# Spectris Innovation Center: centralizing resources in the globalization era; strategy operationalization.

**Case study**

**A new paradigm**

It was January 2019 and Andrew Heath was in Egham, United Kingdom, at the headquarters of Spectris PLC. A new year was starting and he had been nominated as the new CEO of Spectris just a few months before. Adjustments were being made for the upcoming years and he realized that a shift was needed in the organization strategy and governance model.

Spectris Germany was having difficulties finding, recruiting and retaining human resources and that difficulty was costing the company new projects and postponing developments and innovation within the organization. Business was growing but managers and teams could not keep up with the pace and hiring was becoming more and more difficult.

Andrew called for an emergency meeting with representatives from different companies within the group. In the meeting, it was explained that scarcity in human resources in some of the crucial areas of the company was compromising the future and growth, urgent measures had to be taken. In that meeting, it was concluded that Spectris needed to look for resources outside the areas where it was currently operating. The idea to create a service center was therefore born. This project had to be created in a place where human resources with the required skills set could be found and that would allow the company to achieve the purposes set out.

After several analyses of different scenarios, Porto was chosen as the city where Spectris Innovation Center was to be born and Manuel Azevedo was assigned as the leader of this project. He was called by Andrew immediately after the location was chosen and they discussed how the project should be managed and monitored.

Spectris Innovation Center should start working as a Human Resources Sourcing Center and should aim to hire 60 people until the end of 2021. This project would then be presented to the Group as a possible solution to specialized workforce scarcity and allow managers from different companies within the Group to grow their teams using the resources of this center. For that purpose, the Innovation Center provides hiring services, a workspace

and respective infrastructure for hired people. It provides the services required to develop and retain human resources and continuous support as well.

These services are provided by the Innovation Centre HR Department dedicated to handle recruitment requests, support the newly recruited employees during the first weeks of their arrival and support them in their personal development in collaboration with customer managers and according to customers guidelines - the general rule is hired employees are managed by the customer who triggered their recruitment.

Manuel Azevedo left the meeting enthusiastic with this new challenge. He would be responsible for proposing and establishing governance and organizational models as well as choosing the right team to take along with him for the next two years of project development.

## Company Background

Spectris plc is a supplier of precision instrumentation and controls. It is listed on the London Stock Exchange and is a constituent of the FTSE 250 Index.

Spectris was founded by Richard Fairey in 1915, as the Fairey Aviation Company with the objective of manufacturing seaplanes. In 1980 the business was acquired by Pearson from which it was the subject of a management buy-out in 1987. It was first listed on the London Stock Exchange in 1988.

In the 1990s Spectris focused on electronics, selling its electrical insulator and hydraulic actuator businesses. The road towards precision instrumentation started in 1997 with the acquisition of Burnfield, a measuring instruments manufacturer. Expansion was always the goal of the company and two years later bought another industrial instrument manufacturer, Servomex.

In 2000 it bought four instrumentation businesses from Spectris A.G. of Germany and then in 2001 changed its name to Spectris plc. In 2002 it bought the Philips Analytical business, which is now called Malvern PANalytical after merging with Malvern Instruments Limited.

In the last decade, Spectris kept firmly growing and acquiring market leaders and pioneers in the area of precision instruments and controls. Precision is at the heart of what Spectris does. Spectris provides global customers with specialist insight through high-tech instruments and test equipment, augmented by the power of software. Spectris is well positioned in its own markets with compelling and differentiated offerings that customers value.

Spectris ensures that customers get the measurements and insights they need to meet their challenges and create important benefits to their consumers.

John O'Higgins served as CEO of Spectris for 12 years, but in September 2018, Andrew Heath was announced as the new CEO. In that same year, Spectris had been expected to be taken over by Bain Capital and Advent International in what would have been one of the largest debt-fuelled takeovers of a publicly listed British company. However, due to political uncertainty in the United Kingdom triggered by Brexit, Spectris announced on 22 December 2018 that the deal had collapsed.

Spectris current organization structure is represented in the organigram below:
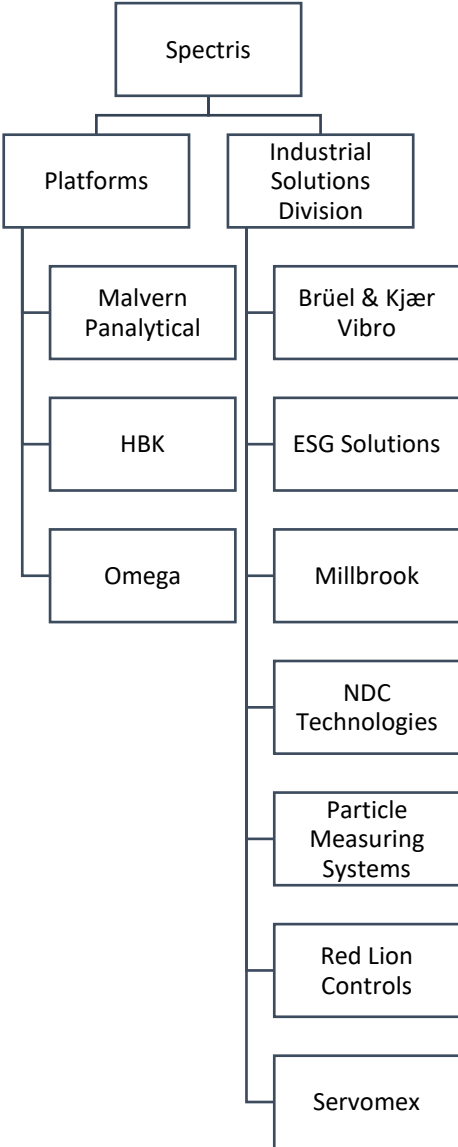


**What is a Service Center?**

Shared Service Centers can be described as an organizational model type in which similar functions within an organization are grouped into a single functional unit. It is a collaborative strategy in which some functions of the organizations are concentrated in a single semi-autonomous business unit.[1]

This unit supports the work of the parts that constitute the organization, this parts work as the internal client. Initially, shared service centers were created with the aim of cost reduction, nowadays other factors such as value creation and quality of work are being more and more valued. Governance and Organizational structure of these semi-autonomous units are designed to promote efficiency, create value, reduce costs and improve quality of services provided to the internal clients.[2]

Main categories of Service Centres:

| Service Centre Category | Service provided | Revenue structure | Resource management accountability | Risk |
|---|---|---|---|---|
| Shared Service Centre | Catalog of services | According to type and duration of contracted services | Resources are managed by the Service Centre | Risk is on the Service Centre side |
| Human Resource Sourcing Centre | Recruitment services | Margin over costs and overheads | Resources are managed by the client | Risk in mainly on the customer side |
| Project and Consulting Services Centre | Custom services or complete projects | Depends on service configuration | Resources managed by both, customer and Service Centre | Risk is shared by both parties |

[1] Ana Raquel Boinas Dias, "Centros de serviços partilhados: conceito, evolução e desafios atuais", Católica Porto Business School, 2017
[2] Ana Raquel Boinas Dias, "Centros de serviços partilhados: conceito, evolução e desafios atuais", Católica Porto Business School, 2017

**Why start a Service Center?**

The introduction of (Service Centre) SC structures is an important building block toward overcoming challenges like tougher competition, high market volatility, shorter innovation cycles and significant pressure on margins forcing companies to do business faster, strategically and operationally. Driven by cost pressure and the opportunity to save money, companies started to pool and outsource their finance transaction activities more than 20 years ago, with financial accounting and IT being the pioneers. The rationale for SSCs is to pool and centralize activities and processes in order to attain a higher level of standardization, harmonization and automation and thus benefit from economies of scale, synergies and efficiency gains. This means that process specialists can perform tasks for all companies in a group and know-how can be bundled in a central location.[3]

The organizational model of shared services provides, particularly for group and local controlling, support for senior management, realizing cost savings, minimizing redundancies and streamlining historically complex processes.[3]

Implementing a Shared Service Centre can enable companies to achieve cost savings in excess of 30%. At the same time Shared Services significantly improve the quality of services.[4]

Since the mid-1990s, a number of multinational organisations with SSCs in the US and Europe have expanded the concept into South America and Asia. Companies such as BP, Shell, Pfizer, Procter & Gamble and Oracle have proved that a global shared service structure is both possible and able to deliver clear financial and operational benefits. In addition, as SSCs mature, SSC directors continue to focus on improvement and optimisation efforts in a bid to reduce costs whilst maintaining or enhancing service levels.[5]

**Portugal, a natural shared services center country**

Portugal has been elected by hundreds of foreign companies to install their shared services and it is at the top of Europe regarding growth in the number of new business services.

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[3] Controlling as a shared service: driving efficiency and effectivenessControlling as a shared service: driving efficiency and effectiveness, EY, July 30, 2015
[4] Shared Services: Multiplying Success, PWC, July 2016
[5] Shared Services Handbook, Deloitte, 2011

Choosing a location for an SSC is a strategic decision in which innumerous factors are considered: political, economic, social and geographical. These factors and choices influence anyone involved in the project (management team, workers, business partner and clients), it is of utmost importance to make the right choice to comply with common interests. Before choosing a location, it should be clear if the place considered allows the organization to achieve the goals set.[6]

Quality and availability of workforce, training, cost, flexibility, infrastructures, legal and fiscal requirements, culture, economical and political stability, relationship with other countries, union activity, natural disasters occurrence, quality of life, governmental aids and language and IT competences are some of the criteria used to decide the best location to implement a shared center for organizations. According to a study performed by Deloitte [7] [8] [9] it was concluded that, although labor market related issues like cost, availability and quality of workforce are still very important, proximity to headquarters and operations are becoming more and more prominent. Communication, control, client proximity and level of trust are also valued by organizations and may be incompatible with distant locations.[10] When compared to cities like London, Eindhoven or Berlin where mean salaries for IT specialized force is about 47k €/year, Porto stands out with an average of 22k €/ year.

Quality of communications network is an increasingly important factor to guarantee sustainability of multinational projects and Portugal has one of the best in the world. Infrastructures availability, locations, comfort level and cost are still very competitive when compared to other European countries.

In 2018, Pedro Pires Miranda, CEO of Siemens Portugal, spoke about the 23 competence centers that Siemens had installed in Portugal by then. When asked about the reasons that led the company to Portugal, he explained that "excellent telecommunication infrastructures, competitive hiring models, excellence in human resources and higher education institutions have been crucial" for the decision making and for the success of these business centers. Siemens Portugal started operating in 2008 and had an export value of 5M €, by 2017 they reached 100M € and hired 150 new highly qualified employees. Siemens Portugal plans to keep expanding and consolidating its operations in the country, recognizing

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[6] Schulman et al., 1999.

[7] Shared services: From "if" to "how"- Insights from Deloitte's 2011 Global Shared Services survey, Deloitte. 2011.

[8] 2013 Global Shared Services survey results, Deloitte, 2013.

[9] 2015 Global Shared Services survey, Deloitte, 2015.

[10] Carmel & Abbott, 2007.

that recruitment and training of human resources are a key factor for the success that they have reached and that they want to keep growing.[11]

Portuguese Universities produce a great number of highly qualified and competent workforce every year which translates in availability for companies to grow. Most qualified workforce also speaks more than one language and the country is used to receive numerous foreign communities and is one of the most peaceful countries in the world, allowing for good cultural relationships in multinational and multicultural organizations.

*Table 1 - Portugal as a place for service centers: Strengths, Weaknesses, Opportunities and Threats.*

| **Strengths** | **Opportunities** |
|---|---|
| Highly qualified human resources availability;<br>Competitive labour and tax laws;<br>Low labour costs;<br>Good transportation network (nearby airport, metro and highway)<br>Good telecommunications infrastructure | Portuguese Universities are well positioned in international rankings Increasing digitalization. |

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[11] "Business Service Centers, Portugal no radar dos grandes investimentos", AICEP – Portugal Global.

| Weaknesses | Threats |
|---|---|
| Distance between teams and central business unit; Specialized workforce salaries below European average which can lead to "brain drain" to other countries | Increasing competition from big tech companies like Amazon, BMW, Google, Altran, etc; Increasing usage of social media and talent networks as recruitment tools; Home-office work mode. |

Portugal's geographical location is also strategic and facilitates the access to new markets: it is the European country closest to North America allowing manageable time differences between important cities like New York, Moscow or Sao Paulo. According to Carlos Guimaraes, Head Office at Adidas GBS (Global Business Services) located in Porto, when the center was firstly created it was intended to serve Europe only. However, in the past 10 years, it has grown so successfully that it is now responsible for Europe, North America and Latin America administrative and financial processes.[12]

**How can Spectris become competitive in a world of SSC?**

In a country where multiple companies keep opening shared services centers, an urgent question needed to be answered by Manuel Azevedo: how can Spectris guarantee the recruitment and retention of the needed workforce in the time span of the project?

The answer came in the form of creativity and adaptation. According to a survey performed by Deloitte in 2014[13], companies cite four issues as the most urgent: leadership, retention and engagement, the reskilling of HR and talent acquisition and access. Talent management is, therefore, considered an important and urgent matter for organizations and for their competitive success.

Talent management activities can be encompassed by the following three sets of activities:

1. Recruitment, staffing, and succession planning;
2. Retention management;

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[12] http://revistabusinessportugal.pt/adidas-business-services-10-anos-a-evoluir-e-a-crescer/ September 2020.
[13] Global Human Capital Trends 2014: Engaging the 21st-century workforce, 2014.

3. Training and development.

Each area of activity encompasses a set of practices common across companies with high rates of success when it comes to talent management.

Social media is changing the recruiting paradigm and the acquisition of highly skilled people should be treated more and more as marketing and branding.

In order to keep track of talented and skilled workforce, companies are building close ties with universities, promoting and participating in on-campus recruitment fairs and are open to internships for students and teachers to develop projects in their facilities.

Inviting potential recruiters to know the companies facilities and provide them with the opportunity to talk to team members with whom they can connect through common interests can grow the engagement levels of potential candidates and have a great impact on the recruiting process by effectively increasing the number of applications received. In order to build a brand and to exploit it effectively, the company must think of recruits as customers, understand their targets well which can be done by, for example, determining the top attributes that matter the most to specific recruits.

Defining an engagement strategy that revolves around creating a passionate and more compassionate place to work shows to be the best way to keep people inside the organizations engaged. Retention and engagement should be seen as a common responsibility to everyone that works and represents the business (from top leadership, HR and all levels of management).

Spectris found that in the first year of the project, it was having trouble retaining the human resources needed. The recruitment process was fairly efficient but team members would often resign after 4-6 months into a project. Manuel Azevedo could not identify the root cause for this and was being pressured to deliver a new strategy to retain talent within the Innovation Center.

In an after-hours conversation with one of the IT Engineers, Manuel Azevedo could understand that working continuously with the same team and for the same companies was demotivating for his team member. He realized that there was a need for new experiences and challenges.

Younger generations no longer seek a lifetime career, instead they rather have assignments for periods of time long enough to develop new skills and <u>acquire new experiences</u> that provide benefits over a lifetime. Skills are acquired and developed rapidly. This model of work not only makes employees more capable but also more engaged and motivated which, inevitable, makes them more loyal to the organization. Adidas GBS has a very successful program in which they attribute short term assignments in which the collaborators can go to another country, work with different people and in various projects.[14]

Manuel promoted a brainstorm session with the HR Department to find solutions. An idea with great potential for employee retention was identified: allowing employees to integrate different teams over time and, by doing so, evolve their knowledge in different technologies and ultimately get promoted to team leader.

When this idea was proposed to the different team managers, a concern was expressed: "So, the other teams could remove members of my team in the middle of a project? How will you make sure this idea is not leading to constant team rotation, team cannibalization and efficiency decrease?". Manuel explained that the likelihood of losing that same team member to an outside organization was high and that would be more detrimental to the group. The change should be managed and timed in order to accommodate everyone's needs.

HR Manager followed "recruitment process is at the heart of the whole idea; we already have a robust recruitment process. On the other hand, we miss a process to promote employee development and mobility between teams. We need this to assure engagement of hired personnel". Besides, every client has a representative in the form of a team manager working directly with the team and located in Porto, so clients' interests are assured. Client representation close to the team is also essential in cases where team members start to get demotivated. As clients are responsible for managing their resources, they could look for solutions before the mobility process takes place and be involved in the mobility process to guarantee the changes occur smoothly and with the least possible impact to the project.

By the end of 2019, the mobility process had been implemented successfully three times and allowed company savings of 43.5k € from recruitment process costs, reduced process lead time and higher quality standards.

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[14] http://revistabusinessportugal.pt/adidas-business-services-10-anos-a-evoluir-e-a-crescer/, September 2020.