

NAVIGATOR CONSULTING SERVICES

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Re-engineering Shared Services

*Leveraging Activity Based Management and stakeholder partnerships
to standardize processes, reduce waste, reward efficiency,
and achieve excellence in Shared Services*

Introduction

Shared service centers are efforts by large companies to consolidate common processes such as IT, finance and accounting, or insurance claims administration under one roof. The vision is that rather than having several subsidiaries performing the same functions independently, efficiencies can be gained by centralizing them.

Often, one center inherits the entire workload and must scale upward while the others are eliminated. Sometimes a new Service Center is created altogether. Either way, the result is often a train wreck of customer dissatisfaction based on a perception of higher cost and lower quality. All problems, real or imagined, are blamed on the service center and its staff.

For Shared Services the challenges of scaling upward are many:

- ◆ Volume increases for the new/surviving supplier (the Service Center) while cooperation from customers (who's departments are being outsourced) withers
- ◆ Processes vary from one customer to the next
- ◆ Costs are allocated by a formula such as percentage of revenues rather than services rendered, creating no incentive for customers to restrict demand or control the quality of their inputs
- ◆ The technology and reporting may be inadequate
- ◆ The shared service center is not able to decline non-core services
- ◆ The shared service center has no authority to drive change on the customer side

It need not be this way. With proper governance, shared incentives and relevant measures the vision can be brought to life.

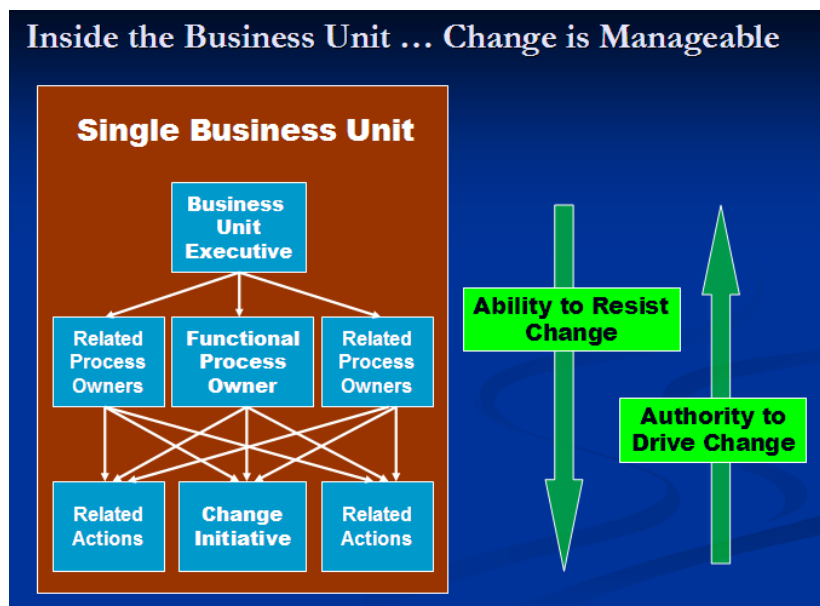
The Challenge of Change across Organizational Lines

Before we do a deep dive into change management in the shared services environment, let's discuss change in general.

The Single Business Unit

At the simplest level, inside a single business silo, nearly all factors are controlled. A senior executive has authority over the process, process owners, and subject matter experts and how they spend their time.

Execution is a matter of walking across the hall and having the conversation. There is limited ability to resist change and high authority to drive it.

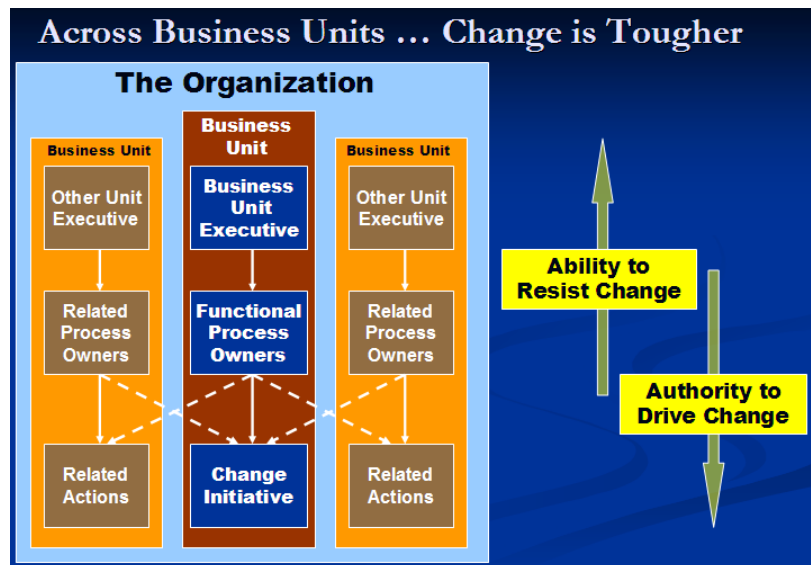


Multiple Business Units

As initiatives cross business silos change becomes tougher. Business units compete for resources; have conflicting priorities, and limited ability to influence one another's associates.

The situation becomes political. Worthy initiatives can bog down for lack of cooperation and bandwidth.

The ability to resist change rises. The authority to drive change decreases.

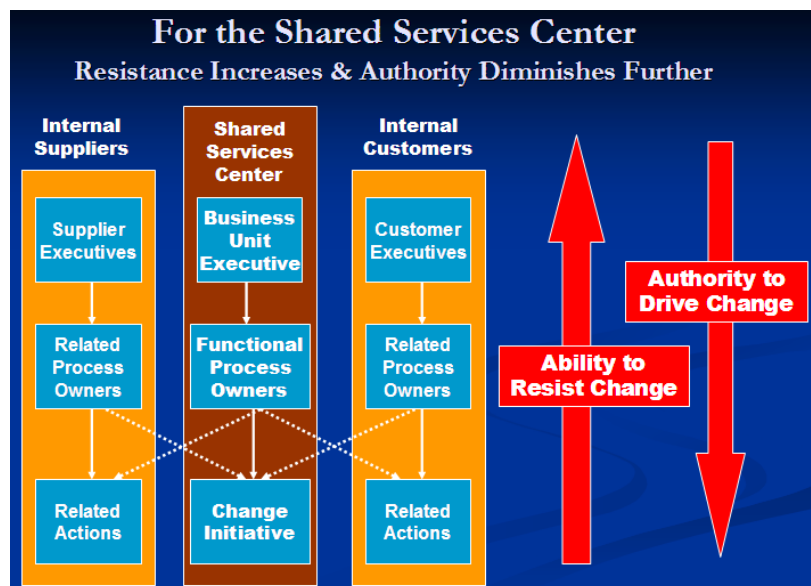


Shared Service Centers

Shared service centers are among the most complex. They have all the challenges of multiple business units, as well as internal customers and suppliers over whom they have no control.

Unlike a "for profit" business, the shared service center frequently cannot control its pricing. They have little ability to standardize processes, or regulate the quality or timing of inputs or requests.

From a marketing perspective the shared service center does not have to compete to win or retain business. Neither can they fire their customers. Customers have significant ability to resist collaboration. The shared service center has little authority to drive it.



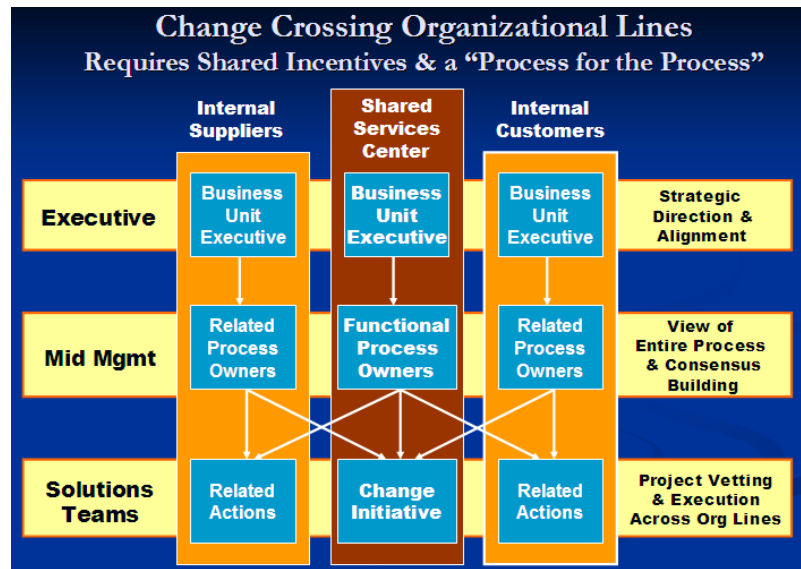
Excellence at least cost in Shared Services will be self-defeating if:

- 1) Stakeholders do not share the risks and rewards for efficiency or inefficiency
- 2) There is no one cradle to grave view of business processes
- 3) There is no workable forum for gaining consensus
- 4) There is no one entity dedicated solely to linking strategy to execution through performance measurement and management.

A New Paradigm for Excellence in Shared Services

We have identified four root causes blocking excellence at least overall cost in shared services.

- ◆ Stakeholders do not share the risks and rewards of efficiency or inefficiency
- ◆ There is no cradle to grave view of business processes
- ◆ There is no workable forum for gaining consensus
- ◆ There is no one entity dedicated to linking strategy and execution through performance measurement and management



The conceptual framework is simple but not easy

Solution #1: Reward efficiency by accurately billing and budgeting

The problem with cost allocations is that customers pay the same amount regardless. There are no penalties for faulty or late inputs or outrageous requests. There are few rewards for creative solutions. In fact, quality control costs customers more because it is their people, rather than the shared services center that must go the extra mile. The message is, "You're paying for it anyway, so send us your worst."

The tool for correcting this is using Activity Based Costing and Management (ABC/M) to accurately bill customers for services. ABC traces the flow of resources and effort from the General Ledger to the various departments, to the people and assets within, to the activities performed, to the final goods and services, to the customers who consume them. The modeling process itself engages people in truly understanding, perhaps for the first time, how they work together.

Activity Based Costing and Management help companies:

- ◆ Reward efficiency and penalize inefficiency by billing accurately
- ◆ Gain a comprehensive view of the flow of resources through the business
- ◆ Isolate and quantify pockets of waste
- ◆ Target and prioritize improvements
- ◆ Quantify cost/benefit
- ◆ Make fact-based decisions
- ◆ Benchmark and share the results of outcomes
- ◆ Staff correctly to provide value-added services, because customers pay for what they ask for

Solution #2: Create a Formal Structure for Governing Change

Governing change occurs at three levels: Strategy, Analysis and Execution. This cannot be ignored.

Strategy: The Executive Level – There must be a guiding coalition of executive sponsors representing all business silos. This group is headed by an Executive Sponsor, who is preferably the CEO or CFO. There is enormous power in having this governance under the control of Finance since it is cost allocation and billing that create the incentives for change.

The Guiding Coalition of Executives provides strategic direction in the form of three critical elements:

- ◆ **The Burning Platform:** What is the threat that if not addressed immediately by all stakeholders, all parties will lose?
- ◆ **The Shared Vision:** It's not enough to flee from a threat. The company must converge on something better. What is so important, beneficial and agreed upon that people are willing to lay aside individual agendas in support of the larger goal?

There are three criteria for a motivating Shared Vision

- ❖ *It represents a significant financial win*
- ❖ *It solves a large organizational problem that is felt by all*
- ❖ *It creates competitive advantage*

- ◆ **The Executive Mandate:** The senior executive must send a clear message that participation and 100% support is demanded. Anything less will have consequences. The power of a strong executive mandate cannot be underestimated.

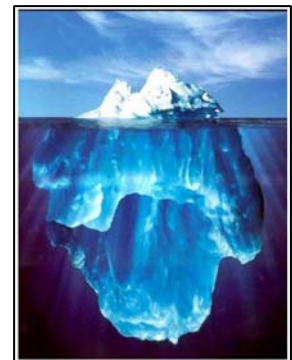
Analysis: The "Iceberg Team" of Middle Management Process Owners -

One of the hazards of offshore oil production in the North Atlantic is icebergs drifting into the production platforms. How do you dispose of a 200,000 ton block of ice that is as large as a 15 story building?

One answer is that you don't. You just hope it goes away on its own. The solution that is actually used is to put a line around the iceberg and tow it far enough away to eliminate the hazard of collision.

The point is that problems do not go away by themselves. Neither can they be solved by defining them only in terms of what can be seen. Without a way of mapping and managing the entire problem it is destined to remain.

At the operational layer of change management there must be a guiding coalition of process owners ... an "Iceberg Team." This includes at least one permanent member from each business silo.



Members of the Iceberg Team identify problems, vet solutions, and interface with the Executive Team to execute. They are committed to finding the best solutions overall, and will not be bullied or become bullies themselves.

When projects are implemented it is the individual members of the Iceberg Team who will identify and free up subject matter experts. They do the blocking and tackling within their business silo to ensure that solutions are driven.

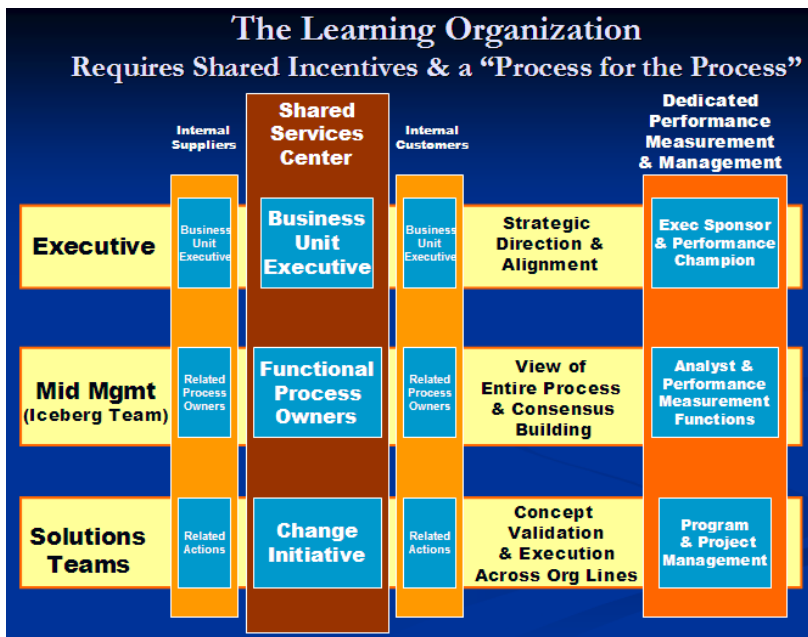
Execution: Solutions Teams – As they say, “Nothing changes until something changes.” This means that solutions must be executed. In the case of solutions crossing organizational lines, cross-functional teams are necessary.

Solutions Teams are temporary, composed of Subject Matter Experts (SMEs), and commissioned to accomplish specific tasks. This may be to gather facts, and make recommendations. It may be to implement a solution. Solutions Teams report to the Iceberg Team, who ensures they have the resources and political cover to be effective.

Solutions Teams are excellent proving grounds for “up-and-comers.” Emerging leaders are given responsibility, bracketed by help, and can be mentored during the project. They gain recognition and feedback, and valuable experience.

Solution #3 – Provide Dedicated Staff Facilitating all Three Levels

There is one element missing, without which, all else may fail. This is a group of key individual who are exclusively dedicated to facilitating and shepherding the process. This group must function at the Executive Level, facilitate and focus the Iceberg Team, and manage the Solutions Teams. Ideally, they will have direct ties to the Finance Department, using ABC/M to link the dollars to operational data. In the chart to the right the right-most column represents this Performance Management Group.



Performance groups that do not function at all three layers of Strategy, Analysis & Execution will struggle with a lack of relevance: becoming either custodians of reports or baby-sitters of a hopeless pile of disconnected projects.

The concept of a Project Management Office is not new. These groups frequently are ineffective however, because of the causes identified earlier or they do not operate at all three levels (Strategy, Analysis and Execution). These challenges can be overcome.

Strategy, Analysis & Execution: Deployment of ABC/M and Creating an Office of Performance Management

Revisiting Square One, the issue is driving change across organizational lines in the shared services environment. We have identified four root causes blocking excellence at least overall cost.

- ◆ Stakeholders do not share the risks and rewards of efficiency or inefficiency
- ◆ There is no cradle to grave view of business processes
- ◆ There is no workable forum for gaining consensus
- ◆ There is no one entity dedicated to linking strategy and execution through performance measurement and management

Developing the “Learning Organization”

The “learning organization” evolves, getting smarter over time. You will require a formal approach and dedicated staff for managing change. The following START© Governance Chart offers such an approach, enabling management of enterprise-wide initiatives, and the milestones within. This framework is flexible enough to accommodate (and even deploy) management systems such as the Balanced Scorecard for Strategy and Six Sigma for process improvement. There are five core elements.

- ◆ Leadership – Sponsorship & dedicated staff
- ◆ Strategy – Setting a direction and identifying, scoping, prioritizing and resourcing initiatives and sub-initiatives that will achieve the strategy
- ◆ Structure – Formal governance, performance measurement, project planning and team commissioning
- ◆ Execution – Project management and active review of relevant reporting
- ◆ Endurance – Anchoring wins and driving further gains via governance and control

The Checklist of Change

- 1) Define Strategic Intent at the Executive Level
 - What is the Burning Platform?
 - What is the Shared Vision that:
 - Creates a large Financial Win?
 - Solves an Organizational Problem?
 - Creates Competitive Advantage?
 - State the Executive Mandate
- 2) At the Operational Level implement comprehensive performance measurement using ABC/M & other relevant metrics
 - Financial measures can be used for:
 - Billing and budgeting to create shared incentives
 - Quantify and prioritize pain points
 - Operational measures can be used to:
 - Isolate root causes
 - Benchmark improvements
 - Form Iceberg Team of Process Owners
- 3) Use Pain Points as pilot projects to create early wins, develop learning, and fund positions dedicated to improvement
 - Solving pain points develops the organizational discipline for continuous improvement
 - The demands educate stakeholders that there is a need for:
 - Formal governance bridging organizational and customer/supplier lines
 - Dedicated resources to facilitate strategy, analysis and execution
- 4) Create a dedicated Performance Group to continuously facilitate:
 - Strategy at the Executive Level
 - Process Improvements at the Operations/Customer/Supplier Level
 - Execution at the Project Level

Leadership

There are four key roles in change management. These are reflected in the gold band along the top of the START© Governance Chart below.

- ◆ **Executive Sponsor** – Who is the high level executive that will provide the executive mandate, confront obstructionists, and guide the Executive Team?
- ◆ **Performance Champion and/or External Consultant** – Designate an executive who will pioneer the entire performance measurement and management initiative. They will establish the strategic architecture, recruit and coach others, and oversee startup teams of varying purpose and duration. At first the Project Champion may actually be an external consultant who has been there, done that.
- ◆ **Senior Business Analyst** – Formally appoint a senior business analyst to manage the ABC model, develop and interpret management reports, create an environment of visibility and accountability for performance management, build (and coach others in building) business cases, and facilitate executive decision making. Ultimately there may be several analysts.
- ◆ **Senior Project Manager** – Formally appoint a senior project manager capable of liaising across organizational lines and supervising multiple projects team simultaneously.

The START Governance Chart©				
Stages:	STRATEGY	STRUCTURE	EXECUTION	ENDURANCE
Leaders:	Exec Sponsor & Performance Champion	Performance Champion		
		Senior Business Analyst & Senior Project/Program Manager		Responsibilities Are Shared
DEPLOYING PERFORMANCE MEASUREMENT & MANAGEMENT WHILE MAKING CHANGE MANAGEMENT A CORE COMPETENCY (May be used to implement other enterprise-wide initiatives. Check the boxes that apply. Not all may be necessary.)	Leadership <ul style="list-style-type: none"> <input type="checkbox"/> Designate the Executive Sponsor <input type="checkbox"/> Appoint the Performance Champion <input type="checkbox"/> Address Issues of Ineffective Leadership Enrolling Support <ul style="list-style-type: none"> <input type="checkbox"/> Balanced Scorecard Strategy Map or Executive Summary <input type="checkbox"/> Pain Point Analysis Scope the Project <ul style="list-style-type: none"> <input type="checkbox"/> Business Case <input type="checkbox"/> High level process diagram(s) <input type="checkbox"/> Approvals 	<ul style="list-style-type: none"> <input type="checkbox"/> Modeling/testing of performance tools <input type="checkbox"/> Early reporting environment defined <input type="checkbox"/> Governance Structure <input type="checkbox"/> Sr. Business Analyst <input type="checkbox"/> Sr. Project Manager <input type="checkbox"/> Detailed Process Mapping & Analysis <input type="checkbox"/> Detailed Project Plan for Pain Points & Milestones <input type="checkbox"/> Project Team(s) Commissioned 	<ul style="list-style-type: none"> <input type="checkbox"/> Rollout of Enterprise-wide analytics & business intelligence tool(s) <input type="checkbox"/> Ongoing analysis of the reporting environment <input type="checkbox"/> Project Management 	<ul style="list-style-type: none"> <input type="checkbox"/> Recognition & Rewards <input type="checkbox"/> Incentive Program <input type="checkbox"/> Formal Training <input type="checkbox"/> Controls in Place <input type="checkbox"/> Refine Reporting Environment <input type="checkbox"/> Documentation <input type="checkbox"/> Exec Summit to update Strategy Statement & Map <input type="checkbox"/> Knowledge Transfer from consultants <input type="checkbox"/> Develop calendar for continuity activities
	<input type="checkbox"/> Identify pain points, milestones and sub-initiatives. Implement solutions using the stages in the START© Governance Chart. In the process develop the organizational discipline for continuous improvement.			

The START© Model for deploying enterprise-wide performance measurement & management

The four columns: Strategy, Structure, Execution and Endurance are described next. Besides Leadership, these are the cornerstones for deploying ABC/M or other enterprise-wide performance management tools.

Strategy

Change begins as an idea, belief or vision. In the shared service center the belief is that centralizing services will eliminate redundancy, achieve best practices, and provide more efficient and effective services at least overall cost.

Achieving this vision requires a guiding coalition of senior executives led by the CEO, who is the ultimate decision maker. From this group the CEO will assign an Executive Sponsor who will take a more hands-on role. The CFO or senior executive of the shared service center is a likely candidate.

Heading the Department of Performance Management is a Performance Champion. The Performance Champion works directly with the Executive Sponsor to map and execute strategy. They have ultimate responsibility for the development and approval (by the Executive Coalition) of business cases and project scoping documents. This person will facilitate the Iceberg Team of Process Owners.

Structure

Structural roles are largely analytical. Within the Department of Performance Management there will be one or more individuals responsible for maintenance of the ABC model, development, review and analysis of reporting, coordinating the development of business cases, and interpreting data for the Iceberg Team.

Execution

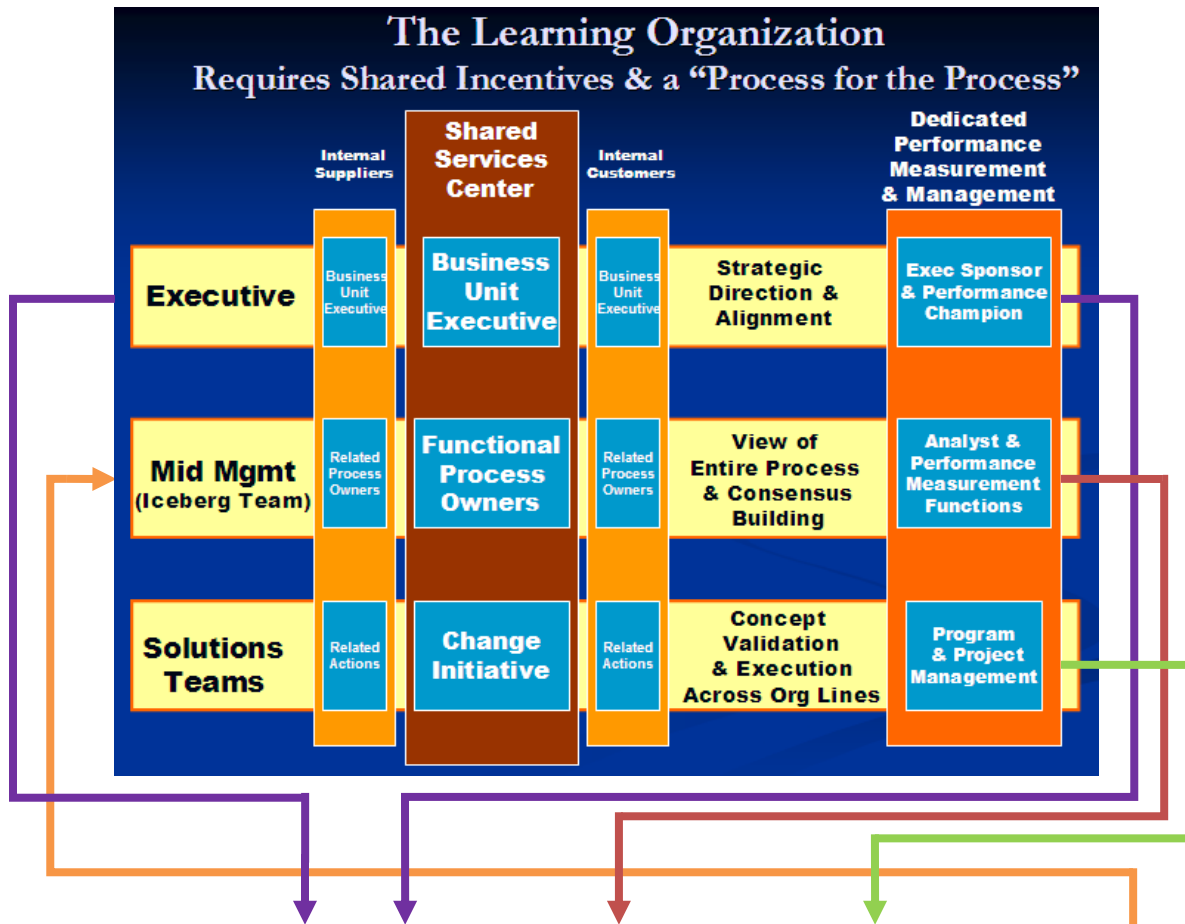
The power of information is in its ability to change behavior. Strategy and analysis result in change initiative, which will only be as effective as their execution. The Department of Performance Management requires a dedicated Program Manager, who will coordinate teams commissioned by the Iceberg Team.

Endurance

Endurance means sustainability. The learning organization has the ability to analyze problems and their root causes, identify and implement solutions, use the outcomes to validate and update strategy, and repeat the process. The organization owns this, rather than the Department of Performance Management.

Anchoring this within the culture of the organization includes recognition and rewards, incentive programs, training, controls, refining the reporting environment, documentation, validating assumptions and updating strategy, knowledge transfer, and developing a calendar of continuity activities.

The Department of Performance Management must work directly with the Iceberg Team to make these handoffs. This is where shared incentives really come into play, because these stakeholders must ensure changes take root.



The START Governance Chart©				
Stages:	STRATEGY	STRUCTURE	EXECUTION	ENDURANCE
Leaders:	Exec Sponsor & Performance Champion	Performance Champion		
DEPLOYING PERFORMANCE MEASUREMENT & MANAGEMENT WHILE MAKING CHANGE MANAGEMENT A CORE COMPETENCY (May be used to implement other enterprise-wide initiatives. Check the boxes that apply. Not all may be necessary.)	Leadership <ul style="list-style-type: none"> <input type="checkbox"/> Designate the Executive Sponsor <input type="checkbox"/> Appoint the Performance Champion <input type="checkbox"/> Address Issues of Ineffective Leadership Enrolling Support <ul style="list-style-type: none"> <input type="checkbox"/> Balanced Scorecard Strategy Map or Executive Summary <input type="checkbox"/> Pain Point Analysis Scope the Project <ul style="list-style-type: none"> <input type="checkbox"/> Business Case <input type="checkbox"/> High level process diagram(s) <input type="checkbox"/> Approvals 	<ul style="list-style-type: none"> <input type="checkbox"/> Modeling/testing of performance tools <input type="checkbox"/> Early reporting environment defined <input type="checkbox"/> Governance Structure <input type="checkbox"/> Sr. Business Analyst <input type="checkbox"/> Sr. Project Manager <input type="checkbox"/> Detailed Process Mapping & Analysis <input type="checkbox"/> Detailed Project Plan for Pain Points & Milestones <input type="checkbox"/> Project Team(s) Commissioned 	<ul style="list-style-type: none"> <input type="checkbox"/> Rollout of Enterprise-wide analytics & business intelligence tool(s) <input type="checkbox"/> Ongoing analysis of the reporting environment <input type="checkbox"/> Project Management 	Responsibilities Are Shared <ul style="list-style-type: none"> <input type="checkbox"/> Recognition & Rewards <input type="checkbox"/> Incentive Program <input type="checkbox"/> Formal Training <input type="checkbox"/> Controls in Place <input type="checkbox"/> Refine Reporting Environment <input type="checkbox"/> Documentation <input type="checkbox"/> Exec Summit to update Strategy Statement & Map <input type="checkbox"/> Knowledge Transfer from consultants <input type="checkbox"/> Develop calendar for continuity activities
		<input type="checkbox"/> Identify pain points, milestones and sub-initiatives. Implement solutions using the stages in the START© Governance Chart. In the process develop the organizational discipline for continuous improvement.		

Pain Points, Milestones & Sub-Initiatives

To this point the discussion has largely been about deploying Activity Based Costing, creating relevant reporting and implementing the governance. There is more. With this foundation in place many sub-initiatives and milestones that will need to be managed. This is where the payoff is. The same model works, even for Six Sigma.

The START Governance Chart©: Scaling the Solution to the Need				
Stages:	STRATEGY	STRUCTURE	EXECUTION	ENDURANCE
Leaders:	Exec Sponsor & Performance Champion	Performance Champion		
		Senior Business Analyst & Senior Project/Program Manager		Responsibilities Are Shared
DEPLOYING PERFORMANCE MEASUREMENT & MANAGEMENT WHILE MAKING CHANGE MANAGEMENT A CORE COMPETENCY (May be used to implement other enterprise-wide initiatives. Check the boxes that apply. Not all may be necessary.)	Leadership <ul style="list-style-type: none"> Designate the Executive Sponsor Appoint the Performance Champion Address Issues of Ineffective Leadership Enrolling Support <ul style="list-style-type: none"> Balanced Scorecard Strategy Map or Executive Summary Pain Point Analysis Scope the Project <ul style="list-style-type: none"> Business Case High level process diagram(s) Approvals 	<ul style="list-style-type: none"> Modeling/testing of performance tools Early reporting environment defined Governance Structure Sr. Business Analyst Sr. Project Manager Detailed Process Mapping & Analysis Detailed Project Plan for Pain Points & Milestones Project Team(s) Commissioned 	<ul style="list-style-type: none"> Rollout of Enterprise-wide analytics & business intelligence tool(s) Ongoing analysis of the reporting environment Project Management 	<ul style="list-style-type: none"> Recognition & Rewards Incentive Program Formal Training Controls in Place Refine Reporting Environment Documentation Exec Summit to update Strategy Statement & Map Knowledge Transfer from consultants Develop calendar for continuity activities
	<ul style="list-style-type: none"> Business Case development, presentations and approval of sub-initiatives 		<ul style="list-style-type: none"> Identify pain points, milestones and sub-initiatives. Implement solutions using the stages in the START© Governance Chart. In the process develop the organizational discipline for continuous improvement. 	
Sub Initiatives & Milestones Including the IT Deployment	<ul style="list-style-type: none"> Assign Project Manager Project Scope Project Team commissioned High level process diagram(s) Pain Point Analysis 	<ul style="list-style-type: none"> Detailed Process Mapping & Analysis Project Plan Update reporting environment based on information required for analysis 	<ul style="list-style-type: none"> Project Management 	<ul style="list-style-type: none"> Controls put in place Documentation Update reporting environment Update the Strategy Statement or Business Case Knowledge Transfer from consultants Develop calendar for continuity activities
Six Sigma Projects (For Six Sigma companies)	<ul style="list-style-type: none"> Assign Project Manager / Team Define Stage <ul style="list-style-type: none"> Project Charter Define Customer Requirements High level process diagram(s) 	<ul style="list-style-type: none"> Measure Stage <ul style="list-style-type: none"> Data Collection Plan Collect Data Analyze Stage <ul style="list-style-type: none"> Data Analysis Process Analysis Root Cause Analysis 	<ul style="list-style-type: none"> Improve Stage <ul style="list-style-type: none"> Generate Solutions Select Solutions Implement Solutions 	<ul style="list-style-type: none"> Control Stage <ul style="list-style-type: none"> Control Methods Response Plan

The START© Model works for deploying IT, sub-initiatives, and Six Sigma projects as well

The Road is long, but the Journey Worthwhile

Fully deploying the START© Model and ABC/M, and baking it into the culture of the organization is at least a two-year process. This is not to say that it early wins will not be achieved. In fact, the best way to deploy is to focus on immediate pain points that either represent a financial win, are organizational problems, or whose resolution will offer competitive advantage.

Of course, there will be resistance. Remember that the Executive Team, led by the CEO must specify a Burning Platform, a Shared Vision that over-rides individual interests, and an Executive Mandate communicating that non-compliance is not an option. They must be willing to enforce this by confronting and possibly eliminating obstructionists.

Done properly, the recommended approach addresses the four root causes blocking excellence at least overall cost in the shared service environment.

- ◆ Stakeholders now share the risks and rewards of efficiency or inefficiency – Using ABC for billing, financial incentives are put in place
- ◆ There is a cradle to grave view of business processes – The ABC modeling process offers a comprehensive view of the flow of resources through the business. The data leads to smarter questions, which leads to improvements in the model, which results in better data. Active review of the relevant reporting environment keeps the focus on continuous improvement
- ◆ There is a workable forum for gaining consensus – The governance structure creates visibility and accountability, and peer pressure to drive change across organizational lines
- ◆ There is a single entity dedicated to linking strategy and execution through performance measurement and management – The Department of Performance Management provides focus, facilitation and forward progress. The rest of the organization can function, and be involved as needed

There will be conflict, but there is also a forum for dealing with it in a constructive way. Disagreement can be escalated from the project team, to the Iceberg Team, to the Executive Team, and ultimately to the CEO. The vetting process enrolls support and puts enormous peer pressure on all parties to support the larger solution by taking appropriate actions within their own business silo.

The less quantifiable benefits include positive changes within the organization's culture. While it takes time, a steady stream of measureable wins breeds an expectation of success. Performers grow and improve, while non-performers are exposed for what they are. Faced with this, they either ramp up or make a different decision, frequently leaving the organization.

The results are measurable. Time and again this approach has helped organizations achieve greater output and higher levels of customer satisfaction, with fewer people and at lower cost. These results have been achieved in one of the toughest environments of all: the shared service center.