Financial Shared Services Centers:
Driving Excellence from the Start

The concept of shared services has been in the management lexicon for more than 20 years. But enthusiasm for process improvement and optimization in this area has waxed and waned—largely in sync with broad economic conditions. Recent APQC studies, including a member survey, indicate a period of renewed enthusiasm. The newcomers to the shared services model have a lot of pointed questions, while the pioneers are climbing further up the maturity curve.

Of keen interest to APQC is the organization that, until now, has put off moving transaction-oriented administrative activity, such as payables processing, into a shared services model. What should the newcomer expect to gain? What challenges are inevitable? Looking for answers, APQC's Mary Driscoll, the senior research fellow for financial management, conducted the following interview (the first of a four-part series) with Brad DeMent.

Brad DeMent leads the financial shared services practice at ScottMadden Inc. He is also the leader of the firm's Latin American shared services operations. DeMent has extensive experience designing, improving, and merging shared services operations. ScottMadden Inc. has been a leader in shared services since 1993.

APQC: When executives first gather to discuss the merits of moving administrative transactions into a shared services organization (SSO), what should they know about the difference between a centralized corporate entity and a true shared services organization?

BD: It's best to start with what a shared service is not. It is not a centralized corporate entity that exists solely for the purpose of reducing cost. Although an SSO can deliver hefty cost savings, largely through the automation of routine transactions, it is much more than an assembly line for transaction processing. Rather, a successful SSO is a customer-focused entity that delivers business services to internal customers with the understanding that poor service can result in lost business.

The SSO should be a source of innovation and operated with passionate leadership and management that have a clear vision, mission, and set of objectives. You should see an unrelenting appetite for improvement and a pioneering culture in search of new ways to expand value to the company. The costs savings become long lasting byproducts of a strong customer-service culture.

APQC: What are some of the tell-tale signs of this pioneering SSO?

BD: There is a strong curiosity to discover what drives client behavior and a desire to determine root causes of common problems. You'll see innovative technology, customer surveys, performance metrics, and knowledge of the true unit cost required to deliver a specific service (e.g., the cost to process an invoice). You should also see multiple communication channels that allow the internal customers to conveniently interact with the SSO.

APQC: When it comes to planning and budgeting, what do well-run SSOs do differently?

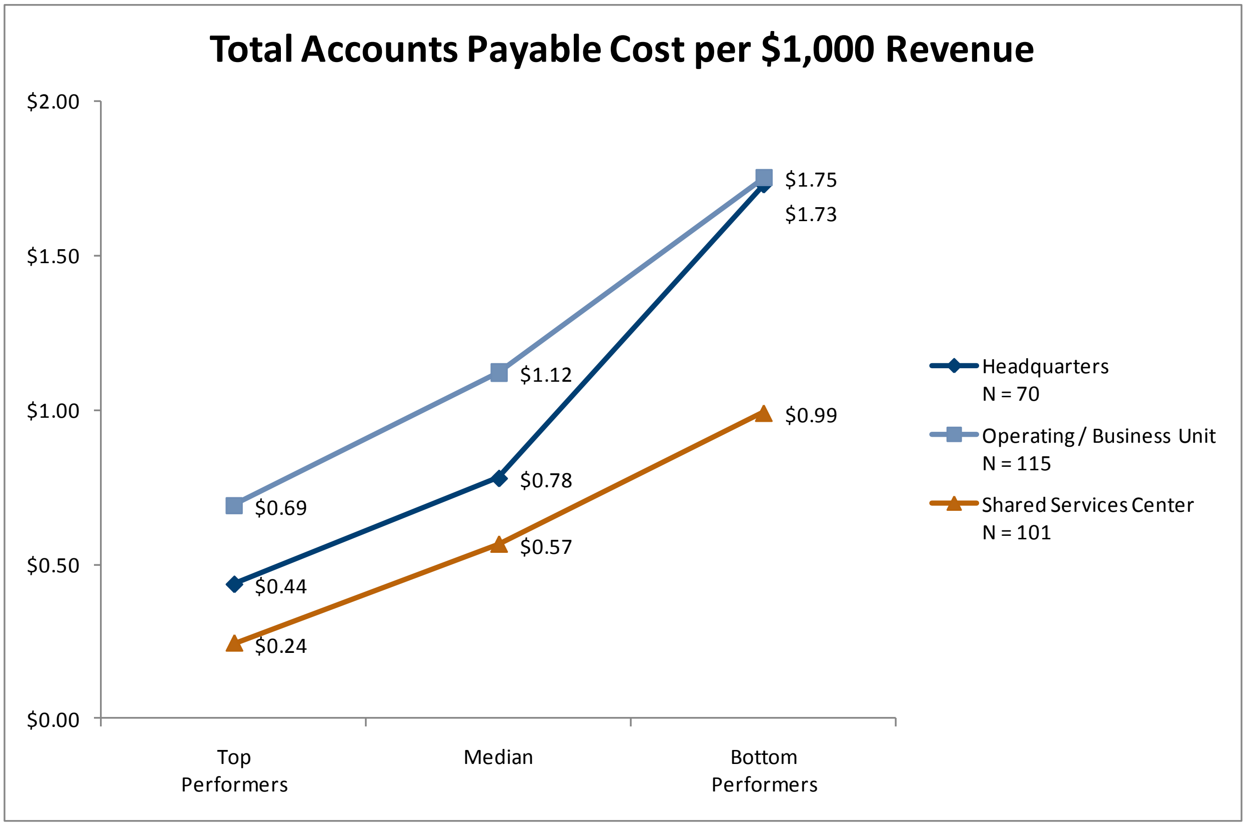
BD: A well-run SSO will predict the transaction volume for the upcoming year and ensure that the right resources are in place to cope with any new or expanded populations of customers. This is particularly vital if the corporate parent is in acquisition mode.

Good SSO planning should be formulated in alignment with the corporate strategy. For instance, if company leadership plans to grow through acquisition over the next two or three years, the SSO might begin devising a step-by-step approach for rolling on new assets. (Examples might include a quick way to align policies, pre-defined procedures to integrate new systems, and critical volume levels for each service to determine staffing requirements.) The SSO might also emphasize the creation of seamless communication channels to absorb new and diverse populations and get them routed to the right contacts within the SSO in order to avoid unnecessary transfers.

APQC: If an organization is considering a move to shared services, whether for a single function such as finance or for multiple functions, at what point should it benchmark its current levels of efficiency and productivity versus other organizations?

BD: The answer is right now. Creating a baseline through benchmarking is a great place to start. This will enable the SSO to measure and demonstrate progress over the years, as well as identify problem areas and potential solutions such as automation or improving skill sets. Benchmarking also helps SSO leadership understand the magnitude of the gaps, which in turns helps prioritize initiatives.

Benchmarks can also provide a quick and dirty way to assess potential cost savings and the viability of launching a shared services initiative vs. other competing corporate initiatives. (Figure 1 on page 3 is an example of benchmarking metrics from APQC's Open Standards Research database. In this case, we are looking at the total cost of accounts payable conducted in three operating models.)



Benchmarking is a quick and easy way to measure the quality of current services, the cost of those services, and the productivity of employees that provide the services against market norms and leaders. This can reveal service gaps, or savings potential, which provides the justification to embark on a shared services project. Eventually, you have to have a compelling business case.

APQC: But you need more than evidence of gaps?

BD: An organization eventually needs more than benchmarks to get a good directional signal. The required next step is a deeper dive into processes, organization structure, and technology capabilities that would truly unearth the all-in cost of each SSO process. What you are looking for is a more accurate measure of cost savings and the required associated investments. Many find that they don't require expensive investments because in-house technology may be easily adapted for SSO purposes. Assuming the research validates potential savings, typically with a projected ROI within 2.5 years, you are ready for implementation.

APQC: Let's assume an organization has decided to move to an SSO. Why should it start thinking about managing the SSO's performance and continuous process improvement on day one?

BD: When a company designs an SSO for the first time, it needs to set performance levels for the short and long term. Here, I mean targets for process cost, quality, and productivity. The important thing to realize is that an SSO must not only deliver on initial promises but also continue to offer more value each subsequent year.

They have to prove they're as good as their competition, which is the community of third-party service providers. These competitors get better every year. The internal SSO needs to keep pace. You do that by benchmarking, by investigating leading practices, by visiting vendors, and by attending consortiums and trade shows. This is all about commitment to ongoing improvement, not a one-time grab for cost savings, which tends to fail over the long term.

APQC: Won't there always be people in the business units who will say that it used to be less expensive or there was higher quality in the decentralized model? How do you plan for that argument?

BD: Yes, that argument frequently presents itself. So, if the primary rationale for moving to an SSO is cost reduction, then the SSO champion should gauge the pre-SSO labor and non-labor cost levels. (And a lot of labor cost is hidden in the business units.) When you unearth and quantify those costs, you'll be ready for the inevitable argument down the road that it used to be cheaper. People in the business units are typically unaware of the enormity of hidden costs they incur as a result of senior staff performing large quantities of administrative work or core workers performing large quantities of back-office work.

Beyond cost reduction, there are always secondary and tertiary objectives that you can promote. If possible, you should also assess where you currently stand with those other dimensions in your research as well. Look at the quality of service, speed, and accuracy. Look at the controls that are in place now, and focus on financial audit points. This way, you can come back a year or two after establishing an SSO and show the significant changes achieved with this model.

APQC: Please give an example of how an SSO can really make life better for the business unit manager.

BD: First of all, it's not just about the business unit head. Consider the CFO and controller. What keeps them up at night? I guarantee that one of their top five concerns involves internal controls. There are personal consequences to the CFO losing control of financial information. And the SSO can dramatically raise their levels of comfort by placing business unit financial control in one place instead of among many business units. By placing financial transactions and reporting in a central environment, you essentially put more eyes on more common transactions and patterns, which allows for better controls.

APQC: People say that there is always more cost to be removed than you originally thought or productivity gains to be captured. How is this possible? Isn't there a point of diminishing returns?

BD: Starting out, many organizations envision and realize a great waterfall of savings shortly after the doors open. Then the natural questions become: "What happens next? What happens in Year 5 or 10? Do I continue to gain these types of cost savings?" Logically, there is some merit to these questions in a static environment; however, we don't live in a static environment. Cost savings would eventually flatten if your organization was not growing or creating new product lines or if new technology was not advancing or if people were not gaining new skill sets. We all know that's not the environment we're operating in. We're operating in an extremely dynamic environment.

Yes, you're going to gain a lot of economic value by pulling decentralized work into a central location. But after that, you're going to find that improvement opportunities in the form of new employee skill sets, increased standardization, new technology, new services and new territories continue to present themselves. I've yet to find the SSO that has maxed out its continuous improvement potential.

APQC: Sum it up for us, please.

BD: It goes back to the core value of building a SSO. It frees the units to focus on their core work, and it lets the corporate staff grow more comfortable through improved controls, all while reducing costs.

It's always astonishing when we find that senior people are spending 60 percent or more of their day doing administrative or transactional work. They don't realize they're doing that much low value-add work until you show it to them. It can be an eye opening experience for the business units and a great savings opportunity.

Next up: Parts 2, 3, and 4 in this conversation series:

- # 2: Shared Services Design and Structure: Gaining Consensus
- # 3: Shared Services—the Crossroads in IT Planning
- #4: Shared Services: Putting the Right People in the Right Jobs

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For more than 30 years, APQC has been on the leading edge of improving performance and fostering innovation around the world. APQC works with organizations across all industries to find practical, cost-effective solutions to drive productivity and quality improvement. We are a member-based nonprofit currently serving more than 500 organizations in all sectors of business, education, and government.

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For nearly 30 years, ScottMadden has been a leading general management consulting firm and has advised corporate services functions on providing efficient, value-added services to the business. As pioneers in the shared services industry since 1993, we have focused on assisting clients with designing and managing effective delivery models for their corporate services. For more information about ScottMadden and our Corporate & Shared Services practice, visit www.scottmadden.com.

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