WHY SHARED SERVICES OFTEN STILL FALTERS AT THE GATE

While industry reports and data seem to indicate that the Shared Services and Outsourcing model is widely recognized and applied in practice, in truth, only a relatively small proportion of potential scope has, to date, shifted successfully to a comprehensive service delivery model. The vast majority of support service work remains inefficiently and ineffectively embedded in the business units.
The question is: Why?

Introduction

You do not have to look far to read about Shared Services models that have saved multinational organizations millions of dollars, pounds, or euros, in transactional processing and value adding services. On the face of it, the business case for the model sells itself, and industry reports would seem to imply the vast majority of large-scale organizations have implemented some form of services delivery model to drive improved performance.

The truth, unfortunately, is still a different matter, with – according to some reports – two-thirds of total transactional work remaining stuck in the business units instead of being shifted to Shared Services. Why, despite the obvious and highly publicized rewards, is this still the case?

Failure to Launch: a Lost Opportunity

The still relatively limited actual F&A Shared Services implementations highlighted by a recent survey[1] (roughly 50% of AR, AP, General Accounting, Fixed Asset Accounting and nearly 60% of T&E are still being delivered outside of Shared Services/ outsourcing arrangements) highlight the enormous potential for improvement, which is being left on the table.

Another myth exposed in the study was the commonly held assumption that Shared Services is consistently moving up the value chain. In fact, few organizations (14% of those surveyed) have actually shifted higher value processes like financial planning and analysis into Shared Services, and only half of those asked confirmed that tax reporting and analysis and data collection were delivered through a SSO.

The Signs of a Failing Operation

No matter how convincing the business case or the case studies you read about, there are a number of very real constraints that limit the implementation or expansion of Shared Services internally. One of the major constraints is that implementing Shared Services, while not rocket science, is complex. It also impacts many people across an organization so effective change management is crucial. And often organizations do not recognize this, commonly associating change management with some form of one-way communication, but it is so much more than this. Change management aims to help support and enable a change from one operational state to another. This can be a significant challenge and needs to be respected as such.

More specifically: A failing Shared Services operation will not provide the high quality services it should do to the business in a cost effective, and customer centric fashion.

Some indicators of a failing operation, which will then limit scope expansion and growth of Shared Services within and across the enterprise, include:

(1) Lack of a service orientated way of operating
Generally speaking, an internally focused and defensive Shared Services organization is a sign that things are not right. Defensiveness reflects uncertainty and repeated criticism, while an overly inward focused operation will, by definition, be overlooking its customers' requirements.

(2) High staff turnover and low morale
A level of turnover around 5-10% can actually be advantageous to a healthy Shared Services operation, but more than 10% and anything over 20% is likely to be a sign of a dysfunctional operation (within the booming BPO arena turnover is often linked to rapidly rising wage levels associated with demand outstripping supply, so context is important). Poor morale is also a warning sign that something is amiss. "Proper" employee engagement, supported by employee satisfaction surveys, is a good way of uncovering morale and other employee related issues.

(3) Lack of structured communication plan with customers
In a failing Shared Services operation, interaction and communication with customers tends to be reactive rather than proactive. There also tends to be no clear "customer account management" as characterized by customer forums, CSAT surveys, and interactive workshops.

(4) Lack of Service Partnership Agreements/not conformed to
Service Partnership Agreements (SPAs) (or Service Level Agreements) are very important to the success of a Shared Services operation, and should be practical, easy to understand and "fit-for-purpose". The absence or neglect of SPAs can indicate a Shared Services operation being in danger of failing to meet its goals.

(5) Lack of standardized processes
Shared Services is driven by standardized processes, so if you are seeing numerous exceptions and out-of-cycle processes, if there are no clear process owners, if clear and standard desktop procedures are missing, or if there is a lot of "noise" in day-to-day processing, these are all signs of a Shared Services operating at sub-par levels.

(6) Negative customer relationships
Unsupportive relationships are often accompanied by a "blame culture" and display a lack of trust between teams and functions. These generally lead to shadow organizations, duplication of work efforts, and a perpetuation of a "them and us" culture that is detrimental to a healthy Shared Services environment.

(7) Minimal use of automation tools
Along with standardization, successful Shared Services leverages automation technology such as IVR and call-routing, document scanning, workflow and archiving, automated banking and reconciliation tools, automated procurement and goods receipt tools, and self-service technology. Where automation is missing, processes are still predominantly manual, based on paper, with the delays and higher cost per transactions this implies.

(8) Poor leadership and Line Management
Many Shared Service Managers do not understand what it really takes to operate and lead a successful Shared Services team. Without the ability, experience, training and drive to achieve success, it is very difficult to run a successful Shared Services operation.

(9) High cost of operation
Failing Shared Services operations have a high cost of operation, as measured by cost per transaction, re-work, etc. There are also significant indirect costs associated with shadow operations, missed opportunities, lack of early warning systems due to poor data integrity, poor customer experience resulting in lost business, etc.

The Root Cause of Shared Services Not Performing as Planned

Insufficient senior level sponsorship

Without senior level sponsorship, Shared Services practitioners will often find themselves isolated, fighting internal battles, and addressing escalations and disputes rather than acting as chief project sponsor on the ground. If you cannot find a senior level leader to step up and proclaim their support for the new service delivery model, you are probably going to be fighting a losing battle. Shared Services implementations need to be prioritized alongside other enterprise initiatives. Knowing that you have the backing of senior leaders will help you persuade those resisting to go along with you.

Perceived political "risk"

A Shared Services implementation implies widespread organizational transformation that will lead to face-offs with defensive business units, and the need to justify yourself to senior management. For some practitioners, it can be simply easier to keep one's head down and carry on.

Lack of change management capability

Transformation on the scale that Shared Services implies requires skilled change management, especially in the pre-launch phase. Most organizations make the mistake of implementing change management – where at all – only during the changeover. This is too late, as the opportunity to bring sceptics and naysayers along, and generate true buy in, has often been missed.

Insufficient communication

Shared Services is not something to foist upon an enterprise without warning. While the wins are widespread, many users will initially only see the "cost" to themselves, in terms of changed personnel, unfamiliar processes, increased self-service, responsibility for input, etc. Faced with these changes, it is natural for customers to push back. A comprehensive communication plan outlining the why's, the how's, the "what's in it for me", and the organizational benefits, will help you to get all your stakeholders on board.

Not cultivating the right relationships

You cannot go it alone in introducing Shared Services. You will need the backing and support of HR [recruiting, training, upskilling], IT [new technology implementations, skills training, understanding the capabilities], and the heads of the business units as well as the functional heads. Each of these stakeholders requires their own communications. Only by getting them all on board will you be able to drive the kind of results Shared Services is capable of.

Lack of employee training and development

Training is not a discretionary expense. Career progression, development, mentoring, job rotation, etc., are recognized best practices in high performance organizations, and the same is true for Shared Service operations. Training and development increases productivity and drives a culture of innovation and advancement for the whole team.

Business unit resistance

Business units often, at least initially, exhibit some resistance to moving functions into a "centralized" organization. Perceived lack of control drives some of this resistance. From the business units' perspective, cuts in FTEs and the lower headcount that remains can mean reduced control and less influence. The challenge for you is to persuade the business units that with the non-core activities taken off their hands, they are able to drive far more significant and valuable activities for their operations and their own customers.

Centralization versus customer intimacy

Part of the reason for resistance on the part of business units is that they perceive standardization as a less "tailored" service. Many customers have become used to services specifically tailored to their requirements [whether necessary or not necessary]. The attempt to take this specialized service away and replace it with a "template" can be seen as a threat. Another, often false, perception is that a centralized standard cannot possibly meet the needs of local businesses. While that does not have to be the case at all, it will take a lot of effort and communication to demonstrate that this is not true, and then of course the reality must meet the promise.

Insufficient customer management

While much lip service is given to customer service, the reality is that many Shared Services organizations have made the mistake of ignoring customers' concerns in the rush to implement a standardized model and reap cost benefits. This has all too often led to a breakdown in relations. A number of organizations today have recognized that customer/client relationship management, most effectively delivered through a robust client interaction framework, is a crucial element in order for Shared Services to succeed.

Company culture

Company culture can be conducive to change, be neutral or actually be very obstructive. In many failing Shared Service operations people on the ground feel that it is simply too hard to overcome the barriers to change. An obstructive culture can result in a failing Shared Services operation or, at the very least, an operation that does not achieve all it could do.

Poor technology rollout

While technology is not necessarily the most critical success factor, it can be a significant enabler. Even with a "standard" ERP rollout, the scope of the implementation might be so limited as to result in side systems remaining prevalent. Elsewhere, necessary authorization may be missing, so that the systems are of limited use. For example, most ERP platforms offer management reporting tools but if access to these is restricted, or training inadequate, then users will simply find alternative approaches to get what they need.

Analysis paralysis

While collaboration is important, and many of the above points highlight the need to meet with, communicate with, and listen to customers' and stakeholders' concerns, Shared Services cannot and should not be implemented by 100% consensus, but rather through comprehensive and appropriate consultation, supported by firm conviction. This means that at some stage the belief in the model must override local concerns. Again, senior level sponsorship will smooth the path. And, again, the reality must deliver on promises made.

Summary

One of the keys to a successful implementation is clarity, communication, and commitment from the top. These three areas should be prioritized during prelaunch, as well as during ongoing operations.

Failure to cover all the bases referenced above will make Shared Services susceptible to failure, as internal resistance, lack of stakeholder collaboration, and business unit push back can all too easily eliminate the business case benefits.

Another leading cause of Shared Services' failure is insufficient or inadequate "selling" of the model internally. Remembering the "what's in it for me" message that your stakeholders and senior management will want to hear should help you to craft a more convincing value proposition.

And remember that while planning for a launch can be a significant endeavor, it is important to note that any Shared Services project does not end with "Go Live". There needs to be adequate support post go-live as well as continual training and re-training. This is key to continued performance success, as there are plenty of forces at work to derail the initiative.

Given the significant potential service line and process scope that remain largely untapped within enterprises and organizations everywhere, there remains a tremendous opportunity for those willing to grasp the challenge and opportunity of Shared Services, and then last the journey.

Resources

1. Source: 2013 Global Shared Services Survey Results, Deloitte Consulting LLP

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Design a Governance Framework that All Stakeholders Can Trust

As Shared Services Organizations evolve, what is increasingly clear is that if the business doesn't do its part, then Shared Services hasn't got a chance. This has given "governance" a completely new role and responsibility, as it establishes joint accountability between the business and the Shared Services. Governance makes real shared services happen. Click here to read the article on Governance Framework development.

Run a Feasibility Study and Plan a Migration for a New Shared Services Center

If you plan to shift processes out of the business and into a new Shared Services Center you better be prepared. Pre-planning is vital, and clearly correlates with a better outcome. Find out how to evaluate an Shared Services Organization's impact and choose a migration plan that suits your output targets. Click here to read the case study

Why LEAN Six Sigma is the Right Choice for Driving Continuous Improvement through Shared Services

It's hard to sustain positive momentum in your SSO unless process improvement structures are incorporated from the start. While a number of methodologies exist, combining the waste-eliminating approach of LEAN with Six Sigma's reduction of output variation is a great solution for driving a continuous improvement culture through your operations. Click here to learn how to apply Lean Six Sigma in a Shared Services environment.

Case Study: Driving Procure-to-Pay Quick Wins

The Procure-to-Pay process offers great opportunities for improvement, especially in companies that are decentralized, still paper-based, and lacking standardization. This case study illustrates how a global financial services company significantly improved vendor satisfaction as a result of a focused re-evaluation of the end-to-end process. Click here to download the case study.

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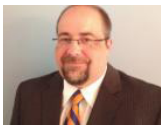

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