Shared Services Design and Structure: Gaining Consensus

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 second 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: Business leaders who are just beginning to think about centralizing transaction-based activity in a shared services organization (SSO) are bound to meet with resistance by managers at the business unit or plant level. What are the more common objections or criticisms they can expect to hear?

BD: We believe the most common objections from the business units stem from a natural feeling of relinquishing control to an unfamiliar entity. After all, a business leader might wonder: "If I'm losing the ability to process my own purchase orders or pay my own invoices or run my own payroll, is my ability to run this plant being undermined?" There are many different ways that an SSO can work through business unit reactions like this. One effective approach is to involve the business units—whether manufacturing plants, sales divisions, or R&D groups—in the initial design phases. By giving them the opportunity to provide input, and a chance to react to design decisions, particularly those involving service delivery, the business leaders will feel they have retained some control.

Another approach is to appoint a liaison, or "account manager," to interact with the businesses on a regular basis. The idea is to find the right person who reports to the SSO but keeps the interests of the business units in mind as well. We've seen cases where this liaison is recruited from the business unit— that person can be quite effective at diluting the initial resistance. Business unit leaders tend to be more willing to release services to a person they know and trust versus a nameless, faceless centralized operation.

APQC: What is more sensible: phasing in the SSO model, one function at a time, or taking the "big bang" approach to implementation?

BD: An SSO implementation provides tremendous opportunities to a company in terms of cost and quality of services, but it is certainly a large undertaking that requires careful planning. The implementation approach really depends on several factors—namely a company's leadership style, systems, geographic dispersion, culture, and other competing initiatives. But, generally speaking, it makes sense to start with a high-volume, transaction-oriented service such as travel and expense reimbursement, or invoice payments, or even payroll. This way, you can test the model on proven SSO services that have high payoffs, get it right, and demonstrate success to business unit clients. Showing the business units a working model builds much stronger trust and willingness to take on higher-value-added or nonconventional functions in future phases.

APQC: What are some best practices regarding SSO governance structures?

BD: There are several dimensions of governance available. The key is to pick the one that offers a balance of low complexity and appropriate oversight. Given that you'll encounter initial resistance, if not heavy resistance, from the internal business units, it's imperative to get their involvement early on in setting the mission and expectations for the SSO. The role of the governance board is to set guidelines that allow the SSO and the Business Units to work together in a partnership without one or the other claiming final decision making authority. Boards often rule on large investment decisions for new services, territory expansion, ERP technology, major service issues that interfere with business operations, etc., but do not become involved in day-to-day SSO decision making.

Typically, the "starter governance boards" include representatives from the corporate level, maybe the chief financial officer; the SSO leadership representation; and most importantly, the business unit(s). So, you may have the head of finance or the lead controller at the business unit or division level, or even a division-level president, weigh in on services that are provided. Balanced governance can help overcome the initial hurdles of starting an SSO. As the SSO matures and more trust is gained from the businesses, these governance structures can often be thinned down, which allows for quicker decision making.

APQC: How do you unearth the existing biases among the people who will become the SSO's internal customers?

BD: Customer satisfaction surveys are great tools. You want to reach out before you start a shared service design and ask the business units questions about their [expected] daily use of SSO services contrasted to the importance of these services. Answers may shed light on tedious non-value added services that can be discontinued or missing services that need to be provided. Responses regarding the reliability and accuracy of existing service levels will provide a baseline to measure future SSO improvement.   It is not only a chance to offer an opinion, but it gives the customers a role in the SSO design at some level. We always learn something from surveys that customizes the final SSO design.

APQC: Can you give us an example?

BD: Yes. They sound like little things at first, but they are very important to your internal clients. Consider a company that has heavy manufacturing divisions. The SSO may plan on promoting a lot of self-service technology—for instance, automated access to payroll information such as time and attendance details, or information on invoice status. But chances are that these manufacturing line workers don't have constant access to computers or phones.

When designing the SSO, it's vital to understand the environment of the customers—in this example, their working hours, the number of shifts, the length of the lunch break, etc. Would they prefer a kiosk out in the break area, calling from home after business hours, or both? You'd also want to know what types of information you should put out on these kiosks. A pre-design customer survey allows you to get a clear picture of their preferences before designing delivery channels.

APQC: When should the service level agreement (SLA) be created? (This is the formal document that sets forth what kinds of business services the SSO will provide and at what levels of detail, quantity, quality, price, and so on.)

BD: A lot of companies wait to craft SLAs until after the SSO has been up and running for two or three years. Then they start building SLAs and [cost] charge-back strategies. We think it is more sensible to do that work up front, before you settle on design. This, again, is a good way to gain business unit input and confidence in the earliest and toughest stages of SSO development.

APQC: That's a bit counterintuitive, isn't it? Shouldn't the SSO take some time to determine its true costs and capabilities?

BD: Actually, the discussion with your clients about the SLA is far more valuable than the SLA document itself. A lot of companies put enormous effort into building very thick and legalistic SLA documents, only to see them filed away and never truly utilized. What is more useful is the frank, face-to-face discussion about customer needs and what the SSO can deliver. Key communication channels and desired

behaviors should be documented in an SLA, but your clients are typically not concerned with detailed procedures.

Even though that discussion can be heated, it's an invaluable opportunity to get the SSO model properly designed and ensure acceptance once you open the doors. It is also one more opportunity to pull in the business unit customers and make them feel like they're part of the design decisions. Business unit managers tend to understand that commitments to cost and capability are untested when an SSO is launching. They understand that adjustments may be required. And, typically, they would prefer an SSO miss a target and explain why versus making no commitment at all.

APQC: What aspects of design must be weighed by a company that is just starting down the road to shared services? How to decide, for example, whether to put just one function—say, finance—in an SSO or whether to build a model that could house multiple functions at some point?

BD: Theoretically, you could set out to create the "Nirvana" of shared service operations—with one global, multifunctional shared service group located in a low-cost area. Technically, there is nothing to keep a company from achieving this vision. But, in practice, there are hundreds of reasons that put that ideal state beyond immediate reach. After all, you really want two things: sound planning and careful thought that together lead to appropriate phasing. It's important to ask a few key questions right up front in the design, such as:

1) What services add value to the organization, and where are the consumers of these services?
2) What locations offer available talent and real estate?
3) What's the longer-term IT road map, and how does this impact your plans for an SSO?
4) Where are the heaviest and lightest pockets of resistance?
5) What options offer the best business case and the best return on investment?
6) For global SSO, are there laws or cultures that inhibit the ability to standardize?

If you can address questions such as these one by one, and back your answers with data, the right path for your particular organization will begin to present itself. The answers will help you to decide whether you're looking at a single-function shared service operation or a multiple-function shared service operation. They will help you decide whether to create regional shared service groups or one global shared service group. They will help you to determine what's on the table for outsourcing and what makes sense to do in-house. You'll begin to see whether it makes sense to embark on a green-field operation or to leverage an existing group that already has good talent to offer.

APQC: Who gets to answer those questions?

BD: The SSO program champions should take the first shot. Once you have developed the first set of answers, then you want to test them on both strategic and tactical thinkers in the corporate offices and business units. As you might expect, inviting too many people to answer broad questions with a blank

slate can actually be counterproductive. It is best for a very small group to formulate theories and test these theories out on the broader group, and then to sharpen the final decisions. This way, you'll ensure that the assumptions driving your answers were right, and if need be, you will have the opportunity to change incorrect assumptions.

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

   # 3: Shared Services—the Crossroads in IT Planning

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

Note: Also available is Part 1: Financial Shared Services: Driving Excellence from the Start.

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