSC, but also within the sourcing organization and the headquarter. This is a good way to prevent significant know-how losses and also to generate a talent pool for management responsibilities. To encounter the challenge of recruiting key management team, also the career path of moving from the headquarter into the FSSC should clearly be communicated among the employees.

Qualifications – required for skilled FSSC employees – that are often forgotten are communication skills and solution orientation. When serving several different customers, it is essential to be able to deal with all aspects of interface issues (e.g., cultural, linguistic and time zone differences, service times, escalation management).
8 Systems and technology

Participants see a high optimization potential in the criterion systems and technology, which goes along with the result that none of the surveyed FSSCs was able to reach the highest maturity level, business partner (“2nd generation FSSC”). IT is the most important lever to successfully implement process efficiencies and reach higher quality levels, so therefore a stronger focus should be put on this dimension.

**Systems and technology optimization potential**

In all three polled evaluation areas – workflow systems (e.g., document workflow systems), ERP systems and IT governance – more than two thirds of all FSSCs point out a high optimization potential. Especially regarding ERP systems (93%) but also regarding workflow systems (84%), the companies see a strong necessity for enhancements.

![Assessment of optimization potential in relation to workflow systems (e.g., document workflow systems), ERP systems and IT governance](image)

Almost all participants see large optimization potentials in the IT sector.

**Influence of IT deployment on standardization and productivity**

Corresponding to a higher level of deployment of workflow systems – electronic workflow systems are used to promote interaction, data exchange and communication between the service supply side (FSSC, external service provider) and the service demand side (finance, local business, etc.) – the standardization rate of the polled FSSCs increases.

The same holds for the deployment of ERP systems. Additional survey data shows that FSSCs with a high deployment level of standardized ERP systems were able to significantly increase their productivity compared to other FSSCs. The deployment of electronic workflow systems also enhances the communication ability of the FSSC with external service providers and service demand units.

A higher level of deployment of workflow systems increases the standardization rate.

A high deployment of ERP systems leads to increased productivity.
Influence of implementation strategy on systems and technology

Further analysis finds the FSSC implementation strategy to have an influence on the systems and technology criterion. Companies that decided to first standardize their processes at the “old” location and then transfer them to the FSSC or to transfer them simultaneously are characterized by higher scores for their systems and technology maturity level than those who standardized the processes after transferring them. The reason seems to be that common automation technologies are already in place when starting the FSSC operations.

IT governance

In order to work effectively and efficiently, the implemented IT landscape needs a standardized and well-defined IT governance structure that is regularly adjusted, e.g., with respect to regulatory requirements that might change over time. Most of the participants have implemented a standardized IT governance structure and are regularly reviewing it. Nevertheless, more than two-thirds still see a high optimization potential with regard to this area.

IT platforms supporting tax functions

In cases where FSSCs have implemented tax functions, those can be supported by systems and technologies to deal with tax compliance, reporting or risk management. 40% of this study’s participants who provide tax services in their FSSC have a corresponding comprehensive IT platform implemented. One-third have IT platforms that manage some of their tax-related processes and 27% have to rely on external providers for these issues.
Automation of processes usually requires supporting IT infrastructure. As already stated in chapter 4 (business processes), the IT department acting as a service provider in order to implement the functional requirements becomes an important role for a successful process transformation. Additionally, at the project start it is necessary to identify possible IT interfaces to other ongoing projects, and it should be considered that often the implementation of IT – especially ERP systems – has strategic dimensions and affects more departments than just finance.

Furthermore, the operating approach should be an optimal mix of standardization/automation and pragmatism. The aim is certainly not to automate all processes and consequently lose the necessary flexibility. A good example here is the internal reporting processes that must have standardized processes but also ensure the flexibility to operate for different business requirements per unit. By ensuring flexibility, a local “shadow controlling” (controlling of one process by two parties) can be avoided. “Shadow controlling” usually leads to unnecessary and time-consuming discussions about discrepancies in different reports between the FSSC and local units as different systems or data pools are often compared. Consequently, more time to explain figures would be used than to interpret the right figures and take the right measures.
KPIs and evaluation of the maturity model
A performance evaluation of an FSSC also contains a measurement of quantitive and qualitative KPIs. The following section shows an assessment of the KPIs – also in relation to the maturity model.

**Savings in operating costs**

Reduction of costs was the main goal for the survey participants when implementing their existing FSSCs. More than half of them were able to realize at least 10% in savings in operating costs, and almost a third were able to reduce the costs by 30% or more. However, one out of 10 was not able to realize more than 10% in savings, and one-third are not able to estimate their savings at all.

Almost one-third was able to reduce their operating costs by at least 30%.

Results from this and earlier surveys indicate that FSSCs reaching the highest maturity level (“business partner”) show more cost savings than less developed FSSCs.

FSSCs with higher maturity levels realize more cost savings on average.
Additionally, even though only a very small number of participants (6%) have reached the highest overall maturity level for the criterion business processes, analysis shows a positive relation between well-shaped processes and the realized savings in operational costs. Looking at the geographical aspect, CEE – and in particular Hungary – seems to have the highest cost reduction potentials. In general, if participants could decide on their FSSC location again without restriction, the trend goes to CEE (Poland and Romania) and the Asia Pacific region (India).

**Amortization time**

An amortization time of less than one year after the FSSC implementation could only be reached by 6% of the study’s participants. Such a short amortization time is usually marked by low investment costs; the avoidance of severance payments in particular is very supporting here. 27% needed between one and two years and 12% needed more than three years for amortization, while 42% of the companies were not able to estimate their amortization time at all.

One-third achieved an amortization time of 24 months or less.

**Experience and learning curve effects**

Experience and learning curve effects are key factors in successfully implementing FSSCs. This assumption is also supported by an increased maturity level depending on a longer operating time of the participating FSSCs. Remarkable is the quite small difference of operating time between Levels 3 and 4, indicating that in particular the step toward a business partner (“2nd generation FSSC”) is not only a matter of experience but depends on other factors as well. Investments in continuous improvement activities and experienced consultants that can transfer their know-how and apply “best practices” are a good way to improve the maturity level.

Time alone is not enough to reach higher maturity levels.

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KPIs and evaluation of the maturity model
Productivity increase

Over 30% stated productivity improvements of at least 15% resulting from the FSSC implementation. Nevertheless, almost half of the polled companies were not able to indicate their productivity improvements, which could be an indicator of the need for a structured benefit and performance management during the FSSC implementation and beyond.

Customer satisfaction

The majority of participants are convinced that their FSSC’s customers are satisfied with the services provided. However, 19% rank their customer satisfaction as quite critical, as they think that less than 50% of all customers would rate the FSSC’s services as ‘very good’ or ‘good’. Further analysis shows customer satisfaction can be increased by a higher maturity level in the criterion customer relations. Typical instruments are the deployment of tools to manage and communicate with customers.
Staff satisfaction

41% of the FSSCs state that more than two-thirds of their staff rate their working environments as ‘very good’ or ‘good’. However, 13% answered that their staff only shows satisfaction rates of less than 50% (percentage of staff who rate the working conditions as ‘very good’ or ‘good’), and 22% do not know at all how their staff feels about the working conditions. Establishing an open communication atmosphere, knowing the needs of the employees (e.g., trainings, incentive systems, cultural sensitivity, etc.), and investing in staff motivation and development are definitely good ways to increase staff satisfaction. Also, the data show a positive correlation between the criterion human resources management and the level of staff satisfaction.
Staff turnover rate

Employees who are satisfied with their working conditions are less likely to change their employer. Consequently, FSSCs with high scores in staff satisfaction show low rates of staff turnover. In FSSCs with a staff turnover rate of less than 10%, 65% of employees are satisfied with their job. In contrast, FSSCs with staff turnover rates of more than 10% have employees who are significantly less satisfied with their jobs, with an average satisfaction level of only 32%.

Lower staff satisfaction results in higher turnover rates.

<table>
<thead>
<tr>
<th>Staff turnover rate ≤ 10%</th>
<th>Staff turnover rate &gt; 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
<td>32%</td>
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</table>

Fig. 38 Average percentage of staff that rate the working conditions as ‘very good’ or ‘good’ depending on the staff turnover rate.
Outlook

Financial shared service center on the rise toward valuable business partners – 2nd generation FSSCs
The participants of the study were asked about their plans regarding the implementation of further FSSCs within the next three years. The overall trend is to close or consolidate existing FSSCs, especially in Western Europe. This trend is a result of the consolidating effect whereby some of the regional hubs are closed down and turned into global hubs. Consolidating FSSCs is a good possibility to benefit from further scale, cost-cutting and centralizing effects. Only the number of FSSCs in the Asian-Pacific region, the Middle East and Africa seems to remain stable, and according to the surveyed companies, the Asian-Pacific region will be the region where most FSSCs are located in three years.

**Fig. 39** Total number of FSSCs by region existing in the companies’ organization today, and total number of FSSCs by region anticipated in the next 3 years

Looking at the future trends regarding nearshoring compared to offshoring strategies, the number of all operating FSSCs of the survey’s peer group located in nearshore regions decreases, whereas the number of offshore FSSCs seems to be quite stable. As most surveyed companies have their headquarters in North America and Western Europe, this trend can especially be observed for those organizations.

**Fig. 40** Total offshore and nearshore FSSC locations in the companies’ organization today and in 3 years depending on companies headquarters

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Asia Pacific will be the region with the most FSSCs in three years.

Offshoring is the preferred sourcing method for most companies during the next three years.
The majority of companies are satisfied with their FSSC organization.

Scaling down the FSSCs’ activities and returning them back to the business units is not an option for most of the participants; only 6% chose this option in the past, and no one is currently working on it. However, 33% consolidated their FSSC organization or are currently in the process of doing so. New or additional FSSCs are or have been implemented by more than half of the companies. Around 39% of the companies have decided to transfer processes that have previously been provided by their FSSCs to external service providers (selective outsourcing) in order to optimize their overall sourcing portfolio strategy and cost base.

The trend toward selective outsourcing is also proven by further survey data. For more than 80% of the companies, this is a thinkable option. Most of them even see offshoring to low-cost countries as a feasible opportunity, which supports the trend for sourcing options in the Asia Pacific region. Nevertheless, almost 60% can also imagine selective outsourcing within the company’s region.
Selective outsourcing of processes as a sensible option

Summary of sourcing trends
Transferring internal processes to FSSCs as well as to external outsourcers is generally seen as a successful way of optimization. In the future, companies will presumably focus on optimizing their global sourcing strategy, including:
• consolidating existing FSSCs,
• decisions on operating regional FSSC versus global FSSC hubs,
• deployment of (selective) outsourcing,
• decisions on adopting additional processes to FSSC and
• implementing additional FSSCs, especially in the Asia Pacific region.

Practical insights
Even though the survey’s trend for the next three years shows an offshoring tendency, several West European organizations tend also to establish their FSSCs at onshore locations. The main reasons here are communication advantages, and what probably weighs even more are quality and reputation aspects. In line with the rising importance of quality aspects, practice shows even business cases with no cost savings at all, where the only goals of the FSSC implementation are quality, transparency and compliance aspects. In terms of reputation aspects, many companies decide to stay onshore with their FSSC in order to flesh out their local engagement and responsibility for their staff.

Furthermore, it will be essential and at the same time a challenge to employ motivated and qualified staff in the future in terms of achieving value to become an established “business partner”.

Organizational consolidation of FSSCs and adopting additional processes and services are the trends for the upcoming years.
**Major challenges and initiatives from participants**
In addition, the participants were asked to state the three most important challenges as well as initiatives in the next two years for their FSSC.

**Most important challenges in the next two years for the FSSC (selection):**
- Enlarge the services covered by the FSSC
- Stabilization of relationships between FSSC and customers
- Global process ownership
- Improve process efficiency, quality and transparency and IT tools/applications
- Talent management, attrition of staff due to increased competition
- Lack of senior managers

**Most important initiatives in the next two years for the FSSC (selection):**
- Developing a sourcing model and strategy to stay competitive in the outsourcing/offshoring domain
- Consolidation of FSSC(s) in one location
- Growing the center and adding new services for customers
- Optimize end-to-end processes and implement global process ownership
- Drive process standardization as well as process improvements
- Continue and implement further automation for non-standardized processes and force SAP convergence
- Accounting policy standardization
- Development of a human resources strategy (talent development, retention and building competencies)
- Implement management information systems and scorecard reporting, establish more efficient KPIs
Appendix: The company and FSSC profiles

This appendix contains information about the survey participants’ companies and their financial shared service center.

The participation of 33 globally operating financial services corporations demonstrates finance and accounting FSSCs to be an important topic across the different industries in the financial services sector. Most representatives operate in the banking sector.

**Fig. 43  Participation by financial services industries**

- **Banking**: 76%
- **Asset Management**: 6%
- **Insurance**: 9%
- **Other**: 9%

70% of the participating financial services companies are listed in the Fortune Global 500 Index that classifies the world’s largest companies. Also, 45% of the surveyed companies are large, international players and belong to Global Finance magazine’s ranking of the World’s 50 Biggest Banks.

**Fig. 44  Listing of participants (multiple categorization)**

- **Fortune Global 500**: 70%
- **Global Finance magazine’s ranking of the World’s 50 biggest banks**: 45%
- **DAX**: 6%
- **S&P 500**: 12%
- **Other**

1 Global listings (DAX 30, NYSE, S&P 500, FTSE 100, CAC 40, S&P/TSX, S&P/ASX 50, OMX Stockholm 30, FTSE MIB etc.)
43% of all participants show a balance sheet total of 1,000 – 499,000 million euros. Only 7% have balance sheets with less than 500 million euros in total, whereas 30% of those polled show a balance sheet total of more than 1 trillion euros.

![Fig. 45 Company balance sheet totals (in million Euros)](image)

More than half of the study’s participants – 51% – employ 20,000 FTEs or more. 33% of them employ less than 5,000 FTEs.

![Fig. 46 FTEs employed in the companies](image)

33% of the surveyed companies operate in less than 10 countries. However, 60% of them operate in 10–99 countries, which indicates a high level of corporate globalization in these financial services companies, and 6% even have operating locations in over 100 countries.
More than half of the financial services companies have their headquarters in Western Europe. 36% have their headquarters in North America, while 9% are located in the Asia Pacific region.
The majority of FSSCs of this survey’s participants are located in Western Europe (approx. one-third) and the Asia Pacific region (approx. one-third). Other FSSCs are located in North America (21%) and CEE (12%).

An analysis of the surveyed FSSCs’ size regarding their FTEs shows that half of the FSSCs employ less than 500 FTEs. Only 35% employ more than 1,000 FTEs.
Most of this study’s questionnaires were completed by the heads of the FSSCs or the heads of accounting departments.

Fig. 51 Position of staff who processed the questionnaires in the companies surveyed

1 Others include: COO, senior headquarter positions related to financial and operational issues with interface to shared services.
Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we leverage all of our assets: experience, industry knowledge, high standards of quality, commitment to innovation and the resources of our expert network in 158 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients’ needs, the more effectively we can support them.

Companies that have implemented financial shared service center in the past are now being confronted with the question of how to ensure the cost and service advantages of their FSSCs in the long term. PwC has been working together with its clients in the implementation of shared services for many years. We draw on our experience to support our clients with well-trained teams and international networks to overcome their challenges and develop achievable, long-term solutions.

PwC. 9,300 dedicated people at 28 locations. €1.49 billion in turnover. The leading auditing and consulting firm in Germany.
The commitment of these experts reflects the highest quality criteria in terms of their professionalism. Integrity, impartiality and objectivity are also part of the corporate philosophy. For this reason, great care is taken to offer clients only those all-in-one services that are consistent with the law – above all with the specific regulations for the US capital market. The most modern approaches are taken toward auditing, consulting and evaluation, thus supporting the companies in meeting the high demands of a competitive market.