

Stick or Twist? Is Shared Services right for my Business?

Niccolo Machiavelli (The Prince) wrote 'There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things'....so why bother?

Well, it is inherent in all good business practitioners to drive for improvement and success; and Shared Services comes with a big promise attached (allegedly!): 'reduce costs and improve service quality'. So, is Shared Services right for your business?

The fact is that you need the facts, you need to experience certainty. So in this paper we will explain:

- What is a shared service?
- What are the choices?
- What is the size of the prize?
- What is involved in operating a Shared Service Centre (SSC)?
- What are the potential benefits?

Therefore at the conclusion of this paper you should be equipped to attempt to answer - Shared Services and my business....stick or twist?

About the Authors

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What is a Shared Service?

Shared service(s) is an operational philosophy that fundamentally involves centralising functions that once performed in separate divisions or locations (plus more besides, which we will explain as we progress through this paper). These are generally services that can be shared among the various business units of a company, typically Back Office functions including finance, purchasing, inventory, payroll, Human Resources (HR) and Information Technology (IT). That said it can also be applied to the Middle or Front Offices too.

Middle Office covers functions and processes which are specific to the actual business of the organisation. For example: in Local Government such functions would cover Revenues and Benefits, Refuse, Highways and Parking; in Central Government the Middle Office functions are department specific such as Vehicle Licensing in Transport, Tax Credits and Tax Assessment. In Life and Pensions it would be processing of policies and in Retail Banking mortgage assessment and tracking.

Front Office covers functions and processes which have direct contact with those not directly employed by the business but are users of, or buyers of services, regardless of the channel of communication (phone, visit or internet). The traditional Front Office functions covered contact centres and help desks. However, with the evolution of applications many Middle Office functions have now been modified with a Front Office interface via the internet.

Before we pursue this operational philosophy further it is important to add that the term 'Shared Services' can also apply to partnerships formed between separate businesses (e.g. the tenants of an office building may well share telecommunications or maintenance services) or 'Shared Services' available on the internet (e.g. application service providers (ASPs) offer numerous business clients access to online applications to allow them to avoid purchasing special systems and software). The AA offers such a service with Route Planner

As stated earlier, the operational philosophy behind running Shared Services can be more than just centralisation or consolidation of similar activities in one location. Shared Services exploited to its full potential can mean running the in scope service activities like a stand alone business within your business, with the objective of delivering services to the internal customers at a cost, quality and efficiency level that is competitive with external alternatives. Taking this one step further, it can also lead to offering your established Shared Services to external customers.

What are the choices?

There are 5 forms of Shared Services:

- **Single function in-house:** a single function consolidating and centralising its services
- **Multi-function in-house:** an organisation consolidating and centralising a number of core services such as HR, finance and procurement
- **Co-opt model:** two or more organisations collaborating to operate shared services for certain common processes
- **Joint venture model:** a joint venture shared service legal entity between an organisation and a third party provider
- **Outsourcing model:** the outsourcing of shared services to a third party provider who takes full responsibility for managing and operating the service.

If you opt for a joint venture model or an outsourcing model there are then 4 distinct Target Operating Models (TOM) that can be created:

- **Captive:** Organisation owned facility, organisation employees and managed by organisation. Organisation engage third party to advise and assist
- **Shared Captive:**
Type 1: Organisation owned facility, organisation employees and managed by 3rd party
Type 2: 3rd party owned facility, mixture of organization and 3rd party employees and managed by 3rd party
- **Outsourced** – 3rd party owned facility, 3rd party employees and managed by 3rd party
- **Hybrid** - A mixed composition of these models

A Shared Service can also have 3 different commercial structures dependant on your organisation and what you are attempting to achieve:

- **Unitary:** A single organisation consolidating and centralizing a business service
- **Lead Organisation:** An organisation consolidating and centralising a business service that will be shared by other organisations
- **Joint Initiatives (Internal):** Agreement between two or more organisations to set up and operate Shared Services

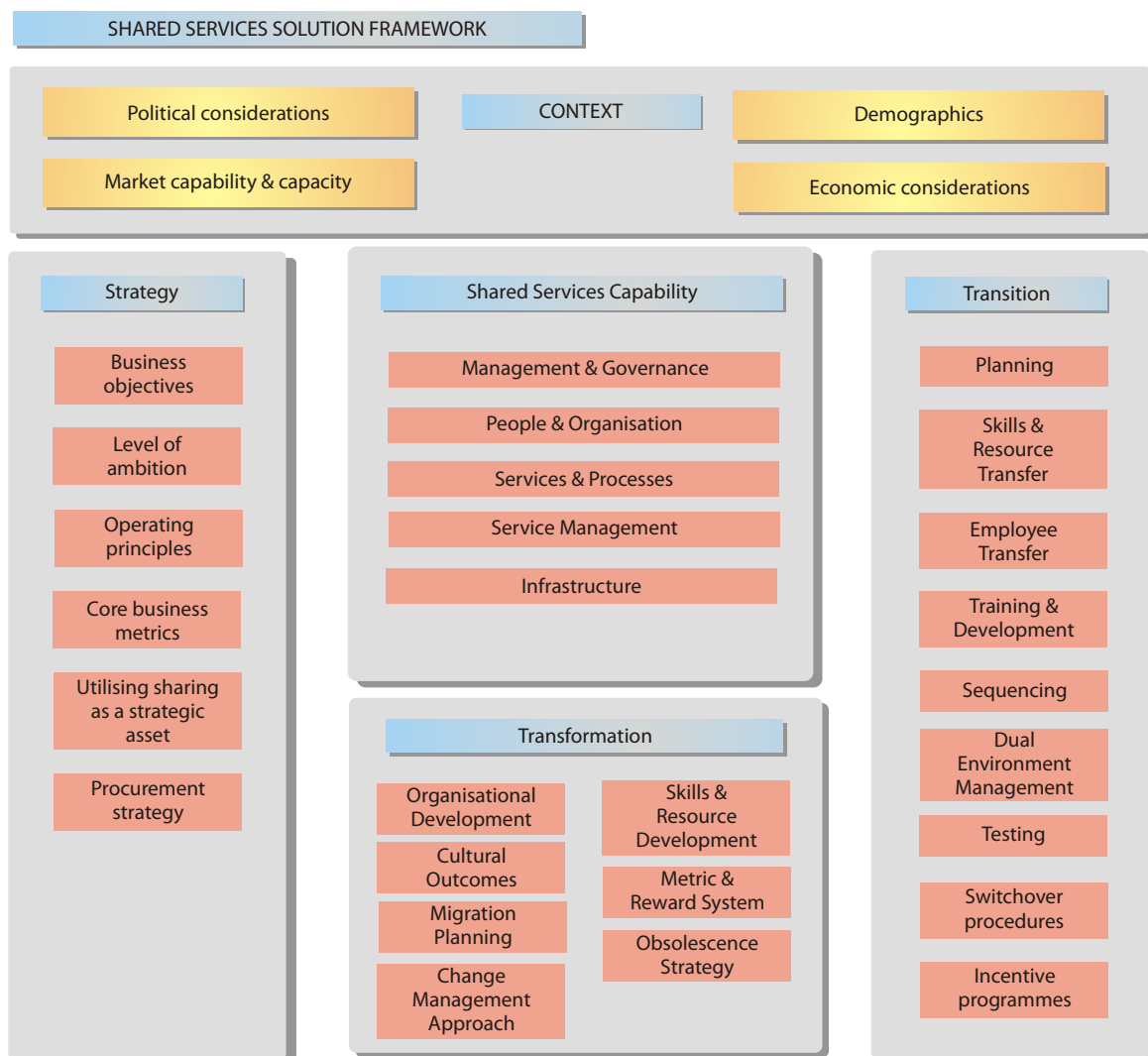
A Shared Service can also have 4 basic location variations, again dependant on your organisation and what you are attempting to achieve:

- **On site:** Work is carried out on the organisation's premises
- **On-shore:** Work is carried out in the same country but at a different location
- **Near-shore:** Work is carried out in a close location (e.g. continental Europe relative to the UK)
- **Off-shore:** Work is carried out anywhere in the world that is not on-shore or near-shore

This is generally in order to take advantage of wage arbitrage; however, increasingly it is because many countries/economies are becoming particularly talented at delivering specific service offerings.

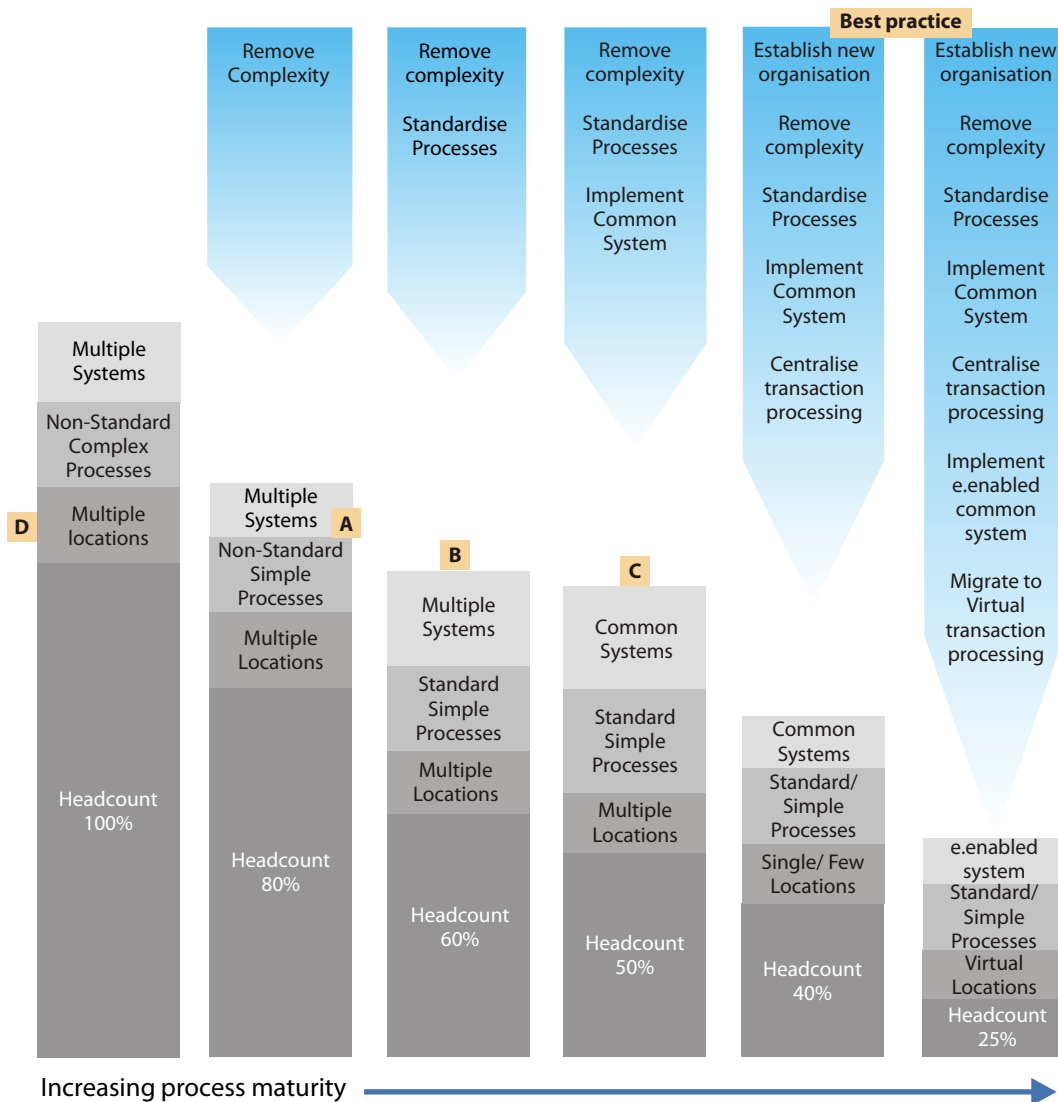
So, as a business you have a multitude of choices with a multitude of outcomes (desired or otherwise), therefore the first step is to develop some decision making criteria – or a ‘Shared Services Solution Framework’.

In the Shared Services Solution Framework described below, the context, strategy and transformation components define which services and processes are to be delivered through the shared services capability and what governance arrangements will apply. This framework also encompasses the transition plan and considerations of moving from the current state to the desired shared service model. The framework is to ensure you consider all the key elements and to help build your business case:



The business case, however, requires base lining - The size of the prize depends on where you are today...

What is the size of the prize?



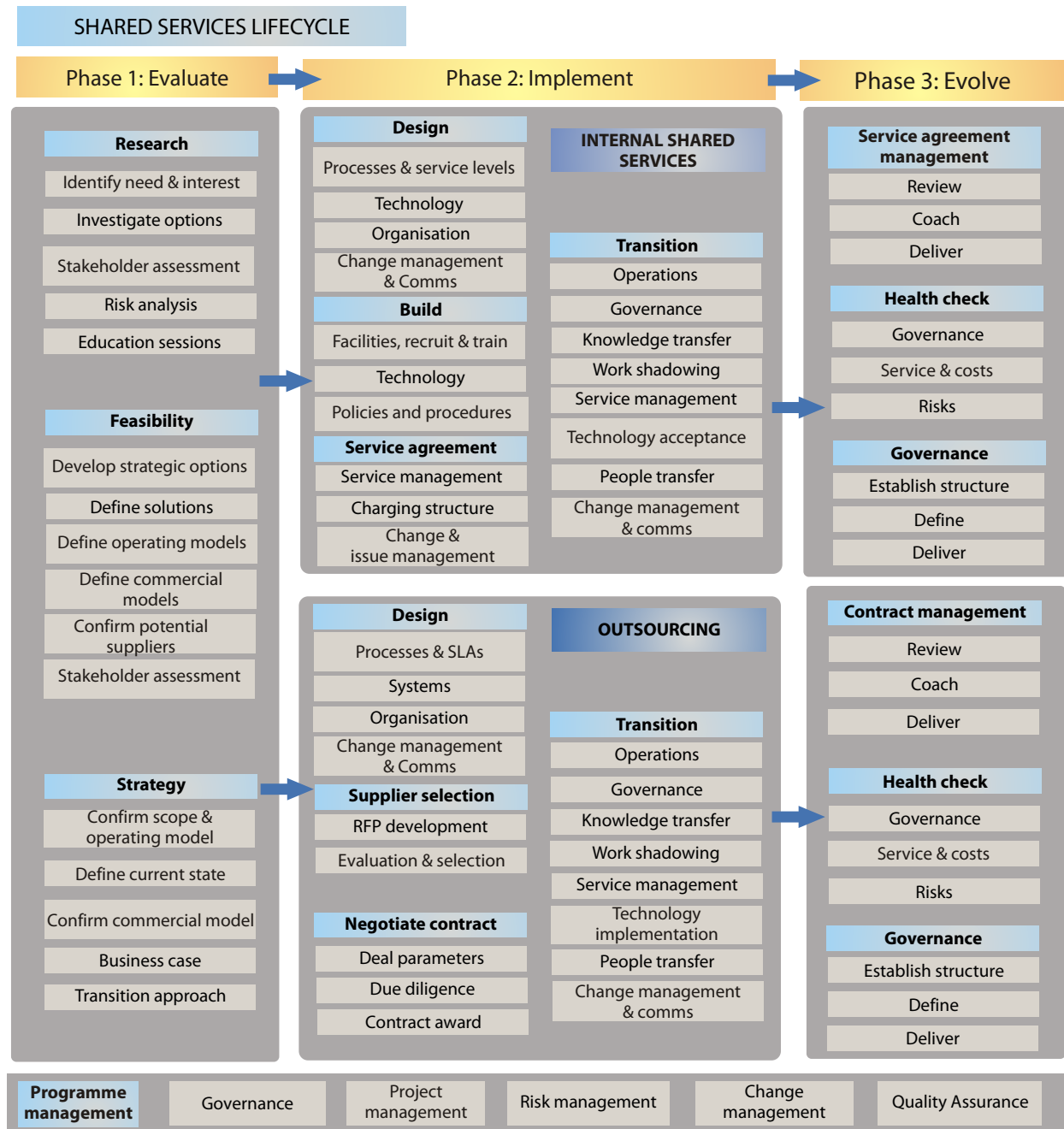
Are you at point A, B, C or even D?

Are you as an organisation well down the path of process simplification, standardisation, and implementing end to end common systems; or are you in a world dominated by multiple systems, complex bespoke processes and silos? Where you are as an organisation in your process maturity will help to determine the choice you make re the type of Shared Service that may interest you going forward. Many organisations find that they are at different levels of maturity dependent on the functions being looked at.

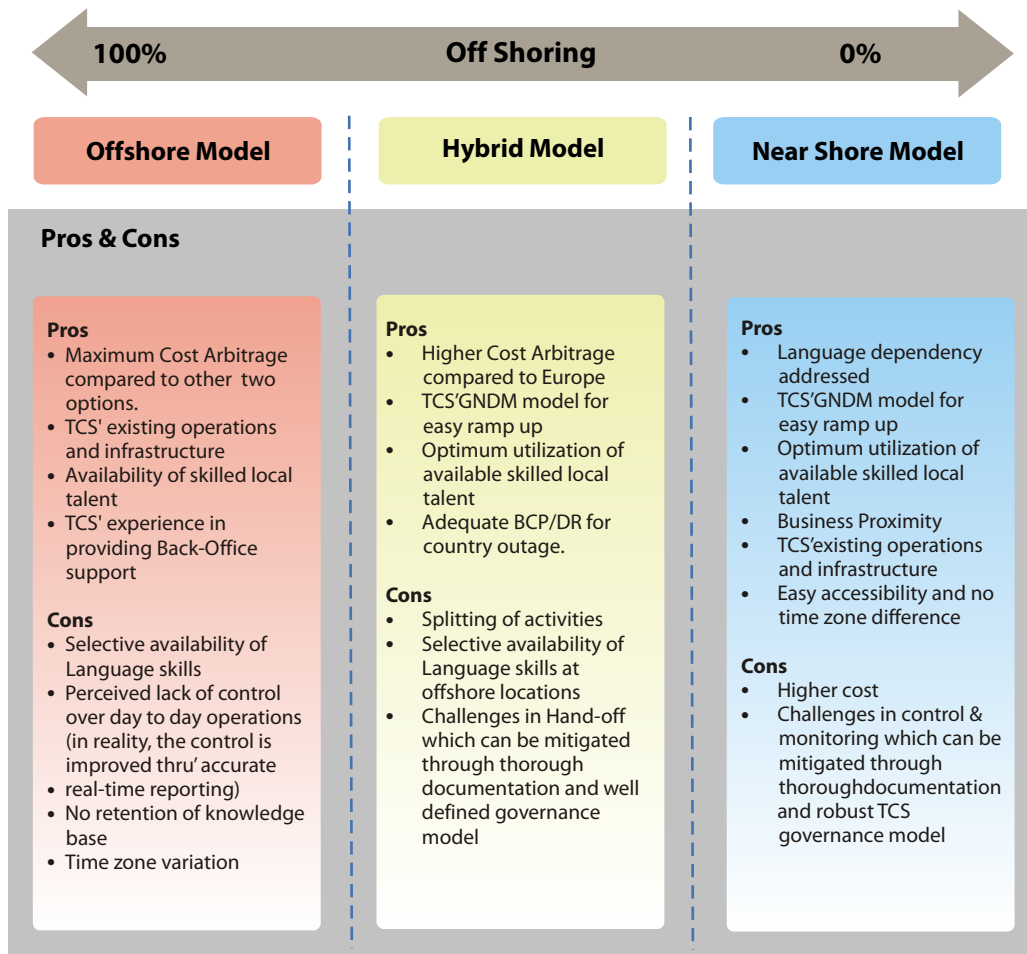
Once you know where you are today as a business, you can develop plans to take you forward; this will take the form of the 'Shared Services Lifecycle' and starts the next phase of activity that could develop into a project/program plan for a new Shared Service solution.

By following the 3 phases (Evaluate, Implement and Evolve) you will arrive at the point when you come to the key decision tollgates:

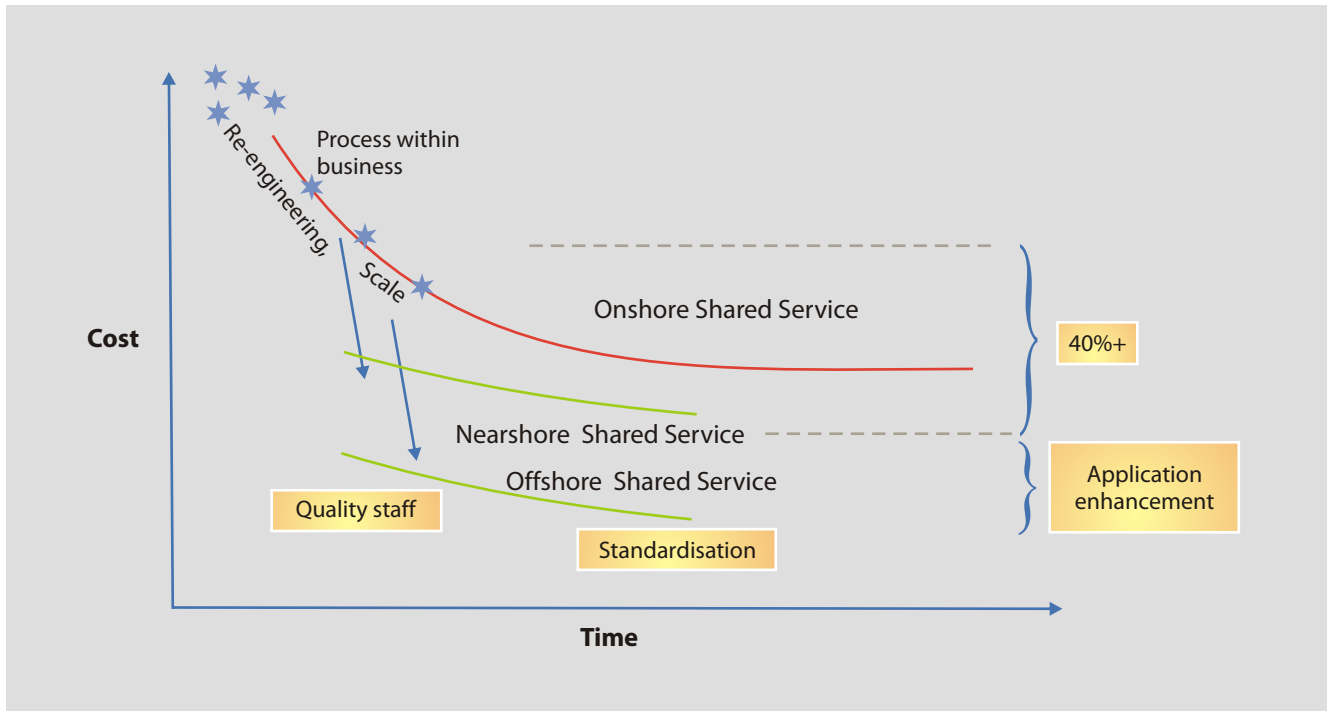
- Internal Shared Service
- Outsourced Shared Service
- Hybrid?



The relative merits of the three models are illustrated below:



There is a general approach that encourages you to start with the near shore model and then progress to the optimum offshore model in a staged approach. This is to mitigate against risk to business as usual and to allow the time to standardise your processes if they are considered to be inefficient, complex or even broken.



Moving operations into a Shared Service environment will reduce the cost base. Optimisation of these processes can reduce cost still further, thereafter there may be a need to look at moving from onshore to realise additional savings.

What is involved in operating a Shared Service Centre (SSC)?

You may have to embark on a significant journey involving change on multiple dimensions. The scope of the Shared Service Centre (SSC) that you will potentially set up will be driven by the company's operating requirements and market sector. The key element is that the SSC enables the consolidation of similar administration activities from multiple business units. By consolidating processes an SSC is able to control transactional activities better, drive out costs and create a platform for investment in new technologies.

SSC staff should be judged on the degree to which they can deliver process excellence. The service is delivered through multiple channels, including the Web, telephone and e-mail, to make sure everyone has access to it, when and for what they need it. Face-to-face contact may be possible if the SSC shares the same site or is in close geographical proximity to the employees and line managers it supports.

A Shared Service Centre has to reflect specific characteristics. It is not a 'factory' that churns out functional data - it is a sophisticated, progressive, fast paced work environment that leverages the economies of scale by producing outputs that dramatically reduce costs, streamline processes and response times and increase the quality and consistency of services provided.

Operating a Shared Service Centre requires you to put in place the correct type of organisation to maximize the opportunity or to employ a 3rd party to do it for you.

So you have reached the point where you can make your choice, you have:

- Decided which form of shared service best fits your business (Or not!)
- Decided which Target Operating Model you want
- Decided on your commercial model
- Decided on your best fit location strategy
- Been through your solution framework to develop your business case
- Base lined to establish the size of the prize
- Set up your team and started your shared services lifecycle programme

What are the potential benefits?

The key attributes of a shared service are that it can be used by more than one organisation or set of people; it will use and deliver common business processes; it will use a common infrastructure (IT or otherwise); it will share assets and it will perform to a Service Level Agreement. The commonly recognized and proven benefits from implementing a shared service are that it should:

- Drive down general and administrative overhead costs
- Create a clear relationship between costs and service
- Improve service levels and quality
- Maximise technology investments

To be successful, the organisation delivering the shared service needs to develop customer service competencies and appropriate commercial propositions. Business processes have to converge, and therefore, change management is fundamental to the ultimate success of the initiative. In moving to a shared service it makes sense to have a longer term vision (Solution framework) and a plan (Shared services lifecycle) to build toward that vision in a series of practical steps. This will reduce risk and enable the users and providers of the service to make the difficult cultural changes at a manageable rate.

So Niccolo Machiavelli – Stick or Twist?

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