

A consultant specializing in shared internal services spells out just how HR, IS, and payroll can play a supporting role in your organization's success.

Outstanding Service Is an Inside Job

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The downsizing efforts of corporate America over the past 15 years have largely focused on reducing headcount in staff areas. While the objectives of slashing overhead and boosting responsiveness are admirable, the “meat-ax” approach used typically reduces morale without improving organizational performance and agility. One reason why the emphasis on controlling headcount has been counter-productive is because it ignores the need to improve important services, eliminate unnecessary ones, and put in place a process justifying the addition of new and needed services.

The desire to make staff services more efficient and user-driven, however, remains a priority for many companies as they explore various cost reduction, outsourcing, process reengineering, TQM, and redeployment/alignment alternatives. And the search has led some of America's largest and most successful companies to investigate—and ultimately implement—a shared-internal-services approach through the establishment of a new multi-functional

unit. Its creation signals a fundamental change in the new workplace, not only in the way staff services are evaluated and delivered, but in the internal application of externally oriented business practices.

Shared internal services defined

The basis for shared internal services (SIS) is that common business practices can be successfully applied by a staff unit—which is entirely focused on delivering needed services at the highest value and at the lowest cost to internal customers. This creates accountability within the company, which is more effective than having multiple points of responsibility and varied management practices.

It's important to keep in mind that in SIS, a unique service provider-recipient relationship is established and the same “best practices” used to gain a competitive advantage with external customers are applied.

The importance of early seeding of the SIS culture as an exciting, opportunistic place to work can-

not be overemphasized. It is vital that leadership create bridges to it so people understand they can still vie for opportunities elsewhere in the corporation and that people in the business units can—and will want to—compete for positions within it.

SIS should be staffed with some of the organization's best and brightest for those services characterized as expertise- or knowledge-based; this is where the best tax-planning capabilities or consulting skills—financial, human resources, whatever—belong. These people will be interacting with line management and must earn their respect, so as to become suppliers of choice; it is no place for curmudgeons. Shared internal services must strive to be every bit as good as the external professional service firm that line management would retain if they were free to go outside the company for support.

The going-in assumption for SIS should be that for the first two to three years, operating units should not be permitted to use alternative service providers, so that it has a window in time to attain targeted performance levels. After that time, if the business units are dissatisfied or believe they can secure a better cost/value proposition, a process is put into place to facilitate this while maintaining optimal leverage.

SIS has proved relatively compatible with decentralization and process reengineering movements; but typically, two activities are segregated from shared services organizations. One is governance, or fiduciary and compliance services—aimed at corporate senior executives, boards, and external regulatory agencies. These activities are for the health and well-being of the

corporation, and as such, treated as a separate category. The other is business-unit-specific services, aimed at line operating management.

A service history

In the beginning, shared internal services efforts typically focused on discreet functions, such as information systems, human resources, or finance, and were limited to transactional areas, such as payroll-check processing, data-systems entry, or benefits-claims processing. The first major company publicized for bypassing this

AlliedSignal, a worldwide technology and manufacturing company and shared internal services pioneer, wanted to create a unified corporate culture after acquiring businesses with varying operating styles and cultures. AlliedSignal was also exploring how to leverage all transaction-processing operations. As a result of a business-unit-by-business-unit, function-by-function reorganization, they combined all of the separate shared internal services and operations—finance, IS, administrative, travel, and others—into a single internal service unit (AlliedSignal Business Services) with greater leveraging opportunities.

piecemeal approach in favor of an organization-wide emphasis on all internal staff services and support groups was BP Amoco, based in Chicago. At BP Amoco, senior management reasoned that since it was redefining its business operations, why not apply similar thinking to realigning its staff units so as to better serve all internal cus-

tomers. It worked.

The rationale for shared internal services is to affect a buyer/seller type relationship, identical to the dynamics that exist between a business unit and its external customers. As the internal supplier or provider, SIS must know who their customers are for each service and what they want, and accept that their ongoing existence is tied to satisfying their customers. Identifying exactly who your customers are may sound rather basic, but most staff organizations have not been compelled to do this in a definitive manner.

Since each internal customer may have different functional requirements or needs, it is critical to break staff work down into a portfolio of services and determine who the customers are for each. The ability to conduct service-based budgeting allows SIS to be responsive to customer needs, which can sometimes change rapidly. Instead of a cumbersome, difficult process, service providers can quickly analyze which services will provide added value to which customers. This environment creates a sort of creative tension that impels them to take quality and customer service seriously.

An essential element in making internal service providers responsive to the needs of their customers—and at costs comparable to outsourcing or benchmark rates—is the development of a detailed baseline: a working model used to determine how effectively resources are being expended. The baseline identifies *all* the costs of delivering internal services—not merely those that are easy to put a number on—and reveals how satisfied customers are with internal services.

Baselining also facilitates benchmarking by making comparisons with what outside service providers are charging for services.

Implementation obstacles

When a new concept involving significant behavioral change is introduced, some resistance can be expected. Shared internal services should be promoted as a place for people to become more entrepreneurial. Shared internal providers have the ability and opportunity to make an impact on the businesses and provide value to the company overall. This, more than anything else, should motivate employees to be a part of a SIS organization. Unless managers and organizations are ready to accept internal service providers as decision-makers and innovators, definite problems will occur.

Another potential snag is that line managers—the internal service recipients—are frequently unaware of what services they have been using, how satisfied their users are with those services, or what quality attributes are most important to them. They must be educated before they can fully engage in the new customer/supplier relationship. Typically, it takes one to three years for full training.

A third problem companies have run into occurs in the negotiating process for service-level agreements between providers and their customers. Occasionally, service providers will formulate a great, innovative service, which they propose to their customers, only to have it rejected because of budget constraints. This can be disheartening, but the beauty of it is that providers recognize that it is their responsibility to keep their service

offerings attractive and responsive to their customers. They might look at creating other new services that will have greater appeal and motivate internal customers to rethink their budget priorities, or find other internal customers for the service. Here again, the entrepreneurial spirit arises and providers are prompted to take action, rather than waiting for someone to come by and tell them what to do.

SIS entities cannot replace lost customers. Not only can they not gain new customers, when they lose one, they are unable to pass along the costs onto other internal customers. So, they are constantly

challenged to find innovative ways to lower costs—or at least keep them level—as well as identify and develop new service revenue ideas. That becomes difficult, and is another reason why a culture that is responsive to the customer—a culture like that of Nordstroms, L.L. Bean, or the Ritz Carlton—must be established in SIS early on.

Key principles

There are three subsets of shared internal services key principles, whose applicability depends on a company's stage of "SIS evolution."

As a consequence of these principles, the transition of service providers' attitudes and behaviors moves decidedly from themselves to their customers.

1) Novitiæ Principles The early stages of SIS require service definition, customer segmentation, and cost determination.

• **Service definition** means breaking down functions into sub-functions and then individual services. For example:

Function: Finance

Subfunction: Tax

Service: Tax Planning

• **Customer segmentation** is vital because services differ with regard to customers served, interaction patterns required, technologies employed, and competencies needed.

• **Cost determination** identifies all the costs incurred in delivering internal services, not just the costs that are easy to put a number on. Internal services can account for as much as 20 to 40 percent of a company's costs. The key is to use an approach that is grounded in the actual costs of services, in reliable measurements of internal customer satisfaction, and with the analytical rigor needed for decision making.

2) Intermediæ Principles These principles are necessary to facilitate the critical transition from provider-oriented to customer-driven behavior.

• **Customer satisfaction** entails the quantitative measurement of cus-

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A life science and specialty chemicals company whose U.S. headquarters are Research Triangle Park, North Carolina, Rhône-Poulenc (RPI) searched for process simplification and external customer loyalty, which coincided with the desire to push decision making down into the organization's 19 enterprises (business units). From a staff services perspective, the company wanted to ensure a cost-effective means of delivering services and equity in what the enterprises would pay for received services. Using a shared internal services approach in conjunction with self-directed teams, RPI formed its North American Shared Services business unit, which better leveraged the delivery of staff services to all 19 enterprises.

tomers' perceptions of the relative importance of each service and how well it fulfills their expectations. It also provides insights into the quality attributes needed for successful delivery. This involves tailoring surveys and/or conducting focus groups.

- **Customer contracting** helps service providers assess actual results against plans and identify usage patterns and internal customer differences so as to plan and budget service needs for the coming fiscal year on a business-by-business basis. More important, it enables SIS and their customers to discuss each of these in person and derive an agreed-upon accord for the next performance period.

- **Requirements discovery** focuses on translating general performance expectations into specific, observable standards that can be measured by

both customers and providers. Both parties work together to determine the pertinent quality attributes for a given service and then define it. For example, "Responsiveness means answers are provided within 24 hours from the original contract." From the customer's viewpoint, 24 hours should be tied to a specific business need that warrants this level of service; from the provider's perspective, service delivery must conform to this need.

3) *Advanced Principles.*

Competitive assessment, relationship management, and business-partner integration reflect a relatively small number of SIS organizations that have successfully completed the first six principles of the novitiate and intermediate stages.

- **Competitive assessment** establishes the metrics that will lead to the fulfillment of customer requirements, as well as among the best performance levels. There are two dimensions of equal importance: creating a set of performance measures that will support customer standards, as well as SIS operating and management needs; and securing the results and processes employed by alternative service providers recognized as having best practices.

- **Relationship management** recognizes that there are numerous ongoing interactions between service providers and their customers, and from those, much information can be gleaned if SIS understands how to collect, document, and share it for the common good. The underlying premise here is that annual service agreements are not a sufficient bond for SIS to become the supplier of choice. SIS

teams must not only be proficient service deliverers but also be attuned to all levels of their customer base and actively manage and resolve each interaction and situation.

- **Business-partner integration** deals with eliminating all "silos and stovepipes" between SIS and those they serve. By effecting seamless boundaries, they are better able to focus on improving the end-to-end process without concern for turf or credit. SIS should be seen as an extension of the business unit rather than "those folks from shared services." As a consequence, many of the actions taken in earlier stages become less important because shared internal services will have demonstrated that it knows itself and can compete favorably with for-profit external service firms.

As companies in the new workplace work to make staff services more efficient they are taking on a shared services approach—and some of America's largest and most successful companies have made it work. Maybe it's your turn to try it on for size.



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