
Shared Service A Benchmark Study

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EXECUTIVE SUMMARY

Moving to a Shared Services model is clearly a successful strategy for achieving significant savings across a wide variety of processes. As companies face high transaction costs, inconsistent service levels, and organization redundancies, this strategy has proven to both reduce costs and increase efficiencies.

Today, as Shared Service Centers mature, there is one alarming statistic. Approximately 80% of the Fortune 500 companies that currently operate in a shared service environment are not employing best practices.¹ As the initial payback or ROI is achieved, continuous improvement toward best practices will lead the way to maintaining and achieving additional cost savings and other value-added improvements.

To monitor issues in the Shared Service environment, The Johnson Group conducted a benchmarking survey during IQPC's 2005 Shared Services Week. In addition to the written responses from over 40 companies from around the world, The Johnson Group is providing additional insights obtained through our discussions with workshop participants and consulting with our clients.

Key findings

1. **The primary reasons for implementing remain the same and now include Sarbanes-Oxley.** Cost reduction (78%) and transaction efficiency (72%) remain the top two reasons for transitioning to shared services. Today's implementers can gain insight into the potential expected savings by looking at their predecessors results. While less than half of respondents (46%) tracked the savings generated from transitioning to a Shared Service Center, of those that did, the majority (65%) obtained over 15% savings. Sarbanes-Oxley is a new consideration for implementing Shared Services. Operating in a central and standard environment fosters a stronger control environment typically resulting in a lower cost of compliance on an on-going basis.
2. **Executive support and change management remain critical.** The top two critical success factors for implementing a shared service center were executive support (32%) and change management (26%). While both elements are key to success, what surprised many participants was their underestimation of the importance of change management. Change management needs to be incorporated from the beginning of the project through implementation and continue after the center is operating.
3. **KPI's and SLA's are the current best practices most often used.** Key Performance Metric (68%) and Service Level Agreements (62%) continue to be the most common best practice approaches in use today. While SLA's are commonly employed, there is much concern over the effectiveness of these agreements.
4. **Continuous improvement and customer partnerships continue to be challenging.** Continuous improvement (32%) topped the list of challenges facing today's shared service centers. Companies are making the effort to integrate a continuous improvement mentality into their cultures. Creating successful customer partnership and addressing customer resistance (24%) followed as the next most critical challenge. There is frustration with the inability of centers to engage their customers as partners. Many are striving to be seen as a value-added partner rather than strictly a service provider.

INTRODUCTION

The shared services model has proven itself over the last decade and is moving into a mature phase of development. By implementing a shared services model, companies across a wide variety of industries have achieved significant cost savings, averaging 15%.

The next step for shared service centers is to embrace best practices. Approximately 80% of today’s service centers are not using best practices. ¹ As the initial payback or ROI is achieved, continuous improvement toward best practices will lead the way to maintaining and achieving additional cost savings and other value-added improvements.

In order to monitor issues in the shared services environment, The Johnson Group conducted a benchmarking survey focused on four primary areas:

- The transition to Shared Services – initial reasons and actual benefits achieved
- Critical factors for a successful implementation
- Best practices employed today
- Current challenges facing shared services organizations

This survey was conducted during IQPC’s 2005 Shared Services Week. In addition to the written responses from over 40 companies from around the world, The Johnson Group is providing additional insights obtained through our discussions with workshop participants and consulting with our clients.

THE PRIMARY REASONS FOR IMPLEMENTING REMAIN THE SAME AND NOW INCLUDE SARBANES -OXLEY

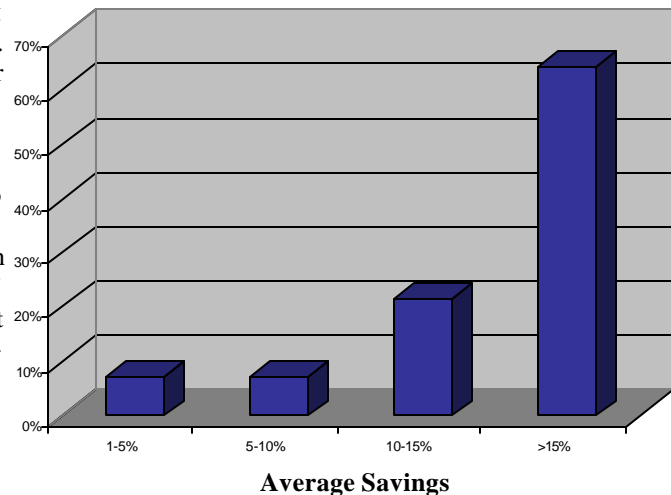
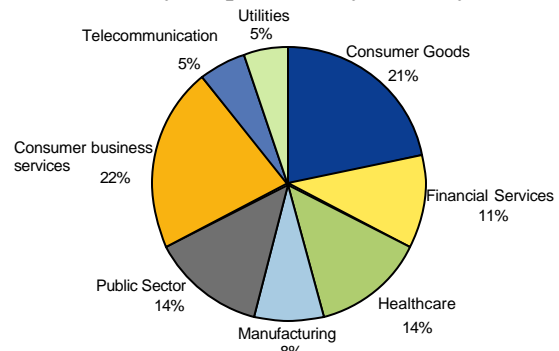
Maturity and Documented Savings

Shared services is entering a mature phase in its development. Among our survey participants, 33% have had their center in place for over five years. The strategy has reached a broad spectrum of industries as demonstrated by our survey base. The majority of respondents had revenues in excess of \$5 billion.

Given the main driver for creating a shared service center is often cost savings, it was surprising that over half of our respondents (54%) had not tracked savings generated by their shared service center. Of those who did perform the analysis, 64% saved in excess of 15%. Typical savings resulting from an evolution to shared services range from 10-25%. High volume transactional processes typically result in higher savings while advisory services result in less savings but higher value.

Regardless of the reason for transition, it is recommended to focus on the upfront planning component prior to jumping into an implementation. There is a direct correlation between the amount of pre-implementation planning and the level of success. The most successful companies “Think big, but start small” and their implementations are supported by a compelling business case that outlines expected savings.

Survey Respondents by Industry

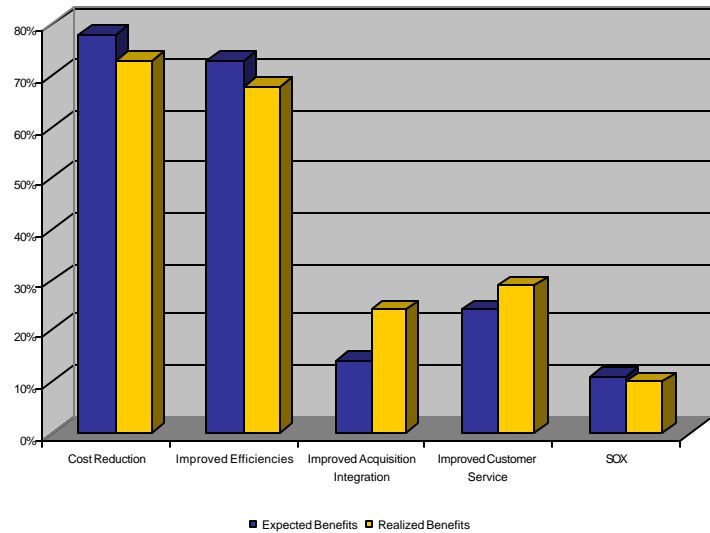


Benefits – Expected versus Realized

When asked the primary reasons for a transition to shared services, cost reduction still tops the list at 78%, however, improved efficiency ranks as a close second at 73%. This is consistent with an overall corporate trend. More companies are seeking efficiency through shared service centers. Companies are implementing performance management tools to measure efficiency and are holding employees accountable for results.

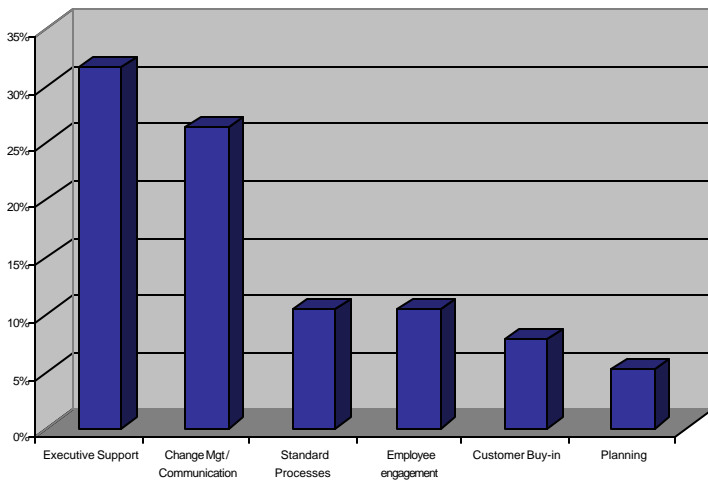
As we look towards the future, leading edge companies are evolving towards shared services for more strategic reasons. This trend is evidenced by an increasing number of companies finding that shared services enable them to achieve valuable benefits in both their ability to improve acquisition integration (24%) and improve customer service levels (29%).

Easier Sarbanes-Oxley compliance is a new benefit realized in the shared services environment. Nearly 10% of respondents independently wrote-in Sarbanes -Oxley compliance as a primary benefit achieved from their evolution to shared services. Operating in a central and standard environment fosters a stronger control environment typically resulting in a lower cost of compliance on an on-going basis.



EXECUTIVE SUPPORT AND CHANGE MANAGEMENT REMAIN CRITICAL

Overwhelming, 91% of respondents agreed that change management plays either an extremely important or a very important role to a successful implementation. In our workshop discussions, the importance of this aspect of the plan became clearly evident as we discussed the risks of not incorporating change management techniques including fear of losing jobs, fear of losing control, fear of relocation and the overall fear of the unknown which can all create organizational chaos. Incorporating change management at the beginning, integrating it throughout the transition, and after implementation has now become best practice. This element cannot be over emphasized. A true change management plan will conduct an in-depth cultural assessment, detailed transition planning and recognize the need for constant communication. The importance of celebrating even the smallest of successes is a way to drive cultural change.



Success Criteria

business case can lead to strong overall executive support, by illustrating both the quantifiable and non-quantifiable benefits. The business case ensures that all parties are “on the same page with the common vision of success”.

Focusing on standard processes was the next item mentioned as critical to a successful implementation. Often times, companies will try to consolidate multiple processes into a centralized environment. While this approach can reduce the planning and design time required prior to implementation, it can also lead to multiple inefficient processes in a central location. New employees who do not understand the processes are learning “bad habits”. It is strongly recommended to, at a minimum, develop and implement a standard process for the service center.

Change cannot be effectively implemented without the active support from top executives. This was the most frequently cited factor leading to a successful implementation from survey respondents. An executive sponsor needs to be actively involved from beginning to end, and should be a C-level executive who communicates to the organization why shared services is important.. A compelling

KPI'S AND SLA'S ARE THE CURRENT BEST PRACTICES MOST OFTEN USED.

Consistent with expectations, the majority of survey respondents have Key Performance Metrics (KPI's) and Service Level Agreements (SLA's) in place. The overarching goal of a shared service center is to provide the best service and quality at the lowest possible cost. Three components work together to allow the center to reach that goal; the SLA, KPI's and continuous improvement efforts. The SLA should specify the goal for annual improvements, KPI's should help measure your progress throughout the year and continuous improvement efforts are the mechanisms for affecting your KPIs.

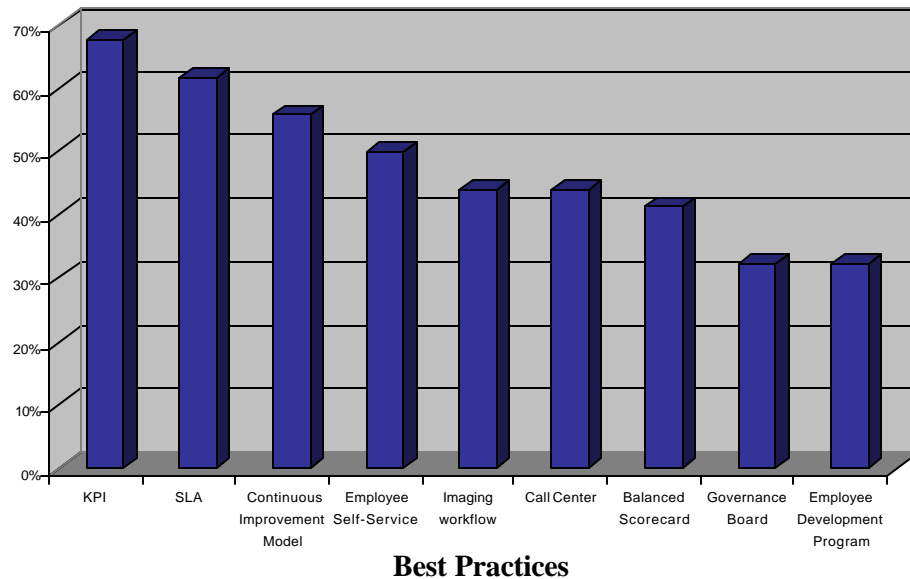
While 62% of companies have SLA's, there is still much debate concerning the effectiveness of those agreements. If you are not careful, SLA's can take on a life of their own, becoming an administrative burden. It is recommended that much effort be focused on three critical success factors relating to SLA's:

- Simplicity
- Transparency
- Accountability

It is also critical to have the SLA's developed jointly between the customers and shared service center to best establish an environment that enables a true partnership between all parties.

A significant number of companies (56%) have a continuous improvement model in place. Participants focused on various process improvement tools. Approximately 50% are utilizing various methods for process improvement, including Six Sigma

and much less formalized methodologies. The most important goals of participants were to keep moving and showing progress, while keeping employees involved in the improvement to instill ownership. Center management needs to avoid becoming complacent. Instead they should always seek customer feedback, focus on ways to improve performance, and keep employee skill sets up to date.



32% of companies have a formal governance board in place. The board can be a strong factor in improving center performance. Typically the board consists of equal parts from both the supply and demand sides of a service

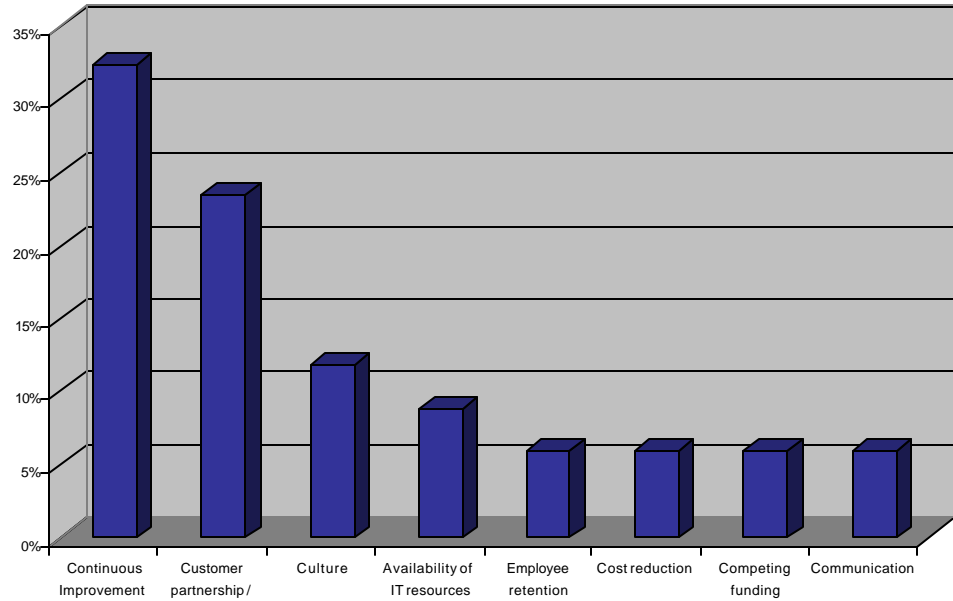
center and acts as a mediator for disagreements on the SLA. This oversight role is essential to ensure a strong process and accountability. However, a governance board needs to also provide guidance at a strategic level in order to foster continuous improvement within the organization.

CONTINUOUS IMPROVEMENT & CUSTOMER PARTNERSHIPS CONTINUE TO BE CHALLENGING

The future in shared services is about continuous improvement and customer partnerships. Many organizations are looking for ways to improve but are frustrated with resource constraints and competing initiatives. Too often, organizations view shared services as a one-time event rather than an on-going evolution. There is always room for improvement.

Many responding companies are frustrated with the resistance from customers. They struggle to find better ways to engage and educate customers on their services. Their goal is to be a value-added business partner rather than strictly a service provider.

The good news is that service centers are beginning to focus on employee development and retention. In the past continued cost reduction was the focus. Six percent of survey respondents indicated that employee retention was the top challenge facing them today. Engaging them in the improvement process and providing them challenging career paths will assist in retaining talented employees.



Current Challenges

CONCLUSION

Much progress has been made in the shared services arena over the past decade, but there is still significant room for improvement. Cost reduction and efficiency continues to be the primary reasons for a transition to shared services but strategic reasons, such as acquisition integration, Sarbanes – Oxley compliance and customer service are on the rise.

Companies are just now beginning to recognize and quantify the benefits related to Sarbanes-Oxley compliance that can be realized in a shared service center environment. We will continue to monitor the magnitude of these savings for both the initial and on-going compliance.

The importance of strong executive support and change management cannot be stressed enough. They are the critical factors respondents cited for a successful implementation. A compelling business case can be the first step in gaining executive support

Strong governance framework and a phased approach for improvement from the beginning can help organizations adjust to a continuous improvement culture. Shared service centers are also spending a great deal of time focusing on improving customer relations and trying to become true business partners with their customers. In the end, the true goal is to have your shared service center provide a competitive advantage to your company. That competitive advantage will be demonstrated as your company reaches its strategic goals.

Endnote

¹ Shared Service and Business Process Outsourcing Association 2004 survey.

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