SHARED SERVICES™

insights

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Dear Shared Services Leader:

In our view, Shared Services exists to serve its customers. A fundamental proposition within the relationship is that customers receive value, and if savings are a component of the value equation, they should be demonstrated and accrue to the customers.

Most new Shared Services organizations have a bogey, such as reducing costs by a specified amount. For the restructuring of Shared Services to have credibility, inside and out, these savings must be achieved, and that becomes the focus of early Shared Services efforts.

But generally, conflicting requirements exist among the various organizational constituencies, and Shared Services is hard pressed in trying to serve these multiple and disparate needs. Often, the level of savings attained becomes less important than how Shared Services is able to account for those savings, both at the corporate level, as well as to customers, via P&L statements, general ledgers and line items that demonstrate Shared Services did indeed reduce service delivery costs.

In this, our eighth issue of Shared Services Insights, we asked four leading Shared Services executives to share their experiences, not only how they accounted for cost savings but also how they confronted the differing expectations when they implemented Shared Services.

Laurel A. Forst

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Editor

INSIDE

ROUNDTABLE DISCUSSION

BOEING

Bonnie Soodik is Vice-President, General Manager, Shared Services Group Boeing at Boeing.

The Shared Services Group for Boeing's Southern California Region was approved in October of 1997. From November until March of 1998 we studied various services to see what made sense to include in our services portfolio. The study was done by service provider teams representing the seven sites (Boeing business units) that would be serviced by a central Shared Services organization.

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The business units included commercial airplanes, military tanker aircraft, satellites, rocket engines, etc. The service study teams also included accountants from the business units. After collecting service and cost data, we assumed responsibility for the services where we could demonstrate a cost benefit to the businesses. The finance personnel from the businesses normalized the accounting to include all costs and vouched for the accuracy of the cost/benefit studies. Our 1998 costs were reduced from prior year actuals by 10%. In 1999 we again reduced our costs by 10%. We hope to do the same in 2000.

> "...Only real savings are counted and any cost increases are also included in the metric."

In addition, we measure cost savings, not cost avoidances, for non-production procurement by comparing prior contract costs to newly negotiated contract prices. Only real savings are counted and any cost increases are also included in the metric. Boeing has saved hundreds of millions of dollars by consolidating our contracts and negotiating as a single company rather than as separate business units.

Our BU heads can identify the savings because we report savings to them on a regular basis. Shared Services Southern California has a steering group comprised of the chief financial person from each of the businesses we support. The steering group reviews financial performance, cost savings, issues and new service opportunities on a monthly basis. Our performance data is available through the Boeing Web and anyone who wants more information or has questions is encouraged to call us.

As for renewal issues, some of our customer sites would still prefer to have everything reporting directly to them rather than buying the service from the Shared Services Group. This bias, rooted in the cultural history of the sites, favors a strong decentralized organizational structure. Good communication coupled with reliable data helps us overcome this resistance.

Helping us attain year-over-year improvement results is the fact that many of our services are rate based. We publish the rates, such as cost per copy, and our customers are billed only for the number of units they use. We keep our customers informed as to their volume consumption. We also work with them on ways to reduce their consumption so their costs can be reduced even beyond our rate decreases. For services where we allocate costs, we commit through Service Level Agreements to reduced costs on a year over year basis.

The costs of our services, including all the costs we incur as a service organization, such as training and equipment, are passed to us from corporate and are included in our published rates. We continue to improve our processes which has enabled us to reduce costs to our customers each year. In addition, we periodically benchmark our services to outside providers. If an outside vendor can provide the required service level at a lower cost, we outsource the service.

Our approach has enabled us to reduce the costs to Boeing while providing required services. As we identify additional services that we believe we can better provide from a Shared Services organization, we charter a team to study each service and let the data determine our course of action. If we can demonstrate savings we generally have been asked to assume responsibility. If not, the service remains with the business.

Overall, we have been very satisfied with our approach and results. We have made adjustments to improve our services since inception and have improved communications with our users. There have been instances when we made changes to a service with good intentions, but did not communicate the change as well as we might have. We continue to work those issues. If we were to start over, there might be some fine tuning I would do, but the basic process would stay pretty much the same.

TREVIRA

Donald R Lehman, President of Special Projects for Celanese, is the former president of Global Business

Services (Shared Services) for Trevira, then the polyester division of Hoechst Celanese.

At Trevira, Global Business Services guaranteed the company's business units (BUs) that we would reduce our costs, charged to them, by $100 million annually, which we did. The BU leaders became believers in the first full year of operation, 1998, when the promised savings were realized.

Of course, you can look at $100 million in cost savings two ways: One is that it's a fantastic amount to save, the other is that obviously, some things were being done wrong if that kind of savings could be achieved. The reality was probably somewhere in between those two perspectives. Perhaps half of that amount we should not have been spending, but the other half were real issues we went after and were reflected on the bottom line.

Our goal was after the first full year of Shared Services, we could total up the charges for the designated services to all of the BUs in aggregate, and the bottom line would show $100 million of reduced spending for those services. We required our service organization to deliver those savings to the BUs (in the form of reduced service costs), and the BUs were required to show those savings on their bottom line. The BUs were not allowed to use those savings to fund other expenditures or to add to their organizations.

Could the BU heads pinpoint the savings? You bet. In our case, it was very broad, encompassing IT, Legal, HR, Environmental Health & Safety, Purchasing, Communications, Engineering Services and R&D Services. Those were all broken down into individual segments, and because of that, the BU leaders could see exactly where the savings were coming from and how they impacted their bottom line.

For example, the aggregate IT budget for the seven BUs netted annualized savings of about $30 million, broken down into various IT segments for each BU. The same was true for EH&S, Legal, HR, etc. In every case, each BU could see how the savings were broken down for each function.

> "When we originally set the goal of reducing costs by $100 million, there were many who said that amount was unattainable... "

When we originally set the goal of reducing costs by $100 million, there were many who said that amount was unattainable, that there simply wasn't that much that could be saved because $100 million represented roughly a 40% cut in overall costs. Most BU leaders did acknowledge, however, that a 40% reduction represented enormous savings, and even if we only came close, they would be very pleased. We did achieve the targeted amount, of course, but even if we had fallen a bit short in some areas, I doubt any of the business leaders would have complained or questioned our efforts, given the magnitude of our savings objective.

We wanted to identify both governance and non-governance issues. As senior management, we asked ourselves if we wanted to continue to operate under our existing governance rules, or did we need to change how we had been doing things? As part of this analysis, we also looked at the governance rules of our competitors. We concluded that we needed to become a different kind of corporation.

Non-governance considerations included looking at how we handled various work processes and whether they should be done differently. We wanted the organization to provide us with ideas for savings opportunities, and created teams to do this in each of the functional areas. This was a cost-cutting effort, not a headcount-cutting effort. If you reduce headcount but fail to improve the work processes, what you get is merely more work being done by fewer people. Eventually, the weight of this breaks the organization.

The teams were led by the future leaders of the various functions, and typically were comprised of both buyers of the services within each function as well as internal suppliers or providers of services to each function. Each team addressed issues exclusive to that function.

We knew we were spending money in these areas, but we really didn't know how much, and we found surprises in this regard in virtually every part of the organization. For example, in our HR organization, for many years we had been giving out service awards for five, ten, or twenty years of service. We discovered that not only did the employees not like the awards, we were doing a poor job of delivering them. So we changed both the awards and the way we handed them out, which pleased the employees and also saved us some money.

The two areas that most exceeded our savings objectives were IT and EH&S. An example was our drug-testing program, which was handled by EH&S. Basically our policy was that we were drug free, which was supported by a random testing program done every five years. Any employee that tested positive was given the choice of entering a treatment program or job forfeiture. The EH&S team found that frequently the people who tested positive were those who had previously gone through the treatment program. So the policy was changed to say that employees testing positive would be terminated, period. The testing continued, but on more of a targeted basis. For example, if we suffered an accident, we would test the employees involved in the accident versus randomly testing everybody. The change reduced the incidence of positive drug tests and also the testing costs.

In IT, we were providing a lot of training as well as maintaining a 24-hour help desk. The team found many employees had become "help-dependent," even though their training should have covered many of the questions being asked. So we changed the process to emphasize education versus help, which made us a more effective organization.

The biggest renewal issue was keeping the GBS employees motivated, making sure they understood they were still part of the big corporate picture and that their efforts were appreciated by the overall organization. When we implemented Shared Services, we tried to recruit individuals who were already intimately involved in the business areas. Ongoing, we tried to keep our service employees tuned in to what was happening in the BUs. Now it's possible GBS employees may have been involved in some business issues unnecessarily, but their dedication made them truly believe they were part of that business organization. GBS employees simply don't have the time to be involved in the day-to-day issues of the businesses they are selling services to, and as a result can feel somewhat disconnected. So it's important to routinely schedule communications sessions between the BU buyers and users, and Shared Services so the service providers can continue to feel they are a part of the businesses.

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One of the unique things we did was to have each BU head become a sponsor of one of the Shared Services functions. For example, the business leader of our Polyester Staple was responsible for the stewardship of the HR function. The Resins business leader stewarded our Purchasing function. It was a way of keeping the businesses linked to the various functional areas, and similarly, helping the functional areas feel they remained a part of the big picture. The business leader became the advocate of that particular Shared Services function to the rest of the businesses. So if that leader and his organization had a particular problem with one of the businesses, they would intervene where necessary to resolve the issues and help identify corrective strategies. Those solutions could then be applied to other businesses, where appropriate, as well.

Those business leaders were also members of our GBS board of directors, of which I was the chairman. Interestingly, it was the very same leaders who, as GBS board members, recommended that they become stewards to the various functional areas. It worked out really well.

We were very satisfied with our approach. Ideally, we would have earlier identified the issue of disconnect between the businesses and the Shared Services organization. There was a concern among GBS employees that they would become merely workers and not connected to the overall success of the business. If we had recognized that earlier and been able to reassure them how we were going to deal with that, i.e., the stewardship program, they probably would have been even more motivated.

> "Obviously, in running any business, you cannot predict the future with absolute accuracy; there will always be some tradeoffs."

The Trevira division was sold to Kosa after one full year of Shared Services operation, about 18 months after it was implemented. But for the time we had, we were extremely pleased with our results. $100 million is a lot of money to save.

Southern California Edison

Emiko Banfield, PhD, is Vice President of Shared Services for Southern California Edison, one of the nation's largest utility companies

At Southern California Edison (SCE), We created an internal marketing mechanism (IMM) that would identify and define our products and services in order to make them comparable to those of outside providers. This required activity-based costing, and in some cases, we had to unbundle our services to gain a better understanding of our discrete costs than we had under our previous budgeting system. The effort combined an external scan of outside products and services with an internal configuration of our offerings to allow competitive comparisons. Previously, under regulatory utility accounting, we did not have that knowledge. It was especially difficult in the IT area because we were accustomed to working at the aggregate budget level, versus a discrete product/service value proposition.

As to how we demonstrated savings to the business units (BU), our cost accountability has a couple of elements that exist in dynamic tension. One is joint accountability for budgeting between BUs and Shared Services. We mutually establish a "cost-point" for each service as part of our annual agreement process for the upcoming year, and on that basis, we agree what the consumption level will be for each BU. That amount is then asked for in both of our budgets (BU and Shared Services). So there is joint budgeting responsibility as well as joint performance accountability throughout the year. There is a separate tension in that our overall Shared Services budget is developed and proposed to the president of SCE independently. So we are accountable for both the product/service costs we incur and charge to our internal customers, as well as our budget performance.

Obviously, in running any business, you cannot predict the future with absolute accuracy; there will always be some tradeoffs. Our Shared Services annual expense budget is $175 million, which includes both the product/service cost-point and our overall budget authorization within which we have to manage.

This year, to strengthen our BU customer commitment as well as to hold ourselves to a higher standard of accountability, we reduced our unit cost by 5%, that reflected our pledge to reduce our overall cost to the corporation by the same amount, even though the two do not necessarily translate on a dollar-for-dollar basis. In other words, although we reduce our unit cost, the level of consumption by our customers will affect our overall costs. So we recognize the consumption variables in measuring whether we have met our competitiveness targets in terms of price reduction.

In addition, we have a council that has representatives of the senior financial people from both the service provider and BU organizations, and headed by the director of budgets. We discuss pricing methodologies and other support considerations attendant to cost examinations. Members get line item costs and monthly updates on their expenditures as part of their budget reports. So they have continuous visibility of the costs being accounted for within their budgets.

Of course, we were not able to arrive at joint budget accountability immediately. We had to first get our costs in place, and have agreement that we were looking at the right things. In our first year, Shared Services had sole responsibility to capture cost reductions, which were reflected in an attendant budget reduction. The charges to the BUs were in memo form only, which gave them visibility but no accountability. The second year, a shared responsibility for reductions was created by including charges in the budgets of both Shared Services and the BUs. We achieved joint budget accountability in our third year.

> "While Shared Services has an annual productivity (cost reduction) target of 5%, the BUs have an lower annual productivity target of 2%."

While Shared Services has an annual productivity (cost reduction) target of 5%, the BUs have a lower annual productivity target of 2%. Initially, absent the visibility of discrete costs on a per-unit basis, there was a tendency for BU leaders to include Shared Services cost reductions in their annual productivity targets. But because the 5% Shared Services cost reduction is embedded in the price reduction, the BUs, which are separately accountable for their productivity targets, may no longer include the built-in Shared Services cost reductions as part of their own cost reductions.

We believe this arrangement, which has been agreed to at the senior officer level of the company, is an inherently honest way to measure productivity. I think it would serve the interests of service providers to also articulate this accountability at the lower levels of an organization to help create a more widespread acknowledgment of the expectations.

I believe there is a tendency in Shared Services companies for the users of the services to be less cognizant of the expectations than the payers. There is a greater disconnect between the payers of a service in a business unit (the financial organization within the business unit) and the users of the services than there is between the service providers and either of those two groups.

Incidentally, that's one of the things that the Amherst Group's Customer Satisfaction Survey pointed out to us and was certainly a helpful perspective.

That not withstanding, greater tension or disconnect exists within the business units. In a utility company, the fellow who pays for a line truck but has never driven one does not envision the value of that line truck the way a lineman does. This misperception of the true value proposition can be ameliorated; it just takes ongoing communications and continually bringing the two groups together.

As to paying for Shared Services costs, such as training and technology, the latter is an investment proposition done at the corporate level and predicated on a business case in terms of the cost/benefit analysis. Training and the costs of sustaining the Shared Services operation are, to a large degree, accounted for in our pricing to the BUs. We charge out 95% of our costs. The only costs we do not recover are governance costs, such as corporate security.

Chase

Mary Molloy is managing director in charge of financial management for Chase Business Services (CBS), which has 2,200 employees serving over 70,000 Chase employees. Chase Business Services was launched in April, 1998, with its first full year of operation in 1999.

Has CBS been successful in furthering Chase's overall corporate goals? We began Chase Business Services with many new people leading the Shared Services organization, and there was great interest in rethinking, reinventing, and starting with a clean sheet of paper. That helped deliver on some of the aggressive goals we set, and also prompted our employees to be innovative in ways to serve our clients and achieve targeted savings.

“...we identify ways the customer can reduce costs by changing its usage requirements.”

The other important area where CBS has helped Chase as a corporation is that in the past before the formation of CBS, many of our business and financial managers felt little ownership of indirect charges or allocations for their services. Frankly, they didn't understand what they were being charged. Often, there was no explanation of the charges, no means of controlling it, and therefore, they didn't feel it was part of their base expenses. Through dialogue and transparency around our customer billing, Chase has moved towards a full expense management discipline.

What drove business unit ownership of these expenses? We realized early on that it was important that our product prices, metrics and the ultimate charges to our customers be transparent. So right from the start, Chase Business Services clearly conveyed the product prices and charges to our internal customers. We supply over 100 services across four primary functions (financial services, human resource service delivery, procurement and corporate managed services and real estate business services) and the unit price, volumes and total charges for each service to each customer can be readily identified. Our customers no longer get a lump sum charge for indirect allocations. They get a bill for explicit services, which provides a much higher discipline of expense management than we had before. In addition, our customers are more aware of what services they are using and are focused on resource usage. Pricing discussions then move to a new level including demand management, tiered pricing and market-based comparisons.

How does CBS provide savings to its customers? We actually provide savings to our customers in three key ways. One way is through our own internal efficiencies, that is, how CBS manages its resources to deliver products to the business units. Secondly, is through demand management. That is, we identify ways the customer can reduce costs by changing its usage requirements. The third way, which represents more substantial savings opportunities, is in areas such as sourcing, real estate property management initiatives, consolidation of financial platforms and architecture, and the like. This is a separate effort directed at what we call the managed spend, which is how we impact line of business direct costs rather than just our own budget dollars. To give you a sense of magnitude of the opportunity, Chase's procurement costs are about $4 billion a year.

How does CBS demonstrate to business units that their costs have gone down? One example of how we work with our business unit clients to control costs is in the area of our conference center usage. CBS is responsible for running Chase's many conference centers. This year, we restructured pricing so it would be cheaper for our clients to use the centers in lower-demand times, thereby giving them a pricing choice. Our clients are very savvy regarding service charges, particularly where a comparable outside service is available. We made sure our conference center pricing was competitive with outside facilities. For example, we converted to a real estate-based model, offering our satellite conference facility in Brooklyn as a less costly alternative to our midtown Manhattan facility.

How do our clients know the savings are real? CBS is accountable for annual savings targets that flow through to our customers as lower product prices. We have an on-line billing system at a cost center level that allows our customers to track their charges and compare them to plan. CBS billings to the cost centers are not just total dollar charges; they also include detailed itemizations of each service rendered, at a specific price and volume is also provided.

What were some of the key factors that helped build strong customer relationships? A key to our customer relationships is that we keep close contact and have regular engagements, at least quarterly in most cases, with our various customer segments. We discuss issues that are important to them such as financials, product savings, service delivery and meeting customer needs. And while our customers are aggressive on the demand side in terms of what they can do to further reduce costs, they also hold us accountable for our service level commitments.

"We are also attempting to leverage our use of technology, bundle services for cost efficiencies, and basically look at each service like it's a business."

Also, we have a CBS Board made up of senior management from the business units we serve. We review our business plan at the beginning of each year with the Board, and also have meetings throughout the year to update them on our progress, new services, etc. This Board, made up of very senior managers, has gone from being somewhat skeptical at the beginning of CBS, to our best ambassadors. In addition, for new product launches or enhancements, we formed user groups made up of the clients who are the stakeholders. This allows us to engage our customers in the development stage, which has generally yielded a much more successful outcome for CBS and our clients. These practices have really helped CBS to build credibility and goodwill with our clients.

How deep in the Chase organization does cognizance of CBS-generated cost savings go? CBS formally communicates to approximately 260 lines of business each year through a formal service proposal. We engage in an important dialogue with our customers at this time, notably on product pricing and service delivery. Cost savings are clearly evident in these presentations. In addition, we are also able to filter recognition of what we are doing down to the cost center level, of which there are 26,000, so awareness goes pretty deep into the organization. We have also been successful in communicating to all employee levels our efforts in the area of managed spend. One example is in travel, where costs have been reduced by more than 50% in some cases, so it is apparent, even at a fundamental level such as the cost of an individual airfare ticket, that CBS is having an impact.

We are also attempting to leverage our use of technology, bundle services for cost efficiencies, and basically look at each service like it's a business. One example of these efforts is a deal we recently struck with Enron, where we will outsource much of our energy management as well as cap our energy costs. Additionally, Enron will process all our energy bills for us.

Another important initiative is communications. At the beginning of CBS, we developed a tagline: Better, Faster, Easier, Cheaper. It tells our clients what we're about. We reinforce that with Chase-wide communications that tell the company about what we are doing.

Are savings reinvested or passed on to the customer? Savings created by CBS go to our business unit customers, reflected through lower prices that reduce their costs. The business units can then reinvest those savings in revenue generating growth opportunities. And, as with any other business, we go through our own budgeting process, identifying savings and cost reduction opportunities, while also investing for the future. We present our case for funding to invest in our business and detail what we expect the return on that investment will be to the organization. So in terms of getting investment funding, we justify those investments just like any other business.

How are training and other enhancements funded? We rationalize our expense base by reinvesting for the future, whether through web technology, new enterprise deployment systems or whatever we need to help ensure our ongoing success. Customer service is also a key focus. Last year, every CBS employee attended a two-day course on delivering customer value, operating like a business, and focusing on business needs. We often find customers will pay more for a service that has a particular value for them or facilitates their special needs. At the same time, we are seeking to offset expenditures with bottom line savings elsewhere. It is an important balancing act, like any other business, which sometimes reflects higher unit costs in certain products and lower costs in others.

"We rationalize our expense base by reinvesting for the future,"

How has CBS impacted customer service levels? I believe our customers have seen a big improvement in the delivery of support services. Client engagement is critical. In addition to us reaching out to our clients through CBS, Board of Directors and Client Advisory Boards, the clients also frequently call us and ask for a meeting. That's when you know you are really making a difference and can act on issues they bring to the table. The second aspect is product pricing and billing transparency, which was imperative to creating credibility for the Shared Services environment.

Are there targeted areas for improvement? There is always room for improvement but we have come a long way in less than two years. We launched CBS with very aggressive savings targets and we delivered on our initial commitment which gave us solid credibility right from the start.

But there is always more to be done. In 2000, we are focusing on increasing web delivery of our services. Our clients are very supportive of our efforts in this area. We will build upon our foundation, support and progress to date and continue to grow CBS to become an even more successful shared service organization. ■

OUR PERSPECTIVE ON…

The other day, I was leaving for a trip to Australia to help plan the launch of the new Asia/Pacific Rim/Australia Shared Services Executive Council in May. For those of you who have flown on business from the U.S. to Australia, you know what a tedious trip it can be, and that given all the details that must be coordinated, something unexpected almost always occurs.

Sitting and waiting (what else is there to do?) at the gate, I was struck by the similarities between an overseas business trip and a Shared Services launch. There are a hundred little things that can go wrong, any one of which can make the overall success of the trip less likely.

Well, maybe I'm stretching a bit here to make a point. My travel was mercifully uneventful; I made my connections, my luggage arrived (mostly intact), the hotel shuttle was on time, my room was semi-acceptable, I didn't catch a cold, the meetings went very well, and the participant's enthusiasm for the new International Council launch was overwhelming. Except for a traffic snarl which made my return-flight airport arrival unnecessarily chaotic, everything went about as well as it could. But typically, overseas travel is fraught with pitfalls, and we invariably stumble (or are pushed) into at least a few of them. And that's where the comparison with a new Shared Services company comes to mind.

Most Shared Services start-ups have rosy expectations. The anticipation is that internal business operations will be pleased with way the services and processes that comprise Shared Services have been redesigned and standardized. Most believe their metrics or performance results against established metrics are going to show they are somewhere in the second quartile, maybe not too far out of the first quartile, in any case properly positioned to move into the best-of-class situation they anticipate. They further believe that the business units are going to be supportive of Shared Services, opening their arms and treating Shared Services as full business partners right from the get-go. The expectation is also that the new Shared Services employees, the majority of whom were recruited from within the company, have brought with them a basic understanding of what constitutes customer service and that they will demonstrate that behavior by treating their customers just as they would like to be treated were they in the customer role. Finally, Shared Services has little doubt the actual business and financial contributions they contribute to the organization will be clear and unquestioned to the entire enterprise.

> "Rarely are the initial metrics or performance results anywhere near where they were expected to be."

But the reality of all this is typically something far different. New Shared Services organizations are too often more like parachutists who, while plunging to earth because their cords have become tangled, are worrying about whether the truck will be there on time to take them back to the airport.

The reality is that at best, new Shared Services organizations enjoy a wait-and-see attitude, sort of "Let's give this a shot and see what happens; we can always change it back." More typically, a jaundiced opinion exists over the potential contribution of Shared Services versus how the company was previously organized. The various businesses and customers are all in favor of process redesign and reengineering, as long as the redesign is consistent with the way things were done in the past. They bristle at the notion of standardization because they believe it will mean changes which are certain to adversely affect rather than beneficially enable them.

Rarely are the initial metrics or performance results anywhere near where they were expected to be. When data relative to best in class performance is anticipated to be first or second quartile and turns out to be third or even fourth quartile, a significant amount of time is spent arguing over the data, benchmarks, and the comparability of information. Like someone suffering from substance abuse, the first stage is denial.

> "...a significant amount of time is spent arguing over the data, benchmarks, and the comparability of information."

Naturally, each function — Payroll, T&E, Benefits Processing, etc. — focuses on the data from an independent operational perspective, with the individual reaction being, "Well, our group made it to the second quartile; it's the rest of you that have the problem." No one is looking at the numbers from the Shared Services viewpoint. Inside Shared Services, there is typically more of an individual "I'm doing OK" reaction than a Shared Services-unit orientation.

The reality is that new Shared Services people rarely have a clue as to what constitutes customer service. There are, at least initially, relatively few true believers who understand what the new values and behaviors should be. Most believe they are not getting the support or training they need to be productive. They feel they are pretty much on their own, reliant on their own instincts and abilities to increase their efficiency, technical skills and professionalism.

From an organizational standpoint, Shared Services often does a poor job of baselining and gaining agreements with the various businesses as to what costs and productivity were before the conversion versus after. Perhaps they failed to take a sufficiently disciplined approach in order to have audited, validated results with which to make a comparison.

One of the biggest obstacles Shared Services faces is demonstrating its impact on the businesses, making the critical mistake of lumping cost avoidance and cost savings together. From a P&L standpoint, you cannot reconcile one to the other, so lumping them together only serves to create even more suspicion and questions regarding the true impact of the Shared Services business decision.

How can the potentially fatal effects of these early Shared Services miscalculations be minimized? My best advice is to assume nothing. In any fundamental business transformation, far too many assumptions are made about events going forward, about mutually good intentions, about everyone being on the same page, looking at things the same way.

"Shared Services executives should behave more like analytical investors..."

Shared Services executives should behave more like analytical investors, assuming nothing, but rather assembling and assessing all the information needed to make a successful transition.

Shared Services leaders should also understand that they must operate their internal service business like a competitive service business, rather than clinging to behaviors, performance techniques, rules and practices endemic to a staff or functional leader. They must assume responsibility for the total migration from staff leader to leader of an internal service business. Furthermore, while they may be doing many things right, they are being done singularly versus understanding the aggregate effect each action has on the overall acceptance and success of Shared Services as an organization. For example, few Shared Services organizations have adopted employee commitment measurement. Many do customer satisfaction measurement but few recognize the corollary between measurement of customer satisfaction and measurement of employee commitment and the cause and effect relationship between the two. In short, Shared Services leaders need to take a more holistic view of the inter-relationships and dynamics of these things.

Most Shared Services organizations are still organized and run from a functional viewpoint, and have not yet grasped that there might be fundamentally different ways of delivering services beyond functionally-based approaches. They have retained the same organizational construct that existed before Shared Services was created and have difficulty initiating new methods of customer service and service delivery. A valid question every Shared Services executive might ask is, are there benefits relative to leveraging delivery of our service portfolio that we are not taking advantage of because of the limitations of a functional design?

I realize all this talk of early pitfalls may be intimidating to new or potential Shared Services leaders, but I believe we benefit by discussing the differences between Shared Services and other staff approaches. New members are certainly better off having a clear understanding of these differences and knowing that the water is shoulder deep, not knee deep. The knowledge will save pain later and help minimize the disruption and turmoil that ultimately occur if it is not conveyed early on.

Shared Services will continue to grow, especially outside North America because conditions in the rest of the world are now making the approach more attractive in those areas. We are starting to see that growth, as evidenced by the formation of the Asia/Pacific Rim/Australia Shared Services Executive Council. I believe the majority of the growth in the USA will be tied to multinationals who are now in a better position not only to leverage services within North America, but to take advantage of Pan-European markets that previously would have been much more difficult. The recent Asian Pacific-Rim economic crisis has changed the orientation there so that businesses can now extend their ideas and options to that part of world. Ditto for South America. So we are seeing not just new companies adopting Shared Services, but multinational companies who have established Shared Services on a local basis now pursuing it on a regional or global basis, much like a product line extension.

The new decade portends to be a truly exciting time for Shared Services. ■

Shared Services Q&A

Q. Throughout 1999 and 2000, we have received numerous questions concerning benchmarking:

- *Where can I find good cost information on...?*
- *Who do you think has the best...?*
- *Our customers do not believe we offer competitively priced services. Do you have data on...?*
- *What is the measure for 1st quartile performance in...*
- *Are there non-consultant based groups that share performance data ...?*

A. Rather than responding to these questions, individually, we are devoting this entire column to providing you with our perspective on this subject. While we have deep convictions about the value of comparative data, we also have some real concerns about how most companies approach benchmarking. Too often, companies choose approaches which we refer to as:

- *"Industrial tourism"* whereby, a number of people from the same company travel to other companies, meet with their counterparts and solicit some quantitative data. Often there is little planning about the information desired, how it will be used, who to visit, why they are a credible source, etc.

- *"Number numbness"* in which the obtainment of data - a number - is the desired end. But data or a data point does not offer any insight into the culture and environmental context, the management style, the operating practices, the satisfaction of the customers, the key enablers, the obstacles overcome and so on.

- *"The empty suit"* where the prospecting company overlooks the need to develop its own data before they go in search of "the holy grail". Not only do they have nothing to share with those companies gracious enough to meet with them, but when they return they have no bases for comparing the gathered data.

The fundamental flaw in most benchmarking initiatives is that they tend to be one-time, stopgap types of efforts. So now the operative question is how can companies serious about benchmarking employ a different mindset and approach for satisfying genuine needs?

One answer is to create or join ongoing networks of companies with similar situations and objectives. The Conference Board has established Councils of Shared Services Executives in North America, Europe and AustralAsia where members explore topics of mutual interest, share best practices, discuss common issues and investigate emerging issues in-depth and in confidence. Meetings provide dedicated opportunities for candid, informal discussion among peers on issues covering the full range of Shared Services activities. Unlike trade or industry groups, Council membership has been designed to include all industry sectors to enable the examination of issues from multiple perspectives. Between meetings, the Councils serve as the conduit for impromptu requests and inquiries among the members.

The participating companies represent the gamut of Shared Services players, from recognized leaders to brand new entrants, from single to multiple centers, from single to multiple functions, from single country to global operations, and from Scale only to Scale, Expertise and other service segments.

Current members include: ABB, ALCOA, Ashland, Australia Post, Aventis, BHP, Borealis, BP Amoco, Cabot, Cadbury Schweppes, Caterpillar, Chase Manhattan, Citigroup, Dun & Bradstreet, DuPont, Fort James, GATX, GE, Georgia-Pacific, Goldman, Sachs, HP, Heidelberg, Henkel, Hercules, Honeywell, International Paper, Lafarge, Levi Strauss, Lockheed Martin, McDonald's, Medtronic, Noranda, Novo Nordisk, Pfizer, Pitney Bowes, PSC of New Mexico, Rhodia, SBC Services, Scientific-Atlanta, Shell, SKF, Southern California Edison, Texas Utilities Services, P&G, TRW, Unisys, Universal Studios, USAA, Westpac, Whirlpool with more companies joining all the time.

Is Council membership free? No! But think about how much time and cost your company expends today. We guarantee that this is a far more cost-effective approach which facilitates getting into the substantive and qualitative issues that are at the heart of what it takes to become 1st quartile. If you are genuinely interested in learning and in continuous improvement, The Conference Board Councils provide an unparalleled forum for obtaining useful and sustainable information. For example, the Councils are about to initiate a survey to share charge-back cost and/or pricing information that will be followed by in-person discussions.

So, if you are interested in joining and participating in a productive network of companies, we at The Amherst Group Limited encourage you to email Jill Heller at jillheller@amherstgroup.com for more information. It is our belief that Council membership is one way to prevent "passing your tests but flunking your future".

AGL is proud to announce our sponsorship and participation in the following 2001 conferences

The Conference Board -

The 2001 Shared Services Conference:

May 10-11 ANA Hotel – Sydney, Australia

The Conference Board -

The 2001 Shared Services Conference: Shaping/Reshaping Shared Services to Enable New Business Models

(To register, please call (32) 2 675 54 05)

June 13-14 Hotel Le Richemond - Geneva Switzerland

The Conference Board -

2001 Shared Services Conferences:

October 3-4 Coronado Island Marriott Resort – Coronado, CA

October 24-25 Marriott Marquis – New York

Pre-Conference Seminars:

October 2 Coronado, CA

October 23 New York

For questions or additional information about these conferences, please contact Laurel Forst at (203) 531-8500 or laurelforst@amherstgroup.com

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