

# Maturity Models of Shared Services in Theory and Practice

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*Abstract: all shared service center (SSC) has its own evolutionary path with stations from the formation to maturity. This study introduces the main theoretical models of this development, so Barbara Quinn's and Martin-Pérez's models. These models show what kind of development stations can a shared service center run through. However, it is also important to see that parent companies will only be able to effectively operate a shared service center only if all of business process are standardized and not only the processes of the SSC. The CMMI model helps the parent organization to find the optimal level of maturity to implement and operate an SSC. Janssen-Joha's model is also a good landmark because it shows how the parent company could implement SSCs organization-wide. Practical side of the research shows level of maturity of Hungarian SSCs based on the first two models.*

*Keywords: SSC, Shared Services, Business Services, Maturity model, CMMI*

## 1 Introduction

### 1.1 Business service sector

#### 1.1.1 Headway of business service sector

In recent decades, we are witnessing of continuously growth of business service sector which is one of the most important trends in the Central-Eastern European countries. Based on the declaration of European Commission in 2000 in Lisbon, the Business Related Services (BRS) which includes the business services as well is a key area for European Union because it contributes to the national employment, productivity growth and foreign trade with even greater scale. The special attention affecting the business services could be observable from the 1980s. The reason of this high attention is that, the growth of this area exceeds all other area's. Parallel with increasingly importance in the national economies, it got important role in the national employment as well. Since World War II, the share of service sector

workers has increased two and a half times. The dynamic of this growth was the highest in the period followed by the change of regime in 1990s. [1]

At the beginning of the 2000s, the total service sector gave more than 66% of the Hungarian GDP and within the business services was 17%. The weight of the services in the employment has been increased to 61% by 2003. [2]

Nowadays the business services are the fastest growing sector of the economy in the most developed countries. Hungary is still lagging with its about 8% of all employees working in the business services sector, which is half to two-thirds of the value comparing with the developed market economies. [3]

The business services are usually implemented in service centers that can operate independent as a market service provider or as an organizational unit within the parent company. This research deals with the shared service centers owned by the parent company.

### **1.1.2 Shared service sector**

Within business services, the shared service model has particularly importance in Hungary. Over the past decade, the large international companies' service centers were increased from zero to about one hundred in Hungary. Approximately fifty thousand people work in this sector in Hungary. Therefore the sector has national economic significance as well.

The shared service center model appeared in the 1980s and since then it is in the focus of private and public sector as well. Today, 80% of the world's largest 2,000 companies use the shared service center model to support their activities. [4]

The shared services take place in specific service centers called shared service centers. The benefits (mostly the savings) available through this service center are differently from business to business. The biggest savings can be detected for those services in those companies that have high transaction volumes, because it can make the major impact on the economies of scale available. [5]

The main purpose of this model is to improve service quality and reduce costs, but the benefits are now significantly expanded and includes e.g. standardization of services and processes, reducing administrative costs; or grouping similar tasks and dismantling of redundant tasks; supporting corporate strategy.

The shared service centers provide a range of services primarily regional and sometimes global level, such as finance, accounting, procurement, logistics, IT and HR.

## **2 Aim and method of research**

The research seeks to answer that during what kind of changes the service centers go through their operation and to identify how major evolutionary-developmental models exist in the literature. The empirical research gives an overview of the maturity level situation with the Hungarian shared service centers, using the two most well-known evolutionary model.

The research is based on the database of a questionnaire research. The questionnaire was online, standardized, self-administered and available optional in English or Hungarian. The expected response rate was as large as possible, but at least a 50%. According to the database formerly compiled all shared service centers in Hungary were targeted. 80 service centers of 73 companies were involved in the research and 50 centers of 47 companies completed the questionnaire, so the response rate was 62.5%. At determination of research population, all shared service centers were involved, which were in the literature or a database of professional organizations included it as an SSC and fulfilled the following criteria:

- during the research it had a site in Hungary;
- independently of other corporate activities it had a separate service center;
- and the services of this center were shared at least for the other departments of the parent company.

## **3 Evolutionary models for shared service centers**

### **3.1 Quinn's model**

The most important model was created by Barbara Quinn. Quinn developed a model to categorize the different states of maturity in shared service model. [6] Quinn distinguished four archetypes: the first is the basic model that is followed by the market model and the developed market model and finally the independent model. The model describes those evolutionary steps that a shared service center could go through. In this model, the more market-based the operation of service center is, the more advanced the shared service center in maturity.

Quinn's model shows four evolutionary models as archetypes ranging from the simplest one where only the transaction process functions are centralized till the independent business model, which is operating as an independent business unit outside the organization.

In Quinn's model the first archetype is the basic model in which the service center is the level of initial consolidation where happens clarifying and merging of some

transactional background activities. The operational focus of the service center is primary on achieving economies of scale there. The target is the biggest possible cost savings and standardizing the service processes. The organization provides services to the parent company. The relationship between the service center and recipient side is market-based since there is charging of the total cost of the services.

The second archetype, the market model could be interpreted as a kind of moving forward from the basic model. Those service centers which are already at this level have broader and more professional portfolio of services. The goal is also the cost optimization of the background activities and development of service quality. In order to reach it, the service centers separates their control and service providing activities.

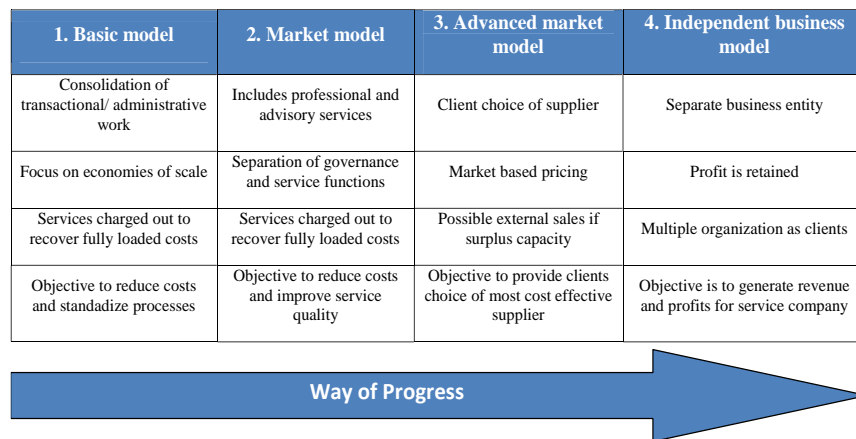


Figure 1  
 Quinn's modell. Source: own edited based [6]

The advanced market model is the third step of development, where the recipient can choose the service provider that means a market competition among the providers that could be internal shared service centers of the parent company or external service providers from the market. The aim is therefore to achieve the most cost-effective services. At this archetype the external customers also may appear. So here the service center could deliver its services not only the other units of parent company (internal customers) but to other external organizations as well. Of course, this is only possible if capacity permits and the service center can improve its capacity utilization by this. In this level the internal customers are still in majority and serving them should be the primary objective for the service center. [6]

The independent business model is the fourth and final step in Quinn's model. The service center can operate at this level as quasi-separated business units (divisions) and addition to the internal customers it has a number of external customers as well. Through the service delivery to the external clients the service center realizes profit which has its own and does not have to pay to the parent company. The target on

this level is the for-profit services which are together with world-class services and advanced cost calculation models. Service centers operating at this level often become targets for sales in the eyes of competitors. Sometimes for the parent organizations it means a chance to get return of its invest into the service center, since in this independent model the price of services have already reached the market price and it has roughly the same cost if the parent organization sources it from inside or outside. [7]

However the evolution of shared service centers could continue. According to Bangemann the next step from Quinn's model could be the virtual organizational operation. Its success depends on well-designed processes, advanced IT platform, trust, cooperation and personal competencies based on the existence of the network. [8]

### **3.2 Martin-Pérez's modell**

Quinn's model has been criticized that it is too theoretical. [7] The model describes a strictly development path on which all shared service center can go through. The focus of the model is on that how market-based will the service center become as times goes by. At the last, independent business model the question has been arisen that could it even called as a shared service center. Since the development of a shared service center may be influenced by a number of other factors and the parent company has the decision opportunity to determine what kind of shared service center is necessary to establish. According to Martin-Pérez it cannot be determined an exclusive way which is involved in Quinn's model. Based on their empirical research they revealed that Quinn's theoretical model only approaches the practice, in fact, the development of shared services is much more complex. [9]

Based on this research results they modified and expanded the model and placed the possible shapes in a matrix which has two dimensions as internal client-orientation and external competition-orientation. The high internal client-orientation is an essential requirement for the service capability in the shared service model. The external competition-orientation is important because it means a feedback how competitive the service delivery is. On the one hand it creates a competition, but on the other hand a positive incentive as well to spur the shared service center a higher value-creation. Martin-Pérez distinguished four types based on the development of shared service centers: pseudo-SSC, classical SSC, professional SSC and outsourced SSC.

It is typical for the pseudo-SSC that it has typically small internal client-orientation and small external competition-orientation. Almost each organization goes through this type when starts to establish a shared service center. Especially those companies where before it the services were too decentralized. Many times the parent organization has little interest to develop the whole concept, hence we can talk about a hidden but traditional centralized function, which is sometimes called SSC because of fashion, but there is a lack of internal client-orientation.

The classical SSC means a high internal client-orientation, but it is still characterized by low external competition-orientation. This level of development is typical for most young shared service centers. The provision of services within the company has already reached a high client-orientation and along with this the center could prepare to externalize its operation. Indeed, it is essential for long-term successfulness of the center. The shared service center uses at this level cost or market pricing, provides SLA or OLA and measure the client satisfaction. The internal client is in foreground, because generally they are much larger or exclusive.

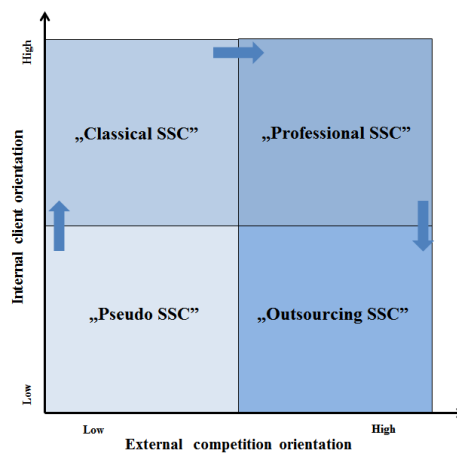


Figure 2

Martin-Pérez's model.

Source: own edited based [9]

Professional SSC has high internal client-orientation and external competition-orientation. A significant portion of its clients are external, so it is a professional level. It could be realized by implementation of continuous improvement and profit-orientation. The shared service center here occurs as an independent unit and is able to independently develop its activities. The parent company is the primary customer.

The outsourced SSC has small internal client-orientation but rather high external competition-orientation. The activities of shared service center are no longer completely dependent on the parent company's activities. The services themselves are marketable. This can occur if the SSC places particular emphasis on the acquisition of external clients, even when there is no requirement for the parent company. This position is typical right before the service center becoming independent (spin-off) or before a sale.

## 4 Maturity models of SSC parent companies

Today, more and more companies concentrate on the service-orientation and use internal or external service centers for service excellence. The service-orientation can bring many advantages for companies because it allows the creation of modular, accessible, well-defined, free-viable, interoperable services. [10]

### 4.1 Janssen-Joha' model

About Service-Oriented Enterprise (SOE), [10] states that establishing SSC means a solution of corporate consolidation in a situation with duplicate operations, previously organizational expansions and transformations. However, the development of the organizations does not stop at the level of creation of SSCs. Based on their study, they identified four levels of maturity. [10]

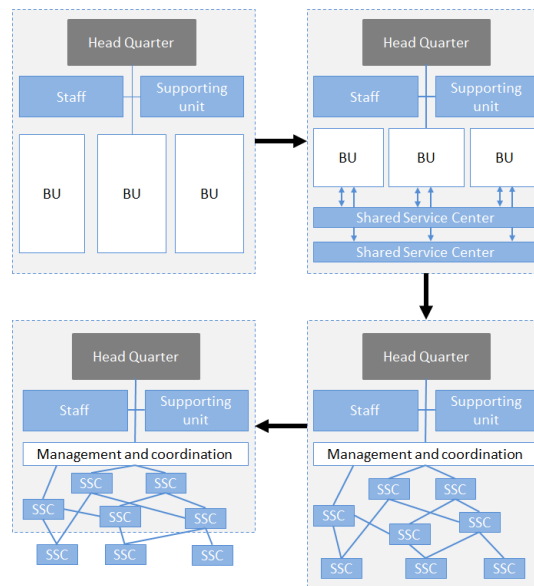


Figure 4

Janssen-Joha model.

Source: [11]

The first is the traditional organization with functional organizational units and traditionally hierarchical structure of the organization. The second is the Shared Service Organization (SSO) which means a development compared to a traditional company structure because many service functions are restructured and organized to one or more SSCs. It means a combination of the traditional functional organization and the SSCs. The third is the Service-oriented enterprise (SOE) which includes separate management and coordination level in the body and the entire

organization is structured around the SSCs, and there is no longer a traditional functional structure. The last one is the retained SOE level when according to organizational performance the company sell some SSCs with outsourcing or bring new SSCs into the organization with acquisition .

## 4.2 CMMI model

It is important to see that a company is able to effectively operate a shared service center, if not only the service center has standardized and cleared processes, but the whole company as well. The input and output side of the service process should also be standard. It is worth to examine what level of development should be the parent organization in order to operate a shared service center. Capability Maturity Model Integration (CMMI) model could be a good tool for it. [12]

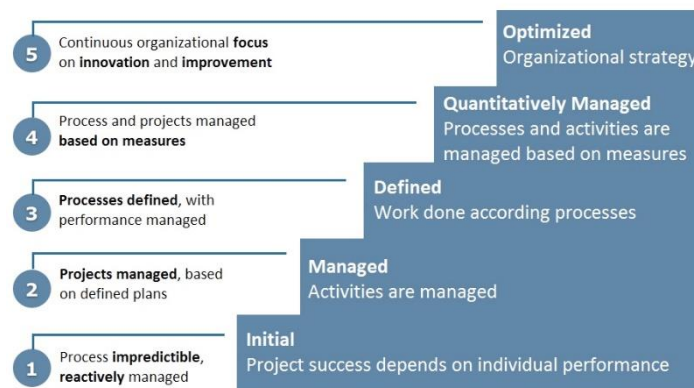


Figure 5  
CMMI-model.

Source: CMMI model

The CMMI model distinguishes five levels of organizational maturity. The first stage of maturity called as "initial" level when there is ad hoc operation and only the input and output is known and the organization is able to produce almost the same output twice. This level is typically for a creative agency. The second level is the "managed" state when over the knowledge of input and output, the organization has major milestones as well. Such an organization is university. The organizational responsibility is typical for this level. It is not defined how the employee should do the job, only the milestones are explicit and based on it, the organization could produce roughly the same output. The third level is called as "defined" state which means standardity and controlled operation. In this case, the organization has not only the input, output and milestones but the processes are already standard. At this level there is a bank or a majority of well-established companies. This is the first



stage that suitable to operate a shared service center but in fact this is still not a good maturity level.

The next level is "quantitatively managed" when besides of the milestones there are key performance indicators (KPIs) (i.e. processing time, error rate, etc.), and based on them, the organization has the ability to control its own actions. This is the first level where an SSC could emerge. On this level, the organization could make conscious sourcing decisions, could sign service level agreements (SLA, OLA), because it knows what needs to retain an operation, what means to outsource, or what brings to organize an SSC.

The fifth level is called as "optimizing" stage when there are not only KPIs, but they are actions linked to targets and which are built into the normal operation. This the level of operation which is completely suited to operate a shared service center. About the operation of the organizations, it is generally true that the maturity level of the core and the supporting activities could not be separated.

## **5 Characteristics of research participants**

47 data center of 44 companies were in the database, which eventually met a sampling rate of 59%. The survey examined the practices of the centers, however the respondents were natural persons of the centers. Except one person, the respondents were service center managers, most of them came from the middle or senior manager level.

At the time of analysis, 57% of the parent companies employed more than 10,000 employees and 51% of their annual sales were over 5 billion Euros. This result shows that the parent companies of service centers are traditionally large multinational companies came from sectors such as IT, telecommunications, automotive, energy service or area of banking and financial services.

Looking at the origin of service centers parent companies, in the Hungarian market it is surprisingly strong the positions of companies from the USA (47%), followed by companies from Great Brittan (13%), Hungarian companies (9%), Finland and Swiss companies (7% -7%). Interestingly, unlike the productive sector companies in the proportion of German descent, it was only 4%.

40% of the participants belonged to the category of small center (up to 150 people), but nearly 25% of them were large (minimum 500 people), the rest were medium-sized centers. The respondents are the most shared service centers established in Hungary in 2006, 2007 and 2010 years.

Analyzing of the organizational structure of them, almost third of the participants were at independent division level, 35.7% of them belonged to the divisional, while 31% of them operated under the control of the headquarter.

The vast majority of respondents were shared service centers in the capital, only 20.5% of them were located outside of Budapest.

Most of the respondents centers parent companies (78.6%) had a few (up to seven) shared service center globally, but in most cases (respondents over 26%) was that the parent organizations operate three pieces of such centers globally. However, 21.4% of respondents had serious global service network and had 12 or more center. In Hungary, the majority of respondent companies (83.3%) have only one center, and 14.3% of them operated two. Only one company had more than two, altogether five such centers.

The service portfolio of the respondents were mixed but the most important services were the following: finance (70%), accounting (66%), IT (55%), call center (55%), procurement (36%), HR (35), corporate administration (30%).

## **6 Maturity status of shared service centers in Hungary**

Based on the evolutionary models revealed in the literature review, the current maturity levels of shared service centers operating in the Hungarian market were examined in the practical research. According to Quinn's grouping, the Hungarian shared service centers were categorized taking into account four criteria (organizational independence, service orientation, settlement characteristics, the nature of the provision of services). Based on Quinn's model, the majority of the Hungarian shared service centers were matured, at the time of my investigation the largest proportion of Hungarian shared service centers (36%) were belonged to the "developed market model" category, which was followed by the "independent business model" category with its 29%.

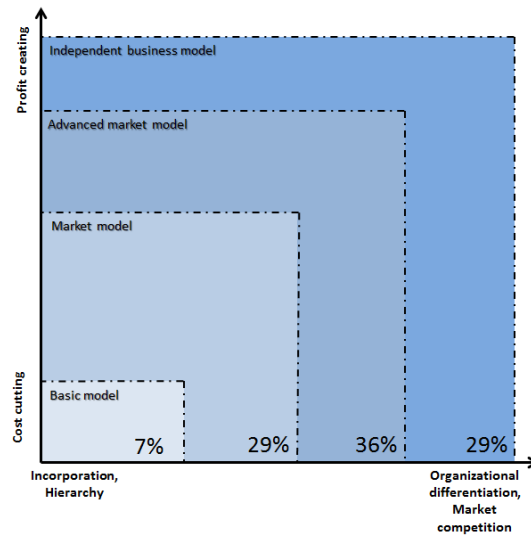


Figure 6

Maturity of Hungarian SSC based on Quinn's model.

Source: own edited

The research study examined the maturity levels of the shared service centers in Hungary based on Martin Pérez's model. The classification criteria were the existence of a service contract, customer satisfaction surveys, internal and external customer management, profit making and organizational hierarchy according to Martin-Perez's model. The following figure makes the Hungarian situation visible. During the investigation, the centers belonging to the category of "classical SSC" were the largest majority (64%) in Hungary, which was followed by the category of "professional SSC" by 27%.

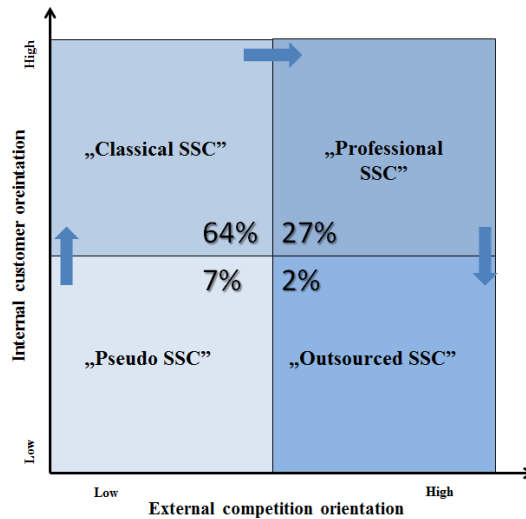


Figure 7

Maturity of Hungarian SSC based on Martin-Pérez's model.

Source: own edited

Looking at the results of the two evolutionary models, the majority of Hungarian shared service centers are operating with the matured organizational characteristics.

## Conclusions

Summarizing the research results, we can say that there are many theoretical models in the literature which are useful in categorizing of maturity levels of shared service centers. Quinn's model makes grouping into four categories according to their market orientation of service centers. Martin-Pérez's distinguished them along two dimensions, based on the empirical data. The Janssen-Joha and the CMMI models shows well the maturity of the parent company as well that is necessary if it want to operate an SSC. These models could be useful for the development of parent organization and exploring the opportunities for further improvement. Based on these information, the parent companies could create better sourcing strategies better manage their supporting operational activities.

There were more shared service researches in the last three years in Hungary conducted by the HOA or consulting firms but none of them analyzed the maturity stage of the Hungarian market players. The aim of this research was to fill this gap in the research practice.

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