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

Shared Services: A Primer for Forward-Looking Companies

Shared Services: A Primer for Forward-Looking Companies

This primer from Gunn Partners, the firm that pioneered shared services, helps CFOs, managers of administrative support functions and other senior executives answer the question: Will shared services benefit my organization? Here's where you can find out what you should know before you take the next step and initiate a more exhaustive exploration of this opportunity.

What is shared services?

Shared services combines the efficiency and leverage of centralization (standardization, economies of scale, a single base for improvement) with the superior customer service usually associated with decentralization. Companies try to achieve this balance by:

- Drawing together activities performed similarly in various locations across the business (often focusing on transaction processes) � Standardizing on a common process design that emphasizes high quality and customer responsiveness
- Putting in place measurement tools to monitor performance and guide improvement efforts

Why do companies choose shared services?

Lower costs are a primary benefit of shared services, as are improvements in productivity and customer service. In addition, some companies see shared services as a platform for growing their business without growing administrative costs at the same rate.

Ford has been operating a shared services center for finance in Europe since the early 1980s, and DuPont, Digital Equipment and General Electric established shared services organizations in the United States in the late 1980s. A second wave of companies, including Hewlett-Packard, Dow Chemical, Dun & Bradstreet, IBM and Allied-Signal, followed that lead in the early 1990s, and today most of the top 500 companies in the United States have implemented some form of shared services.

How can shared services provide a level of service comparable to a distributed model?

The issue is one of critical mass and focus. In a shared services environment, the volume of processing is large enough to make it worthwhile to invest effort and money in improving the processes. It might be difficult to make the case for similar investments in a more distributed environment. Also, shared services can afford to assign people to focus on improving processes, whereas a distributed environment may not be able to free up resources for this purpose.

How does shared services differ from outsourcing?

An outsourcing agreement typically defines the exact nature of the relationship and includes a detailed pricing structure, a lengthy series of contingency clauses stating what constitutes failure to perform and what remedies exist, under what conditions the agreement can be dissolved and so on. Outsourcing relationships are apt to be adversarial and at arm's length.

A relationship with a shared services organization can be much simpler because it's an internal entity. It might include a summary of services to be performed and service levels to be attained along with an agreement on how-or whether-costs will be charged back to the client. The relationship between a shared services provider and its client should be a partnership, where both parties bear responsibility for ensuring high-quality administrative support at reasonable costs.

What types of services are candidates for shared services?

Good candidates for shared services exhibit two basic characteristics: They are quite similar across different locations, and they can benefit from taking place in a common way or in a single place. Usually, two types of activities pass this initial screen: transaction processes (accounts payable, accounts receivable, general accounting, fixed-asset accounting, travel reimbursement) and certain specialized skills, such as tax planning, treasury activities and purchasing. Most shared services have focused on transactions.

accounts receivable, general accounting, fixed-asset accounting, travel reimbursement) and certain specialized skills, such as tax planning, treasury activities and purchasing. Most shared services have focused on transactions.

What types of services are poor candidates for shared services?

Activities that require a local physical presence are obviously not candidates-for instance, counting physical inventories, managing local facilities or making sales calls to local customers.

What does a successful shared services initiative look like?

In general, successful implementations share the following attributes:

* A clear vision of what shared services is meant to accomplish and its long-term objectives
* A balance between goals related to efficiency (productivity, costs) and goals related to service (customer satisfaction, quality of processing, timeliness, responsiveness)
* Clear agreement on the scope and quality of services to be provided
* Emphasis on standardization and consistency
* Clear delineation of responsibilities of both shared services and the client
* A commitment to continuous improvement, supported by performance measurement, total quality management and problem-solving approaches
* A conviction that the value of shared services should be continually enhanced
* Supportive human resource policies and clear career opportunities
* Excellent customer service skills
* A clear articulation of the role of finance in the client organization and the skills necessary to fulfill that role

What are the pitfalls to avoid in creating a shared services center?

Here are the primary ones:

* Excessive focus on cost reduction at the expense of customer service
* Overly aggressive implementation plans that result in inappropriate shortcuts
* Excessive emphasis on systems at the expense of good process design
* Overly customized processes that fail to take advantage of commonality across clients
* Lack of attention to performance measurement and continuous improvement
* Recruiting processes that focus too much on technical skills and too little on customer service and problem-solving capabilities

Doesn't it cost a lot to set up a shared services environment? Can the savings justify the investment?

Setting up a shared services organization involves major costs. Usually, the largest are the costs of staff reductions and of retraining employees and moving them into new positions. Setting up the new facility is another significant cost.

It can also be costly to change systems. Many companies choose not to make significant changes in their systems, however, especially if most of the business is on only two or three software platforms. When they do change systems, it's generally because business needs demand it, not because of shared services.

Despite these costs, most shared services in Europe pay back on that investment by the end of the third year of operation and generate a significant positive return on investment over the life of the project. In the United States, the payback is usually even quicker, primarily due to lower costs of staff reduction.

What are the sources of the savings?

Lower wages and greater leverage of management are certainly key sources of savings. Another is the increased productivity that comes from greater focus on standardization, process flow and use of things like imaging, workflow and automated call routing. By the end of the first year of shared services, productivity improvements often reach 25% or more. One company actually achieved savings in costs of more than 40% on the day it opened its shared services center, even though the number of transaction processing employees did not change.

Additional benefits result from continuous improvement efforts and a greater focus on process performance and total quality management. These usually enhance productivity at a rate of 10 to 20% per year. Typically, when employees retire or leave the company, their work is absorbed by the remaining team members. Similarly, a higher volume of processing from business growth or new clients can often be taken on without an equivalent increase in costs.

Within a few years of implementing shared services, costs of the affected processes are often 50 to 70% lower than they would have been had shared services not been implemented.

How do you measure the savings from moving a specific process to shared services?

The most accurate measurement would come from comparing current costs per transaction with costs of the same transactions in shared services. These calculations can be quite onerous, however, and most companies find such exercises of little value.

The most accurate measurement would come from comparing current costs per transaction with costs of the same transactions in shared services. These calculations can be quite onerous, however, and most companies find such exercises of little value.

What is probably more valuable is for the shared services management to compare total costs in the current environment with the total costs of providing the same services under shared services.

Can a shared services organization perform tasks for other regions?

Some companies, including Hewlett-Packard and Dow Chemical, run global networks of shared servicessites (usually one in Europe, one in the Americas and one in Asia-Pacific).

What factors influence the choice of location?

Critical factors include prevailing wage rates and the availability of qualified staff. Other factors are the overall quality of life in the area, access to the location from client sites (frequency and cost of air travel) and the availability of suitable building space.

Aren't some countries very difficult to include in shared services?

Yes. The ability to provide support differs by location. Issues such as the quality of local telecommunications, unique local accounting requirements and the availability of native-language speakers at the shared services location have made it difficult to bring some countries into shared services.

Aren't there a lot of country-specific regulatory issues that make shared services difficult?

The experiences of companies that have implemented shared services in Europe suggest that the majority of country-specific issues can be designed into processes that work perfectly well from a shared services environment. Many issues that had been perceived as possible barriers (record retention, VAT filings, statutory reporting, requirements to print certain documents on government-issued stationery) have been successfully addressed by European shared services implementations.

How much local investment in technology is required to facilitate the move to shared services?

Usually not much. In most cases shared services starts up on existing legacy systems. Sometimes a "best-of-the-bunch" approach is used to select a process, and all users are migrated onto this as an initial standard process. Many companies have successfully implemented shared services on a suite of three to five different software and systems platforms, with the intention of merging them onto a common base at a future date. Beyond that, the investment is in local workstations, servers, local area networks and data lines-not a trivial investment, but nothing like the cost of establishing a new systems platform.

Almost all shared services visions foresee the day when all processes will be running in highly standardized ways on a single common systems platform. And some companies see shared services as a key step in that direction.

How do information resources (IR) support needs change under a shared services model?

In the near term, IR support may actually increase to assist in the standardization of systems and the training of new processing employees. But in the long run, there will be a substantial reduction in the level of IR support. Here are some of the reasons why:

* Because a substantial proportion of the user group will move from client sites to the shared services location, the IR support staff must move accordingly.
* With standardization, the range of diversity in applications configurations and usage will decline.
* With larger user groups using the same applications in similar ways, the ratio of IR support to user population can be reduced.
* Finally, because the user group can now fulfill some of its support needs internally, users with questions about performing a specific task will turn to someone else in the group responsible for a similar task before turning to IR for help.

What if specific needs must deviate from the standard process?

If a need is really unique, it can be accommodated by creating customized process steps (which should be add-ons to standard processes, as opposed to entirely different customized processes).

What communication facilities are needed for a shared services site?

Shared services is usually telecommunications intensive. Typically, a dedicated telephone switching system is installed to handle the volume of voice traffic, and dedicated data lines are provided between shared services and the data center, which is usually in a completely different location. In addition, data access lines are provided on either a dedicated or a dial-up basis (depending on costs and the anticipated volume of traffic) between the data center and each local client site. This enables local sites to access their own data without having to go through the shared services location.

How long does it take to move to a shared services environment?

It generally takes two to four months to completely migrate a client's work into the new location. But because not all clients migrate at the same time, the total period during which work is being transferred to the new location might be a year or even longer.

How would a migration to shared services be managed?

A typical series of steps might include the following:

* An initial preplanning meeting to develop the migration plan and identify work to be done at the local site to get ready for migration
* A brief period (perhaps two to four weeks) when members of the shared services team work at the local site with the local processing team and learn such things as how the process currently works, where the information resides and who the external contacts are
* A phase of data conversion and systems setup and testing in the new environment
* A test period (usually one month) of "parallel processing" during which transactions are processed under both the current and the shared services systems, followed by an assessment of how well the new processes are working
*
* A period of winding down and cleaning up at the local site

It is customary to convert all local processes to the new shared services environment at the same time, rather than process by process. This minimizes the time required for the migration. But the goal of having all processes, systems and process teams ready to go simultaneously creates a greater challenge and more pressure.

How are shared services usually organized?

Shared services are almost always organized along process lines. For instance, there might be an Accounts Payable/Payment group, a Billing/ Accounts Receivable/Payment Processing group, a General Accounting and Reporting group and so on.

Each process group is usually headed by a process owner, who has responsibility for overall performance of the process and future improvements.

Within the process groups, teams are aligned to individual clients or clusters of clients and perform their processing. These teams are responsible for identifying processing deficiencies and developing plans to correct them.

In addition, there are usually some support functions, such as IR technical support and human resources.

What's the work environment like?

Team members usually work alone on a computer terminal or make telephone calls to internal clients or external customers and suppliers. Team members work together closely, and teams with similar interests work in close proximity to one another (resulting in clusters of teams all supporting the same set of clients or all performing similar services for different clients).

Each process team typically tracks its performance against a scorecard and uses its scores to see if it is on track. When performance falls short of expectations, teams typically initiate a problem-solving process (usually rooted in a standard methodology based on total quality management or continuous improvement principles).

To minimize paper handling, there is often an up-front data entry or document imaging operation.

What kinds of skills do shared services employees need?

The ability to provide good service to their clients is paramount. Problem-solving capabilities are also critical. Technical capabilities and an understanding of how the processes work are important, too, but if employees have the ability to provide good service and solve problems, they can quickly learn the technical and process skills.

What kind of career paths does shared services offer?

There are a number of career models. Team members can rotate onto other teams or into other process areas. A team member can become a team leader or a process owner. In some models, employees rotate into and out of shared services.

At some point, team members may join the client they have been supporting, usually as business analysts or with responsibility for processes that require a local presence, such as inventory accounting. Similarly, employees based in local offices may rotate into shared services. In such cases, they generally join shared services as team leaders, process owners or shared services directors.

How do local personnel interact with shared services on a day-to-day basis?

Local personnel are generally responsible for some transaction processing activities that involve shared services. For instance, in some companies local personnel handle order entry, order validation and order fulfillment, while shared services handles billing, accounts receivable, cash receipt and application of payment.

What about activities that don't move to shared services? What happens to the people left behind?

The role of the local finance department actually becomes much more important after a shared services implementation. The focus shifts away from day-to-day processing and accounting activities and toward providing financial advice to the local business managers.

There is more emphasis on the kind of performance planning, measurement and analysis that ideally results in insights into opportunities to improve

There is more emphasis on the kind of performance planning, measurement and analysis that ideally results in insights into opportunities to improve the business. In addition, the local staff focuses more attention on supporting business decision making by analyzing alternative business actions and strategies, investments, competitive positioning and so on.

These local activities are enhanced by the ability to draw on a base of high-quality, accurate, timely data captured by the shared services processes.

Doesn't shared services imply firing a lot of people in a lot of places, just to hire a lot of people somewhere else?

Some companies have used shared services to cut both staff and wages, others, to create a new culture and environment, something they felt was not possible with their existing staff. But many have based their site selection decisions on the ability to employ current employees in the shared services environment. In some cases, they have even chosen to have multiple shared services sites, each focusing on a different process, just to minimize staff cuts.

What is the relationship between the local CFO and the director of shared services?

In some companies, shared services is set up as the "supplier," with the local organization as the "customer." In others, shared services and the local organization act as partners.

We've found that in the long run, the partnership model works more effectively. Because virtually all processes require some involvement of both local and shared services personnel, a partnership arrangement helps ensure that both groups have the same incentive to perform their activities well.

Under the customer/supplier model, the shared services group is apt to be stuck with sole responsibility for fixing all process failures, even when the local organization is at fault. Also, individual customer preferences often lead to customized processes, even when there are no compelling business reasons for such customization.

How do local CFOs control their share of shared services costs?

Some shared services organizations charge costs back to clients; others don't. Here are some current methodologies:

* No charges whatsoever (other than perhaps a once-a-year calculation that is charged back solely for tax purposes)
* Agreed-upon fixed charges for the year
* Charges based on an assessment of which clients are driving workload in shared services
* Charges based on unit costs and actual volumes, such as so much per transaction multiplied by the total number of transactions
* Activity-based costing and charge-backs, based on each client's transaction costs and volume of work

How can local CFOs address specific process and performance issues arising from shared services?

Shared services usually conducts routine performance reviews with its clients, covering actual performance levels versus levels planned or agreed to, as well as opportunities for improvement. Also, it's perfectly appropriate for a client to approach shared services regarding specific performance issues. Some companies have an escalation process to handle shared services situations that cannot be resolved to the client's satisfaction.

What is the future direction of shared services?

There are three key scenarios:

* The first foresees a long-term administrative services organization and expects the scope of shared services to grow to include a wide range of administrative support activities.
* The second sees the day when most transactions will be embedded in the day-to-day operational processes. For instance, the act of making a requisition will trigger the entire process of procurement to payment, with little need for human intervention. The transaction processing organization virtually disappears, but the need to monitor and improve processes continues.
* The third sees the processes in shared services being outsourced, the idea being that once processes are standardized at a single location, they can easily be turned over to an outside entity on a contract basis.

Obviously, each of these scenarios has very different implications, advantages and disadvantages.