VOLUME 22
ISSUE 2
SUMMER 2015

COMPETITIVE ADVANTAGE

A **SERVICE QUALITY** DIVISION PUBLICATION

ASQ Service Quality Division
The Global Voice of Quality™

Almost all large companies have tried to leverage economies of scale for support functions (finance, HR, IT, etc.) by consolidating these functions from individual business units into a shared services organization. While most of them deliver the expected cost savings, many experience a rocky start. This article highlights some of the typical challenges and provides a set of recommendations for executives charged with setting up a successful, professionally managed shared services organization and for managers responsible for individual departments within shared services.

Right From the Start: Setting up Shared Services

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by Thomas Bertels

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The Case for Shared Services

For a large organization with several business units that each have their own support functions, the case for creating a shared services organization seems very compelling: economies of scale should result in both lower cost and better service levels. Clearly, an HR organization with 60 professionals serving 6,000 employees of the same parent company should be more capable than four separate groups of 15 employees catering to the needs of 1,500 employees each. But most companies encounter substantial setbacks when implementing a shared services function and many fail to realize the expected gains both in the short and long run.

Common Pitfalls

Three common pitfalls threaten the successful launch of shared services organizations:

- **Internal focus:** The natural tendency of the new leadership team to focus their attention on how to best organize themselves often results in losing sight of their internal customers, rapidly depleting trust accounts.

- **One size fits all:** By treating all internal customers the same, the organization fails to meet the needs of its diverse customer base (e.g., small and large country organizations or business units of different sizes) and often misses a key opportunity to differentiate, which can result in customer frustration (e.g., by overburdening a small country organization with excessive bureaucracy).

- **Wait too long:** Once the new organization has been announced, employees start to wonder whether they will still have a job and how the change will impact their career. In the absence of knowing what this will mean for them, those with marketable skills will explore options both inside and outside the organization.

Recommendations for a Better Start

1. **Engage internal and external stakeholders early and continuously**

Even if the business case for creating a shared services organization is compelling, delivering on it requires a high level of support both from the members of the new organization and its customers. Selling the idea is critical and requires proactive communications and active stakeholder engagement. Communicating as much as possible to internal and external customers as early as possible to develop and maintain good relationships goes a long way when not everything goes as planned (which it never does).

2. **Design the playbook four steps deep**

The moment the decision has been made to create the shared services function, the questions that need to be answered next become obvious (see Key Questions).

While answering some of them takes time (e.g., deciding who will be responsible for what), spelling out the key decisions that need to be made (e.g., organizational structure, locations, metrics, systems) right away clarifies the path forward (and also puts pressure on the most senior leaders to move quickly). Defining the level of detail that is required to make a decision can help tremendously. Do we need to know exactly how many users are working with a specific system, or is a rough estimate good enough? Transformation requires being comfortable with a different level of detail and making decisions with limited data. Having a clearly defined roadmap and transformation methodology is a must have.

Clarifying early on what is negotiable and non-negotiable—e.g., consolidating locations or off-shoring transactional services—can help tremendously to reduce organizational anxiety.

3. **Establish the right measures of success**

Resist the rush to create service level agreements (SLAs)—not only do they rarely measure what matters, adopting SLAs often creates additional work. Instead, invest in creating a balanced set of measures that represent the real value created by the new organization, and develop these measures over time. During the first 12 months, it is often sufficient to get direct feedback from customers as to how the new organization is doing. This honeymoon phase can be used to create a solid fact base and baseline (a significant task in itself). Having a strong finance director is critical to create a clear roadmap for how to realize the business case.

4. **Maintain close customer contact**

While most shared services have captive customers, ignoring their needs is not advisable. It is easy to become distracted in the early days, when sorting out the organizational structure often takes center stage. It is critical to stay close to the needs of internal customers and ensure customers have proper representation when it comes to decision making. An easy solution is to charge those who led the legacy functions for their respective business unit with maintaining contact and to establish customer councils that include key internal stakeholders. These relationships will serve as an early warning system.

The key to success is to simultaneously ensure service delivery to internal customers while identifying opportunities to increase the value added. A well-designed matrix structure can help manage both dimensions by separating responsibilities for customers from shared services leadership roles. The key is to have mechanisms for aligning the two dimensions. This goes well beyond defining the organizational structure, and oftentimes less formal mechanisms such as customer councils are important to ensure proper balance.

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Key Questions

- **What is the degree of autonomy the new business has?** Is it a captive supplier to a captive group of customers or does its charter permit it to provide services to third parties?

- **What is the business case?** Do we expect cost savings due to economies of scale, do we want to drive standardization across business units, or is it simply a desire to simplify the business? Do we want to provide world-class service or do we strive to minimize cost at the transactional level?

- **What are the assumptions?** Do we expect to consolidate locations and centralize resources in hubs?

- **What are the measures of success?** How will we keep score to ensure the new organization meets the expectations we had when we created it?

- **Where will resources be located?** For what services and functions does it make sense to collocate (back office, transactional roles) and where is it more effective to be close to the customer (transformational services, customer-centric roles)?

- **When is the right time to consolidate systems and processes?** How do we minimize inevitable disruptions for the customer?

5. Create capacity for change right away

The decision to create the new organization will trigger a substantial amount of unplanned work: the organizational structure needs to be worked out, budgets need to be realigned, locations need to be consolidated, teams need to be rebuilt—all of which consumes significant resources. Cost pressure often compounds the problem. In almost every case, the midterm expectation is that by establishing shared services, cost will go down. While in theory that should be the case due to economies of scale, achieving those economies requires redesigning processes, standardizing services, leveraging best practices, and optimizing technology—which also requires significant resources and time. A structured approach toward eliminating low-value added work can often yield dramatic results —10 – 20 percent over a period of three to four months. Taking an inventory of the services provided at the functional level is the starting point for identifying opportunities. A lot of permanent functional work is the result of one-off requests, and in many cases the recipient of the work no longer has use for it. Another area of opportunity is standardizing outputs—by facilitating internal customers toward a common format for typical outputs, enormous resources can be freed up. Planning to free up at least 10 percent capacity right from the start is a good strategy to avoid being overwhelmed by the change, and taking an inventory of the work currently being done is a critical foundation for transformation later on.

6. Manage change proactively

These days, change management is always a line item in the project plan or a role assigned to somebody on the project team. The reality of most implementations, however, suggests that a lot more could be done to help manage the change.

Creating two-way channels for communication, equipping leaders at all levels with the tools to deal with the changes they are experiencing themselves, and crafting a well thought-out plan for engaging a broad cross-section of the organization in the transformation journey are examples for opportunities most companies miss.

Change also needs to happen on the business side: To realize the potential benefits, some business units will have to give up things they have gotten used to and agree to common standards. Equally important, they will have to give up power to enable the new organization. This process needs to be actively managed to minimize the inevitable politics involved.

Resist the temptation to do too much at once, and sequence the change to minimize risks. Analyzing how planned changes will impact external and internal customers helps to avoid potential pitfalls.

7. Create career opportunities

One key argument for shared services is that, in theory, it creates more career options for those in support functions. Where previously the leader of a functional area such as accounts receivables for a business unit had few opportunities to advance his or her career, the increase in scale creates opportunities for broader responsibilities as well as specialization.

Becoming a well-managed shared services model requires the development of general management competencies. Creating competency models is an effective technique to understand the current capabilities and identify the gaps that need to be filled through training and coaching.

Equally important, but often overlooked, is creating opportunities for specialization. A significant part of the work done in shared services is knowledge work, and knowledge work is very hard to leverage and standardize. On the other hand, paying attention to the knowledge that resides in the organization and organizing accordingly can yield tremendous value.

8. Develop a brand and business model

Creating a new sense of belonging is important. What is the brand identity of the new organization? Avoid the use of terms such as "back office" or "noncore functions" and focus on how the new organization creates value.

If the idea of creating a shared services organization is to achieve economies of scale and scope through professionalization, developing a brand and business model that describes the logic behind how the new organization communicates, creates, and captures value is critical. Avoid focusing too much on cost: Customers only complain about cost if they don't like the service they are getting.

It is often assumed that once the shared services organization has been announced, the new organization will miraculously start to behave like a professional services provider. But without a clear common picture of what that means, how the organization will compete for budgets, what needs it can satisfy effectively versus what services are better left to external specialists, and what capabilities are required to do so, those providing the services will resort to the functional mindset that served them well.

A business model helps to clarify how the new organization will compete and yields answers to questions such as:

- **What is our value proposition to our customers? Do we strive to be a low-cost provider or are we trying to become a trusted business partner?**
- **What are the key segments we service? Who are the decision makers that determine budgets?**
- **What is our current source of funding? How should we charge for our services to ensure alignment with customer interests? Does our charter allow us to solicit external sources of revenue from third parties?**
- **What is our current cost structure? Where do we have opportunities to leverage our scale? What would be our ideal cost structure?**
- **What assets such as best practices or technologies can we leverage?**
- **What competencies do we currently have, and what competencies do we need? How will we acquire missing competencies and close competency gaps?**
- **How will we leverage third parties to deliver our value proposition? Do we have opportunities to insource critical capabilities? Should we outsource some services to third parties? How will we manage this to ensure integration?**

Oftentimes, the development of a shared services business model is addressed within the scope of strategic planning or developing a common vision across the leadership team. A multi-year roadmap can be very useful to identify the vital few initiatives that will move the new organization toward its aspirations.

Summary

To realize the full potential of shared services, getting it right from day one is key. Maintaining customer focus while immediately working on creating capacity for change is the first order of business. Creating a business model can provide much-needed cohesion and alignment. And finally, a solid strategy for leveraging its human assets can do wonders for employee motivation and engagement.

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