Finding a suitable form of Financial Shared Services

Accelerate the decision-making process of sharing financial services
Introduction

Certain organizations have set up a shared service center years ago but have reversed their decision. Some other organizations never even started. The decision-making regarding the set up of a shared service center suffers very often from irresolution which can last for long times. It sometimes takes organizations even ten years to decide whether or not to move certain (generic) services into a shared service center. Opposite interests, repeatedly starting with making plans and then stop without generating concrete results are regular observations when analyzing the SSC implementation decision-making process. Hence, the decision to set up a shared service center is often controversial and not warmly welcomed. The hesitant feelings are not only expressed by the employees that experience the largest impact of the change or where a shift of power will occur but these feelings also originate from potential ‘clients’ who foresee administrative difficulties and/or lower quality of the services provided. This is quite surprising as sharing services should lead to more efficiency and should make the organization more decisive.

The reason for the complicated process is usually twofold. First of all, not all stakeholders are convinced by the solution. This is because a full-fledged shared service center can be a risky and costly undertaking. Many stakeholders have the negative perception that ‘their’ management information will no longer be produced under their responsibility and control leading to possible consequences for the quality and transparency of these figures. Politics are important in this respect. However, there are also other concerns such as the fact that a smaller financial organization makes it more difficult to establish good training and development opportunities for financial employees. Secondly, the arguments put forward in favor of a SSC are often not clear nor convincing. Cost reduction is usually used as the main argument for a SCC, but it is commonly known that every business case, also for a SSC, is based on assumptions. It is therefore often the case that the expected cost reductions are presented to be much larger than can realistically be defended. In addition, there are often other reasons which are not communicated or only to a limited extent. Arguments such as improved business support for mergers and acquisitions or strengthening the ‘one company’ ideas are also important but less tangible. Managers wonder what the SSC will actually yield to the entire organization and what it will specifically yield to him or her.

Our experience shows that (especially in the early stages) clear proponents and opponents can be identified; a clear view of ‘yes’ or ‘no’ exists. There are however multiple forms of shared services and the arguments should not only focus on cost reduction.
The arguments to set up (a form of) a shared service center can easily be divided into three categories. First of all, the most obvious argument is the cost reduction argument. Secondly, there is the argument of improving the quality of the financial function. The third category of arguments relate to specific aspects of the organization’s strategy. The cost reduction argument, or improved efficiency, is the most tangible argument. The value drivers are standardization of processes and systems or reduction of complexity, increasing the scale by centralization and the shift of activities to locations with lower (wage) costs.

The argument of improving the quality of the services of the financial function is twofold. On the one hand it concerns improving the quality of the services that will be performed by the SSC. On the other hand it consists of improving the quality of the services that remain with the business units. It is generally difficult to obtain concrete insight in the last mentioned argument, but it should not be under-estimated as a motive. The rationale behind this motive is that improvement of business partnering will occur as financial managers will no longer need to spend much attention to the generation of management information. Such processes require in many instances quite some attention from management due to strict group deadlines in the short term. Since the more operational tasks are shifted to the SSC, it is possible for the management of the core business activities to concentrate more on adding value to the business. The underlying drivers for quality improvement of the services that will be organized in a SSC are the increased scale and level of standardization - equal to cost reduction - which increases the speed of e.g. period closing and makes it easier to comply with laws and regulations.

Finally, we have observed other reasons which are related to specific aspects of the corporate strategy. We have seen for example an organization with strong growth ambitions that has taken this aspect into account in the decision-making for the set up of a shared service organization. The reasoning of the organization behind this decision was that an organizational structure including a SSC would make it easier to integrate acquired companies in the future. Another organization that consists of several business units felt the need to increase the internal cooperation between its BUs to be able to beat the competition. This is however very difficult in a culture where managers strongly try to protect their own business. Enhanced cooperation within the organization's finance function must strengthen the ‘one company’ idea.

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**Case**

Capgemini Consulting supported a business services company by understanding how various country entities could share F&A activities. This business services company is highly decentralized with country management autonomously managing all activities including IT systems and processes. This has led to a fragmented process and technology landscape. Since the technology needed modernization in each country it made sense to share deployment costs. However, the business services company did not know how to do this.

Capgemini Consulting supported the business services company by identifying the sharing options which have various levels of sharing. A common F&A model was used to understand the F&A activities in the major countries so that the level of sharing could be chosen. Capgemini Consulting also analyzed the technology and costs impact of the transformation programs that would lead to these sharing options. The results of the approach by Capgemini Consulting created insight for the business services company in their possibilities of sharing F&A activities within their company and what these options would cost them. In addition, the business services company gained insight in which activities it would not share in their journey towards simplicity and standardized F&A activities.
To accelerate the decision-making process within your organization, it is helpful to use the Benefits Logic® method. A Benefits Logic® is a schematic cause-effect diagram within which the elements of the solution are linked to the objectives of the organization. This way insight is created in which value drivers really do create value for the organization. It is also an excellent test whether the solution contributes to the objectives.

Next to obtaining a better insight in the advantages, it is equally important to gain insight in the disadvantages; the costs-or missed benefits - and risks. Of course this starts with the usual elements of a business case such as (one-off) implementation costs and run/recurring costs. Other aspects also need to be taken into account, such as the impact on employees, HR policies (inflow, outflow, throughput), flexibility, workload and uncertainty during the transitional period or the relationship with external stakeholders.

Figure 1
Generic simplified Benefits Logic® for sharing financial services. This should be tailored to the organization and a specific scenario.
Forms of shared services

The common perception is that a shared service center needs to be addressed as a large project, often including thoughts on outsourcing and/or offshoring to a low-wage country. This is certainly an option but there are also more less-impact options possible. The scope can be defined in several ways and along several dimensions. In this respect we distinguish between resources, processes, applications and hardware or facilities. In parallel, a make-or-buy decision needs to be made. When the concept ‘Shared Service Center’ is addressed then it usually covers the complete set of these dimensions. However, there are various possible forms of ‘sharing services’ which can be very effective depending on the objectives.

‘Sharing’ services generally starts with a joint IT setup: infrastructure, software and applications. Infrastructure, including (system) software is a product managed by the IT department and offered to the finance function which is of less business interest to the finance function. In terms of selecting and implementing the business applications it is however of great importance that the finance department is adequately involved. The financial application landscape generally consists of a number of different applications with different functionalities. Some systems are of a local nature, whereas other systems can be ‘shared’. An integrated global organization would have a single, centralized ERP system which is supported by a number of specialized systems. It will be difficult to completely avoid the use of several local systems or interfaces, think for example of an application that supports the local tax submission or an application which is needed to support a local payment. It is important to realize that although many organizations have one financial system in name, practice shows that several local installations exist which are managed on a local level as well. Organizations with a decentralized structure without a common platform generally start with the development of a platform for the larger regions or countries. The platform is also available for smaller regions or countries but this is not (yet) obligatory.

The next dimension concerns the processes. The development and the implementation of a global model create a common language. The processes can to some extent not be seen separately from the global system. A shared system will determine the activities in a certain process to a great extent, but not all steps in the process will be covered. This is especially the case when local laws and regulations require a different way of working. In addition, deviations to the standard way of working are also possible due to the nature of the type of business involved; a business unit with a few large customers will - on a lower process level - have a different set up of the Accounts Receivables process than a business unit which is focused on small and medium enterprises or individuals.

The availability of global processes and systems are relatively harmless forms of ‘sharing’. As soon as organizational changes lead to a situation in which services are offered from one specific organizational unit, then the level of sharing increases substantially. Such a
structure is called a shared service organization. The shared service organization will be set up on a global level and the employees within the organization do no longer report hierarchically to local organizations or business. For many years the scope of the shared service organization activities was strictly limited to transactional processes. Nowadays more and more control-related activities are also shifted to shared service organizations. Activities concerning ‘business partnering’ /strategic decision making remain within the local and/or business organization.

A shared service organization does not necessarily imply that the financial employees are physically located together. However, if this is the case then it is referred to as a shared service center. This is the final dimension: one joint location with shared facilities. A shared service organization can consist of several shared service centers, located across the globe. Also all operational finance back-office processes can be completely centralized within one worldwide location in a low-wage country. Activities which require direct contact with clients and suppliers can be organized within regional service centers.

Figure 2
The various dimensions to determine the scope of the shared services
The different dimensions are the building blocks of a growth model with a logical order to start building from left to right. However, this is not the only way and not by definition the best way for your organization. Since not all combinations are logical for every case it is necessary to assess all combinations using good sense. For each dimension a ‘sharing factor’ can be determined. It is perfectly possible that one shared service center, which is part of a shared service organization, is supported by means of various different systems and that the organization can execute various process steps. Employees can also work at different locations, but can still be part of one shared service organization. The reasons for multiple locations include that the organization prefers to have an employee located near the business, when it is necessary to physically deal with governmental organizations or when it is beneficial to have someone present who can speak the local language or has knowledge of specific local requirements.

The same reasoning can be followed for outsourcing services. ‘Big Bang’ outsourcing is rare, it is perfectly possible to outsource parts of service processes instead of the complete scope of a service center. Again it is possible to use the dimensions for guidance; the (partial) outsourcing of IT infrastructure or applications or the outsourcing of specific processes or activities. Depending on the benefits, costs and risks one or more external service parties can be selected.

To summarize, what does ‘the solution’ really mean? What does the implementation of a Shared Service Center entail? The answer will not always be a high-impact one. When considering the benefits, using the objectives, and the risks it is possible that the standardization of IT and processes is sufficient for some organizations and that the set up of a complete shared service center is unnecessary.
Roadmap to determine the appropriate form for the parts

Whether your organization does or does not have a shared service center, whether it shares the financial services to more or less extent, it is recommended to assess the scope from time to time. The motivation for this can be a cost reduction program or a changed or enhanced strategic direction of the company.

For a good decision-making process to reach a realistic and appropriate form of sharing services, without making it last for several years, it is necessary to move along several defined steps. Be sure that the decision is made on the appropriate level in the organization at all times: every step needs to be finalized with full support from the owner and the sponsor. A project will face substantial delays in the case that the owner or sponsor indicates that he prefers a not yet assessed alternative during the final stages of implementation.

**Step 1: What do we want to achieve?**
Determine the objectives of the program with all relevant stakeholders, not only the cost reduction objective - or the business case - but all objectives, also the qualitative objectives. Take account of the differences in the objectives between stakeholders. It is crucial to pay considerable attention to the advantages of the shared service organization for the business or local finance departments to achieve a flexible transition process. The objectives need to be aligned with all stakeholders. The process can be accelerated by creating a joint Benefits Logic® with all the different groups or representatives.

**Step 2: What are the alternatives?**
Determine the different options for sharing services in your organization based on the dimensions as presented in figure 2. Combining the possibilities for each dimension may lead to many possibilities but only a few combinations are relevant for your organization, taking your baseline into account. The alternatives can be prioritized ranging from low impact and benefits to high impact and benefits. Refer to the example of several generic alternatives in figure 3. The overview gives guidance for further discussion. From the ‘long list’ about two to three most appropriate scenarios need to be chosen to be further elaborated upon. These options need to be aligned with the key stakeholders.
Step 3: Further elaboration of the short list alternatives
The short list alternatives should be further developed to determine to what realistic extent the services can be shared. A closer analysis of the scenarios is particularly relevant for the processes and IT dimensions.

The processes must be based on a standard (global) process model. In case a process model does not exist within the organization a standard process model can be used as a starting point (and can potentially be linked to your ERP system). This needs to be aligned with the activity flows and the terminology used in the organization. The global process model represents the ‘To-Be’ situation towards which all units must ideally migrate in the future. It is no longer useful to extensively describe the processes of the ‘As-Is’ situation as it adds little value to the organization. During the transition it needs
to be monitored carefully which aspects of the global process model must be adjusted to comply with local laws and regulations. Within the central, global organization this aspect must be viewed critically since the local organizations very often argue why their situation is unique and hence exceptions should be made (process, local resourcing, etc).

The division of processes can be determined based on four criteria:

1. **Complexity**: the more complex a process, the better it is for a process to be executed within a Center of Expertise.

2. **The relationship with core business**: the higher the strategic relevance of a process, the greater the chance that it will be executed close to home (in-house).

3. **The local impact**: the higher the local impact, the greater the chance that activities will be executed in a country instead of in a central hub.

4. **The critical mass**: the higher the volumes and the potential of standardization, the easier it is to achieve economies of scale by means of shared services.

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**Figure 4**
Criteria for determining the extent to which processes can be shared

- **Complexity**: The higher the complexity within a process, the better it is to have the process executed within a Center of Expertise.

- **Relation with core business**: The higher the strategic relevance of a process, the better it is to execute them close to home (in-house).

- **Local impact**: The higher the local impact, the better it is to have the activities executed in one country instead of a central hub.

- **Critical mass**: The higher the volumes and the potential of standardization, the easier it is to achieve economies of scale by means of shared services.
The criteria can also be applied on a deeper process level, sub process level (level 3). By assessing each sub process using the criteria, insight can be obtained to what extent services can be shared, the “common denominator”, within the organization. The results can be assessed using best practices. Figure 5 shows an example of an outcome. By representing the processes based on the time spent on each process an even better picture of the total work load to be divided can be obtained. Nonetheless, the number of processes gives a good first indication.

Figure 5
Example of the number of processes that can be shared

For the IT dimension it is however, in contrast to the business processes, important to create an overview of the current (As-Is) situation. For this purpose, the current system landscape, including functionalities which are connected to the processes, interfaces and hardware, is mapped. After this mapping it can be assessed which local systems, or functionalities, could be replaced by a global variant.

Step 4: How does the transformation look like?
To (be able to) make a good decision, it is not only necessary to be able to establish a clear view on the future situation, but also on the way to get there. A solution may in itself carry many advantages but if the benefits of the solution do not outweigh the (implementation) impact on the organization then the chance of a positive decision concerning the solution is small. Many disadvantages, or objections, stem from a transformation process. That is why it is important to determine a high level implementation roadmap for all short-listed alternatives. There is no need for a detailed roadmap yet but the roadmap should provide sufficient insight to make a realistic estimation of the costs, risks and expected duration of the transformation program.
Based on these parameters it is possible to decide on whether the transformation will be executed by means of a two or a three phase approach. This simplifies the decision-making and limits the risks and the initial investment. It is preferable to implement the change stepwise to make sure that the change actually occurs instead of a ‘big bang’ implementation which will never actually happen or which is already outdated or irrelevant at the moment the implementation finally gets its kick-off. Many organizations want too much too fast, are strongly thinking of outsourcing and want their SSC to be fully operational too soon. This leads to a situation in which support for change will not exist at all or in which the support quickly disappears.

**Step 5: The decision-making**

Finally, it is time for a widely supported decision concerning the direction to be set. It starts with listing the advantages and disadvantages and of course the creation of a business case, based on the defined Benefits Logic® and the expected (project and run) costs. Be consciously aware of how and to what extent the solution alternatives can contribute to the agreed objectives. After that it is up to the project team, or the persons responsible for the preparation, to make sure that a decision is made by people on the right level in the organization.

This gives the starting signal for further planning of the project with a detailed roadmap, further development of the solution, determination of the most appropriate transition strategy, possibly approaching potential partners, etc.

Once there is a widely supported choice and once the implementation process has started, it is important to keep focus on the realization of the proposed objectives. Naturally, the world changes constantly and forms of counteraction and/or setbacks will always occur within a change program. Moreover, a critical re-assessment is recommended from time to time, but as long as the intended objectives remain in line with the company strategy and the realization of the objectives is not threatened significantly, perseverance is necessary.
Conclusion

The set-up of a shared service center is a much debated topic and suffers in many instances from slow decision-making. Clear insights in the real objectives, for all stakeholders, is a necessary prerequisite for a good decision-making process. Attention must be paid to the complete set of objectives and must not be limited to the often used cost reduction objective. To further simplify the decision-making process, and thus to accelerate it, it is recommended that the organization not only focuses on a full-fledged - possibly outsourced - shared service solution but that it discusses what the possible alternatives exactly mean to the organization and which form of ‘sharing’ in which timeframe is appropriate for the organization. The discussed roadmap provides guidance to reach a clear and realistic scope and ambition. Move towards a successful SSC!
For more information, please contact:

Ir. Liesbeth Bout RC
Principal Consultant
Tel: +31 6 1503 0372
liesbeth.bout@capgemini.com

Mark Slomp MSc.
Senior Consultant
Tel: +31 6 1503 0155
mark.slomp@capgemini.com

Suzanne Overwater MSc.
Consultant
Tel: +31 6 5123 9122
suzanne.overwater@capgemini.com
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