

insights

OCTOBER 2001 - VOLUME 1, No. 9 \$12.00 A RESOURCE FOR ACHIEVING INTERNAL SERVICE EXCELLENCE

Dear Shared Services Leader:

All of us at The Amherst Group Limited extend our deepest sympathies to the families, friends and victims of the September 11th tragedy and wish to express our gratitude to those who tirelessly continue working to support relief efforts. There is no question that our lives have been changed forever by this tragic event — creating uncertainty and new challenges for us personally and in the workplace — the impact of which we are seeing unfold each day in many different ways.

Shared Services also faces new challenges in providing better service and achieving even greater savings as the pressures mount for companies to further reduce their costs. We believe the untapped frontier lies beyond transactional services and within Centers of Expertise which involve more technical problem-solving, specialized knowledge, analysis, consulting, planning and brokering. Leveraging the knowledge and skills in the delivery of expertise services offers companies greater long-term cost reductions, productivity benefits and a competitive advantage.

So, why haven't more companies ventured into this territory? How is it different? What kind of culture needs to exist to ensure success? What are the skill sets required to effectively manage and leverage expertise services? We decided to focus this entire issue of *Shared Services Insights* on the topic of expertise services to address these and other questions. We think these articles will provide some valuable insights, ideas and techniques that may be helpful in looking at the delivery of expertise services within your own organization.



Laurel A. Forst
Editor

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GUEST INTERVIEW

XSERV SERVICES DIVISION, XEROX

We interviewed Richard D. Kennett, former Director of Document & Technical Solutions at the XSERV Services Division of Xerox. Founded as a business model in 1993, XSERV evolved into a

Shared Services organization in 1995. Today, it consists of 1,100 providers serving 50,000 Xerox employees across the USA.

AGL: What do you think sets XSERV apart from other Shared Services organizations?

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Kennett: XSERV is unique among Shared Services organizations in that it was established to provide expertise — consulting and advisory — services, rather than broad-based transactional services, as are most Shared Services start-ups. One reason for the XSERV decision was that as early as the middle 1980s, a strong culture already existed within Xerox to treat internal employees as customers.

AGL: How does that work?

Kennett: XSERV internal suppliers treat their internal customers as customers and in return, are treated like an intrapreneurial business versus a governed corporate services business. So the root principal is a win-win with a higher rate of success because it offers economies of scale that do not exist when diversified functions are scattered throughout a company.

AGL: Has that translated into documented savings?

Kennett: Throughout its history, XSERV has maintained a comprehensive balanced scorecard with its customers. One metric charted is customer savings. From 1993 through year-end 1999, XSERV saved Xerox over 600 million dollars in facility and real estate actions, travel expense reductions, workman's compensation and claims costs savings, supplier negotiations and various policy changes.

As remarkable as that number is, I suspect it may actually be larger, because when a customer signed a document of savings for the XSERV scorecard, if there was any disparity regarding the amount saved, the more conservative figure was used.

AGL: Are you able to sustain savings?

Kennett: We were. One reason was our Continuous Improvement effort to find additional year over year savings. The business is constantly changing, presenting new opportunities, so you must always look ahead, beyond the current year. We also looked for growth. Picture a pyramid with transactional services at the bottom, expertise services in the middle and vested partner relationships (governance) at the top. Our strategy called for increasing the mix, but also adding to the vested partner portion while increasing the size of the overall pyramid. We continued to pursue new groups as

part of our belief that there is not a business nor function in the organization that cannot be transformed in the Shared Services environment.

AGL: Can you expand on that?

Kennett: Four of the businesses I managed supported the technical, engineering and manufacturing community. There now exist services that were once job functions in each of the product development teams. One group is called *configuration planners*, who work with product development teams on part assignments. Each product development team previously had one or two of these people. If they were idle, they were assigned low value activities. Since we put all of

them under one roof, if a product development team needed some people for a project, I could shift resources to meet that need. So a portion of our growth and productivity was attained by continually adding to the Shared Services base. This is possible because our customers had grown to trust our judgement and had confidence in our capabilities.

AGL: What is the key to the continued success of XSERV?

Kennett: Shared Services will win or lose based on accountability. If, as an employee, I am given organizational or personal responsibility, but no authority, I am, by definition, a dependent person or organization. Therefore, my empowerment is low and the most I can be is an administrator. As I begin to move up the curve where I gain responsibility and authority, I now can act independently, and I am probably managing something, and so I have some empowerment. As soon as I decide I will proactively be accountable, both in terms of reporting and willing to be held accountable, I am now highly empowered and showing signs of leadership. The best Shared Services organizations are accountable to both customers and the governance side of the business, and you can't get any better than that. It must, of course, be supported with the discipline of accurate measurement so leadership can manage the company based on facts.

The ultimate success is based on what a company wants. In some cases, Shared Services does not thrive, not because it is not viable or because of poor

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managers, but because it was thwarted by the company's culture. So in some ways, Shared Services may not determine its own destiny.

AGL: What about the role of Shared Services in web-based services?

Kennett: I see the potential for Shared Services to facilitate web-based services, but I think it will rely on a strong business model underpinning it, which is a bit of a paradox. White collar workers generally do not like being held accountable. As companies have rightsized or downsized, knowledge workers have generally picked up more administrative work than they have shed. It's almost become a badge of courage or a job security blanket. When you start tugging at that, you unearth some insecurity. If your web-based Shared Services business has a strong management business model underneath, I think you can pull that insecurity away and be successful.

XSERV, operates with a design life cycle ubiquitous to all services. The customer engagement to customer proposal process, followed by the business proposal to customer contract process, the customer contract to customer fulfillment process, then the customer fulfillment to customer reengagement process. You can use this business model for any service but by having that simple framework, it becomes easier to implement a web-based system.

AGL: How so?

Kennett: Well, for example, whether the customer engages XSERV through the web or phones in and the web is subsequently injected, it goes straight to some workflow tools that cut through the process pretty quickly. And you can keep moving documents or the elements of the preceding process right through the work model.

"Many people do not understand the difference between work practice and work process."

Many people do not understand the difference between work practice and work process. A web-based solution forces a work process and eliminates a work practice, which is where the productivity shows up. It then frees up Shared Services experts to work on vested partner relationships because consistent performance of their process has been assured and is not dependent on the effectiveness of individuals. The web or a related technical solution is the likely key to getting that additional productivity.

Another source of controversy is that mass customization comes most productively from mass standardization. Centers of expertise provide services by acting as personal consultants who tend to customize everything. But what the customer really wants is reliability, so corporations have grown backwards and we need to reverse that to get to the next level of productivity. One way to do that is to find value across various functional silos and offer end-to-end business processes as part of future business success.

AGL: How about an XSERV example?

Kennett: Here's one. For years, we had various departments: Travel, Meeting Planning, Graphic Services and Audio-Visual. We took a fresh look at our business from a customer perspective rather than how we were organized, and what began to make sense was to target customer needs. Our customer needs a meeting; what will he need at that meeting? He'll need a place to hold it, presentations, food and A/V equipment. We reasoned what he probably wants is one-stop shopping and he is hoping we can be the integrators. We asked our customers if that was what they wanted and they said "Yes!"

So we put all these departments under one manager. Now, customers can get just presentation materials from Graphics if that's all they want, or the entire meeting can be orchestrated. Customers can schedule a simple trip or they can have us plan a trip to Hawaii for fifty people.

AGL: In your opinion, will Shared Services ultimately achieve a strong presence at the corporate roundtable?

Kennett: I think of Shared Services in the same way I do quality. Deming had a specific set of rules and expectations associated with quality improvement. Consider the large number of companies and cultures that began embracing quality starting back in the early 1980s, and the even larger number of quality consultants that emerged and advised these companies. Today, we have reached a point

not unlike schoolchildren, sitting in a circle, whispering from one to another a message the teacher gave to the first child. By the time the message gets all the way around the room, it has completely changed.

I think quality has gone that route and perhaps Shared Services will do the same. It's like

someone describing basketball as dribbling and putting the ball through the hoop. Then someone says he can't get the hang of dribbling and wants to eliminate the double-dribble rule. Well, you can still call it basketball but once the rules are changed, it's become something else. In some instances, I think Shared

Services has gone back to being a corporate services business. If the culture of the company isn't quality focused, then customer representation means little, and by default, that means it's not true Shared Services but something else. Potentially, I believe that's its Achilles heel. ■

OUR PERSPECTIVE ON...

Dick Kennett formerly of XSERV offers some great insights in his interview this issue. XSERV is a singular Shared Services organization for many reasons, not the least of which is that it focused on providing expertise services right out of the box. As regular Shared Services Insights readers know, I have been a steadfast proponent of incorporating Expertise into Shared Services organizations, whenever, and as soon as possible. The reason is simple. Expertise Services have a significant impact on unifying a company's culture and actually offer greater long-term cost reductions and productivity benefits.

One reason for establishing a center of expertise in Shared Services is that your people are dealing with operating management teams and senior management, driving single solutions and leveraging them across various business units. So instead of each unit developing its own answers, a common stream of answers is created on behalf of all the business units and senior management that is not just supportive of the best knowledge around expertise services, but is in keeping with the new overall direction and focus.

This is much different than if Shared Services is purely transactional, where in many regards, there is less personal interface. Yes, employees in every business unit may be getting a paycheck that says the same thing, but there is no real impact on a company's culture. Expertise involves more technical problem solving, where services must be tailored to the

specific policies, practices and direction being pursued by an organization. So the nature of the interface between expertise and transactional services is quite different, with the former being linked more closely to a company's culture, strategy, management style and philosophy.

There are clearly some linkages between expertise and transactional services, such as in Human Resources, Benefits Administration, Claims Processing and the like. There clearly should be some feedback from administrators in those areas back to the people designing or adopting new expertise services plans so they can evaluate the administrative implications that will cascade down to the transaction processes. As such, there is a reason for an interface and exchange of information between the two entities.

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Many regard transaction or scale services the same as a factory production line, with the focus on the through rate; lower unit costs, less defects, better efficiency, maximum process productivity. Expertise services are more like a professional services firm (excluding the outsourcing component), such as a law firm or management consulting company, where people concentrate on a particular subject, industry or focus. An example

would be specializing in expatriate taxation issues or overseas transfer pricing, working for many clients or companies, using accumulating knowledge to create best solutions.

The process for creating expertise support assistance is different from the production mentality of scale services and is more concerned with defining a best-fit answer for a client in a given situation. What is effective and creates value in one situation may not be the same metric or dimension for another. There are different skill sets required as well, which is why I have historically argued that the management competencies to oversee a center of expertise are markedly different than those needed to run an effective transaction center.

In assessing how best to deliver Shared Services, the existing or available management competency is certainly a consideration, but the leverage in expertise services is different than in transaction services. The latter tries to take advantage of critical mass and economies of scale, concentrating volume in one or a few places to get the greatest unit cost efficiency or productivity. There is no benefit, however, to locating expertise services in a single facility because delivery of these services more often than not takes place on-site, with the client. It makes no sense to have your people spend the majority of their time getting to and from the clients being served.

Deploying expertise services is not predicated on critical mass. What is widely misunderstood is that expertise providers should focus on a limited number of

services, devoting perhaps 75% or more of their time to one or two services, but serving all clients within the organization. This is where the leverage occurs.

When AGL is called into an organization, we find that people performing expertise services are fragmented, spending perhaps 20% of their time on a given service and are handling many services. This is often a holdover from previous decades where the orientation was towards being a generalist, not a specialist.

Typically, companies believe they cannot afford to move to Shared Services predicated on expertise because they think it will escalate costs. In reality, it costs no more. Companies rarely know how much

time is being expended on each individual expertise service across the corporation. We find when they are devoting one or two full-time equivalents across a number of people, they can concentrate that back to one or two people, creating experts that the organization will require on an ongoing basis, much as it would occur in a professional services firm. And, because they are dedicated to a single expertise, their depth of knowledge and breadth of experience is substantially enhanced, so they are able to deliver a much greater value-added solution.

If an employee is supposed to be an expert on organizational planning matters and, at the

same time, responsible for filing grievances, it is easy to become distracted and fragmented. As a result, it is more difficult to stay current on trends, latest thinking, or to find time to attend conferences with peers.

The very nature of leveraging expertise services is like pollination, where the bee goes from flower to flower. If the bee represents expertise service delivery, the flowers are the independent operating units or clients, with the eventual outcome an upward spiral. The provider bee goes from one unit to another, and each client receives better advice, because the provider is more knowledgeable about the entire organization and what will and won't work. The provider brings all that from one situation to the next. The alternative is handling each problem as a one-off situation, or calling in someone from outside who has no knowledge of the organization as a whole, and getting a technical answer that may not be compatible with the organization's style or philosophy.

Effective baselining is key to aggregating activities performed to fulfill services so fewer people spend less time on a particular activity. For example, filing grievances probably goes on in many areas of companies without an exchange of information between them. One unit or area may have files that somebody else in a different area of the company may need but doesn't know about because that information is not shared. So needed information is not accessible; people may not even know where to go to get the informa-

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tion. There is no management of knowledge acquired over time. By dedicating a fewer number of people, terrific gains can be achieved.

Baselining is even more important in developing expertise than transaction services. We're all so accustomed to a production mentality. Remember the frustration companies encountered in the sixties and seventies, trying to get a handle on white-collar productivity? Pretty soon, most everyone backed away because it was just too hard to do. But you have to know what it costs to deliver expertise services. Interestingly, when we help companies conduct baseline studies, we find many expertise services exist that nobody really wants. These are typically services that have evolved over time, perhaps where someone once asked a question, prompting a study to generate an answer that is perpetuated in a service no longer needed. But there are no checks and balances in most organizations to analyze what is needed by whom and how to validate it's use. Companies often have someone in place to deliver a service needed maybe one month a year. Better to have variable cost and resourcing solutions than making it full time.

Most companies enter Shared Services with transaction services because that's what the majority of other companies have done. The cost reductions and efficiencies to be gained are typically more apparent. They avoid expertise services because they are politically volatile with the people currently performing them, and because the benefits are not as easily recognized. As knowledge management has come to bear in recent years, companies are beginning to recognize that by concentrating expertise on certain subjects, they can drive to a whole new level of performance, thanks to the clarity delivered by that dedication.

Whether implementing expertise services is easier in a new or existing Shared Services environment is a debatable point that depends largely on leadership competencies. If the leader's strengths are more around processing, zero defects, productivity and the like, it may be more difficult adopting expertise services. If a company chooses to have combined Centers of scale and expertise, it probably requires a

general manager with the appropriate vision to understand each set of operations and recognize they require different approaches. Once a Shared Services organization exists, I would not recommend a separate Shared Services organization for expertise services, which could create the potential for addition barriers and silos.

There will probably always be an issue between those who propose expertise services and those who have to effect them. There exist certain synergies beneficial to having a single source organization that performs both, but the different competencies must be recognized. What most senior management does when incorporating expertise into Shared Services is to use a functional approach. They look at a function, such as HR or Finance, and since they want to keep the body of knowledge around it together, they put expertise and scale services under a single functional head. I would argue that it's better to put all scale services together under a single leader, then determine whether there are advantages in how to integrate them, but keep expertise services separate. It's important to consider that the customer base for the two service types is different. Underlying everything we at AGL do in Shared Services is how we can achieve leverage. Leverage is created differently, depending on the service and how frequently it is performed. Many transaction services are performed on a regular cycle whereas an expertise service like Health, Safety & Environmental may do an air monitoring sampling for two weeks every other year. Expertise services are often performed on a retainer or project basis.

As I said earlier, I believe expertise services represent an even greater long-term cost savings potential than scale services. Of course, it is usually more difficult to document expertise savings potential because companies tend to use a combination of internal and external resources to provide them. I recall telling a company that what they were actually running was a 20 million dollar consulting firm internally. They had never analyzed their data in that manner. If a company has internal people who also use different external resources, it creates another cost issue because if the various business units are each utilizing a different labor lawyer, that's inefficient strategic sourcing.

“Whether implementing expertise services is easier in a new or existing Shared Services environment is a debatable point...”

There are also shadow benefits associated with expertise services that most companies fail to recognize. They get better answers and solutions to issues and problems that survive the test of time, referred to as the over shoulder look. Would you give the same answer to a question today as you did a year ago? More often than not, the answer is "no." Another shadow benefit is higher customer satisfaction because the focus is on services that have greater importance or provide more value. These benefits may appear softer because they do not fall into a per-unit cost category, as do most transaction benefits. Also, there may be overlap delivery if they are imbedded in business unit or corporate center staffs, with the resulting multiplicity of experts performing activities all over the enterprise.

Another thing that differentiates expertise from scale services is the former tend to be more business or industry focused or technically oriented, so they are far more specific and can be core to what the company's business is all about. Processing paychecks is not core unless that's the company's business.

The value in expertise services can be in developing competencies associated with technical problem-solving in that company's industry. Specific issues in the chemical industry are no doubt dissimilar to those in the semiconductor industry. So expertise services specific to a single type of business or industry can create competitive advantage or differentiation for a company, which is also something that company would probably not want to secure from an outside resource.

Another obstacle to implementing expertise services within Shared Services is the hesitancy of senior executives like the CFO or Chief Legal Officer to relinquish these services as readily as they might scale services. There really isn't much loss of stature in losing scale services, but it's different with expertise. Arguments arise about the logical interfaces that take place between people providing expertise services and people providing overall corporate governance services and the need for close cooperation and dependency. Whenever a fundamental change like moving transactional services into Shared Services is effected, most companies keep the function, creating a Financial Shared Services center or a Human

Resources Shared Services center, but they don't report together. Even the idea of creating a combined transaction services center was a political hot potato in early days. As it proved itself, more companies were willing to create combined transaction service centers.

"The value in expertise services can be in developing competencies associated with technical problem-solving..."

But less than half the existing Shared Services organizations are multifunctional transaction centers. You can see the problem if you try to include expertise services in the mix. As a CFO, if you have a financial service center, what's the advantage of adding expertise services into Shared Services? None to you because there is no way to get leverage that way. It's

really only where multifunction Shared Services exists that moving expertise services into it will create leverage value because of client overlap and issues that have multifunctional aspects.

So I believe what we are seeing is more an evolution than a revolution when it comes to expertise services. Companies are really grappling with this issue. Many won't even consider expertise when evaluating Shared Services, which is the normal reaction when factual data is absent. Being risk-averse is a big issue, as is not fully appreciating the basis for leveraging expertise services, how it is different and how it can be maximized by moving it out from under the corporate umbrella. It appears we are saying the functional leader has done a poor job by not optimizing expertise, but what we are actually saying is that by constraining it, it cannot be leveraged optimally.

There are companies that have moved within a function, creating separate scale and expertise centers that remain within that function. At least they have arrived at the realization that there is a differing basis for leveraging the two and that the way to optimize the services for people who need them is different than that for people who need other services. And while that approach is certainly better than ignoring the issue altogether, I can't help wondering how much better they could do with a non-functional approach. Like the toddler who must learn to let go of the table and take a few steps alone, companies must learn to let go of their functional organizations and focus on optimizing service delivery. Functional organizations are simply no longer the vehicle for attaining first quartile performance. ■

SHARED SERVICES Q&A

SSI readers ask us many questions relating to the transition from a transaction-based to a multifunctional Share Services organization, specifically in the area of creating Centers of Expertise.

An article authored by AGL's Leland Forst in an issue of *Performance Improvement* magazine earlier this year addresses this issue, among others. The following is an excerpt from that article and may help shed some light on the subject.

DIFFERENT ISSUES FOR EXPERTISE SERVICES

Customer demands tend to be even higher at expertise-based service levels. At the transaction-based services level, such as payroll, the focus is typically on trying to meet a best practices cost level of \$1.10 per check, accurately and on time, which depends on timely receipt of needed information.

Whereas at the expertise level — if legal is asked to retrieve a contract or assist in a due diligence issue, or if training is designing a new curriculum — the customer interface, knowledge and relationship become far more important.

At the expertise-based services level, this exchange is characterized more as consulting, research and general counsel, such as an outside law firm or consulting group might have with an internal customer, in the sense that it is project-based work. So even though work goes through the contracting process at the beginning of the year or in advance of the business planning process, relationship management at the expertise level requires the provider organizations to be aware of and *anticipate* the various project-type needs that will be required so they can deploy their resources optimally against them. Expertise service providers must also be vigilant to identify customer needs not currently offered by the providers, a common practice at professional service firms.

The concepts surrounding *account management* and *business development*, terms freely used at professional services firms, are rarely recognized or used within most Shared Services organizations, principally because they continue to

regard internal customers as fellow employees rather than “arms-length” customers. Of course, Shared Services management can tell its employees to become account managers, but this a bit like telling someone to become a world class marathon runner. The difference between the articulation of the role or responsibility and its realization is meaningful *experiential training*. This involves not only understanding the concept, but also having the opportunity to cultivate the skills in a non-threatening environment and then deploying the skills in an actual work environment. The same holds true for honing business development skills.

There is probably not a Shared Services executive who has not heard someone in the organization say “Hey, this requires sales and marketing expertise; One of the reasons I went into accounting was so I wouldn't have to sell or market!”

There is a natural resistance to be expected, particularly from employees whose preference is to practice their trade or profession. Often, this resistance is grounded in a lack of knowledge or experience. But if a Shared Services organization expects to be successful in the expertise-based services arena, management must accept that they are competing with professional services firms who, by their very nature, have become proficient at these activities, both to survive and flourish.

**A copy of the complete article as it appeared in *Performance Improvement* may be requested through our www.sharedservices.com website or by email at info@amherstgroup.com.

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