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# *Capturing the promise of shared services*

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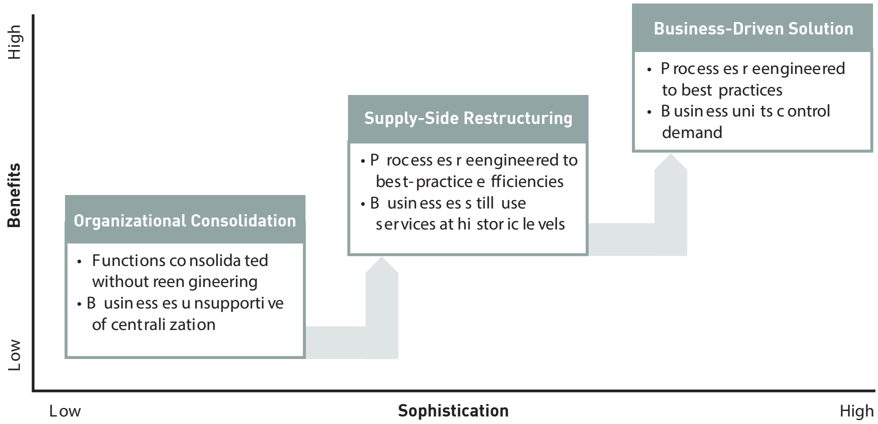
# Capturing the Promise of Shared Services

FOR MOST OF this decade, shared services has been trumpeted as a new means to deliver support services more effectively and at significantly lower cost than traditional delivery models could. Although most of the leading companies throughout the world have adopted the model in one form or another, many have been disappointed with the results. Others, however, have achieved benefits well beyond their expectations. One reason for the varying levels of success is that models and practices have evolved so quickly over the last 10 years that the term *shared services* can mean vastly different things to different organizations. At one end of the spectrum, shared-services organizations are nothing more than old-fashioned head-office central services with a new name. At the other end, where the most successful companies fall, are stand-alone service delivery organizations that are operated like any other business unit.

In working with and talking to hundreds of organizations that have implemented shared services in the past decade (most of them in the past five years), we have observed three predominant shared-services models — all of which are still in use today. (See Exhibit 1.)

**1. Organizational Consolidation.** Many early shared-services implementations (and even some recent ones) were intended to capture scale efficiencies within their organization. An executive was appointed to implement the new shared-services model and after

Exhibit 1: **Evolution of Shared-Services Models**




**Source:** Strategy&

the structure was established, the shared-services head began negotiating with business units about the services that would be "consolidated" and sold back. The focus was on consolidation rather than fundamentally changing the way services were delivered. And because this solution focused primarily on centralizing service delivery, business unit managers fought against it. In the absence of true restructuring, it was often not possible to reduce costs. This resulted in a shared-services organization with few of the benefits but many more of the headaches of implementation.

**2. Supply-Side Restructuring.** Many organizations understand that in order to fulfill the promise of shared services, fundamental restructuring of support services, not just consolidation, is required. The best implementations involved a major functional reengineering effort to eliminate work and simplify processes; this was led at a senior level to make the supply side as efficient as possible. In general, the results were positive: Overall costs were typically reduced by an initial 15 to 20 percent, and performance was maintained through the transition.

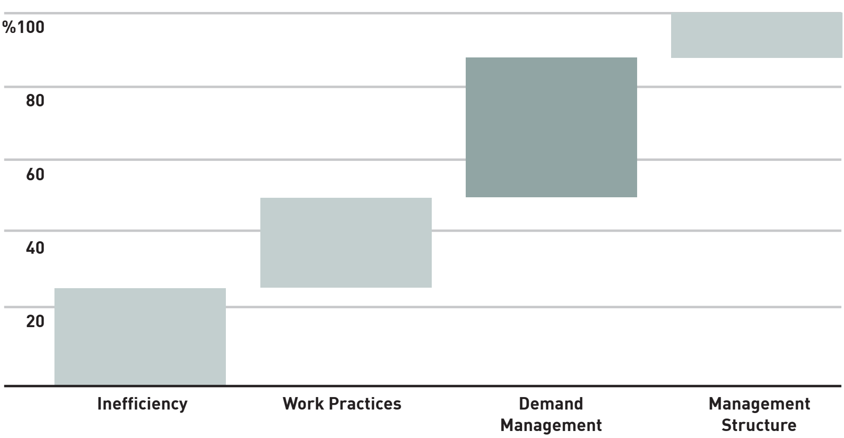
However, not all organizations have succeeded with this model.

Some shared-services managers have been too aggressive in outsourcing activities such as finance and IT without fully understanding how to manage external relationships. And business managers have at times not been fully engaged in the process, seeing it as a functional initiative to take away control. Without both sides working together to further drive down costs, the potential of this approach is limited.

**3. Business-Driven Solution.** The new wave of successful implementations has recognized that around 40 percent of the total benefits available in a shared-services implementation comes from demand management, shared-services managers working with the businesses to achieve a cultural change in the way they think about support services. (See Exhibit 2.) The goal is for business managers to think of support costs as controllable rather than as a head-office allocation. Clearly, all of the supply-side restructuring and reengineering is still necessary, but successfully managing demand requires that business unit managers rethink their support requirements and be actively involved in the design and delivery of services.

The focus of shared-services managers has shifted, from provid-

Exhibit 2: **Shared-Services Benefits by Type**




**Source:** Strategy&

Exhibit 3: **Buyers Committee Role**

| Shared-Services Managers | Business Unit Representatives |
| --- | --- |
| • Develop service offerings that meet customers' needs<br>• Demonstrate cost competitiveness versus external suppliers<br>• Continually propose new initiatives that will drive down costs<br>• Demonstrate to businesses the potential savings if demand is reduced | • Coordinate service offerings with shared-services managers<br>• Provide a business perspective on "what is needed," rather than the "gold-plated solution"<br>• Challenge other businesses as to service levels that are demanded, on the basis of internal benchmarking<br>• Work with shared-services organization to devise lowest-cost solution<br>• Make consistent service-level agreements |

**Source:** Strategy&

ing functional excellence to users, to providing functional adequacy in which the businesses determine their needs and the level of service they can afford. To achieve this cultural shift, many organizations have adopted governance mechanisms and processes that involve key business and functional representatives in the ongoing decision-making process. Generally, a shared-services board and a shared-services buyers committee are the primary decision-making bodies. (See Exhibit 3.)

These groups meet a few times during the year to define required services, monitor performance, and approve budgets. It's critical that the process not become a legally oriented, contentious environment — a culture that will soon sink any shared-services initiative. Rather, what successful organizations are doing today is creating a cooperative model. Buyers committee meetings are short, focused on three to five key business drivers, and depend on one- to three-page service-level agreements. These meetings provide a mechanism to ensure business units maintain control without having to own the activities. Thus, much of the resistance to change from the implementation of shared services is eliminated. (See Exhibit 4.)

This approach has demonstrated that the overall structure is less important than getting all the major stakeholders involved in developing the solution. As a result, more-innovative service delivery

Exhibit 4: **What Makes a Service-Level Agreement Successful?**

| Critical Success Factors | What You Need |
|---|---|
| **Simplicity** | • Agreement is short (3–1 pages) and simple to understand<br>• Services are bundled by business units to enable trade-offs across functions<br>• Agreement enables straightforward, ongoing communication |
| **Transparency and Choice** | • Invoicing is clear and understandable<br>• Pricing provides insight into service cost drivers and encourages desired behavior<br>• Base level "lights-on" operations are separated from optional services<br>• Service levels are flexible and scalable, up or down |
| **Metrics and Accountability** | • Performance is tracked against internal targets and external benchmarks (without adding excessive infrastructure)<br>• Business and service management are linked |

**Source:** Strategy&

models are beginning to emerge that locate services with the businesses to maximize customer intimacy, while being managed centrally to achieve scale and utilization advantages, and leverage expertise across the organization. (See Exhibit 5.) With a successful implementation of both demand-side and supply-side initiatives, companies that have implemented a business-driven solution have been able to successfully sustain cost savings of more than 30 percent.

## Lessons Learned

Clearly, to capture the maximum benefits expected from shared services, a business-driven model is required. With that end in mind, the organization needs to determine how it will migrate to the new model. Many organizations have failed to achieve their vision because the implementation was poorly executed. Common shortfalls we have observed include:

- Long time frames that lose focus and momentum partway through the process.
- Very ambitious implementations that open too many fronts and

Exhibit 5: **Examples of Service Delivery Models**

| Model | Description |
|---|---|
| **Hosted** | • No separate service delivery entity, but rather centers of expertise<br>• Each business division given responsibility to sell services to the other business divisions (e.g., division A sells IT to band C; division B sells HR to A and C) |
| **Networked** | • A small, centralized service delivery organization mainly responsible for ensuring utilization, and efficiency and sharing across businesses<br>• Support services generally located close to the business units to ensure maximum understanding of business requirements |
| **Centralized** | • A central shared-services organization (located away from the corporate center) housing all scale-driven functions |

**Source:** Strategy&

strain the management resources required to successfully achieve the objectives.

- Implementations that are not driven from the CEO level and therefore stall when middle management begins to disagree with some of the recommendations.

In our experience, there are a number of lessons learned that, if followed, can increase the probability of a successful implementation.

**Ensure CEO-Level Commitment to Drive the Change Effort.** Implementing shared services is a major restructuring effort that will put significant stress on the organization to capture the benefits. Inevitably, many functional and business staff will not support changes that challenge the status quo. Once the going gets tough, they will be quick to go to senior management and complain that the concept won't work. The CEO and senior management team must make it clear that they are committed to driving the changes and lead by example.

**Set Aggressive Goals and Stick to Them.** Undertaking a large-scale restructuring places significant strain on the resources of any organ-

**Are Your Shared Services Healthy?**

- Has your organization invested substantial managerial capital to establish shared-services operations, yet you find yourselves disappointed by the results?
- Have you implemented shared services, but not yet seen significant cost and service improvements?
- Has implementation stalled, with only a few transactional activities being shared across business units?
- Do businesses feel alienated, viewing shared services as a loss of management control for no real benefit?
- Have business units begun to add back support functions or gone to the market to source services rather than utilize the internal shared service?
- Are you having difficulty attracting the right people to shared services?
- Have demand levels within the organization stayed unacceptably high long after implementation?

If you answered "yes" to any of these questions, you may have a significant opportunity to enhance the implementation of your shared-services operations and generate significant value for your organization.

ization, so it must be done right the first time. The senior management team must have a clear view of what it needs to achieve and continue to challenge the organization to achieve it. Without this clarity, savings targets will be continually eroded throughout the design process, to the point where the magnitude of change becomes marginal.

**Communicate to Staff Frequently.** Implementing a shared-services organization presents great uncertainty for a large number of staff. Business managers will be concerned about loss of autonomy, and functional staff will be uncertain of their future. A well-structured change-management program will significantly reduce the level of tension within the organization. In particular, implementing an extensive communication plan that delivers frequent messages through a broad range of channels (including face to face, intranet, and internal publications) is an excellent means of bringing the organization through the change process.

**Manage the Transition Closely.** In shared-services restructuring, the devil is truly in the details — an incorrect process step or system error can easily cause invoices to be processed incorrectly or staff paychecks to be late. These hiccups can cause significant loss of credibility for a new shared service, so the transition should be planned in as much detail as possible, including a detailed migration schedule. Establishing the various buyers committees early in the design and using them to provide input into the solution are also effective ways to achieve a business-driven model.

**Build an Attractive Career for Staff.** Many companies find it difficult to attract their best staff to shared services, given its reputation for being a place for deadwood. The reality is that the shared-services structure can actually provide enhanced career opportunities for staff, as it provides a professional services environment that was previously located in a small number of businesses. To build a positive image for staff, shared-services managers must embark on building a new customer-focused culture for the organization as soon as it is announced. Initiate formal programs to orient staff in their new roles, and publicly celebrate some early wins to reinforce the new approach.

**Measure Performance Closely against Original Targets.** The underlying goal for implementing shared services is always to continually improve the efficiency and effectiveness of the service. This requires ongoing tracking of a few key metrics for each service. These metrics must be explicitly linked to the drivers of demand to make sure the overall shared-services performance is continually improved. In addition, the metrics must be made part of the organization's overall performance metrics. Integrate all improvement initiatives into the formal budgeting process and tie performance of the shared-services operation to the relevant managers' compensation.

**Reengineer the Processes — Don't Just Make Organizational Changes.** Remember that more than half the value stemming from a shared-services implementation comes through eliminating work, capturing scale benefits, and improving utilization of support staff. This can be achieved only by fundamentally reengineering processes. If the only changes made are organizational, bottom-line benefits will not flow, and the tension between business and functional managers will increase.

**Engage the Businesses to Drive Down Demand for Services.** The other half of the benefits from shared services will come from helping the businesses understand that they can control support-service costs just as they control any other expenses. If business managers reduce their demand levels from a gold-plated service to a lesser but adequate service level, they should see their costs decline. Structuring a menu of pricing options with variable service levels is often a good way to quickly engage business managers to take a more active involvement in demand management.

By following these implementation principles, shared services can deliver significant benefits to organizations. However, it requires a major restructuring effort and change in behavior from both functional and business managers. Only after making these changes will real benefits from shared services flow.

## The Next Generation of Shared-Services Organizations

Over the next few years, as technology continues to advance and third-party services become much more attractive, we believe that shared services will evolve to a fourth stage, enabling another source of efficiency and effectiveness benefits. The focus of the shared service of the future will move further away from efficiently managing internal support functions and toward managing third-party suppliers. Although information technology has been outsourced for many years, value chain dis-integration and the continued decline of communication costs are driving a more extensive range of third-party services in areas such as finance, human resources, legal, corporate affairs, customer care, and billing.

As more and more functions are outsourced to lower-cost providers, the value of shared-services organizations will be in their ability to work closely with internal customers to identify needs and to effectively source appropriate services on the open market.

In this emerging role as a service broker, the ability of shared-services managers to build customer relationships and manage demand will become a much larger part of their position. Yet they will also need to acquire the skills necessary to secure appropriate services quickly, at the lowest possible cost. This will require new capabilities in areas such as strategic sourcing, development of third-party alliances, and application of e-commerce techniques to efficiently match internal demands with the increasing number of external suppliers.

Only by continuing to innovate will shared services remain a valuable and relevant component within major corporations throughout the world. +

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This viewpoint was first published in 2007, prior to the separation of Booz & Company from Booz Allen Hamilton in 2008, and the merger of Booz & Company (now Strategy&) with PwC in 2014.

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