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The Conference Board Asia-Pacific Functional Excellence and Shared Business Services Council

Going Non-traditional to Create a Successful Shared Services Organization

by Vipin Suri

Budget squeezes and demands for even greater cost savings are forcing shared services organizations to look at non-traditional approaches to hold the line and improve efficiency.

The Squeeze Is On

As with any other function in companies today, shared services organizations are being forced to search for ways to further reduce costs. Functional leaders and service leaders are expected to deliver savings even while struggling with budgets that are barely adequate for meeting existing demands. The realities faced by shared services leaders—there are few places left to squeeze; traditional leveraging and cost management approaches aren't as effective as they once were; and the ability to extract cost reductions and greater efficiencies from scaling, reengineering, and other initiatives have run their course—means it is time to look at some non-traditional solutions.

Setting an Effective Strategy: Basic Models

It is critical to establish a service strategy that is linked to the company business strategy. Most companies employ one of three types of service strategies: operational excellence, process/product innovation, or customer intimacy. Each strategy suggests different priorities and considerations in terms of innovative thinking, customer focus, action orientation, service partnership, and drive for results. Most companies start with operational excellence, however over time circumstances may dictate migrating to another strategy.

Shared services is a strategy for the consolidation of company-wide resources with the sole purpose of achieving optimum performance, i.e., maximum value for minimum costs including an increase in service quality and internal customer satisfaction. The objective is a reduction in business support function costs or general and administrative costs (G&A costs)—and to achieve it faster than your competitors.

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Exhibit 1

Core competencies required for service strategies

Operational excellence	Process/product innovation	Customer intimacy
Drive for results	Innovative thinking	Business knowledge
Problem solving	Business acumen	Financial analysis
Action orientation	Strategic agility	Influencing skills
Integrity and trust	Process design and management	Alignment
Strong team player	Interpersonal sensitivity	Accountability
		Results driven

The operational excellence strategy, in most cases, is used for transactional services where the focus is on productivity and competitive efficiency. The process/product innovation strategy is used for expertise/consultative services where the focus is more on effectiveness than efficiency. Customer intimacy as a strategy focuses on account management, and is used as the maturity level of the shared services organization increases.

Insourcing and Outsourcing

In addition to a service strategy, a sourcing strategy should be developed so that a decision can be made whether to insource or outsource the delivery of services. From a business unit point of view, shared services can be viewed as "internal outsourcing," whereas outsourcing is simply "external outsourcing." In any discussion of creating internal shared services, the question always arises: why not outsource the services that are being consolidated to an external provider and save the costs associated with running the shared services organization, i.e., one-step outsourcing?

There are three optimal sourcing strategies:

1 **Internal shared services** Create a shared services organization within the company and do not outsource any service delivery

2 **Two-step outsourcing** Create a shared services organization in the company and outsource selected services at a later date for further leveraging

3 **One-step outsourcing** Move directly to outsourcing of services and create internal capability to manage contracts with outsourcers

The question of whether to outsource or "insource" into a shared services organization can only be answered after all of the baseline cost and customer satisfaction data has been collected and analyzed. The analysis should provide the cost of each service and address current service quality concerns. Specific goals for service quality improvement and cost reduction should then be established in order to select a sourcing strategy. Risk analysis, change readiness assessment, and potential bottom-line impact should be considered as part of the selection process, as well as internal availability of skills and capabilities. Many companies do decide to outsource certain services, but shared services and outsourced services are flip sides of the same coin: in both cases, services are delivered to business units from a different organization—one is managed internally whereas the other is managed externally.

Parallel traits

Outsourcing is an increasingly viable option for both internal customers and service providers. However, in order for outsourcing to be successful, the relationship between the provider and the customer must be the same as the relationship between a shared services organization and the company's business units: one of joint responsibility for results rather than simply a customer/supplier relationship. Simply lowering unit costs on a one-time basis is not sufficient. The full potential of both of these strategic leveraging options comes from constantly improving the processes in a partnership mode to continually provide better service at a lower cost. Both of these options require similar steps such as developing a strategy, transitioning, and operationalizing, but outsourcing requires a lot of upfront work in terms of doing the deal.

Some outsourcing firms have found that companies are not optimizing after deals are signed, i.e., there is no relationship between price and cost to the company.

Company executives in general do want to participate in change management and governance issues, but they would also like to engage outsourcing firm executives in demand management discussions. Of course, a good relationship between the company executives and outsourcing firm executives is a prerequisite for effective dialogues.

Overcoming Barriers

Barriers to further leveraging shared services and expanding its benefits to the organization are essentially the same barriers found in any major change initiative, e.g. people, structure, processes, and systems. At a fundamental level, the barriers all revolve around how individuals and groups work together. The three largest barriers to success are:

1 Getting hung up on "how" (the process) and forgetting about "why" (to solve a business problem)

2 Getting hung up on redefining the problem

3 Remaining attached to the present and not looking to the future

To break through these barriers, an individual who is willing and able to lead the change is needed: a leader who creates a vision and drives it throughout the organization. Creating a vision is best done by defining the preferred result, and then working backwards to determine what is necessary at each step of the way to get to that desired result.

While reducing cost and improving service standards are the prime drivers for shared services, very few organizations actually put these goals to the test by revising established processes and giving their internal customers the freedom to choose their service provider. What several organizations have chosen to do as part of their shared services implementation strategy is to increase the choice of service providers over time as the shared services center gets through the initial startup challenges and has the opportunity to become competitive with potential third-party service providers.

Optimizing Implementation: Non-traditional Approaches

Organizational demands for even greater cost savings and more efficiency may be difficult to meet if a shared service organization (SSO) is mature and already running on all cylinders. And as SSOs know, such demands are ignored at peril. This means looking at non-traditional approaches to realize further cost reductions and add efficiencies (Exhibit 2, page 4). Among the non-traditional approaches being adopted by companies:

End-to-end process cost optimization Focuses on individual processes to achieve best-in-class general and administrative (G&A) cost performance.

Demand management Encompasses all services and support functions to achieve lowest total cost of ownership.

Cross-functional service delivery Expands shared services portfolios to include expertise and knowledge-based services.

End-to-end process cost optimization

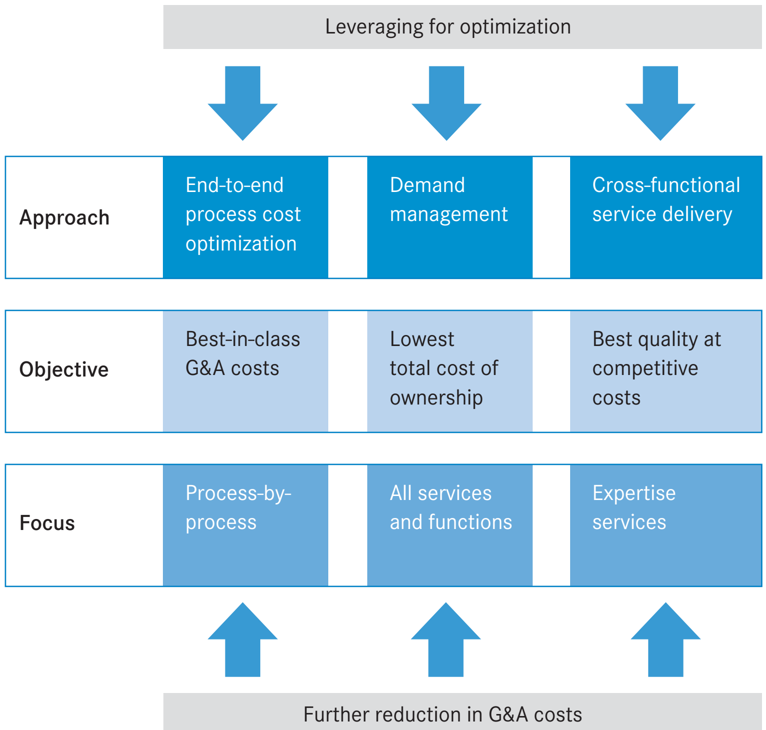
A process can be defined as a set of ordered actions that lead to an output. In shared services organizations, goals are achieved through processes: payment of vendors, payment of employees, recruitment, production of reports etc. How well the processes operate is monitored through process management (Exhibit 3, page 5).

Process management is the concept of defining macro and micro processes, assigning ownership, creating responsibilities for the owners who control the processes, and measuring the performance of each process. Managers today are making critical business decisions based on their understanding of the processes implemented in their organizations and on the belief that those processes are being followed.

Unfortunately, company executives lack adequate visibility into their processes. They do not have the capability of ensuring, as things progress, if the proper steps in these processes are being followed. To adequately analyze the cost of an organization's end-to-end processes, the processes must be assessed through process discovery.

Exhibit 2

Non-traditional approaches for leveraging



Process discovery for cost analysis

For an organization's processes to be improved, they must first be understood. Process discovery uses event data to create formal models to document the events in a process. Once this is done and the processes are understood, it is important to measure discrepancies between intended processes and the processes that are actually followed, which is done through process validation. Discrepancies or deviations from intended processes occur for many reasons, both good and bad, but in all cases deviations indicate places where something important may be happening.

In addition to this data, to optimize end-to-end process cost, the following aspects must be articulated:

- Where the process starts
- Where the process ends
- What the definition and common language is
- Who owns the process
- Whether or not the process is standard

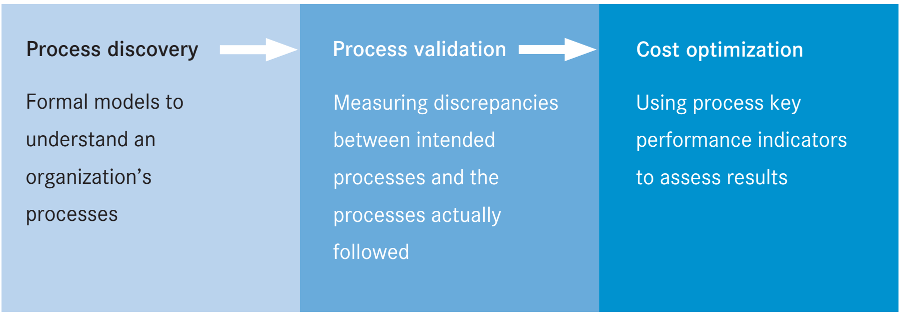
Demand management

Demand management is a program to rationalize demand through "behavior changing" pricing, i.e., a price adjustment that encourages internal customers to reduce demand and manage costs by reassessing the value of the service and how much service they really need.

Managing demand of internal services and assessing what services are needed or not needed yields cost savings and benefits. Knowledge of the required level of service delivery performance results in further cost reductions through increased standardization and reduced demand for a particular level of service. A demand management program also encourages active engagement between service providers and customers, and requires trade-offs between volume and quality of required services.

Exhibit 3

Stages of process management



Lack of attention paid to determining customer requirements can result in services that are "wants" and not just "needs." Many service providers have the impression that they are responsible for price variances, and volume variances are the responsibility of the internal customers. Although this mindset makes perfect sense in a fully commercial model, it can increase the total costs if volumes are not managed.

The same dynamic applies to priorities and quality expectation. Customers expect providers to meet their demands which puts upward pressure on delivery costs, and to maintain high customer satisfaction ratings, service providers do their best to meet all demands—sometimes at the expense of increasing total costs for the service or function company wide. Many service organizations do not have the charging practices necessary to modify dysfunctional behaviors, e.g., a higher price for rush services that encourages customers to decide whether they can manage with regular service instead of requesting all services on a rush basis.

Best practices for a demand management program include the following:

- Classifying customer requirements as "needs" versus "wants"
- Continued focus on total costs and not just unit costs
- Optimal service levels and priorities
- Understanding of supply/demand economics by customers and providers
- Understanding of the business unit bottom line and corporate bottom line (requires a clear "line of sight")
- Behavior-changing charging methodology

Voice of the customer: a first step in demand management

In a shared services organization, voice of the customer (VOC) is used to determine customer requirements and drive business processes. No operational, process, or business improvements can occur without a definitive understanding of who the customers are and what they need, want, and are willing to buy. Understanding customer needs and expectations is a key management practice, and is critical for continuous improvement.

To engage customers, companies need to:

- Energize and encourage a learning orientation
- Enable shared services staff and customers to step back and evaluate how the work is performed
- Remove barriers and obstacles to performance
- Resist the temptation to silence dissident voices
- Listen instead of dictate and demand
- Simplify problem solving
- Reward and encourage ideas

Cross-functional service delivery

For shared services to further leverage work and reduce costs, service portfolios must be expanded beyond transactional services to include expertise and knowledge-based services, work must be organized on a cross-functional basis, and "customer-facing" services must be separated from "back-room" operations.

Knowledge services require sharing of data about services, functions, practices, and processes used within an organization. The objective is to provide immediate access to this data for employees and managers to improve problem solving, decision making, and bottom-line results.

Separating customer-facing services from back-room operations requires combining all services used by (or designated for) specific internal user sets, and produces different categories of services:

Employee services Provided to all/most employees

Management services Performed for those with supervisory responsibilities

Product support services Tied to products and external customers

Travel and administration services Provided to occupants and travelers

Systems services Provided to technology users

Efficiencies are achieved by simplifying the customer touch points and leveraging customer knowledge, and relocating all back-room operations to a low-cost location.

Key success factors include reduction of unnecessary delivery channels and an increase in customer interaction and service orientation. The objectives are to eliminate departmental silos and create a "win/win/win" scenario: a win for the company, a win for every business unit, and a win for the service employees.

Important Parts of Cross-functional Leveraging

- **Management leveraging** is about structure, i.e., using a single management layer instead of multiple management layers.
- **Technology leveraging** refers to the use of common tools for managing service delivery across multiple functions.
- **Leveraging of purchases** is the pooling of all purchasing requirements for service delivery across functions.

Ways to Enhance Shared Services Models

Continuous improvement in reducing cost of shared services operations requires disciplined approaches such as "Six sigma" and "lean sigma." There are many widespread misconceptions about lean sigma, which is different from downsizing and from restructuring. Lean sigma is not the reengineering of departments, but of business processes. "Lean" is about eliminating work that is not necessary, and finding better ways of doing work. It eliminates waste work, not jobs or people.

The need for lean sigma

There are warning signs that can be observed to determine the need for lean sigma, such as:

- processes that evolved out of the chaos of doing business
- flawed processes not based on what's best for customers
- reinforced bureaucracy rather than a reduction of it
- bottlenecks/disconnects in cross-organization processes
- elusiveness of accountability
- the turmoil of downsizing or a merger

The core of any lean project is the set of processes that will be redesigned to achieve the goal. Designing processes is so critical that, without it, the project will quickly lose its focus and expand and contract erratically. This could lead to endless frustration, delayed schedules, and unnecessary and costly distractions. Rather, the targets for lean sigma must be identified and driven by functional leaders and the shared services team. For example:

- Reduce labor costs to improve operating margins and lift productivity
- Accelerate culture change
- Reduce governance and compliance risk
- Integrate the shared services center to deliver value-adding services

Errors as key performance indicators

To address organizational needs and further reduce the cost of business support services, companies have also started focusing on process key performance indicators (KPIs). Tracking errors is being used by service delivery managers as a core process KPI. Because errors have such high visibility in a shared services structure, treating them as an opportunity rather than a problem is a productive solution. Treating errors as an opportunity provides a point of focus for service delivery teams, and shared services will be perceived to be managing rather than hiding the issue.

It is important to handle errors efficiently and minimize their consequences. Without a proper process for handling errors, attempts to correct them can often result in further errors; e.g., when an error occurs, the individual making the error is aware but fails to inform a supervisor, and in attempting to correct it exacerbates the original error. Failed attempts to correct errors can have severe consequences especially with respect to time. Communication, collaborative problem solving, and an environment that is tolerant of errors can help end this cycle.

In recent years there has also been an increased focus on customer-based KPIs and alignment of shared services objectives at all levels. Besides being visible, measurable, verifiable, and comparable, good KPIs must include characteristics that:

- promote clear benefits of improvement;
- act as a driver of "right" behaviors;
- encourage acceptability by all parties;
- are outcome focused; and
- can be tied to objectives and rewards.

Ensuring efficiency: the service management office

Establishment of a service management office (SMO) is a recent trend in further leveraging management practices across various functions in shared services organizations. A service management office is essentially a centralized office that provides services to various service delivery teams on a shared basis. The primary focus of an SMO is on the following: cross-functional continuous improvement, training, account management, performance measurement, and management practices deployment. A service management office is in the best position to drive the adoption of common management practices across all service delivery teams and to ensure a consistent approach in dealing with internal customers, e.g., the same format for service level agreements, same tools for measuring customer satisfaction levels, and the same pricing and charging methodologies. The SMO ensures that:

- management practices are developed in one place;
- management practices have a consistent methodology and appearance;
- internal customers receive standard report formats; and
- internal customers are better positioned to respond and contribute.

The Difference between Success and Failure

As with almost any business function, there are basic do's and don'ts for managers that will ultimately determine if a program is a success or a failure. The creation and maintenance of a successful shared services program requires executives not only communicate both up and down the organization but listen as well—to the customer and to team members. On the other hand, roadblocks and speed bumps will crop up in any shared services program but missing deadlines, setting a plodding timeline, guarding turf, and failure to get buy-in from both top management and implementers will keep an organization from reaping the benefits it hoped for.

Critical success factors:

- A service strategy that is linked to the company business strategy
- Analysis of baseline cost and customer satisfaction data
- A sound sourcing strategy to aid in the decision of outsourcing versus insourcing
- Good relationships between company executives and outsourcing firm executives
- A leader who can create a vision, communicate it, and drive it throughout the company
- Effective process management through process discovery and validation
- Errors viewed as opportunities for improvement
- Elimination of redundancies and sharper efficiency in work processes
- Management of internal services—decide what are needed and what are not
- Customer engagement that leads to an understanding of customer needs and expectations
- Reduction of unnecessary delivery channels
- A common voice for management of service delivery teams

12 ways to fail:

1. Don't reengineer, but say that you are
2. Don't focus on processes
3. Spend a lot of time analyzing the current situation
4. Proceed without strong executive leadership
5. Be timid in redesign and/or redesign slowly
6. Go directly from concept design to implementation
7. Place some aspects of the business off-limits
8. Adopt a conventional implementation style
9. Have no comprehensive plan for change and no champion for it
10. Ignore the concerns of your people
11. Communicate vaguely and don't bother with customer relationships
12. Stop change efforts when the service level agreement is signed

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About This Report

The material in this report is based on discussions and presentations from a meeting of The Conference Board Asia-Pacific Functional Excellence and Shared Business Services Council that took place in Sydney, Australia in May 2009.

About The Author

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To find out more about this council, contact Alice Lee, council manager, at alice.lee@conference-board.org or (852) 2804 1029.

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