**Shared Services Optimisation proposition**

The concept of Shared Services started in the early 1990's in the US, when large corporates were seeking a new, more cost efficient model for running back office services, initially in the Finance function.

These companies then looked to use this same organisation model in Europe in c1995, and ultimately globally. This coincided with the emergence of ERPs (Enterprise Resource Planning) systems solutions (primarily from SAP and Oracle), which were able to provide multi-national, cross border, multi-currency, multi-lingual high featured packaged software.

Initially there was a mixture of scepticism, push back and apathy with many European finance heads saying "you can't do that here because of our tax laws, our accounting conventions, our regulations, our local customs, practices and different ways of doing business, etc".

However with tenacity and through being able to present a compelling case for change, as well as a sound business case, these initial objections were successfully countered. The concept is now well established and Shared Services has emerged as a major strategic concept for most private and many public sector organisations, which are large enough for the business case to be beneficial. In most cases, the benefits run into millions and tens of millions of pounds. In the beginning, many companies moved people, processes and systems into low cost, tax efficient, business friendly locations, such as Ireland, India and certain Eastern European countries.

These "first generation" shared service centre operations had expensive set up costs as well as local redundancy costs but in the main were successful and achieved the initial goals, which were typically to drive out employee costs.

So in 2011, most large and many medium sized corporations have adopted some form of Shared Services model – and many public sector organisations have also. But where do they go from here?

The hypothesis of this "second generation Shared services" suggests that there are three different directions available:

- Core Optimisation
- Growth/Leverage
- Outsourcing/Offshoring

## 1 Core Optimisation

It is highly likely that the "first generation" shared services strategies led to multiple business benefits and identifiable cost savings. However, it is also highly likely that so much more is possible.

The first issue is Efficiency – is the service centre running at optimum efficiency. There is always room for improvement in organisations. The first stage is to benchmark current levels of output/throughput/resource usage before looking for opportunities for improved efficiency, achieving more throughput, doing more with the same or less resource. One method of tacking this is to undertake a combination of a detailed activity analysis and a review of the business processes involved.

Secondly Metrics – have clear measures been set, collected, reviewed and published? It is essential to introduce, or review and update the existing metrics which the shared services centre captures. Regularly reviewed key measures will drive out waste and focus on areas of variation, these should include throughput, productivity, efficiency, trends, error rates, rework, etc and have them clearly visible to help drive continuous improvement.

The third area is the wider issue of Performance Management – is performance reviewed and rewarded? This leads to consideration of how the SSC/CSC could be organised better or differently. Also could the shared/corporate services centre be changed to a profit centre

The fourth area is that of risk management and business continuity. As more and more activities and processes are "centralised", the greater the need for robust back up facilities. Depending on the sector, these are may be cold, warm or hot.

Finally Service Levels – are all the customers happy? Are their expectations being exceeded? How do you know? Apart from cost saving, this is often the major driver for shared services. So what exists today? How can these be improved? Can additional revenue be leveraged from "customers"? How will the business move the responsibility for "corporate services" away from customer facing operations into specialised centres?

## 2 Growth/Leverage

The first opportunity here is Growth - Could the Centre take on more business areas – most companies start with Finance, HR, Procurement – but can other areas be introduced – Marketing, Estates, IT, Travel and Expenses processing, other support functions, etc. Then there is the opportunity of expansion into other divisions, more countries and different parts of the organisation

The second is how to Leverage the centre. Could the organisation look further up the value chain? Starting with the existing functional areas of say, Finance, HR and procurement, it may be possible to look at how the SSC/CSC can add value by becoming a centre of excellence and supporting a business partner model. Additionally is it possible to look into more customer facing processes, customer service, help desks, etc.

Then the next step is to ask whether the whole centre of excellence concept can be used to bring together often disparate specialist functions, such as marketing, communications, legal, etc

One of the key insights into shared service optimisation is how to look at the issues holistically. Where are the additional "synergies" which can lead to cost saving, time saving, competitive advantage, etc. Take travel and expense claim processing as an example. By centralising and consolidating processing, it is possible to obtain information which allows organisations to ask the following questions. In procurement, if you know what you spend with airlines, hotels, train companies, etc, is it possible to leverage this purchasing power to drive down unit costs? From a technology viewpoint, is there support for a business case to procure video conferencing facilities and other technologies to facilitate business and avoid unnecessary travel cost and time? And from the administration angle, is it possible to implement simplified, self service or automated claims procedures?

There are many, many more opportunities like this, particularly in the area of standardisation of process, procedures, reports, templates, etc which lead to efficiencies, and are also likely to increase effectiveness. From a financial viewpoint one of the key goals in large complex organisations is "One version of the truth" and corporate service centres are very much a catalyst in making this happen. In procurement, the objective of improvement in vendor management and the move to category management for managing tranches of expenditure can be facilitated through these centres.

One of the key success factors with modern service centres is the ability to build and maintain "capability" – in the form of well trained, highly motivated, and where relevant, "customer friendly" staff who perform to high standards.

Finally in this section, could the Centre take on "Third party processing" and all that that entails. This would involve the centre becoming even more commercial, and even more customer service oriented and customer friendly – but this is only really an extension of the direction of travel. Contracts, agreements, and SLA's would need to be more formal, but there is an enormous opportunity to leverage further the capability and investment in the existing centre.

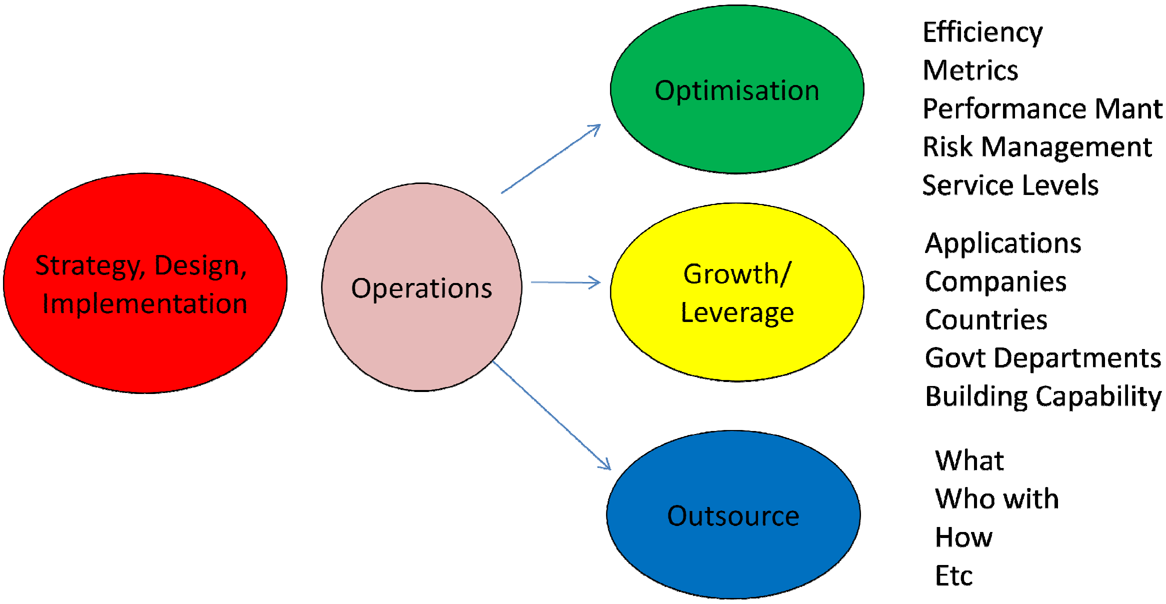
## 3 Outsource/Offshoring

Many companies believe that outsourcing or offshoring is the next logical step. And this may well be the right next step if the organisation believes it has gone as far as it is able to on its own. If it has truly driven out the inefficiencies, driven up productivity, driven down costs, understood and improved service levels, built and managed the metric, etc. In order to drive down costs further, improve service levels even further, and if there is a desire to simply focus on the core business then this is the next step.

They key is to ask which services can be outsourced or offshored? All of them? Or only the low added value, transaction processing, back office activities ? And keep the value adding ones, the customer service one, the more strategic ones?

There are many challenges in following this route from dealing with Unions, handling TUPE issues, managing the media (British jobs going elsewhere).

Note - on offshoring, isn't this what they did in first generation in Ireland, India and certain Eastern European Countries)




The hard part after deciding on where the organisation is and which path it wishes to follow, is "how do we do it". Some suggestions on the steps required would include:

- A clear Shared Services Strategy
- Optimisation Diagnostic – a pre-built template/tool to review the centre's efficiency
- Metrics and Performance Management development – again using a pre-built template/tool
- Customer satisfaction surveys and review of SLAs
- Business case development for growth
- Traditional Activity analysis, Business Process review and Systems inventory to understand the "AS IS" situation

- Outsourcing/offshoring strategy
- Change management strategy and plan
- Enablers review – this review looks at the core elements involved such as People/capability, process and controls, technology and communications.

Finally, who is this aimed at ? My view is that it is definitely senior management – the CEO, the CFO or the Transformation director if there is one – because this is strategic – it is imperative that this direction, policy and energy will come from the top of the organisation.