The Shared Services Journey
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The implementation of shared services represents a profound transformation of finance and accounting processes, which can reap significant rewards. Shared Services Centers (SSCs) are a proven means of achieving a step-change in finance function performance while reducing costs.

Organizations that migrate to shared services achieve benefits across the enterprise, including:

- Reducing the cost of finance by, for example, standardizing on best practice processes, flattening organizational structures and moving to low cost locations
- Increasing the consistency of service, quality and information
- Improving organizational performance in areas beyond finance, for instance, by consolidating a group’s buying power
- Embedding a high-quality control framework
- Focusing operating units on managing their core businesses
- Improving business intelligence (e.g., by enabling comprehensive database management or faster closing)
- Providing a readily scaleable support infrastructure to maintain flexibility to volume fluctuations, organizational changes and to support future acquisition integration
- Increasing cash flow and working capital
- Economies of scale
- Improving the utilization of the technology investment
- Shifting resources in other areas of the organization from transaction processing to value added activities

Although setting up an SSC can be a daunting task, once implemented, shared services becomes an on-going improvement initiative that redefines itself several times as it matures.

Shared Services Organizations (SSOs) typically take a hard look at their operating model every 2-3 years both to review efficiency and effectiveness as well as to identify opportunities to reduce costs, improve quality or raise service levels. And, because demand for continuous improvement drives the SSC to redefine itself, often what starts as an improvement project becomes an on-going journey.

The shared services journey consists of three main chapters:

1. Creating a Shared Services Center
2. Optimizing a shared services environment
3. Optimizing the sourcing strategy

By understanding the path that you could take will help you better communicate the journey to your organization and focus on achieving the most optimized shared services model.
Creating a Shared Service Centre

Most finance executives understand the inefficiencies of a decentralized environment – one where transactional finance activities are being performed throughout the business. Local business units enjoy the creativity and control of managing the back office but the basic transactions are often greatly inefficient as a result of local customization. At the same time, processes are typically designed to meet the needs of the local business unit and often reflect business requirements that are inconsistent with corporate standards.

Some organizations recognize the need for more central control and pull the finance activities under the corporate umbrella. Thus, by applying rigorous corporate standards and controls, they allow for more standardized policies and procedures. However, while corporate objectives may be met, this often creates more work for the business units as they are forced to marry their customized processes to inflexible corporate methods and approaches.

An effective shared services model combines the service quality of a decentralized environment with the efficiencies of centralization, while at the same time creating an independent organization that can act as a partner with the business units (Figure 1).

The initial shared services design is determined by a number of variables. Each organization must prioritize their business needs to define which model works best for them. Using this logical framework (Figure 2) helps organizations make rational decisions versus emotional ones.

The implementation of a high-performing SSC requires focused program management that combines holistic processes, technology and people change. To help justify the need for the transition to a shared services model and gain executive alignment, a clear business case should exist. At the same time, active change management is also critical for success.

Successful SSOs must also implement a robust governance process that allows key stakeholders to have influence on the operations and future direction of the SSC. Business units migrating to the SSC typically feel more comfortable if they have the ability to provide input to the performance of the center and a forum where they can raise issues or concerns.

Governance for shared services typically includes a governing council, Service Level Agreements (SLAs) and process performance management. The council is a governing body consisting of key stakeholders within the process that work together to support operations and drive process integration. While SLAs outline the scope of services, expected service levels and dispute resolution processes are key components of governance, which are used to engage internal customers into the SSC.
To operate most effectively, a shared services operation needs to develop a robust IT platform, clearly define the service levels against which to monitor performance, and adopt standardized best practice processes. It should also have a clear organizational structure and a strong focus on process quality and service management. High-performing shared services will run like a business, and look for continuous improvement in their operation.

The Importance of SLAs

Service Level Agreements (SLAs) are a fundamental component of every shared services implementation yet can be very difficult to implement. Ultimately, SLAs become the performance contract between the service center and their customers to ensure consistent, satisfactory levels of service. As such, they receive tremendous scrutiny.

In many situations, defining the shared services model can be a very emotional exercise. As a result, the initial implementation of the SLA often becomes more of a contract negotiation process than the governance tool it was intended to be. During the various stages of negotiation, it is common for local sites to battle to maintain as much of the process locally as they can, to get equivalent levels of service, and to ensure there are adequate metrics to effectively manage the process. Quite often metrics initially focus purely on volume and timing rather than service and quality. Sites often request extra metrics to help them micro-manage the process and allow them to feel comfortable that the SSC is meeting expectations. In addition, joint improvement initiatives (short - medium term) are typically not exhaustive and usually center more on mechanical issues with the process.

As the processes within the SSC stabilize (e.g. error rates drop, metrics become consistent, and disputes decline), much of the emotion from the initial implementation subsides. As a result, customers tend to disengage from the daily activities of the center while becoming more willing to work with the SSC to improve performance.

Unfortunately, during this time customers can also lose focus on the continuous improvement objectives, which prohibits the center from making significant progress. As a result, center performance tends to flatten.

To reengage customers, many companies are utilizing SLAs as a means of improving SSC performance levels. Although most SLAs were initially structured as formal contracts, customers are willing to revamp them if they believe that mutual cost savings can be achieved. SLAs become the mechanism to expand the partnership mindset with customers by refocusing metrics on cost drivers and sharing the benefits when cost savings are achieved.
Positioning the SLA initiative as the “2nd wave” allows the introduction of a revised format and the establishment of new expectations. Characteristics of 2nd wave SLAs include:

- **Concise** – one page only
- **Dynamic** – metrics are revisited for validity 1-2 times per year
- **Focused** – clear measures and targets to drive SSC performance
- **Mutually beneficial** – everyone gains in process savings

Second wave SLAs identify joint improvement projects that allow for measurable benefits for all parties (e.g., service cost reductions, improved service levels, etc.). Using simple metrics to measure the success of the key initiatives, the customer and the SSC can monitor progress and identify savings. With both parties focused on common goals, significant performance improvements can be achieved.

SSC will be in a lower cost location outside of normal commuting distance, so accounting clerks rarely transition to the new organization. Unless they are able to find another position within the company their jobs are likely to be eliminated, so supporting their needs during the transition is extremely important. The manner in which these individuals are treated will establish how the rest of the organization judges senior management’s compassion and how future shared services efforts are supported. Mistakes made during this phase will take the longest to heal and impact the level of support the SSC receives after it goes live.

Communication is part of all components of change management, but it is the style of communication that is most critical. All communications must be timely, meaningful and as direct as possible. Most employees understand the reality of the situation – they simply want to be told the truth. Communication should be centralized and controlled so that messages sent are consistent, concise and complete. Finally, although much of the news is not positive, all successes should be clearly communicated so the organization understands that shared services is real and critical to achieving the desired results.

### The Change Management Challenge

One of the largest hurdles in the transition to shared services is the impact on personnel and organizational structure. In other words, the “people challenges.” The impact of shared services is felt at all levels within an organization, from clerks processing transactions to the executive sponsor who endorses the project. Moving to a shared services model requires buy-in and acceptance at all levels. At the same time, a robust change management program is critical to the success of any shared services implementation. Change management can be broken down into four key components:

- **Executive Commitment**
- **Stakeholder Enrolment**
- **Transition Management**
- **Communication**

**Executive Commitment** is attained by aligning and educating executives so that they visibly support the project. Incorporating project results on the agenda of key meetings, providing timely updates to direct reports and reinforcing the project’s importance in daily conversations sends a clear message to the organization that the project is fully supported by senior leadership.

**Stakeholder Enrolment** is focused on those managers who are most highly regarded within the organization. Including these stakeholders in key project decisions, using them to review project deliverables and having them promote the value of the project ensures that the right subject matter expertise has been included in the development of the shared services model. As a result, the organization as a whole will be more willing to support the initiative if they believe the
most knowledgeable resources have been involved in its design.

**Transition Management** is focused on the employees whose jobs will be terminated as a result of the new Shared Services Center. In most cases the SSC will be in a lower cost location outside of normal commuting distance, so accounting clerks rarely transition to the new organization. Unless they are able to find another position within the company their jobs are likely to be eliminated, so supporting their needs during the transition is extremely important. The manner in which these individuals are treated will establish how the rest of the organization judges senior management’s compassion and how future shared services efforts are supported.

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**Key Success Factors**

- *Active executive support*
- *Strong business case for change*
- *Clear process and geographic scope*
- *Clearly defined SLAs driving performance*
- *Committed change management*
Optimizing a Shared Services Environment

Once the center is operational, the challenge is to find ways to ensure the SSC continues to grow and operate efficiently. While SSOs strive for continuous improvement, defining the direction of the center can be somewhat of a maze. Shared services leaders are faced with several questions that must be answered before any real progress can be made: Does the SSC provide the services that users need? Can error rates be lower? Can the center support the anticipated business growth? Is the SSC fully exploiting the available technology?

As operations reach a steady state, performance levels tend to peak. It is important to leverage continuous improvement initiatives to identify opportunities to further improve processing efficiencies, service levels or costs. Continuous improvement initiatives diagnose performance issues, examine potential root causes and help in developing and implementing action plans (Figure 3).

Typically such initiatives comprise of:

- A current state review or “health check,” which examines performance issues, measures against internal and external best practices, and sizes the opportunity. (Kurt Salmon is able to draw on extensive experience to assess the shared service operations and compare with best practices)
- An identification and examination of the root causes to be addressed
- Development and implementation of an action plan to achieve and sustain performance improvement

With embedded controls in place, the technology is now available to process the majority of transactions without manual intervention. This allows shared service operations to focus on exceptions. Consequentially, SSC operations are able to operate at a much higher level of efficiency, provide more effective enterprise-wide controls, reduce cycle times and improve information access.

Exploiting the full breadth of opportunities available to the SSC requires more than just a technical implementation. It requires major changes to the SSC set-up, its capabilities and working practices. The full benefits of e-enablement cannot be realized without world-class processes. Typically, a comprehensive business case is needed to quantify savings opportunities, secure funding and ensure that benefits are fully realized.

As process optimization is achieved and efficiencies are gained, many SSOs take the opportunity to upgrade their labor pool by transferring the transactional based savings into more analytically focused resources. This talent
injection enables the SSC to provide higher value services like analytical reporting, decision support and performance management. As a result, these services support further cost reduction, improved service levels and higher customer satisfaction.

Unfortunately, with the current demand for strong finance resources, it has become increasingly difficult for SSCs to retain top talent. Centers have been forced to become more creative with compensation incentives to attract and retain key resources.

Operational SSCs focus on continuous improvement and every member of the SSC contributes to that process. Leveraging shared services resources, internal customers or input from external experts, can provide the insight necessary to propose new ways of tackling old problems and ensure the SSC is well prepared for changes in the business model. Similarly, the SSC should be anticipating changes in the organization and looking for ways to make it easier to migrate new acquisitions into the center.

**Key Success Factors**

- Detailed assessment of the efficiency and effectiveness of the SSC’s performance
- A clear road-map to develop shared services supported by a fully loaded business case
- Dedicated team to implement the road-map
- Clearly defined performance indicators and metrics
Redefining the Sourcing Strategy

As SSOs mature, on-going process optimization becomes increasingly difficult. Organizations must look at their overall shared services strategy and define how to blend their existing labor pool with cheaper foreign resources to provide the optimal cost-quality ratio. Redefining the sourcing strategy can range from utilizing internal resources working in foreign offices to full Business Process Outsourcing (BPO).

Cost reduction is often cited as the primary driver for taking such action, but several other factors can drive alternative sourcing models:

- Focus on core business
- Improve service levels
- Improve shareholder value
- Supplement areas where organization lacks skills
- Migrate to new technology
- Avoid unnecessary costs

Organizations typically review their sourcing strategy once their shared services model is well established. Determining a sourcing model depends on a number of factors including: risk orientation, process complexity, current geographic infrastructure and corporate culture.

While sourcing decisions can be extremely difficult, applying a simplified framework (Figure 5) to develop alternatives, organizations can develop their global sourcing strategy.

Sourcing decisions should be based on four key elements:

1. **Labor Arbitrage**: Labor savings directly associated with performing specific process tasks in a low cost labor market (e.g. India or China)
2. **Risk orientation**: Management’s determination of the impacts of the company’s ability to perform and deliver to customers and its willingness to leave these to others to handle
3. **Core competency**: The value associated with tasks that are fundamental for the business and need to be developed internally (e.g. Nike – design)
4. **Need for local control**: Regional conditions that require local input or economic awareness (e.g. Marketing)

As with any transformation initiative, the need for change must be properly articulated and communicated before true change can occur. In the case of shared services, the need for a clearly defined business case, detailed evaluation of the associated risks and input from key stakeholders is essential. In addition, effective program management, a detailed project plan and consistent communications are essential for any transformation.

Once the outsourcing strategy has been committed to, the partner selection process becomes critical. Outsourcing is normally a long-term commitment. It can be extremely costly if the contract is prematurely terminated or if significant unforeseen changes are required. It is essential that due diligence is thorough and that a strong relationship is established with the outsourced provider prior to any transition activities. This includes truly understanding their relationships with other customers, establishing clearly defined roles and responsibilities, and developing an accountable governance process, stringent service level commitments and rigorous performance metrics. The outsourcer and outsourcee must become true partners, and accountability must be shared throughout the process.
BPO offers a number of attractions – it promises to deliver lower cost, high-quality processes readily available without the difficulty and distraction of a time-consuming in-house development. However, while many have benefited from BPO, others have been disappointed. While processing transactions in another city or state is usually feasible, processing transactions in another country, in another culture, multiple time zones away can be much more complex. In addition, organizations that have struggled with their outsource provider often lack clearly defined roles and responsibilities, robust performance metrics and a stringent governance process. In the end, detailed planning, strong program management and effective change leadership is essential for outsourcing to be successful.

**Key Success Factors**

- Objective evaluation of the various outsourcing options including offshoring
- Development of a clear business case with costs, benefits and risks for the chosen option
- Independent evaluation of available providers
- Clearly defined roles and responsibilities
- Detailed transition planning and program management
- Sustainable governance structure and SLAs
Conclusion

The evolution of shared services has truly become a journey with multiple transformations. Large global organizations have been achieving significant benefits from shared services and global sourcing for several years but the evolution is still a work in progress for many companies.

Regardless of where an organization is in its shared services journey, the path taken should include the following guidelines:

- Deliver services that utilize the most cost efficient resources and technology available
- Develop true partnerships with internal customers
- Encourage joint process improvement initiatives
- Measure results and reward good behavior
- Identify key resources and find creative means to retain them
- Continuously strive to strike a balance between cost and quality
- Identify opportunities to provide value added services
- Communicate often and celebrate success!

“The Kurt Salmon consultants understood our original message and our goal very clearly from the beginning. They have been extremely pragmatic, professional and effective.” FINANCE DIRECTOR
An Overview of Kurt Salmon’s CFO Advisory Services Team

- Kurt Salmon is one of the world’s leading strategy and transformation business advisory firms, with over 1,400 experienced professionals worldwide
- We have been recognized as a Leader in Gartner’s “Magic Quadrant for Business Operations Consulting Services, Worldwide”, October 2012
- Our CFO Advisory Services team focuses on the CFO change and improvement agenda through a combination of finance expertise and deep industry knowledge
- We have worked with over 30% of the Fortune 500, 30% of the FTSE 100, and 75% of the CAC 40
- Our consultants are experienced specialists with significant experience in finance line management and consulting
- We know what works, how best to make it work and the pitfalls to avoid, and ensure these lessons are shared throughout each client engagement
- We are recognized for our practical approach – ‘rolling up our sleeves to make change happen’
- We are independent and have no exclusive ties to any systems or software vendor, or outsourcing service providers

Contact

For more information about Kurt Salmon, or to find out how our CFO Advisory Services team can help you, contact:

ANDREW DAVIDSON
Partner
CFO Advisory Services
andrew.davidson@kurtsalmon.com
T. +44 7919 924 490

ANKUSH MATTU
Senior Manager
CFO Advisory Services
ankush.mattu@kurtsalmon.com
T. +44 7919 216 709

Kurt Salmon UK Office:

Kurt Salmon
10 Fleet Place
London
EC4M 7RB
T. +44 (0) 20 7 710 5200

www.kurtsalmon.com

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