

Executive Roundtable: Shared Services

The transformation challenge to realize benefits from shared services



First executive roundtable on shared-service implementation – abstract

Since the mid-1980s discrete shared services have been implemented across the globe; for instance, in finance & accounting, purchasing, IT and HR. Meanwhile, shared services have become a “commodity” approach for organizational performance improvement and developed as global and integrated business services. Today 95% of Fortune 500 companies are using shared service centers (SSCs) – mid-cap companies are joining this trend.

Arthur D. Little invited top executives and experts from different functions and industries to its Munich office to exchange approaches and practical experiences from shared-service implementations.

Shared services as a strategy enabler

Ann Chamberland, Principal from the Arthur D. Little Brussels office, held the introductory note on structuring shared services as a business strategy enabler. She introduced four maturity levels from discrete shared services to integrated business services on a global scale. (See fig. 1.)

Integrated business services are services for specific use cases, such as the “onboarding of a new employee.” They deliver all necessary services across HR, IT and other line functions to provide office tools, an initial training plan, and services from one hand at maximum service quality.

The value created from shared-service implementations is vast and goes beyond cost reduction. The main benefit areas are

in working capital reduction, improved tax liabilities and risk management, as well as revenue growth.

Figure 1: Maturity levels of shared services

	Discrete Shared Services	Regional Multi-Function Shared Services (RMF)	Global Business Services (GBS)	Integrated Business Services (IBS)
Scope	40-100 FTEs	100-700 FTEs	700-7000 FTEs	> 7000 FTEs
Sourcing	Typically captive... Outsourcing feasible	Typically captive... Outsourcing feasible	Hybrid Rationalisation of partners	Hybrid Strategic partners
Governance	Function Activities in SSC, Outsourced Activities	RMF Regional Act. in SSC, Outsourced Act. Delivery	GBS End-to-End Process, Global Outsourcing Contract	IBS End-to-End Service, Global Outsourcing Contract
Strategic Elevation	Region 1 Fin, HR, IT SSC, SSC, SSC	Region 1 RMF Lead Fin, HR, IT	CXO GBS Lead Order To Cash, Purchase To Pay, Hire to Retire Region 1, Region 2, Region 3	CEO IBS Lead Commercial Services, Financial Services, Employee Services Region 1, Region 2, Region 3



Introductory note, Ann Chamberland, Principal at Arthur D. Little

Key success factors for implementation

- Define your vision and strategy upfront
- The world is getting smaller
- Change management is key
- One team
- A stepping stone in talent management

- Process rigor is essential
- Technology as an enabler

HR International

Barbara Burghardt, Global Head of BMW HR Services at BMW Group, demonstrated how a complex and international transformation could look. She illustrated a successful example of a transformation towards a global center of competence that offers outstanding advice and professional support to different countries and legal units.

Shared services: efficiency and quality gains

Burghardt pointed out that HR International is an enabler for people who create premium products and services. "Efficiency and quality gains can be realized through standardization and bundling of administrative activities from different units," she said.



Barbara Burghardt, BMW Group

The HR International program is based on three main pillars, including processes, IT and shared services:

- A global HR platform as a basis for future growth and adaptability worldwide
- Standardized processes, roles and structures in a harmonized IT landscape
- SAP modules that secure a robust data basis
- HR shared services that relieve HR organizations

Figure 2: HR SSC service portfolio

Recruiting Services	Employee Data Management	Payroll Services	Training Admin
<ul style="list-style-type: none"> ■ Posting of positions ■ Organization of recruiting events ■ Talent pool manager ■ Applicant handling and communication ■ Applicant screening ■ Conduction of assessment center ■ On-boarding events ■ Contract management ■ KPI reporting 	<ul style="list-style-type: none"> ■ Full scope of HR data management ■ Issuing of certificates ■ Entry and exit process handling ■ Time management ■ Benefits administration ■ KPI reporting 	<ul style="list-style-type: none"> ■ Full end-to-end payroll process (incl. expat settlements) ■ From source to gross → Advice bank funding (BMW finance) ■ KPI reporting 	<ul style="list-style-type: none"> ■ Seminar bookings and cancelation ■ Scheduling trainers ■ Reservation of rooms, equipment and catering ■ Participant communication ■ KPI reporting

Contact Center & Back Office Services

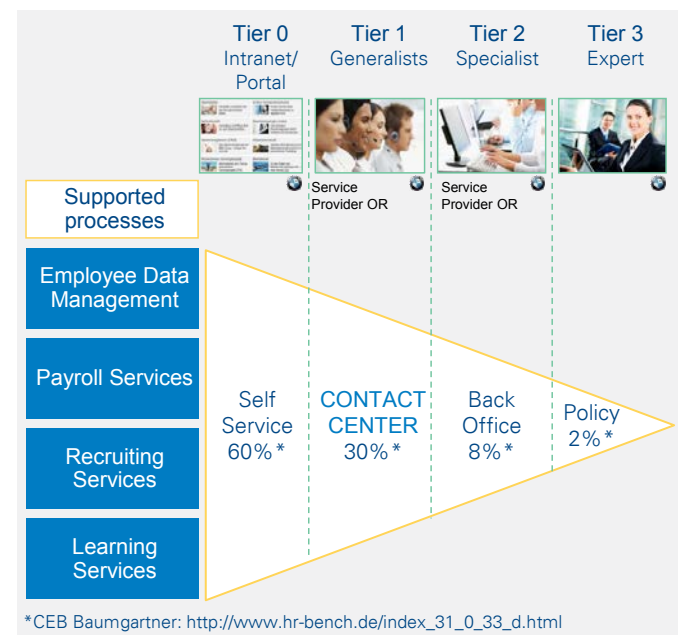
The service portfolio contains recruiting, employee data management, payroll and learning services. (See fig. 2.)

"One of the most critical functions of service delivery lies with the contact center service team, which supplies BMW employees with HR services. Every team member of the service team handles general issues across all supported processes," Burghardt said.

Our commitment: resolve 80% of queries at the first point of contact.

Eighty percent of all queries should be resolved at the first point of contact using the same channels for all inquiries and support. A high degree of employee self-services (60%) is the main lever to relieve internal HR resources (See fig. 3.).

Figure 3: Contact center and back office services



Tailored approach at country level

HR services in Germany remain in house. Integration of further suitable service providers for selected processes is possible.

In large and medium-sized companies the solution involves internal on-site teams with a central HR services company code supported by the service provider.

Small companies with HR services workloads of less than one full-time equivalent (FTE) are part of the HR services network.

Seven key success factors for implementation

- Service provider selection and cooperation

- Flexible service provider contract (flexibility in country scope, roll-out planning and termination options)
- Balance between standardization and flexibility regarding country specifics
- Trust and top management commitment
- Professional project set-up, including project resources
- Clear and shared visions (shared by all internal and external involved parties)
- Clear global governance and collaboration

Headquarter Redesign@K + S

Dr. Thomas Becker, Associate Director at Arthur D. Little, and Gereon Jochmaring, Head of Project Management at K+S AG, illustrated the approach and lessons learned from a headquarter transformation project. During a period of four months the current set-up of steering and coordinating functions in the corporate head office was analyzed and reviewed to improve its efficiency and effectiveness.



Dr. Thomas Becker (Arthur D. Little), Gereon Jochmaring (K+S AG)

Functional analysis provides transparency

A functional analysis was performed to get transparency on activities and allocated resources. A comparison of the functional analysis with external benchmarks provided indications of required actions.

The main outcomes of the headquarter redesign were a greenfield definition of necessary steering functions and an organizational concept of a shared-service center. In fact, the size of the headquarters was reduced to less than one-third of the previous dimensions.

Arthur D. Little lean management paradigm

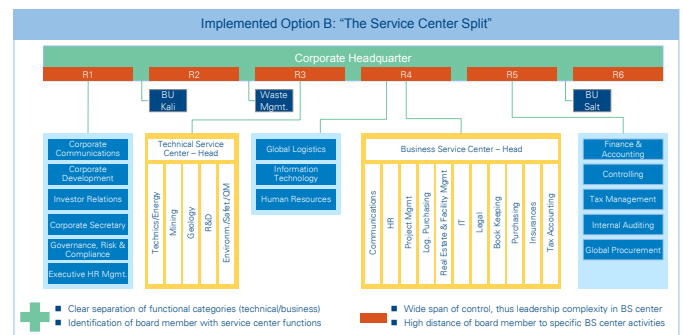
The overall guideline applied for approach was based on four elements: sorting activities, task-specific management, subsidiarity, and specialize & improve. Sorting strategic and service activities was key for effective governance.

A “corporate-level function” is located within the holding organization of K+S AG and acts as a service entity/support function to the management board:

- Performs supervising activities of the holding
- Fulfillment of legal requirements (e.g. accounting – IFRS accounting)
- Does not interfere with business units (BUs) unless given permission by the management board
- No dictates, no target setting at functional level towards BUs

Shared-service center concept

Figure 4: Shared-service center K+S AG



K+S implemented a technical center and a business service center with reporting lines to different board members. (See fig. 4.) The technical center provides special knowledge such as consulting services on demand or on a case-by-case basis. Business services are transaction oriented and of high demand frequency. Business processes are non-core and can be widely standardized, providing economies of scale.

The advantages of the outlined organizational design are a clear separation of functional categories (technical/business), clear reporting lines and manageable sizes of center structures.

Key success factors for implementation

Gereon Jochmaring headed the transformation project Headquarter Redesign@K+S and illustrated some key lessons learned: “After having implemented the new structure, some individuals started to finetune their line organization regarding the separation of steering and service tasks, as well as team dimensioning.” He recommended involving first line managers much earlier in concept development to get buy-in.

Secondly, he claimed that decisions should not be questioned, but implemented with high discipline. “There are ways to optimize the organization during the coming months and years,” he said.

Jochmaring also outlined that service-level agreements (SLAs) between business units and shared-service centers were too late in the process and should be negotiated directly after the start of implementation. According to Jochmaring, this provides a clear commitment for required resources in the next business period.

Shared-service center implementation at a global logistics company

Dr. Hans von Pfulstein worked for four years as a vice president of corporate development of a global logistics service provider. In this function he was responsible for the development and implementation of the newly founded shared-service organization.

At a very early stage Pfulstein created the necessary awareness on management level of what shared services means and what benefits it contributes to the company.



Dr. Hans von Pfulstein, Lecturer at Zurich University of Applied Sciences

There are two kinds of shared-service centers in general: centers of scale and centers of expertise. A center of scale includes back-office activities in which economies of scale and process efficiencies are managed. A center of expertise manages professional and technical activities involving professional experts where special knowledge is necessary.

According to Pfulstein, the targets of SSC implementation are standardization of processes, better service quality and lower cost. Not only are monetary savings achieved with a shared-service center, but additional value can be created.

High ambition level of the organization

Approximately 1,800 sea and air employees at the global logistics provider could work in a shared-service center organization (15% of 12,000 employees). There is additional potential in finance, HR, contract logistics, lead logistics and overland. The total cost savings projection sums up to CHF 60 million per annum.

One shared-service center of scale will be established in each hemisphere: San José (Costa Rica), Belgrade (Serbia) and Foshan (China).

Defining the locations for the global SSC of scale, the requirements of the business units and functional units, and market practices were taken into account:

- Reachability: similar time zone needed
- 24/7 operations: "follow-the-sun" principle should be possible
- Robustness: more than one location to diversify the risk
- Transparency: Benchmarking between locations for process improvement

Shared-service center KPIs are cost and quality related

In the mature SSC in San Jose, 70% of the KPIs is cost and quality related, and 30% is related to processes and the new SSCs.

Key success factors for implementation

- Align key roles and responsibilities
- Standardize processes before centralizing
- Involve local middle management and explain the target
- Define measurable KPIs
- Establish regular progress reporting and responsibilities for corrective actions

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Arthur D. Little

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