Tread Carefully with Global Models for Shared Services

*A well-defined shared services strategy and continuous process improvement mindset add value to the business.*

APQC research finds that many large global organizations are re-thinking their strategies for delivering administrative and decision support services to internal customers. Shared services have been a core enabler of efficient service delivery for a very long time. So why is the topic still coming up regularly? To find out, APQC caught up with Brad DeMent, a regular source of insight in this area.

**Brad DeMent leads the financial shared services practice at ScottMadden Inc., a management consulting firm. He is also the leader of the firm’s Latin American shared services operations.**

**APQC**: What are CFOs today hoping to achieve when it comes to the delivery of financial management services?

**BD**: Recently, I’ve found people going back to the basics of simple process standardization and systems alignment. A lot of our clients are looking more holistically at global models for shared services. And when they step back and remove themselves from the U.S. perspective, they find there is a lot more work to do. They discover many more challenges with country-specific regulations and laws. They also realize that cultural issues can shape the way a process is designed.

So, people ask themselves: “What do we do; where do we start? Should we jump right into a global business services [GBS] model, which might call for laying down several hubs and delivering processes from those hubs? Or should we move a little more cautiously and start, instead, by setting up governance structures around what’s already in place? Maybe we start by designating global process owners to help standardize and align the existing organizations and processes before going to the hub-and-spoke model of global delivery?” Whichever choice is made, processes and handoffs must be assessed to make the best decision.

**APQC**: What is the right way to frame and answer those questions?
**BD:** When it comes to global models, there is a much bigger leap people need to make to get from design to implementation. Sketching out a hub-and-spoke model can make a lot of sense on a white board, but rolling these concepts out to numerous countries around the world requires a great deal of buy-in. You can expect a lot of resistance, with people giving you all kinds of reasons—business impacts, regulations, laws, etc.—that prohibit change.

Resistance is heavy enough when you’re dealing with just one country. Multiply that by 20 or 30 or 50. The reality of trying to implement quickly [as well as the risk of failure] sinks in. This sets companies back on their heels a bit, and executives begin to see that they require more planning for a realistic pace. And that may not point to mass centralization into these hubs. Some organizations choose to align several simple processes first and then move region by region or even country by country. Different cultures, systems, languages, taxes, and so on need to be considered. All this underscores the need for a very well-thought-out implementation plan.

**Putting the Global Process Owner to Good Use**

**APQC:** You mentioned the global process owner. Please elaborate.

**BD:** The idea is to send one person on a mission across the region or across the globe to fix things, to define better metrics, to align systems, and to close process gaps, and as I mentioned earlier, without necessarily building infrastructure or re-staffing in centralized locations. We are starting to see this position and approach as an interim step that leaders are a little more comfortable with. The thinking is, “If I can charter these process owners to go out and standardize and automate, and if all works well, I’ve got a higher comfort level for stage 2, which leads toward a global model.” Even though staffing levels have yet to be optimized and the potential for savings still exists, the leaders know that processes are as standardized as they can be. They know what people are doing; they know one process owner has isolated the work, is accountable, and can quickly report the metrics. Now, the conversation about a more centralized model becomes easier.

**APQC:** What skill sets and backgrounds are needed to succeed as a financial process owner?

**BD:** This person needs to be more of an account manager than a Six Sigma Black Belt. The process owner should also be able to define common sense process fixes, but not necessarily at an excruciatingly detailed level. And he or she will need good negotiation skills because their authority will often be questioned. He or she must be a good facilitator of solutions but also be backed with corporate authority—and willing to flash the corporate badge when challenged. Finally, a good process owner will need a touch of stubbornness to make things happen.

**APQC:** Does this person have to be an expert in finance and accounting?
**BD:** The most important thing is to speak business language. The global process owner will assemble the team to correct a process. And when the time is right, subject matter experts and IT resources will be brought in. Overall, the project is managed by the process owner.

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**Latin America—Intricacies and Automation**

**APQC:** You’ve recently been advising organizations with a special focus on growing their business in Latin America. What are some of the lessons learned?

**BD:** Most of the companies we are engaged with in Latin America [have shared services organizations (SSOs)] that provide services to more than one country. Most incorporate [service delivery] to at least three countries and often all of Latin America. So for that reason, you’ve got a lot of countries and a lot of very different cultures, legal complexities, and economic/political environments that drive the way rules and regulations are designed for particular countries or regions. It’s important to be aware of what has instilled those different laws or regulations. For example, there is a reason the Ecuadorian government requires a seal on an invoice.

**APQC:** How about lessons learned involving automation?

**BD:** In Latin America, you’ll want to gravitate toward relatively low-cost automation such as cloud-based solutions. Why? The business case for process improvement within SSOs in Latin America, and other low-cost regions, is often less attractive than it would be in the United States or other high-cost regions. It’s just plain math; if we are getting our savings from headcount reduction, and that’s based on salaries and benefits that are half of what they are in the United States, then our business case is going to be half of what it is in the United States. If we’re reducing 10 people that each cost $100K in salaries and benefits per year in the United States, we’ll see $1 million in savings. But if we’re reducing 10 people in Latin America and each costs $50K in salaries and benefits, we’ll only see $500K in savings. So, in the United States we might be able to justify buying in-house technology that may cost $600K or $700K, but those IT costs in Latin America just exceeded our annual savings. So the option of buying in-house technologies can quickly go out the window in lower cost regions like Latin America.

**APQC:** What’s tricky about selecting IT solutions for regions such as Latin America?

**BD:** When you bring the vendors in for the marketing pitch, one of the first things you see is a map of the world with a lot of countries colored in. This is to indicate where they operate. The vendor hopes to raise your comfort level so that you feel safe with them if you expand or have operations in these countries.

You must scratch beyond the surface and learn what vendors have done in the colored-in countries. You must ask what they have actually done in these regions, and whether it was done through an alliance relationship, how many clients they have in the regions, and whether you can have references from those clients. Many times, there’s actually a partnership with another
company they know in that region, or a very small and simple effort that was accomplished in the United States for a client with small operations in a colored country. Don’t wait and get the real answer after the contract is signed. It’s not uncommon to discover that your vendor will execute the configuration with a local alliance you have not yet met or cannot gather requirements in the language of the countries.

Moreover, you must understand the system interfaces when you’re looking at a software services provider. It’s all about hooking up their jumper cables to your systems, and it’s never as easy as vendors often make it sound.

**APQ**C: So what would you put in the RFP? Would you request some sort of description from vendors of how their interfaces would work?

**BD**: Yes, insert a diagram of your system environment and ask in the RFP how a vendor would respond to that. It’s time well spent. You don’t want to find system programmers on the ground and reporting that it will be four more months and extra budget because your system environment is not as simple as they had assumed. Understanding how all those jumper cables hook up is extremely important. You need to be confident that a vendor can make those connections, along with proof that the vendor has successfully done so for other customers.

**Location Analysis—Labor Cost vs. Labor Supply**

**APQ**C: Please give us your thoughts on SSO labor cost vs. labor supply.

**BD**: The number-one criteria most executives think about in locating a shared services center is labor cost. Usually close behind is labor supply. Personally, I think that should be reversed. I’ve seen too many companies in developing cities and nations that are stuck in a location where labor supply is a serious problem. You walk through the hallways and managers will say, “These local employees have been here for 15 to 20 years because there aren’t many jobs out there, and as such, we’ve given them X percent raises every year.” But we benchmark against compensation studies, and we often find employees without the right skill sets being paid way above the market. There just isn’t new thinking in the organization, and they’re stuck because the city is what the city is.

It is vital to put more thought into labor supply vs. labor cost. I truly believe that employee skills ultimately determine the success of the SSO. We’ve seen numerous shared services groups where people can do the exact same job four times as efficient as a location with poor labor supply. And that often buys you more than good technology or better processes.

I would encourage talking to economic development agencies. Costa Rica, for example, has a very strong economic development agency. Most cities that are looking to attract business do. And we’ve found that you can make things happen. Per the example, in Costa Rica, SSOs have very strong ties to the city and country governmental agencies. They can actually influence
curriculums in colleges, trade schools, and even high schools. A deeper assessment of labor supply can save you from a very long-term location decision that can result in inefficient operations despite technology and process investment.

**APQC:** Any final words?

**BD:** Having a well-defined shared services strategy, supported by sound planning, process and technology management, talent development, and a continuous process improvement mindset adds tangential value to the business. I recently encountered a company that was keen to being acquired by a larger global concern. Unfortunately, the deal fell through because these vital elements of business excellence were missing.

**ABOUT APQC**

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ScottMadden has been a pioneer in corporate and shared services since the practice began decades ago. Our Corporate & Shared Services practice has completed more than 1,100 projects since the early 90s, including hundreds of large, multi-year implementations. Our clients span a variety of industries from entertainment to energy to high tech. Examples of our projects include business case development, shared services design, and shared services build support and implementation.