

insights

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A RESOURCE FOR ACHIEVING INTERNAL SERVICE EXCELLENCE

Dear Shared Services Leader:

Change – no matter how sound the reasoning and how much support from executive leadership exists, is almost inevitably met with resistance. It's part of human nature to resist rather than to embrace change. This issue continues the roundtable discussion with the executives from our last edition of SSI and focuses on some of the challenges they faced during implementation, offering some sound advice based on their own learnings and experience.

In *Our Perspective* we look at the sustainability of Shared Services in this new millennium. What are the critical components that will differentiate Shared Services from other initiatives and ensure its success? What kinds of changes will be required in our thinking? And, how do you get there? We believe it will take out-of-the-box thinking about and innovative approaches to Shared Services, which requires us to think the way we do when we, ourselves, are customers.

One of the most frequently asked questions we hear is about how best to present the business case for Shared Services. So, we decided to focus our entire Q&A on the subject and provide you with some of our thoughts and observations.



Laurel A. Forst
Editor

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ROUNDTABLE DISCUSSION

In our last issue (SSI 6), we brought you a roundtable discussion of the cost/benefits experiences of Shared Services executives. The discussion revealed an interesting diversity in implementing and gaining the strategic advantages of Shared Services, as well as sustaining its benefits. While our roundtable participants encountered a variety of obstacles,

each was able to successfully overcome setbacks and achieve remarkable productivity enhancements and cost reductions.

The second part of our interview follows, as we probe some additional areas of Shared Services with our executive participants: Emiko Banfield, vice president, Shared Services,

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ROUNDTABLE DISCUSSION CONTINUED

Southern California Edison; Dan Henderson, vice president, general manager, Honeywell (formerly AlliedSignal Business Services); Rick Hinsey, process sponsor, Finance Department, Tenneco Business Services; and Bernie Kocanda, director, Shared Services, Kraft Foods, Inc.

AGL: *Most companies experience some resistance to the implementation of Shared Services. Did you?*

Kocanda (Kraft): I have been with Kraft since the inception of Shared Services. Because we started from a greenfield site, we had an advantage that permitted us to avoid many of the obstacles normally associated with implementation. We hired all of our associates locally, but were very selective regarding the new people brought in.

We chose our leadership group, however, from existing Kraft locations. We didn't experience any major problems recruiting the right people and there really were no cultural conflicts in moving leadership here. As a precaution, we did some screening to make sure the leaders chosen would fit into the new culture and service orientation.

It was not all that difficult. People who want to join Shared Services are more the risk takers anyway, and they are the people you want. The problem is that in the typical finance organization, you don't find too many risk takers. But if you are scaling back a big company like Kraft, you have many people to choose from. You may, for example, have ten people doing payroll work but you may only want one of them for Shared Services anyway.

Hinsey (Tenneco): We had so much resistance when we began that we even had a hard time getting qualified people to join the team just to be knowledge resources for our development work. It was a struggle getting people involved at first because there was resistance at the division or management level among those who thought Shared Services wouldn't succeed. As such, they were hesitant to send us their best people. They were happy to send their mediocre people of course.

So we had a hard time recruiting and when we went live with Shared Services, many of our core people were still new to the organization. When these new people went out to talk to the company's business leaders, they had little credibility, so change management became difficult.

But it was critical that we get out and interview business leaders to evaluate their level of commitment to Shared Services, and whether they were willing to make radical changes. The key, I believe, is to make the entire organization realize the urgent need for change and to rally behind it. That is a difficult but vital obstacle to overcome.

Henderson (Honeywell): During the early days especially, I think it's common to encounter some resis-

"The key, I believe, is to make the entire organization realize the urgent need for change and to rally behind it."

tance, even some finger-pointing. Most of that can be broken down during the Service Level Commitment process, where both sides — Shared Services suppliers and internal customers — come to realize there is a shared responsibility for solving problems.

One of the real challenges of an internal supplier relationship is recognizing that the people who receive the services are customers. Often, people within Business Services (Shared Services) did not see themselves as customer representatives, but rather just as employees doing something for another employee. To get to the next level of customer service and satisfaction, we felt we had to look at ourselves as a business providing services to employees in our company first, and to treat customers as though they had an alternative source for services. We tried to build a burning platform that forced us to refocus and rededicate ourselves to satisfy our customers.

Banfield (Southern California Edison): The formation of strategic business units was a radical departure from how SCE had been organized. We encountered significant resistance to the "new" Shared Services strategy, in particular, to the organizational concept. This was mitigated somewhat by the fact that Shared Services was created within the larger context of a cor-

porate restructuring. It actually helped that all the new business units were experiencing organizational growing pains at the same time!

AGL: *Was it difficult to facilitate the necessary changes?*

Hinsey (Tenneco): During the installation of our Shared Services center, Tenneco concurrently began downsizing its five divisions, which included spinning off various businesses. One of our companies, which Shared Services had targeted as among the first for installation, was spun off. So we were forced to target another division, one that was to remain in the Tenneco family. Obviously, this caused some delays and confusion at the time.

Today, we have about 200 employees in Shared Services, who service approximately 40,000 employees in Tenneco North American operating units. There are some 10,000 in the Automotive Group and 15,000 in Specialty Packaging. Tenneco just spun off its Container Board Group with 15,000 employees, but we still provide services to them on a transition basis. Interestingly, we also provide services on a contractual basis at preset prices to another one of our companies that was spun off.

Banfield (SCE): Changing the work processes, practices and systems in order to streamline operations and leverage resources presented the anticipated Shared Services challenges. However, it took a significant amount of energy to overcome 20+ years of ideas, beliefs and values held by our organization. Our transition plan focused on creating a new shared vision, identity and strategy. We created new communication avenues and were relentless in delivering the new perspective over the initial 18 months. We adopted the old adage from the US Army: “Tell them what you are going to tell them, tell them, then tell them what you told them.”

Henderson (Honeywell): Before you can enforce policy and practice changes, you must create credibility that you can get the operation under control and run it. You must attain that stage of development and

credibility first. It’s a different kind of change management process that must be rolled out across the entire company through its functional leaders. It’s a big communications effort that involves the whole company, as opposed to just internally changing processes within the four walls of your own operation.

AGL: *Is your Shared Services organization perceived differently today than when you began?*

“There are always some ego problems in the beginning and while you may think you can make everything happen from the service center, you can’t.”

Hinsey (Tenneco): The organization has a better understanding of the SS role today — what we do and don’t do. At first, they thought we made policy; now they understand we only recommend and handle compliance to policy. They realize now that when something comes out of the service center, it is not something we did in a vacuum, but rather something endorsed by the executive committee as a positive change for the organization.

We hear “The service center is dictating this change” much less often now. We write the recommendation document, but we secure a business sponsor to sign off on the changes so that it comes from the business leader, not us. This creates a whole different sense of endorsement and we become merely compliance monitors.

There are always some ego problems in the beginning and while you may think you can make everything happen from the service center, you can’t. At first, business leaders would say, “Yeah, you guys just go ahead and do that.” We tried but it didn’t work. There would be resistance from people who either didn’t believe us, or knew that some leaders would say one thing in front of senior leadership and then go back and tell their people something different. We have learned not to introduce any changes without leadership endorsement. We get things implemented faster if change is communicated on the letterhead of a business leader versus that of the service center.

Henderson (Honeywell): The original business case identified customer satisfaction and reduced costs as the drivers for creating a broad-based Shared Services organization at AlliedSignal. Regarding customer satisfaction, we felt that a Shared Services organization

would create a better focus on customers, service commitments, process performance, timely and accurate responses, functional experts, and expert advice. Cost reduction was seen to encompass consolidation and centralized management, better program management, volume leverage and decision support.

Looking at the business case for Shared Services five years later, we have delivered on all of these areas and more. We are now a strategic partner for growth with our customers and our company. Besides customer satisfaction and reduced costs, the new drivers for our Business Services organization are improved control, compliance, information management and employee satisfaction, both internal and external. Some of these areas include process monitoring & metrics, defect measurement, single process control points, and information & analysis. By creating world-class processes and services, employees are more satisfied with their careers at Honeywell.

Banfield (SCE): The perception of Shared Services has changed significantly at SCE. Initially, there was a lot of cynicism and skepticism on the part of employees as well as our customers. Much of the overall organization was part of an older General and Administrative Services group, and their fear was that this was just a ruse to outsource their work.

Today's perception, in contrast, is a remarkable turnaround. Today we are a world-class example of joint-value creation, working with our internal customers to enhance their ability to generate value on behalf of the corporation. It's fair to say that our customers have a substantial stake in maintaining our relationship. In the most recent change in the evolution of our Shared Services role, we have become a source of new revenue generation for the company by successfully marketing our Shared Services products and services to third parties.

AGL: *Do you have any advice for prospective or emerging Shared Services organizations?*

Kocanda (Kraft): I have spoken at and attended many outside conferences. I tell audiences that the major thing is to plan on the unexpected. There will

be something in your journey that will make it an adventure: a management shift, loss of leadership, someone challenging your ideas, something. Remember to keep your eye on the Shared Services prize. We've had shifts in management philosophies that changed how we implemented the Shared Services center. Now, after travelling those detours, we've accomplished everything we set out to do; it just took a little longer and we used a different implementation path.

"If in the beginning things are not going right, you can lose credibility fast."

We also had some key leadership in the reengineering project move off to other positions in the company, which caused some philosophical changes in implementing Shared Services. There were delays due to technology issues, such as tying in with the rest of the organization and their technologies. There were changes in people's philosophies regarding the implementation of some key functions, which delayed us another 3-6 months. Despite not anticipating these issues, we kept our focus and gained the end prize.

Hinsey (Tenneco): I believe it is critical to place capable people in the Shared Services center in order to make it a center of expertise and excellence. You need people who can oversee and understand what is happening with the different processes and bring suggestions for change to the attention of management, who are the endorsers of change. Once Shared Services people build that credibility, and it takes a year or two, people will listen to them and they will be able to move change that much faster. Once you create these repeatable, predictable service levels, people will listen to you and will give you more business because they are confident you can deliver.

If in the beginning things are not going right, you can lose credibility fast. You must remember that before there was a Shared Services center, the company had a person at every facility doing things, and there was more of a personal touch. Now, things are more efficient, but some resistance remains because that nice, warm personal touch has diminished — you know, Mary Sue is no longer right down the hall to answer questions. People now call an 800 line to talk to somebody.

When we started Shared Services, we were under the impression we could have associates in the service center who could respond to virtually any employee issue. We have since discovered it is impossible, given the complexity of our business, to train each Shared Services employee to do that. So, we became more focused and formed service delivery teams for various functional areas, allowing us to develop more of that personal touch. Now people call in and talk to the same group of people all the time, which helps build relationships. It is not the same as having someone down the hall, but building those personal relationships by phone is what makes us successful.

Henderson (Honeywell): My advice would be to make sure up front that (1) senior leaders are going to be committed and visible; (2) the full programs are funded; (3) program management disciplines are developed; and (4) that you communicate these things to everyone as much and as often as possible.

Banfield (SCE): I believe there are four key points to

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a successful Shared Services implementation. First, earn the confidence of your internal customers. We accomplished this by producing results. For example, in our leadership of the Strategic Sourcing effort over the last 3 years, we have been able to create over \$200

million in cost reductions from the supply chain, which positively effected the cost competitiveness of all organizations. Also, during the first three years of Shared Services implementation, we reduced our staffing level by 40% and our overall costs of operation by 25%.

Second, create a robust change management environment, one which values a service identity and ethic, and open communication. Third, utilize process-

focused cost accounting tools, such as activity-based costing, and use this information to create service provider contracts and service level agreements with internal customers. Finally, create an open environment with your customers, focusing on “Are we delivering the right products and services?” And be sensitive to, or better yet, anticipate, your customers’ changing business needs. ■

OUR PERSPECTIVE ON...

The 1990’s was an exhilarating decade for those of us in *Shared Services*. As its consulting pioneer, *we* helped nurture *it* through its nascency. Like proud parents, we watched it mature, evolving from its early transaction-based incarnation into a dynamic, market-driven internal service business unit. Today, Shared Services is regarded as a valued management alternative by many corporations around the world. Shared Services organizations are typically staffed with some of the best and brightest people in their enterprises, and are exciting and opportunistic places for their employees. We have come so far in such a short time, and yet, as we enter the new century, it strikes *us* that we still have a long journey to travel if its true promise is to be realized.

We don’t believe Shared Services can or will remain static in the new millennium; it will either be further elevated into an integral and self-sustaining element

of staff service delivery excellence, or become another discarded management fad.

Naturally, we at AGL prefer the former. And if you are reading this, you probably share our vision. But it will take more than optimism to sustain Shared Services. It will take breakthrough insights regarding the critical value components that differentiate Shared Services from alternative initiatives.

Achieving these insights will require thinking in new ways. It will mean looking at Shared Services from a business, rather than a Functional, perspective. It’s a logical progression, if you consider that Shared Services is much like a service business, whether you call it a packaged solutions business, a professional service business, internal outsourcing, a leveraged cooperative or the like. The name you give it is irrelevant; the essence of Shared Services is operating like

a competitive service business. Consider that you are receiving inputs, transforming them in some way, producing new outputs and distributing them to your customers. There are others who could produce those outputs, so you have competitors, and your customers derive economic and other benefits that they can assess and quantify.

Shared Services is a business. And like a business, it must deliver measurable value to sustain itself. Shared Services has value components with both internal and external attributes. External attributes include market share and penetration, customer loyalty, supplier partnerships and competency recognition. Internal attributes include leadership quotient, employee commitment, leveraged delivery, knowledge and process management, and results contribution.

Here's a brief definition of value in each component.

External Attributes

Market share addresses first, for the services provided, how much of the total business does Shared Services represent? It must be at least 80% internal, including shadow organizations and outsourcing companies. Second, for the internal customers served by Shared Services, how much of their 'action' do you represent? It should be at least 5% of their cost.

Customer Loyalty refers first, to the importance of the service portfolio you provide. Value means no service is unimportant and at least 25% of your services are very important to your customers. Second, it asks how well do you fulfill expectations against requirements? Value means all services meet expectations, and at least 90% are rated as *better* than meeting expectations.

Supplier Partnerships, including Outsourcers: All parties benefit mutually. The company realizes annual service cost and productivity gains and at the same time, the outsourcer obtains acceptable returns. Also, provider transparency to the customer must be maintained. This means that from the users' perception, service is at least as good now as it was before the change, and that minimal customer impact has occurred as a result of the transition.

Competency Recognition addresses customer credibility of staff know-how, based on the processes you employ and the *results you deliver*. There should be no perceived bureaucracy and the time devoted by customers as well as their level of involvement are seen as appropriate. And as you journey towards becoming the provider of choice, the results you deliver create the impression among your customers that no one else can do it better. This component is especially critical for expertise services.

Internal Attributes

Leadership Quotient is the style and orientation of you and your fellow Shared Services executives, based on:

- *How you make decisions.* Value must be demonstrated from decisions being fact-based, in accordance with organizational values, and clearly understood by all parties. Too often, they are not.
- *Role modeling.* Value is Shared Services' management adherence to the same standards and rules as the leaders of strategic business units within the organization. Within Shared Services, employee behavior is in accordance with a stated credo or code of ethics.
- *Peer recognition.* Shared Services' leaders are perceived by other Shared Services leaders as among the best of the best, and from an internal perspective (customers and other executives within the company), viewed as an important contributor to the business roundtable. This means as a roundtable member and participant in the discussion of issues, not merely a recipient of the outcomes of discussions.

Employee commitment addresses staff adherence to stated goals and visions, based on management reinforcement. Seventy five percent of Shared Services employees must be at or above stated norms. Employees must score 85% or better on a normative assessment of their motivation for performing the work to which they are assigned.

Leveraged Delivery is the linkage between service providers and customers. Value means each service

provider can specify who their customers are by name, title or position for each service they deliver. For customers, it means knowing who in Shared Services to contact for each service they use. Likewise, it is concerned with the alignment of staff to goals such that each Shared Services employee understands the impact their work has on unit and corporate goals, annual plans, as well as shareholder value. Additionally, employees can handle exceptions and new situations appropriately, without supervisory direction.

Knowledge and Process Management refers first to information sharing in which value is measured along the basis that employees have the data needed to perform at desired levels at least 95% of the time. Second, to operational effectiveness, where value is attaining first quartile performance in terms of cost, product and quality for the services deemed most important by customers.

Results Contribution: The area where most Shared Services organizations tend to focus is performance outcomes on business plans and goals.

In customer profitability, value means surpassing external competitor rates on all services accounting for 80% of costs incurred from Shared Services. Also, maintaining flat year-over-year absolute cost levels for common, scale or commodity services (including inflation).

Net zero budgeting: Value means for Shared Services organizations to become like businesses, they must fully fund all renewal and investment costs without price increases or cost overruns.

Am I Crazy?

The above list of value components may appear overwhelming and more comprehensive than what might have been anticipated. You may be thinking, “Is he crazy? After everything I’ve been through to get our Shared Services unit to where it is today, he wants me to start thinking about nine new value components? Why can’t we just leave things where they are...*haven’t* we accomplished enough already?”

Well, *we* are crazy, and as crazy as when we first formulated and launched the concept of Shared

Services. But we think it’s going to take real out-of-the-box thinking and innovative ways of thinking about Shared Services differently if it is to survive and reach its true potential in the years ahead.

We suggest that one way to formulate breakthrough insights is to think the way you do when you are not at work. How do you think when you are a customer? What have been your most positive experiences as a customer? What companies created those positive reactions? What stores do you enjoy shopping at? Which airline do you prefer to fly? What kind of car do you drive? Do you do business with these companies because they have the lowest prices? If that were true, the best selling car in America would be the Yugo.

The fact is that when we are customers, cost is rarely our decision driver except when we purchase commodities such as paper clips, staples, etc. Our value proposition is derived from our combination of attributes that leads us to buy what we buy, and the same is true for our Shared Services customers. Cost is not their driver; value is. And that should tell us that we have to start thinking about a more complete definition of what represents value to our customers.

Unfortunately, when *we* talk about the value proposition, many Shared Services managers react, “More changes...more work...more thinking. This is just getting too complicated. I wanted something easier. Isn’t there a quick-fix for this?”

No. There isn’t a sugar pill we can take at bedtime and wake up with the right answer. It will require breakthrough thinking; that’s the challenge. And yet, while the value conundrum is certainly more complicated than merely seeking the lowest unit cost, by learning to think the way we do outside of work, as a customer, it can be much easier for us to recognize what constitutes value and what doesn’t. Only a few of us are predisposed to thinking about things differently. But, if we are to motivate and capture the true power of our employees, delight our customers, and achieve the undeniable market share, revenues and profitability we seek, as Shared Services executives, we must accept the need for thinking this crazy new way. ■

SHARED SERVICES Q&A

We get a good many inquiries regarding how best to present a business case for Shared Services. Here are some thoughts on that subject.

Typically, when Shared Services organizations first approach business units as customers, they talk about what they plan to take away from the business units, then what they will give back. We suggest that one of first things to do, particularly in a company with an ingrained culture, is to think about how Shared Services can benefit and provide a win for the business units, the corporation as a whole and the employees in the Shared Services organization.

Too often, the business case is predicated solely on cost considerations. Yet, in the mindset of the business units and operating entities, the primary issues are control, responsiveness and guarantees of reliability. There also exists a suspicion that Shared Services will increase costs, given the experiences the business units have had with other centralization efforts. So Shared Services is generally starting from behind the eight-ball when it talks about change culture.

Shared Services must learn what is critically important to their customers in order to achieve their operating plans. The key component of this is helping customers recognize which services currently being performed are business-unit specific, and which are not, so they can see opportunities to provide those services differently.

It is almost always easier to get business and corporate staff to agree than expertise services, which is very different, particularly in companies that have Hay or Hay-based compensation. This is because if the company rewards based on the number of people under supervision, as soon as Shared Services talks about taking away people, the evaluation shifts from "Is this a good or bad idea?" to "How many Hay points will I lose? What will this do to my compensation? What's in this for me?" In a silo-oriented environment, that is the first thing that must be addressed and answered or it will be a long road to get over the functional silos.

When new, every Shared Services entity is organized functionally. We have now proven to several clients that organizing functionally costs at least 20% more than other ways. In new Shared Services organizations, employees look around and see Human Resources still there, the same as before, as is Finance, and other functions. So they ask, "How is this different?" In order to get around functional silos within Shared Services, it is easier not to organize functionally so as not to have to overcome another round of functional obstacles.

As for the business case, start out by asking customers what is important to them; what they need to know to demonstrate value. Shared Services organizations tend to stay within their own protected areas. They put together what they think is important, then take that to their customers. But their customers do not share those same ideas regarding what is important. What makes Shared Services different from other staff-based approaches is customer-driven relationships, and you can never err on the side of too much integration or too close a relationship with your customers. Let them drive you in terms of what you do; it will minimize silo mentality by either corporate or Shared Services.

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The Conference Board -

The 2000 Shared Services Conference: Delivering Value...in a Dynamic Environment

(To register, please call 212-339-0345 or online at: www.conference-board.org/ssaust.htm)

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The Conference Board -

The 2000 Shared Services Conference: Delivering Value...in a Dynamic Environment

(To register, please call (32) 2 675 54 05 or online at: www.conference-board.org/europe.htm)

June 6-7 Royal Garden Hotel - London

The Conference Board -

2000 Shared Services Conferences: Re-shaping Shared Services to Enable New Business Models

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October 3-4 Loews Coronado -
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October 24-25 Marriott World Trade Center -
New York

Pre-Conference Seminars: Performance Results Measurement and Management

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



MANAGEMENT CONSULTANTS

7 RIVERSVILLE ROAD, GREENWICH, CT 06831 TEL: (203)531-8500 FAX: (203) 531-8664

E-MAIL: AMHERST@SHAREDSERVICES.COM WEB: [HTTP://WWW.SHAREDSERVICES.COM](http://WWW.SHAREDSERVICES.COM)