

White Paper



A Structured Approach to Establishing Shared Services

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The consolidation of business and IT services across enterprise units into one or more Shared Services is an established means of improving operational efficiency and reducing costs. Not all services lend themselves to sharing, however, nor is there one standard Shared Services delivery model.

In both respects, Shared Services has much in common with outsourcing; in spite of the fact that they are traditionally viewed as different if not opposing means to achieving the same ends. This perspective, however, overlooks a growing coexistence between shared services and outsourcing.

Indeed, the decision whether to contract a shared service to an external partner or deliver it from an in-house center is one that leading corporate business process and IT sourcing organizations are taking on with increasing frequency as part of their overall Shared Services strategies.

In light of this trend, this paper aims to explore this trend with an overview of Shared Services, its relationship to outsourcing, and finally by describing a structured approach for establishing Shared Services.

An Overview of Shared Services

A Shared Service is a centralized organizational unit that delivers services to multiple business units or functions in a consistent and standardized manner. Introduced in the 1980s when companies were looking for a way to cut administrative costs for multiple business units, Shared Services has evolved into a comprehensive and flexible tool for improving processes, enabling technology investment, generating profits and reducing costs¹.

The key levers that enable organizations to realize the benefits of Shared Services are:

- Centralization of effort, expertise and costs, thereby reducing or eliminating their duplication across units
- Standardization of processes and systems, leading to enhanced service experience for internal customers and opportunities to cross-utilize resources in dynamic business conditions
- Specialization in specific service areas by consolidating expertise into a single organizational unit, thereby enabling increased innovation and continuous improvement
- Enhanced ability to share best practices, knowledge and artifacts across business units leading to productivity improvements
- Improved utilization of resources (hardware, software and people) leading to reduced requirements at the aggregate level

Shared Services and Outsourcing

The Shared Services model was originally developed as an alternative to outsourcing.² However, as noted in a 2008 Deloitte Consulting survey of 35 shared service leaders, this perspective is changing. The survey found that approximately 14% of respondents' shared operations were already outsourced and that number was expected to grow to more than 21% in three years.³

Indeed, a majority of strategic outsourcing deals that Infosys has been involved in over the past few years have either required service providers to establish Shared Service centers or involved client SSOs selectively outsourcing existing shared services.

In addition, by establishing processes for identifying and grouping business processes and IT functions into Shared Services, client organizations also opened up alternatives to in-house delivery that offered greater opportunities for service consolidation, operational scalability, and knowledge management.

Service providers can also play a significant role in the implementation of shared services, as the benefits of outsourcing directly contribute to the core objectives of a shared service. These include the ability to:

- Share and incorporate best practices
- Contractually enforce process standardization and SLA based services
- Flexibility to reallocate supply capacity in alignment with business trends
- Maximize the cost benefits of a shared service by leveraging offshore capabilities of service providers.

As the practice of outsourcing established Shared Services has grown, it's not just the services that change hands. Often the facilities and employees that together comprise the Shared Services Center do as well.

Companies have found that once they establish a fully operational Shared Service Center it is difficult to keep its employees fully engaged in the face of demands for further efficiencies.

¹ "Learn to Share" by Henricks, Mark – *Entrepreneur*, March 2001

² "Outsourcing vs. shared services" by Ebrahim Schwartz – *InfoWorld*, May 2006
(<http://www.infoworld.com/t/business/outsourcing-vs-shared-services-616>)

³ "Taking Shared Services to the Next Level – Towards a portfolio approach for shared services optimization" - Deloitte, 2008

As illustrated in Case 1, leveraging an outsourcing partner that is in the business of providing similar services to other companies, not only do client companies benefit from the service provider's best practices, but the employees who helped create and contributed to the success of the original center get to be a part of an organization that delivers as a business the services they helped develop.⁴

Case 1 - Philips N.V.

Philips had set up three Shared Service Centers (SSCs) in Poland, India and Thailand to process its F&A and Procurement transactions worldwide. The SSCs helped Philips achieve significant cost reduction, standardization and automation of the processes.

However, the SSCs continued to face challenges such as lack of expertise to drive technology-led process improvements and innovations, inadequate flexibility to adapt quickly to volume changes and lack of long-term career prospects for the employees.

To address these challenges, Philips outsourced the SSCs to Infosys BPO, and was able to realize additional business value in the ensuing deal through transaction-based pricing model, increased offshore and improved service levels.

Establishing Shared Services

The decision to transform and reorganize services into a Shared Services model is often a strategic one, requiring substantial organizational resources to be dedicated to the transformation in order to increase the likelihood of realizing associated benefits. Undertaking such a transformation, however, demands detailed planning and a structured approach (Figure 1).

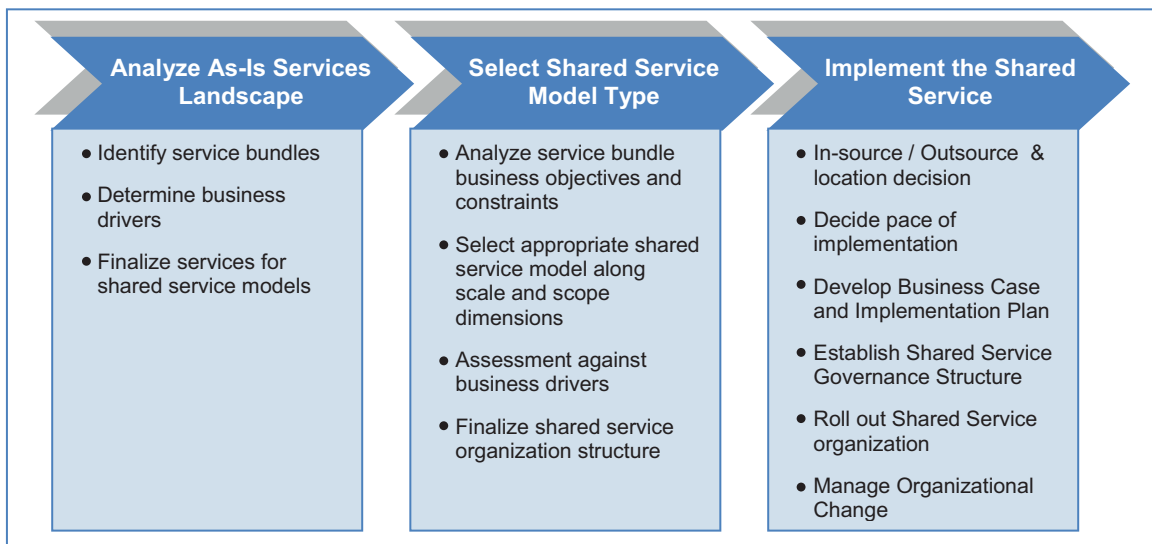


Figure 1: Establishing Shared Services

⁴ "Infosys Partners with Philips in the journey to transform their Shared Service Centers (SSCs)" – (<http://www.infosys.com/offering/BPO-services/case-studies/Documents/shared-service-centers.pdf>)

Analyzing the As-Is Services Landscape

Not all services are ideal candidates for a Shared Services approach. Therefore, it is important to analyze them in the context of relevant business objectives and ensure that only the appropriate ones are targeted for consolidation.

Equally important, and a critical pre-requisite, is having an in-depth understanding of the as-is services landscape to ensure the effectiveness of subsequent steps of selecting the right model and implementing the Shared Service. Some of the key questions to be answered are:

- What are the services that are currently provided?
- Who are the customers of the services?
- What are the business objectives and requirements that the services are expected to fulfill?
- What are the internal and external constraints under which the services need to be delivered?

The analysis described above needs to be done at a sufficiently granular level to take into account the differences in business objectives. Decisions based on analysis at the aggregated services landscape level may fail to address some specific business objectives, requirements and constraints related to specific services.

On the other hand, analyzing every individual service independently will have practical limitations due to the effort and cost involved.

An ideal approach, then, is to identify logical groupings of services or “Service Bundles” with similar objectives and constraints that can be managed as discrete units for further analysis and transformation into Shared Services, as demonstrated in Case 2.

Infosys’ *Modular Global Sourcing methodology (MGS)*⁵ is a useful tool for analyzing the services landscape and identifying meaningful service bundles that have well aligned characteristics including efficiency, cost effectiveness and predictability objectives. These service bundles then form the individual units for further analysis to decide the appropriate shared services model.

Case 2 – Large global pharmaceutical company

The IS function in a large Europe based pharmaceutical company had traditionally been structured around its different business functions – e.g. research and development, manufacturing, sales & marketing, etc. This structure resulted in uncoordinated efforts and increased costs with duplication of investments, lack of standardization and reduced ability to leverage volume-based commercial benefits.

To support their future business strategy and contain the operational costs associated with IS, the company created two centralized units tasked with setting up and running shared service organizations for their infrastructure management and applications management services. The budgets for infrastructure and applications management were also diverted from the individual business units and channeled to these central units.

The central units then formed logical service bundles or portfolios and partnered with a limited number of strategic IT service providers, including Infosys, to outsource the infrastructure and application services and deliver them in a shared services model. The resulting consolidation of volumes across the business functions enabled the company to negotiate significant commercial benefits and realize additional value through commitments related to process standardization, IS asset rationalization and ongoing innovation. The resulting portfolio based approach enabled the company to customize the sourcing model for each portfolio and protect the relevant business objectives.

⁵ “The Roadmap to Modular Global Sourcing” by Suketu Patel and Balaji Yellavalli – (<http://www.infosys.com/global-sourcing/white-papers/The-Roadmap-to-MGS.pdf>)

Evaluating and Selecting the Shared Service Model Type

Subsequent to identifying the service bundles, the selection of an appropriate Shared Services model for their delivery requires an analysis of each bundle's functions, operations, or processes. Each of these constituent processes need to be analyzed in light of the bundle's overall business objectives and the specific constraints within which the processes need to operate. Among the key questions that must be asked and answered are:

- To what extent will the process definition and management will be standardized, and to what extent will it be localized for different functions and regions?
- What part of the process will be executed centrally and what part of the process will be executed locally within individual functions and regions?
- How will the resources (hardware, software, personnel etc.) need to be deployed and configured across local and central locations to support the above decisions?

Based on the analysis, the Shared Services model for the service bundle can be structured along two primary dimensions – scale and scope. Along the scale dimension, a shared service can be setup in a **Center of Excellence (CoE)** model or a **Factory** model, while the scope dimension determines the span of the shared service across an organization.

In a **CoE model**, the shared services involve niche skills that are not easily available across the organization. Hence a centralized but relatively small CoE team provides advisory or directional inputs to the rest of the organization. The actual execution left to the individual organizational units, primarily because the execution necessarily needs to be significantly different in each unit.

Due to the inherently smaller scale of CoEs, immediate benefits delivered tend to be related to improved capabilities in delivering the niche services. At the same time, such improvements often trigger larger organizational impacts leading to significant economic benefits in the downstream services as described in Case 3⁶.

Case 3 – European telecom service provider

A leading European telecom service provider had a 1000-member strong sales team across different regions. This team was spending approximately 50% of productive time on activities such as bid management and network design. This impacted their ability to spend more time on the field negotiating and closing deals with the customers.

To address this challenge the telecom service provider partnered with Infosys BPO to set up a centralized Sales Support Center of Excellence to provide specialized services in Bid/RFI Management, Sales Reporting & Analytics, Customer Landscaping & Presentations, Design & Pricing and Sales Administration. This freed up a significant time for the company's sales team to perform the on-ground sales activities at different locations.

In addition to standardizing and streamlining the back-end services for sales, the Sales Support CoE also helped our client achieve 32% reduction in overall cost of sales and over 60% reduction in the turnaround time for simple bids and proposals.

In contrast, the **Factory model** involves the centralization of the entire service bundle and constituent functions. This approach is suitable for situations where the business objectives and constraints do not prevent service standardization and centralization. It typically involves centralization of a much larger mass of services as compared to a CoE model, and hence tends to deliver greater economic benefits through consolidation related savings.

⁶ "European Telecom Service Provider Reduces Cost of Sales Operations" – <http://www.infosys.com/offering/BPO-services/case-studies/Documents/reduces-cost-sales-operations.pdf>

Along the scope dimension, the decision essentially revolves around determining the specific organizational units that the Shared Service will cater to. These could be geographic units (e.g. a shared service catering to all business units within N. America and L. America regions), business units (e.g. a shared service catering to the Sales & Marketing and After Sales businesses across the globe) or a combination of both.

Consequently, the consolidated view of the scale and scope of the Shared Service defines the target model to be implemented, and it provides adequate clarity to facilitate:

- Development of the Shared Service structure including the roles & responsibilities, interactions with other organizational units, governance structure, service level framework, demand management process, service delivery process and operating model; and,
- Identification of the gap between the as-is structure and the target Shared Service structure

The final element of the exercise is to plan for establishing the Shared Service using the right approach for migrating from the as-is organization structure to the target structure.

Implementing the Shared Service

Once the target Shared Service model has been established, the actual implementation will involve multiple organizational decisions and changes, including:

- Developing appropriate governance structures;
- Creating and staffing appropriate roles;
- Implementing effective funding, chargeback and transfer pricing mechanisms;
- Communicating to and ensuring the support of all stakeholders regarding the move to the new service delivery model; and standardizing the processes.

Choosing a service delivery location (or locations) is another critical step in the Shared Services implementation process, one with a potentially significant impact on the effectiveness as well as commercial viability of the SSO itself. Among the factors that influence this choice are current and future availability of relevant skills costs of setting up and running an SSO. Others include the ability to leverage existing locations to avoid new location start-up costs and exposure to geographic, currency and other market risks.

The importance of the change factors described above rests not so much in their individual details, but on the influence they have on two critical decision categories. The first decision factor is the *Pace of Implementation*. As noted above, implementing a Shared Service carries with it significant organizational changes that must be managed across all relevant stakeholder groups for the implementation, and ultimately the model, to succeed.

The second critical factor is the *Extent of Outsourcing*, i.e., which, if any, Shared Services will be outsourced and which ones will remain the responsibility of the SSO. This decision is primarily driven by the relative costs, benefits and risks associated with the different alternatives.

Together, these two critical factors have a direct influence on the ultimate choice of which of four basic approaches to implementing the chosen to-be Shared Services model to adopt (Figure 2).

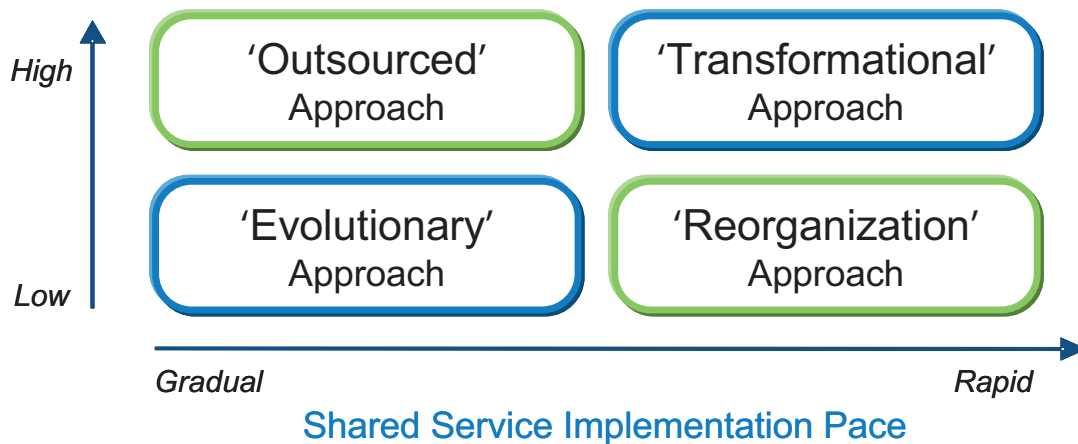


Figure 2: Shared Service Implementation Approach (Types)

With the **Evolutionary** approach, there is usually no pressing need for immediate realization of a Shared Service structure, and the approach is to first define and create the Shared Service “framework”. The services are then moved to the Shared Service framework in an incremental manner to test the effectiveness of the Shared Service and modify the Shared Service framework along the way. Hence in this approach, the Shared Service evolves over a longer period of time.

In contrast, the **Reorganization** approach involves a rapid pace of Shared Service implementation. In this approach a rapid reorganization initiative is undertaken accompanied by a large scale organization change management process, to create the Shared Service structure, define and appoint the new roles and processes, reallocate the funds and budget and begin delivery in a Shared Service mode in a relatively short time.

The **Outsourced** approach is similar to the Evolutionary approach except that creation of the Shared Service structure is established by an outsourcing service provider.

Thereafter, each of the services identified for the Shared Service model is incrementally outsourced to one or more service providers, who are required to deliver those services within the framework as illustrated Case 4⁷.

In the **Transformational** approach, rapid implementation is combined with a strategic outsourcing partnership, whereby an outsourcing service provider’s expertise is leveraged to transition in-scope services, and transform them into discrete bundles for the purpose delivering them back to the client as Shared Services.

Case 4 – USA based global pharmaceutical company

One of the world’s top five pharmaceutical companies had a disparate application portfolio in different business units of Drug Discovery, Development, Commercial Ops, HR, Legal, Sales and Marketing, and supported by a host of vendors. There was no shared platform across the units and the IT process maturity levels were also different in different units.

The client engaged with Infosys to address the problem, and Infosys set up an Enterprise Application Service Transformation organization along the lines of a shared service model. This solution covered the end-to-end application lifecycle management, and offered standardized infrastructure and a standardized set of services across platform operations, platform build, capacity management, DBA, application support & maintenance, testing, application development etc. Subsequent to creating this IT shared service organization and publishing the menu of IT services, the various portfolios were steadily migrated from the as-is model to the shared service model.

The Enterprise Application Service Transformation solution helped the client optimize its revenue to IT spend ratio and achieve cost savings of 30% in managing its applications landscape.

With this approach, the service provider is often expected to play a vital role in managing the resulting organization change due to the magnitude and complexity of the changes involved.

Organizations often adopt a combination of the above approaches to move from the as-is state to the target Shared Service model. For example, the Reorganization approach may be applied to one bundle or service as a pilot to test and optimize the Shared Service design.

Once the baseline is established, the Transformational approach may be applied for the remaining services or bundles, with the client organization having a stronger understanding of the time, risks and effort involved in moving to the Shared Service, and hence a better ability to evaluate and select the appropriate service provider for the same.

The various approaches have different advantages and disadvantages, making them suitable for adoption under different scenarios (Figure 3).

⁷ “Operational Excellence Makeovers with Infosys’ Enterprise Application Service Transformation Solution” – <http://www.infosys.com/offerings/industries/life-sciences/case-studies/Documents/operational-excellence-EAS.pdf>

Approach	Pros	Cons	Recommended Usage Scenarios
Evolutionary	<ul style="list-style-type: none"> Least disruptive to the business Minimal additional investment needed 	<ul style="list-style-type: none"> Management overheads due to simultaneous existence of old model and the Shared Service model Slow pace of realizing the benefits 	<ul style="list-style-type: none"> The perceived level of business risk involved in faster migration is high and there is a lack of organizational appetite for those levels of risk There is no pressing business driver to accelerate the migration to Shared Services
Reorganization	<ul style="list-style-type: none"> Fast realization of the benefits of Shared Services Continuity of many of the existing employees as it is an internal reorganization 	<ul style="list-style-type: none"> Limited scope for course-correction and fine-tuning of target Shared Service model Significant cost and effort involved in re-training and re-organizing the existing teams 	<ul style="list-style-type: none"> There are pressing business drivers to accelerate the migration to Shared Services (e.g. cost reduction targets, shortage of key capabilities across the organization etc.) The services in scope are not suitable for outsourcing due to various factors like regulatory constraints, core competency etc. The skills needed for the services are not easily available among outsourcing providers
Outsourced	<ul style="list-style-type: none"> Ability to control and pilot the Shared Service implementation as well as outsourcing at a gradual pace Opportunity to modify and optimize the Shared Service model as well sourcing decisions in the implementation process 	<ul style="list-style-type: none"> Management overheads due to simultaneous existence of old model and Shared Service model 	<ul style="list-style-type: none"> The business case of a Shared Service without outsourcing is not compelling enough The perceived level of business risk involved in faster migration is high and there is a lack of organizational appetite for those levels of risk The skills needed for the services in scope are delivered more economically by external providers.
Transformational	<ul style="list-style-type: none"> Provides the maximum benefits by leveraging the best of both worlds - Shared Services as well as outsourcing 	<ul style="list-style-type: none"> Risk involved is very high due to magnitude and complexity of change Significant effort and executive commitment needed to manage the change 	<ul style="list-style-type: none"> The organization has a high level of maturity in the outsourcing process The skills needed for the services in scope are not very diverse and volumes involved are sufficiently high to forge strategic outsourcing partnerships with one or few service providers

Figure 3: Comparison of Shared Service Implementation Approaches

Subsequent to the implementation approach decision being taken, it is an appropriate stage for a detailed business case to be drawn up to assess the expected profitability of the proposed Shared Service after taking into account the potential benefits, organizational impacts, time and costs involved, business risks and other relevant parameters. This step finally enables an organization to decide whether or not to proceed with the operational steps to implement the Shared Services, or alternatively go back to the designing board to modify elements of the Shared Services model and implementation approach.

Summary

The decision to implement a Shared Service involves a proper understanding of the services landscape, and the evaluation of and selection from multiple Shared Service model types that are available. This is followed by a business case based feasibility analysis and the implementation of the target Shared Service model where it is determined to be feasible.

In order to maximize the benefits that organizations aim to realize from such Shared Services, it is essential to adopt a structured analysis that helps align the transformation with business objectives and constraints.

The first step should be to analyze and have a good understanding of the as-is landscape of services, in order to be able to group the services into logical service bundles and provide a good understanding of the business drivers, objectives and constraints of underlying landscape at sufficiently granular levels.

Secondly, an appropriate shared services model should be arrived at by analyzing the business objectives and constraints of the service bundles along the scale and scope dimensions. This helps determine the proper levels of centralization and standardization, based on which the target Shared Service model can be decided and developed further to define the operational details.

Finally, once the target Shared Service model is defined, the appropriate approach for implementing it should be determined by taking into account the desired pace for the change and the extent to which the outsourcing strategy is integrated into the Shared Service implementation plan. At this stage, the organization also needs to take several other key decisions such as the locations of the Shared Services, governance structure, operating model etc. followed by the preparation of a business case for the Shared Services.

It is thus essential that organizations pursue a structured and well-coordinated Shared Services strategy to help achieve significant business benefits and also improve their competitive edge in an increasingly dynamic business environment that we find ourselves in today.

About the Author

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He is a Global Sourcing Manager in the Strategic Global Sourcing (SGS) unit at Infosys Ltd. SGS is focused on identifying, generating and converting large outsourcing deals across Infosys units and its group companies. Swadish has been part of SGS since the last 4 years and has significant expertise in strategic sourcing, designing shared service solutions and change management. At Infosys Swadish has also managed and delivered large outsourcing engagements including transition and ongoing delivery of services in a shared service model. Swadish has more than 10 years of professional experience in IT, spanning across multiple industries. He holds an MBA from the Indian Institute of Management, Lucknow. Swadish lives in London and he can be reached at swadishk@infosys.com.



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