

RESOURCE

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Running Internal Support Services Like a Business

The general session speaker
at LOMA's recent
Administrative Services
Conference discusses how
"Shared Services" can benefit
an insurance company.

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The desire to make staff services more efficient and market-driven has been a priority for much of corporate America in the past decade. The exploration of various reduction, outsourcing, process reengineering, TQM and organizational restructuring alternatives led many companies to investigate — and ultimately implement — a Shared Services business unit. The creation of this new organizational entity has signaled a fundamental change, not only in the way internal services are evaluated and delivered, but in the very structure of these enterprises as well.

The underlying principle driving Shared Services is that a business-oriented unit can employ common management practices focused entirely on delivering needed services at the lowest cost with the highest value to internal customers. This provides accountability within the organization that is more effective than having multiple points of responsibility and varied management practices.

Initially, companies pursued Shared Services through individual or discreet functions, such as information systems, finance or human resources, and focused mainly on transactional areas, such as data systems entry or payroll check processing. These were established with

cost reduction as their fundamental driver and typically, were based on standardization, automation or reengineering applications, using shared processing transaction centers as the vehicle. While many achieved landmark results early on, they ultimately realized that focusing exclusively on costs leads to diminished returns.

Costs can only be pared so far without going out of business.

When cost is the primary driver and Shared Services is restricted to processing transactions, the corporation as a whole may benefit, but individuals within Shared Services see little payoff because there is no "upside" to them over time. Sooner or later, organizations come to recognize that while cost is a critical component, improving customer satisfaction is the essential driver for the ongoing success of a Shared Services organization.

Traditionally, insurance companies have tended to emphasize customer service in their administrative staff services — more so than most other industries — and typically are better able to embrace the concept of customer satisfaction. But like companies in other industries, when Shared Services organizations within insurance companies are primarily transaction processing centers and restricted by an exclusive focus on cost considerations, giving internal customers



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what they want and need can be difficult and maintaining morale arduous. A shift towards greater emphasis on customer satisfaction is critical in sustaining a productive service provider organization.

Low Cost or Supplier of Choice?

There is considerable variance among Shared Services companies as to when this recognition occurs. When it does, the organization can be transformed from simply being a low-cost provider to attaining the *supplier of choice* status. The trigger for this transformation often occurs when, in meeting with Shared Services leaders, we define what the word *Shared* in Shared Services really means. If management tells us they define Shared as a *pooling* or *consolidation* of services, we know they've missed it because they have taken a limited perspective that is more concerned with how work is done.

Shared, to us, represents the *creation of joint responsibility for results between provider and customer*. That may be a definition most organizations have not considered, but it is this critical distinction that is the basis for understanding what Shared Services can become.

After the concept of joint responsibility is embraced, the transition to that end can be laborious, particularly for staff groups who have become inculcated in a "command and control" mentality. In Shared Services, the customer, not the staff group or function, has the power to dictate changes. This represents a fundamental cultural change, and, coupled with it, a behavioral change for employees. They must move from "I know what's best for you" to "I'll do what it is you need." Most staff people have not been trained to make this kind of change. Companies who shut down their staff operations on a Friday afternoon and open up Shared Services organizations on Monday morning fail because they do not recognize the importance of employees having to make the change from "command and control" to what we call "serve and protect," meaning in the best interests of the customer.

Differences Between Shared Services and Staff Functions

Operating Shared Services like a business rather than a traditional

staff function is critical in achieving a customer-driven focus and ongoing productivity gains. It's important to understand the differences between the two.

Functions were established to integrate related disciplines or subfunctions such as training, recruiting, organization, labor relations, benefits, compensation, etc. Since they all dealt with employee-related matters, they were united under common management to take advantage of interdisciplinary synergies and add focus to them. Over time, their influence grew as

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they proved valuable to senior management in getting things done on their behalf. But, in many situations, functional leaders developed a command and control orientation, based on their own self-assurance that what they were doing was correct and sanctioned by their upward bosses. When staff and support groups behave in this manner, they are often referred to as "provider-driven" because they determine on their own what is needed, when and how to do it.

Shared Services starts with a philosophy that is diametrically opposite. It purports the need for staff to be customer-focused, not provider-driven, whereby their role is to deliver only those services which their internal customers want and will pay for. This entails providing agreed-upon services at levels appropriate to satisfy customer expectations, while achieving

performance standards which are acceptable to both customers and providers alike at competitive rates through best practices.

One caveat is that a true Shared Services organization will only perform those services which their customers require and will eliminate all others. Carried to its logical end, this discipline recognizes that real and sustainable success can only be realized when customers and providers work together and share responsibility for the results.

Shared Services differs from traditional staff functions in that it:

1. Is work based, by leveraging the delivery of services that share certain commonalities to customers served, customer-provider interaction plans, technologies employed, and competencies needed.
2. Describes work at the service level in terms customers understand.
3. Segments services as governance, business unit specific, expertise or scale.
4. Measures delivered services and products through objective customer satisfaction surveys to assess the value customers derive.
5. Applies activity-based costing to determine the total costs incurred in service delivery.
6. Defines provider competency.
7. Eliminates work fragmentation.

While there are some obvious similarities between Shared Services and traditional staff functions, the differences are striking and profound. Shared Services is like a business in many ways in that it:

1. Leverages customer distribution channels and optimizes production processing and throughput.
2. Places importance on serving customers, rather than stakeholders or senior management.
3. Produces/performs what customers will buy in accordance with their stated needs, since they determine the cost/value relationship.
4. Must earn the status of being the supplier of choice, based on demonstrated performance over time.
5. Applies activity-based costing to calculate unit costs, prices, margins, and customer profitability.
6. Forecasts revenues, manages receivable, budgets and variances, plus perform cost/benefit analyses.
7. Performs operational practices, such as business planning, performance monitoring and reporting, image

awareness, marketing communications, Baldrige assessment, and continuous improvement.

8. Manages human resources development, succession planning, career advancement, and reward and recognition programs.

These elements are the underpinning for the premise that Shared Services is most effective when run as a business. But to make it viable, a new framework and mindset are necessary to create the behavioral and cultural changes that both the service providers and the rest of the organization must undergo.

Every service provider must be instilled with a service-oriented, business-based contributor mindset. *Service-oriented* means they understand the customers and their requirements for each service delivered. *Business-based* refers to the total staff and non-staff delivery costs, and the time and resources expended on a service basis as well as how they compare to external service providers. *Contributor mindset* means being predisposed to serving internal customers, and possessing the necessary technical competencies. A well-defined framework and mindset will help service providers forgo corporate safety nets because while they add some personal comfort, they also get in the way of internalizing Shared Internal Services as a stand-alone business which must compete to survive.

So the real challenge is helping service providers leave their past life behind and accept their new world. This is not the result of people not wanting to do the right thing but rather due to the fear of the unknown — of being asked to go somewhere they have never been before. One example of this is being expected to meet with customers and define requirements. Without equipping service providers with the appropriate tools and training on how to relate to customers based on experiences they have had as consumers, they are unlikely to succeed. Although a new mindset is necessary, in and of itself, it is not sufficient.

A well-articulated framework is also needed to help them picture the brave new world which lies beyond and give them confidence that the passage is safe and achievable. Further, it should help them to

understand the journey, key sign posts and what will be expected of them and when. Unfortunately, more time is spent on the “what’s”, like structure and location, than on the employees themselves and their need to know what will happen to them, how they will be impacted, how their jobs will change and so on. Remember, they and their managers will determine the success of the journey.

What will differentiate those deemed best will be the management and operating principles they incorporate and the continuous improvement commitment they envision. Business Planning, Service Pricing, Revenue Management, Billing/Charge-backs, and Service Agreements must not be merely esoteric exercises. They must be part and parcel of creating the mindset change needed, insuring that

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Shared Services understands itself and its business to the same degree that strategic business units do to compete and survive.

One Company's Experience

Rhône-Poulenc, a chemicals and life sciences company with 80,000 employees in 19 separate enterprises, is recognized as a leader in Shared Services.

Similar to the widespread acquisition and merger activity in the insurance industry, Rhône-Poulenc had been aggressively acquiring

companies. There were 43 different entities that made up the enterprise — each with its own systems and approaches to getting things done — with innumerable redundancies that was one of the drivers for implementing a Shared Services business unit.

Retiring senior executive VP Tom Dille recalls how in order to facilitate the transformation, the company had to change the tendency of internal service providers to focus on pleasing their bosses. Said Dille, “Previously, service providers were simply told which services they would provide; they did not try to determine what the ultimate user, the internal customer, wanted. So, like most other companies, we were provider-driven rather than customer-driven. Service providers simply presented a menu of services. Typically, there was not even a discussion of what the services would cost.”

The company wanted to change this traditional behavior pattern to one that not only offered needed services but also asked internal customers how they and service providers could partner together. So after some 40 years of internal services being driven by service providers trying to please their functional boss — whether Human Resources, Health, Safety & Environmental, Engineering, Legal or Finance — the company had to transform into an organization that focused on offering services that satisfied the needs of internal customers.

“To do this,” added Dille, “we first had to break the functions down into specific services. Instead of saying a service was recruiting or training, it was candidate identification or curriculum design, respectively. Next, we had to look at who was the customer for each of these activities, such as sales manager, business analyst, plant manager, etc. Then, we had to look at our capabilities and determine which services could be offered. Importantly, we also had to determine whether we were competitive, not only with companies we benchmarked against for service and cost levels, but also with anyone outside the organization who could provide the same service.

“This forced our Shared Services organization to do an exhaustive internal self-assessment to determine where our skills and competencies

were and to identify who our customers were. In some cases, we had to evaluate whether we even wanted certain customers where our services didn't match their needs or where we lacked the skill level necessary to deliver the service. It also forced service providers to think like a business and become more entrepreneurial."

The Final Question

What are the implications for the insurance industry in managing Shared Services as a business? Shared Services does not exist in a vacuum. It must recognize the priorities, pressures and needs operating at and on all organizational units. It must adopt a win-win-win perspective such that the corporation as a whole wins, each business unit and its employees win, and the service providers win.

In terms of the overall corporation, Shared Services should understand the initiatives it adopts and assess how it can contribute to them. As an example, AlliedSignal, an advanced technology and manufacturing company has a Shared Services organization called AlliedSignal Business Services (ABS) with approximately 1,000 employees that provides some 75 services to their 77,000 employees in 325 facilities worldwide. ABS instituted a compounded productivity improvement program that has two implications: ABS itself must demonstrate how it is achieving year-over-year productivity gains, and perhaps more important, ABS becomes a vital force in helping the business units attain their productivity goals by leveraging additional services and implementing improvements in its current delivery of services through process partnership.

This implies that through its business planning process, Shared Services will look beyond what it does today, link its plans to overall company goals and assess how it can optimize its contributions on behalf of all parties concerned. This also implies Shared Services exists within a changing environment and must adapt with agility to new conditions.

With respect to strategic business units, there are other implications. One result of the traditional provider-driven mentality is that line management does not know what the functions do for them nor what it is they should expect. Functions historically have told them

not to worry about what they do because the staff groups will do whatever is needed. In effect, they have treated line management like mushrooms and kept them in the dark. Now Shared Services enters the picture and asserts that shared customer-provider responsibility for results is the key. Why then are we surprised when service providers tell us "Customers don't know what they want or need." Why should they?

It becomes the responsibility of the service providers to educate their customers on the services performed, the results delivered and the joint opportunities for improvement. As customers become more knowledgeable, their expectations and requirements change. The impact of

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this on Shared Services is that it must have ongoing dialogues with customers to anticipate their changes. By taking advantage of this and responding to their new requirements, Shared Services is more favorably positioned to become the supplier of choice and building the foundation for partnership.

The movement from a traditional staff role to a customer-focused environment enhances the lives of service providers. Most people want to be valued for what they do and the impact they have on their customers. To attain this, they must understand what their customers do with what is delivered and how it is used in meeting their customers' requirements. This is called line-of-sight management and the information gleaned will help Shared Services be even more responsive and satisfy their customers.

But in so doing, more importance will be afforded to risk-taking and entrepreneurship, high-performance work teams and recognition and rewards linked to business unit results and customer satisfaction ratings. This will necessitate more training of service providers so they are equipped with the needed skills to meet these new challenges.

Most companies who have implemented Shared Services admit they did not provide the amount of training that employees needed. This suggests their need to adopt learning organization principles, providing both practice field and playing field time for all. Otherwise, it just won't happen.

In summary, operating Shared Services like a business is fundamental to its sustainability. It must prepare itself for competition with external service providers and outsourcing firms. They are profit-oriented businesses and manage themselves accordingly. Success dictates Shared Services be on equal footing with them to secure an internal competitive advantage.

In the highly competitive insurance environment, your organization competes as do each of its strategic business units, so why not Shared Services? It has the inside advantage; it knows its own company, the culture and the players better than any outsourcer ever can. Outdoing the competition at what they do and capitalizing on the inside advantage is why Shared Services is uniquely positioned to create a win-win-win. □

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