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ORGANIZATIONAL DESIGN

A Director's Guide to Shared Internal Services

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What are shared internal services? Who is using them? How can they be operated like a business? Here are some expert answers.

It is hard to believe that it has been just a decade since a few major American corporations independently came to the conclusion that if staff work performed by separate business units addressed the same fundamental needs, there was no reason to perform it individually within each unit. Conversely, they also reasoned that if staff work done by one organizational entity addresses multiple, dissimilar customer needs, this work should be redesigned.

This determination ultimately led to significant organizational changes at many of these corporations—including AlliedSignal, Amoco, Kaiser Permanente, Monsanto, Pacific Bell, Rhône-Poulenc, Tenneco, and Weyerhaeuser—in the form of a new organizational entity called *shared internal services*. Today, less than 10 years later, hundreds of companies around the globe have implemented “shared internal services”

business units in various incarnations.

Evidence of the trend is reflected in the fact that over the past two years, over 1,200 participants from 300+ organizations—not only from America but from Canada, England, and Australia—have attended shared internal services conferences and workshops sponsored by our company alone. The most recent conference, which we co-sponsored with the Conference Board, was filled to capacity and people who wanted to attend had to be turned away.

In the past, shared services conferences were chaired by consultants advocating the new paradigm (including my firm), but the primary speakers at the most recent conference were experienced shared services executives.

Another indication of the movement's momentum is that the Conference Board now has a Shared Business Ser-

vices Executives Council that facilitates networking among leaders overseeing multi-functional shared services organizations in operation for at least a year. There are already 25 members in this category with more nominated!

While these developments and others confirm the widespread acceptance of the shared services paradigm in large, complex organizations, future growth will be contingent upon companies being able to *operate their shared internal services units as a business*.

The reason is that most new shared internal services efforts are primarily shared processing transaction centers, driven by cost reductions. But costs can only be reduced so far, and employees often resist such an approach, since a shared processing center does not render tangible benefits for anyone other than the corporation as a whole. Ultimately, customer satisfaction should be

THE NATIONAL ASSOCIATION OF CORPORATE DIRECTORS

The role of the National Association of Corporate Directors is to enhance the governance and performance of business entities. Since its founding in 1977, the NACD has pursued this goal by offering a broad spectrum of educational and membership benefits, including publications, seminars, and consultative services. The NACD lists all interested members on The Director's Register, which is used by member companies and others that seek qualified directors. To educate the corporate community and to provide networking links among NACD chapter members, the NACD holds an annual Corporate Governance Review, where it presents a Director of the Year Award.

the overall goal, with cost as one component, but not the only driver.

Beyond Cost Reduction

It is typically at this point when the transformation occurs from simply being a low-cost provider of services to moving towards becoming the supplier of choice. It does not occur at the same point or time in every organization, but it does eventually happen. When it does, employees must change their behavioral and attitudinal mindset within a new operating culture that can be sustained by the providers and supported by the rest of the organization.

Every service provider must be instilled with a service-oriented, business-based contributor mindset. *Service-oriented* means they understand their customers' requirements for each service delivered. *Business-based* refers to knowing 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.

Shared internal services, if operated as a business, differs from traditional staff functions in that it:

- ▶ leverages the delivery of services that share certain commonalities in terms of customers served, provider interaction plans, technologies employed, and competencies needed
- ▶ describes work at the service level in terms customers understand
- ▶ creates the opportunity to measure delivery of internal services and products through customer satisfaction surveys
- ▶ enables activity-based costing to determine the total costs incurred in service delivery
- ▶ helps to define provider competency
- ▶ eliminates work fragmentation, and
- ▶ gives line management a clearer idea of what work is done for them and what they should expect. ▶

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consultant, a member of the Institute of Management Consultants, and a board member of IMC's New York chapter. He currently serves on the University of Massachusetts School of Management's Business Advisory Committee. Excerpts of this article have been taken from an address by Dr. Forst to the Conference Board's Shared Services Conference.

SHARED INTERNAL SERVICES AT RHONE-POULENC

Rhône-Poulenc, a chemicals and life sciences company with 80,000 employees in 19 separate enterprises, is recognized as a leader in implementing business planning with shared internal services. In order to facilitate this transformation, the company had to change the tendency of internal service providers to focus on pleasing their bosses. Here is what senior executive vice president Tom Dille has to say about the company's experience.

Previously, service providers were simply told which services they would provide. They never tried to determine what the ultimate user, the internal customer, wanted. Service providers simply presented a menu of services. Typically, there was not even a discussion of what the services would cost.

We 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 and 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 we first had to break the functions down into specific services. Instead of saying a service was “recruiting,” we said it was “candidate identification”—not training but “curriculum design.” 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 assess 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 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.” ▶

Tom Dille, senior executive vice president (Retired)