Light at the end of the cost-reduction tunnel

If all shared services do their jobs well and are aligned with the business, front offices will be free to focus, and the world economy will thrive.

Introduction

How do we become real business partners to the organizations we serve while still hitting our cost reduction goal?

This document examines the development of the industry/sector commonly known as Shared Services, Global Business Services, and Outsourcing, (which we will refer to as SSO) and pinpoints the discussions we need to have to see we are on the right track.

Having reached its current level of maturity, the SSO's past goals of making the functions within it cheaper, more efficient and quicker are no longer "enough on their own" to sustain the level of value the business needs from the service today.

This paper considers:

- How the SSO industry finds itself to be evolving – with an ever-widening and deepening scope.
- How, given the experience we have after more than 20 years as an industry, we need to speed up the tangible efficiencies and benefits for new entrants by sharing learnings in a structured way, so we don't keep "re-inventing the wheel."
- Why we need all our stakeholders aligned in order to get the right investment and commitment to our new processes.
- How it would be highly useful for each of the 7000 SSO organizations in the world to be able to rate themselves against a globally recognized ***rating standard*** based on best practice.

A quick overview

If we provide a great service, we give the front office freedom to focus. If we don't, we hamper the company we support. How do we strike the right balance and what is the right cost?

Nearly all shared service centers are set up, primarily, to reduce cost. This intention is often inherently in conflict with what they actually do, which is to provide critical services to the rest of their organization. The organization cannot function without these services, and, if they are delivered badly, the impact is detrimental. The conflict between great service (what the business users really want) and cost reduction (what the business sponsors have asked for) is a constant challenge for SSO directors.

With the establishment of a successful SSO comes significant savings. Once a shared services has "gone live," savings can be anywhere from 10% to 80%. However, the expectation is that, post go-live and stabilization, the SSO will deliver incremental (or greater) savings, year after year.

The cost savings are celebrated by the business, but *users* of the SSO service feel the transformation differently, and this is why:

- The SSO often becomes a less "personal" service (if you had a payroll issue before shared services, you could walk down the corridor and have a chat with Payroll. Now payroll is run from a different country and the interactions feel cold and officious).
- The SSO introduces more structure and rules. These affect the user, and users now have to be more process compliant – they have to raise POs in a certain way, buy only from listed suppliers, and follow certain HR processes which didn't exist before. This change at the individual user level can result in resentment and nostalgia for the "way things were."

- Finally, when you add outsourcing or offshoring co-workers' jobs to locations where labor arbitrage offers a major appeal, the transition can be hard for staff in the function and the business units. They are now dealing with (often) faceless people who are culturally different (different country, ethnicity and – if there's now an outsourcer – different company). This provides a challenging foundation on which to drive successful transformation.

Without successful change, there will be little cost saving, and the front office will be hampered by internal inefficiencies due to poor support. If we provide the same service to our internal customers as they received before we became a shared service center – but with more rules and structural demands – how can we expect internal customer satisfaction or good compliance?

Background

The concept of shared services was first defined over 20 years ago. The pioneers in what is now an industry in its own right, were inspired by reading insights from people like Andrew Kris (who authored *Shared Service Centres: Delivering Value from Effective Finance and Business Processes*, published in 2003).

When shared services first began, the key (and often only) driver was cost saving. Kris humorously identified the top three goals of a shared services organization as "cost reduction, cost reduction and cost reduction."

Service improvement was not a central driver, and what was routinely overlooked was a clear view on what good service should look like.

Because a successful shared services will allow the business that it supports to thrive without having to worry about internal processes and support, this exercise in definition is critical.

It is here where a "gap" emerged between the SSO and its internal customer, and it is a gap that has widened within organizations over time. At inception, the SSO has cost reduction as its main goal. To achieve this, process standardization is also a chief aim. However, these two goals often fail to resonate with the internal customer, whose desire is for better support and great service, and this disconnect breeds dissatisfaction. Meanwhile, the shared services is busily continuing to fulfil the goals set out in the business case, and is confident it is doing a great job.

Then when the time comes to ask the internal customer to rate the SSO's service, the SSO is surprised that the score is average or poor. This usually happens because the SSO a) failed to ask the internal customer what they wanted at the inception, and b) failed to define "good services" or "excellent service." ***Internal customer expectation is rarely defined***, so internal customer satisfaction is rarely achieved.

Our internal customers are *part of the SSO process*. Without their "buying in" to the change process, we are unlikely to save money. A good example of this is the P2P process around PO compliance and maverick spending. If internal customers are not compliant with the new process rules introduced by the SSO (designed to help process and reduce costs), then business targets are hard to meet, internal customer satisfaction will be low, and services delivery will feel bumpy.

So, despite the fact that internal customer satisfaction is integral to our cost targets, many shared services who become aware of this "gap" instead look to KPIs to measure and define services and performance levels to help make the internal customer happy. However, these KPIs are often compiled *within the SSO*, and relate more to processes, and less to service. Internal customers are generally not interested in process per se, so having internal customer-facing KPIs linked to process can often be meaningless.

This has led to the "watermelon" situation, where KPIs are all green on the outside, but the internal customer is unhappy with the service, so there is actually a red-alert situation when you look deeper.

How we have grown

Let's look at how the SSO market has developed in the past 20 years:

Location

We have changed the locations from the main site of our company to:

- Locations reasonably close in fairly expensive developed countries.
- Emerging markets not as close where we save some cost of labor.

- Markets far away which offer great savings in labor cost.

OR

Now we are closing them/reducing them/ re-shoring them because of automation and robotics

Process

We have taken multiple processes from multiple locations to one location with multiple processes.

We have developed a single process without the internal customer's input. This was done, instead, with consultants who didn't really understand the vagaries of our company. We have since truncated a single process and shipped parts of it around the world, keeping certain parts close to home because of language, fiscal or cultural needs.

We have realized in the past ten years that the quality of the processes owned by the SSO are determined by the processes upstream, i.e. many of the inefficiencies in Accounts Payable are caused by non-compliance in Procurement.

This realization has resulted in the aligning of functions – Accounts Payable and Procurement now sharing objectives, KPIs, a vision, etc., processes being treated as end to end, and the introduction of Global Process Owners.

Organization Design

We certainly have many possible practical designs available to us today, and the right one depends upon the company, the culture, the reason for starting, politics, etc.

Here is a list of the key models for SSO delivery organizations:

1. *Captive* – a shared services organization owned and run 100% by the company. No part (or only a very small part, such as payroll) is outsourced.
2. *Outsourced* - the majority of, or all, activities often managed by a captive shared services are managed by a third party under the direction of a retained team.
3. *Hybrid* – some processes or sub-processes sit with the shared services organization and some are managed by an outsourcing partner.
4. *Global Business Services* (GBS) – a term that has become widely used in the past few years. A GBS manages multiple functions (finance, HR, procurement, etc.) but runs these functions under a single leader, with a single, global vision and operating model.
5. *Centers of Excellence* – a model whereby shared services centers (outsourced or captive) manage transactional activities and link with CoEs that are located in appropriate geographies where higher skilled staff operate, working on more complex activities.
6. *Virtual shared services* - where shared services adopts the home-based model, and applies the principles of shared services such as standardization of processes, consolidation of systems and treating the rest of the business as an internal customer.

Systems

As technology changes in our private lives, so it is changing in shared services.

Ten years ago there were only a dozen companies in the world that operated off a single instance of an ERP. Most companies ran off dozens, if not hundreds of ERPs, as a result of operating in an acquisitive environment, or just organically growing, and retaining localized legacy systems.

Now it is estimated that around 25% of shared services organizations run off a single instance of an ERP (mainly SAP in Europe and Oracle in North America).

A multi-ERP environment has presented many shared services with operational and organizational challenges. An SSO can sometimes only be as effective as its ERP landscape. Multi-ERP environments look to attain a more joined up process and systems landscape by building "layers," to help SSOs strive for efficiencies. A multi-ERP environment is expensive to manage, develop and maintain, but the cost to move to a single ERP can be the costliest component of a shared services organization, and can sometimes prove prohibitive.

Once an ERP environment is stable, shared services will bolt on enabling technologies. These are added to fix various issues within shared services. However, implementations often come with a catalogue of issues, including:

- Delivery misalignment with requirements.
- Scope creep.
- Problems with communicating the technologies.
- Training problems.

It can take longer for an ERP to deliver on its ROI than projected. Although for many shared services, an ERP consolidation to a single instance can seem worth it, others rule it out given the lack of business case, cash flow situation, the business structure, prioritization, or if the company is owned by a private equity firm where there is limited interest in making a significant investment for the long-term future.

The SSO's Internal customer

SSOs have internal customers, and many SSOs' internal customers have to also be true business partners. Should the two be treated differently?

A fundamental premise of the shared services model is that it should treat the rest of the business as an internal customer. It is important for the shared services organization to examine, agree on, and define who the internal customer is. Is it:

- The payer (i.e. the General Manager or Managing Director of each country or business unit that the shared services serves)?
- The user (i.e. the staff in the company who does not pay the bill, but uses the services of the SSO)?
- Both?

Once all the above has been determined, there are further questions to ask about the role of the internal customer in the development or success of the SSO, like:

- What is the SSO's expectation of the internal customer's role in their development and success?
- What is the internal customer's expectation of their role in the shared services' development and success?
- Do they match?
- Does the SSO know what is expected?
- How are these expectations documented and referred back to?

These questions begin to highlight the problem that exists in most shared services organizations today, as these questions are not always asked, rarely fully answered, and, if answered, not always routinely revisited.

Problem Definition

Is internal customer satisfaction a problem or a symptom of another greater problem?

Despite our learnings and improvements, there continues to be a disconnect between internal customers' needs and expectations, and the offering of the shared services.

This disconnection, or **gap,** has resulted in some fairly widespread dissatisfaction for the internal customer. This has even resulted in some businesses regarding shared services with contempt.

Below are discussions between a shared services and its internal customer that may sound familiar to you:

The shared services says:	The internal internal customer says:
We are doing a good job!	According to whom?
We are better than most SSOs!	Compared to what data?
We are doing a great job given the budget constraints!	What budget constraints? We didn't know you were under-funded and that our requirements were expensive!
We are delivering the service that you asked for when we started out! Why are you so unhappy!	Requirements and needs change, we need to be more aligned.
We are giving you a 5 star service!	But I only want a 3 star service!
We only have resource to offer you a 4 star service!	What on earth is a 4 star service?

High-Level Solution

How can you get internal customer satisfaction if all your internal customers have different levels of expectation?

Ideally, the SSO model would operate and deliver services that everyone agreed made sense, and were useful. The world of shared services would look very different to how it does today if the shared services (staff and leadership), business leadership (executive and senior stakeholders), internal customers and internal users all agreed on what they wanted from the shared services, what a successful service looked like to them, and communicated why it was important to them.

There are 4 key categories of people who must be aligned in order for any SSO to have a chance of internal customer satisfaction:

- C-Level sponsor (who we ultimately report in to), the executive and key stakeholders.
- The shared services internal customer.
- The SSO leadership.
- The SSO staff.

These categories of people are important. If one group is out of alignment, goals will not be achieved.

Why is it so challenging to get these groups aligned?

The main reason is we have not set a level of expectation around the service that is easy to communicate and understand. We have not produced a quick and universally recognized way to rank our offering.

When we eat in a Michelin restaurant or stay in a hotel, we as consumers make choices based on *stars*. Expectations are set because of the star rating. Once we have consumed the services, we can make a judgement as to whether our expectations were justifiably fulfilled.

A "star" system for shared services would help internal customers align with shared services organizations – *considerably*.

Furthermore, if an SSO realized it was a 3 star shared services, it would be useful to have a clear roadmap illustrating how to get from a 3 star to a 5 star, if desired.

Having a universally recognized starring system – a *standard* – for shared services, *and* a clear road map explaining what needs to be done to move from one rank to the next, would enable shared services organizations to:

- Measure where they are against the standard.
- Plan where they want to be against it.
- Explain to their users/internal customers/partners/family what they are doing.
- Identify users' expectations of service.
- Build new centers more effectively and faster based on best practice.
- Help improve the actual and perceived success rates for the industry.
- Improve understanding and internal customer satisfaction.
- Improve compliance from our internal customers.
- Define goals and vision better and thus communicate clearly to the team.
- Create a road map that can be used by all leaders to ensure they achieve their goals.
- Reduce the cost of achieving agreed goals.
- Audit your own and your BPO partner's performance.
- Design outsourcing requirements to ensure success.
- Explore ways of adding more value to the business we support based on the assets, knowledge and information we have.

Conclusion

A pivotal shift needs to happen within the SSO industry. A vehicle is needed to drive the move from misalignment and dissatisfaction to a place where all parties affected by shared services have defined the desired future-state, and all parties are clear on what success looks like.

If this can be achieved, the SSO will:

- Become a core organization within the business, offering valued and appreciated services.

- Be able to move more confidently to managing value-adding, middle and higher function services.
- Grow, taking on 100% of the global activities in scope rather than 50% or less.
- Be seen as a partner to the business, with a "seat at the top table".

The vehicle, or framework, that will enable the above needs to guide the 4 key categories of people to be aligned, through the following journey:

- Define where you are today (rate) and agree on it among all parties.
- Define where you want to get to (rate) and agree on it among all parties.
- Create a plan of how to get to the desired future-state based on best practice.
- Measure how you are doing.
- Benchmark with other shared services that have the same rating as yours.

We have created and developed such a **framework** and it is ready for you to use. If these thoughts resonate with you, and you would like more information, please let us know and we can send you a case study or service overview.

Please email levelup@sharedservicesstandard.com quoting WHITEPAPER.

About the author

John Hall

Founder of Triangular World

John Hall is a shared services and outsourcing specialist with global experience.

John's career spans three decades, working in senior finance positions with multinationals, including Digital Equipment, DHL, American Standard, DSM and Coca-Cola Hellenic. The last 22 years were in Shared Services roles.

John's expertise covers the entire arc from strategy development through implementation to operational management. He is a trusted advisor on every aspect within a shared services and outsourcing environment.

Triangular World was created with the aim to help more organisations be successful, working both as a hands-on consultancy to fix and build, and also developing high-level ideas for the SS&O market. In 2013, he got a group of SS&O leaders together who have designed and launched the first systemised industry standard – LevelUp.