Shared Services: Management Fad or Real Value?

Viewpoint
Executive Summary

This Viewpoint is one in a series based on the book The Centerless Corporation by Booz·Allen & Hamilton consultants. The book proposes a new business model for the 21st-century corporation that will bring growth and prosperity. It defines new relationships that make traditional corporate center command-and-control models obsolete.

The Centerless Corporation presents practical solutions for how to build a more effective global organization, develop capabilities for growth, formulate a New People Partnership with employees, implement a learning organization and cultivate leaders at every level in the organization.

This Viewpoint specifically addresses the concept of Shared Services. Booz·Allen has had experience in helping create dozens of Shared Service organizations and has studied many more. This Viewpoint explains the principles, methodologies and criteria necessary for a successful implementation.

In the ’80s, many corporations reduced their central staffs by farming out support services to business units. While the business units created service organizations that were responsive to their immediate needs, decentralization produced duplication and raised overall costs. In the ’90s, some companies set out to create a new model that would simultaneously maintain the internal customer responsiveness of the decentralized service units and eliminate corporate-wide redundancies. The new model is known as Shared Services.

The goal is to create service organizations that can compete with the best the marketplace has to offer in functional expertise, efficiency and service quality, whether in finance, human resources, information technology or other service areas.

Through our many client engagements and further research, we have identified six principles for successfully transitioning your company to a Shared Services model. Key to a successful implementation is distinguishing between the types of services to share, developing service contracts, choosing Shared Services staff carefully, benchmarking the service against outside vendors, establishing a governance board and designing an implementation approach unique to your specific company needs.
The ’80s were the heyday of corporate decentralization. Anxious to dismantle top-heavy headquarters operations, many companies rushed to farm out support functions. Vital services — sales and marketing, human resources, information technology, finance, purchasing and logistics — were to be paid for by profit centers. In the name of increased accountability, the autonomous division replaced the all-powerful corporate headquarters.

But decentralization had its own downside. Managers created fiefdoms. The corporation lost economies of scale resulting in redundant resources, operating facilities, information systems and supplier contracts.

In the mid-’90s, companies have set out to redress the excesses of decentralization. Returning to command-and-control centralization is neither attractive nor feasible. The challenge has been to combine corporate scale with the superior service, customization and focus associated with decentralization, at a price and quality standard competitive with the best that the marketplace has to offer. A new approach known as Shared Services has been born.
Many organizations have adopted the concept of Shared Services (Exhibit 1). Allied Signal estimates that it saves more than $70 million annually with Shared Services and has achieved an impressive 74% satisfaction rating from internal customers. Monsanto (now Solutia) combined most professional staff positions into a Shared Services organization and helped save the company $80 million. Tenneco in North America launched Tenneco Business Services to provide human resources, finance and information technology, saving $120 million over three years.

Shared Services is rapidly becoming a model for providing corporate support services. However, converting is easier said than done. Some companies are plunging in without fully understanding why or how it works. The effort loses steam and ultimately collapses from flawed design or poorly planned implementation. Given the emerging experiences with Shared Services, what are the insights that will make Shared Services a successful organization paradigm for your company?

This Viewpoint examines the current state of Shared Services as part of a series based on The Centerless Corporation, a book by Booz-Allen & Hamilton, in which the role and composition of senior management are reconceived to support growth, as well as changing capabilities and business processes.

What Is Shared Services?

Shared Services is a new model for delivering corporate support, combining and consolidating of services from headquarters and business units into a distinct, market-efficient entity (Exhibit 2). For example, at Allied Signal, American Express, Mobil and Monsanto (now Solutia), Shared Services include the majority of support services — finance, law, information systems and human resources.

The Shared Services entity must be able to compete vigorously with outside vendors. Business units are under market-place discipline in all other respects — they must be free to seek support services that meet the same test. Proprietary standards and corporate culture are out. Best practices are in, if the business units are to gain competitive advantage.

Internal customers can specify their service needs. Providers must meet those requirements and they can expect to have their performance evaluated using measurable criteria. So structured, the Shared Services unit becomes another business unit, perceived and

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Exhibit 1
Sample Companies that Have Implemented Shared Services

- ABB
- Alcoa
- Allied Signal
- American Express
- Amoco
- Baxter International
- Bethlehem Steel
- Bristol Myers Squibb
- Cargill
- Chevron
- DEC
- Eli Lilly
- GE
- Hewlett-Packard
- Household International
- Houston Industries
- IBM
- Intel
- Johnson & Johnson
- Kaiser Permanente
- MetLife
- Mobil
- Motorola
- National Semiconductor
- NatWest UK
- Pfizer
- PPG
- Rhône-Poulenc
- Solutia
- Southern California Edison
- Tenneco
- TRW
- Union Carbide
- Weyerhaeuser

Note: Not an exhaustive list
Sources: Publicly available data such as magazine articles and The Conference Board presentations
managed as an outside vendor, with no choice but to be price and service level competitive (Exhibit 3).

**Why Shared Services Is So Appealing**

The Shared Services approach, if executed properly, combines the advantages of centralization and decentralization, without their disadvantages (Exhibit 4).

As consolidation proceeds, work is standardized and redundancies are minimized without reinflating corporate head count. Service levels are tailored to the actual needs of business units. Services that don’t add value are eliminated while supply and demand for support service activities fall into balance. Because shared services providers are answering to business unit customers, their operating budgets are often determined based on customer demand — a major change from traditional staff organizations. Not surprisingly, corporations that have implemented Shared Services have reaped huge cost savings (Exhibit 5).

But the benefits go well beyond cost savings. Shared Services frees business units to focus on inventing, making and selling products or services. As one business unit executive puts it, “We don’t have to worry about tasks like payroll or bill payments. We can now focus on new products, customers, acquisitions and other market issues, not on administrative issues.”

By bringing together scarce, highly specialized expertise services such as law, risk management and communications into centers of expertise, Shared Services also help build critical capabilities. It gives corporations new incentives for undertaking large infrastructure projects, and an agency for managing them. For example, Monsanto (now Solutia), had long considered installing voice-recognition and imaging systems but couldn’t justify the investment for isolated business units.

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### Exhibit 2
**Shared Services Principles**

<table>
<thead>
<tr>
<th>PRICE TRANSPARENCY</th>
<th>Each service should have its price. The business can determine how much service it wants at that price</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUSINESS MANAGEMENT</td>
<td>Manage the service like a business, not a fixed cost. Serve internal and potentially external customers</td>
</tr>
<tr>
<td>MARKET RESPONSIVENESS</td>
<td>Provide the service levels the businesses want, not the levels staff think they need</td>
</tr>
<tr>
<td>BEST PRACTICES PROLIFERATION</td>
<td>Identify and deploy Best Practices quickly and globally</td>
</tr>
<tr>
<td>PROCESS STANDARDIZATION</td>
<td>Develop streamlined process standards that can be maintained and improved quickly</td>
</tr>
<tr>
<td>SERVICE CULTURE</td>
<td>Treat business units like customers, offering services they value and charging for each</td>
</tr>
</tbody>
</table>

Source: Booz-Allen & Hamilton
When the company created its Information Technology Shared Services unit, the economics were justified.

**The Best of Both Worlds**

Like any new concept, Shared Services has detractors. Some call it “centralization with a smile.” Some business unit managers, threatened with loss of control, worry publicly about accountability of service providers. They also argue that cost reductions are achieved at the expense of quality.

We feel, however, that Shared Services is not a rebirth of centralization, but is a blend of both centralization and decentralization (Exhibit 6).

In a centralized organization, headquarters controls the staff resources and dictates standard policies, programs and procedures to the business units. In a Shared Services environment, business units are customers, as they would be with external providers; both parties must agree on cost, quality and service levels.

And importantly, the services unit can draw from both internal and external resources, including joint ventures and outsourcing. Unlike centralized service users, Shared Services customers have the power to buy or shop elsewhere, although within certain parameters. Most companies declare a moratorium on outsourcing for a year or two to allow their internal units to come up to speed. At the end of that time, business units that believe their needs could be better served by outsourcing generally undergo a high-level review by a management board. The decision to permit outsourcing is complex — it dilutes economies of scale. However, many companies have selectively outsourced services based on overall corporate economics beyond the specialized needs of the business units.

**Six Principles for Implementation**

Booz-Allen’s experience with dozens of companies and research on nearly one hundred have helped us delineate six principles for the establishment of a Shared Services structure at your company.
Exhibit 4
Example Benefits of Shared Services

**IMPROVEMENT LEVERS**

**Capture Economies of Scale**
- Share scale-sensitive services across organizational boundaries
- Eliminate redundancies

**Leverage Expertise Across Business**
- Capture economies of scope
- Transfer best practices to provide higher quality service

**Establish Customer/Market-based Relationships**
- Focus staff on service to line
- Tailor level of service to meet client needs
- Create strong incentives for improvement through direct or indirect competition with external market providers

**Enhance Adaptive Capabilities**
- Allow flexible adaptation to changing customer needs
- Leverage mergers and acquisitions

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**EXAMPLE BENEFITS**

**Utilization Rates**

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Cost per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Shared Services</td>
<td>After Shared Services</td>
</tr>
<tr>
<td>Supply</td>
<td>Demand</td>
</tr>
<tr>
<td>Q1</td>
<td>C1</td>
</tr>
</tbody>
</table>

**Source:** Booz-Allen & Hamilton
Principle 1: Determine Which Services to Share

Not all services are alike. They differ according to which customers are served, the interactions required and competencies needed.

In general, organizational capabilities can be segmented into three categories: transaction-based, expertise-based and strategy-based (Exhibit 7). Transaction-based services are routine, high-volume tasks that are highly sensitive to scale. While all business units need these services, they generally require limited contact with providers. The Shared Services organization’s primary objective for these activities is to achieve the lowest cost while maintaining high-quality standards.

Expertise-based services are technically specialized, requiring considerable contact with internal customers for projects such as hiring a diverse work force, resolving legal issues or completing new manufacturing facilities on time and on budget. These services require a combination of broad expertise and customization, which can be delivered through a “centers of expertise” concept. Professionals must learn best practices in their technical area, and apply their knowledge to specific business problems.

Strategy-based capabilities are either critical to the competitiveness of a business unit or the policy setting and governance roles of the corporation. These services are best left within either corporate or the business unit senior management.
Where to Locate Services:
A Case Example

Where should the Shared Services organization be situated? It depends on the type of service being provided.

Most companies bring transactional services together in a central location or in a few geographical centers, using information technology to leverage costs. Proximity makes documentation, cost control and maintenance of consistent standards easier. Consolidation encourages business unit managers to view service professionals as “shared” resources rather than “owned.” It also reinforces service staff identification with the company as a whole. However, providers of expertise-based services often benefit from being located close to the business units. This dual location approach helps the exchange of information and joint problem solving.

For example, in order to reduce operating costs and streamline its information technology function, Mobil built a Shared Services organization for managing its IT worldwide. To complete this task, Mobil first identified which services to provide, then reengineered the appropriate IT processes and finally designed the organizational support structure to meet its business strategy. The global organization has overall responsibility for supplying IT services, including technical infrastructure, applications development and maintenance, and global architecture and standards. Individual business units are supported at the global, regional or local level, depending on the nature of service and the level of interaction needed with the organization.

For instance, mature transaction-based services—such as data centers and networks, that have standard service definitions and levels, are highly automated, scale sensitive, and can easily be provisioned remotely—are centralized and managed at a global level. Services that require regional expertise such as application services that have unique regional requirements and may have special regional labor issues are managed and deployed at the regional level. Services that require personal interaction such as end-user support are deployed

Exhibit 6
Shared Services Versus Centralized Support

<table>
<thead>
<tr>
<th>TYPICAL SHARED SERVICES</th>
<th>DIMENSION</th>
<th>CENTRALIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Services board sets policy and direction</td>
<td>Governance</td>
<td>Senior functional managers set policy and direction</td>
</tr>
<tr>
<td>Accountability to business units</td>
<td>Accountability</td>
<td>Accountability to corporate</td>
</tr>
<tr>
<td>Business units set priorities on quantity and quality of services required</td>
<td>Customer Focus</td>
<td>Corporate functions decide on service offerings and delivery</td>
</tr>
<tr>
<td>Services tailored to address business unit requirements</td>
<td>Service Orientation</td>
<td>Services standardized</td>
</tr>
<tr>
<td>Flexibility to source from external providers is often permitted</td>
<td>Flexibility</td>
<td>Use of internal services is mandated</td>
</tr>
<tr>
<td>Performance monitored against internal targets and external best practices</td>
<td>Performance Monitoring</td>
<td>Performance monitored against internal targets</td>
</tr>
<tr>
<td>Business units charged based on actual usage of service</td>
<td>Chargebacks</td>
<td>Business units charged based on allocations</td>
</tr>
<tr>
<td>Located wherever it makes sense from a customer interaction standpoint</td>
<td>Location</td>
<td>Often physically located at corporate headquarters</td>
</tr>
</tbody>
</table>

Source: Booz Allen & Hamilton
locally. Finally, IT strategy and planning activities that require intimate knowledge of the business strategy are dedicated to the business units. As service level requirements change or new services emerge, Mobil shifts the deployment of the staff based on the most effective cost and service level relationship that can be achieved.

The Pitfalls of Not Differentiating Between Types of Services

Many companies mistakenly create Shared Services entities without distinguishing between types of services. For example, one company pulled all financial, human resources, IT, customer service and purchasing functions from its business units, consolidated them, standardized their activities and initially reduced costs by 30 percent. But dissatisfaction quickly set in as the resulting services proved to be excessively standardized. Training programs were too generic, financial reports failed to capture the drivers of business unit economics, labor relations experts missed the nuances of individual situations and customer service representatives couldn’t master the issues for multiple product ranges. Even worse, activities were consolidated at locations far from the businesses, which slowed down both service and resolution of problems.

Business units began to recreate “shadow” units to provide them with the tailored services that they required. Costs crept up to levels higher than before and the Shared Services unit had to be dismantled.

Service segmentation is a critical component of implementing Shared Services. Each staff function, wherever it exists, needs to be pulled apart into the discrete services it provides. Once identified, these services need to run the gauntlet of the burden of proof test. We find that an objective and systematic approach typically helps to determine the right location for each service (Exhibit 8).
Principle 2: Develop a Service Level Agreement

The objective of Shared Services is to create a market-based partnership between line and staff services. This represents a fundamental change in established roles.

Business units and service providers should negotiate a kind of pre-nuptial agreement called a service level agreement specifying the services to be delivered, specific requirements and parameters, unit and total costs, how the costs will be charged and the time frame for service delivery. Service level agreements help because they get customers and providers to jointly develop and understand expectations, requirements and the provider’s capabilities. They also help service providers focus on what is important to the customer.

These agreements should also spell out the customers’ business objectives, how the services are expected to support these objectives and how achievement will be measured.

They need not be overly formal or legalistic, and, in fact, rigid specifications can be an obstacle to success (Exhibit 9).

Under the line and staff partnership arrangement, the goal for transaction-based services must be “No one does it as well, for less.” Shared Services units must be able to consistently match or beat benchmarks for routine administrative services.

In the expertise-based arena, the paradigm must be “I can help you find the best way.” This means a clear understanding of

Exhibit 8
Decision Tree for Delivery of Staff Services

<table>
<thead>
<tr>
<th>ORGANIZATIONAL IMPLICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL CORE</td>
</tr>
<tr>
<td>ELIMINATE</td>
</tr>
<tr>
<td>EMBED IN BUSINESS UNIT(S) OR CO-LOCATED SHARING</td>
</tr>
<tr>
<td>OUTSOURCE/PARTNER</td>
</tr>
<tr>
<td>SHARED SERVICES</td>
</tr>
<tr>
<td>EMBED IN BUSINESS UNIT(S)</td>
</tr>
</tbody>
</table>

Source: Booz-Allen & Hamilton
the customer’s needs coupled with an ability to leverage the internal knowledge network.

One of the most difficult challenges in developing the service agreement is establishing the pricing structure. Texas Utilities, which is implementing an IT Shared Service, began this process by first defining fundamental chargeout principles. For example, the team agreed to charge by type of service and reflect full costs. Predictable or fixed costs were allocated annually based on simple drivers, and discretionary costs were billed on usage. Once the chargeout mechanisms were developed for each IT service, a major effort was launched to educate the businesses about the new cost structure. This was an important step in demonstrating commitment to serving the businesses. Instead of viewing the chargeout mechanisms as merely an accounting tool, the IT staff viewed it as a communication tool that the businesses could use to make sound business decisions. Once the business unit managers understood which IT investments were discretionary versus necessary, which resources were shared versus dedicated, and which costs were fixed versus variable, decision making was much easier. Now, the business units are able to make informed decisions about their IT spending and how to regulate it.

Principle 3: Choose Leaders and Staff Carefully

The executives who generally prove most effective at implementing a market-oriented Shared Services organization are senior, entrepreneurial line managers. Strategically, services that are characterized as expertise based are staffed with some of the organization’s best and brightest. These are the people who will be interacting with business units and internal customers. They have a bottom-line orientation, customer focus and consummate selling skills. They manage their service units like businesses to meet customer service objectives and budgets. Because of their success at running a business, they command respect among business unit managers. They are decisive and act on feedback. Their compensation is tied both to hitting budgets and maintaining high levels of internal customer satisfaction.

Leaders of transaction-based services have a proven
track record of managing large numbers of staff. They have demonstrated an ability to manage and motivate personnel, and have a cost reduction and quality improvement mentality. Their compensation is tied to reaching cost reduction targets and maintaining high levels of customer satisfaction.

Both leaders and staff in a Shared Service will be required to learn new behaviors. They must be customer-focused and attentive to market standards of costs, service levels and best practices (Exhibit 10). They must be accountable for meeting their service agreements with the business units. As one Shared Services president puts it, “We motivate our Shared Services employees to be aggressive about moving from ‘order-takers’ to value-added partners. We teach employees how to build key relationships with their business unit partners. We sensitize our Shared Service employees on how a change in service level and cost affects the business unit’s bottom line. We organize meetings between providers and users several times a year to measure customer satisfaction. We know more about outsourcing and other benchmark alternatives than anyone else in the corporation and can shape our customers’ perception about the kind of value we are delivering.”

For their part, the business units must be aware of the trade-off between cost and value. They must learn to be rigorously selective in shopping for services. They must accept flexible sharing arrangements, and be responsible for outperforming the marketplace once these services have been provided.

**Exhibit 10**
Centralized Staff Mindset Versus Shared Service Mindset

<table>
<thead>
<tr>
<th>TYPICAL STAFF MINDSET</th>
<th>SHARED SERVICE MINDSET</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will defer to the central hierarchy (i.e., corporate); they will manage us and make all critical decisions</td>
<td>We will manage ourselves by satisfying our clients with superior service for the prices charged</td>
</tr>
<tr>
<td>The hierarchy will produce the best solution</td>
<td>We will emphasize teamwork and collaboration</td>
</tr>
<tr>
<td>We will rely on our planning and control systems</td>
<td>We will advise the business units of best practices and will let them determine what is right for them</td>
</tr>
<tr>
<td>We will tell the business units the solution</td>
<td>Clients come to us because they want to. If we cannot perform the service competitively, we will work with clients to find the best provider</td>
</tr>
<tr>
<td>We will change how we do things and when we do things</td>
<td>Clients will define their needs in advance</td>
</tr>
<tr>
<td>We must make sure the businesses do it right</td>
<td>Clients will get what they pay for and won’t pay for what they don’t want or don’t get</td>
</tr>
<tr>
<td>Corporate edicts require that the businesses use our services</td>
<td>We will continuously improve our costs, service levels and capabilities</td>
</tr>
<tr>
<td>We will allocate our costs to the businesses</td>
<td>We will measure our success on customer satisfaction and business unit success</td>
</tr>
<tr>
<td>We will set our budget and manage to it</td>
<td>We will communicate regularly and openly to all our clients</td>
</tr>
<tr>
<td>We will tell them what we think they need to know</td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz-Allen & Hamilton

**Principle 4: Benchmark the Shared Service Organization Against Outside Vendors**

Beyond these behavioral and paradigm shifts, performance criteria are required to cement the market relationship between Shared Services and the line.

In the old model, service performance was unmeasured except when performed by outside vendors. With Shared Services, key performance indicators are identified, tracked and communicated. External and internal benchmarks and best practices are monitored routinely.

The old model employed standard cost accounting systems, with business unit costs allocated according to traditional drivers. The mentality was “It all goes to the bottom line anyway.” In the new model, activity-based costing allows customer billing based on...
usage. Business lines compete for internal resources, ensuring that resources go where they generate the most value.

In the old model, outsourcing was virtually non-existent. In the new model, periodic outsourcing reviews and vendor management assurance are built into the responsibility of Shared Services.

**Principle 5: Establish a Governance Board Comprised of Business Unit Executives**

Companies have chosen a variety of structures for implementing Shared Services. They are ultimately distinguished by two critical features: 1) the extent to which the leadership is consolidated under one executive or distributed among several, and 2) the extent to which the roles of setting policy and managing operations are combined or separated.

Some organizations have elected to consolidate staff service functions into a new entity overseen by a single senior executive (Exhibit 11). Corporate policy-related decisions associated with staff services are managed at headquarters by a small core of managers familiar with the function, while day-to-day decisions are moved into the Shared Services entity. This separation avoids the problems of traditional centralization and the disconnect between staff and business unit requirements. The stand-alone Shared Services organization maintains its distinction from corporate staff. The executive running this organization has single-point accountability for providing services to business units and managing these for maximum efficiency.

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**Exhibit 11**

**Shared Service Organization Models**

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*Source: Booz-Allen & Hamilton*
Other companies have adopted a distributed Shared Service model in which corporate-level oversight is distributed among several senior executives. These tend to be the most senior functional executives, such as the Chief Financial Officer for finance, Chief Information Officer for information technology and Chief Human Resources Officer for HR. The functional heads of the various Shared Services units report to these senior executives.

In both models, functional heads focus solely on managing operations of their respective areas. They build relationships with service buyers, determine demand, develop client-service agreements, deploy staff to execute against these agreements and manage performance.

In either case, governance is performed by a board composed of senior business unit executives, Shared Services executives, senior corporate-function executives and sometimes even the CEO. The Shared Services board gives the business units — who ultimately fund staff services — a voice. Populating the advisory board with business unit presidents as well as staff functional leaders helps balance the line-staff relationship and minimizes the risk of an internal and staff-centric orientation.

The board provides strategic leadership and direction and ensures that Shared Services are being consistently managed in accordance with internal customer requirements. In addition, the board makes strategic decisions such as setting policy, whether to permit outsourcing or not, expense and capital budget approval and resolving significant conflicts over issues like compliance with agreements and degrees of standardization.

<table>
<thead>
<tr>
<th>Exhibit 12</th>
<th>Different Implementation Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process First</strong></td>
<td><strong>Organization First</strong></td>
</tr>
<tr>
<td><strong>Sequence</strong></td>
<td><strong>Process</strong></td>
</tr>
<tr>
<td><strong>Pros</strong></td>
<td></td>
</tr>
<tr>
<td>• Accelerates process changes</td>
<td>• Sends powerful message to organization</td>
</tr>
<tr>
<td>• Straightforward communication plan</td>
<td>• New leader in place to support restructuring and redesign phases</td>
</tr>
<tr>
<td>• Viewed as “bottom up” effort that is easier to embrace by business units</td>
<td>• Accelerates organization-driven benefits through consolidation (typically 5-15%)</td>
</tr>
<tr>
<td>• Strong case built for organizational change</td>
<td>• Support functions forced to redesign in order to handle work load with new organization structure</td>
</tr>
<tr>
<td>• More effective at combating political and cultural barriers</td>
<td>• More complex change management effort</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td></td>
</tr>
<tr>
<td>• Clarity of process ownership can be problematic</td>
<td>• Two or more “waves of organizational change”</td>
</tr>
<tr>
<td>• Not all process changes can be achieved without organizational changes</td>
<td>• Don’t know conclusively what should be a Shared Service and what shouldn’t</td>
</tr>
<tr>
<td>• Prolongs employee uncertainty and anxiety over future position/organization structure</td>
<td>• Often viewed as top-down in nature with little perceived value by business units</td>
</tr>
<tr>
<td></td>
<td>• Can lead to politically expedient decisions during restructuring that sub-optimize results in long run</td>
</tr>
<tr>
<td></td>
<td>• Company may view reorganization as “the solution” and not proceed to redesign phase</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz Allen & Hamilton
Principle 6: Select an Implementation Approach

The burning question that confronts most companies once they decide to move toward Shared Services is: Should I organize first for Shared Services and then redesign or redesign first and then reorganize (Exhibit 12)? Some companies have created a top-level Shared Services organization first, migrated services at corporate and in the business units into this organization, and then redesigned these services based on internal customer needs. Senior management can send a powerful signal of its commitment by appointing a Shared Services leader. The senior leader and functional leaders can then own the design and drive quickly toward the implementation. But leader-driven change is not the only road to transformation. Many companies where senior management was initially skeptical about anything that smacked of recentralizing have effectively redesigned the services themselves before opting for a Shared Services model. Without a strong conception of the benefits of service consolidation, they want to know which services are being performed, by whom, who the customers are, and how much they cost. Once this business case is built, senior commitment to the new model can be obtained. This approach has led some companies to concurrently change both process and organization. It typically takes longer and entails complex change management issues. However, it also ensures that the design is optimized.

Managing the transition to Shared Services along either of these paths is complex and demanding, requiring comprehensive change management issues. However, it also ensures that the design is optimized.

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Lessons from the Trenches

Whatever route you choose, successful implementation demands considerable front-end investment and cultural transformation. To clear these initial hurdles, the company, especially senior management, must be fully committed to significant change.

Exhibit 13
Shared Services Lessons Learned

<table>
<thead>
<tr>
<th>DOs</th>
<th>DON'Ts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Set the bar high: The CEO should articulate the mission and set aggressive targets</td>
<td>• View Shared Services as simply a cost-cutting exercise</td>
</tr>
<tr>
<td>• Build the case for change up-front with accurate baselines, external benchmarks and internal surveys</td>
<td>• Forget to change the compensation, rewards and recognition systems</td>
</tr>
<tr>
<td>• Think big: The bigger the scope, the better</td>
<td>• Allow “shadow” services to develop</td>
</tr>
<tr>
<td>• Engage the line managers from the start</td>
<td>• Let the business units buy outside immediately; establish a grace period</td>
</tr>
<tr>
<td>• Redesign, don’t just reconsolidate</td>
<td>• Lose focus: Maintain strong leadership; transformation takes time</td>
</tr>
<tr>
<td>• Create early wins by starting with transactional activities where economies of scale are unshakable</td>
<td>• Keep service level contracts simple</td>
</tr>
<tr>
<td>• Communicate, communicate, communicate</td>
<td>• Communicate, communicate, communicate</td>
</tr>
</tbody>
</table>

Source: Booz-Allen & Hamilton
Even with leadership from senior management, though, resistance to change can be tenacious. Business unit managers may not want to give up direct control, sometimes out of fear of losing authority, but more often out of a concern about sacrificing service quality and responsiveness. Even if these managers acquiesce to Shared Services, they may still maintain “shadow” support services in their units.

Booz-Allen’s experience with leading companies to push toward a Shared Services approach has allowed us to assemble a number of best, and worst, practices (Exhibit 13).

**Shared Services — What Next?**

Staff Services have evolved from corporate services to business unit services to Shared Services. Our view is that the next wave of evolution will likely evolve to management of the extended enterprise (Exhibit 14).

As the market for both transaction- and expertise-based services develops, it is likely that many services being performed internally will be outsourced. The new challenge will then become outside vendor management. Shared Services leaders will manage outsourcing opportunities. Over time, they will manage service capabilities rather than service production. In the extended enterprise, the Shared Services unit will be responsible for outsourcing strategy, performance standards, and results. Thus, it must build outsourcing management skills, and establish structures to oversee these relationships. Service staff must acquire skills that hold intrinsic value. Compensation should be linked to business performance that is compared with external service providers. And benefit plans will have to apply across companies.

The further we get from the old notion of command-and-control management, the closer we get to a world in which the market is the test of every aspect of corporate life. The winners will be those who mobilize capabilities in support of market objectives. Support services are one more capability, even if the customers are internal. Shared Services is a significant evolutionary step in this process.

For more information about Shared Services, contact the Booz-Allen team.
Booz Allen & Hamilton is a global management and technology consulting firm committed to helping senior management improve the performance of their organizations. In more than 90 offices, in hundreds of the world’s leading industrial, service, and governmental organizations, our team of more than 8,500 professionals has one common goal—to help our clients achieve and sustain success.

Our broad experience in the world’s major business and industrial sectors includes aerospace, automotive, banking, chemicals, consumer goods, construction, defense, electronics, energy, engineering, food service, health care, heavy industry, insurance, oil and gas, pharmaceuticals, publishing, railways, steel, telecommunications, textiles, tourism, transportation and utilities.

With our in-depth understanding of industry issues and our expertise in strategy systems, operations, organization and technology, we assist our clients in developing the capabilities they need to compete and thrive in the global marketplace.

We judge the quality of our work just as our clients do, by the results. Their confidence in our abilities is reflected in the fact that more than 85 percent of the work we do is for clients we have served before. Since our founding in 1914, we have always considered client satisfaction our most important measure of success.

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