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SHARED SERVICES

SHARED SERVICES

Adding Value to the Business Units

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Mr. Schulman has worked across industries including Manufacturing, High Tech, Consumer Products, Chemicals, Media, P&C Insurance, and Telecommunications. Mr. Schulman has frequently been quoted as an expert in Financial Management processes in CFO Magazine, Chemical Weekly, Industry Week, Global Telecoms Review and other trade publications.

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Foreword

As we prepare to enter the new millennium, businesses are moving at a frantic pace to develop and capitalize on the competitive advantage that sets them apart from the rest of the field. Additionally, companies have stepped up their globalization efforts to take advantage of opportunities in emerging markets throughout the world. As a result, we have seen a rush of mergers, acquisitions, and divestitures, as well as downsizing, rightsizing, and restructuring, all in an effort to position businesses to leverage their competitive advantage and build greater shareholder value.

Lucent Technologies was spun off from AT&T for that reason—to increase the shareholder value that had been unrealized as part of AT&T. Bob Allen, then Chairman of AT&T, took a bold and courageous strategic step in unleashing the power of Lucent. The shareholder value that has been created is confirmation of his wisdom. We had to deliver on that promise of growing shareholder value. Achieving this meant growing the business profitably and developing best-in-class systems and processes to support the new company. In addition, we had to create a compelling vision that would drive a major change in our operations, moving us toward a high-performance operating environment.

It was clear that we needed to drive revenue growth by allowing our business units to focus on what they did best, leveraging our competitive advantage. Our benchmarking convinced us that moving to shared services within our finance function was a business imperative required to achieve best-in-class margins, a companion objective to revenue growth. We knew that moving high-volume transaction-processing activities into a shared service environment would create the core competency of a dedicated transaction processing organization.

Engaging in shared services is a complicated process, from developing an understanding of shared service concepts, through the decision-making process, and to successful implementation. The transition must be managed without losing focus on either external customers or internal business unit partners.

Jack Dunleavy, Martin Harmer, Jim Lusk, and Don Schulman have given us a framework for understanding the process. They have provided a broad overview and detailed discussion of the design and implementation of a shared service organization, including program and project management, the creation of appropriate service-level agreements, and development of metrics to measure success after implementation.

One of the key drivers to the successful implementation of shared services at Lucent was the contextual change driven by Jim Lusk, Vice President and Controller. I worked closely with Jim and his consulting team during the implementation. Jim created a compelling vision of why the Lucent finance organization needed to utilize shared services and to change the way we thought about our finance function. This was a critical factor in our successful implementation as the shared vision was essential to overcome organizational resistance.

This book provides invaluable guidance on the wide array of issues that develop before and after the decision is made to implement shared services. Reading it can help you capitalize on your company's competitive advantage and unleash shareholder value from within your business.

Henry Schacht
Former Chairman & CEO
Lucent Technologies

Preface

As our shared service practice at PricewaterhouseCoopers has come together over the last months and years, two things have become apparent to us. First, this is an incredibly powerful tool, especially for the world's largest companies. Second, we assist companies to get the most leverage possible out of shared services through some innovative and cutting-edge techniques and practices.

It became clear over time that we could provide serious thought leadership in this area, especially if we worked together closely with a client such as Lucent Technologies.

This book is the result of articulating on paper what we had previously only done in presentations and client field work. It is also a chance for a participant in a large and dynamic shared service implementation to stake his and his company's claim to leadership in this area.

While there are only four names attached to this book, three from PricewaterhouseCoopers and one from Lucent, the book was truly a team effort by many players. We are grateful to them all and wish to acknowledge them.

Acknowledgments

Firstly, to the PricewaterhouseCoopers global shared services leaders: Clive Johnson, Karen Nold, Yvonne Welch and Richard Sandwell, who worked with us to develop the framework for this book and who provided, with the help of their teams, valuable insights and views on the implementation of shared services.

Secondly, to the many subject matter experts; James Bramante (performance management), John Lerch (call centers), Marc Holloway (business process outsourcing), Judy Reach (human resources) and many more, who provided the indepth knowledge that make this book so powerful.

Thirdly, to the many people who have supported us in bringing this book to life: Judy Spartling, Bonnie Platt and Martin Wong for keeping us organized, the creative services team for helping us communicate complex ideas through simple images, and Sheck Cho and team at John Wiley & Sons for keeping us focused on the end goal.

Special thanks must also go to Alan Kilyk (Lucent) and Mila Schulkleper (PricewaterhouseCoopers) who worked side-by-side with us to push forward many of our ideas. They demonstrated immense creativity and their help was invaluable.

Much gratitude also goes to Cedric Read, Bob Leach and Doug Simpson, the global leadership team of PricewaterhouseCoopers Financial and Cost Management consulting practice, for their guidance and support in writing this book.

Finally, to Jon Zonderman. His professionalism and patience have been critical to this book. As we would say, at the end of a long hard day discussing one of the chapters in this book, “he brought clarity to our ramblings.” Thank you.

Introduction

As businesses enter the new millenium, there is an increasing clash of competitive forces. Telecommunications and information technology are clearly making the world "one market" and allowing customers to obtain goods and services from providers located anywhere. Companies are feeling compelled to grow horizontally in order to provide customers around the world with goods or services.

At the same time, individuals are encouraged to be more entrepreneurial in the way they chart their careers and their lives. Those with the right mix of expertise, combined with the willingness and ability to continually learn new tasks, are thriving in businesses that are allowing for more employee decision making at all levels.

One of the ways companies are looking for competitive advantage in this frenetic environment is through the reenginnering or redesign of their core business processes, the end-to-end processes that touch customers and through which a company can make strategic changes. Another way is through the use of a tactical technique called shared services. In a shared service environment, a company pulls activities that support core business processes out of each business unit and consolidates them into a separate operating unit that runs these supporting processes as its core business process.

Shared services is not for the faint of heart. Moving to a shared service method of operation entails a huge culture change for an organization. The entire business context must be changed. It takes time, effort and vast amounts of management energy to move from a mindset of purely decentralized management of support activites within each business unit or centralized management of support activities at the corporate level to a mindset of partnership between business units and the consolidated, shared service organization.

There are a number of reasons companies are turning to the shared service model. These reasons are described in detail in the early chapters. One underlying reason all companies embark on shared services is to create more of a "one company" mindset among often disparate business units. In today's truly "small world," this desire to show a consistent face to clients and customers, vendors and suppliers, shareholders and potential shareholders is becoming of paramount importance.

Acting as one company provides increased flexibility to all of the business's operations. It allows corporate leaders to maintain a global perspective while at the same time allowing regional and country-specific business unit leaders to take strong, local customer-focused actions.

In this book, we bridge that chasm between the theory of how a shared service operation "ought to" work and the practical issues involved in how to make it work—how to carry out a successful implementation of a shared service operation in your business.

This book is meant to be read by a number of different constituencies within a company: the corporate leaders who will make the decision to move to a shared service model; the business unit executives; and those who currently hold "corporate" jobs in areas such as human resources, finance, information technology, and legal services who will become the shared service operation executives—those who will have to make the arrangement work; and those in the ranks of support process management who will become the program managers and project managers of the implementation effort itself.

The book is divided into four parts. The first two parts are a theoretical examination of the macro issues facing executive decision makers who are having their company embark on a "shared services journey." Parts Three and Four get into the details of implementation and lend themselves to a wider readership.

Throughout these last two parts, one of the co-authors, Jim Lusk, Vice President Controller of Lucent Technologies, narrates the story of how his company dealt with all of these implementation details.

At the end of the book are a number of appendixes we hope you will find useful, including service-level agreements between shared service operations and their business unit partners, and templates for baselining and benchmarking.

We often refer to a company as “embarking on a shared service journey.” To emphasize this metaphor, we have created a pathway to shared services, which is seen in Figure I.

Along this pathway, each of our chapters is a paving stone. At the top of each chapter, that chapter’s paving stone is “exploded” graphically to show the topics that will be covered in that chapter. At the end of each chapter is a checklist of items for review and to be used as a “cheat sheet.”

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What Is Shared Services All About?

- **Enhancing corporate value**
- **Searching for strategic growth**
- **Creating new management responsibility**
- **Focusing on partner service and support**
- **Allowing business units to focus on strategic aspects of operations**
- **Transferring secondary activities of SBU into care processes of shared services**
- **Providing concentration of resources that perform the same support activities**
- **Providing supporting activities at lower cost with higher service levels**
- **Leveraging technological investments**
- **Focusing on continuous improvement**

In today's increasingly competitive environment, there is constant pressure for corporate leaders to add value to their companies by streamlining processes that are not central to the company's operations and concentrating on strategic, or core, processes. Chief executive officers (CEOs) are confronted with multiple business units that have duplicative supporting processes and staffs. They are faced with a need to modernize computer systems and telecommunications. They are also faced with increasing global pressures.

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They have a mandate to reduce sales, general and administrative (SG&A) expenses as a percentage of revenue. They are searching for a way to allow strategic operations to grow more rapidly without being burdened by distractions and extra support loads. The question is how to accomplish this.

One way companies are increasingly looking to solve this dilemma is through bundling some of those supporting processes and nonstrategic activities into a separate organization, which in turn treats those processes and activities as the core of its own business. This concept is known as *shared services.*

Shared services. What could be more natural?

The idea behind shared services is that to get more bang for the buck, you share some common elements of every business unit. And what could be better to share than support services—processes and activities that are, by definition, not core to the business unit's strategy.

Consider Figure 1-1. The goal of the company is growth, and the way the company focuses on meeting its goal is through the value chain. In order to do this, executives and management must solve business problems. In order to solve business problems, they need to look at enhancing business processes and making them more effective. They cannot just consider process efficiency; neither can they consider functional enhancement.

Corporate support services are tactical in nature. They are necessary, and doing them well helps support the corporate strategy. However, in and of themselves they are not strategic. By collecting these nonstrategic processes and activities into a common organization, under its own management, the management of all the individual business units can be freed up to manage their goals. This, in turn, allows business unit management to focus on solving business problems by enhancing the business unit's core processes, thus enhancing the value chain and in turn leading to growth.

Clearly, though they are tactical, supporting activities need to be done well in order to increase the company's ability to meet its strategic goals, increase corporate value, and in turn increase shareholder value.

Putting services together into an independent organization also allows employees and managers who work in the service unit to see directly how they drive the top line of revenues. This, in turn, allows them to shake the feeling that they are “low-value-added” employees performing “cost center” functions.

Sales may seem more important than paying a vendor, or making sure an employee’s expense reimbursements are done properly, or that an employee’s benefits are calculated correctly, or that a computer workstation is functioning correctly. But if you don’t pay the vendor, reimburse the employee appropriately, calculate the benefits correctly, or fix the workstation, management time, effort, and energy is expended solving a problem and taking away from the ability to sell product or perform work. (It is interesting to note that in some consumer products companies, where sales is seen as tactical and brand management is the strategic process, companies are looking to create a shared services operation out of disparate salesforces.)

The job of shared service management—and by extension, the job of each individual who works in the shared service organization—is to free up salespeople to spend as much time with their customers as possible, and to free up those salespeople’s managers to help them make those sales.

Business really is a team sport rather than a series of individual efforts. Like any other team sport there are visible stars and there are those who make it possible for the visible stars to perform up to their potential. In soccer, the strikers score, but somebody has to get them the ball. A shared service organization is made up of the midfielders and defenders, who work hard to position the team so that the scorers—the sales and marketing force—can be most effective.

Yet there is, in every company that moves to a shared service mode, opposition. The opposition comes about because to many, especially to business unit management, shared services smacks of centralization and corporate control. However, when created for the proper reason, implemented appropriately, and run *as if it were a business unit, and for the benefit of business-unit partners*, shared services is actually a key to successful decentralization.

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PARTNERS, NOT CUSTOMERS

Throughout this book, the focus is on business units as "partners" with shared services, not customers of shared services. This is done for two reasons.

First is the concept of "internal customers" that became popular in the late 1980s during the last great wave of total quality management (TQM) implementations in the United States and Europe. It creates more confusion than it solves in discussions, trying to distinguish between internal customers, external customers, and end users.

Second, and more important, the relationship within a company between those who perform a task and those for whom the task is performed is not a simple transactional relationship. It is a relationship of members of a team, who know or should know that the company's value chain is only as strong as each individual link. It is a partnership relationship.

CHARACTERISTICS OF COMPANIES THAT GET INTO SHARED SERVICES

Shared services are most often seen in larger and more complex organizations—those with over $2 billion in revenue and with multiple business units. The services that are most often carved out of individual business units and put into the shared service organization are elements of finance, information system management, and human resources. Some others have added such staff functions as legal and communications. A few companies at the cutting edge are moving into shared services for supply-chain management.

In some companies, all of the services that are to be shared are collected into one organization. For instance, Monsanto moved most professional staff positions into its Monsanto Business Services shared service organization. The "group" layer of management was eliminated; staff who serve the CEO and board directly were retained; and support staffs within the 15 business units were transferred to Monsanto Business Services, except those who directly support manufacturing. The company believes it saved $80 million in its first year, after start-up costs.

AlliedSignal Business Services, started in 1994, has taken 75 separate business functions and consolidated them into one support business unit. The company says it saves $70 million annually, not least of all because the work is done with 60 percent of the former workforce when the effort was spread out (productivity increase), but also because of the increased span of control that service unit management has to solve problems.

Tenneco put its finance, human resources, information technology (IT), and some other common functions together for its North American operations into Tenneco Business Services in 1995. The company estimates three-year savings at $120 million.

One of the world's largest pharmaceutical companies created a European shared service organization.

The company has global revenues of more than $15 billion. R&D, manufacturing, distribution and marketing are all carried out on a worldwide basis. The corporate culture is derived from the U.S., although throughout Europe there is a strong country focus with equally strong local management structures.

Creation of shared service operations worldwide were one of more than 10 major initiatives the company undertook simultaneously. Others included business process reengineering and implementation of enterprise resource planning (ERP) software, in this case SAP R/3 software.

Throughout the 13 European countries in which the company had operations, there were many disparate finance functions, systems and processes.

Goals of the effort were to create a "working across Europe" face, both inside the company and to customers. This would be done by standardizing processes and integrating the SAP approach, which until then had been implemented on a rather ad hoc basis. It was hoped that establishment of a European Financial Shared Service Center that took repetitive transaction processing and reporting out of all business units would have the effect of:

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- Reducing finance and related costs in information technology (IT) and administration by a cumulative 30-40 percent;
- Improving reporting and processing to ensure quality and consistency of information; and
- Refocusing management attention onto the business and reemphasizing the role of local finance to decision support and analysis.

The scope of what would be in the shared service organization included the discreet activities of accounts payable, accounts receivable, general accounting, travel and entertainment, fixed-asset accounting, and bank and cash management. It was hoped that over time the operations could mature to encompass the entire order-to-cash process, the strategic purchasing and procurement process, and demand management for manufacturing.

Tax, legal, treasury and audit issues were addressed locally, and some services were outsourced. Because of heavy organizational resistance to the shared service concept, it was decided to move the shared services center to a green field location in Chester, England and a major locating exercise was undertaken.

We have seen examples where each individual type of service becomes its own shared service organization; a financial services business unit, an IT services business unit. AMOCO tried this approach, but it did not work as well. First, it overlays many managements where only one is necessary. Second, companies find that support processes are tightly interlinked; there really are synergies in managing them all under one umbrella organization.

Even companies that start out with piecemeal service operations—for philosophical or internal political reasons—find over time that the natural evolution of a shared served operation is to go to one unified shared service organization. The question then becomes: Do we do it all at once as a "big bang" or over time, adding new services into the organization? This will be discussed in detail later.

Some companies are finding that as they bring service processes and activities together, traditional definitions no longer work. At Lucent, whose story is followed throughout this book, the company is working to create nomenclature for these new groupings of service activities, testing such terminology as *knowledge partner* activities and *employee care* activities.

A WORKING DEFINITION OF SHARED SERVICES

Shared services can be defined broadly but needs to be tailored to each organization. However, before looking at the way shared services can be tailored, it is important to have a common working definition. We define shared services as:

> The concentration of company resources performing like activities, typically spread across the organization, in order to service multiple internal partners at lower cost and with higher service levels, with the common goal of delighting external customers and enhancing corporate value.

From this concentration of resources comes a concentration in focus and an ability to keep all of the organization's goals in management's line of sight. Finally, all of those disparate activities and operations that have been seen by business unit executives as "back office" and secondary to the core business processes are being treated as if they themselves were the core processes. In a shared service organization, they are the core processes.

Some of the attributes of a shared service operation are:

- It operates as a stand-alone organization.
- It is process oriented and focuses on specific activities within processes.
- It is driven by market competitiveness. The services are the organization's "product." No one has ever thought of accounts payable, or benefits management, or IT data warehousing as a product before, or as a real priority. If it sits within each strategic business unit (SBU), finance or human resources or even

IT is often an "also ran" in the competition for management attention. But in the shared services organization, it's the primary focus.

- It leverages technological investments.
- It focuses on service and support to "business partners," which goes beyond even the traditional notion of "customer service" or "client support."
- It focuses on continuous improvement.

Does Stand-Alone Mean Self-Governed?

In a word: yes. The ultimate goal of shared services is for the organization to be self-governed. This may not be the case initially; the shared service operation might report to the controller, or to another senior corporate official—there have been cases in which shared services reported to materials management. But the best case is for the shared service organization to be truly self-governing.

What Shared Services Is Not

Notice that in our definition the words *concentration of company resources* were used rather than centralization of company resources. That is deliberate. Shared services is by no means centralization, although when it is described, many people mistake it for centralization.

Centralized processing brings with it a "corporate" mentality. The focus is oriented upward to corporate headquarters. Service providers are located at corporate headquarters. They bundle services and standardize them. The business unit takes what it gets, lives with it, and has no recourse. There is little accountability by corporate staff for costs or service levels.

In a shared service environment, the service providers are oriented outward toward the business units to whom they provide services. The individual business units are the shared service organization's partners, and they have the right to demand the appropriate service level. Services are separated by customer set; not all business units need all of the same services, so they get more customized products and pay more appropriate prices.

Figure 1-2 shows how shared services captures the best elements of both centralization and decentralization, while leaving behind the problems. Connecting these "best of" elements with the attributes discussed earlier makes shared services all the more powerful.

In a shared service environment, service providers can be centrally located, located in centers of excellence, or embedded into each business unit in a physical sense, although they all report to the shared service organization's management, rather than to the individual business unit management or to corporate management. Finally, there is joint accountability for costs and quality through agreements that stipulate service level and pricing.

In some corporations, business units are allowed to opt out of shared service arrangements, performing the services themselves or contracting with an outside provider (outsourcing.) See Chapter 7 for a discussion on outsourcing.

It is increasingly common practice for corporate executives to say to business unit executives that they must use the shared service business unit for two to three years, then evaluate the service level. Then they are allowed to make a decision about whether they want to bring the activities within the shared service organization back in house, maintain the relationship with the shared service organization, or go to an outsourcing provider.

Corporate leadership needs to be careful about how it urges or even mandates shared services. At one U.S.-based global manufacturing company, a new CEO mandated shared services in the early 1990s. Two years later, he found that the operation was not bringing in nearly the benefit he had thought it would.

When he explored why this was, he found from the leaders of operating business units that the shared service organization was not truly partnering with the business units and that service levels were subpar. More important, there was no mechanism for business-unit partners to air grievances. The shared service organization still had a "corporate" take-it-or-leave-it mentality toward the business unit partners since they were compelled to use the shared services operation.

Business unit executives believed there was no point in pushing the shared services management to improve. As "captive customers" rather than true partners, they felt, they had no leverage.

The CEO acted on these findings. Over the next few months he determined that operating business unit executives and shared service executives had to work together and in partnership agree to service-level agreements that clearly define what the shared service business unit had to do to meet its partners' requirements. Satisfaction of the business unit partners became the mantra for the shared service organization and became the leadership's objective. What the CEO effectively did was continue to support the shared services philosophy, while putting the onus of quality and competitiveness squarely on the shared service organization by making it "sell" its services to business unit partners.

Service levels did improve over time, and the shared service approach is now accruing benefits that are increasing all the time.

SHARED SERVICES GOES HAND-IN-HAND WITH DECENTRALIZATION

Shared services, when performed correctly, actually enhances a decentralized corporate operation. It allows each business unit to focus on the strategic parts of its operation, putting more of its energy into performing strategic tasks, while carving out necessary but nonstrategic and noncore processes to the shared service unit. In effect, each SBU "outsources" these services, not to a third-party provider but to another organization under the same corporate umbrella. Some call the concept *insourcing*.

Figure 1-3 shows both the tangible and the intangible benefits of a shared service approach.

Looking at all of the attributes, benefits, and elements of centralization and decentralization discussed so far, one can see that some are related to efficiency—pooling resources, leveraging technology, and creating economies of scale—while others are related to effectiveness—creating standard processes, sharing expertise, and enhancing service. In fact, a shared service environment moves beyond the notion of efficiency and effectiveness to one of value.

Efficiency is a step function; only so many costs can be eliminated at any one time. Gains in efficiency occur in blocks: reducing staff headcount, reducing supervision headcount through increased span of control, improving systems, and so forth. However, effectiveness can be improved in a linear way by working with partners to define standard processes and to correct information transfer problems at the source. Constantly sharing expertise among centers within the shared service organization and between the shared service organization and its partners also improves effectiveness over time. Together, step-function efficiency gains combined with continuous increases in effectiveness over time leads to increased value to the company's customers and ultimately to shareholders.

A concentration of company resources does not have to mean one location. There is nothing in the definition of shared services that mentions physical location. Processing centers can be anywhere in the world, and there can be any number of centers. Management of the shared service operation does not even have to be physically located at one of the processing centers, although as with any other "multinational," the management of a multicenter shared service operation by off-site leadership is more challenging than being onsite and managing a single processing center. There are any number of reasons for locating a processing center in any particular location, including workforce education levels, pay rates, and tax considerations. Location decisions are discussed in detail in Chapter 10.

RATIONALE FOR SHARED SERVICES: FINANCE EXAMPLE

Research has shown that 80 percent of traditional finance organization activities do not add value to the business. Flipping this equation on its head—creating a finance organization in which 80 percent of activities *do add value*—is one of two key tasks being given to CFOs and their finance organizations as we enter the 21st century. The other key task is to reduce the cost of the finance organization as a percentage of corporate revenues.

In order to do this, the Office of the Chief Financial Officer (OCFO) is being asked to shift resources away from simple transaction processing and controls, and to put those resources into becoming a partner with business unit and corporate leadership by providing business case analysis and decision support synthesis. They are being asked to do this while simultaneously reducing cost, with the goal being a finance organization that costs 1 percent of revenue or less, as opposed to the more than 2 percent of revenue that many finance organizations now cost to operate. Cutting-edge CFOs have looked to many tactical tools to do this, as discussed by PricewaterhouseCoopers colleagues in two books, *Reinventing the CFO: Moving From Financial Management to Strategic Management* and *CFO: Architect of the Corporation's Future*.

The shared services concept allows the OCFO to become a better strategic player for the benefit of the CEO and business unit leadership by moving transaction processing into a separate shared services organization and managing that organization as a business with a need to maintain low-cost, high-quality products and services. Although the financial shared service operation is not truly a "profit center," the goal is to create appropriate pricing to meet actual costs.

In fact, the shared service organization can, itself, become more of a strategic player. This will be discussed in detail later, but it is possible for the shared service operation to move further up the value chain than simple transaction processing. For instance, rather than just handling accounts payable and collections, a financial shared service organization might pick up the customer billing activity. However, this is an activity very close to the external customer, and as such is quite sensitive. Depending on the corporate culture, a shared service organization might or might not take on the customer billing activity as part of its original brief; in other businesses it would evolve to pick up this sensitive activity over time in discussion with and agreement with its business unit partners. Increasingly, especially in commodity businesses, shared service operating units are picking up the billing process immediately.

OTHER BENEFITS OF A SHARED SERVICE APPROACH

Companies that are currently undertaking shared services are constantly accruing benefits, many tangible but others intangible. These benefits go far beyond headcount reduction. It is important that we talk about companies that are undertaking shared services because, as of 1999, there are no companies who believe they have garnered everything possible from a shared service approach—even those companies that have been doing it for a decade or more.

Some of the more tangible benefits are:

- Leveraging purchasing by consolidating vendors in order to negotiate better terms and prices.
- Creating working-capital improvements from standardizing, concentrating, and netting treasury activities, as well as from operating receivables, payables, and inventory management in a center of expertise. This creates economies of scale and improves span of control, and thus decreases expenses.
- Increasing productivity; doing more with less.
- Consolidating transactions of common customers and vendors who deal with more than one SBU. This provides for economies of scale and standardization of process and experiences as they pertain to these customers/vendors.

Many of these benefits are accrued through leveraging technology.

Among the intangible benefits are:

- Promoting the "one company" approach. This can be seen internally, where employees all feel as if they are members of one company, as well as in the way outsiders see the company as a single entity.
- Driving the effort to more rapidly transform the business, focusing on adding value.
- Enabling the effective maintenance of standard transaction processes throughout the organization.
- Leveraging and speeding the adoption of best practices and thus the learning curve.
- Improving accuracy and consistency of information.

- Allowing SBUs to do more of what they do to earn money and to service their customers better.
- More effective maintenance of standard "code block" throughout the company.

Companies that create a shared service organization as part of an overall business strategy achieve a higher level of tangible results to intangible results. Those that "hop on the bandwagon" and hope for the best often see the intangible results, but do not really achieve many of the tangible benefits.

The following short case study is of a clearly tangible result from good positioning of shared services into an overall strategy. It pertains to the issue of working capital.

When a new CEO came into a well-known larger corporation, the company set about to do some process rationalization and redesign. As a natural outgrowth, a shared service center was set up for working capital management. Accounts receivable had previously been handled in each sales office.

Today, there are 10 centers in the United States; one center in each European country; and a regional center for Asia. The activities and processes associated with working capital management were cleaned up in their sites, then transferred to the shared service operation, then further refined. The company plans to consolidate further, to three centers in the United States and a pan-European center. In the first two years of operation, the shared service organization saved $3 billion.

The efforts of this and other companies to create "pan-European" shared service centers should be enhanced with the advent of the Euro in 1999. While there will not be a physical Euro currency until 2002, beginning in 1999 the first 11 European countries to join the common currency—the European Monetary Union (EMU)—will perform their business transactions in the new monetary unit, which eventually will reduce the difficulties and expense of working in multiple currencies. The implications of the Euro will be discussed in more detail later.

INTANGIBLE BENEFITS DEMAND CHANGE MANAGEMENT

Change management is discussed in detail in Chapter 17; however, it is important to note here that in order to achieve the full intangible benefits, companies must actively manage the expectations of individuals as their roles within the business change.

When the transactional aspects of human resources or finance are removed from a business unit, that does not mean that there is no need for a head of business unit human resources or finance. Rather, it means that these people will be able to take new and different roles in the business unit, roles in which they act more as strategic business advisors with the business unit head. But many of these senior functional managers are more comfortable managing the transactional aspects of their jobs than they are in being business analysts and business advisors.

Managing the change in the roles of these senior functional managers whose transactional activities are moved to a shared service organization is as important as managing the change encountered by those who go to the shared service organization.

QUANTIFYING BENEFITS DEMANDS METRICS

In order to know the benefits that are accruing through a shared services effort, it is necessary to create a set of metrics. People manage to what they can measure, and to what they are measured by. A company cannot truly get into shared services until it figures out what it wants to improve and how to measure whether that improvement is indeed taking place.

Appropriate metrics are an essential ingredient to an efficient and effective shared service organization that focuses on continuous improvement. They establish the "baseline" performance levels from which to improve, and provide fact-based support in discussions with both business unit partners and end-user customers of the business units.

These metrics must be visible and transparent to all. They will change over time, but all those who are measured by them need to understand what they are, when they will change, what they will become, and why they are changing.

Metrics include the qualitative performance of shared services as well as some hard, quantifiable numbers. These include cost, cycle time, productivity, and quality.

Figure 1-4 lays out how typical metrics need to evolve for successful operation and enhancement of shared services.

At the bottom tier of the first pyramid, a company needs fundamentally good performance in place at the grass roots level before it can try to measure at a higher level. The ability to adopt best practices is, to some degree, dependent on good operating levels at this tier. For example, payment on receipt is highly dependent on good purchasing and receiving discipline.

Certain metrics are of interest to business units, while others are more important to the shared service organization itself. In the second pyramid are the "best practices" metrics that the shared service management (at each processing center) will look at. Meeting goals and targets for these measures is how they will be judged.

Moving to the top of the second pyramid are metrics that business management are interested in. These are appropriate to shared service organizations that are "post-reengineering," and that therefore can be focused on high-level metrics.

The top level is the aspiration that many organizations seek to attain. These metrics, once in place, will show at a glance how a shared service organization is performing?

Maintaining Accountability in Business Units

Just because business units are turning over the operations of activities within supporting processes to a shared service organization does not mean that business unit management abdicates ultimate responsibility and accountability for the performance of those activities.

However, the management responsibility becomes different. Rather than managing the actual activities and the individuals who perform those activities, business unit managers now manage a relationship with a business service partner, in much the same way they would manage the relationship between any other service-providing vendor such as a consultant, auditor, or outside legal counsel.

SHARED SERVICE GEOGRAPHIC MODEL: A KEY CHOICE

There are five possible geographic models for a shared service operation, for a global organization, as shown in Figure 1-5. These options are all equally valid, and all are used by some companies who are today engaged in their shared service journey. However, as companies move their processing centers to locations chosen for reasons of personnel cost, workforce education, and taxes, the regional or even global options are increasingly becoming the options that are aspired to, if not already in place, even if the company has no operating unit in the country where the transaction processing center is located.

Choosing which of these geographic models to pursue is a key first step in implementing a shared service organization. The choice of geographic model drives many other choices one will make. The steps and thinking involved in making this choice are detailed in Chapter 10.

DO NOT ALWAYS START WITH FINANCE

The concept of shared services can be applied to areas other than finance, although many companies use finance processes as the starting point of their shared service effort. Figure 1-6 shows the major areas of corporate support that are most appropriate for setting up shared services or incorporation in a business services unit, as well as the processes within those areas that are ripe for sharing services.

In addition to finance, areas companies look toward to incorporate in shared services are information technology, human resources, legal, and communications.

When thinking of shared services in an IT context, it is important to push the organization to create a truly partner-focused, service-oriented view. If an IT shared service organization is allowed to exist without strict partner-service requirements, it will end up looking like the

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old data processing departments that did not provide service effectively.

Some argue that IT is the natural place to implement shared services first, but many companies have had to break apart entrenched, centralized IT organizations in the past. The move to decentralize IT to the business units was often a long, hard battle. Because of this, many business unit executives are loath to give up control of IT. Some, however, have been very successful in doing so and moving to a shared-service IT model.

Creating IT shared services is made easier in an atmosphere in which a company has successfully installed an enterprise resource planning (ERP) software package, such as SAP, Baan, PeopleSoft, or Oracle, as discussed in detail in Chapter 6.

10 KEY QUESTIONS

Figure 1-7 shows the 10 questions most commonly asked about shared services, its potential, and how to go about undertaking the effort to develop a shared service business unit. By the time this book is completed, answers to all of these questions will have been provided, or at least the tools with which to answer them will have been discussed.

Think of the effort to create a shared service organization in your company as a “journey,” rather than a project. Journey implies travel over time, adventure, and, to some degree, the necessity of flexibility in your schedule.

The larger your company, the greater the potential for significant savings and streamlining from shared services. However, the larger your company, and the more complex your company in terms of operating units, product lines, and global reach, the more challenging the journey to shared services will be.