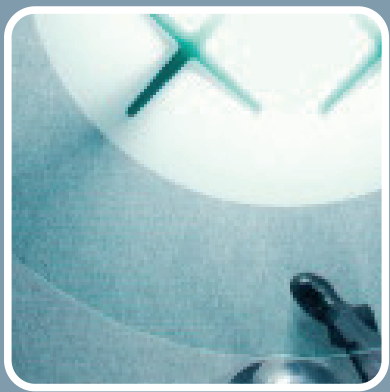
Xayce

Point of View

The Future of Shared Services

The fundamental forces changing the shared service concept



The Future of Shared Services

The fundamental forces changing the shared service concept

Fundamental forces have emerged over the last 3 to 4 years to influence the future direction of Shared Service Centres (SSCs).

This Point of View looks at these forces, current and future SSC delivery models and the competencies required to support future SSCs.

Forces for Change

Basic drivers for shared service centres have been around cost reduction, improved service levels, and efficiency all of which are still vital. The logic of a centralised operation providing a common service to a range of business units is still relevant and compelling.

However, a series of new forces have recently emerged with the potential to significantly impact the shared service centre operation in the following ways:

- What they do
- Who does what
- How they are organised
- Where they are located
- The skills required to operate them

These forces are explained in more detail below:

Growth of new locations

A number of new locations have grown up for SSCs within the European Market particularly in Central European locations such as Prague and Budapest.

These are providing an alternative lower cost option to traditional European locations. At the same time the potential of the offshore facilities to provide SSC services continues to grow, though as yet we have seen little movement in this particular field for wholescale offshore SSC migration.

Alternative sourcing options

The choice available to decision makers has become far more wide ranging and complex. Outsourcing is not new, but what is new is that it has become a viable alternative for mainstream business processes.

As noted above the pace of this change has been accelerated by the growth of locations throughout Western Europe, but more particularly in Central and Eastern Europe and Asia which offer major headline cost reductions over Western European locations.

Low cost, efficient and reliable business process provision is leading to the commoditisation of certain business processes (i.e. AR, AP, claims handling, mortgage processing application).

Technology Innovation

The development of mobile, remote access and Internet technologies, as well as corresponding improvements in bandwidth mean that a single operation is becoming a virtual concept as opposed to a physical one.

Clearly, while physical proximity can enhance efficiency and communications, this is no longer fundamental to the success of transaction processing work. Increasingly, technology is becoming less of a limiting factor in the distribution and location of business functions.

Regulatory pressures

At the same time there are ever greater burdens of legislation and regulation, particularly impacting finance and human resource functions e.g. Sarbanes-Oxley, International Accounting Standards, Basel II and data protection legislation.

These all require a more rigorous set of systems, processes, and controls throughout the organisation. Compliance is no longer limited to one-off audits and ad-hoc checks, but must be systematically proven and sustained.

This requires the functional centre to act as the ultimate organisational arbiter and check on the operations potentially increasing the cost of SSC operations.

Business Needs and Expectations

Internally, businesses are changing their expectations of those functions that are most likely to be supported through a shared service centres, such as Finance and Human Resources.

While expecting these functions to operate more efficiently, they are also demanding a step change in the 'value-add' these functions provide. This 'value-add' must include more strategic services such as the provision of high value capability with a strategic and forward looking perspective as well as better and more timely management information

Without this 'value-add', the function quickly becomes a commodity and therefore, by definition, something that could be provided by a third party.

Within Xayce we have recognised the forces highlighted above have significantly extended the potential range of shared service operating models.

Shared Service Operating Models

There are a spectrum of potential Shared Services operating models. It needs to be stressed that as with all models, real life examples tend to exhibit a mixture of characteristics rather than fit neatly into a single model.

However, we can discern particular trends that we have categorised into three models:

1. Basic Model
2. Centres of Excellence
3. Hub Model

Basic Model

This is the fundamental shift to a single, centralised mode of operation for a business process.

The vast majority of the work is likely to be operational and transaction-oriented as opposed to strategic. Responsibilities will be executed internally.

Centres of Excellence

Once basic models have been established, SSCs have sought to capitalise on the opportunities for improvement. This has been done in three ways.

1. Greater operational efficiency
2. Higher value services
3. Functional expansion

However, these centralised models are still internally delivered and transactional in nature.

Hub Model

At the far end of the evolutionary spectrum, we see the emergence of a new model that takes account of the new forces we highlighted.

We call this model the 'Hub' and anticipate it will have significant implications for both shared service centres and location providers.

The 'Hub' is based on the principle that organisations will retain functions and processes that are core to their operation i.e. whatever provides them with competitive advantage.

The emergence of reliable, low cost, commodity providers of either business processes and/or technologies will mean that there will be an ongoing shift to these specialists when it is economically appropriate.

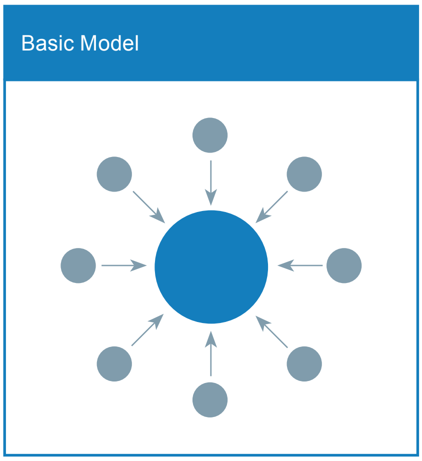
How non-core or 'commodity' services are provided becomes a matter of economics rather then ownership.

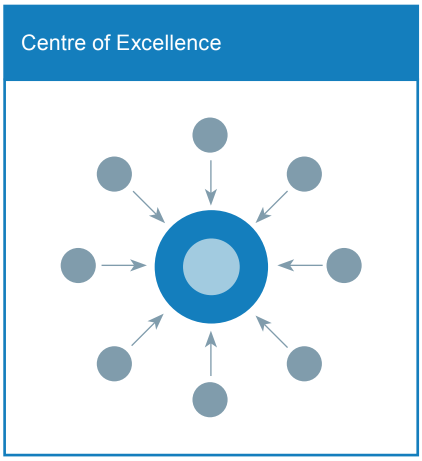
Who, how and where these services are provided depends on the relative importance of cost, risk, quality and control to individual organisations.

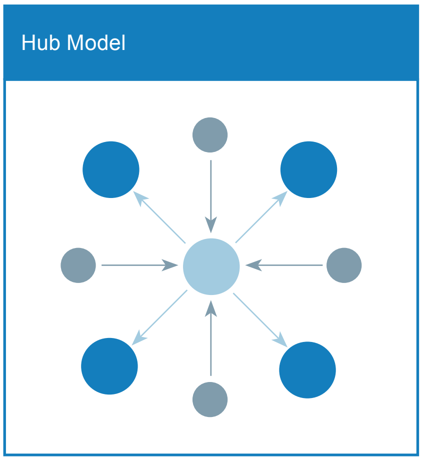
At the right hand end of the spectrum the mature 'Hub' may develop to take on more and more of the characteristics that were previously performed at Head Offices. They will gather together critical groupings of high value functional staff who can bring their expertise to bear across the organisation.

The 'Hub' builds on the principles of the Centres of Excellence, but takes a much harder look at what are value-add services and what is commoditised i.e. it can be sourced from third parties on a best value basis.

- It recognises and deals with the fact that parts of the operation may be best provided by third parties.
- The Hub is focused on identifying and providing those services that should be performed in house – those from which competitive advantage is gained. Commodity services may or may not be performed in house depending on the commercial logic of a particular situation.
- The Hub is focused on outcomes not ownership.
- The Hub is focused on virtual rather than physical proximity.
- The Hub is more aggressive in seeking to increase its value-add services and to expand its functional footprint within an organisation.
- The Hub is an initiator and sponsor of change. It regards business transformation skills as core to its operation rather than something required to deliver specific change before a return to 'business as usual'.
- The Hub recognises that much of the activity it is responsible for may be location independent. The availability of commodity providers and technology solutions mean that operations can be performed from any location within the boundaries of language, skilled labour pools and organisational appetite for risk.







- Business Locations
- Transaction Processing
- High Value Functions

Competency Requirements of the 'Hub'

The Hub requires a new range of competencies that need to be nurtured and developed within existing SSCs.

These competencies include:

- Functional Expertise
- Sourcing Excellence
- Technical Innovation
- Organisational and Functional Integration
- Service Culture
- Business Transformation

The following sections look at each of these competencies in more detail.

Functional Expertise

The Hub will gather together Functional Experts that have a high degree of professional competence and strong knowledge of the business operations. Their expertise will be leveraged across the organisation and the business functions.

In this example we have looked at the sort of skills that will be valued in a Finance function. These might include Business Analysis, Business Modelling, Regulatory Expertise, Risk and Portfolio Management Techniques.

Sourcing Excellence

As we have highlighted, a significant proportion of SSC activity may become 'commoditised'. This may be through process automation due to the introduction of new technologies or through the availability of cost-effective third party solutions.

The ability to optimise and execute these sourcing decisions will become a core skill. An SSC without these skills risks decisions being taken elsewhere in the organisation that will directly impact upon its operation.

Expected skill sets include:

- Sourcing strategy and selection
- Supplier and contract negotiation (including SLA definition)
- Transition
- Operational improvement
- Insourcing or transfer skills

To retain control of its own destiny, the SSC must have the capacity to successfully collaborate with third parties. If it does not volunteer to build these skills it may find that it is eventually compelled to work for, rather than with third parties.

Technical Innovation

Using enabling technologies effectively and efficiently is key to the onshore SSC retaining its competitive edge in the minds of key decision makers within the business. This means building both awareness and understanding of technology opportunities and the capability and capacity to execute the implementation of these technologies and obtaining the business benefits.

For example the new generation of Business Process Management tools introduces a new level of sophistication into the tracking and monitoring of business processes. They will ultimately enable management to retain control and visibility of business processes regardless of which providers and technologies underpin the organisation.

Organisational and Functional Integration

The commercial logic of mergers, acquisitions and disposals makes life difficult for SSCs. Benefits from shared back-office processing costs are always part of any M&A benefits realisation strategy

SSCs are required to take on operations that arise from these transactions with maximum speed and efficiency. Similarly they also need to be able to dispose of those parts of the operation that may belong to third parties

Within the organisation, the SSC needs the capability to add additional functions to its portfolio as swiftly and as seamlessly as possible. These functions may be incremental e.g. taking on financial consolidation from Head Offices into a Finance SSC, or they may be completely new, e.g. taking HR into a Finance SSC.

Business Transformation

The SSC of the future will be involved in a continuous programme of change driven by the addition of new functions, services, sourcing options or decisions, technical operations and M&A as well as an accelerating drive for improved performance in terms of service and cost.

The ability to renew and develop its operations and capabilities is vital to its long-term success and development. These core project and change management skills underpin its ability to achieve this objective.

Service Culture

It is critical for the SSC of the future, comprising as it may do of a range of providers and locations, to still offer consistent levels of service. Part of this is driven by the creation of service levels agreements and contractual obligations.

However, real success will come from a service-orientated culture which seeks to exceed business expectations and which seeks to surprise and delight the customer with its ability to deliver and innovate.

Barriers to Adoption

Clearly this vision is one that is some way from reality, but the barriers that limit a general shift towards this model are not insurmountable. These barriers include:

- Organisational inertia
  This kind of shift is significant and challenging. An organisation will need strong management direction and business reasons to proceed rapidly down this path.

- Critical mass of activities
  The economics of using third party providers and multiple locations require a critical mass of resources and costs to make it sufficiently attractive .

- Reliability and pricing of third party providers
  This market is still evolving and developing. The quality of third party providers needs to be proven before there is a significant shift to this operational model.

- Staffing skills and quality
  As we have highlighted, the Hub Model will require the introduction of new staff with different competencies and the development of existing staff.

- Cost of transition
  The cost of transition can be high as projects are undertaken and staff development is followed through. Additional technology investment may be required.

- Perception of risk
  In the short term the model may be perceived as risky as not yet widely adopted. This will need to be set against the possible savings and improvements that an organisation may be able to achieve.

Conclusions

There are fundamental forces acting to significantly change the operating model for Shared Services as it has traditionally been configured.

While there are barriers to a full scale shift to what we have characterised as the 'Hub' model, there are already clear signs that some shared service centres are beginning to evolve in this fashion as they come under internal pressure to continue to reduce costs and enhance service.

We expect most major shared service centres to be starting to actively consider a shift towards this model within the next two years. How quickly they move towards implementation is not yet clear.

Point of View Series

This white paper is one of a regular series of Points of View on back office transformation and other leadership topics. Xayce (www.xayce.com) is a business and technology consultancy that specialises in helping its clients transform their back office operations.

The views and opinions expressed in this article are meant to stimulate thought and discussion. As each business has unique requirements and objectives, these ideas should not be viewed as professional advice with respect to your business.

Point of View Series

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