



Corporate **Renaissance** Group

Information and Technology Architecture

for a Shared Services Organization



Introduction and Background

This paper examines information requirements for today's "Shared Services" organization based on our corporate experience in implementing complete, innovative solutions for our clients. From Service Level Agreements to Customer Billing to Performance Metrics, we provide an understanding of these information requirements, as well as the supporting technologies and ideal solutions to meet those requirements.

Shared Services Organization

"Shared Services" has recently emerged as the final piece of a puzzle that drives organizational efficiency and effectiveness. Organizations have begun to analyze and review all their Shared Services candidates (i.e. Human Resources, Information Technology, Facilities Management, Finance, Internal Audit, etc.), and to design better business models. Some opted for outsourcing of specific shared services (information technology has been the most outsourced service), whereas others established a stand alone, internal and performance driven business unit or a Shared Services center. Service centers were established to provide standardized support to all parts of an organization, with dedicated service representatives to meet with and understand the needs of the internal clients.

These Shared Services organizations are mandated to behave as a business within a business. They are required to understand client demand for the types and volumes of services they offer, just as any external organization would. They are required to perform to targeted service levels. Most of all, they are required to manage their costs to a competitive level with outside competitors, and have a defined set of performance measures and targets that they must monitor and achieve. These mandates require that the Shared Services organization have the right information and technology architecture as that of a third party provider, but one which also leverages the infrastructure of the parent organization.

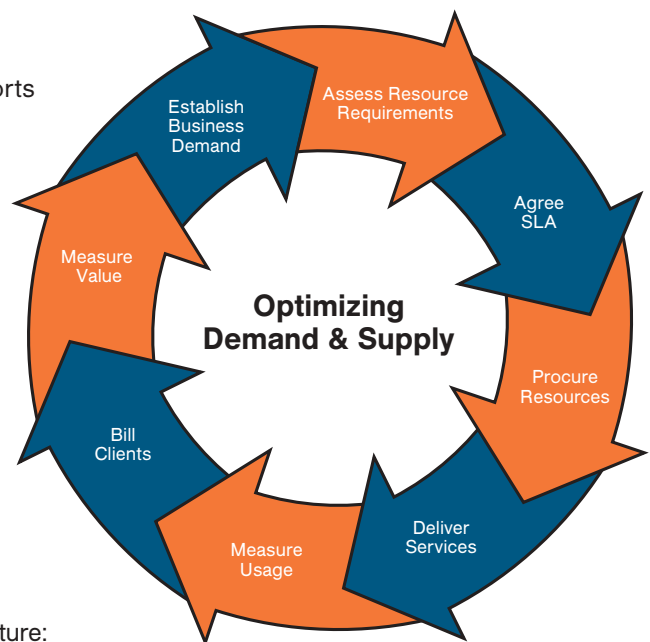
The Management Process for Shared Services

Effective Shared Services management requires a combination of the following:

- A management process that optimizes the demand for services with the supply of services and the resource requirements required to provide services.
- An organization framework that supports the management process, involving:
 - Organizational Design: Putting the people and organization in place to support both demand and cost management
 - Governance: Establishing a clear set of planning, forecasting, quoting and recharging principles that are consistently applied throughout the entire Shared Services management process
 - Information and technology infrastructure: Implementing a set of interlinked modules that address the specific requirements of managing the provider-client relationship and business needs.

Information and Technology Architecture

This white paper focuses on this specific aspect of the Shared Services organization¹. Best practice information architecture would assist the Shared Service organization and its customers by focusing on the process of supply & demand optimization.



The diagram above describes in a generic fashion the key processes involved in managing the Shared Service organization. In many situations, the first step may simply be to document the services currently provided by the various support units, review and quantify the “as is” cost efficiency and effectiveness of these services, and then decide on the strategy and business model

¹For best practices and implementation methodology and other aspects of successfully creating and managing a shared services organization, contact us at www.crgroup.com



for the “efficient” way of delivering these services. In some other cases, organizations may decide from a philosophical or a “gut level” perspective to establish a shared services organization. For the ease of demonstration, we assume that the latter is the case. However, the architecture described is equally applicable for both situations. The only difference is the starting point for the architecture process.

Requirements & Design of Service Level Agreements

In a typical supplier-customer relationship, suppliers generally have contracts with their customers for the products or services they provide based on their assessment of the customer requirements and the ability of the provider to meet these requirements. In the Shared Services world, these contracts are referred to as Service Level Agreements (SLA's). SLA's document the relationship between the service provider and customer, detailing:

- The term of the agreement
- Services to be provided
- Units in which the service is measured
- Quantities of the service to be provided (with possible min-max, take or pay variations)
- Price per unit of each service (which could be a function of quantity levels), and
- Specific performance criteria for both provider and customer to meet.

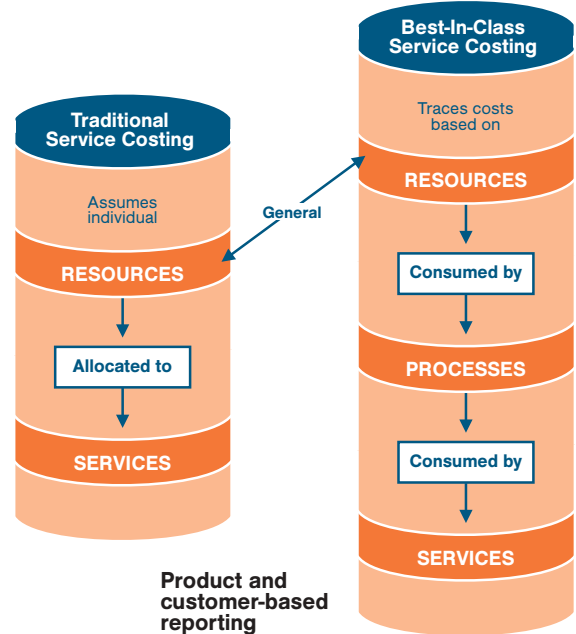
Many Shared Services organizations have used traditional pen-and-paper SLA's in the past, some as long as 25 to 30 pages. Considering that Shared Services organizations serve large, geographically dispersed clients, pen-and-paper SLA's leave much to be desired. They get filed away with other traditional paper documents. They often become disconnected from the actual client-provider relationship. They become static, forgotten documents, with few links to the actual operating environment.

In an ideal situation, SLA's would be fully electronic (web-based), living documents that can serve as a reference point for both the Shared Services organization and its various clients. SLA's would be electronically accessible to both provider and client from anywhere and at any time. They would be simple, containing the specifics about the term, services provided, quantity of service, price per unit, and performance criteria (measures and targets). This straightforward and accessible electronic documentation of the provider-client relationship becomes a powerful foundation for effective management going forward.

Service Costing

As with other stand-alone businesses, the Shared Services organization must understand its unique cost structure and the cost of providing various services to clients. This requires that cost information be developed regularly for every service provided, including contribution information from each service, activities and processes supporting individual services and clients, and per-unit service cost information. Knowledge of this nature is crucial for competitive benchmarking with external service providers.

Unfortunately, in our experience, many Shared Services organizations have very superficial cost information at their disposal. Departmental costs are allocated to complete service lines based on rudimentary factors such as number of FTE's or labor statistics collected from operational systems. This "peanut butter" approach of allocating costs fails to address how costs are actually consumed by individual services provided by a Shared Services organization. Best-in-class service costing requires that costs be assigned based on the volumes of service delivered to consumers.



This cost framework begins with traditional departmental expenses that are assigned to the work processes and activities conducted within individual departments. Costs of processes and activities are assigned to the products and services that they support based on volume drivers that define how work is consumed by each service. All costs can now be tracked to individual services provided by the Shared Service operations. In addition, this costing framework should be contained within an integrated technology environment along with the Service Level Agreement, and the other technology components that follow.



Service Billing

In traditional stand alone business structures, customers are charged for services rendered, including a profit margin. Shared Services organizations must perform this same billing process to their customers with or without profit margin as dictated by the organization business model.

The benefits of creating a service billing environment are three-fold. First, through the billing process, customers understand that the cost of services delivered to them have implications on the profitability of their own products and services. Second, service billings also allow the Shared Services organization to demonstrate the value they provide to the parent organization. Third, quantity times price billings allow for cost comparison with outside service providers, benchmarking, and ensures continued discipline to maintain cost-efficiency.

Today's Shared Services organizations vary in the degree to which they perform service billings to their internal customers. Very few perform formal service billings or book general ledger transactions that officially transfer costs to their customers. Many either perform shadow billings (notional invoices) or perform no billing at all. Non-transparency of costs reduces the effectiveness of the entire Shared Services information infrastructure. Customers maintain their

current demand levels, as it has no cost to them, while the Shared Services organization continues to bear the pressures on budget and morale.

Service billing scenarios should utilize the most appropriate method for the organization, while ensuring a transparency of costs to end customers. At a basic level, customers need to understand the services they demand, the volume they consume, and the resulting cost to the organization, as well as the impact on their own profitability. The Shared Services technology solution should accommodate all of these billing scenarios, as well as integrate with existing Service Level Agreements within the technology environment.

Performance Metrics

To be a truly effective Shared Services organization, it is critical that operations are constantly improved in order to provide value to customers and shareholders. Performance measurement is essential to operational improvement; it tracks baseline performance levels as well as indications of incremental improvement as initiatives are undertaken and implemented.

Performance measures for the Shared Services organization should be linked to Corporate and Shared Services strategy to "balance" service quality and timelines



with corresponding unit cost (or price). Alignment of metrics with strategy ensures that the organization focuses on continued improvement toward its established performance targets. Measures should be available for every service being provided and rolled up to the various functional units of the organization. A linkage can then be developed between the performance targets at the service and function level and the activities conducted by each employee. Performance metrics are most effective when they have a direct impact on each employee. Metrics should be tied to individual compensation in addition to their use in the standard organizational evaluation process. Impact on individual compensation provides immediate incentive for employees to act in the best interests of the Shared Services group, as well as the customer.

From a technology standpoint, performance metrics must be easily accessible, as well as tied to the entire Shared Services technology architecture. The performance reporting mechanism should be tightly integrated with Service Level Agreements, Service Costing systems and customer billing systems to incorporate many dimensions of measurement on employee and organizational performance.

Planning

Operating environments change over time as demand levels, service levels, and efficiencies shift. Shared Services organizations must

adapt their resource levels to accommodate these shifts. Continual, informed planning is the key to ensuring that appropriate resources are in place to provide optimum service at competitive prices.

Informed planning requires that a number of factors be considered in the process. The most important factors are future demand levels, as well as business and process drivers. In determining future resource requirements, the Shared Services organization needs to understand the impact of changes on these factors so that they can determine the appropriate resource levels to satisfy demand. Too few resources would result in poor service levels, and possible failure to meet service-level agreements. Too many resources would result in high costs compared to the shared services marketplace and perceived inefficiency by the customer base.

In order to ensure appropriate resource levels at all times of the operating year, Shared Services organizations should execute their planning process quarterly in full cooperation and discussion with their customers, always looking 4-6 quarters ahead. This schedule allows planners to spot potential seasonal trends, as well as prepare for upswings or downswings that are 2-3 months away. Annual planning in today's dynamic operating environment often provides inadequate time for adjusting to changing conditions. A quarterly planning cycle with a four quarter rolling cycle relieves these problems, and



allows managers to make optimal decisions for optimal performance. There must also be an imposed discipline on resource demands by customers. Customers who face a highly volatile business environment may consider a min-max type arrangement with the Shared Services organization and pay a price for deviations from estimates. This arrangement shields the Shared Services organization from the fluctuations encountered by their customers, allowing it to operate in a smooth, consistent manner.

Planning technology should optimally be tightly integrated with all of the aforementioned Shared Services management tools. In order to develop plans and budgets that are relevant to the future demands, past performance, and employee performance, targets must be balanced to provide the right level of service at the right cost to the overall organization.

Feedback

As important as performance measures are in driving improvements and efficiency, they do not tell the whole story of organizational performance. Customer sentiments are often not captured in traditional performance metrics. In the highly sensitive Shared Services environment where customers often feel “captive” to the Shared Services organization, these sentiments can have a significant impact on the performance of the parent company.

Customer feedback is an invaluable tool for spotting declines in service levels, contradictions in performance metrics, and minor problems before they become major issues. While the organization might be satisfying service level agreements, drops in service levels erode confidence in the customer base. Traditional performance metrics may not reveal the trend, but customer feedback provides a means for these insights.

In addition, feedback allows customers to be part of the management and governance process. Their opinions help to shape the provision of shared services, easing possible political tensions within the organization. A stand alone business tries to nurture customer relationships. The Shared Services organization should model that behavior as well.

As with all other pieces of the technology infrastructure, customer feedback should also be integrated with all other Shared Services management tools. Customer feedback will have an impact on virtually every aspect of future services, as service level agreements, Shared Services costs and performance metrics shift to either remedy past mistakes, or enhance current competencies.



Conclusion

The best practices and habits that leading edge companies employ to create value for their customers should be modeled and mirrored by internal Shared Services organizations. The governance, operating environment, management structures and processes should facilitate provision of high-quality service at a competitive cost to internal customers. Through actively seeking customer feedback, understanding of organizational costs to the level of individual service costs to individual client, client demand management and collaborative planning, constant and consistent performance measurement, and continual forward-looking planning cycles, Shared Services organizations can elevate themselves to be among the world's best performing operations.

The technology infrastructure that supports these best practices is a vital piece of the Shared Services information and planning architecture. Integration between various components and proper design of the management framework provides the Shared Services organization with powerful information to analyze the past and manage the future to the benefit of the company.

About CRG

Established in 1989, CRG is a global provider of innovative solutions and services that drive better business management and performance. With expertise in shared services, corporate finance, knowledge creation and value-based management, CRG has established itself as a leading provider of solutions that transform financial performance and operational effectiveness.

CRG is headquartered in Ottawa, Canada, has offices throughout North America, South Africa, India and the Caribbean, and is strategically aligned with technology partners such as Microsoft and Cognos. Products include a suite of Shared Services, Activity-Based Costing, Performance Measurement, and Business Management applications which are sold directly and are also available through a global network of more than 500 partners and resellers.

For additional information on our view of what makes a "best-in-class" technology platform for managing an effective Shared Services organization, please go to [www.crgroup.com\ss](http://www.crgroup.com/ss).



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