Becoming a key player in shared services

Management accountants can be crucial participants in shared service centres - if they can adopt an outward facing role at the nexus of information flows. This discussion between a group FD and a management accountant shows how it can happen. By Ian Herbert, lecturer, and Will Seal, professor, at Loughborough University Business School.

Much has been written about the power of financial shared service centres (FSSC) - lower costs, clearer focus, better IT, new location, new people, scaleability, standardisation, and so on.

Our aim in this article is to discuss a common frustration from shared services managers that, when things go right, shared services are invisible, but otherwise, they are simply a cost to the business.

Management accountants can be key players in FSSCs, either as managers of the financial shared services or as in-house customers of the FSSC.

How can they adopt an outward, front office, role, at the nexus of organisational information flows and supply chain relationship with divisions, rather than the inward looking, back office, role that accountants might have been traditionally used to?

Niggling directors

The scene is set in the office of a hypothetical group finance director. He is in discussion with financial shared services centre manager Josie Lockhart - a management accountant who has been with the group for 12 years. She worked in the corporate head office until the FSSC was set up three years ago.

GFD: I keep getting niggled about shared services from the divisional directors. They are not saying the service is bad, but that they don’t like paying for it. When I press them, they say that they aren’t sure if they’re getting value for money.

JL: Our problem is that, while everybody accepts the rationale for shared services, I seem to be engaged in a constant PR campaign. I should be spending more time improving the service, but instead I feel more like a sales rep.

GFD: OK - let’s stand back for a moment. What do you think the purpose of the FSSC is? I buy the arguments that it’s saving money, it makes commercial sense, and everyone is doing it, so it can’t be that bad! But, tell me why we should do it? Why don’t we just contract the whole thing out - now, of course, that we understand it?

JL: The FSSC was originally conceived to reduce headcount and increase efficiency through using better IT, business process re-engineering and cutting out duplication between divisions.

The initial revolutionary change developed into a culture of continuous improvement within the FSSC and, as the FSSC became established, the confidence of the business unit management has largely been won.

More recently, we have started to reflect on what else shared services represent. In one sense it has become the glue that binds the company together. If you think for a moment what is difficult about this business it comes down to pleasing customers, and keeping the support of our stakeholders.

Now to put that into perspective, we live in a globalised world and many companies can do what we do technically. But they can't do it on the scale that we do and in the way that we do it. To put the question the other way around 'Why don't our technical staff set up in competition?' The answer is that they would be denied the oxygen of the support services that they presently rely on (and take for granted)!

GFD: And the bottom line is?

JL: That shared services make a commercial logic beyond the individual tasks that we do. No doubt a third party outsourcing specialist could also do those tasks, but taken together, shared services define and preserve what we do. Moreover, to stakeholders, shared services define how we do it.

Let me explain.

Stakeholders want to be assured that we look after their interests. This means making decisions in their best interests and protecting the value of the company. In essence, this is corporate governance. In other words, accountability, visibility and transparency - all the things that a shared service centre enhances.

By placing the common support services outside of the strategic business units, we are creating visibility of those processes, while the business units focus on their core competencies. We know what's going on without interfering. Control is improved.

Best of both worlds

GFD: But 20 years ago we had most of the support functions in head office and everybody said 'That's bad - it's all too remote, ivory tower thinking. Now the gurus exhort us to think local, get close to the customer, to choose solutions that are 'best of breed' not simply some homogenous global standard. Are you telling me that we've moved backwards?

JL: In the past 20 years there has been a trend in both the public and private sectors towards outsourcing and marketisation such that market forces then determine the best price. Running a business becomes a case of satisfying customer needs by packaging a bundle of bought in services around a core expertise. The outsourcing model assumes that the market can't be wrong, or at least, it's difficult to criticise the notion of market forces as a control mechanism. The alternative model is not to trust anyone and to do everything in house - that is, within the hierarchy of the firm.

Both approaches have advantages and drawbacks. Indeed, both can result in reduced control by ceding power either to divisional management, who might have their own agendas, or third parties, who might seek to exploit the contract.

Thus the FSSC can be seen as the best of both worlds. An arm's length, quasi-commercial business model, combined with a customer focus centred on in-house business partnering.

GFD: But I'm now confused. Are you saying that the FSSC is standardising everything or not? We have put a lot of work into becoming more efficient through the 'joined up company' initiative. How can we simply have the best of both worlds?

JL: The FSSC has a basic premise of standardisation and there are certain hard points in the system in terms of input/output formats and the monthly reporting time line. But around that we can accommodate a certain amount of customisation around divisional business protocols and commercial expediencies. The FSSC was never intended to be a one size fits all approach - that's one of the chief advantages over using a third party outsourcer. But neither can it do everything differently.

Bigger picture

GFD: So why then do some divisional managers keep challenging the role of shared services? Why don't you just explain things to them?

JL: Because the monthly service level agreement monitoring meetings tend to get bogged down in detail. We don't get the opportunity to step back and appreciate the bigger picture. Often divisional managers complain about things they know we can do nothing about because the policy is set at board level.

GFD: OK, but to be fair to the divisions, shared services need to ensure that they're doing the right things for people at the right time. This is marketing. We can all be too introspective. A friend of mine recently stayed at a hotel and gave scores of either four or five out of five for all the questions on the room feedback form. However, under 'any other comments' she wrote 'I'll never stay in this hotel again!' The hotel had simply not understood the needs of customers and thus had asked the wrong questions – at least as far as my friend was concerned.

Next there is the day-to-day role of selling - that is, communicating the product offering and getting feedback on your performance. Selling is about getting face to face and sorting the service before it becomes a problem. Service level agreements will always be an ideal. It's also important to have a close personal understanding between parties.

To summarise, a shared service is not just about operational expediency - it has a real purpose, a mission. It goes beyond simply cutting headcount and being a halfway house to third party outsourcing. It underpins our corporate governance model by operating as a quasi-commercial business with clear SLAs. But it also adds value by uncluttering our frontline divisions. The constant tension between the FSSC and divisional directors is natural. It's a part of normal business communication and understanding - we could say internal marketing. Without it, services would not be continually improved and would ultimately become misaligned with the business.

Now tell me what your recommendations are?

JL:

1. The overall rationale and value of shared services needs to be defined and articulated more clearly by the board

2. We need to revisit the performance measures now that the FSSC has achieved steady state and separate them into controllable and uncontrollable factors. The SLAs can then focus on the ongoing relationship.

3. We need to improve communication and understanding between the FSSC and business units. We have something to learn from our colleagues in marketing staff and maybe staff secondments between the shared services and the divisions could help to foster deeper understanding in the long term. For example, some companies use shared services as a corporate training ground.

I will write a discussion paper for the next meeting.

GFD: Sounds good. Fancy lunch?

This article is a part of a CIMA funded research project. Ian Herbert and Will Seal would like to hear from anyone who is involved with shared services and is having to rationalise the overall role and relationships with business customers. For a copy of their latest research paper on shared services, email: i.p.herbert@lboro.ac.uk