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Thinking business technology

Designed shared services for profit

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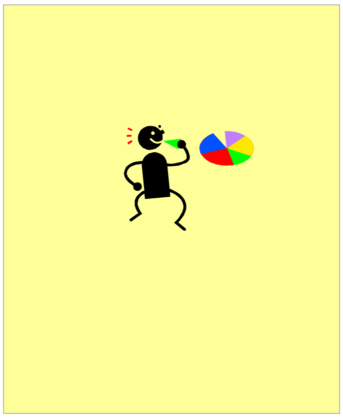

Companies that grew as a result of merger and acquisitions in the 1990s now find themselves in a perilous position. In organisational terms, most of them have technology and support services in business units, as well as at a corporate level. Often the centralised services organisation at corporate level is perceived to be unresponsive to business needs, unpleasant with external suppliers, and a poor performing entity. Senior executives face a dilemma: what to do with centralised services organisations as well as duplicate technology and support services in the business units? Careful design of a shared service organisation not only improves agility and brings efficiency. it can also help make decent profit – find out how.

Throughout the 1990s many industries, such as financial services, telecommunications, and pharmaceutical industries, grew by merger and acquisition. Other companies extended their international reach by organic growth or joint ventures. In all cases, the prime business drivers were increasing market-share, gaining economics of scale and returning better shareholder value. While a handful of companies, such as Royal Bank of Scotland, have successfully integrated the acquired businesses, others ended up with a network of independent and autonomous businesses spanning multiple countries each with their own technology and support services. During the same period, companies that grew by organic means reduced their central personnel by farming out support services to business units. While the business units created service organisations that were responsive to their immediate needs, decentralisation led to duplication and raised overall costs. The very size of these organisations is creating management complexity and many companies are finding the expected savings and improvements elusive.

Over the last decade, the unrelenting cost reduction pressures forced some of these companies to create a new organisational model that would simultaneously maintain the internal customer responsiveness of the decentralised service units and eliminate organisation-wide redundancies. This new organisational model, where some common functions, such as Finance & Accounting, HR, Supply Chain and enabling information technology are housed, is known as shared services. Shared services promised to bring the best of centralisation and de-centralisation with the benefit of cost reduction (see Figure 1).

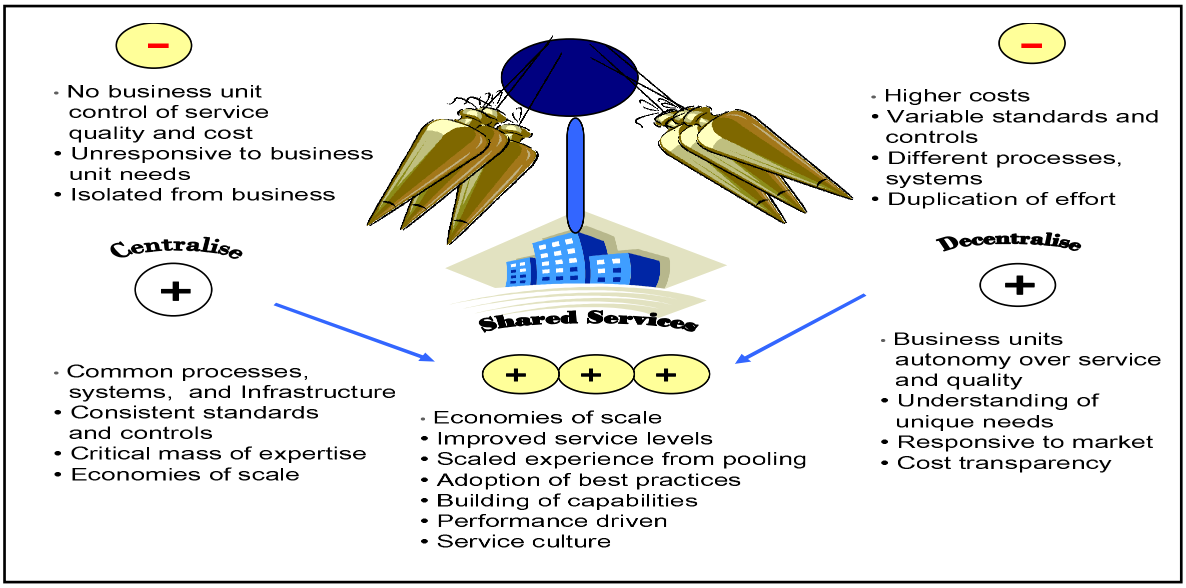

Figure 1: Shared services bring the best of centralisation and de-centralisation

The objective of the shared services model is to bring the external market disciplines in-house and enable the company to compete with the best the marketplace has to offer in functional expertise, efficiency and productivity, service quality, whether in information technology, finance and accounting, HR, or other service areas.

Good idea but unattractive outcome

Since the 1990s, shared services have been implemented by a wide range of companies. While these companies have invested heavily in management resources and new information systems, including complex enterprise resource planning (ERP) system, many have not been able to achieve the promised cost reductions. As a result, these companies decided to outsource the functions they initially put into the shared services organisations, and it has contributed to the recent growth of the business process outsourcing and offshoring market (see *Offshoring: Saviour or Value Destroyer?* by Pal and Hammond). So, what went wrong?

How to get shared services right

In order to get shared services right, the mind-set of senior management needs to move from mere administrative cost reduction to value creation. Therefore, the fundamental business driver of shared services should be to build an agile organisation, develop capabilities for growth by bringing flexibility, formulate a partnership culture among the business units and the shared services organisation and create a knowledge-based and performance oriented shared services organisation that is capable of competing with the best. In this approach, cost reduction is the natural byproduct of successful shared services implementation.

Companies that successfully implemented shared services have redesigned the processes and put in place governance frameworks to encourage business units' managers to treat support functions of shared services as a controllable cost that they can influence. By implementing a joint model where businesses and shared service managers collaboratively develop required services, companies can achieve substantial cost reductions whilst continuing to satisfy the needs of the business units they serve (see Figure 2).

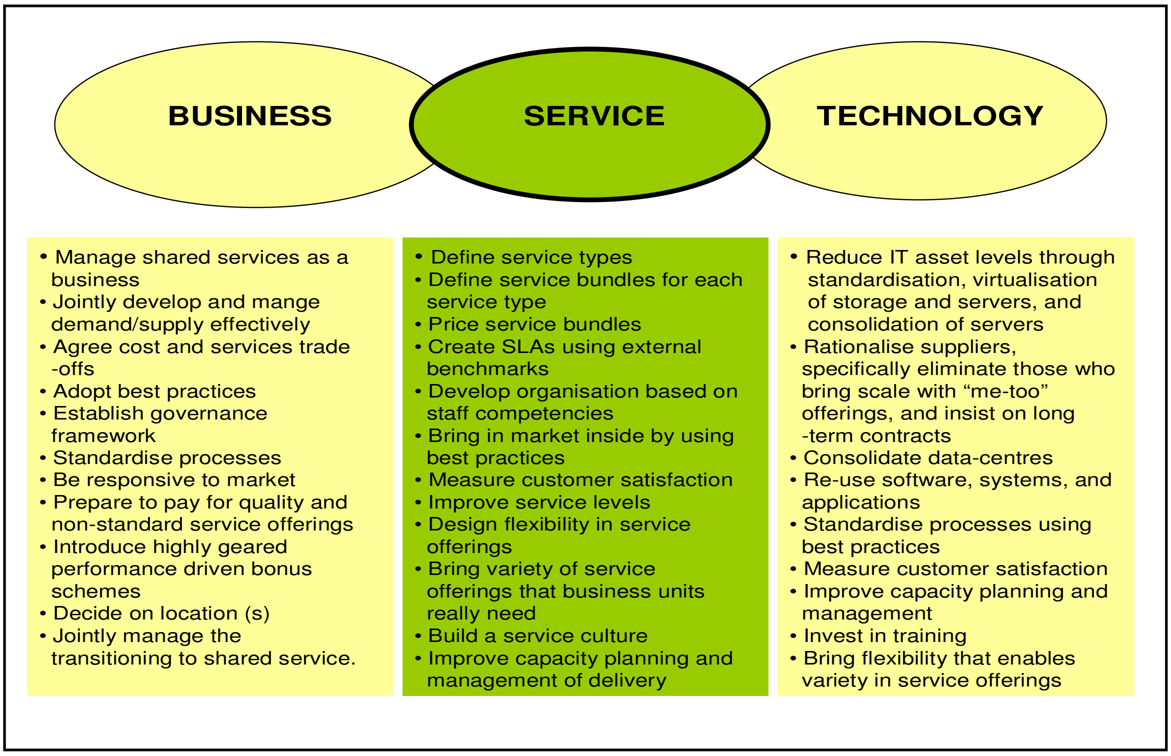

Figure 2: Framework for getting shared services right

From back-office problem to profit-maker

Today, many companies are examining how to capture the next wave of value that successful shared services organisations have helped to create. We believe that the next natural step will take shared services outside the walls of the company, either as a buyer and aggregator of external services for internal business units' clients and/or seller of services to external customers (see Figure 3).

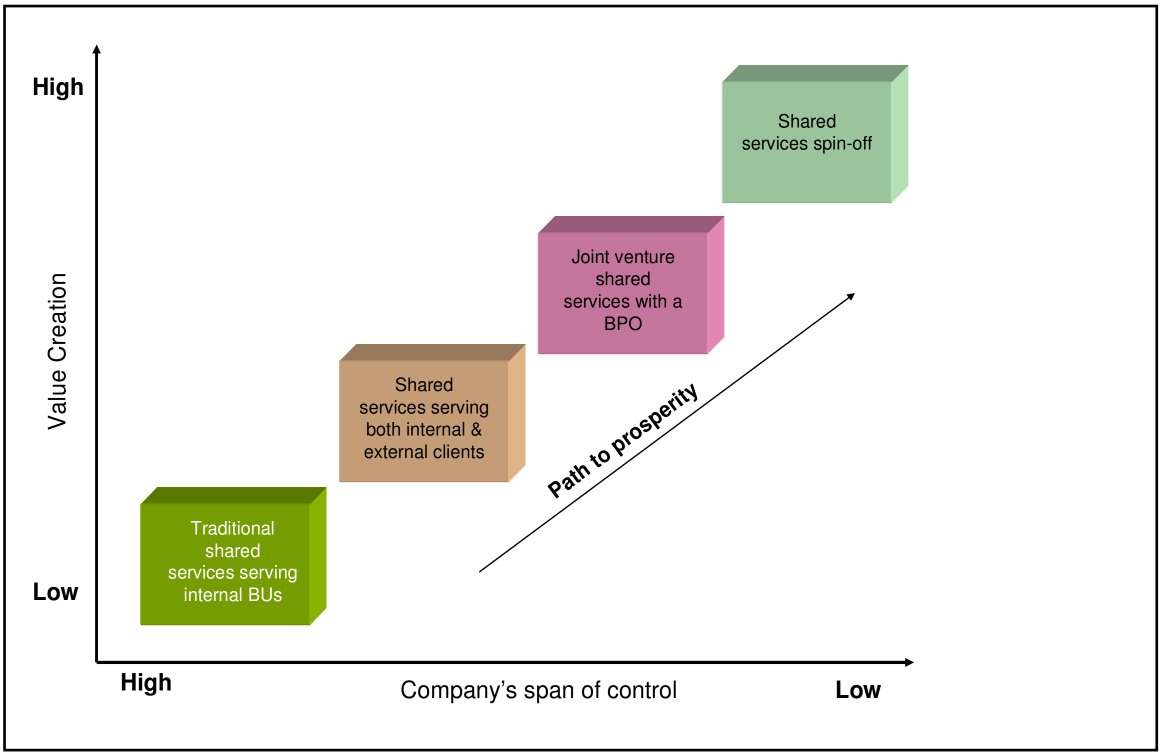

Figure 3: From back-office problem to profit maker

In today's business environment, the lean corporate head office provides a real alternative. By keeping strategic functions in the corporate core, giving the business units the capabilities they need to compete, and encouraging the growth of organisation-wide knowledge sharing, senior executives can focus on value creation by implementing shared services, making the company become more than the sum of its component parts.

Beyond shared services: service aggregation

Shared services no longer need to own all the components if they can coordinate business elements offered externally by the market at a lower price and/or of better quality (see *Why integrate, when you can aggregate* by Pal and Hammond). And indeed, lower costs have already led many companies to outsource and offshore production activities. Some shared services organisations have become coordinators and aggregators. These organisations can be seen as a form of service aggregation apparatus, consisting of many shared services nodes capable of creating service bundles in a meaningful manner to meet both internal business units' and external customers need.

Delivering superior services to customers will be a challenging task for most shared services organisations. Instead of providing just a list of products in the form of a menu to customers, shared services organisations have to become *service makers*. Successful shared services organisations will be those who bring the market inside.

About the authors

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About Centrix

Centrix is a leading independent consultancy that brings together the best of business, service and technology to create lasting value for its clients.

What Centrix Brings

Centrix helps clients assess companies' *make* versus *buy* decisions using its own *Decision Making Framework*, which includes various *Economic Value Assessment* and *Organisational Capability Assessment* models. Many companies fail to capture the full value of their shared services initiatives because of overly optimistic expectations about the time, effort and skills required as well as over estimating their internal capabilities. Centrix works with clients to design shared services and effective implementation processes.