IMPLEMENTING SHARED SERVICES: LESSONS LEARNED

THE CONCEPT OF 'SHARED SERVICES' HAS LONG BEEN A KEY BUSINESS LEVER EMPLOYED BY MANY MULTI-UNIT AND/OR COMPLEX ORGANIZATIONS TO STREAMLINE OPERATIONS. Wikipedia defines the critical purpose of shared service models as the "convergence and streamlining of an organization's functions to ensure that they deliver to the organization the services required of them as effectively and efficiently as possible…and enable the appreciation of economies of scale."[1] During this recession, our clients continually talk about the steps they are taking to 'tighten their belts'. And as they (and most companies) seek additional opportunities to cut costs, improve productivity, and achieve economies of scale without compromising performance, we couldn't help but revisit shared services. In this brief piece, we reflect casually on the implementation of shared services over the past quarter-century – success factors, enablers, and pitfalls.

KEY SUCCESS FACTORS

The experiences of the variety of organizations with which we've worked suggest that there are potentially six keys to success in any shared service model or process. The six Key Success Factors are:

1. **Establish clear, strong leadership and decision rights** over the scope of the service, an SLA[2], and the underlying business process.
2. **Reduce the complexity of the underlying business processes** before implementing shared services. Failure to do so typically adds cost; for example, to accommodate varying business models or via redundant services left in the field.
3. **Create a shared understanding of and ownership for** the interdependencies across the end-to-end process.
4. **Manage as end-to-end processes** rather than as a collection of common tasks. Doing so requires you consider the entire length of the process and the critical touch points along the path.
5. **Hold firm** once the process/service has been established. "Little" deviations or reworks gradually but steadily erode the agreed scope, validity of the SLAs, and projected benefits.
6. **Be explicit about the governance** of the business process(es) the shared services support. Doing so helps to preserve the integrity of the process while continuing to meet the business objectives – even as those objectives and its operating landscape evolve. Clear governance specifies authority and responsibility for the overall process plus each critical piece along the way. In effect, it creates line of sight along the entire process. And, it provides a frame work for owning and managing the process, so that complexity does not simply creep back into the new process.

Interestingly, physical co-location of the functional centers is not required; nevertheless, this kind of consolidation typically captures additional synergies, including the potential to share capabilities and promote communication.

M. Beacon ENTERPRISES
Strategy – People – Process

Tara J. Rethore President
TRethore@MBeaconEnterprises.com
703.625.9124

[1] Wikipedia 2009, http://en.wikipedia.org/wiki/Shared_services
[2] An SLA is a Service Level Agreement.

ENABLER OR DISABLER TO THE CORPORATE STRATEGY?

In our experience and that of our clients, four common aspects of implementing shared services can prove enabling or disabling, depending on what role they play in the shared service and how they are incorporated.

Technology

Often, implementation of shared service models has been linked to technology, such as Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), or similar tools. Clearly, technology can be a huge enabler for a shared service model. But, "it's not a threshold element required to realize the full benefit of shared service efficiency. The threshold element is the commitment and discipline to standardize processes and systems in the most simple and easy way to use," argues Jim Nealis, former EVP for HR for a Fortune 500 construction materials firm.[3] Indeed, among the organizations we've worked with, technology is only a part of the overall model and approach – although it often becomes a focal point of the transition to shared services.[4] Interestingly, that focus can sometimes inhibit success, particularly when insufficient time is devoted to addressing the way you work when ineffective processes or work-arounds get built into the technology. Or, the organization presumes the technology will solve the problem, simply by making it easier.

Simplified Business Processes

Simplified business processes are another key enabler. In most cases, new (or upgraded/changed) technology requires new thinking and working, which in turn creates the opportunity for improved and/or simplified business processes. But, new ways of working often require different capabilities. And, process improvement requires deliberate and specific attention to be successful – long after the shared service or technology is implemented. With or without technology, however, reduced complexity in the underlying business processes helps the organization to think critically about what it really needs to be successful, and therefore, what it requires from a shared service organization or team.

Service Level Agreements

Service Level Agreements (SLAs) are a popular tool employed by many companies to manage and evaluate outsourcing. Increasingly, they are also being used internally with shared service organizations. Generally, these agreements should specify who does what, by when, and with what level of competence or quality. When used with third party vendors, these usually complement a contract and are often quite formal. In our experience, companies may create internal SLAs (e.g. between the shared service center and a business unit) for their shared service organizations or processes. In principle, that's a good thing; in practice, we've seen many that mirror those used for third party agreements. And that often translates into 'cumbersome', or creates unnecessary boundaries between different parts of the same overall process. Fundamentally, SLAs work best internally when they remain simple. A few tips:

- Consider the end-to-end process and the critical touch points along that path. That helps everyone to understand how each part contributes to the whole. For example, be explicit about how a truly back office function can impact the customer (and thus the sales organization).
- Identify what critical things each party needs from the other (by when and with what level of quality/accuracy). Those become your key metrics.
- Agree who will be ultimately accountable for the SLAs and how conflicts will be resolved; where does the buck really stop?
- Ensure the SLA reflects that 'handshake' agreement between internal groups. It usually takes only 1-3 pages to lay out an internal SLA. Anything more is likely to complicate rather than clarify.

[3] Over roughly 20 years, Mr. Nealis' company implemented several shared service organizations throughout the US and Canada. These centers were responsible for critical business functions and much of the back office work in the areas of finance, customer service, information technology, human resources, and purchasing. Traditionally a highly decentralized organization with multiple lines of business, dispersed widely throughout these two countries, the company hoped these service centers could help to cut cost and/or capture transactional efficiency. Over the years since they created the first shared service center (in finance), the company has regularly revisited the shared service model, resulting in the restructuring of existing centers and the addition of new centers.

[4] We believe this is because the implementation of new technology – usually at significant cost for the organization or department – is typically accompanied by promises for headcount reduction, quality improvement, and efficiency. Consequently, organizations make a concerted effort to measure and justify the return on its investment. It's hard not to fall into the trap, however, of letting the technology lead the implementation, rather than focusing on streamlining core business processes.

Headcount

The drive for enhanced efficiency that underpins the adoption of most shared service models may also carry an expectation for headcount. Some include reduced headcount as part of the savings projection; others intend for shared service to offset increased headcount, for example, as the business grows. Yet, it's also quite possible that the opposite happens. For example, one back office accounting organization expected immediate savings from reduced headcount plus later, additional savings from lower transaction costs and the ability to increase workload without additional people. In practice, the organization actually increased headcount in the short term at the shared service center and ancillary costs (rent, computers, office space, etc.) were higher because the incremental reduction in staff in field offices was too small to allow a real reduction in desk space, etc. In fact, near term costs and headcount are often higher during startup as all systems, work, and interfaces are transferred to the shared services team. The closer the shared process is to the customer, the more likely (and perhaps dramatically) initial headcount will increase or current headcount will decrease. Perhaps most importantly, however, is that while changes in headcount may be an appropriate benchmark, too much emphasis on this can drive behaviors that merely shift the headcount from one part of the organization to another. Focus instead on the end result. For example, what is the shared service intended to do overall to enhance the efficiency and quality of the work or the overall business? What new competencies and reports have you developed to help improve the quality of business decisions? How quickly can you address customer requests before and after implementing shared service? Addressing these questions can reap the savings you seek without compromising quality or effectiveness.

AND WHAT ABOUT THE CUSTOMER?

Traditionally, shared service focused first on non-core business processes – things that organizations must do in the course of doing business, yet which are not a core purpose of the business. Bringing these processes together is intended to drive economies of scale and efficiency. So-called 'back office' functions often fall into this category – and is likely the reason why human resources, IT, and finance remain the most common functions to be delivered via shared service.[5] Gradually, however, 'front office' functions and core business processes have joined the back office in using a shared service model. For these functions (e.g. call centers, customer order desks, logistics and procurement, etc.), it is critically important to think 'customer'. From the standpoint of cost and efficiency, the nature of the work done in these front office functions lends itself to a shared service model. Yet by definition, these functions can directly impact the customer's experience. A misstep in implementing and managing these shared services can have catastrophic consequences in terms of effectiveness of delivery to the customer, and the customer's experience – just ask Comcast! Quite simply, they lost sight of the customer in their quest for growth and efficiency, including through their customer call centers.[6] The viral quality of the Internet and social networking allowed news of negative customer experiences to spread rapidly and dramatically. Nevertheless, Comcast has been able to turn around the negative customer experience by rethinking the customer and reverse engineering their call center processes and operations. In effect, Comcast is now actively balancing efficiency from shared service with the effectiveness and experience their customers demand.

SO WHAT?

Done well, shared service has the potential to streamline underlying processes, simplify work, and help companies to lower costs. Nevertheless, implementing shared service can be tricky. Some of the key enablers can just as easily become disablers in the effort. The shared services landscape is under constant change; over time the integrity of the end-to-end process can erode as business needs evolve. Organizational changes in the form of hiring, transfers, and attrition change the dynamic as new people constantly need to fit into and understand who is responsible for what, both within the shared service team and in the field. A decentralized culture exacerbates this problem. The analysis and then the strategic decision to opt for a shared services model is only a starting point. The next critical juncture is taking the time up front to clearly define the shared services model, scope, objectives, and business case. This in turn determines the implementation and ongoing operational support requirements, and drives some of the innate choices, such as: efficiency versus effectiveness; cost containment versus service; costs competitiveness versus experience. A little patience at the outset (including about the speed with which you see savings) can ensure you establish a more lasting model.

[5] In 2004, AT Kearney and Harris Interactive reported adoption rates over 75% for each of these functions and expected that trend to continue. See whitepaper, 'Success Through Shared Services', 2004.

[6] See for example, Linda Haugsted, "Comcast Combats Customer Service Complaints with Software", MultiChannel News, July 2008.