How to Nail Your Performance Measurement in Shared Services

Introduction

Modern Shared Services are no longer seen as being based on the lowest transactional cost. So, how do you adopt the most state-of-art performance measurement tools to ensure your Shared Services' performance gets measured effectively? At Chazey, we believe transparency and accountability – key to a Shared Services customer service culture – are enabled by a comprehensive P**erformance Measurement and Reporting framework**. Such a framework (see Figure 1) helps drive continuous improvement and is designed to be relevant to providers, clients and stakeholders. (Performance Measurement and Reporting are also key elements of our Client Interaction Framework (CIF).)

Figure 1: Best Practices Performance Measurement Framework
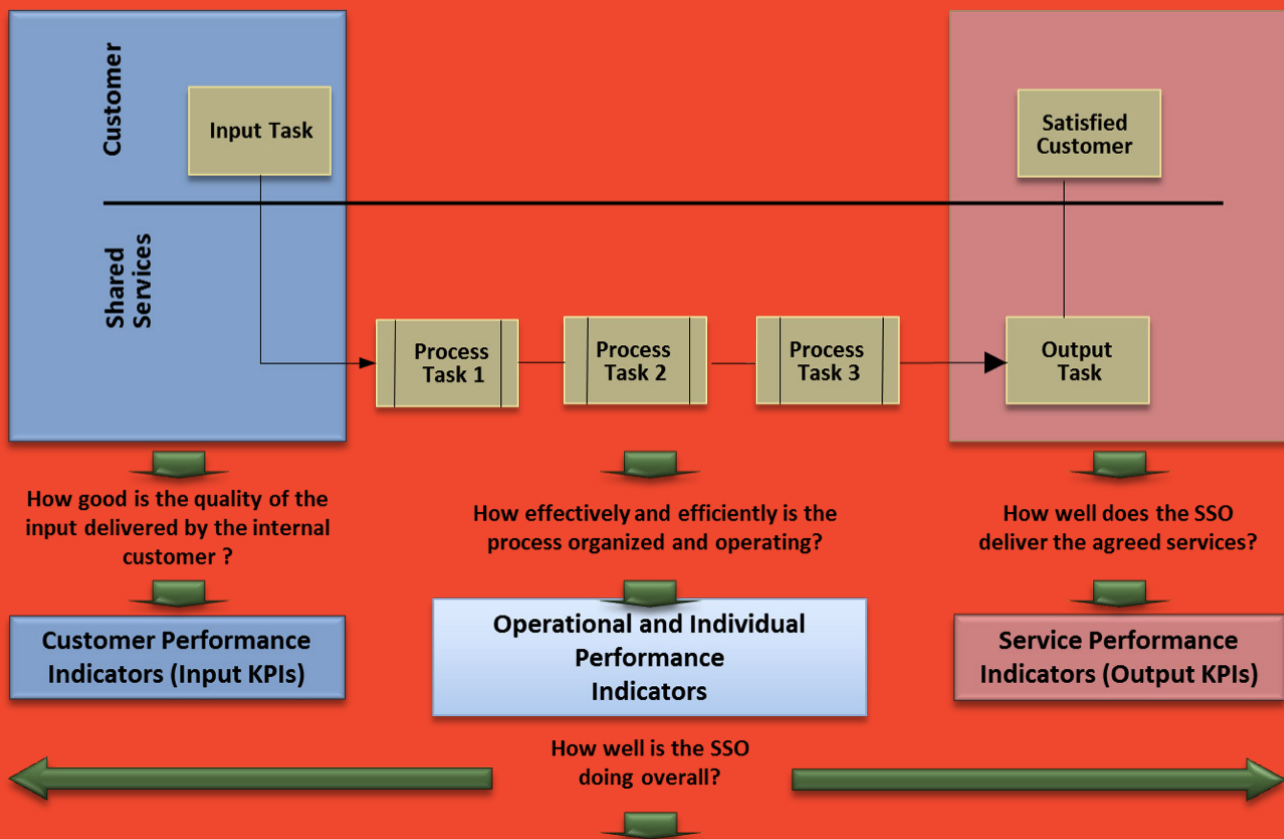
Before designing a Performance Measurement Framework, however, you need to consider the three different types of Key Performance Indicators (KPIs).
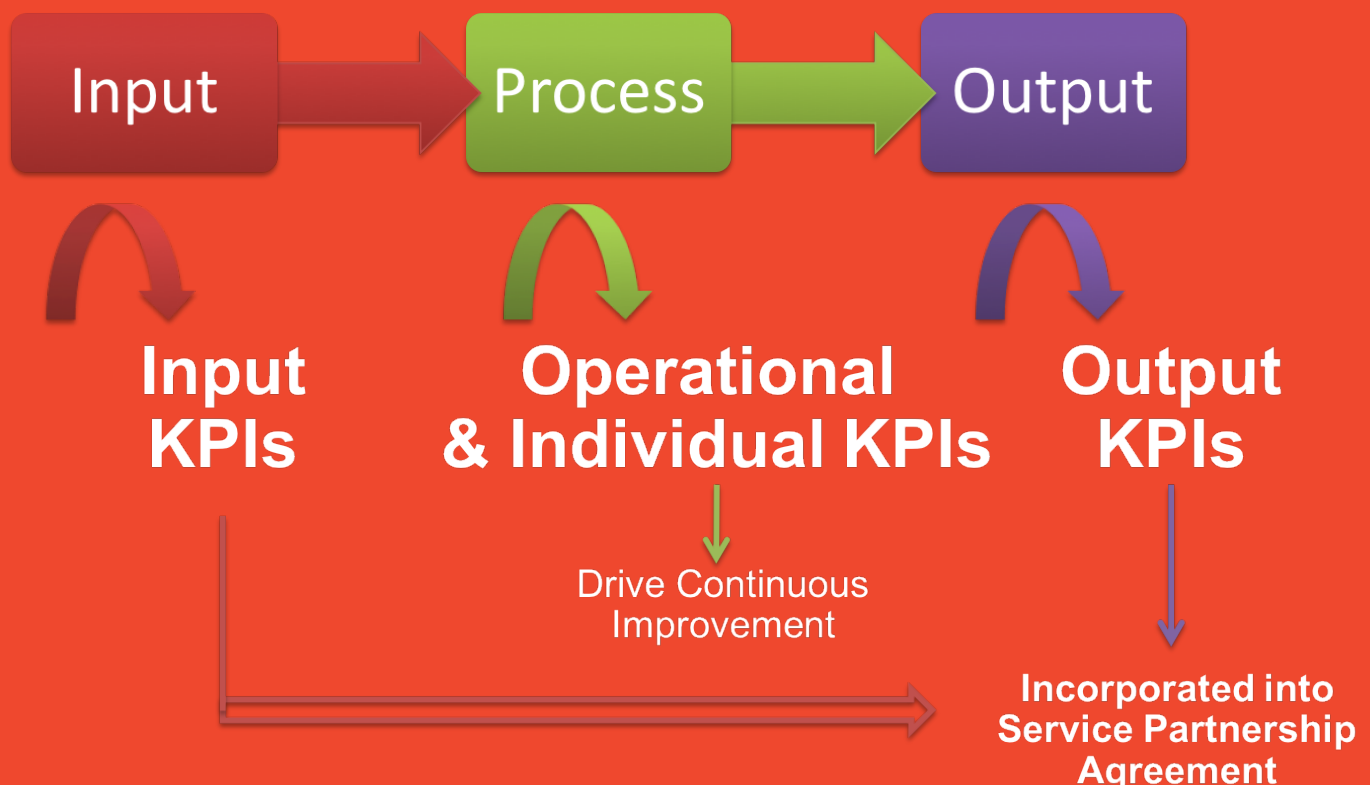
KPIs - "Good or Evil"

KPIs can be used for "good" or "evil". A successful Performance Measurement framework enhances the client/provider partnership through transparency and accountability. It ensures that conversations are fact-based and supports root cause analysis.

A poor Performance Measurement framework, on the other hand, could harm the client/provider relationship, for example by allowing a provider to dismiss client concerns and hide behind imposed KPIs showing positive measures, despite a sub-optimal service offering.

A key strategy for success is to develop the Performance Measurement framework in collaboration with the service provider (whether inhouse or outsourced). As service levels are negotiated, the client is asked how they would like to measure performance against these standards. Then the discussion turns to how the client can help the provider to achieve these service levels, for example by agreeing to submit inputs to a specific standard, which in turn need to be measured.

Types Of KPIs

Within the Client Interaction Framework, the performance of each process is measured in terms of how it delivers on client requirements. It is important, however, that performance is measured on both sides of the service partnership. One side is the SSC meeting its agreed commitments to the client; the other is the internal client supporting upstream process input requirements. To track performance, it is important to measure agreed input and output KPIs, as well as the more standard operational KPIs.

Input	→	Process	→	Output

Input KPIs

Operational & Individual KPIs

Output KPIs

Drive Continuous Improvement

Incorporated into Service Partnership Agreement

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Input KPIs

Input KPIs measure the client's input into the process. The key concept is that in order for the service provider to meet the expectations agreed to in <u>Service Partnership Agreements (SPAs)</u>, it is critical that the inputs to the process be received on a timely basis, in compliance with the agreed standards. This leads to higher quality and more efficient services than is possible in an exceptions-driven environment. Exceptions will occur though, and it is important for the process to be designed to allow flexibility. It is also critical that these variances be monitored so that the exceptions do not become the rule, impacting quality and timeliness. The ability to track these "leading" or "reverse" KPIs is an important component of root cause analysis for any issues, and a key driver of continuous improvement.

Operational KPIs

Operational KPIs measure internal effectiveness and efficiency. These are not necessarily shared with clients, but are used by organizational management to determine if the "engine room" is achieving operational targets and working as a team. Standardizing operational KPIs across different centers provides an opportunity to optimize best practices and achieve more consistent performance across the organization.

An additional sub-component of operational KPIs is creating KPIs on an individual level. Their acceptance depends on the culture of the organization, but can be of great assistance in drilling into the performance of different areas. This is vital when assessing great, as well as sub-par, performance.

Output KPIs

Output KPIs measure the success, quality and effectiveness of service delivery; specifically, whether agreed SPA standards are being achieved. These are usually more limited in number and are a downstream, or lagging, part of the process. These measurements are highly visible, as they would be shared on a monthly, quarterly and annual basis with the clients and stakeholders of the organization.

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Best Practices in Performance Measurement

In addition to the three types of metrics referenced above (input, operational, output), it is critical that metrics are developed to track **different types of measurements**. For example, in addition to metrics around timeliness, there should be metrics that focus on quality, quantity and cost.

Baseline and Short-term Targets

When including these KPIs in your Service Partnership Agreements, **consider setting targets for today and targets for further down the road**. This is to ensure that agreed measures reflect the reality today as well as targets to be achieved over time, through business process improvements and by working in partnership with clients.

Stretch KPIs

One could also consider the use of **"stretch" KPIs,** but these should be described as such and clearly state how these stretch KPIs might be achieve**d.**

Tracking Exceptions

Today's leading Shared Services Organizations also look for **key exception indicators (KEIs)** to go after exceptions or "defects" in the process, as part of a continual process improvement culture.

Benchmarking

In determining what the "right" KPIs and related targets should be, **look at external benchmarks where these are available as these can help to determine "what is possible"** and can help directionally. However, it is very important to understand actual performance today and how this can be improved. Setting a meaningless (wishful) KPI target that can never be met by either party is pointless, and indeed can be damaging and demotivating

Follow-up

Make sure that something actually happens in practice. KPIs, like any data, are worthless if they do not drive any discussion, follow up and action. Act on them and adjust them over time if they don't meet the purpose for which they were originally designed.

Understanding Linkages

Within a Performance Measurement Framework for Shared Services, **establishing metrics that are linked to each other** is a vital component of end-to-end measurement, global processes and process improvement. For example, for a Shared Services Organization to conduct root cause analysis on differences between actual results and its service level commitments (as measured by output KPIs), it is important to understand the upstream client impacts (as measured by input KPIs) as well the effectiveness and efficiency of internal processes (as measured by operational KPIs).

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Implementation Strategies

1) Achieve Buy-In
- a. Create a vision and develop a clear road map in association with leadership
- b. Don't expect immediate buy-in on KPI framework
- c. Negotiate and agree metrics with internal clients

2) Watch Speed
- a. If you go too fast, you will lose everyone
- b. Build understanding through working with teams – this includes workshops and meetings to develop initial set of metrics
- c. Confirm technology and resourcing requirements
- d. Prepare for implementation of new metrics framework, including a comprehensive change management program, training and communications
- e. Implement methodology and start monthly collection and draft reporting
- f. Build skills in analysis, management and continuous improvement

3) Overcome Resistance
- a. KPIs done properly improve client engagement
- b. Dig deep to understand issues
- c. Frank, open and honest conversations with the client

4) Set Targets
- a. Develop targets based on current performance, discussions with clients, reference to relevant peer organizations and benchmarking organizations
- b. Leverage third party benchmarks

Summary

A solid Performance Measurement and Reporting Framework will provide a robust structure on which to develop superior customer service. Measurement and Reporting drives the transparency and accountability that is demanded in today's Service Partnership Agreement based environments. By recognizing KPIs as input as well as output based measures, you will develop a more collaborative service delivery approach that will result in higher satisfaction rates for your customers.

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