



When Execution Matters

An Overview of Shared Services September 30, 2009 – 3:15 pm by Katie Yuchi

In the ongoing financial and economic crises, companies are finding it increasingly difficult to boost sales in a recessionary market. They are under relentless pressure to reduce costs in order to increase, or just maintain, profitability. In this highly expense-conscious environment, companies are exploring various options to save on direct and indirect expenses. Shared services has become one of the top choices for companies, especially large corporations, to support intense efforts in reducing expenses and costs. In this article, I will share what shared services is, its benefits, and its common capabilities. This article is an introduction to our next blog, a more detailed description of shared services implementation.

Shared services is not new to enterprises. It began in the early 1980s when Ford operated a shared services center for customer service in Europe. Today, 30% of Fortune 500 companies in the United States have implemented some form of shared services with reported cost savings up to 46%. Before the recession, shared services was used to help pursue growth in a robust economy. Now it is being called on to deliver financial savings in this economic storm. In any economic circumstances, however, shared services not only reduces costs, but also increases business effectiveness.

So what is shared services? Shared services refers to the provision of a service by a service-oriented organizational unit where that service had previously been found in more than one part of the organization or group. Shared services forces the consolidation of systems, processes, locations and organizations.

Shared services, if done right, is a source of competitive advantage for businesses. It not only reduces costs by eliminating redundant processes, activities and resources, but also enables better analysis and decision making based on reliable information and high-quality data, promotes better service level, enhances the ability to leverage technology and strengthens internal controls.

The traditional “big three” shared services functions are IT, Finance, and Human Resources, which involve highly repeatable activities and are regarded as back office functions. Though shared services emphasizes centralization of back office tasks, it also encompasses more. Shared services is similar to centralization in delivering such benefits as economies of scales and standardized processes. However, unlike centralization, which is inflexible, unresponsive and detached from the business, the shared services center (SSC) runs as an independent entity and signs service level agreements (SLAs) with its internal stakeholders. In the following sections, we discuss in detail shared services offerings in IT and Finance, specifically capabilities around data management and accounts payable.

Data Management Shared Services

Most companies approach implementing shared services in a highly incremental, siloed manner, starting with one function and the most basic processes and serving only a single geography or a few businesses / functions. IT is commonly the first candidate because it provides fundamental information to other business units. Traditionally, companies work toward IT consolidation to achieve general cost containment by taking existing organizations, services or applications and combining them into a single operation. However, IT shared services doesn't need to stop at the foundational unit or service and assume that only way to deliver value to its business units / groups is through a single location or focus on the delivery of a particular service. Other areas, such as master data management, can also be considered as part of the shared services offered by IT. A shared services center that provides data management service can have a broad range of customers, ranging from sales, marketing, finance, service, customer support and others.

A commonly accepted concept among shared services leaders is that treating data management centers as a shared service is the solution to centralizing the management of information and data without impacting business activities or quality of service. That said, customer service orientation is critical to the success of data management as a shared service. As a first step, it is essential to identify what service the data center can provide to its internal

customers, for example to the sales team. An SLA should be agreed upon by the sales team and data management center, outlining services to be offered, defining mutual requirements and expectations, and identifying quantification and measurement of service level expectations. Additionally, the SLA involves the aggregation, reconciliation and mapping, formatting, enrichment, and presentation. This is typically a one-time activity. The next step is to develop a method for accepting new data sources that will be required by sales teams for ongoing support. As an indirect outcome, centralized data management activities will start to yield more standard data as the team gains an increasing level of subject matter expertise with the data domains and can thus easily create customized reports for sales teams such as pricing and promotions, and different slices of forecast. As a whole, the sales management teams are now able to draw a holistic view that wasn't otherwise possible without a centralized data management shared service center.

AP Shared Services

Another common area that companies seek a shared services solution for is accounts payable (AP) in Finance operations. Moving AP to a shared services center requires a single set of streamlined processes and a single technology solution. The typical AP process includes capturing invoices, handling the vendor master files, and resolving accounting corrections. Simplification and standardization of processes is a major theme when moving AP to a shared services center. The streamlined process should start from the front end, where invoices are captured and received centrally, then sent to the field office for approval. Approved invoices are sent to AP, where they are entered into the ERP system for final processing. From a shared services perspective, this process has no visibility or control on the front end, which may lead to some untenable problems such as rush invoices, unrecognized liabilities and lost invoices. The shared services AP process has to include invoice entry to increase the visibility at the front end and enhance internal control.

The standardization of the AP processes requires support by an advanced technology solution. When invoices of all different types are forwarded centrally to AP, the SSC should have the ability to log and index large volumes of invoices. Therefore, a proven and robust AP automation solution that can provide a complete set of capabilities that routes invoices is a must. The AP automation solution should support the capture of invoices in both paper and electronic formats. For paper invoices, eliminating paper as early as possible in the process is a key consideration. For example, use optical character recognition (OCR) to scan the invoices upon receipt. Immediately after scanning, invoice data can be extracted and fed into the ERP system. Processing electronic invoice data is cheaper, less error-prone and can be fed directly into the ERP system. Finally, the AP automated solution should also provide visibility regarding invoice and payment status to provide supplier self-service capability.

Conclusion

Shared services is a more appealing solution than simply centralization or outsourcing in the economic downturn, because it enables organizations to cut costs, delivers value to the business groups that will become consumers of shared service, and provides cost savings avenues from centralization at a common location, process simplification and technology automation. This article has illustrated what a shared services solution can bring to enterprises that use it for data management in IT and AP in Finance.

Implementing a shared services is not a simple task. It requires sophisticated and comprehensive planning followed by robust execution. The most critical component to successes is gaining executive sponsorship and getting the 'right' people involved. Since introducing a new shared services organization in an enterprise involves people movement, resistance to change occurs in each area, at each stage of the project. Thus, a consistent top-down mandate is essential for a shared services project to flourish.

Getting the right people involved not only includes assigning selected individuals to the new shared services organization, but also shifting people from existing job functions that will be replaced by shared services. Because of the sensitivity surrounding job security, how to communicate to stakeholders and design a change management methodology are two tricky areas that require careful planning. Other key pillars of implementation success include program management discipline, a governance model, and a to-be operating model. The above aspects will be included in our next blog: Implementation of Shared Services Model.

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