Shared Services—the Crossroads in IT Planning

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 third 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: Consider the organization that has multiple operating units and wants to consolidate transaction processing for finance and/or procurement in one shared service organization (SSO). This enterprise has not yet implemented a standardized ERP system. What should be its sequence of steps? Should it start by implementing a single instance of ERP across the enterprise before trying to consolidate in an SSO?

BD: This is the classic chicken vs. egg question for a shared services design, and a very important strategic question that should be asked when first considering the SSO model. Ideally, you'd want to have a common ERP across the enterprise when you implement an SSO. But if you don't, it may simply be impractical to tackle that first. A new ERP is typically a much larger investment than a new SSO, often requiring resources in the millions of dollars and involving implementation schedules that extend well beyond one year.

Even if an ERP is in place before the move to an SSO model, it is likely configured for decentralized transactions and processes that will need to change. This will still impact organizational roles and drive new training requirements. So, don't be fooled into believing that having an ERP means you won't require significant help from your IT department when building the SSO.

The key design question is, if you don't have an ERP or SSO, should you build both at once? You'll find that two implementation teams, the ERP team and the SSO team, are remarkably similar in structure and can work very well on a combined synchronized plan. The teams will complement each other when redesigning processes and assigning ERP roles that fit the SSO model. This also allows them to plan training requirements together for new processes and new ERP functionality. If the plan is executed right with two good implementation teams working as one, a company can actually spend a lot less time and money than running these projects in sequence. The key is having an excellent PMO (project management office) and appropriate sponsorship and resources, as there will be far more tasks to coordinate when running these projects in sync.

APQC: And what if an ERP investment is out of the question?

BD: I think it is a common fallacy that you cannot have an SSO without a common system. Now, that statement may surprise many of your readers as we see many companies fervently pursuing an ERP solution so that they can follow with an SSO model. In fact, we believe that the backbone of an SSO lies more in the service culture and establishment of effective communication channels with the business units than in an ERP. We've seen many successful SSOs that are operating with 10 or 12 different legacy systems under one roof, but that are working on highly standardized processes and have world-class customer service ratings with the businesses. Clearly, they try to integrate these systems over time, but a properly designed SSO can standardize most of the business processes with several legacy systems. You can still gain head count efficiencies by centralizing and cross-training employees to work on different systems. Teaching a skilled transaction processing employee the procedures to work on a new system is a matter of hours, not months. Most importantly, when the responsibility of integrating systems is placed on one leader, the integration timeline is typically much shorter than when coordinating the integration with multiple decentralized business leaders.

APQC: Are there other benefits of waiting?

BD: Yes. Let's say you implement the SSO and then wait a few years before putting in an ERP. By then, you'll have most of your business processes standardized giving the SSO centralized knowledge of the business unit operations, and a meaningful role in the implementation. Furthermore, businesses will gain a better understanding of what an SSO is and how it operates. You'll have the service culture, communication channels, and metrics in place. This is where you need the most change management expertise, as businesses actually feel the results of these initiatives on a daily basis. The ERP helps the inner operation of an SSO dramatically, but it can be fairly transparent to business unit clients. In addition, there are risks involved in tying a shared service implementation to an ERP system implementation. ERP schedule delays and budget or scope creep can negatively impact the SSO implementation. If things don't go well with the ERP, you risk losing the momentum and sponsorship you have created for the SSO.

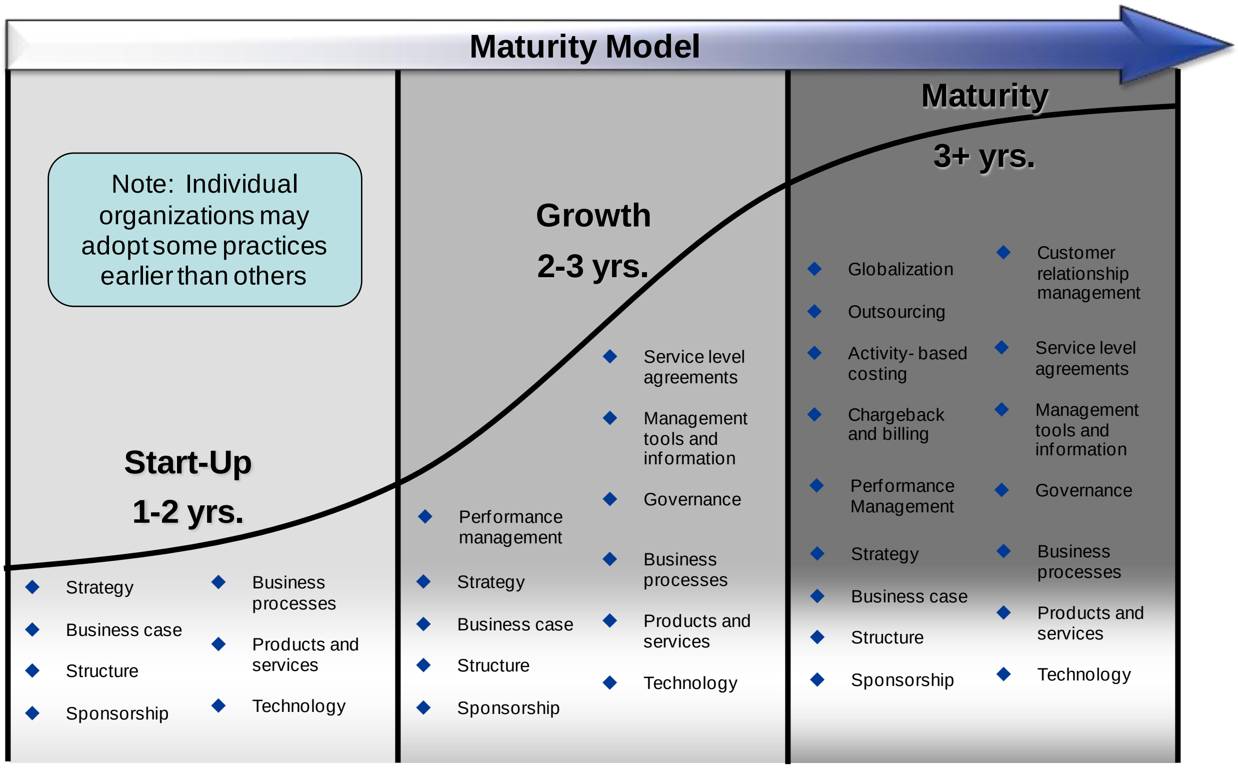
APQC: How about processes? Assume that an organization has multiple units, and it has never adopted one common chart of accounts enterprise-wide and has never standardized billing, for instance. How do you impose a standardized process for the finance or accounting function that will be run out of an SSO?

BD: When it comes to process, the primary goal is to eliminate unneeded hand-offs, duplicate steps, and unnecessary approvals. This can increase compliance without a common system. The key point is that process improvements should be addressed promptly and before the move into an SSO. Running with old, broken processes in a shared services center is toxic, as they become more engrained with every passing day and expand with your growth. The idea is to open the doors of an SSO and operate differently on day one.

APQC: For the organization just starting down this path, is it useful to know what will happen not just in stages one and two, but also stages three, four, etc. I'm referring to a process maturity curve and the enabling technology you'll need in the future.

BD: The risk here is wasting too much time in an esoteric exercise centered on how to become world class on day one. Having said that, we feel strongly that there is value in periodic benchmarking to see how you stack up against leaders in the industry. And you should have a general sense of what most organizations accomplish in stage one, stage two, etc. (For illustration purposes, ScottMadden Inc. has provided its Shared Services Maturity Model, shown on page 4.)

There is a natural timing to a SSO's evolution. It takes time for the model to mature. It also takes time for business units to understand and trust the SSO. You will not open the doors to a world-class SSO on day one, so you should focus on building a solid foundation for the SSO, and on initial business unit relationships. This can be followed by continuous improvement to become world class over the next few years. Trying to buy and implement the latest shared services technology is a bit like the dog chasing his own tail. By the time you select and implement technology, you can bet something will come out with a little more functionality. An SSO should focus more effort on periodic technology surveys and business cases to find the right time to upgrade or rotate technology.



Source: ScottMadden Inc.

APQC: Let's talk brass tacks about the systems investment needed to support a shared services strategy. How much can an organization expect to spend on IT to set up an SSO?

BD: On the one hand, technology can certainly improve your processes and reduce costs. On the other, it's important to think about ways to boost efficiency without tossing a lot of money at IT in early SSO development. A useful exercise is to sketch out a pyramid that will represent your tiered delivery model. The bottom tier, Level 1, is transactional work. Level 2 is problem solving and customer service work, and the top tier, Level 3, is analytical work. By placing the right skills in the right tiers, an organization can defragment the work and gain efficiencies, often at a pace greater than technology will deliver. For example, some people are more suited to transactional work, yet analytical or even management personnel are drawn into this over time. It can be surprising to some when we show how one worker is four times as productive as another on the same task. Imagine the efficiency delivered merely by optimizing the work force and gaining four times the productivity. It could be more than technology has to offer.

APQC: Other advice on avoiding hefty outlays for technology?

BD: It is likely that you already have some technology in-house that can be redeployed in the SSO. Check to see if your IT help desk or sales department uses a case management tool that you can reconfigure for use in the financial SSO. If so, you can modify the tool and begin tracking turnaround times, repetitive questions, and other performance metrics. You can start to identify commonality in calls you get from internal customers and vendors, which will help you to isolate problems and find their root causes.

If your HR department uses a knowledge-base tool to answer policy questions, it can also be configured to help address financial Q&As. Interactive voice response or call routing technology exists in most companies and can be configured to route financial customers to the right representative in the SSO. Check the sales or IT departments for existing call center–related technology. Chances are a lot of self-service applications are already built into your systems. Merely activating these applications can shift an enormous amount of volume off the shared services group and satisfy internal customers at the same time.

APQC: Recent advances in information technology allow finance support processes to be performed in remote locations with little reductions in service levels. We now see extensive use of Web browser and Internet technology, self-service portals, intelligent data recognition, networks for presenting and paying electronic invoices, and other enablers of digital finance. Of course, we're hearing more about the viability of mature cloud services for financial operations. How do these innovations influence planning and implementation of shared services?

BD: Some of the cloud-based solutions are very compelling. Let's assume a familiar scenario where the IT department is overloaded with projects for the foreseeable future and doesn't have the time to configure the ERP to support the SSO implementation schedule. A cloud-based solution will allow you to essentially attach jumper cables (or simple interfaces) to the front and back of a process and bypass the internal technology with a quick and relatively inexpensive state-of-the art solution. It is important to sit down with SSO stakeholders and the IT department to first determine the role of the IT department and the long-term strategy with a SaaS (software as a service) solution. You can discuss perhaps using a cloud solution for two or three years, and then bringing the work back in-house if strategy or capabilities dictate, or IT devises a better or more cost effective solution.

APQC: What are the disadvantages to relying on the SaaS model?

BD: One of the disadvantages is that you are leasing the technology from someone else versus owning it. And that means you don't have full rights to configure it. You'll need to decide if operating with someone else's interpretation of leading practices is something you can live with. Moreover, you'll need to decide whether the ROI is solid with the monthly or annual payments needed to support this investment.

On the bright side, you don't have to decide now whether you're going to live with it forever. Most of these contracts are three years or less. The work can be easily shifted to another provider or pulled in-house or even outsourced at a later date.

APQC: You've observed that some SSOs fail to take full advantage of the organization's ERP system. Please explain.

BD: Yes, ERP systems often provide a lot more functionality than companies realize. Over the past several years ERP vendors have been focusing more heavily on tailored SSO functionality, such as financial reporting capability, self-service capability, and end-to-end process modules. We would simply encourage our clients to take the time to understand basic ERP module capability, and work very closely with their IT departments to determine if needed functionality currently exists or can be purchased as an add-on module. This can save you a great deal of time and money versus purchasing a new add-on system that requires customized interfaces to your ERP and additional maintenance and vendor management.

Next up: The final installment in this conversation series:

#4: Shared Services: Putting the Right People in the Right Jobs

Note: Also available are

#1: Financial Shared Services: Driving Excellence from the Start

2: Shared Services Design and Structure—Gaining Consensus.

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SCOTTMADDEN Management Consultants 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.