SHARED SERVICES FOR GENERAL AND ADMINISTRATIVE FUNCTIONS

DECIDING BETWEEN INTERNAL AND OUTSOURCED MODELS

SAP White Paper
Shared Services

THE BEST-RUN BUSINESSES RUN SAP™

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EXECUTIVE SUMMARY
SHARING INTERNAL AND EXTERNAL SERVICES BETTER

Shared services can be either internal or external, in the form of business process outsourcing (BPO). To decide which is best for their purposes, as well as how to design processes and technology to harness shared services' potential, company executives must assess their own situation and business processes closely. This paper discusses best practices regarding making a decision on this issue and also looks at some examples, including the experience of a global manufacturer of consumer goods.

There are a number of obstacles to success in service centralization; crafting an effective "extended enterprise" that works seamlessly across organizational boundaries is not easy and requires a strong understanding of process and technology. We discuss the benefits achievable with internal shared services versus BPO. Both scenarios have pros and cons in terms of cost reduction, quality improvement, and risk management. The choice between the two models – or the decision to structure a hybrid model – must be situational but anchored on a disciplined scorecard for decision making based on parameters such as scale achievable, ability to optimize processes, and access to labor arbitrage. We will illustrate the use of the scorecard with the example of a large manufacturer of consumer goods, clarifying that while this case study cannot be generalized in its entirety, it certainly provides valuable lessons across a number of topics.

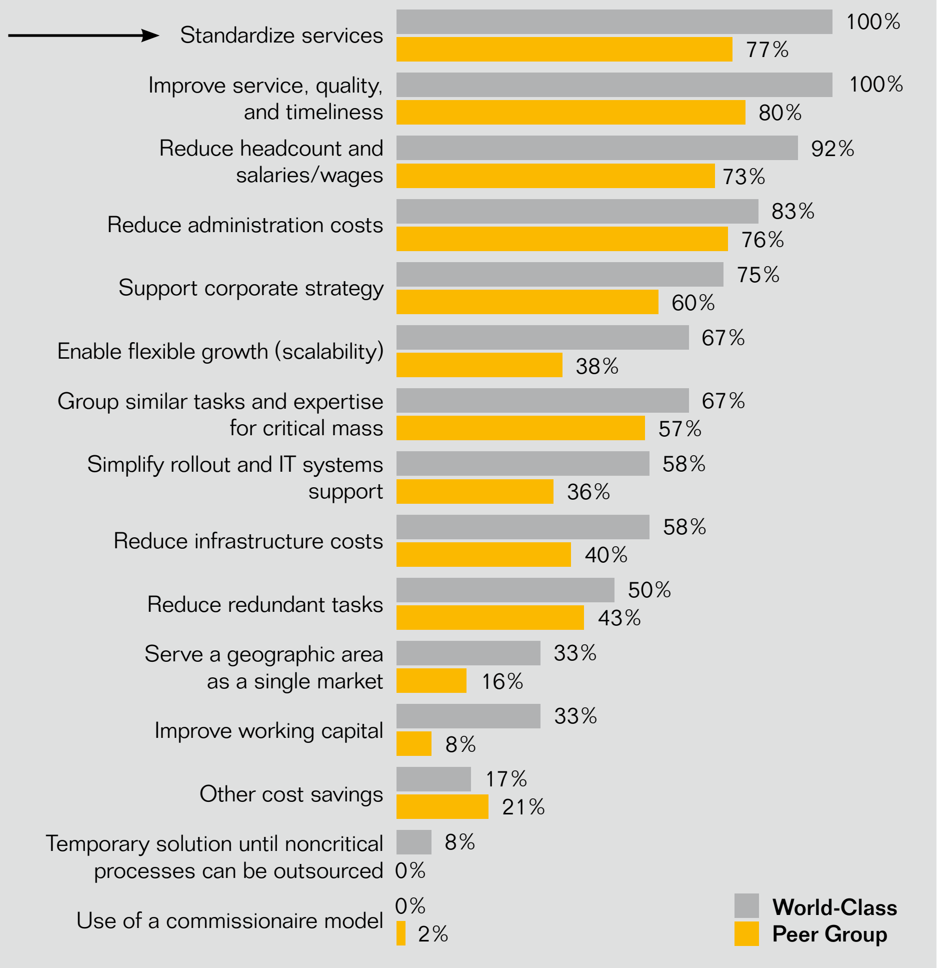
The effect of software and its deployment on centralization's success is analyzed: business decision makers must understand the potential and constraints of process and technology design to make realistic strategic decisions and direct their teams appropriately. We examine some potential minefields here.

Finally, we examine the tenets of successful transformation and implementation. The problems inherent in these steps not only are relevant for the implementation team but also should be understood by those executives involved in strategic decision making, so that they craft a plausible, high-level blueprint for execution. Additionally, transformation is of utmost importance for those who will be in charge of operating the shared services later on, as "genetic problems" can nullify the effectiveness and efficiency of the transformed operations.

INTRODUCTION AND DEFINITION
THE PROMISE AND REALITIES OF MOVING TO SHARED SERVICES

Internal shared services and BPO are management practices that are penetrating the market. In the areas of finance and accounting, for example, 70% of Forbes Global 2000 companies use some form of shared services. Analysts concur that this management practice has been growing during the last five years. Among the drivers of these developments are cost pressures, the supply of BPO providers, and the substantial improvement of enterprise technology tools including optical character recognition, workflow, analytics, and other software that support a tiered service delivery approach. Internal or outsourced shared services are a powerful best practice employed by leading companies. Shared services bring economies of scale that a local operation cannot offer, which in turn generate savings and additional benefits captured by the results of a Hackett Group study shown in Figure 1.

Shared-services operators instill best practices at "build time," thereby optimizing processes. And shared services provide access to cheaper or even better labor by turning the perception of formerly unglamorous back-office functions into professional front-line services. Critical mass makes it possible to build operations in a remote location. This reflects on quality, because when money is saved in the process, it can be reinvested into improvements and maintaining an innovative edge. The results for those who have managed to fully master service centralization are substantial (see the following table).



Source: The Hackett Group, F&A SSC survey, 2007, sample of internal shared services

Figure 1: Benefits Derived Using Shared Services

Despite such a compelling case, SAP, like a number of analysts, has found that the reality of the actual execution is mixed and requires expert attention. This paper explores the key aspects of that expertise.

To maximize the chances of the business success of service-sharing initiatives, business leaders and their service providers (whether external or internal) must be in control of the technology and process design. Segregating strategy from process reengineering and technology deployment is risky. It is now regarded as best practice for business leaders to be able to bridge the two.

It is vital that a chief operating officer (COO) "mentality" drives the move to internal shared services or BPO. This is a departure from the siloed approach often seen today, in which only a CIO, CFO, or HR director is involved. Transforming general and administrative (G&A) functions requires both attention to detail and an understanding of their economics. It is paramount that customers consciously understand – at least at a high level – the technology and process required to deliver on these economic fundamentals: achievement of scale, harnessing of process optimization, and use of labor arbitrage. A very large number of companies deploy enterprise resource planning (ERP) to support G&A in shared-service centers, irrespective of whether these are internal, captive, or external. It is mandatory for business leaders to understand how these technology assets can enable processes appropriately – to be able to assess different strategic scenarios competently and direct teams effectively.

Cost of Finance with and Without Shared Services

Cost of Finance (% of revenue)	100% Shared	Nothing Shared
Accounts Payable	0.04%	0.07%
Accounts Receivable	0.01%	0.2%
Budgeting and Forecasting	0.02%	0.08%
Business and Operations Analysis	0.01%	0.11%
Cash Management	0.00%	0.01%
Collections	0.01%	0.04%
Cost Accounting and Analysis	0.04%	0.05%
Credit	0.01%	0.01%
Customer Billing	0.01%	0.04%
Expense	0.02%	0.01%
Finance Strategy and Leadership	0.03%	0.09%
Fixed Assets	0.01%	0.02%
General Ledger and Financial Closing	0.05%	0.13%

Obstacles to Success

Numerous studies indicate partial satisfaction with G&A transformation for internal shared services, and the public no longer regards BPO as a silver bullet. The main obstacle to both internal shared services and BPO success is when one part of the triad of people, process, and technology is lagging behind. For example, a company might have transformed its processes but not have done enough change management. Or it might not have done enough technology redesign to underpin its new processes. When companies combine internal activities and shared services or BPO, an "extended enterprise" is created. If processes and technology break on the boundary between the internal and external units – for example, not harnessing any more scale or process optimization, such as in the case of invoice processing – effectiveness and efficiency are damaged.

Another common obstacle to success is the inability to implement standards and best practices across a company – which may instantly dilute any economies of scale and weaken process optimization because of fragmentation of related efforts across a plethora of different approaches.

Benefits of Each Model

It is important to understand why a company would choose internal shared services over BPO and vice versa. Some might say that BPO is more powerful than internal shared services or that sharing services internally is less risky – but both statements are grossly superficial. Figure 2 shows the key cost-benefit trade-offs between shared services and BPO.

In theory, economies of scale are higher for BPO than for any internal shared-services organization, except the very large ones. As with process optimization, providers typically have the experience of performing the same or similar processes over and over again. This allows them to crystallize their experience into a strong transformation program and service delivery. With regard to labor arbitrage, BPO providers are more mature and more able to cope with the difficulties of setting up offshore service centers.

However, these theoretical advantages do not imply that BPO is the best answer for all situations. BPO may have an advantage financially, based on net financial and quality gain and the potential gains from running operations more efficiently. However, in BPO there are the added costs of governing those operations (which exist in internal shared services but are lower). Both scenarios face a potential increase in retained costs, such as the need for some duplication between centralized and line-of-business or in-country organizations – but this cost is typically higher for BPO. For BPO, it is also necessary to subtract the provider's profit (although in some cases, internal shared services also need to run up a profit).

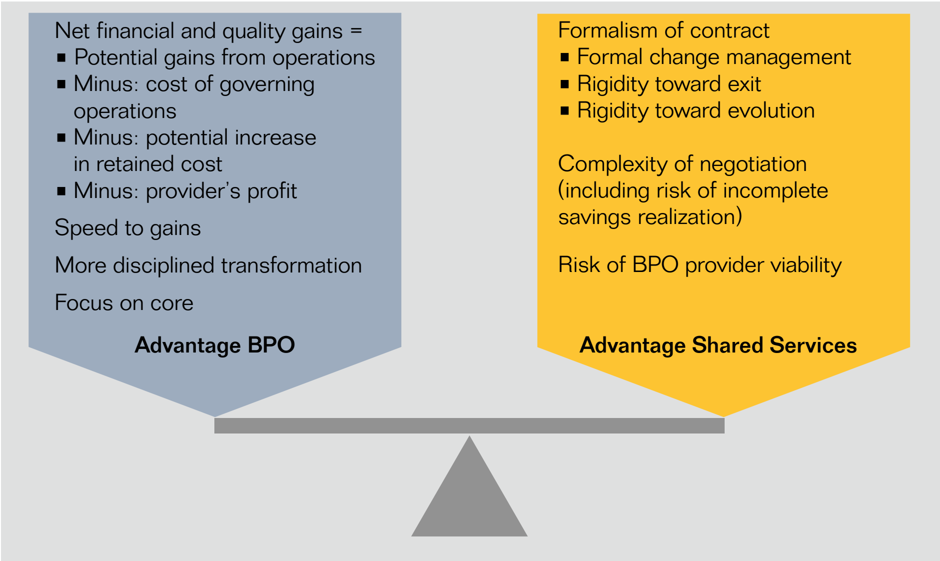


Figure 2: Cost-Benefit Trade-Offs Between Shared Services and Business Process Outsourcing

Speed to gains is also theoretically higher in BPO, since a company has an external party leading the way as a catalyst. The transformation is usually more disciplined, with experts dealing with the providers, allowing the customer to focus on the core – which has ripple effects that, while hard to measure, do exist. One clear advantage for internal shared services is that companies avoid the contract's formalism. While there will be formal change management, there is less rigidity, and companies are able to evolve more freely, especially with regard to innovation. Internal shared services also tend to avoid the complexities of negotiations. This said, the more strictly the internal shared services are managed, the more their formalization behavior will mirror an external provider's.

The Scorecard

The table below is essentially a scorecard, with key parameters to help assess the additional gain brought by BPO versus internal shared services in customer-specific situations – ultimately clarifying the conditions for when it makes sense to outsource and when it is appropriate to retain operations in-house.

Scale is a major enabler of value service centralization. Theoretically, BPO can bring more scale, but only if the provider has it where needed, such as in specific processes, subprocesses, and countries. Additionally, when the customer has specialized staff, it is easier to realize gains through BPO because the decision around their allocation is easy (and part with the provider, part retained, and part redeployed), so there is no need to retrain all staff. But even more important, to avoid the BPO client portfolio becoming an "archipelago" of clients each with limited scale, the provider also needs to standardize, to offer a larger scale in the process and country matrix, and to allow the customer to use its processes, people, and systems.

A BPO provider that is knowledgeable about **process optimization** can help a customer achieve the optimal level of efficiency and effectiveness. To do so, a provider needs to be an expert in running the new processes **and** an expert in change management. Some customers are experts in change management themselves and so do not need assistance to achieve a sufficient level of scale. Economies of scale, process optimization, and labor arbitrage all paint a theoretical end picture, but getting there is actually half of the equation and takes effort.

The next "leg" is **labor arbitrage.** If the provider has a strong offshore delivery structure, stronger than that of the cus-

Key Parameters	Low Potential Business Process Outsourcing (BPO) Gain	High Potential BPO Gain
Scale	Customer has higher scale	Provider can bring scale
	Customer scope (cost per process per country) does not match provider's sweet spots/hubs	Customer is good match
	Customer has generalist HR staff	Customer has specialized HR staff
Standardization	Customer or process does not allow standardization process and technology	Provider can standardize
Process Optimization	Customer drives process design and underlying technology choices	Provider can influence and is knowledgeable
	Customer is expert in change management	Provider is expert in change management
Labor Arbitrage	Customer already operates offshore	Provider has strong offshore
Asset Intensity	Customer is underleveraged	Customer is asset-base heavy
Other	Customer has weak brand	Provider needs customer's name
	Transparency of baseline and processes/ products to be served is low	Baseline is known
	Time is not an issue	Faster is better
	Governance is not considered key	Focus and expertise is on governance

To maximize the chances of the business success of service-sharing initiatives, business leaders and their service providers (whether external or internal) must be in control of the technology and process design. Segregating strategy from process reengineering and from technology deployment is risky. It is now regarded as best practice for business leaders to be able to bridge the two.

tomer, then this provides major additional gains – but only if the customer actually uses it. In reality, some owners of G&A processes decide not to avail themselves of offshore locations – for example, in many cases involving HR.

Another component is **asset intensity.** If the customer asset base is heavy and the customer cannot allocate capital expenditure to transform the organization, then BPO is a good answer because a provider can make investments on the customer's behalf.

If the customer has a strong **brand,** it is likely that a BPO provider would be ready to invest in "going the extra mile." There is short-term advantage in being a good reference, but admittedly this condition may not be durable.

Also, if a customer has a known cost and service-quality **baseline,** it is easier for the BPO provider to set pricing and be held responsible. If the customer's operating condition is not transparent, the BPO provider will have to mitigate such risk, and this may affect price and service level agreements adversely.

And finally, if a customer has expertise in **governance,** that too will help the BPO provider deliver quantifiable and controllable gains.

CASE STUDY: LARGE, GLOBAL MANUFACTURER OF CONSUMER GOODS

AN EXAMPLE OF MOVING TO SHARED SERVICES AND BPO

The table below details the excellent example provided by a large manufacturer of consumer goods that moved first to internal shared services and then to BPO.

The analysis that follows is derived from interpretation of publicly available data and does not rely on direct interviews with the companies involved – and therefore should serve merely as an illustration of the scorecard methodology highlighted in the previous section.

One of the drivers behind the company's decision to move to internal shared services and later to BPO was the difficult consumer goods market. These conditions laid the foundation for successful outsourcing of selected activities. The company migrated substantial parts of finance and accounting (F&A) and HR functions to BPO providers: F&A went to one large BPO provider, while HR went to another one.

A crucial aspect of the company's success was a CIO who drove the transformation and took full responsibility for both G&A operation and technology. It is imperative that the CIO understands what drives success in service centralization and related process and technology redesign. At this company, there was an integrated organizational redesign with technology expertise and redeployment. ERP technology was a key ingredient. That effort realized substantial gains and drove the company to merge the responsibilities for G&A processes, creating an internal shared-services organization that spearheaded the drive to increase the effectiveness and efficiency of G&A.

The HR deal was substantial: hundreds of employees were affected, and almost all of them were rebadged in the process. The company's shared-services operations in northern Europe, Asia, and Latin America were handed over to the BPO provider, along with all the relevant staff.

1998: Three shared service centers (SSCs) for HR
2002: All IT processes about to be outsourced in a multibillion dollar deal, but then halted
Took more conservative approach and began: ▪ Continuing to optimize internally ▪ Using the traditional approach of outsourcing bundled services to individual providers ▪ Selling its processes to the open market ▪ Setting up a joint venture with an external service provider, a venture capital partner, or another company's SSC
Developed a branded services company to manage the shared-services centers and be responsible for IT, HR, the accounts payable process, customer relationship management, and facilities
A year later, moved selected process areas to business process outsourcing (BPO) providers
Objective: Focus on growing its business both organically and through acquisitions, no longer distracted by back-office process activities, allowing: ▪ Further cost savings ▪ An increase in organization's total productivity – effective employee HR service ▪ Innovative HR development through company's collaboration with BPO provider
Key components of the decision: ▪ Capacity available for HR optimization via SSC ▪ Keeping the service and infrastructure skills up to date ▪ Prioritizing new capital investment for the latest HR technologies over consumer product investments ▪ Need for ownership of all HR investments, to offer flexible or variable pricing on HR requirements to internal customers ▪ Lack of sales and marketing skills in HR BPO to promote SSC as a service on the external market

The table below presents the scorecard for the deal.

Regarding scale, the incremental leverage that the BPO provider brought was limited. However, the provider probably priced the deal based on future scale – that is, based on the scale achievable when other clients would be served by the same service delivery "platform." Most providers these days tend to reflect in their contracts the cost structure that they plan to have immediately with the customer, unless they have a clear path for bringing each customer onto some level of replicable, one-to-many service delivery.

The scope match was good in this case because the BPO provider was able to cover both the geographic focus and the broad process focus of the company. Additionally, the provider demonstrated clear confidence in its ability to run things offshore. In terms of the generalist and specialist HR staff, the incremental leverage was good because the client company used the North American (specialized) model, where it is easier to transition people to new jobs, and also because the provider was willing to absorb the client's employees.

In terms of process redesign, the company was ready to continue transforming and wanted to harmonize its processes even further. The provider was ready to take some of the client's blueprint. Regarding the change management experience, the client was already very good, including its competencies in redeploying HR information systems – but the provider promised to give the provider its top attention.

The company focused strongly on financial return on assets (ROA). Many shared-services investments were already fully depreciated at the time of the deal, so migrating operations over to the provider did not generate any write-offs that would actually impact the balance sheet. At the same time, further improvements were paid by the BPO provider's capital expenditure, which contributed to the client's ROA. In terms of customer brand, the client company was very strong, so that was ideal for the provider, reflecting positively on the economics and quality of the delivery.

The company had some prior baseline data, which limited the risk for the provider – and the provider was ready to take the remaining risks.

	Incremental Leverage	Rationale
Overall Scale	Limited	Provider not to scale at that time, but provider priced based on **future** scale
Scope Match	Good	Provider and client company share largely same geographic focus – with provider able to pull offshore in
Generalist Versus Specialist HR Staff	Good	North American model; provider's willingness to take employees
Process Design	Good	Client company ready to transform, and provider ready to use some company blueprints
Change Management Experience	Good	HR transformation experience in company fair, including HR IS – but provider promised top attention
Customer Preexisting Offshore	Good	Provider's offshore location absorbed load
Customer Asset Leverage	Good	Many investments fully depreciated; focus on ROA
Customer Brand	Very Good	Provider looking for flagship
Prior Baseline Transparency	Fair	Internal shared service with some monitoring; provider ready to take risks
Governance	Very Good	Previous expertise and focus in internal service provider

Governance was one thing that the client's internal shared-services organization was fostering as a philosophy, so there was no misunderstanding that the topic should always be given top priority, which helped the BPO provider immensely.

It is clear from this example that making the decision between internal shared services and BPO:
- Is not banal – that is, it requires analysis and expertise
- Is situational – it depends on who the customer and the provider are, and how they decide to operate
- Is contingent upon timing – a deal may be viable in times of BPO market growth but may become more questionable when the market is more mature

When planning for service centralization, whether internal or outsourced, the first three things to assess are whether the planned design harnesses economies of scale, process optimization, and labor arbitrage, which are the essential economic underpinnings of successful service sharing.

SCOPE CHOICES – THE SINGLE MOST IMPORTANT STEP

MAXIMIZING THE VALUE OF YOUR PROCESS PORTFOLIO

The BPO industry has matured significantly in the last five years with respect to scope, and it is useful to transfer the lessons learned to the broader shared-services topic. Large G&A outsourcing and shared-services deals sometimes brought far too much scope to inexperienced internal or external delivery teams. This approach has not proven to be sustainable in most cases, either with respect to client satisfaction or the service provider's cost to serve. Internal and BPO providers therefore turned toward getting matters in order and leveraging their scale advantage, essentially via reengineering – but often were not able to overcome clients' resistance.

But if "scale is king," harmonization (that is, reengineering) is a prerequisite. How to escape this vicious circle? There is a lesson to be learned from some of the clients' resistance: with some processes there is just not enough to be gained, and the amount of pain generated by enforcing the necessary change is simply too large. Clients are advised to pick their battles carefully, which in service centralization means scope choices: which processes to outsource, which to keep in-house, which to standardize and automate, and which to leave alone. Picking processes means figuring out which ones:
- Matter in terms of cost
- Show strong economies of scale and can be optimized well in general
- Will permit the chosen internal or BPO service provider to bring to a scale and performance higher than the client's by reengineering
- Will not generate an uproar in the client organization when they are changed

There is empirical evidence that many G&A processes have a clear and steep economy-of-scale behavior, but in the end whether specific companies can leverage this to their benefit is situational: it depends on who the client and the provider are (often country by country) and what the provider is able to do. Everything is relative: How much better can the provider be on relocation administration for the United Kingdom? How much better can the provider be globally? And how much pain will stakeholders feel if the relocation rules are changed to harmonize them with the provider's best-practice delivery?

It is important to do this assessment and then summarize it, including savings, qualitative improvement, and disruption. What is the gain that is attained for each one of those subprocesses either by harmonizing in-house or by BPO?

Figure 3 illustrates a possible simplified outcome. The blue bubbles depict what clients can achieve in-house (internal shared services), and the orange ones show what they can get with BPO.
- The vertical axis shows the gain to be achieved by standardizing: What is the potential cost reduction? Are there other improvements?
- The horizontal axis maps the pain associated with the change: how much disruption will happen when this is done?

For process 1, the internal shared services deliver insufficient gains to justify the change, while BPO delivers a good trade-off with only marginal additional

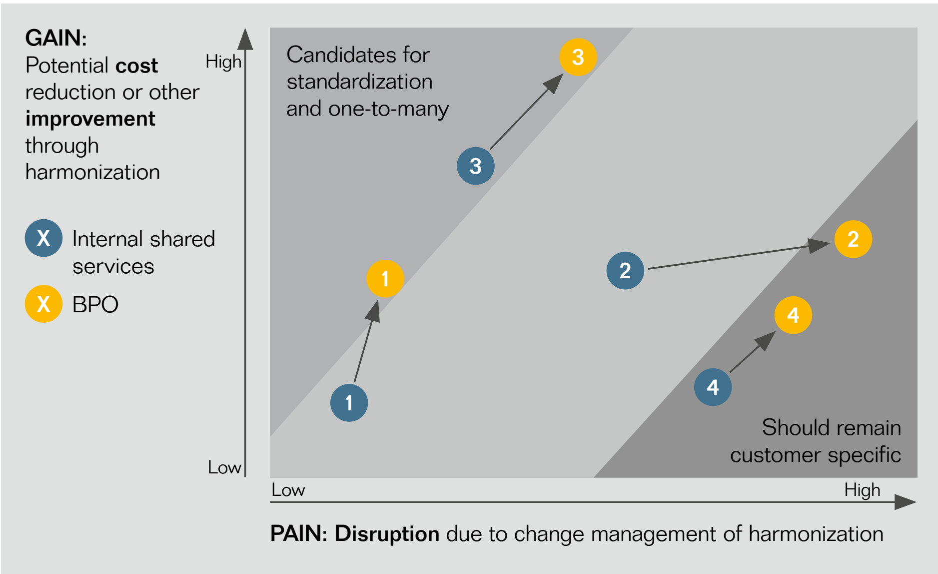


Figure 3: Gain Versus Pain with Internal and External Shared Services

While implementing ERP and other technologies to enable general and administrative functions is clearly a substantial effort, it is also an opportunity to redesign organizations so that they can achieve economies of scale, process optimization, and labor arbitrage – and make sure that these endure. The results can be substantial.

effort and pain. Benefits and payroll might sometimes fall in this category. For process 2, internal shared services deliver decent gains already and have substantially less painful impact than BPO would have. In this case, internal shared services look like a better option than BPO. Processes like compensation management, incorporating a high degree of customer-specific judgment, might feature here. In process 3, both options are viable; BPO delivers more gain but also inflicts more pain on the organization. Depending on the client and its appetite for risk and change management, vendor management or recruiting can fall into this category. In process 4, process harmonization and standardization are simply too painful. The achievable gains do not justify the pain, and thus the process should probably remain customer specific – which means that either you save enough by offshoring and improving the process as a stand-alone, or you should not expect the provider to save you money. HR policy and strategy are likely to fall here, as well as the work of many subject matter experts in labor relations, for example.

When this analysis is done, it's necessary to check whether the portfolio makes sense as a whole, because sometimes processes should be bundled to make synergies happen. Many find it advisable to bundle, for instance, payroll zero-to-gross and gross-to-net processes, HR data administration, and related employee self-services. There are some processes that should not be split up too finely because in the end they just might not work out anymore – the integration and synchronization of these process bits is just too painful.

THE EFFECT OF SOFTWARE DEPLOYMENT

ACHIEVING SUCCESSFUL SERVICE SHARING

How then can costs be reduced? If a customer wants to reduce the cost structure by 20%, still giving the provider some margin to make a good living and reflect governance costs, it must have substantial collectivity gains on labor and the related G&A (see Figure 4). This means that labor, facilities, utilities, and so forth need to be compressed by at least 30% and that IT itself can be reduced too. (The main way to drive cost down is to implement and run that technology cheaply by consolidating infrastructure and replicating deployment.)

With these facts in hand, it is important to ask what the implications are for technology across this delivery. It is imperative in both internal service centralization and BPO for process redesign and technology redesign to work together.

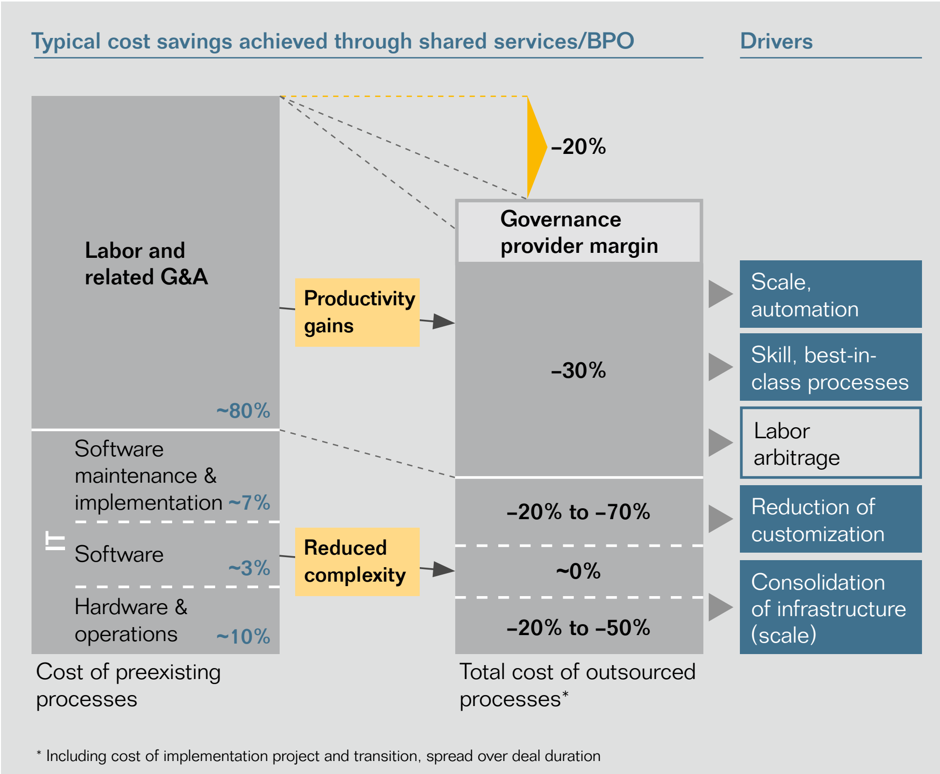


Figure 4: Reducing Costs with Shared Services and Business Process Outsourcing

As shown in Figure 5, the main lever to reduce total cost is clearly the labor part of the cost structure. That is where appropriate attention to software choice and deployment is critical. First, software and its deployment affect processes – and therefore their scale, optimization, and use of labor arbitrage. Software acts as the foundation for cross-system integration and ensures that providers can scale across customer units and countries. It is also the basis for process optimization. Technology that offers an integrated best-in-class design (for example, tiered service delivery) can help customers address problems. It can also, for example, enable self-services. Processes can be controlled through technology, giving customers better governance and compliance.

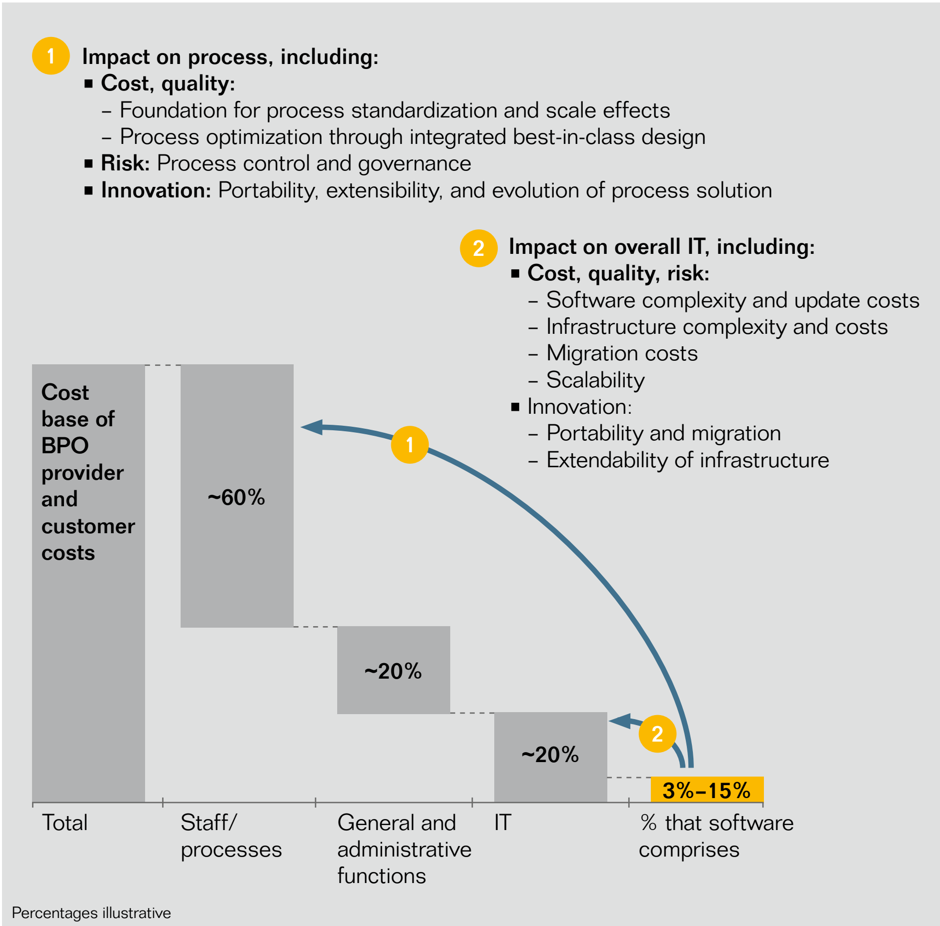


Figure 5: Role Played by Technology in Business Process Optimization Success

Scale and process optimization are essential to a healthy business case – but it is easy to dilute them. Consider Figure 6, which indicates the number of HR staff needed for a thousand employees, in an empirical illustration of the power of scale.

A company will have a certain number of employees in each country, and the bigger the organization, the fewer HR staff will be needed per thousand employees to execute, for example, payroll and other HR tasks. When the company combines its different organizations based in different countries without reengineering or deploying technology to put them on a common platform, this may result in silos. In the end, the company discovers it has the average number of HR staff needed per thousand employees – the same average it had before. Nothing has been achieved. The opposite happens with full centralization and standardization. Indeed, there are local requirements that must be catered to that will limit the standardization and related economies of scale achievable.

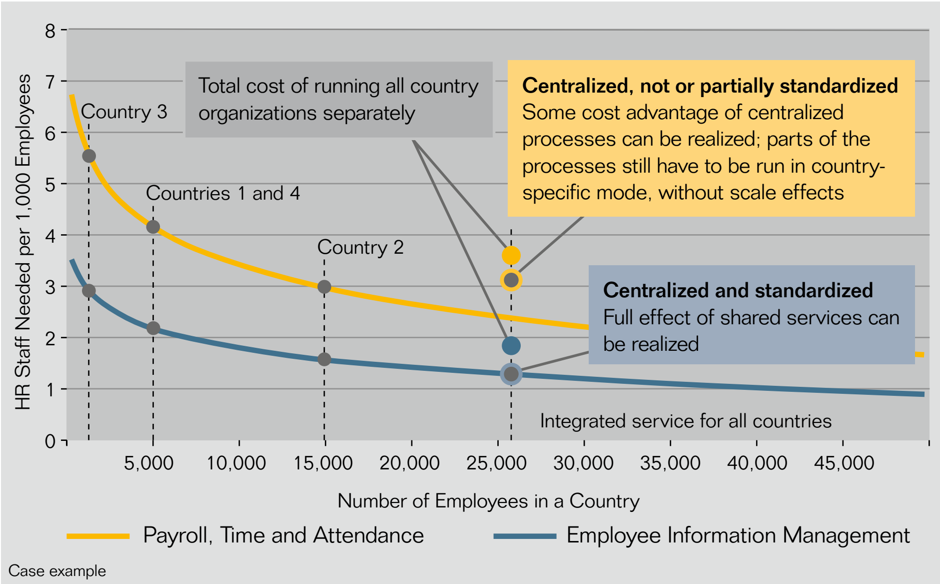


Figure 6: Economics of Specific HR Processes Showing Benefits of Scale

Figure 7 helps clarify how process and technology must be designed jointly for optimal service centralization. In a tiered service delivery, many transactions, such as shared services that call real-time data from applications and databases, can be accommodated by tier 0. Tier 1 encapsulates a complex center of clerks and operators that rely heavily on scripts and automated tools to respond to queries. Tiers 2 and 3 include more specialized staff requiring access to policy repositories but also reporting on other functions, so technology cuts across all of them (F&A and HR, but also production, scheduling, and so forth). For a more detailed list of practices and tools used to fully enable shared services, see Figure 8.

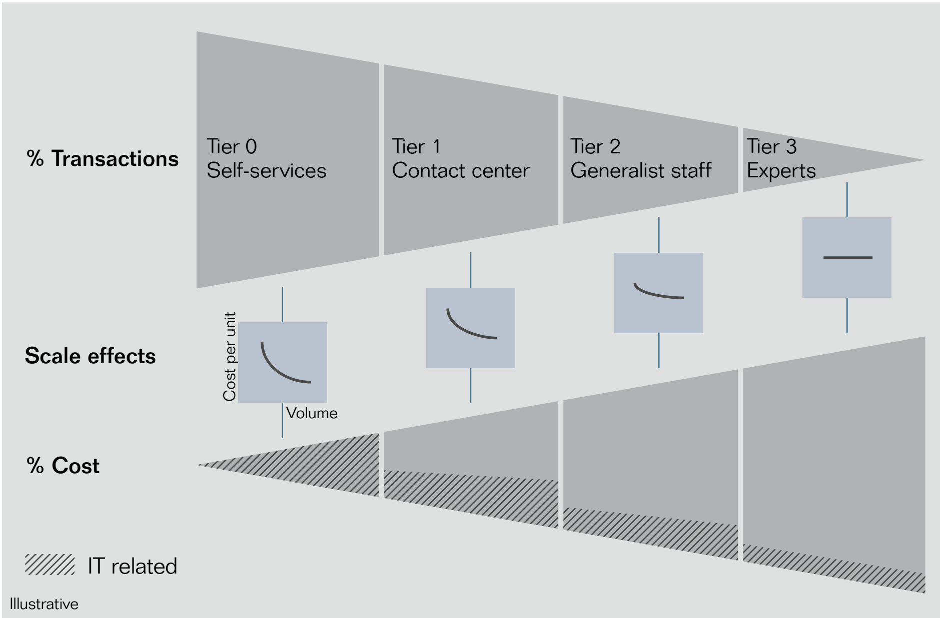
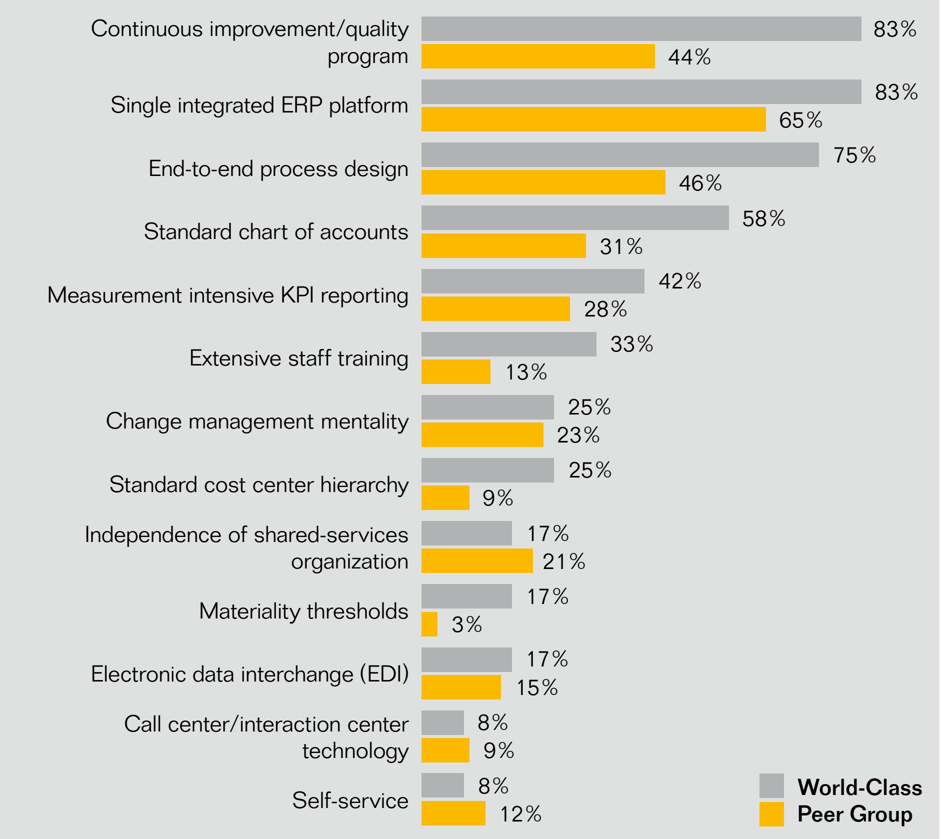


Figure 7: Economies of Scale in Tiered Service Delivery

Technology is not only about automating and consolidating processes; it is also about giving information support for judgment-intensive components of the processes. One key here is the integration of the various functional silos; it is essential that providers deploy the technology appropriately to ensure integration.



Source: The Hackett Group, F&A SSC survey, 2007, sample of internal shared services

Figure 8: Practices and Tools with the Highest Optimization Effect

While technology is largely about automating and consolidating processes, it is also about giving information support for judgment-intensive components of the processes. One key here is the integration of the various functional silos; it is essential that providers deploy the technology usefully to ensure integration. By integrating the various components that sit underneath each one of these tiers, a provider can ensure that process optimization actually works. Figure 9 illustrates what happens when this is not the case – unfortunately not an infrequent occurrence in service centralization.

Finally, consider also the architecture of future services. Which services are the potential candidates for outsourcing today or in the future? It helps to think about the demarcation lines between processes and technology so that in the future it is simple to outsource a process. Ensure that both process design and technology can achieve that vision. It is important to have people who understand process and technology, and from a change management perspective, it is imperative to have people who are able to take you there.

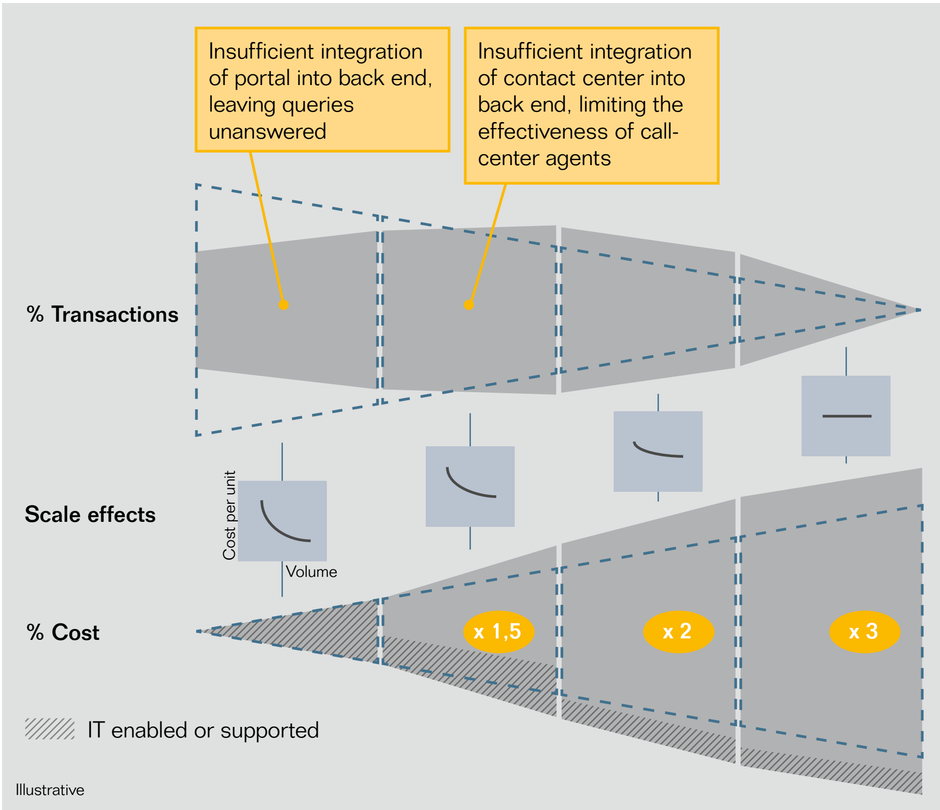


Figure 9: Cost Escalation Generated by Insufficient Leverage of Technology-Enabled Scenarios

Transform and Implement

While implementing ERP and other technologies to enable G&A functions is clearly a substantial effort, it is also an opportunity to redesign organizations so that they can achieve economies of scale, process optimization, and labor arbitrage – and make sure that these endure. The results can be substantial, as demonstrated by the benchmarking results in Figure 10.

The complexity of running an ERP implementation typically requires a combination of clarity of process design, discipline, and standardization wherever needed, as well as a clear understanding of what technology can make possible. ERP will reveal process idiosyncrasies and provoke disagreements that will test the capabilities of the solution architects involved. For this reason, it is essential that software vendors deploy resources able to bridge the expertise gaps and invest in tools and methodologies specifically for the (internal or BPO) shared-services scenarios. It is not just about a piece of software. Consultants need to be able, for example, to use and develop specific templates, migrate data sets, and understand how to reconfigure existing software or use the software "user exits" to build additional functionalities without trying to build code directly onto the software core (which is strictly a bad idea, because it increases the complexity for upgrade and maintenance).

Mistakes in the implementation phase have significant implications for the ongoing operations costs and any evolution phase. Any weaknesses in implementing and adequately supporting the software used in shared services can nullify the quality of the software product. In an attempt to obviate this, SAP has created a group of experts dedicated to serving customers and BPO providers in internal and outsourced shared-services scenarios. These resources come from both technology solution and consulting backgrounds, and their role is to consolidate what is learned and feed this back to providers and customers, as well as to the SAP product-development organization. This ensures continuous improvement of the product and shows SAP's commitment to clients building a viable service centralization strategy.

Experience shows that a few recurring items frequently generate substantial problems. In the first place, there may be pockets of legacy systems, and these solutions may not support the requirements for the entire process or the entire geographic scope. This will generate constraints on service centralization, whether internally centralized or BPO. Similarly, for customers to fully access the potential of the IT capabilities, the implementation and upgrade phase must be firmly meeting the customer's shared-services business requirements. Transforming old systems into new ones is not a banal task, and it requires competencies – many of them specific to a service-centralization scenario.

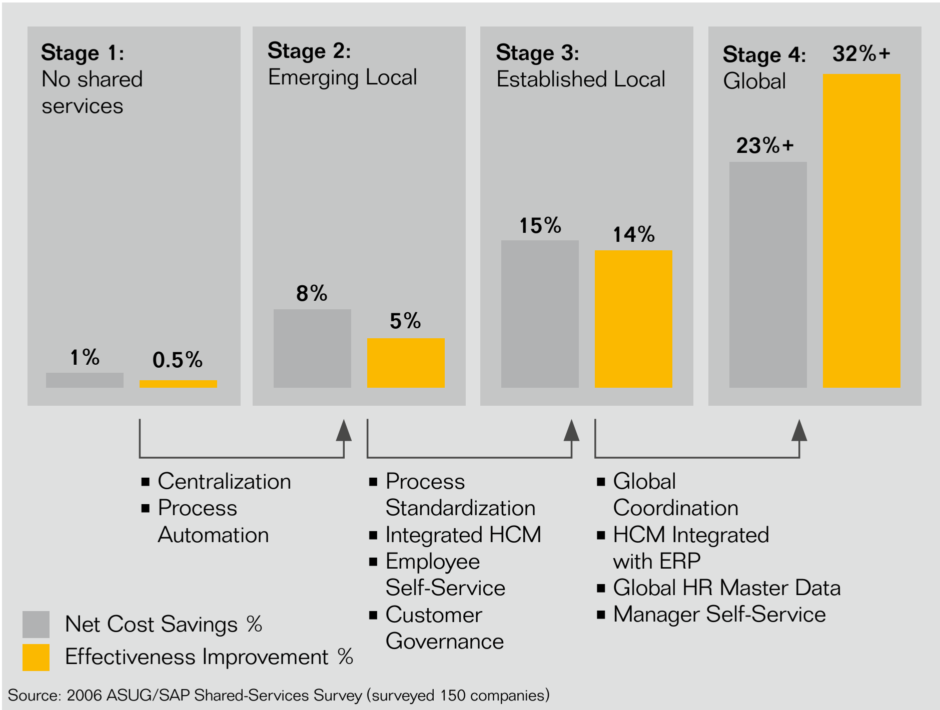


Figure 10: Costs Savings and Effectiveness Improvements for Companies Using Shared Services

Implementing a best-of-breed silo is not effective when a customer wants service centralization to impact end-to-end processes, such as hire to retire or source to pay. Quality improvement and cost reduction are often heavily dependent on end-to-end shared services. There are several examples that show the need for good integration; with payroll and time and attendance, integration is necessary between HR administration going back in time and into the F&A systems. Then F&A hands information over to controlling, which in turn affects time and attendance. There are five separate interfaces. Add more overlay, separate provider and client workloads, and self-services to that mix, and there is potential for unmanageable complexity.

Another series of processes that require multiple interfaces occur when customers place a work order. This prompts a skill check, which in turn triggers an employee availability check, followed by the assignment of employees. Then those times are recorded, the order is completed and recorded, and labor is calculated. This is brought to payroll and general ledger, where finally it reaches order costing and controlling. This totals more than six interfaces.

Shared-services strategy has evolved substantially in the last five years, because of what has been learned from BPO and of the ability to better harness technology.

Traditional system integration and reengineering practices must be complemented by specific service-sharing methodologies to create an effective "extended enterprise" that works seamlessly across organizational boundaries.

A third example involves constraint-based shift scheduling, in which it is necessary to ensure the correct skill mix of the people in terms of seniority, as well as night versus day shift. This kind of organizational-effectiveness performance management is linked to compensation and talent management, as well as to business planning, skill planning, training, resourcing, and even location.

Another incentive to achieve integration is that visibility across these silos enables the correlation of these functional results with business results. This is a key challenge for HR organizations. For example, are retail branches with high staff turnover good or bad? It is essential to correlate that turnover with branch revenues to avoid interpreting the high turnover as bad, because it can be a good thing empirically. Across all these areas, the effective use of master data cannot be underemphasized.

CONCLUSION
MAKING THE TRANSFORMATION WORK

When planning strategy and tactics for service centralization, whether internal or outsourced, the first three things to think of are scale, process optimization, and labor arbitrage, which are the essential economic underpinnings of a successful BPO implementation. It's crucial not to shy away from technical questions either, or leave them for IT to handle in isolation, but to develop an integrated view. Here are some key questions to ask:

- How do you best deploy people, processes, and technology?
- What do the processes and technology design look like?
- What technology tools are available?
- What integration scenarios should be looked at?

The economic fundamentals of service centralization in G&A are compelling. Management practices, software vendors, and providers can help ensure that service centralization works. However, customers need good strategy and best practices applied thoroughly and consistently to the execution of processes and technology redesign. Technology in particular, if fully harnessed, can deeply leverage the positive economic fundamentals of service centralization, but it takes strong skills to pull off a sustainable, successful service-centralization strategy. Successful transformation requires combining the perspective of a COO with those of a CIO, HR director, and CFO; the knowledge and vision of all these leaders are required to understand the economic, process, and technological dynamics of service centralization and outsourcing.

To Learn More

For more information on shared services and business process outsourcing, please visit the SAP Web site at www.sap.com/services/bpo or contact bpo@sap.com.

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