

# insights

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Dear Shared Services Leader:

Companies expend significant time and energy on developing goals and objectives and formulating "scorecards" to depict their progress and results. This investment produces real value when employees understand how their work contributes to those goals and objectives, therefore enabling them to respond appropriately to exceptions encountered and to determine improvement opportunities.

All too often, employees are left on their own to derive the connections between what they do and corporate and unit goals. When this happens, the likelihood is that employees never really internalize the linkage and the goals remain some lofty statements that are unrelated to daily work. So, how do you help employees make the connections? And, how do you measure and monitor progress? We think the articles in this issue will provide some ideas and techniques that may be helpful to you.

Due to unforeseen circumstances, this issue of *Shared Services Insights* is reaching you much later than planned. We are taking appropriate action to ensure that this does not happen again and that we return to a quarterly schedule in 1999. We appreciate your continued loyalty and support as we effect the necessary changes.



Laurel A. Forst  
Editor

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## GUEST INTERVIEW

Recently, **AGL** sat down with Steve Welch, SBC Operations, Inc.'s President of Corporate & Administrative Services. Pacific Bell, the CA-based portion of this telecommunications giant, reorganized into seven separate business units in 1991, and brought together a collection of various internal support services to create a Shared Services organization. While the new Shared Services unit continued to perform many of the same services, new concepts of

accountability to internal customers were given sharp focus. Billing agreements and a system of performance metrics were put into place that have since resulted in significant cost reductions and service delivery improvements.

Through year-end 1996, the cost of delivering internal services was slashed approximately 54% and the percentage of satisfied customers has soared from the

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high 70s to the mid-90s. Perhaps just as impressive, Shared Services was able to reduce its staff by 42% while achieving these results.

**AGL:** Steve, your accomplishments with Shared Services have been remarkable, to say the least. What were the early key enablers that made it all possible?

One of the first things we did was to benchmark the performance of our internal services against the best in class, not just in our industry but against the best companies, regardless of their industry, all over the country. Our Shared Services organization benchmarked some 54 companies over a three year period. We made numerous on-site visits, to companies like Honda, Milliken, Xerox, and IBM — companies not necessarily involved with telecommunications but that had excelled in some aspect of Shared Services — and brought back some of their best in class practices. We linked much of our improvement to the introduction of approaches used by these companies, some of whom such as Xerox, were early Baldrige winners, and it really paid long-term dividends.

Prior to the 1991 reorganization of Shared Services, internal support service providers tended to see themselves as victims of aggressive budget management. Support services felt they were often being asked to cut budgets or reduce their force in amounts disproportionate to what our customer-facing counterparts were doing. Once we began using best in class practices gleaned from other successful companies, Shared Services acquired a reputation for approaching best in class performance. It gave us a whole different kind mindset. We began to

see ourselves as *leaders* of the cost reduction effort. Subsequently, we won Pacific Bell's Chairman's Award as being the organization within our company having the highest degree of organizational effectiveness. We then won the Award several years running. We developed a reputation among our internal customers as being leading edge advocates of process management, reengineering, cost improvement and organizational effectiveness, all under the Shared Services mantra.

As a result, we reduced our Shared Services staff from over 2,000 to less than 1,000 employees. However, our employee-attitude surveys, done semi-annually, indicate the percentage of employees who are satisfied with their jobs has

risen from 54% to about 78%, which is quite a high measure. This level of job satisfaction is probably not what you would expect, given the cost and force reductions we have undergone, but it is indicative of our employee's reaction to being able to attain competitively bench-

marked performance in the eyes of their customers. We created a sort of slogan used in our business plan; "Good people in a great process can aspire to greatness in the eyes of their customers."

**AGL:** Can you give me a specific example of how your benchmarking efforts resulted in cost reductions?

We were able to achieve significant reductions in real estate, inventory management, supply line management and procurement. Using benchmarks based on information that telephone companies report through the FCC as part of the regulatory process, we were able to compare our performance with others and over

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**"Good people in a great process can aspire to greatness in the eyes of their customers."**

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time attained the best results in the telecommunications industry. For example, in the area of material and logistics supply cost per access line ( an important measure of service in our industry), we achieved a level of about 40 cents per access line. The nearest competitor was about a dollar, and poorer performing companies were as high as \$4 per access line.

These were dramatic results which impacted the company's bottom line, gave us a competitive advantage, and enabled Shared Services to be reorganized for driving total quality management benefits to the bottom line.

**AGL:** *Any others?*

Since our processes are now better managed, we have been able to offer service *guarantees* to our internal customers. For example, if a Shared Services customer orders material before 6 pm, we guarantee delivery anyplace in California by 6am the next morning or we will pay for the material. This policy serves as a "cost of poor quality report" for our operations management and also as signal to our customers that we take service seriously and are willing to put our budget on the line. We first offered the guarantee in 1992, and it cost us \$250,000 in payments that year. By last year, that figure had shrunk to just \$21,000.

**AGL:** *Have there been other benefits?*

I think a very interesting ancillary benefit is that our customers began to develop a level of greater trust with Shared Services as they came to recognize we really had their interests at heart. They became a lot less interested in formal service agreements. As internal service providers, we believe we have an inherent competitive edge over external competitors, since we can get closer to our customers real require-

ments faster than an outside company. But we haven't taken that for granted. We have spent — and continue to spend — a lot of time developing processes for getting customer's requirements very clearly identified and defined. We meet with our customers several times each year to review our portfolio of products and any projects underway with them. If we didn't do this, we couldn't effectively meet their competitive needs, and we certainly couldn't create strategic value.

**AGL:** *Tell me about creating strategic value for your customers.*

Once we developed the ability to deliver superior service, as evidenced by customer satisfaction

measurements, we knew we had to go beyond transaction-based excellence and move toward creating strategic value for our clients by delivering the elements of their business plan that would make them successful. We developed a mission statement in our Shared Services procurement organization that worked really well for us. We would create and convert supply line opportunities into bottom-line business results, which met the strategic objectives of our customers. We would search for opportunities in the marketplace to improve products, reduce costs, increase revenues and enhance our internal operations, and match those opportunities to our customer organizations. We could then work collectively with them to take advantage of those opportunities to drive bottom-line results in their business plans which had strategic value from their point of view.

The process of creating strategic value for customers means forging a relationship where business information of a sensitive and strategic nature can be exchanged.

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**"Since our processes are now better managed. We have been able to offer service guarantees to our internal customers."**

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**AGL:** *I take it customer satisfaction surveys have played an important role in the success of Shared Services?*

Yes. Our surveys deliver feedback not only on how satisfied internal customers are personally with our services, but also on the impact of the services on their operation, including servicing their outside customers.

**AGL:** *What spurred your transition from transaction-based activity to forming strategic alliances?*

We saw the need to create strategic value for our customers and simply grew into it. We came to realize there was a strategic aspect to the delivery of competitive internal services. In fact, we don't believe a modern corporation can be competitive unless its infrastructure, including internal services, is also competitive. That's a pretty significant strategic value. So we were determined to deliver strategic value, not merely good transactions. The transactions must be of high quality, but that, in itself, is not sufficient.

**AGL:** *How are you able to get all your people working on the same priorities?*

We found that organizations that succeeded were ones where everyone was making a contribution to the same set of objectives or priorities. In our organization, we found when something was neglected, it was often because not everyone was working on the same priorities. So we initiated a concept called **"Golden Threads."**

For example, if we need to reduce inventory 25%, there must be a thread that extends into all layers of the organization so everyone knows what they are contributing to achieve that objective. In other words, each group knows what their objective is — the group handling cable, the group managing circuit packs, another managing outside plant construction materials — all have separate inventory

reduction objectives and know their objective will be combined with those of other groups and will comprise the total inventory objective for Shared Services. So instead of just a large number like \$80 million dollars or 25%, we can trace inventory costs all the way back to the shop floor, where employees

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**"The status of the Shared Services organization is way up."**

know their part of the objective may be a \$50,000 reduction in the storeroom. In this way, the Golden Threads keeps it all organized and connected. We developed four priorities around which the Golden Threads were organized:

1. Customer Satisfaction
2. Cost Reduction
3. Process Improvement
4. Winning team

The performance metrics we had in these four areas were used by all levels within the Shared Services organization and added up to the key bottom-line accomplishments we committed to the corporation every year.

**AGL:** *Have you seen a change in the status of Shared Services employees during this evolution?*

Definitely. The status of the Shared Services organization is way up. Of course, winning the Chairman's Award as the most effective organization in the company helped. Another thing that elevated its status was winning the prestigious USA-RIT (USA Today/Rochester Institute of Technology) quality competi-

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tion last year. This is similar to Baldrige quality competition but smaller, and for teams rather than companies. There were teams from more than half of the Fortune 500 companies in competition. Quality teams demonstrate their achievements, and we won with our team that worked on the management of plug-in circuit packs worth several billion dollars. They are transportable and can be moved between different equipment locations, depending on service and maintenance requirements, etc. It is a huge internal material logistics challenge to optimize their use. Winning the USA-RIT Award was just another signal to our customers that in Shared Services, they have a world-class service provider that knows how to use quality processes, working in quality teams, to improve operations.

*AGL: Steve, you attend Shared Services seminars sponsored by The Amherst Group and the Conference Board; you listen to the experiences of executives of other Shared Services organizations. When you hear someone who has not achieved the same kind of success you have, what do you sense they have missed?*

I think perhaps the biggest missed opportunity is not making the transition to creating strategic value for customers. But once that commitment is made, it is a mistake not to get all the employees in Shared Services excited about that mission.

Of course, the next question is “How do we get everyone in Shared Services involved?” I think the biggest enabling activity is the deployment of a system of business metrics that allows teams to be able to improve things and then be recognized for those improvements. You can’t get all the employees involved without helping them connect with the corporate objectives. Whether it is through a golden thread concept

or some similar idea, you must have a system of business information and metrics, including feedback from customers, that is delivered to employees. If you can get them that information, then stand back; they’ll know what to do next because they will be closer to the work than anyone. They will also feel valued for their contribution because they will be able to see what it is doing for their company.

What stops many companies from doing this is the hard work involved to deploy a system of business information and metrics. It takes constant effort and creativity to get timely and meaningful reports in place. It takes lots of energy on the part of the management team who must believe in their people, spend the necessary time meeting with them, training with them in the quality process, listening to problems and being open to suggestions.

*AGL: Obviously, you have made this commitment and kept it.*

I realized early on that it had to start with me. I now have an open hot line each month where anyone in our organization can call me and talk about anything they want. I also spend considerable time with my client officer counterparts, talking about how their operation is going, what problems they may have and what Shared Services can do to help them succeed with their business plans. I also spend a lot of time *marketing* our capabilities, and I use that term as any company looking for business solutions for their customers would. Running Shared Services is exactly the same as running any other business; You must run it like a business to be competitive and succeed.



# OUR PERSPECTIVE ON...

## EMPLOYEE COMMITMENT MEASUREMENT: PRECURSOR TO LINE OF SIGHT

For the first few years, new Shared Services organizations typically focus most of their activities and initiatives internally. There are a large number of issues to address and not everything is abundantly clear on day one, week one or even year one. To various degrees, early Shared Services business units will expend most of their efforts to justify the cost-effectiveness of their activities relative to internal baselines or external benchmarks. Many will gravitate to some form of activity-based costing — an ongoing measurement of the cost per unit associated with the delivery of that service. Some will have customer service initiatives — payer/user identification, customer segmentation and satisfaction measurement — to discover the perceived importance of each service to the business and the relative fulfillment. Fewer will actually set quantitative standards on the quality attributes they are delivering relative to performance expectations.

**“...there is research indicating the greater probability of achieving customer satisfaction if employees are motivated.”**

But few Shared Services organizations recognize that in addition to customer satisfaction measurement and activity-based costing, there is a critical third element necessary for fact-based decision making — employee commitment and motivation measurement.

While there may not yet be an absolute correlation between high customer satisfaction and high Shared Services employee commitment, there is research indicating the greater probability of achieving customer satisfaction if employees are motivated.

The assumption certainly seems logical. But most companies have not gone to a formal measurement instrument year over year. Some, like Xerox, have done so and found the data to be an important component in making decisions. The key appears to be not just the creation of an

employee motivation index, but the ability to link it to customer satisfaction and activity-based costing to form the third leg of the easel that can sustain and enhance the viability of Shared Services.

**“...there is a critical third element necessary for fact-based decision making — employee commitment and motivation measurement.”**

Here's the reason inter-linking this element with the others is critical. When the enhanced Shared Services organization looks at their business of service delivery, they will have a richer array of information from which to cull what the real issues are that explain why a particular service is not receiving the anticipated fulfillment from customers or why there are differences between the quality attribute rated as most important by providers versus users. Shared Services can assess whether the employees involved with the delivery of the service are committed and motivated and the costs associated with the delivery of that service are competitive to those of alternative service providers. If all of these areas are measured accurately, an organization has the ongoing means for determining how well it is doing. It is in a

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better position when it meets with its customers to talk about alternatives, issues and options and their likely results. Instead of asking customers “what do you think we should do for you?” Shared Services must assume a proactive posture with their customers based on what they already know about themselves.

Most Shared Services organization either have not pursued this third dimension or if they do, it is not integrated with cost and satisfaction data so they can go through an appropriate evaluation process and determine what makes sense and why. Often, the issue of employee commitment has been broached through some form of employee attitude survey, which is quite different from employee motivation measurement. Attitude surveys typically inquire about such things as employee feelings regarding benefits, company policies, working conditions and the kind of place it is in which to work — important data worth analyzing. But employee motivation measurement addresses goal understanding and value orientations in doing what needs to be done to deliver optimal services as defined. The former is on a macro scale, the latter on a micro scale.

If employee commitment is so important, why haven't more Shared Services organizations pursued it? Several reasons. Cost pressures are very real and assert themselves every day. Assuming it is recognized as important and Shared Services is on a self-funding program, the question becomes how to add it into the portfolio without raising costs. Sometimes, companies find it difficult to clarify exactly how they will benefit. There also sometimes exists reluctance on the part of Shared Services management to gather information that is not readily actionable, positive. But employee motivation measurement is intended to be constructive, not destructive. It can show how managers, instead

of leading team members, may unintentionally be sending the wrong message which hinders the teams from accomplishing their defined responsibilities.

So there are lots of issues standing in the way: cost, timing, expectations, whether people will see the advantages versus an adverse impact, and is this a “nice do” versus a “must do.”

If a Shared Services organization has evaluated employee commitment, thought it through, and for whatever reason determined it cannot be implemented at this time, it should be revisited sometime later in their evolution, or in their cognitive thinking around what is critical for continuous improvement and sustainability of Shared Services. If they are unable to see the linkage between it and the other two performance drivers, they may do their organization and themselves a disservice. Because each of these are critical precursors to *Line of Sight* management, the likelihood is that everything an organization is trying to accomplish in Shared Services will not benefit the users, payers and the total corporation to the degree possible.

We in Shared Services must constantly challenge ourselves that what we are doing can be done best from a user perspective, and in their service to their external customers, not from our perspective. The linkage to Line of Sight is that unconnected employees are less likely to do the best job on behalf of their customers. The singularity is what constitutes optimal service delivery in a way that those both in and out of the Shared Services organization can uniformly understand, agree and hopefully, unite behind.



# SHARED SERVICES Q&A

**Q.** How does Shared Services balance what customers want versus what is affordable for the company or the function?

**A.** Conceptually, Shared Services has no monies or budgets. Rather, it has commitments from its customers as to the annual funds they have allotted to Shared Services to perform agreed-upon services on their behalf. However, assuming you know your costs on a service-by-service basis, many Shared Services organizations address this issue through the Service Level Agreement (SLA) process. It is an interactive process where there is mutual agreement on the scope of the services provided, pricing, a commitment on the performance level, and the roles and responsibilities for both you and your customer. When customers are able to see what they get for a given cost, they can make decisions and trade-offs based on fact and service needs. In other words, Shared Services as the insourcer should behave the same way as a third-party outsourcer for transactional services and an external professional services firm for expertise services.

**Q.** I attended a recent conference in Chicago where you gave an opening address on Best Practices in Shared Services organizations. Can you define the difference between best practices and benchmarking?

**A.** An important distinction between benchmarking and Best Practices is that the former answers the question, "what have organizations delivering similar services achieved?" Best Practices answers the question, "how did others achieve their level of performance?" Companies tend to view Best Practices differently: lowest per unit cost, widest application of technology, highest satisfaction rating, optimal organizational design, best work flow, reduced cycle time, most committed, motivated staff, etc. Given these distinctions, it's important to qualify potential Best Practices sources based on your organizations defined charter, adopted strategy, stage of development, practices employed and environment.

**Q.** We are in the process of staffing a Shared Services business unit. What are the most important criteria in selecting people for the new organization?

**A.** The three selection criteria that are most important in aligning staff to the work to be performed include:

1. *Attitudes* - the people are customer-focused and have a service orientation.
2. *Behaviors* - they are committed to the stated goals and values of the new organization and have personal integrity and a teamwork orientation.
3. *Skills* - people possess the "right" skills for the work defined in terms of technical competencies, and interpersonal and communications skills.

While training may compensate for deficiencies with respect to skills, it is critical that each person has the requisite service attitudes and behaviors at the onset. Successful Shared Services organizations have learned that the time and cost for supplementing these needs are not sufficiently positive to warrant the investment.

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