

Transforming business services

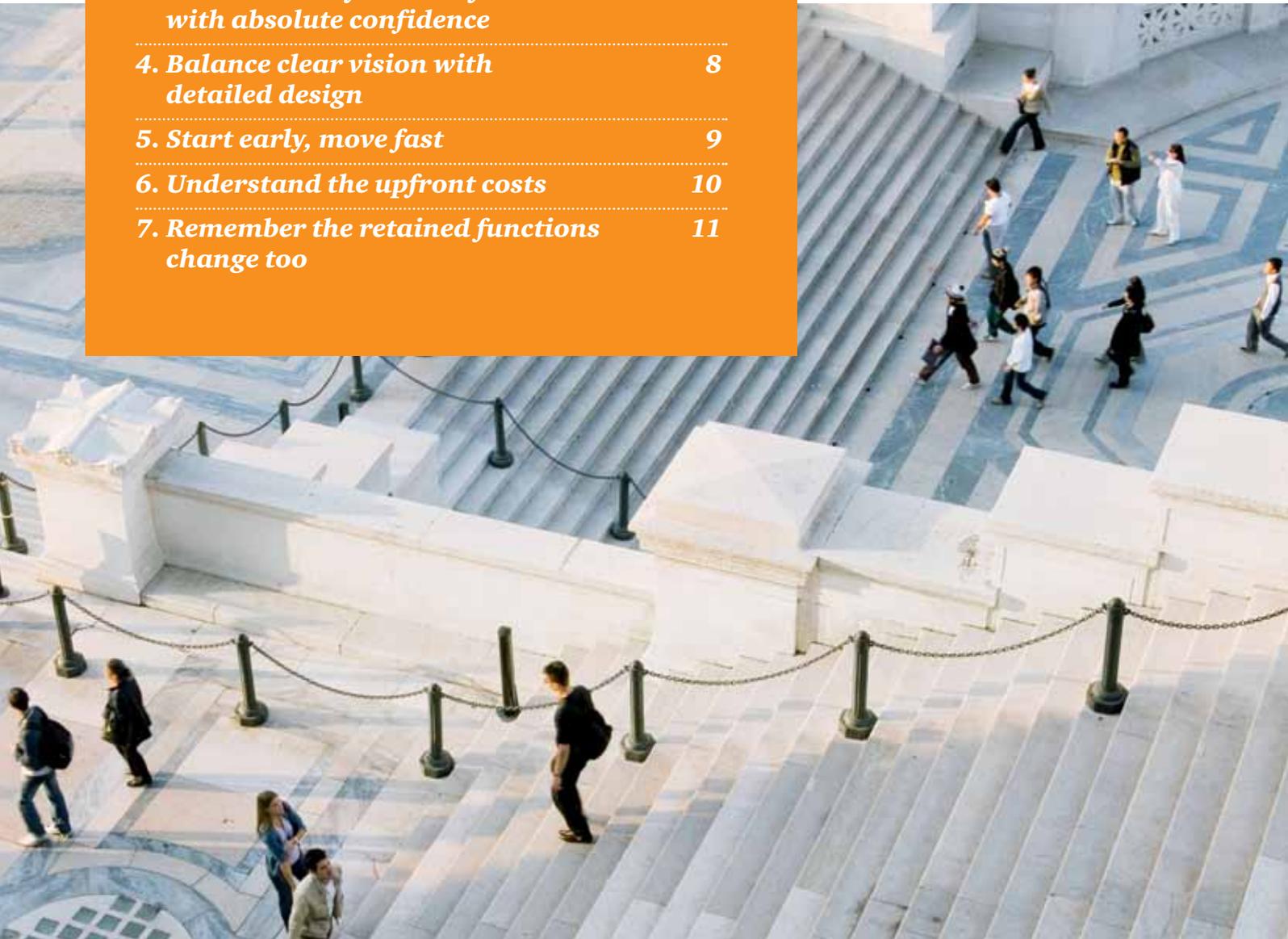
The seven essentials for success

The world's top organisations are looking at how to get the most out of their back office functions from finance to procurement. Have you considered how you might transform your business services?



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Bringing transformation to all of your support functions

A viewpoint paper

We talk a lot with our clients about their business services, and many of them no longer want to focus on just one functional area. They want to consider how they could get the most from all of the elements of the traditional back office – crossing the functions of HR, IT, Procurement, Property and Finance. Although the starting points for these discussions vary, our clients share common end goals – increased efficiency and consistency of process, significantly reduced cost, enhanced quality and the business agility required to support growth.

We refer to these broad-ranging programmes as business services transformations. This is because when they are done well they transform the entire organisation – not just by reducing cost, but by instilling a cultural legacy of continuous improvement, by driving out waste and duplication and by freeing up time for the business to make better decisions. Cross functional business services generate greater value than it is possible to achieve through single function initiatives – yet early implementations across multiple functions have offered mixed results.

By their very nature, covering a broader range of services, these projects are more complicated than they used to be. Done poorly, shared business services become complex and bureaucratic. They add complex and heavy structures and are often in competition with third party alternatives. However, there are sufficient examples of successful programmes to analyse and distil the lessons learned. Organisations that have got it right have achieved significant payback on their investment.

This viewpoint paper covers the seven areas that we believe organisations need to get right to successfully deliver these cross functional business transformation projects:

1. Know your problem
2. Sell the change
3. Stand behind your benefits case with absolute confidence
4. Balance clear vision with detailed design
5. Start early, move fast
6. Understand the up front costs
7. Remember the retained functions change too.

1. Know your problem



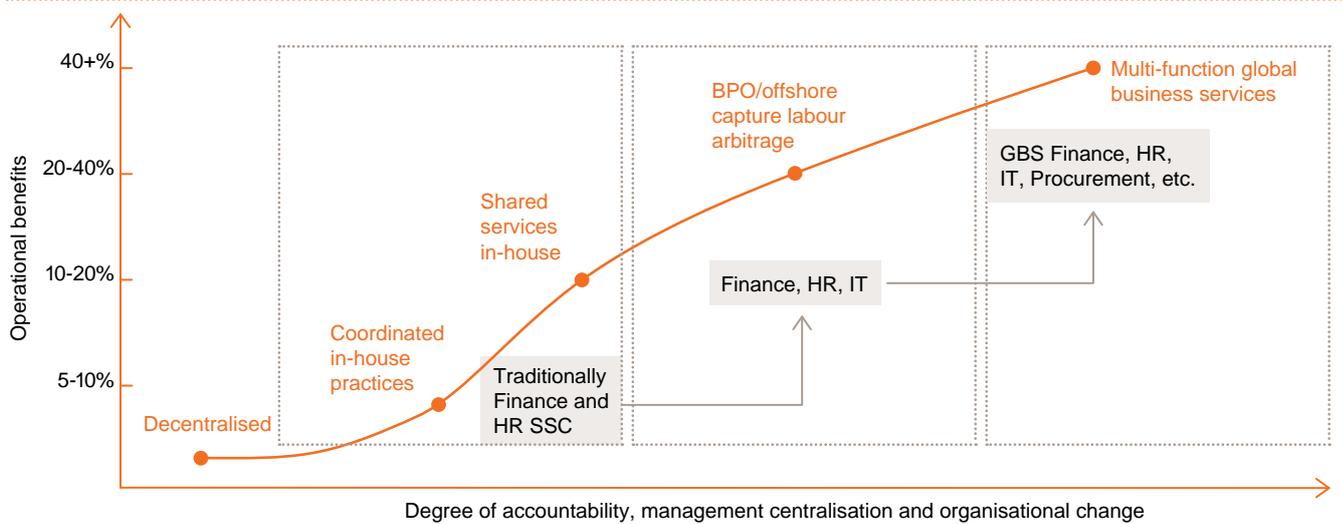
Companies need to follow a rigorous approach and allow sufficient time for data validation. Without confidence in the numbers, the business case will not stand up to scrutiny.

Creating a robust baseline with common definitions is essential. The data will form the basis of the business case and will inevitably be challenged. Companies need to follow a rigorous approach and allow sufficient time for data validation. Without confidence in the numbers, the business case will not stand up to scrutiny. In addition, without a baseline it will be impossible to measure benefits in the future. Understanding how you're performing today needs to involve internal comparisons of your performance against that of your peers.

Consultation with the business needs to happen at two levels. Firstly, on the broader business agenda you need them to articulate their prediction of the future demand for business services and explore with them any opportunities to reduce demand by simplifying the business – for example, by reducing the number of legal entities or management structures. Secondly, at a more tactical level, you need to understand how happy they are with the current level of support and if they are getting what they want.

The way in which the business is organised (formally and informally), and the degree to which business units and individuals are empowered to make decisions, will have a far reaching impact on the programme.

Diagram 1. Where are you now?



Performance of support functions	Fragmented, scattered, inefficient and lack of customer focus.	Increasing consolidation and improved efficiency and effectiveness. Lack of customer types/requirements distinction. Cost focus metrics and little charge back method.	Functional, local/regional effort. Efficient and effective with high service levels, embedded accountability and sophisticated charge back methods. Increased BU focus on core business.	Professional management. Retained in-house with strong vendor management capabilities. Benchmarked quality/pricing with negotiated, measured service levels. Freed resources and focus on core business.
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Source: PwC 2010 Business services survey

For example, you will need to consider how this will influence things like the makeup of the project team, the organisation design for business services and the likely pace of change.

A project team must establish a realistic picture of what has worked well or failed in the past and learn from these experiences. In particular, they really need to identify the necessary level of consultation with the business required to gain its support and maintain momentum.

In our experience organisations that do not understand from the outset the scale and sophistication of the task they are undertaking are the ones who experience unnecessary delays and put their programmes at risk of failing.

Our 2010 business services survey (Diagram 1) highlighted that over the past 20 years organisations have achieved value through consolidation of support functions, with programmes focused mainly on Finance and HR. The leading organisations were establishing multi-function business services, which meant they were able to achieve increasingly more savings from process improvement, simplification, automation and global sourcing.



2. Sell the change

Selling the change involves working with the senior stakeholders to get them to understand the vision – to answer the questions such as: ‘Why are we starting this complex programme?’; ‘Why must it happen now?’; and ‘What benefits are we hoping to get out of it?’ And it is vital that you also help them to understand how it will impact their part of the business.

Business Services Transformation programmes are typically driven from the Board down. However, the project sponsor needs to work with a small group of key individuals – ideally including both those working within business services and within the business. This will help to articulate the vision and create an initial draft of what a revised structure would look like within the organisation.

Through the process of ‘knowing your problem’, you should have gathered insight on the right way to sell the change to your business. For example, on engagements we’ve worked on, we have conducted or participated in between 40 to 80 senior stakeholder interviews in a client organisations. These interviews generally outline the vision and identify the changes required to the proposed operating model. While the stakeholder process can be time consuming, without it you risk investing significant time, effort and cost in the design stage putting together something which the business doesn’t actually want.

This essential, early involvement from senior stakeholders will reveal their intent and commitment, and the level of support and challenge you’ll be likely to receive in implementing the programme.

The outputs of this stage will provide a useful tool for motivating people but they will not create consensus. It is in the process of engagement, rather than the final output, that much of the value lies – you are likely to identify some of the significant hidden issues (including levels of support) which can undermine so many of these programmes. The insight gained can help avoid costly delays, unnecessary digressions and circular discussions which impact programme value and results.

3. Stand behind your benefits case with absolute confidence

Given the scale and complexity of a cross functional shared services initiative and the size of the potential rewards, organisations need to commit to making a significant up-front investment. For this reason, programme teams and sponsors must understand the key levers and assumptions which drive cost and benefit. Successful programme teams are the ones that manage expectations. They are clear on the return on investment that can be expected in terms of cost reductions, process improvements and efficiencies – and also clear on how long it will take for this return to manifest (often between two to five years).

What value can you expect from business services transformation?

The value of these programmes is often measured in terms of cost savings. Harder to quantify are the benefits such as decision-makers having more time to focus on driving profitable growth or the value associated with the creation of a scalable platform.

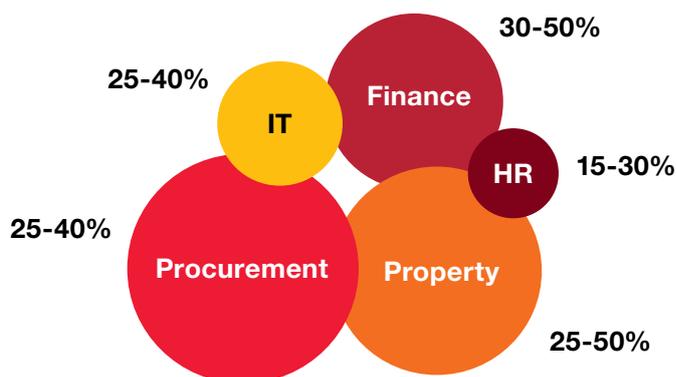
An organisation implementing cross functional shared services should expect to generate efficiency through headcount reduction and the associated infrastructure costs. Savings can also be gained through systems rationalisation and, in some cases, property overheads. In fast-moving businesses there are opportunity cost savings in the ability to grow the business without additional administrative costs. The actual level of benefits realised will depend on how aggressive you are with the operating model.

So which is the best operating model for business services?

There is no best practice operating model to deliver maximum value. Every organisation must decide what will work best for them, having reviewed the growing number of successful operating and delivery models. For example, depending on its individual aims, circumstances and constraints, an organisation may choose to own its entire shared services operation (a ‘captive model’); outsource elements to create a ‘hybrid model’; or aim to outsource most of its business services infrastructure. In some successful programmes, operating models have evolved, with organisations initially establishing a stable, successful captive shared services organisation and then have moved to a hybrid model by introducing outsourcing to drive further cost savings. Some organisations seek to develop a cross functional programme from earlier investments in a single shared service function such as Finance, HR, IT or Procurement.

Having made informed choices and decisions, the working hypothesis of the operating/delivery model must be refined with key stakeholders to gain buy-in early. Programmes will rarely proceed unchanged and, whilst the end result is unlikely to alter significantly, it is likely that the route will evolve over time.

Example cost savings per function based on PwC experience



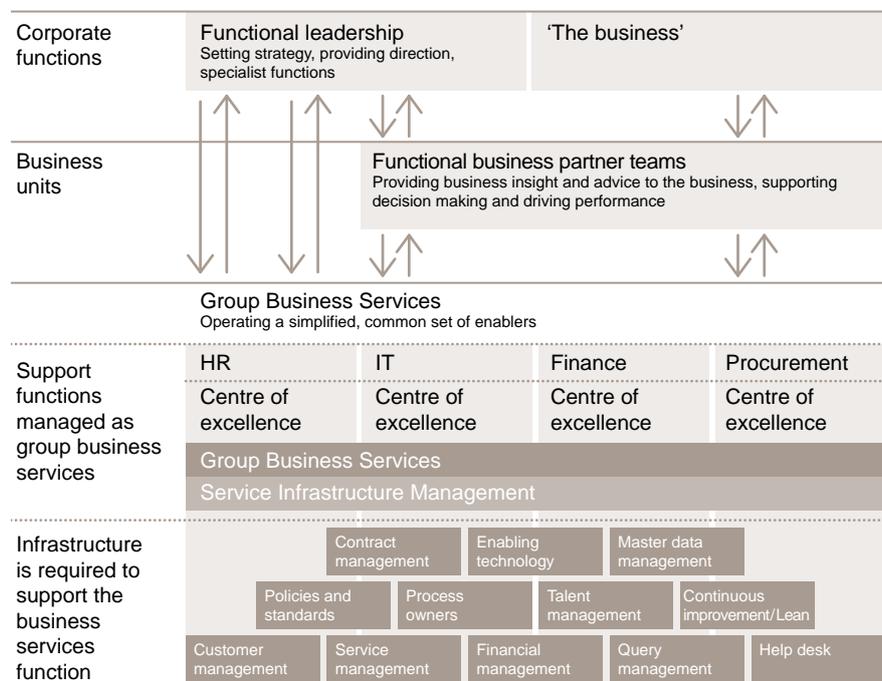


The route to multi-functional business services will vary by company. But it is clear that the leading players share a number of common attributes:

- They work in partnership with the functional business teams, freeing them up to make better decisions
- The business unit has a single point of contact as well as customer focused teams
- Activity is located based on value to the business
- They rely on a service infrastructure management layer providing consistent governance and rigour across support functions
- They speak with a common language so messages around ‘this is how to do things’ are clear
- They have strong functional ownership, or in some cases end-to-end process ownership, with good practice shared globally
- They have fewer managers with larger spans of control, creating a flatter structure
- They take culture seriously and embed a culture of customer service and continuous improvement

- Business services lead the business in searching out valuable services, sourced globally
- They place a high emphasis on incentivising their staff
- They have achieved simplicity – having the right people, with the right skills, following a global process (or global processes) in an appropriate cost effective location.

Diagram 2. Organisational characteristics of transformed business services



Source: PwC

4. Balance clear vision with detailed design

There are a number of key decisions that need to be taken to bring a vision to life. The approach you take to arriving at these decisions is critical – in terms of the style you take, the use of good practice examples, and the level of detail you focus on.

Often, debates on scope, location, sourcing and other key decisions descend into stories of ‘why this hasn’t worked before’ and ‘why this can’t work now’, leading to compromised solutions or missed opportunities.

In our experience, we achieve the best results when we can educate stakeholders on leading practice and discuss ‘how could we make this work in this organisation?’ In other words, we encourage decisions to be based on leading practice before taking into account organisational constraints.

For example, this can mean starting with a vision of more skilled work sitting in a shared service environment and then moving to debate how that would work in the current organisation. However, for this to work, the approach requires visible sponsorship and commitment from within the businesses.

Every project needs a balance between strategy and action. We have worked with a number of clients who invest significant time defining the vision at ‘50,000 feet’ but continue to make day to day programme decisions at that same level of detail, moving

through the key stages too quickly, without an adequate understanding of the practical implications. Once the status quo is known, and the vision and working hypothesis are in place, the focus needs to quickly turn to a number of key choices (some of which are interdependent). For each decision that you take, if you understand the issues and design constraints and the key interdependencies you can then move the programme forward at pace.

Every project needs a balance between strategy and action

Key design decisions required include:

- What activities should be included in business services?
- What activities can be onshored and which can be offshored?
- How should activities be sourced?
- Which is the best operating model?
- What is the best location for our services centres?
- How should our organisation be structured from a tax and legal perspective?
- What is the best way to approach day to day decisions within our new structure?
- How should we configure reporting lines, for example into the board, Finance, HR and IT?
- What is the best way for the new organisation to interact with the remaining functional areas and the business?
- How do we define the levels of service and how will these be charged back to the customer?



5. Start early, move fast

The decision to embark upon a Business Services Transformation project, such as shared services, can be disruptive. The ‘change resisters’ will be on the lookout for ways to delay a project – and delay is the enemy of successful shared services programmes as well as being a distraction for the business. Delays inevitably drive cost and negatively impact the level of engagement of senior management. For this reason, it is important to recognise delaying tactics and agree an approach to tackle them as they occur, in order to sustain the programme vision, momentum and delivery.

Here are some examples of negative responses, popular myths and objections we often encounter:

- *“We can’t standardise process”*
Many successful business services organisations have achieved single process on single systems and local differences are actually negligible.
- *“We have too many statutory differences to consolidate processes”*
When investigated these differences are often myth or a matter of interpretation. Business services organisations can manage the majority of local needs with common process.
- *“Offshore locations don’t have the right skills”*
We believe skills, languages and work ethics are often higher in offshore locations. It is no accident that Eastern Europe, India and China are such popular and successful locations for captive centres and (BPO) providers.

- *“Unions and works councils will kill it”*

We have not found a market where this type of intervention has prevented an organisation successfully establishing a shared service centre.

- *“Local management will resist it”*

This can be true and programme teams should expect that certain individuals will not buy-in to the new organisational structures and processes.

- *“Shared service centres don’t deliver the expected benefits”*

There are some horror stories but the evidence strongly suggests that many meet and often exceed benefits targets.

Having considered how you will avoid delays, your focus must turn to moving fast and delivering tangible results in the first year. Successful programme teams are aware that demonstrating early results maintains momentum and generates confidence.

Examples of this include:

- Establishing the shared services organisation and recruiting the senior management team
- Creating a service management layer
- Creating and applying a governance framework for all processes
- Working through the detail with individual business units to obtain buy-in and generate some quick wins.

6. Understand the upfront costs

To move fast and maintain programme momentum an organisation needs to make the right level of investment. One of the most commonly asked questions is, unsurprisingly, “how much do these programmes cost and what can we expect to gain?” The answers to these questions will of course vary and to some extent depend on the organisation’s ambitions for its business services. However, the three major cost categories are generally severance, the programme team and IT.

Actively manage severance

Companies shy away from difficult conversations about letting people go, but issues such as overly drawn out consultation can cause significant delays and result in programme failure. Uninformed decisions or communications can lead to strikes or other operational problems. Early engagement with internal HR teams should allow you to actively manage severance. For example, by helping programme teams understand their current position with unions, you can avoid delays and unnecessary cost, and provide early support to employees.

Invest in the right programme teams to deliver value

To drive a successful programme an organisation has to make both the appropriate financial commitment and invest early in the right programme team. These are the people responsible for leading and managing change and delivering the business value. Investing in them is a clear signal to the rest of the organisation that senior stakeholders value the initiative and believe in its potential. In our experience, programme teams need to include some dedicated, experienced resource.

Another people investment common to successful transformation programmes is the formation of a transition team. This is created as an independent interface between the programme team and the business, with the purpose of mitigating conflict and resolving disputes in order to maintain momentum and buy-in.

Don’t overthink or overspend on IT

The technology industry has been highly successful in convincing organisations that without standard Enterprise Resource Planning (ERP) solutions an organisation cannot achieve effective processes. This is not universally true.

Cross functional shared services programmes are not entirely dependent on ripping out and replacing technology, with many organisations making significant process and performance improvements without eye-watering ERP investments. Process excellence is more important to the success of a programme than technology. In fact, in our experience, complex conversations and evaluations of alternative IT solutions can be a distraction.

Successful Business Services Transformation projects are not dependent on ERP or other significant technology investments, but are business-led. These projects often commit to end dates based on when people will exit the business. A slippage in these deadlines as a result of a dependency on IT can result in significant increase in cost and undue risk to the business.

Rather than focusing on the latest ERP functionality, time and money are better spent on fixing organisational structures, harmonising processes, streamlining basic workflows, assigning project owners and evangelising the benefits of the programme. Good IT solutions can always be layered on top.

Whilst it is true that many successful shared services projects have included the adoption of a single ERP platform, wholesale system change may not be the right thing for every organisation and there are alternative solutions that can be deployed to address specific system challenges.

7. Remember the retained functions change too

Companies too often focus only on the part of the organisation they're creating, and treat the creation of business services as if it were a carve out of activities, as opposed to a reorganisation of support functions.

Part of the remit of the programme team should involve supporting the transformation of the new functional towers (for example, Finance and IT), by designing not just what goes but also redesigning what remains. New skills and capabilities will be required in the business units that no longer need to manage transactional functions. With reduced numbers, managers will no longer have the same people management responsibilities or need to approve transactional, operational tasks. Instead there will be an opportunity to invest more time in commercial, forward-looking discussions and actions. This often results in the need to train or replace certain personnel who may not be suited to these new roles.

It is also important to recognise that there is no transfer of accountability with the creation of business services. Rather, senior management are electing to source certain activities in a different way and therefore need to be able to take confidence from:

- their inclusion in the creation of the vision of business services and their respective functional tower
- the professional approach to governance and service management for the new business services organisation which creates confidence in performance.

Failure to address these issues often results in 'shadow organisations' emerging outside business services. This is where people in the 'old' location, not trusting the new system, begin duplicating the work of the service centre or performing additional control work within their own function. The result is a fall in service levels and a waste of resources.



A challenge worth taking on

Multi-function Business Services Transformation offers an opportunity for organisations to become leaner, more efficient operations. The starting point for any business in the creation of their business services requires many aspects of the business to change, meaning that it will very likely be high profile. There is no escaping the pressure this places on programme teams to get it right first time in order to meet expectations.

We are often asked, “So which areas are the most important to get right?” In our experience, of the seven indicators of good programmes outlined in this paper, you cannot prioritise or pick one. The very reason these programmes are tough is that you have to deliver every aspect well,

if not perfectly, from the outset, and they are all interconnected. If any aspect fails it will impact the rest and reduce the business impact.

And yet, the growing number of successfully delivered transformation programmes demonstrates what can be achieved with the appropriate vision, investment and necessary engagement from all levels of an organisation. These are exciting and satisfying programmes to work on, and we have been lucky to work with progressive, ambitious clients, who are ready to anticipate and manage the challenges of Business Services Transformation to reap the considerable rewards.



Our approach to business services transformation

At PwC, we have worked with clients across industries and locations and of various sizes, to consider how transforming their business services can bring them both cost reductions and performance improvement – improvement in the support they give, and in the wider business as a result of that support.

Transformation can vary in both structure and scope. It may involve outsourcing, shared service centres, offshoring, or combinations of the three. And it may involve one business function, such as finance, or look to transform several functions bringing consistency to the operating model and technology across the organisation.

Our approach is to help our clients to really understand their current situation, and identify the value and decide on the scope, vision and set of strategies for what they could achieve from business services transformation. Using the seven essentials for success, we help them plan their implementation, and support them as they deliver and implement the change, so it is properly and permanently bedded in to their organisation. Our aim is that our clients can deliver high quality work to their organisation, generate real efficiencies and free up time to support better business decisions.



Find out more

This paper is the first in a series being released over the coming months, giving detailed advice on:

- Migration strategy
- Governance & service management
- Business services delivery model
- Managing change effectively
- Business partnering.

The series will be available at www.pwc.co.uk/businessservices

These papers complement our regular series of events looking at practical ways to drive maximum value from business services and showcasing leading examples of how organisations have delivered great results. To join us at one of these events please contact us at shareservicesbriefings@uk.pwc.com.

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