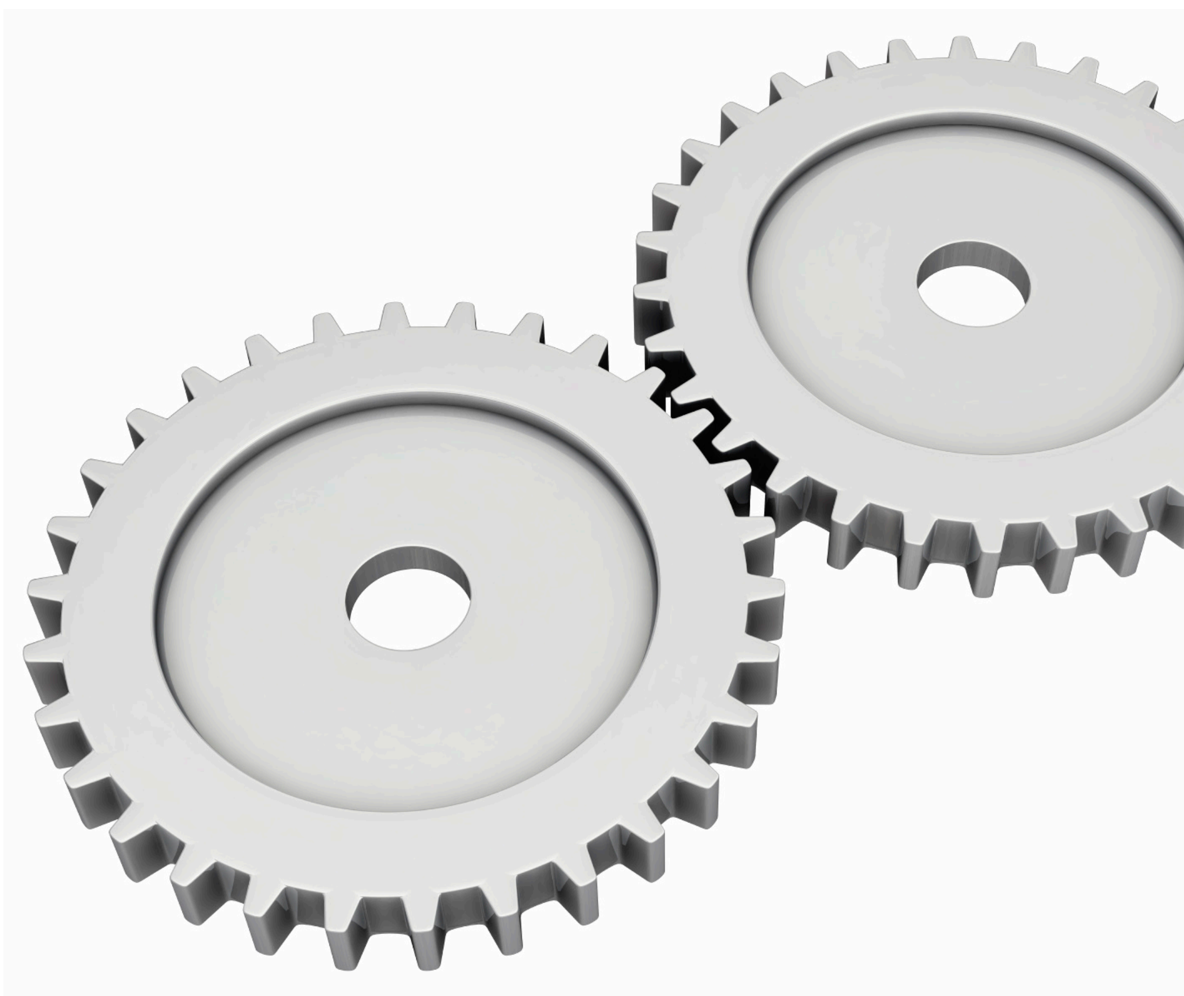
Getting the retained organization right: The other half of the shared services battle



Transforming the service delivery model for back-office functions such as finance, procurement, human resources (HR), real estate, and information technology (IT) continues to be a top priority for many companies. Such efforts usually aim to achieve several interrelated goals: to increase the function's strategic contribution to the business, to improve operational efficiency and reduce cost, and to drive global data and process consistency.

One widespread strategy for pursuing these goals is to establish a shared services organization (SSO) to execute back-office functional processes on behalf of multiple operating units. However, our experience shows that such efforts often fail to yield their intended benefits. Why? One important reason, in our view, is that many companies tend to focus almost exclusively on the processes to be moved into the SSO while paying little attention to the retained organization's design and operation. We have seen many companies underestimate both the level of effort to get the retained organization "right" and the extent to which failure to do so may diminish the value of the shared services program. On the other hand, companies that do make the necessary investment in their retained organizations have a greater chance of reaping satisfactory returns on their shared services investment.

Figure 1: Characteristics of the four types of functional activities

		Method of adding value	
		Low cost/defined service level	Knowledge-based/management involvement
Relationship to the business	Specific (site, unit, region)	**Site support** • Distributed to location(s) for local service needs • Required for local input/data capture or local programs • Manual or end user-intensive	**Business partner** • Aligned with function/unit • Line/management focus • Knowledge and know-how transfer • Decision/action-intensive
	Generic (company-wide)	**Transaction processing** • Consolidated organization • Operational focus • Standardized services • Process-intensive • Could cover countries or region	**Center of Expertise** • Expertise focus — ability to leverage • "Best practice" development • Issue/knowledge-intensive • Organized by region

Retained organization

SSO

What is a retained organization?

We use the term "retained organization" to refer to a function's services and staff that are not placed in an SSO as part of the shift to a shared services model. Typically, the retained organization delivers three types of services to the business: "site support," "business partner," and "Center of Expertise." Ideally, all three aspects of the retained organization work hand in hand with the SSO to seamlessly provide the operating units with the entire range of functional services.

As shown in Figure 1, the retained organization's activities, as well as the processes performed by an SSO, can be classified along two dimensions: the method by which the activity adds value (e.g., operational efficiency versus strategic enhancement), and the degree of the activity's business independence (e.g., operating unit-specific versus standardized across the enterprise). In an effective service delivery model, each type of activity calls for a different delivery approach. The shared services model consolidates readily standardized, rules-based transactional activities into one or several SSOs. Strategic, knowledge-based activities that apply across the entire enterprise, such as tax planning, treasury, or internal audit, can be consolidated into a Center of Expertise in much the same way as an SSO consolidates standardized transactional activities. Site support services – routine administrative support that cannot be consolidated – continue to be delivered locally at each operating unit. Some or all operating units may also maintain on-site business partnership capabilities to deliver knowledge-based support tailored to the operating unit's specific needs.

Why the retained organization matters

Done well, the move to shared services doesn't simply mean doing business as usual, only with administrative processes housed in one place instead of spread out across the operating units. Rather, an effective shared services effort will recognize that establishing the SSO proper, though obviously essential, is only one part of a larger functional service delivery transformation. The other vital part of the transformation is to modify the retained organization so that its capabilities, its relationships with the business, and its dealings with the SSO itself support the enhanced value that the overall effort aims to achieve.

Seen in this light, it becomes clear that the retained organization's readiness to assume its roles in the new service delivery model is critical to the effort's overall value. The retained organization must thoughtfully examine its administrative site support activities to determine what work can be placed in the SSO and what truly needs to remain at the operating units. In a thorough transformation effort, the retained organization will also seek to reposition itself as a strategic advisor to the business through its business partnership and Center of Excellence roles. We believe, in fact, that the opportunity to increase a function's strategic contribution can and should be one of the major drivers of any shared services effort. A company that does not articulate or pursue such a goal, in our view, is at high risk of leaving substantial value on the table.

Getting the retained organization right

We have found several key factors that significantly influence the retained organization's readiness to help drive value after the shift to a shared services model. Some of these factors are essentially "table stakes" – the business case, leadership support, and change management activities that should underlie any business transformation. Others fall into the realm of "lessons learned": less obvious but critical factors that we believe companies should address in the areas of governance; process design; staffing, sizing, and deployment; and value creation.

Table stakes

Any effective business transformation requires a solid and clearly articulated business case, sustained leadership support, and effective change management and end-user education. Briefly, key considerations in these areas include:

- ***Business case.*** The case for change must spring from a business-driven value proposition against which the entire program can be measured and managed. The business case should include expectations for both cost savings and value-added benefits, and both should be tied to measurable performance indicators. In addition, clear expectations for the scope, level, and cost of service should be defined early in the effort (with robust service-level agreements or at least a clear process for setting service parameters).
- ***Leadership support.*** Senior corporate leaders, up to and including the CEO, need to demonstrate a strong mandate for and sustained commitment to the program. They should formulate clear guiding principles and encourage timely decision making based on those principles; allocate skilled, dedicated core team members and measure their performance against program milestones; articulate a clear retention strategy for critical staff through the entire program lifecycle; and consistently reinforce the case for change.
- ***Change management and end-user education.*** The case for change will need to be cascaded through all levels of the organization, tailored to the needs and concerns of the various stakeholder groups, and reinforced at all critical milestones. Realistic expectations must be set early on to minimize frustration with the program both before and after the SSO goes live.

Lessons learned

Our experience shows that a company's efforts around program governance, process design, organizational sizing and staffing/talent deployment, and value creation often have a particularly strong influence on the retained organization's effectiveness. We have identified several key steps in each area that companies should consider in their efforts to pursue the desired results (Table 1).

Table 1

Governance	• Integrate retained and shared services program management • Map and manage interdependencies • Dedicate the right team • Appoint a transition manager • Stay the course
Process design	• Start with the customer in mind • Develop appropriate "work splits" and design end-to-end processes • Establish clear ownership and accountability • Plan ahead
Sizing, staffing, and deployment	• Staff key roles early on • Avoid building the retained organization around existing roles • Assess your talent and act on your findings • Don't let staff go too soon • Align talent development with new staff responsibilities
Value creation	• Find the sweet spot • Pursue "quick wins," but don't promise too much too soon • Set clear goals and define the path forward

Governance

Often, companies moving to a shared services model set up a robust plan and a strong implementation team for the SSO, but neglect to do the same for the retained organization. However, an integrated program governance approach should address the retained organization on an equal footing with the SSO to help maintain the rigor and due diligence needed to establish effective operations for both.

In our view, such a program governance approach should:

- ***Integrate retained and shared services program management.*** Govern the shared services and retained organization as one cohesive, integrated program through a joint program management office. The joint governance team should focus on timely realization of critical milestones on both sides – not only to meet the service commitments associated with the go-live, but also to make good on the promise to enhance business performance through effective service delivery.
- ***Map and manage interdependencies.*** The joint program management office should establish and maintain a project plan that clearly maps the "must meet" milestones and interdependencies between the retained organization and the shared services implementation teams. Ramifications of potential delays on either side need to be comprehensively understood in order to be better prepared to appropriately manage associated risks.

"We established a retained organization design subteam within our shared services transformation team. This team was charged with designing the future-state procurement organizations within each business unit, which included identifying the skills required and estimating the number of resources needed to complete those tasks. Dedicating a team to do this allowed us to both meet our savings targets and position the retained procurement organization as a strategic asset focused on analysis and decision making."
— Corporate controller at a construction company

- ***Dedicate the right team.*** Just like the shared services implementation team, the implementation team for the retained organization requires a sufficient number of dedicated, skilled, and experienced project management resources and subject-matter specialists. These individuals will need to effectively work across organizational silos and geographic regions to address design questions and support on-time delivery.

- ***Appoint a transition manager.*** This role is essential in connecting the dots between the "old" and "new" worlds. Among other things, the transition manager should be responsible for clarifying new organizational roles and responsibilities, facilitating knowledge transfer from the implementation teams to steady-state staff in both the SSO and the retained organization, and aligning staff selection and deployment with the overall timeline and goals.
- ***Stay the course.*** Work the new job, not the old one. Functional leaders need to eliminate all redundant work and resist the temptation to provide transactional services that are out of the retained function's agreed-upon scope, even if the SSO experiences initial challenges in providing them. Otherwise, the function will create a shadow organization to the newly established service center that can have a negative impact on the shared services effort's long-term value.

> *"One of [HR's] main challenges in transforming the service delivery model was to quickly demonstrate how we could add value as strategic business partners. If our HR people were not up to the task, the business made it very clear that they would hire their own 'people strategy' officers to effectively address our company's critical talent issues."*
>
> — HR Chief Operating Officer at a financial services company

Process design

Many end-to-end business processes cut across traditional functional boundaries (e.g., the procure-to-pay process includes accounts payable, typically part of the finance function, as well as activities generally housed in the procurement function). This often presents several challenges to effective process design and execution. Lack of communication between the participating functions can prevent realization of synergies and improvement opportunities across teams. Likewise, poor cross-functional coordination can muddy the definition of roles and responsibilities and lead to unclear "ownership" of various components of the process. Such confusion, both within the retained and the shared services portions of each function, can cause the SSO and the retained organizations to become out of sync with each other as well as foster an "us against them" culture. To help avoid these pitfalls, it is critical to:

- ***Bring all stakeholders to the table when designing new processes.*** Involve representatives from all of the functions that touch the process at any point, including representatives from both the retained organization and the SSO. Giving all stakeholders a voice in process design can help garner buy-in, establish ownership and accountability, identify efficiencies, and head off potential surprises and delays down the road.
- ***Start with the customer in mind.*** Develop a clear understanding of customer needs by identifying specific areas of importance and criteria for a satisfactory customer experience. This determination should be based on objective data (e.g., interviews and surveys) rather than the department's unsupported opinions on what its customers might want. Leaders should take care that this exercise truly informs decision making throughout the entire program.
- ***Develop appropriate "work splits" and design end-to-end processes.*** Clearly define appropriate "work splits" – that is, which roles in which organization will be doing what kind of work – under the new service delivery model (Figure 2). Involve key stakeholders from all parts of the organization to identify cross-functional synergies and seek buy-in. Different departments may not be fully aware of similar work occurring in other areas, and products deemed "business critical" by a supporting function may be considered less important by the business itself. Use these insights to document how information will flow between functional areas, between the retained organization and the SSO, and within each organization. While it is not necessary for every organizational unit to have detailed visibility into the other organization's portion of a process, it is critical that the process be designed in an integrated fashion and that all participants in the process clearly understand the boundaries between their roles.

	Site support	Business partner	Center of Expertise	Shared services
Questions to ask	• What activities are inextricable from each location?	• What services need to be close to each operating unit's management team?	• What knowledge-based activities require specialized skills, but can be applied across multiple operating units?	• What rules-based processes can be delivered independently of business location?
Typical attributes	• Requires local interaction or data capture • Manual processes	• Requires interaction with line managers • Decision-making or support services	• Requires specialized knowledge and skills	• Requires little or no local input • Transactional, process-intensive
Representative services	• Cost accounting • Inventory accounting • Employee relations • HR generalist services	• Financial planning and analysis • HR executive support • Regional hiring	• Tax planning • Treasury • Consolidation and external reporting • Compensation/benefits design	• Accounts payable • General accounting • Payroll processing • Compensation/benefits administration
Location	• Local sites	• Local sites, regional service centers, and/or corporate headquarters	• Virtual organization, regional service centers, or global service center	• Regional service centers or global service center

- *Establish clear ownership and accountability.* The retained organization's future leaders should personally take ownership of process design, taking care to structure project teams in a way that overcomes organizational boundaries.
- *Plan ahead.* During the shared services scoping and planning phase, define and document the retained organization's required skills and competencies as well as key changes that will occur during and after the shared services implementation. This can give the implementation teams a head start on planning staffing and change management activities that will occur later on in the project.

Organization sizing, staffing, and talent deployment

A third set of challenges in establishing an effective retained organization revolves around sizing the new organization and finding and deploying the appropriate talent to appropriate roles. Key questions to consider early on include the number of people the retained organization will need to carry out its new responsibilities; the skills that the retained organization's staff will need to execute; and how to manage the transition to the new organizational structure. Steps that can help a company effectively address these challenges include:

- ***Staff key roles early on.*** This will position leaders to own the creation of their future organization, rather than inheriting it from someone else. Staffing key positions early on will also provide clear direction to incumbent staff. While this may induce some talent to leave the organization because they felt "left out," it will ultimately enable the formation of a cohesive leadership team that is ready to act on day one of the new organization. Failure to do so will likely have senior staff focusing most of their attention on themselves, rather than their business, during the most critical times of the transition.
- ***Avoid building the retained organization around existing roles.*** Redesigned processes almost always require related changes to existing roles and responsibilities. These changes can run the gamut from making minor adjustments to creating entirely new roles; most fall somewhere in the middle. Leaders should beware of allowing the old organizational structure to cloud their vision of what roles and responsibilities must be in place to effectively enable the new processes.
- ***Assess your talent and act on your findings.*** The new retained organization will require different competencies, skills, and behaviors from those that existed before the move to shared services. Not all current functional employees will be an appropriate fit for the future organization, so it's important to make and execute the tough decisions on whom to keep, whom to let go, and whom to hire from outside. Very roughly, our experience suggests that about one-third of current functional staff members will have the required attributes to be effective in the retained organization, another third may be able to acquire the needed skills through training, and the remaining third will not be suitable for the retained organization. In particular, it can be difficult for individuals with transactional skills to develop the strategic competencies needed to build a better advisory capability in the retained organization. Leaders can address this issue by hiring new talent with greater analytical abilities and/or by rotating some of their current or future business leaders into strategic roles in the retained organization. This could serve as a development tool for individuals on their way to a more senior role.
- ***Don't let staff go too soon.*** In our experience, many business plans call for reducing the retained organization's headcount immediately after shared services goes live. This can be a costly mistake. The more complex the transformation, the greater the need for experienced staff to aid the new retained organization – as well as the SSO – in adjusting to new roles and processes. Often, retained organizations will initially find themselves supporting the double burden of increased administrative work and new strategic work during the break-in period. If its headcount is adjusted too early, the retained organization may be forced to backfill key roles with external consultants, eating away anticipated savings.
- ***Align talent development with new staff responsibilities.*** Simply providing retained staff with their new job descriptions will not be enough to change old routines and behaviors. Leaders must invest in a comprehensive curriculum to develop their new breed of professionals. They must clearly communicate what they expect from the retained organization's employees, and they should link individual and team performance to business objectives.

"Don't make the mistake of thinking that the project has been completed once the SSO has gone live. The initial few months AFTER go-live are a critical period during which the inevitable teething problems of a project of this magnitude become apparent. In order to minimize the impact of this, we found it essential to identify and retain critical business-unit resources, such as credit account managers, for a period of time following the transition. This duplicate staffing may have appeared to cost more, but it actually saved us time and potential business disruption by allowing additional time to transfer business-critical knowledge."

— Project manager for finance transformation, chemicals manufacturer

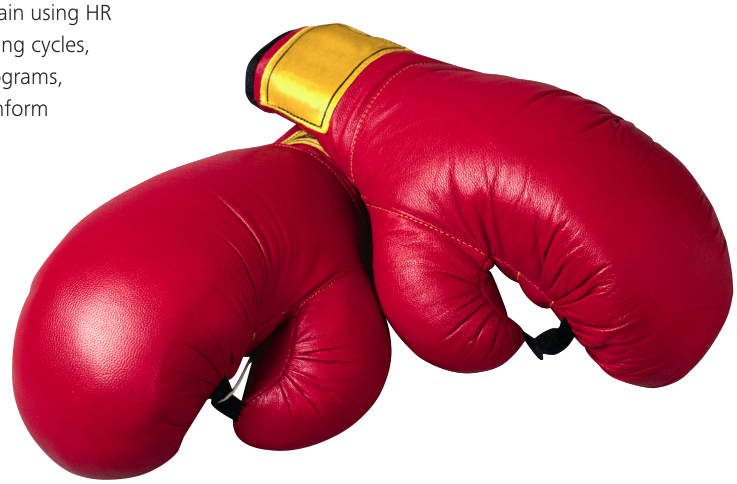
Value creation

Finally, functional leaders need to have a clear understanding of how the function's new service delivery model will create business value. Often, leaders aim to achieve more than "just" cost savings; they also set the goal of becoming a more strategic business partner. To make good on this promise, each function's retained organization will need to go above and beyond the status quo, adding to its existing consultative services and solutions to more fully address critical business challenges. Key steps to take in this area include:

- ***Find the sweet spot.*** The company's overall business strategy and market environment will dictate the retained organization's strategic focus. The retained organization should define specific goals up front for achieving tangible business results – for example, increasing financial forecast accuracy.
- ***Pursue "quick wins," but don't promise too much too soon.*** Not all of the promised value of the new service delivery model can be delivered on Day 1. Some changes will take time. For example, a retained HR organization may develop new talent management policies and tools that can enable better development, retention, and succession planning, but the results will not be immediate. Similarly, new workforce trending and forecasting capabilities may require longitudinal data not collected in the past. Having said that, it's also important for a retained organization to demonstrate its value by recording some immediate wins. Realizing any expected savings is certainly one of them. Others, again using HR as the example, may include shorter recruiting cycles, the deployment of on-demand learning programs, or the development of new HR reports to inform business decisions.
- ***Set clear goals and define the path forward.*** In our experience, objectives such as "greater strategic contribution" and "more value-added services" for a retained organization often appear in the initial business case. But while such broad statements can be key to obtaining buy-in and support from senior business leaders, it's also critical to define specific metrics and milestones for realizing these goals and to follow through on their execution. Establish clear "toll gates" – specific goals that must be satisfactorily achieved before the project can move on to the next phase.

Conclusion

To tap the full value of their shared services initiative, companies must focus not only on implementing the SSO proper, but also on preparing the retained functional organization for its new role in the future service delivery model. In our experience, companies that make the necessary investments in both the shared and the retained organizations are far more likely to gain the expected return on their investment. Leaders who understand that the adoption of shared services requires a whole new service delivery approach – one in which the retained organization plays a crucial part – can greatly increase their chances of realizing the double benefit of improved operational efficiency and greater strategic value.



Author

Jan Seele
Senior Manager
Deloitte Consulting LLP
+1 212 313 1803
jaseele@deloitte.com

Additional contacts

Susan Hogan
Principal
Deloitte Consulting LLP
+1 404 631 2166
shogan@deloitte.com

Marc Solow
Director
Deloitte Consulting LLP
+1 404 631 3739
msolow@deloitte.com

Peter Miller
Director
Deloitte Consulting LLP
+1 216 830 6655
pemiller@deloitte.com

Beth Thiebault
Principal
Deloitte Consulting LLP
+1 612 397 4062
bthiebault@deloitte.com

Acknowledgements

The author would like to thank Brad Podraza, Beth Stromstedt, James Wu, Thomas Joseph, and Joshua Wexler, all of Deloitte Consulting LLP, for contributing insights to the paper.