DELIVERING STRATEGIC SOLUTIONS ACCA'S 2000 ANNUAL MEETING

Gunn Partners Full Document Description

Staff Function: Administrative/Shared Services
Document Type: Article/Knowledge Set

Contact address: sbrinker@gunnpartners.com

Global Shared Services Findings

Global Study of 34 Companies Points the Way To Getting Maximum Value from Shared Services

A global study of shared services by Gunn Partners has uncovered a large gap between what the typical shared-services operation is doing today and its vision of what it could and should be doing. The 12-month project, covering 34 companies and 50 shared service centers and utilizing onsite interviews, discussion groups and comprehensive surveys, indicates that most companies are failing to exploit major opportunities for cutting costs and improving performance. In particular, the research identified three actions companies can take now to achieve major benefits

1. Increase Center Independence. Independent centers are more likely to control their structure and manage their relationships with internal customers, including the use of charge backs and service level agreements to shape customer behavior. The most independent centers are separate businesses within a company and are not aligned to a specific function. Instead of reporting to the head of a functional area (for example, the CFO or vice president of Human Resources) they report directly to a vice president of shared services or even to the CEO.

2. Implement a Company-wide Strategy. Few companies take advantage of the natural leverage that comes from creating links between service centers, either between centers servicing separate process areas, such as a finance center and a human resources center, or centers in different geographic locations. Creating a comprehensive strategy for shared services at a company level unleashes this potential for cost savings, increased scale and greater influence with customers.

3. Influence End-to-end Process Design. Shared Services creates the scale and credibility necessary to drive process improvement broadly across multiple departments and functional areas and overcome traditional departmental or functional boundaries. Few companies take advantage of this opportunity to cut costs and improve performance on a broad scale.

"To learn what shared-services leaders need to know, we went directly to them, got their input, and came up with more than a thousand research questions," said Mike Hostetler of Gunn Partners. "This research covers hundreds of issues, from where to locate a center to how to create an improvement-oriented culture, from the use of self-directed teams to the pros and cons of service level agreements. Our goal was to create a common framework from which each participating company could clearly chartits path forward. Identifying the importance of center independence, center-to-center leverage, and end-to-end process design, while intuitive,

are natural outcomes of the research."

The Value of Independence

Nearly 90% of the participants in the research say that they favor a high degree of independence for their centers; yet few claim to have actually achieved such independence. The researchers identified four distinct levels of shared service independence and asked companies to indicate where their shared services stood.

Asked where they would place their centers today, they responded

Less Independent

Defined Process Centers (handling one or two processes) - 5%
Functional Centers (handling multiple processes; some independence) - 63%

More Independent

Functional Plus Centers (aligned to specific function but reaching beyond it) - 16%
Independent Centers (reports to senior exec not aligned to specific function) - 16%

Asked where they would like their centers to be, they responded

Less Independent

Defined Process Centers (handling one or two processes) - 7%
Functional Centers (handling multiple processes; some independence) - 7%

Asked where they would like their centers to be, they responded

More Independent

Functional Plus Centers (aligned to specific function but reaching beyond it) - 22%
Independent Centers (reports to senior exec not aligned to specific function) - 64%

"Independence gives centers competitive advantages," said Hostetler. "While 75% of the participants view managing their centers as an independent business as consistent with their future vision or critical to it, less than 50% have implemented this approach. For those that have, our data shows that independent centers are more than twice as likely to have created a culture that is distinct and separate from the rest of the company. Such a culture can support internal center needs for creating roles and career paths tailored to the needs of the center and externally can create leverage in negotiating with customers to provide standardized services at an agreed-upon level of quality."

Gaining Leverage between Centers

In planning shared service operations, most multinational companies have anticipated that their centers would play a key role in the company's global strategy. They reasoned that by linking centers together and standardizing data, they would be able to make more effective use of information. Though the data would originate from a great many different countries, each with its own language, laws and currency, the data arriving at the center would all be translated into a standard terminology. In this way, management would be able to make global strategic decisions based on "apples to apples" data and analysis. While an accurate description of how the underlying data is leveraged, many companies find that they have significant opportunities from leveraging the design of the service center itself.

In the Gunn Partners research, the vast majority of participating companies say that the idea of a global shared service strategy played an important (24%), very important (16%) or critical (46%) role in deciding to go to shared services. Yet only 7% of the companies report that their shared services are actually managed globally. When asked if they have a comprehensive strategy to take advantage of the leverage that exists between service centers, only 10% say that they have a defined plan to do so, while 46% have not considered the opportunity. The remaining 44% are evaluating the opportunity but have no formal strategy.

"For many companies, taking advantage of the natural synergies that exist between service centers, from creating common job descriptions and performance measurement processes, to leveraging call center technology is an untapped opportunity," said Hostetler. "While there are examples of companies defining and managing processes on a global basis, few have created a defined process to take advantage of the leverage that exists directly between service centers."

End-to-End Process Design

"True reengineering happens when you consider the end-to-end process without getting gummed up in the non-value-added tasks of the individual departments that may touch a transaction," said Hostetler. "A service center's economies of scale can go well beyond leveraging technology investments to include using its 'critical mass' to drive end-to-end process improvement".

End-to-end reengineering typically follows a process, step by step, through its various sub-processes and improves some steps and eliminates others. The savings involved in improving each individual sub-process might be small but the cumulative effect of such changes can result in major savings. For example, end-to-end reengineering of the "purchase to pay process" would start with an initial purchase request and end with the final payment. By necessity, it would have to cross the traditional boundary between purchasing and accounts payable.

The importance of designing processes from an end-to-end perspective has been thoroughly documented. However, the reality for most companies is that it remains an elusive objective. When asked to comment on the effectiveness of their service center to influence end-to-end process design, only 25% of the participants said that they have a defined plan they are working from. The remaining 75% are either evaluating options or are too busy with other issues.

"Our research shows that companies can achieve enormous gains in cost and quality by standardizing and reengineering their processes," said Hostetler. "Of course the more independent the shared services operation is, the more readily it can cross traditional departmental boundaries and achieve end-to-end process improvements. Some companies have tried to leapfrog end-to-end reengineering by investing heavily in new technology. But, the results have been disappointing. Typically, the gains have barely covered the cost of the technology. In contrast, efforts at standardizing and reengineering processes have generally produced substantial savings.

"Overall, we've found that most companies are pleased with their shared services operations. Such operations have generally cut costs and improved performance. However, even for the most experienced there remain pockets of significant potential that, with some attention, they can tap into right now."

----

http://www.gunnpartners.com/gunn-cgi/scripts/display.cgi?0524-1915-28598+programs