Everest Group

Shared Services Centers: Understanding Key Drivers for Success

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Introduction

Enterprises frequently embark on significant transformational initiatives in the search of cost effective and efficient service delivery models. They seek to maximize leverage of existing capabilities, achieve economies of scale, deliver enhanced value, optimize its processes, and improve responsiveness, flexibility and quality of the services delivered.

One solution is the deployment of shared service centers (SSC). These have been shown to drive cost savings and increase profitability by leveraging existing capabilities across business units.

However, realizing the value of SSC is dependent on not only the design and execution of a strong approach, structure, and processes, but it also requires the appropriate and effective communication of the need for change and the value such change can deliver.

This can pose an especially perplexing challenge. Value is rarely perceived the same by the various recipients of the SSC services, whose unique requirements and needs often present significant and unique challenges of their own.

Thus, the individuals either championing SSC deployment or tasked with communicating its rationale must address its perceived purpose(s), dispel any concerns or apprehension, and be prepared to shepherd the process from creation to completion.

Minimizing SSC Misuse & Maximizing Effectiveness to Deliver Value for Enterprise and Business Units

The design and roll-out of a SSC can deliver significant value, while at the same time inviting mistakes and misuse. The inappropriate leverage or use of a SSC or deficiencies in the design of any of the core components can have a negative impact on the operational and financial results of a business unit.

Common mistakes in the creation and management of an SSC include:

- Causing larger and more profitable business units to "subsidize" others. This can significantly distort the financial results of individual business units, creating misleading impressions and potentially misguided investments

- Establishing a one-size-fit-all approach to the solutions delivered by the SSC. While this simplifies the management of services, many times the SSC ends up under or over delivering. This creates additional issues the business units need to address, while eroding overall economics and effectiveness

- Overlooking the importance of establishing solid governance structures and processes to manage the relationship and demand of services from individual business units

- Creating chargeback or pricing models that are not based on parameters associated with the actual demand of resources and also cannot adequately address major shifts in volume (including mergers or divestments)

- Establishing a centralized delivery model, which does not appropriately leverage the capabilities available across business units, geographies, and external service providers to optimize value to end-customers

To maximize the effectiveness of a SSC, enterprises must follow a strategic approach to its implementation and management. As part of the initial feasibility assessment and design processes for a SSC, enterprises should consider the specific environment, needs, and requirements of individual business units and the enterprise as a whole. This must include defining clear roles and expectations.

The following table includes some elements business units should assess during the feasibility analysis for each of the services/functions to be delivered by the SSC.

Feasibility analysis components

Area	Description
Strategic Benefit	Determine the role and expectations for the SSC. Identify the value of the SSC to help the enterprise or specific business units increase market penetration, capture new clients, expand relationships with existing clients, improve government relations, provide greater local market insights/connections, improve overall image, etc.
Core Function	Determine the degree of leverage and standardization that can realistically be achieved for a specific service/function. The business unit industry, market, or regulatory environment may demand unique (vs. shared) characteristics for a service/function.
Value/Cost (Benefits)	Determine if the value or cost savings possible with the SSC is significant or marginal. The analysis must consider value for the enterprise and each business unit. Consider any potential cost and disruption that may be caused during the implementation.
Risk	Ascertain the nature and level of risks associated with the eventual transition to a SSC, or during the delivery of the services/functions included. Gauge any possible cultural, financial, operational, legal, or other implications.
Change Management	Assess whether the organization possesses the maturity to manage a significant transformational process. Consider the implications associated with establishing the governance and communication mechanisms to enable, and ideally ensure, success.
Process Maturity	Appraise process maturity across business units and the effort involved to enable standardization. Seek to maximize leverage of existing capabilities and optimization opportunities. Note: An SSC can "force" the organization step up in the process maturity curve but may add risks and complexity to the transition.
Regulatory Compliance	Identify regulatory compliance requirements associated with each business unit and the impact to the SSC service delivery and operational model. Regulations often add requirements and impose restrictions that affect the way business units interact with a SSC.
Company Culture	Establish cultural differences across business units and the potential impact to the SSC service delivery and operational model. Company culture typically drives one of the biggest design decisions: Will the use of the SSC services be mandatory? Or will individual business units have the prerogative to opt-in or opt-out? Each business unit's cultural style must be addressed during the transition and upon the implementation or establishment of a relationship with the SSC.
Complexity/Cost	Determine the level of effort and cost associated with the implementation of a SSC, especially with respect to the expected payback period. Is it worth the costs or disruption? Could moving services to a third-party provider be a better option?
Geography	Identify needs and requirements based on languages, geographical location, and resource availability. Consider any on-site resources that may be required for complex, highly interactive activities, which may limit or restrict a SSC from delivering the expected value to a business unit or geography.

Case Study

Client Overview

The enterprise is a leading multi-national organization in the oil distribution and utilities industries, operating three major business units. Each business unit handles a specific line of business subject to different regulations and market challenges

Engagement Overview

The enterprise was interested in establishing a shared services center to manage all the IT infrastructure services for the corporate group and all its business units. They conducted a preliminary analysis to understand the specific needs and requirements, existing capabilities, challenges, and opportunities to consider during the design and implementation of the SSC

Findings and Implications

Upon completion of a detailed feasibility analysis, which included interviews with key stakeholders from all business units, the enterprise was able identify the following requirements/challenges and determine their implications:

Area	Findings	Design Implications
Value/Cost (Benefits)	A business unit with low cost structures and expectations perceived no value to upgrade IT capabilities through standardization	The SSC contemplated process standardization, with differentiated service levels and costs for each Business Unit when required
Change Management	High resistance due to a failed previous effort in another area	Key stakeholders from all business units were engaged during the design and transition of the SSC
Process Maturity	Significant variance existed regarding the process maturity, expertise, and capability of the different business units for functions within the scope of the analysis	A decentralized model was designed to better leverage existing expertise and capabilities
Regulatory Compliance	A business unit is subject to regulations that require transparency in its cost structures to prevent dumping practices	A robust accounting and chargeback model was designed to meet government regulations
Complexity/Cost	Inconsistent organization structures and definition of services and roles across business units	The SSC defined a services portfolio that clearly outlined the assumed and retained functions, as well as the required governance. Business units restructured their IT organizations

Key Benefit/Results

As a result, the enterprise was able to:

- Identify key design elements for the establishment of the SSC, including:
  - Use of an operationally decentralized model to leverage core capabilities in the organization and reduce transition costs
  - Defining a robust chargeback process for accurate cost distribution and to meet audit requirements
  - Defining differentiated service offerings (service levels and price points) to minimize impact on business unit financial performance
- Identify core competencies across the organization that could be leveraged
- Get buy-in and engage key stakeholders across the organization
- Spot major risks and proactively establish mitigation plans
- Establish the value of SSC, including cost savings and performance improvements

Conclusion

While shared service centers can add significant value to organizations, each enterprise should invest the time to understand the specific characteristics, needs, and requirements driven by their environment. These should include, but not necessarily be limited to the industry, market, culture, competition, regulations, and business model. Even within a single enterprise, these components may significantly vary across business units.

A poorly designed SSC may not only be a drain on the businesses it support, it also may stymie (unintentionally or otherwise) related major improvement initiatives within and beyond the SSC. All these elements must be considered in the SSC design, or when establishing a relationship with an existing SSC.

Defining the strategic intent of the SSC and assessing its feasibility are only the first step. Moreover, findings ought not to be seen as “show stoppers” or “roadblocks” to justify or quash the establishment of an SSC. Instead, consider the discoveries unveiled in the process as design considerations to aid in the SSC’s development and ultimate success.

Existing SSCs struggling to achieve the expected success should assess their current structure, processes, and service offerings and realign their capabilities to the needs of its customers. Additionally, business units that merge to or spin-off from existing enterprises should also assess the value of establishing or maintaining the relationships with a SSC.

At its core, the SSC should deliver value and even an opportunity for organizational introspection. It should not be a point of internal confrontation. Done effectively, a SSC provides the enterprises embarking on significant transformational initiatives and opportunity to uncover cost effective and efficient service delivery models. In the end, the enterprise may maximize, discover or achieve existing capabilities, economies of scale, enhanced value, process optimization, improved responsiveness, and flexibility and quality of the services delivered.

About Everest Group

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