Shared Services Research: Getting behind the back-office

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Consolidating common service activities into a discrete Shared Service Centre (SSC), where expertise and technology can be brought to bear on work processes and information flows, is an emerging development in the continuing evolution of the segmented organisation and especially the multi-divisional form.

Proponents for the SSC claim that significant efficiency savings can be achieved through business process re-engineering (BPR), the elimination of duplicate systems and moving to a cheaper location. Whilst, similar claims are made for outsourcing, the SSC enables a quasi-market feel to relationships with its ‘customers’ in the business units but crucially allows management to retain managerial control over service activities.

In this article based on a question and answer format about SSCs, Ian Herbert and Will Seal argue that a quiet revolution in back-office services is taking place, one that is not only reshaping the way in which individual tasks are undertaken, but has the potential to impact the way in which we think about the design and operation of large organisations.

Based on research conducted over the last five years, Ian and Will looked at the SSC journey of two companies in the UK, not realising when they first started just how fundamental the SSC model might one day prove to be in both public and private sectors. Financial support from the Chartered Institute of Management Accountants has since allowed them to expand the enquiry to around 12 organisations and to visit SSCs located in Eastern Europe and the Far East.

What is a Shared Service Centre?

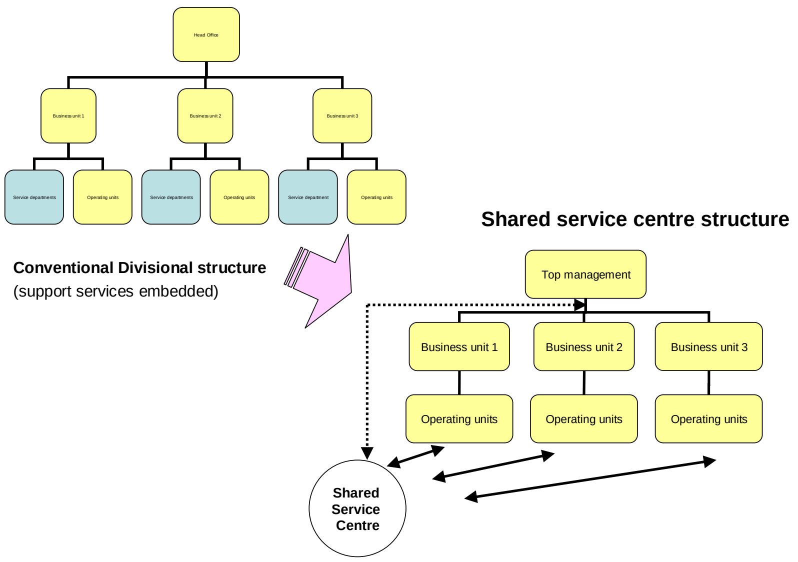
The typical SSC sees a range of support services, such as Finance, HR, Purchasing and IT, taken out of front-line business units and aggregated into a new, purpose-built facility located either in a cheaper part of the home country or offshore.

And the not-so-typical form?

Well, that could include almost any activity, in any form. For example, two or more divisions sharing responsibility for property maintenance between them is a shared service, but that begs the question: Isn't that just a traditional functional set-up?

In terms of our project, a SSC should have its own management team, with a reporting line independent of any one division and the freedom to operate in a quasi-commercial manner. Essentially, governance of the arrangement will be through a formal Service Level Agreement (SLA) and the full cost of the services supplied will be charged back to the participating divisions.

Figure 1 Moving to a Shared Service Model



Is this a new idea?

Yes and no. At some stage, most organisations have found it useful to centralise certain activities; either because the need per individual division is low or infrequent, or that centralisation has enabled senior management to co-ordinate and control the wider organisation. A good example of both aspects is that in the 70s and 80s mainframe computers were very expensive and difficult to operate, hence they tended to be central facilities. Then, in the 90s personal computing and spreadsheets allowed IT to be pushed out to individual desktops. The new ethos was to be 'close to customer' and flexible. Effectiveness in terms of adapting to changing products and markets was paramount, hence a degree of inefficiency could be tolerated.

Since the mid-90s, the trend has been to reconsolidate. For a multi-divisional organisation, the sharing of back-office processes is often a key way of delivering the 'joined-up' company, saving cost and strengthening strategic management.

Is this just within private sector firms?

No. In the public sector, there are examples of several organisations coming together to share services through a new organisation with its own constitution and an objective to cover its costs, maybe to even make a small profit. These examples provide a more obvious shape to a SSC than might be the case in an individual firm although this puts a premium on finding mutually acceptable approaches to recharging and standardisation. The SSC concept is consistent with the current political mantra to make savings but still protect front-line services. The assumption in the *Gershon,* and more recently, the *Total Place,* reports is that there are significant savings to be found in back-office initiatives such as the SSC.

Is the prime motive for the SSC to reduce cost?

Clearly cost is an important, if not the most important factor, for most companies. However, for some of our cases adding value through better levels of service is also a key goal. In these cases, the back-office is seen as an opportunity to leverage the talents of front-line workers rather than being just an other overhead burden to be cut. For most of our case organisations, the real benefit is that the SSC brings a new visibility and transparency to costs that were previously hidden within divisions. Indeed, even for those SSCs with a rationale focussed on cost reduction, actually quantifying how much cost has been saved can be problematic. When we press managers on how they measure the actual extent of SSC savings, we tend to get three responses.

First, savings on the basis of reductions in headcount, or else comparisons between the salary of a typical post before and after the SSC. Whilst such metrics might appear somewhat crude, headcount is still a strong driver for those organisations focussed on the balance between core versus non-core workers - 'front-line' versus 'back-office' workers in the public sector. Furthermore, costs of divisional support staff tend to be fixed. The use of contract workers within the SSC, where larger teams and more programmed processes can better assimilate short term workers, can make admin. costs more variable than might have been the case previously.

Second, post migration savings achieved by the SSC in the second and subsequent years of operation. The ethos behind the re-engineering model is one of continuous improvement and cost reduction.

Third, savings may be achieved through benchmarking and sharing best practice with other SSCs. Once support services are centralised in a SCC, subsequent BPR and further investment in better equipment and systems can be evaluated on a more rigorous cost-versus-benefit basis with outcomes then compared with ‘world best practice’ .

Are the cost savings confined to the SSC?

After efficiencies through aggregation, scale and BPR, the next plank in the cost-reduction strategy arises through the standardisation of procedures across divisional support systems. Running one system in place of umpteen different divisional systems is obviously more efficient; standardisation also means that it is easier to move managers and other resources around a large group. However, this category of benefits arises at a corporate rather than either a business unit or SSC level and thus tends to be less quantifiable.

Presumably there are also non-financial benefits?

Yes, there tends to be a wide range of both planned and unanticipated benefits arising from the SSC . For example, the SSC can employ specialist staff and resources. Often, a key driver in the rationale for the SSC is the adoption of Enterprise Resource Planning Systems (ERP). These systems, like the old mainframe computers, are expensive, difficult to set up and require a certain standardisation of input protocols and output formats across the organisation. This standardisation project fits well with the SSC and suggests a natural owner for the ERP system.

Not only should the SSC provide for greater transparency across the organisation, it may have a better chance of driving through continuous improvement in support services. Continuous improvement can be the mainstream focus for the SSC, rather than just another agenda that has to compete against other priorities for management’s attention in the business divisions. Moreover, the SSC can provide senior management with a powerful lever to drive through changes in corporate level policies and procedures across the whole organisation.

But can these benefits be achieved through conventional outsourcing?

To some extent outsourcing can deliver similar benefits as the SSC. But, there are risks from losing control over outsourced processes, plus a danger that the contract may not be sufficiently responsive to future changes in business volume and operational needs. Whilst a third party may have a vested interest in driving down the cost of its own processes, saving money for the business divisions through better systems may not be a priority.

But can the SSC really have a market-based ethos if its customers have no real choice?

Again, that's a good point. In a number of our cases, the divisions were given a choice whether or not to participate in the early days of the SSC. Thus, it was left to the SSC to sell itself, perhaps having to compete with third-party suppliers. This raises a key difference from other corporate change agendas which seek to address change through more fundamental reorganisation plans. SSCs tend to start small with those 'Cinderella' tasks that are less contentious politically and operationally, such as payroll and bank reconciliations. But, once the SSC has achieved a critical mass and 'steady-state' operation, then there generally comes a tipping point at which divisions will be mandated to use the SSC.

As the SSC's service levels and its costs become a known quantity, these can be benchmarked against a 'competitive' baseline comprising other SSCs to assess continuous improvement. Thus, a degree of external testing is achieved. Additionally, divisions have considerable power to hold the SSC accountable, either through the SLA or political lobbying to senior management. Remember the SSC is still within the hierarchy of the firm and thus the cost of monitoring and enforcing 'contracts' is minimised in comparison to third party outsourcing. There is always an implicit threat that the SSC itself might be outsourced.

But is the SSC merely centralisation by another name?

On the basis of our enquiry it doesn't look that way. Some SSCs have developed 'Centres of Excellence' comprised of higher level specialists who diagnose issues occurring in the business divisions then design and deliver solutions. A key difference in the SSC model is the emphasis on process rather than functional structures. For example, 'purchase to pay' and so-called 'hire to fire' process streams, cut across the conventional silos of different professional disciplines. In the organisations that we examined there really does seem to be a different outlook and feel to the way in which the SSC operates and thinks about itself.

Certainly, when compared to the traditional head office arrangement which tends to become a remote ‘ivory tower’ embodying an overtly bureaucratic mindset.

But, when you say ‘mindset’ it starts to sound like another organisational fad.

The managers in our case SSCs would contend that the SSC model is much more visible and transparent than a head office based facility is ever likely to be. First, because the primary role of head office is to *manage* rather than to *support* business units and there is always likely to be an element of power play between ‘master’ and ‘servant’. Second, the SSC has to justify its recharges based on Key Performance Indicators in the SLA and this drives a level of scrutiny that is absent in the traditional centralisation of services within a corporate head office. Third, without their own support staff it is difficult for divisions to run the duplicate (shadow) systems that tend to create asymmetric information and hence distrust between the central staff and divisional management. The new SSC partnership works because the SSC owns the processes whilst the business units still own the numbers, i.e. the commercial result. Our findings suggest that the SSC model is sustainable we haven’t heard of any firm abandoning its SSC model!

OK, it might endure, but is the SSC merely a technical matter?

You could be forgiven for thinking that and, yes, these could be early days. However, the key issue of the large multidivisional company persists: how to co-ordinate disparate operations into a cohesive strategic form and at the same time control individual divisions to ensure that strategic plans are achieved. Through changing times and business contexts this still remains the holy grail of organisational design.

The SSC enables the centre to have both transparency and visibility of divisional businesses. Standardisation enables more direct comparison above the bottom line of individual divisions, and less opportunity for political posturing based on asymmetric information. The SSC comprises a key element in what is called ‘enterprise architecture’, that is the organisation’s knowledge and systems.

Presumably that would be lost with outsourcing?

It’s a moot point. An outsource provider would argue that ownership of the business ‘numbers’ and the ability to interrogate the data is ultimately down to the organisation buying its services.

So the SSC is really a form of in-house outsourcing?

That's a good way of putting it, although again it's probably a matter of degree. Some organisations prefer to see the SSC as more of a mutually co-operative venture across divisions. Whilst some people argue that in some circumstances conflict can be constructive, our case organisations are generally keen to avoid the tensions that might arise through over zealous application of market principles. The shared service model retains control and ensures that the service continues to both improve and adapt to the business.

Presumably the SSC is less contentious as regards staff issues?

That's right. Outsourcing, especially when going offshore, can be an emotive issue. The SSC model avoids this in the first instance: subsequent evolutionary reductions in headcount through BPR are more gradual and can usually be managed through natural turnover.

Is there a danger of the SSC driving the company?

Certainly. But perhaps that is not so much a threat as an opportunity. A division in one of our cases has found that over time its core engineering service has become less significant in defining its business. Sure, that's how it earns its money, but now the capability necessary for the core engineering tasks can generally be bought in from a range of third-party subcontractors. What is starting to define the intellectual property of the division is its ability to manage a bundle of engineering projects and to deal with myriad customer transactions.

Whilst the SSC may be regarded as just a remote paper factory 'up the motorway', along with the customer call-centres it is what enables the customer interface to work and is a key element in managing the relationship with the industry regulator. Increasingly, it is the activities in the SSC that define the customer experience. Nowadays, the core product, energy, tends to be taken for granted, it is largely a commodity bought at a price. However, customer issues such as moving address or chasing progress are what the customer 'sees'. Other things being equal, it can be this more personal experience which influences future choices between competing suppliers.

Taken together, lots of small evolutionary changes in the hitherto 'peripheral' back-office could see a more revolutionary reappraisal of the design of the multi-divisional form.

And the future?

It would appear that the UK has something of a lead in shared service organisation and technology. The next phase is likely to see an expansion of the scope of the SSC. Perhaps into higher level activities, so-called 'business partnering' such as providing advice to management and designing corporate policy, being undertaken within the SSC. Indeed, looked at from a knowledge management perspective, some SSCs have created such a level of intellectual property in the development of their systems architecture that the mother organisation has been able to sell the whole operation to a third-party, and then buy back the service on contract. This can be attractive once the all important business support processes have been stabilised and a track record of both performance and cost has been established.

The development of shared services across all parts of the public sector is likely to be a massive project in the next few years. In terms of the overall global knowledge economy, the setting up of SSCs and business process outsourcers in China and other Pacific Rim countries, as the manufacturing wave continues to move inland and a new service-based economy fills in behind, is likely to open up further opportunities for cost reduction.

Further information and resources can be found on the project website at www.shared-service-research.com

This article will appear in the June 2010 issue of CIMA's Excellence in Leadership magazine.

Ian and Will's research project is supported by Chartered Institute Of Management Accountants. Ian's latest conference presentation on the project – at the London School of Economics in April – can be accessed as a podcast at **www.lseXXX**

If you work in a shared service environment Ian and Will would be interested to here from you at i.p.herbert@lboro.ac.uk

Photo caption: Ian Herbert (right) being presented with his 'Article of Outstanding Merit 2010' from the International Federation of Accountants by CIMA President Aubrey Joachim. The article can be accessed at

http://web.ifac.org/publications/professional-accountants-in-business-committee/articles-of-merit#articles-of-merit-2009-co