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White Paper

written by

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The Future of Shared Services

Most complex organizations will implement shared services or business processing outsourcing (BPO) in some form in the near future. The first generation of SSCs, while underperforming, did lower costs and improve service universally. In keeping the future bright, the ultimate achievement may lie in virtual shared services. Implementation is not for the faint-of-heart.

Summary

You don't need a crystal ball. Shared services and related BPO are set to generate substantial savings for complex organizations and increase their efficiency.

"Lights-out processing," "virtual shared services," and "commercialization" are all buzzwords used by thought leaders; future shared services will certainly utilize some of these concepts.

However, many of today's shared services actually underperform. So what can decision-makers do to ensure that the future remains bright? Here are three ideas:

- Be rigorous in defining and talking about shared services – always stress it is not simply about consolidation. It must be run as a business whether it is internal to the organization or outsourced.
- Step out of corporate thinking mode and ask: If this was a stand alone business rather than a transformation project, what would you do differently? Why don't you do it?
- Focus on people, not the technology. Break down cultural, organizational, and political barriers that inevitably stand in the way of running shared services as a business.

Maintaining duplicate infrastructures across Europe, or any other region, defies economic logic. So why do so many organizations keep doing it? Globalization, business consolidation, and competition are driving the evolution of markets. Multinationals need global reach and efficient processes to respond to customers – customers who are themselves operating on a global basis, demanding a consistent approach to pricing, product definition, and levels of service. The general trend toward product commoditization necessitates reduced order lead times and quicker response times at the lowest cost; process standardization and simplification is only part of the answer in meeting these customer expectations.

What about tackling the efficiency of internal or back-office processes, where as much as 40 percent of the costs lie? This is where shared services really come into play.

Cost reduction has been shown as the principal reason for setting up shared services in a recent survey conducted at akris.com. But these savings do not come easily. Apart from the opposition to changing structures, process changes can impact around 50 percent of the staff. It is important that the benefits of the transformation are clearly communicated to ensure alignment; it is essential that the process of implementation is driven from the top, by the organization's executive leadership.

Cost reduction is not the only reason for setting up shared services, although it is by far the most significant: Substantial service quality improvement and a sounder framework for growth are often mentioned as key drivers for shared services.

Despite growing trends toward harmonization (e.g., the Euro), it remains difficult for companies to operate as a single entity. Shared services can provide a way forward as a "virtual" single operating company with a simplified, efficient back-office infrastructure, generating cost reductions in excess of 30 percent.

Shared Services: Where Is it Going?

Shared services is an evolving concept. The first generation of shared services centers (SSCs) set the scene: organizational flexibility, standard processes, core competencies, leveraging of IT systems, and specialization of skills – all aimed at reducing cost and improving internal service levels. These are all still valid, but now it's time to go into second gear.

Bringing in More Regions

An obvious place to start: If the concept is working for some countries it will probably work for more. But is the capacity to handle more countries in place? Even if the answer is yes there are other potential pitfalls, such as systems integration and the harmonization of business processes across countries and businesses. Additionally, time zones, language, and cross-divisional issues, such as politics, reporting lines, and control, all complicate the picture. This is typical when initially integrating regions such as Eastern Europe or the Far East.

	Highly Likely	Likely	Unlikely	Not Important	Response Average
Loss of internal know-how	30% (52)	47% (52)	19% (32)	4% (7)	1.97
Lack of clarity in costs	13% (23)	37% (64)	47% (81)	2% (4)	2.38
Lower service quality	6% (10)	41% (70)	53% (91)	1% (1)	2.48
Activity disconnected from the business	20% (34)	52% (90)	23% (40)	5% (8)	2.13
Lack of control	12% (21)	51% (87)	34% (59)	3% (5)	2.28

figure 1 *Some of the perceived downsides of BPO and relative ratings.*

Consolidating an Existing SSC

If an organization has a number of SSCs scattered throughout the world, it may make sense to consolidate them into regional clusters – for example, by wider geographic regions, like Europe or the Americas. The key questions here are:

- Have these centers reached a state of maturity so they can be consolidated?
- Do the centers have compatible IT systems?
- How will the new organization be structured and managed?
- What level of interaction will exist between the new centers?

Bringing in More Activities

Many SSCs start with basic back-office functions – usually financial transaction processing – then expand into other back-office functions, such as IT, payroll, financial management, human resources, legal/tax, purchasing, and treasury. Increasingly it makes sense to continue expansion into front-office processes, such as customer services, order management, and telemarketing, to take advantage of the discipline and structure provided by shared services. Other activities, such as logistics, research and development, product development, and central marketing, are further cases in point, even though this may stretch thinking about what is core and noncore.

Reengineering or Continuous Improvement

If the SSC was set up with a "centralize first" approach, then major reengineering is the best option. But if there was reengineering before or during implementation, look to moving toward an operation with customer self-service and fully automated processes. Either way, these basic questions need answers:

- Has benchmarking been done?
- Are we world-class?
- Are customer and employee satisfaction surveys available and acted upon?
- Do we have practical service level agreements (SLAs) and a sensible charging mechanism?
- Is it run like a business?

Increased Use of Advanced IT

Once all people- and politics-related issues in the initial phase of shared services implementation are resolved (or at least addressed), you can start fine-tuning the way your center uses technology. ERP systems, a single global network, the right e-business and e-commerce tools, EDI facilities, document management, imaging workflow technology, and the Internet and Web technology will all contribute to making an SSC more competitive.

Simplified Tax and Legal Structures

The way your company deals with potentially delicate issues, such as regional tax structures and local legislation, has heavy implications on the performance of the SSC. This can be part of a company-wide streamlining to a simpler structure with a refocusing on core competencies.

Outsourcing

Keeping a good balance between a successful SSC and efficient outsourcing activities is perhaps the most difficult and important exercise within this progression. For some organizations outsourcing is the obvious next step. From a recent survey conducted on akris.com, with 240 respondents worldwide, it emerges that approximately 50 percent of the organizations with an SSC in place plan to start outsourcing some activities. Other responses to the same survey show that some of the claimed benefits of outsourcing are cost reduction and service quality improvement (which are the top reasons for starting shared services), and the two main perceived downsides of outsourcing are the loss of internal know-how and a disconnection from the business.

Virtual Shared Services

The ultimate achievement may be to move to a virtual shared services model setup. Also called e-shared services, these are shared services enriched with e-business technology. Hence, e-shared services could be described as an advanced version of SSCs in terms of process design and use of technology, including:

- Workflow
- Data transfer through marketplaces (in the procurement area)
- Customer/supplier self-service solutions
- Employee self-service tools over the Web
- Web-based budget and reporting management

The above is not limited to servicing internal departments in the organization. The shared services scope can be expanded to integrate customers and suppliers in the process, using more advanced technology.

Within e-shared services, transactional tasks are reduced to a minimum. The workflow can then move to a third party, a cheaper country, or "inside the machine."

With advanced technology, especially with e-shared services, the scope of the SSC will be reduced to exceptions handling, since 95 percent of the cases inside a process run automatically. The SSC employees will only deal with the exceptions. This places a special emphasis on hiring the best talent for any future center and appropriate skills and knowledge training.

Shared Services in the Future

Shared services, in one of its forms, will be a feature of most complex organizations,

BASIC	MARKETPLACE	ADVANCED MARKETPLACE	INDEPENDENT BUSINESS
Consolidation of transactional/administrative work	Includes professional and advisory services	Client choice of supplier	Separate business entity
Focus on economies of scale	Separation of governance and service functions	Market-based pricing	Profit is retained
Services charged out to recover fully loaded costs	Services charged out to recover fully loaded costs	Possible external sales if surplus capacity	Multiple organizations as clients
Objective to reduce costs and standardize processes	Objective to reduce costs and improve service quality	Objective to provide clients choice of most cost-effective supplier	Objective to generate revenue and profits for service company

figure 2 *A Continuum of Shared Services Models.*

regardless of scale, in the future. The cost benefits are too compelling to ignore for both the private and public sector. This is real money from shareholders going to the bottom line. It is precious government funding going to public programs. Shared services has staying power because the strategy works on both lowering costs and improving service in a range of corporate and organizational scenarios. It works for companies shrinking in scope that want to rein in operating costs. It works for companies reporting flat-line growth that want to make sure operating costs do not rise unexpectedly. It probably works best when companies are poised for explosive growth as an intelligent alternative to increasing overheads to meet demands. When Sun Microsystems realized it was on the brink of a steep growth curve, it selected shared services not because of any problems today, but to avoid problems in the future. This was a smart and proactive stance. Faced with a 25 percent growth curve, finance chose shared services as a preemptive strike to counter-attack the normal strategy of simply growing to meet demand.

The Public Sector

Governments have to respond creatively to their budget crises. Often feeling misunderstood, public sector and not-for-profit organizations find the application of corporate thinking out-of-step with their own reality. The demands and constraints of doing work in the public eye with myriad competing stakeholders and agendas differs from a business driven by profit and shareholder value. The one area that both for-profit and not-for-profit groups have in common is internal corporate functions. Staffwork in the public sector is similar to staffwork in the corporate environment. Although the requirement for more rigorous processes is a given due to the magnitude of public scrutiny, the fundamental needs from corporate staff groups are the same as in the private sector.

Shared services offers government a chance to reduce operating costs and better leverage expertise without taking a negative hit on the program side. In fact, government and public sector agencies that are not actively pursuing shared services can be seen as irresponsible. Organizations ranging from the U.K.'s National Health Service to local governments in Australia and Canada have understood that there is no rationale for the amount of duplication inherent in staff functions across ministries and state government units. Failure to capture the synergies and opportunities from shared services is morally reprehensible.

An Independent Business?

Whether shared services groups can turn themselves into businesses, or whether they even ought to try, is unclear. Although organizations are often selectively trying to market particular services externally, not many are following the full independent business model. Watching executives debate the idea of letting their staff become separate business entities outside the corporation is an interesting study in values. Clearly there are those executives who do not see the point in spending any time or energy in helping staff create a business that is not core to the enterprise. They are impatient with the idea and negative about even spending any time on the subject. Other executives clearly see the upside potential for revenue and believe that the business idea is a good one. These executives are confident that their own processes are so good that there will be an eager and willing market for them. Secretly, a few executives delight in the idea that staff will have to prove their mettle by competing on an equal footing in the outside marketplace.

There are two schools of thought on the independent business model. One theory holds the possibility that large shared service businesses such as these will emerge on the horizon as the new outsourcers, competing with existing suppliers and consultants for a piece of the lucrative pie. The other theory is less optimistic, predicting business difficulty for a company within a company whose energy and motivation will be all but absorbed by serving its own organization. The question is, how much spare capacity does the shared services company really have after it has effectively served the internal clients of the original organization?

Shaping the Future of Shared Services

Shared services will continue to evolve; witness the need for the Shared Services and Business Process Outsourcing Association (SBPOA) set up earlier this year. The SBPOA is a unique, independent source of know-how and advice. It is an environment for exchange and interaction among professionals in corporations, the public sector, consulting firms, and service providers, helping professionals interact more effectively.

Conclusion

Shared services has earned its right to stay. Implementation though is not for the faint-hearted or for those without executive commitment. Simple centralization or consolidation is a short-term strategy providing one-time cost reduction that eventually goes full circle and inevitably ends in decentralization. Shared services are much more than that.

The only way for any business to assure its survival is to deliver services that customers need and value consistently, at a cost, quality, and timeliness that is competitive with alternatives. When you're deep into the debate surrounding shared services, it is worth remembering that building a successful shared services business requires the same leadership, focus, and dedication as any other business. ■