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Does Size Matter When It Comes To Success With Shared Services?

KEY QUESTIONS

As a mid-size company there are a number of questions you might ask. Such as:

"Does size matter when it comes to success with Shared Services?"

"Don't you need to be a large company to achieve economies of scale through 'centralization' which is a key benefit from reorganizing into Shared Service Centers?"

"Doesn't scale mean that one has a better position when negotiating with potential third parties such as purchasing new technology enablers or considering outsourcers?"

This articles explores the key parameters of implementing Shared Services in a smaller size companies, including technology, location, talent and ERP.

What is the difference between having scale and not having scale?

When thinking about “scale”, as a rule of thumb, we would class any business or organization with less than US$1.5 billion in revenue and/or less than 5,000 employees organization wide as not being “large”. Hopefully, this helps to set the context for the discussion here.

Remember that scale is relative

It is definitely true that “centralization” and “standardization” can enable more to be done with less. However, remember that this is a relative matter. The same applies here for a smaller organization as for a larger one. If you can, for example, bring 50 people together into Shared Services when there are currently 80 people providing these services today across multiple locations and Business Units, then this is as great a relative saving for this smaller organization as there would be bringing 500 people together when there are currently 800 people performing these roles in a dispersed, unconnected fashion today.

It is also important to remember that Shared Services is not all about centralization. Technology especially has allowed SSOs to be less centralized than in the past, although organizational realignment combined with following the principles of Shared Services is really critical. Remember that Shared Services achieves the triple benefit of cost savings, higher quality of service and improved control environment by leveraging a range of factors, principles and tools, including organisational re-alignment, technology, standardized end-to-end processes, adoption of best practices, lower cost locations as well as through economies of scale. Many of these are not “scale dependent”.

So what about technology and scale?

While it is indeed true that comprehensive Enterprise Resource Planning (ERP) implementations can cost many millions of dollars to implement (and sometimes the numbers here are really scary!), it is also true that with the range of options available today a great deal can be achieved spending relatively small amounts. This is true whether spending money on a new ERP platform implemented speedily and as close to standard functionality as possible, or through implementing some of the many technology enablers out there that leverage your existing technology platform. In fact, two of the most often cited critical enablers for successful shared services are document management and workflow, which are commonly provided by targeted third party technology houses. Just remember that integration is key, so try to go with a provider that has a solution that closely integrates with your own in-house ERP platform(s).

Are there diseconomies of scale that apply as well?

There can be significant diseconomies of scale in larger organizations that actually make successful Shared Services less likely. For example, a larger organization may have become very slow moving and have difficulty making change decisions, while a "smaller" company may have more autonomy over such decisions and be more "fleet of foot" rather than being bogged down in bureaucracy, panels and emails.

There can also be rapid career progression in "smaller" SSOs and greater exposure across functions and processes that allow more effective training and more of holistic and "end-to-end" look at processes. This can also mean easier and more effective automation. On top of this, while Stakeholder and Change Management are always critical parts of any successful Shared Services initiative, this may be less difficult to implement, manage and control in a smaller organization than in a larger one.

Linking back to technology and ERP, many larger organizations may actually be in a worse situation because they find themselves with a multitude of different ERP platforms across Business Units and Regions, as a result of independent operational decisions over many years or oftentimes as a result of numerous acquisitions. This can cause real headaches for Shared Services if there isn't an organization wide move to reduce the number of ERP platforms in use across the enterprise.

How does scale impact the location decision?

One trend that we have probably seen more with "smaller" SSOs than larger ones is that moving to new "Greenfield" locations is less likely the smaller you are. Moving to a brand new location away from existing operations is a "risky" business and involves lots of new capital. Many organizations, most notably smaller ones but this is actually also true for many larger ones have well, have gone to "Brownfield" locations. The difference being that "Brownfield" locations are at existing company facilities, which are instead "adapted" for Shared Services. It is the larger organizations such as GE, HP and BPO providers who have generally set up textbook "Greenfield" locations away from all existing locations.

It is also true that larger SSOs have been able to really push out the labour arbitrage boat by locating many of their Shared Services operations in real low cost locations around the world such as Central and Eastern Europe, India, Malaysia, the Philippines and, more recently, China, Latin America and places like Vietnam. In fact, the Business Process Outsourcers (BPOs) have used this to gain some competitive advantage over internal SSOs. The point again is, however, that everything is relative and moving to a lower cost location within the UK, for example, could extract significant cost benefit for a smaller SSO and its organization. Furthermore, it might also be possible for smaller organizations to leverage some of the lower labour cost arbitrage benefits through some degree of selective outsourcing to these providers (assuming the commercial terms that need to be negotiated are acceptable).

Talent management for "smaller" SSOs

Another interesting question around scale and success relates to talent. It is becoming more or more recognised that the types of people required to manage and operate successful SSOs are not traditional "functional" people who simply "change hats". The recruitment profession is only really starting to grasp this fact, which is pretty amazing when you think how long Shared Services has been around now.

Traditional "role v pay scale" benchmarking has often missed this point and attempted to benchmark, for example, a Shared Services Disbursements Lead with a "traditional" Accounts Payable Manager or a Shared Services Employee Services Lead with a "traditional" HR Manager. This does cause potential problems for smaller SSOs trying to recruit experienced Shared Services talent, who may expect higher remuneration packages than the company is used to or currently prepared to pay. However, the way to address this is to ensure that the right mix of external and internal talent is recruited into and developed within Shared Services, supported by targeted outside expertise as appropriate with an emphasis on knowledge transfer and training. Don't just put an internal person into a Shared Services role without providing them with the training, mentoring and support that they will need to be successful, and don't do this just because it is the "easy option".

FINAL THOUGHTS

Scale does indeed matter in Shared Services, but really only to the extent that it is a relative term. Furthermore, advances in technology, outsourcing and best practices has meant that the advantages that can be gained through Shared Services can accrue to even the smallest organizations. It is really a question of approach and scope. The wider the scope and the more “end-to-end” the processes being considered for Shared Services the better. But even then, some of the most successful SSOs (even in the largest of companies) have started small and then gained momentum as a direct result of achieving and proving success.

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