Best Practices in adopting a Shared Services Model

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In their endeavors to become high performing organizations, businesses are pushing all innovation frontiers to do more with less and achieve excellence even in these times of curtailed budgets. Shared services is one such definitive innovative model that many organizations have adopted to beat the ever growing challenges of seamless service delivery, consolidation of distributed accountabilities, progressive efficiency improvements, and fiscal pressures.

Shared Services

Shared services allow organizations to optimize the delivery of reliable, cost-effective, and flexible services to internal and external clients. Optimization is the key here because shared services effectively balances the operating model between the client enterprise and the independent support organization that comes to being, due to the shared services initiative. Shared services as a model offers the following advantages to organizations:

- Elimination of redundancies in processes and technologies through standardization
- Elimination of centralized or distributed accountabilities by setting up shared responsibility through two-way service level agreements
- Elevation of service excellence through greater focus on customer service
- Cost economies of scale and scope

Shared services allow organizations to optimize the delivery of reliable, cost-effective, and flexible services to internal and external clients.

Shared services model started by targeting business processes that have significant cost saving potential but transactional or low importance to organizations. While the model initially thrived with this approach, it has successfully evolved over the years to undertake business processes that are relatively complex. With this paradigm shift, global organizations are now leveraging shared services to enhance the quality of internal business processes and improve overall effectiveness of operations by implementing global best practices. As it stands today, moving transactional functions, such as accounts receivable and accounts payable, to shared services center has been done time and over, thus resulting in attainment of mature and standardized processes for doing so. As more companies continue to migrate to this model, they are realizing the additional benefits of doing so, such as improved operational effectiveness and ability to increasingly provide more higher-value services, e.g., knowledge processing activities such as market research and business analytics. Moreover, the shared services strategy enables organizations to focus on their core businesses rather than expend resources on non-revenue generating cost centers.

Shared Services Model - Key Impacts on Organizations

The real value from shared services is realized when it is an integral and fundamental part of a complete functional transformation. Some of the key impacts that SSCs have on organizations after it is properly implemented are as under[1]:

[1] Source: Industry survey & Research: Respondents of the survey included more than 270 CIOs and CTOs.

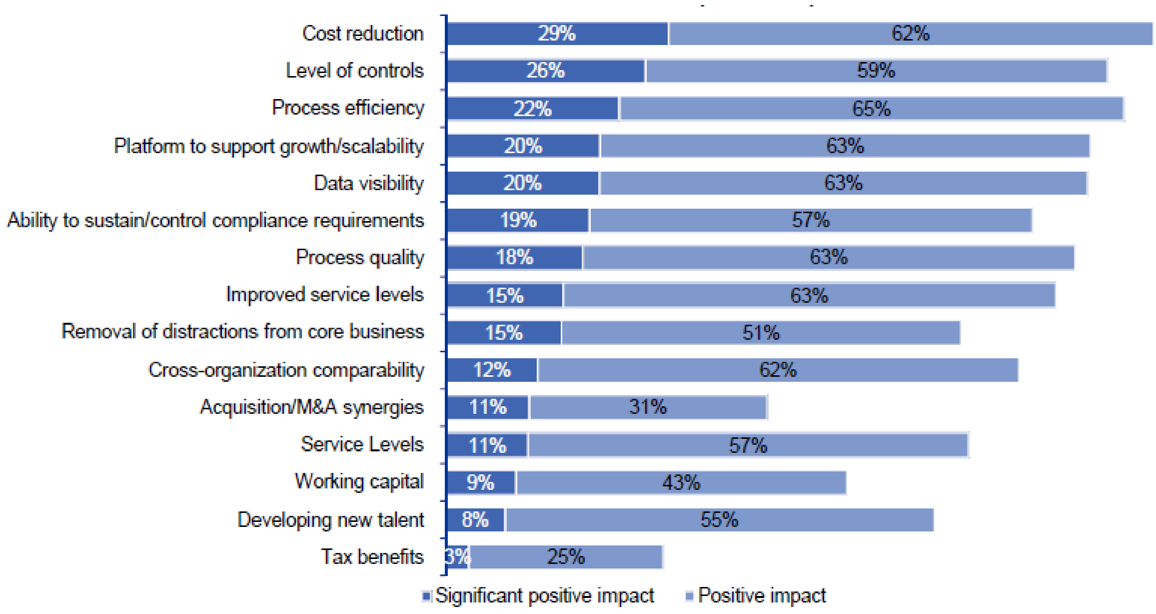

Figure 1: Impact of Shared Services on organizations

As demonstrated by the above figure, the shared services model creates the maximum impact on organizations through cost reduction. It also helps in distributing the levels of control within the organizations thus helping create a balanced ownership structure. Organizations also achieve significant process efficiencies and a platform for greater growth and scalability.

The drivers for adoption of shared services are multi-fold. As shown in the figure below[2], organizations take to the shared services option due to multiple reasons like, lower costs, access to expertise, and flexibility in staffing, process-based scalable delivery, and greater geographic reach.

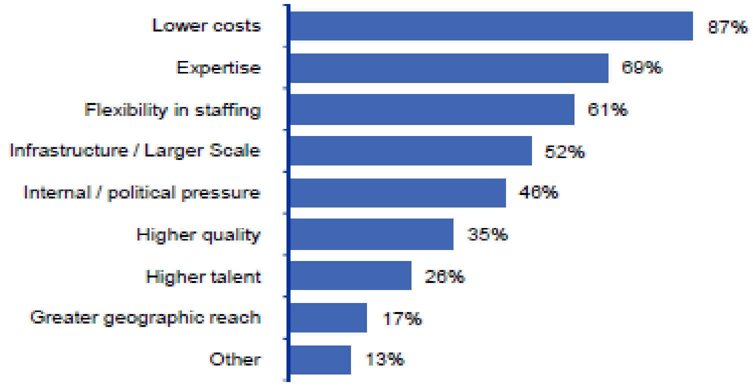

Figure 2: Drivers of Shared Services

[2] Source: Industry survey & Research: Respondents of the survey included more than 100 organizations that are using SSC.

For effective implementation, shared services often necessitate restructuring of duties and responsibilities between the client organization and the independent shared services support center. Due to this, organizations often strike the fine balance between centralized and de-centralized structures. In fact, organizations end up getting the best of both worlds while belonging to none.

The tables below demonstrate the differences of shared services with de-centralized and centralized organizations:

Table 1: Shared Services vs. De-centralized Organization

Shares Services versus Decentralized organization	
Decentralized Structure	**SSC Structure**
• Higher costs • Variable standards • Head office/corporation concerns dominate • Performance is judged solely on budget and against corporate objectives • Non-standardized quality management	• Economies of scale • Standardized processes and best practices • Business areas maintain independence • Performance is assessed against service-level agreements and regular reviews • Quality management through internal customer-supplier relationship

Table 2: Shared Services vs. Centralized Organization

Shares Services versus Centralized organization	
Centralized Structure	**SSC Structure**
• Primary focus is cost	• Primary focus is service delivery, process improvement and cost
• Management of services is optional	• Services are managed as per pre-defined SLAs and KPIs
• Responsibility is concentrated at Head office/corporation	• Responsibility is shared between shared service centres and clients
• Customer management is ad hoc	• Structured customer relationship management

Shared Service Centers - Best Practices for Implementing

While the business case for shared services is well established with enough proof of its benefits, the process of establishing a shared services center can still seem intimidating and fraught with risks. In fact, most organizations understand the value but are still overwhelmed by the magnitude of the task. At the outset, it is still imperative to design a business case and make a comprehensive plan that defines and documents the project scope and anticipated benefits. This includes answering several critical questions, including the following:

Processes to target

Often, companies believe that they must centralize all processes into a SSC or else the project is not worth the effort. That, however, can undermine success. There are circumstances where a narrow focus is preferred. In other cases, a measured and phased stepped approach might be more appropriate, whereby one process is centralized first and then other processes follow. The best practices lessons of the earlier processes can be used to optimize the transition time for other processes. The table below indicates the typical functions that are moved to a shared service centers[3].

Table 3: Common Shared Services Functions

	COMMON SHARED SERVICES FUNCTIONS		
Finance	• General Ledger • Accounts Payable • Internal Audit	• Purchasing • Accounts Receivable • Insurance	• Tax Compliance • Cash management • Foreign Exchange
Human Resource	• Payroll processing • Compensation	• Benefits admiration • Commission and bonuses	• Training • Employee data management
Information Technology	• Standards • Technology Development	• Application development • Application maintenance	• Hardware & Software acquisition • Software license management
Supply Chain & procurement	• Inventory management • Distribution management	• Logistics • Purchase management	• Database management • Order management
Corporate Affairs & Legal	• Media Relations • Litigation support	• Communication • Regulatory Compliance	• Travel Coordination • Environment, Health & Safety Audits

[3] Source: Industry survey & Research: Respondents of the survey included more than 100 organizations that are using SSC.

Trends also suggest that a majority of processes under functions like finance and HR can be easily moved over to shared services centers. The figure below indicates the relativity between business functions for moving their processes to a shared services center.

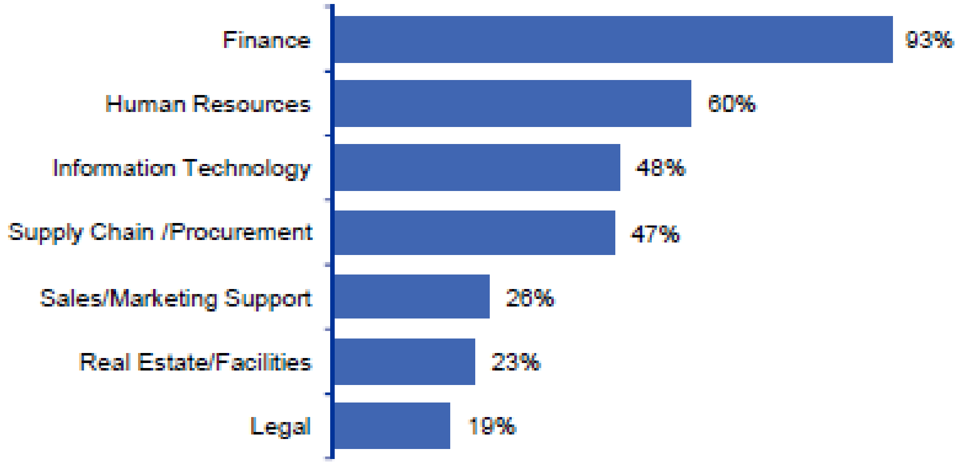

Figure 3: Percentage of Business Processes that can be moved to SSC

Location

In addition to defining the actual scope of services, location is another component vital to the ultimate success of a shared services strategy. Decision about a location is based on a variety of factors, including the organization's current operations and future expansion plans. Access to qualified and affordable labor is another key criterion. Political stability and legal issues of the host country should not be overlooked during site selection, and then there are always cultural issues surrounding any country that may be chosen. Besides these additional site selection criteria, due thought should also be given to local tax considerations and the potential for negotiating government incentives in a particular location. Other factors that should be taken into consideration include real estate trends and construction costs, social and economic stability, time zones, availability of technology infrastructure and scope for any investment promotions. Force majeure elements like potential for natural disasters should be considered. Locations should be weighed for their corresponding emergency preparedness and business continuity plans.

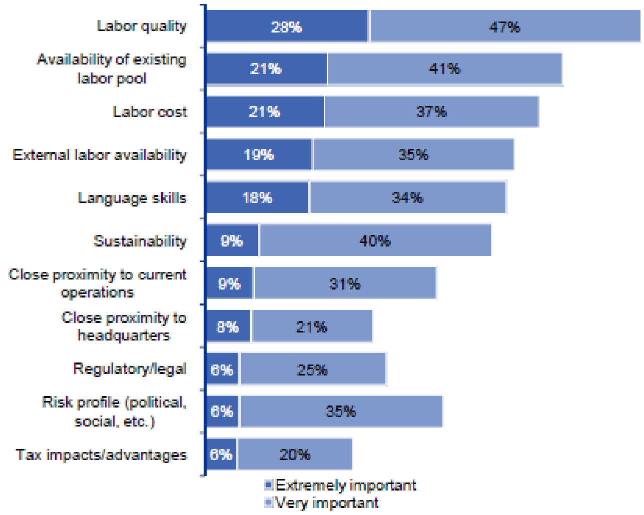

Figure 4: Location Selection Criteria

Shared services centers can spread across the globe in multiple locations. For example, a leading IT services firm has spread its marketing shared services unit in four different locations, viz., US, Europe, India, and China. All four centers share the common denomination of standard best practices. However, each center derives huge benefits from being closer to local markets.

Technical Considerations

Developing a robust shared services strategy is heavily dependent on systems and technology. Shared services centers are usually located at remote destinations from the client locations. Securing appropriate communication technologies can go a long way in ensuring the productivity objectives of the center. Leveraging the proper technology option enables businesses to automate business processes, standardize data communications and data storage. An integrated planning process needs to take into account all issues that apply to how organizations legacy systems will be integrated with the new-shared services center. It is also important to factor in scalability of infrastructure.

Shared Services Implementation

The implementation of a shared services center is usually a four-step process. The first step does the base line assessment and analyses the possibilities of creating a center. It is important to reiterate that during any integrated planning process, the cost benefit analysis should not be focused exclusively on the direct cost savings like labor costs alone. A sound business case should take the total cost of ownership (TCO) into account. TCO could include things like, upfront investments and expenses, real estate, transition and staffing costs, etc. A thorough analysis of processes to be moved over need to be done in the first step to baseline the scope. There will also be risks and a learning curve associated with new processes. Once the management, in the second step, approves the business case, a pilot program for a specific operational area is launched on an organization wide basis. Detail operating procedures, SLAs, and staffing requirements need to be established in this phase to design the overall construct of the shared services center. After the successful completion of the pilot program, the implementation of the model is rolled out to the entire organization as a third step. Once the various processes have been transitioned successfully to the shared services center, step four deals with ongoing management and continuous optimization of the operations, as depicted below:

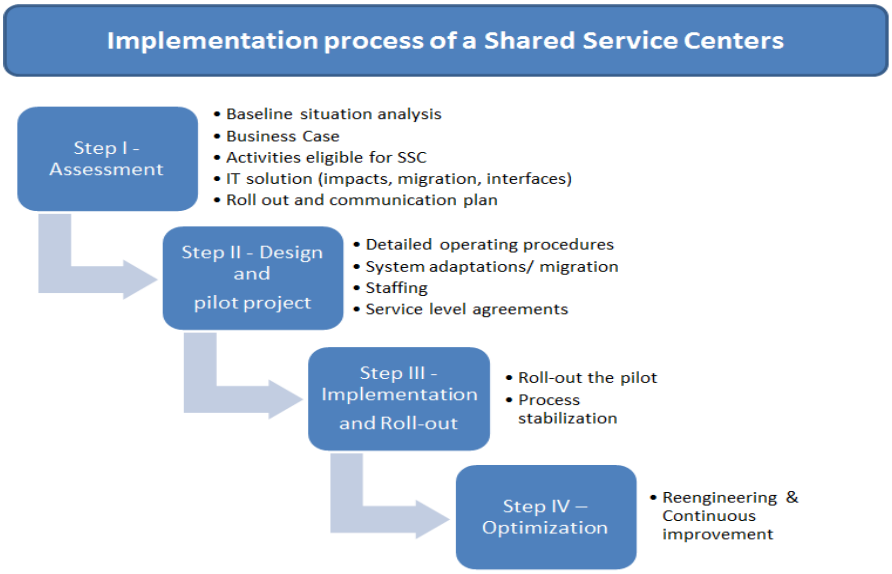

Figure 5: Shared Services Implementation Steps

Managing Implementation Risk

The above steps detailed upon the best practices for implementing shared services. Irrespective of the rigor of the best practices, there are a set of hygiene factors that need to be considered for successful establishment of a shared services center. Following are some of the hygiene factors that need to be considered for creation of an effective shared services center:

- Strong executive championship
- Objective base lining of costs and productivity tracking mechanisms
- Focus on continuous improvement in cycle time, unit costs, defect rates, and service opportunities
- Established performance measures and service-level agreements

To avoid these pitfalls, the management has to engage as many of the available success enablers as is feasible. Effective communication also plays a dominant role in removing the obstacles and pitfalls in the successful creation of the SSC. Besides these, sound planning, effective leadership and a constant attention to customer needs are absolute essentials for success.

Shared services business model, whether implemented in-house or through an outsourced partner, is a strategic tool for meeting the objectives of superior service delivery at lower costs. After having moved over the chasm, organizational considerations about shared services have moved away from ‘should we?’ towards ‘when and how?’

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