Measuring Service Satisfaction in Shared Service Organizations

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Abstract

In the recent decades expansion of the service sector has been continued and nowadays this is one of the most important trends in the global economy. Within the service sector I am focusing on the business service sector and mostly the segment of shared service centers. Measuring the value of shared services center (SSC) is essential, as it provides the burden of proof. Measurement demonstrates that a case for action resulted in the correct decision; that a strategy has added value to an organization. Since SSC need continually to justify its existence, it will also need to commit itself to the ongoing measurement of its results. It is a typical failure that SSCs focus on costs and budget rather than the most important, client satisfaction. In this theoretical research I collected those methods and practices that are important and useful in measuring of service satisfaction. The research based mainly on literature review but I made ten interviews with Hungarian business service market experts to get their experiences in this topic.

Keywords: Shared Services, SLA, KPI, NPS, SSO, Benchmarking of SSC

1. Introduction

Each organization needs a good performance measurement system but in a shared service organization it is vital issue. This organization has to fulfill the demand of internal customers and sometimes external customers and convince the executives about the success of existence. If it is not successful and could not compete in quality and price with the outsourcing service providers then executives will look for a better solution.

The big companies attempt to rationalize operational costs by standardization and deliver services over country’s borders as well. Depending on the expected assets at the end of the process, either a captive center is created or an outsourcing provider will get the delivery. The key lies in the reorganization of processes. If the function moves to an offshore location then this will mean further cost reduction. Shared service organizations (SSO) could be a good tool for these aims.

The most frequent appearance of shared service model is captive center that is an organizational unit with the aim to re-manage certain services – that delivered for a broad scale of organizational units – in a specific service center. (Bodnár,2006, p. 277).

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Captive centers were originally established for getting cost-benefits and lately they were one of the main drivers of offshoring projects. Captive centers deliver internal services exclusively only for units of parent organization. However there are similar organizational units that deliver services not only for internal units but for external partners, it is called shared service center.

The original target of using shared service model was cost-cutting but nowadays its judgment had been changed greatly. They are considered such strategic business units those aim to reach service and operational excellence. In line with it the service portfolio of shared service centers were also extended. These days centers include more complex and knowledge-based processes like R&D, sales or marketing which are closer to traditional core business. There are a lot of drivers for establishing of shared service center but the most important are the followings:
- improved services and reduced costs;
- standardized services and processes;
- diminished administration costs;
- supporting corporate strategy;
- grouping similar tasks and demolishing redundant processes;
- favoring progress;
- facilitating introduction of new technologies;
- improving working capital.

2. Purpose and the methodology of the study

The purpose of this paper is to define those methods and systems that play important role in measuring service satisfaction in shared service organizations. Besides the literature review I am conducting a far-flung research in Hungary to analyze the shared service market. Part of this research I am analyzing how service companies could monitor the customer satisfaction, what kind of systems and models they have and finally making some proposal for improvement this area.

3. Evolution of Shared Service Model

As many model this is also launched in the USA, where at the beginning of 80’s the defense industry and the NASA created similar centralized purchasing organizations. Then latter, the larger private firms have realized possibilities of the model and slowly an industry developed for this economic segment. For the progress of shared service model it is contributed strongly that in the 80’s and 90’s there were a lot of outsourcing decisions in the big international companies and it created a real industry. But many of these outsourcing decisions were full with conflicts. The companies expected from these partnerships that functions will be cheaper that was not always successful. It had two reasons. Expectations of companies were also exaggerated and most of the service providers have the stake to increase the prices because they want to get profit. And if the partnership increased the pressure on them to decrease prices then they had to reduce their own costs and it reduced the service level at the same time. Therefore companies recognized that the knowledge need to consolidate and standardize services is known and can be learned so they began to organize it by their own. They could avoid that cost of services increase over the cost price because within the company the profit-making is not the first goal for shared service centers on the contrary with outsourcing providers and in some multinational companies the level of several internal services are world-class and have the volume enough as well.

4. Measuring performance

Shared service management should balance forces of supply and demand and market efficiency, thereby enabling the services organization not only to attract internal paying customers with services they really need, but also to optimize internal and external delivery resources and demonstrate the value delivered in a tangible way. (Kris & Fahy, 2003).
In establishing and operating a shared service center it is a key issue to find adequate measuring, evaluating methods for performance management. Performance management means all the management tasks required to measure, monitor and assess the progress of all the tasks inherent in a contract for services. Those data that come from performance management are necessary at delivery for service receivers, on negotiations about SLA (Service Level Agreement), at elaborating service pricing or preparing budget. The performance measurements should arise from carefully crafted performance attributes and outcomes that become embedded in the terms and conditions of the contract. Performance measurement means a process of identifying and measuring the performance of a contract for supply of services. (Marciniak, 2012)

Performance measurement is necessary to prove, beyond doubt that the shift to a shared services environment has resulted in cost-saving and efficiency improvements. Since the shared services unit will be required to continually justify its existence, it will also need to commit itself to the ongoing measurement of results. (Kris & Fahy, 2003)

It is very hard to be objective at measuring when a service center performs well, but the aim is clear, do services quicker, better and more effective. It is a harder question how to plan, measure, report and communicate them. Shared services managers need to focus their efforts in two directions. First, they need to change the dashboards they use to more effectively communicate their value to their internal customers and prompt conversations that progress beyond money saving ideas to processes that improve business results. And second, managers must continue to look for cost savings and efficiencies.

It is important that shared service managers determine what clients exactly want. It means a priority but the elements are known. Primarily clients want to get availability and access to shared services. Secondly it is also important the accuracy of service delivery and adaptability to clients special needs like cultural differences. Credibility means ability to provide assistance. Dependability has crucial importance in maintaining of service satisfaction. (Kris & Fahy, 2003)

This dual mandate will ensure that shared service managers will be seen more as internal consultants than support staff, helping line managers solve difficult business problems and producing data-based observations that the line managers otherwise wouldn’t have. Some heads of shared services also tell us that their CFO likes the flexibility that shared services adds to the firm. By having a lot of processes standardized and centralized, it makes it easier to execute on big strategic changes, such as pulling out of one market and entering another or integrating a new acquisition. (Marciniak, 2012)

5. Service Level Agreement

The need for providers to define requirements with their customers created the Service Level Agreement (SLA), an artifact designed to force providers to engage in conversation with customers. The role of providers in these meetings is to listen and learn what customers want. Those requirements from a business standpoint, they could document and incorporate them into a simple letter of understanding, the SLA.

The SLA is a contract that is designed to satisfy customer needs and precise definition of it to avoid unrealistic customer expectation in the future. The SLA is a written agreement for both outsourcing and shared service model and instrument of coordination and operational control between the parties. The possible elements of the SLA are the followings (Terbócs, 2007):
- introduction: parties, date, author, finalization, verification, monitoring terms, aim of agreement, definition part about the using terms;
- optional and obligatory services: exact description, location, time parameters;
- performance measurement and reporting: key personnel information, monitoring of services, benchmark, measuring indicators, SLA reports, time, value, volume and quality indicators;
- targets: definition of targets derives from the agreement, service monitoring meetings;
- methods of problem-management: definition of possible emerging problems, implementation of solution methods, sanctions, service failure or non-compliance, responsibility, legal disputes;
- pricing, charge-back: service cost and price calculated by own and benchmark basis.
There is no established standard form of SLA but the more elements it includes, the lower the chances of potential conflicts between the parties in the future. In particular there is need for initial comprehensive agreement in precise description of services, deliverables, requirement for performance and clarification of the responsibilities. However the over-regulated services delivery may become an obstacle for flexible operation in the future. The most important requirements of performance indicators are relevance, measurability, direct influence for provider. A further element of SLA is the periodic review that ensures regulation of services follows the constantly changing environment (Terbócs, 2007).

Unfortunately, as with most everything else done in large corporations, the SLA has become something much bigger than originally planned. There are companies that have 40-50 pages long SLA. The SLA is intended to be an enabler, a means, not an end unto itself. The means is the conversation, the end is to ensure both providers and customers understand each other’s needs, and what they are each committed to do. (Forst, 2002)

Ideally SLAs are about one to two pages in length and spell out the description of services and the standards of service such as response time or quality. The ideally SLA should be a short concise document, it must also cover the following areas: (Kris & Fahy, 2003)
- what the client expects;
- what the supplier will supply or deliver;
- how frequently it will be supplied;
- to what quality standard;
- what the client’s obligations are;
- what happens if the supplier doesn’t meet these expectations;
- what happens if the client doesn’t meet their obligations;
- what recourse both have if there is failure on both sides;
- a description of the services to be provided, including end products to be delivered;
- skills that the supplier must possess, and levels of service to be provided;
- pricing and billing, including charges for services provided and the charging method;
- service standards, including deadlines, timescales, response times and other specific performance indicators.

6. Regulating of service measurements in the Service Level Agreements

In Service Level Agreements the elaborating method of service level measurement requires long negotiation in definition of quality expectation and requirements.

Among the special and obligatory services there are two types of indicators in SLAs:
- Time indicator: it imposes compliance requirements regards to service deadline.
- Quality indicator: that relates to data service, accuracy of reporting, acceptance without modifying.

The measurement of customer satisfaction contains feedback from customers about the quality of service like the quality of personal contact, speed of customer service availability in service points. Those indicators are good in SLA compliance on which service provider has direct impact and value of it could be clearly determined. However among the measured activities the majority of indicators is undertaken to meet the deadlines of 100%, in regard of delays this is 0%. In SLA regulation is limited till feedback of non-compliance of appropriate service delivery, but the sanction for it is not indicated in it. Other information about service quality can obtained from annual customer satisfaction measurements.

7. Customer satisfaction factors

Generally I found four keys to successfully maintaining true customer satisfaction over the course of a long-term Shared Services contract:
A Service Level Agreement (SLA) is not just a legal agreement to provide service that is signed and forgotten. It is a tool for the customer to identify ongoing service delivery expectations and for the provider, whether internal or outsourced, to establish reasonable limits to the level of service that can be provided.

Dedication to Marketing & Awareness (M&A): assign overall responsibility for maintaining customer satisfaction to a dedicated M&A team. The M&A team should facilitate regular meetings with customer representatives as well as service partners focused on reviewing SLA-defined performance metrics, reporting identified performance trends, and addressing known issues.

Be There for the Customer/Take Ownership: acknowledge that, no matter what, the Shared Services provider will be held responsible by the typical user for any data or service delivery problems. Build a process to address these concerns regardless of the source of the problem. Further, make it easy for the customer to report problems. Give them an online, simple-to-access and easy-to-use problem reporting tool.

Commit to the Continuous Improvement Cycle: Service providers should continuously evaluate customer satisfaction via a cycle of activities that will confirm adherence to the SLA and key performance indicators, as well as provide a forum to discuss performance and a methodology to address and resolve problems.

8. Balanced scorecard

The balance scorecard model connects a shared services unit to the company’s overall corporate or organizational direction, providing consistency to performance measures. It provides a strategic focus for performance measurement that goes beyond the traditional focus on financial data. In the context of shared services, four measurement criteria are used:
- the way internal clients and customers evaluate the services;
- the extent to which the shared services unit is able to demonstrate innovation and value;
- the ultimate financial returns;
- internal productivity in running the unit.

These provide a comprehensive picture of how the shared services unit is operating and can also be used as a basis for dialogue with clients about future improvements. The shared services unit must be committed to acting upon the data, however, if it is to lend any long-term credibility to the process. (Kris & Fahy, 2003)

The leading-edge shared service centers use Balanced Scorecard (BSC) model for measuring performance. They watch primarily how customer evaluates the services, which services could create innovation and value, how big is the financial return and operational cost-saving and internal productivity.

Not only use best shared service centers (SSC) these models because each organizations need performance measurement and benchmarking for operations. In benchmarking company compares itself with the best, but in performance measurements company has to identify the main performance indices (Key Performance Indicator – KPI). However the number of KPI could be varied greatly at companies but it is generally recognized that best performance is ensured by less than ten KPIs.

9. Net promoter methods

Many service center use KPI based on Net Promoter methods for measuring customer satisfaction. Net Promoter is a customer loyalty metric developed by Bain & Company. It was introduced in 2003. In Net Promoter method company has to obtain a Net Promoter score (NPS). NPS can be as low as -100 (everybody is a detractor) or as high as +100 (everybody is a promoter). An NPS that is positive (i.e., higher than zero) is felt to be good, and an NPS of +50 is excellent. Companies are encouraged to follow this question with an open-ended request for elaboration, soliciting the reasons for a customer’s rating of that company or product. These reasons can then be provided to front-line employees and management teams for follow-up action.
10. Need of benchmarking

Two kinds of data are necessary for successful operating shared service centers: measured values for performance measuring and best practice data for improving processes. Benchmarking data is vital for both because of two causes. On the one hand the main target of shared service center is delivering services at highest quality and at lowest prices. To determine what is highest quality and what is lowest price benchmark data are essential. So SSC could recognize where the organization stands comparing with other competitors and on base of it could improve itself. On the other hand benchmarking data is important to know how competitive the service and its price or there is other solution to deliver this functions (for example by an outsourcing provider).

To do benchmarking well the company has to keep in mind. There is no point if the collected data do not increasing because at comparing the others will do that and it could degrade the result. It is also important that data used for benchmarking will be new and do not derive from illegal source. It is worth to collaborate with watchfully elected, professional benchmarking firm in favor of success. If the company does benchmarking alone it is necessary to pick competitors soundly. Therefore benchmarking could be really useful if results of compared companies do not vary greatly. (Lidell, 2012)

Collecting measuring value is living routine at utmost shared service center, and at many company it exists programs for forecasting from reliable internal data but sometimes external data are also collected. The key of success is based on utilizing collected data. Company leader could do nothing with data those context has no information and it is not clear why and how different from benchmarked they are or how could the company plan and execute change built on these data. For example there are situations when higher price is reasonable and benchmark data could help when it is soluble and why. In identification of measured value could help where is opportunity to improve organization and where could company use best practice. (APQC, 2011)

Best practice could ensure the connection between reaching measured value and target value. Most of the organizations use some methods to screen expenditures of benchmarking and improvements. To be able to choose where the company has necessity of more frequent benchmarking, it is worth taking into consideration the following aspects:
- if the examined field represents the biggest proportion of shared service center budget,
- if customer demand or customer service issues indicate on the necessity of benchmarking,
- or if the field has a big effect on the regulated performance of organization or accuracy of financial report, then it is proposed to make benchmarking. On those fields that reached high priority the annual benchmarking with an own and data-detailed model is reasonable. Services those are also important for operating but does not stand in focus neither in cost reduction nor on the field of customer issues, it could be sufficient a benchmarking in every second years. On the field that has low priority it could be in every third year. Among these examinations utmost organization has recorded, low-cost or cost-less data that could be proper for comparing and best practice as well. Beyond focusing on the screened fields, utmost shared service center execute general or macro-level analysis that covers operating questions like SLA, measuring system, employee programs and customer service issues.

Benchmarking data, like any other statistical comparison, is highly susceptible to interpretation. Benchmarking against similar services supplied by other internal shared services units often provides a more transparent and valid performance comparison. This can be extremely useful in defining targets for the new unit, not only for service costs but also for staffing and customer satisfaction levels.

If a company makes benchmarking on its measured data or best practice then it is necessary to draw in three partners:
- process level competitor: the next best practice for the process or organization. This category indicates for organization there is the competence or not to outsource the process partly or totally;
- industry level competitor: other industry organization that has shared service center. This organization also has industry-specific or regulation-specific demands that has no regard on the process;
- best-practice organization: such organizations that identify best processes, independently from industry but do not outsource any activities.
Combining analysis focused on improvements and annual comparing shared service centers could ascertain measured values and best practices that are fulfilled the demands for customers.

11. Conclusion

The aim of transferring supported functions to shared service centers is the parent company could operate effectively and efficiently. But company could check fulfillment of this aim only if continuously monitors the performance of concerned processes. Effective performance measurement is based on client satisfaction that is one of the success factors in shared service centers.

If realizing processes is not followed by objectives and continuously measuring then company could not judge that each points of SLA could be realized and rightful and fair the offset of services. Traditional controlling systems used by companies could not fulfill this assignment. And they are also incapable for demonstrating the weak-points of processes. The solution is process controlling of internal services that is based measuring such indicators that contain performance and customer-oriented data.

In performance measuring the most important are the benchmarking based on KPI and a precise Service Level Agreement.

References


