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Digital Strategies Roundtable

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The Evolving Shared Services Model

Key Insights and Summary

The Evolving Shared Services Model

Digital Strategies Roundtable
An executive roundtable series of the
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The idea of business services shared within a company has been in vogue for some years. The operational philosophy behind it has evolved from disparate support services to consolidated corporate functions to a vision of truly global shared business services. This roundtable addresses how far different enterprises have moved along this shared services path, the results they have achieved, and the lessons learned along the way. Held 18 months after the onset of the COVID-19 pandemic, the discussion also considers how shared services and increased automation have unexpectedly combined with remote working to re-shape the future of the workplace.

CIOs and their executive colleagues running shared service centers from Airline Reporting Corporation, the American Bureau of Shipping, Angelini Holding, Chevron, Conagra Brands, Eaton Corp., Swarovski, Tenaris, and Tetra Pak convened by web conference to discuss the past, present, and future of shared services, and how they intersect with and impact broader digital transformation of the enterprise.

Key Insights Discussed in this Article:

1. **Contrary to common belief, the primary catalyst for shared services is process quality, not labor cost arbitrage.** Companies start shared services to standardize fragmented processes, centralize duplicate operations, and improve results; labor cost savings are a secondary — though welcome — benefit…………………………………………………..….**pages 2-3, 6-8**

2. **It's important not to tackle everything at once.** Solving for the 80 percent of processes and activities that can be standardized now, and addressing the 20 percent of exceptions later, is a key design principle for shared services. It's also important not to standardize (or outsource) a bad process in the name of efficiency.…………………………...**pages 3-4, 6-8, 12**

3. **Shared services create inherent tension among agility, flexibility, and enterprise resilience.** Standardization and excellence in core areas give enterprises the ability to experiment in other areas, but operating units can remain reluctant to give up control and governance over core processes.………………………………………………..…**pages 4-5, 8, 13-15**

4. **Talent is a key dynamic in managing shared services.** Shared service operations have become too important to be led by the second string. At the same time, one of the key benefits of shared services is to release talent to move their focus to other critical areas of corporate growth……………………………………………………………………………..….**pages 9, 11-12**

5. **Shared services are expanding from standardizing execution of repetitive tasks into providing business insights and enabling corporate centers of excellence.** Centralized data for reporting and analytics is combining with automation and AI to deliver business intelligence that gives shared services increasingly strategic roles, and could even help drive P&L expansion.…………………………………………………………………………**pages 3, 10-11, 16-19**

 This overview was written by Hans Brechbühl, Associate Professor of Practice at SDA Bocconi & Director, Digital Strategies Roundtable, and Stephen Plume, Executive Fellow, Digital Strategies Roundtable. The Digital Strategies Roundtable publication series is edited by Hans Brechbühl.

The Journeys to Date

Enterprise-scale shared service center operations date back to at least the mid-1990s. Typically they started by centralizing IT and/or service functions into a single location, thereby eliminating duplicate operations (and often duplicate staff) dispersed across the geographic scope of the company's operations. Often located in low-labor-cost countries, shared service centers have been characterized — admiringly or disparagingly, depending on the speaker's viewpoint — as little more than labor-arbitrage financial plays. From that perspective, shared services may have run their course, as the wage gap shrinks and other costs of doing business increase in many countries around the world. However, insights from the Digital Strategies Roundtable suggest that this "common wisdom" may be wrong on several dimensions, and that the truth about both the past and the future of shared services is considerably more nuanced and potentially more powerful.

Roundtable Director Hans Brechbühl started the discussion by asking each member company to talk about its current shared service operation, why it started, and the major steps along the journey to its current form.

Conagra: In Search of (Process) Excellence
Tracy Schaefer, Vice President of Global Business Services for Conagra Brands, spoke first:

> Our implementation of SAP was a key contributor to our first move into shared services, about 15 years ago. The goal was common systems and common processes for our organization, in a single location. As we learned more about business process outsourcing, we realized there were additional plays in labor arbitrage, and so we moved to outsourcing as a cost play just over five years ago. Since then, we have learned a lot about transformation and modernization, the expectations of our BPO partner, and hence the skill set that we need *internally* in order to push automation.
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> So we created an automation Center of Excellence ("CoE") within our shared services center to support our BPO, and now that's turned into a skill set that the entire enterprise can tap into. That ability to automate opens the door to increasing the number of services that we provide. We look to provide services not only at a cheaper cost, but in a more modern way, in a more measured way, and in a way that can provide value and business growth back to the enterprise.
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> Our Global Business Services Group today has all order-to-cash functions, as well as accounts payable, T&E, expense management, and data management. Within the last year we've also incorporated Consumer Affairs, which used to be in our marketing organization. It was a group that didn't have the time or flexibility to devote to modernization. So we brought it in, changed outsourcing providers, and got performance metrics rolling. We've been able to expand on chat bots and other ways to interact with our customers, while providing value back to the business around analytics and quality.

"We're years into the shared services journey, and it has never been about savings," amplified Mindy Simon, Conagra's Chief Business Global Business and Information Officer. "From the very beginning the goal has been to standardize processes to achieve process excellence. Savings have come because of that excellence. We've also created organizational nimbleness, and we've achieved everything we've intended along the way."

Tenaris: From Arbitrage to Transformation
Fernando Marossero, Director of Tenaris' Shared Service Center, picked up the thread:

> Our journey in shared services started in 2012, when we created entities in Romania and Mexico City. Their functions started with accounts payable and the corporate side of human resources, including payroll. From 2013 to 2015 we brought in activities related to supply chain: customer invoicing, inventory management for remote locations, certification of logistics services. There was a lot of focus on labor arbitrage from particular countries, and on centralization of activities. Management of the shared services lay in one legal entity, but was executed by the different functional organizations.
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> In 2016 we unified the leadership of all our shared services and became a multifunctional service organization operating in 30 countries. We worked on transformation in several areas, including giving a common sense of identity to the teams that had come from different functional organizations, and in 2017 we launched our Center of Excellence. The CoE initially focused on RPA capability, but it has become the heart of identifying and incorporating technologies for particular functions, such as case management, quality assurance, management controls, chat bots — it gives support for whatever operation the business needs to perform.
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> At the same time our shared services have expanded their global reach with standardization and application of technology. This has improved the quality of our operations and helped us achieve a different level of excellence, and we've received a lot of efficiency along the way from the standardization. And now our CoE is joining with IT to accelerate digitalization across the company.

"When we started, it was 100% about labor arbitrage," clarified Alejandro Lammertyn, Tenaris' Chief Digital and Strategy Officer.

> The shared services initiative was managed by a consultant who didn't look into process improvement, but only looked at the nasty work that the functional areas didn't want anymore. The first step was to put that work somewhere else at lower cost. It took a long time to convert this into something that made sense in terms of improving and automating processes so that we don't really need *people* anymore to run these activities. This is why the skills in the shared services group are so important to expand to the entire organization.

"Our goals now include accelerating digitalization and incorporating RPAs to create more efficiency," finished Osvaldo Rosetti, Tenaris' Project Director for Process Improvement. "And of course, to continue to standardize old processes and introduce new and better ones."

Swarovski: Classic Lift-and-Shift
“Five years ago, we had full-fledged F&A organizations in every country, with heterogenous processes,” began Max Braun, CIO of Swarovski. “Our goal was to standardize and simplify these processes. Our approach was to bundle as many of them as possible into hub-and-spoke organizations, since it’s so much easier to simplify processes under central responsibility than through 30 independent F&A managers. So we stood up shared services centers in Poland, Costa Rica, and Malaysia. We definitely wanted to benefit from labor arbitrage, but even more, to gain momentum with standardization of processes, simplification, and automation. So first we lifted and shifted the solutions to new locations, and now we’re starting with standardization of processes.”

Tetra Pak: A BPO Hybrid
Mark Meyer, Global IM at Tetra Pak, presented a very different shared services origin story:

> When we embarked on our global process journey in 2000, it was not a labor arbitrage movement. Rather, it was about globalization of processes and process efficiency. The very first thing we understood was, to deploy a global system we had to have a shared service center to support delivery of that system, and before we could have shared services delivered to the business side, we had to deliver shared IT services.

“So, we started by centralizing IT functions in several locations,” continued Christian Moraldo, Tetra Pak’s Vice President — Group Financial Control and Finance Operations.

> After that, the main reason for the shared service centers was because everything was fragmented. For example, we had accounting everywhere in the world. Our idea was to improve business partnering, reduce costs, improve quality, and increase the level of assurance in our controls. Along the way, we transferred everything to a BPO provider, expecting that magic would somehow solve everything. That didn’t work out, so we brought some of it back.
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> Today, we have a hybrid model. In-house, we have three functional shared service centers for finance, HR, and recently supply management. We capture all the value we can by sharing among the different functions. For Finance, we have 5 hubs and we have outsourced all activities that are not strategic, that do not require strong business knowledge. We’ve also left things that require local knowledge in specific countries, but not a lot — 80 percent of activities have been centralized in the hubs. The hybrid model isn’t easy to build, but we receive a lot of value from it.
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> There was cultural resistance. At first the change was very much driven from the top down. But we learned quickly that if you don’t engage the key stakeholders who will be part of the transformation in the design and planning, things will become much more difficult.

“So you outsourced to a BPO, and then brought it back in-house?” asked Allen Flickinger, Chevron’s General Manager, Shared Financial Services.

“Yes. It turns out to be important how you approach the relationship with your BPO provider,” Moraldo replied.

> Are they just a supplier and you are just a customer, or is there a partnership mindset? Many companies & people believe that by transferring the mess to the BPO, everything would be solved, and so they became very skeptical of BPO in general when that didn’t happen. But the reality is, we share the responsibility. Most of the time when something doesn’t work, it’s not the BPO’s fault.
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> This all takes time, and it’s not easy. We’ve been working with our BPO provider for 15 years now, and we’ve learned a lot from them, even on internal processes that we originally outsourced to them. It’s about the mindset, the approach, and about sharing in an open and transparent way.

“It was interesting to watch the evolution in the mindset of the main leaders,” commented Jan Provoost, Tetra Pak’s Vice President — Group Financial Control and Finance Operations. “After our initial setbacks, many were completely resistant to BPO providers, and even a few to shared service centers. Their change of mindset as we made these changes was a positive surprise in the journey.”

Angelini Holding: Balancing Structure with Flexibility
“20 years ago, our IT situation was really fragmented, so IT became the foundation for our shared services today,” recalled Marco Lanza, Chief Information and Digitalization Officer for Angelini Holdings. “Now they include HR, F&A, general counsel, and institutional affairs. We also have a big joint venture, so our shared services are a mixture of centralized and federated. For all these shared services, and for IT in particular, we have service level agreements with the businesses, and we charge-back to every business.”

“What’s surprising is how shared services have become the basis for our cultural transformation,” remarked Giuseppe Tino, Angelini’s Group Head, Organization and Change Management.

> We deal with many operating companies, spread across different industries, and so we try to standardize both their requests and our responses, using process on the one hand and technology on the other. Discussions with business leaders with very different needs in various markets and industries constitute a daily challenge. We’ve had to re-think how we deliver our services and how to globalize processes. Despite being very structured, we have recognized quite a need for flexibility in order to serve the operating companies.

American Bureau of Shipping: Structure from Chaos
“Like many of you, IT systems have driven our shared services approach over the years, along with the centralization of support,” affirmed Maria O’Neill, CIO of ABS.

> It started with our Oracle ERP system, which was implemented as a single global instance. That’s important because we go on-board vessels for inspections. These ships move all over the world, so it’s important that we have access to the same system —

every time, in every place. That said, 10 years ago at the office level, every location around the world was buying their own computers and running their own desktop images. It was a mess: we had all kinds of collision problems with Office, with email, et cetera.

So we cleaned everything up. We signed an enterprise agreement with Microsoft. All IT people around the world now report to the CIO, so we can do things consistently and globally. IT has become the model for other functions to become more centralized. We also pulled back all application support, desktop support, and help desk from an outsourcer, and stood up our own captive center in Pune. The quality of our support has improved tremendously, *and* it has resulted in a lot of savings.

"Finance has also had success with shared services, but there have been pitfalls along the way," cautioned Laura Fulton, ABS' Vice President Finance.

In finance we're a hybrid. We outsource accounts payable and accounts receivable; regional centers do collections; and language or regulatory requirements mandate that some of our regional centers do shared services as well. When we did the big lift-and-shift to our BPO provider in India, we shifted a conglomeration of different ways of doing things, and we expected they would help us to standardize those processes.

Some of that has happened, and some of it hasn't. One mistake was to keep people as process owners, even though they weren't really process people. They were great doers of the process, but they weren't the ones to sit and think through how to improve it, how to standardize it, how to centralize it. We've struggled with that over the last few years.

"We weren't getting the automation we expected from our BPO partners either," Schaefer volunteered. "So we started a grass-roots effort to build automations within our shared service center, and it skyrocketed from there. Now everybody comes to our automation CoE for help on their teams. We got to here without thinking that this was going to be an enterprise-wide service, so it's all just a gift to them."

"How do you mix standardization and local adaptation?" asked Andrea Dossi, Associate Professor of Management Control Systems at the SDA Bocconi School for Management. "There are the advantages to the shared services model, but local contexts can be so different."

"We have standardized and centralized where we can," Fulton answered. "But we still have regional service centers, particularly in China and Greece, where the cultural aspects are important, and language in particular is very important. We follow the standardized processes as much as we can, but if the cost is cheaper to keep a person locally, we do, even if they're part of a shared services function, working completely alone in a country. Their physical location may be different, but that's worked out well in the virtual environment this year."

Airline Reporting Corporation: Who Goes First?

"We've been trying to get rid of the redundancies from different segments using different tools to do exactly the same thing," explained Heather Unger, ARC's Director of Human Resources.

"Most functions are now within the shared services model. Our biggest goals were cost savings and process efficiencies, and we've come so far. Now, prioritization has become a challenge. When resources are spread across shared services and matrixed back to the product groups, how do you figure out which group has priority to have their needs met?"

"We're using technology to evolve our thinking, as we transform from a nonprofit type of organization to for-profit," added Dickie Oliver, ARC's CIO. "We are focused on standardization and automation. Our shared services have been built on legacy platforms. Since we completely changed our tech stack, we now have the chance to automate business processes to eliminate manual inefficiencies."

Chevron: No Regrets

"25 years ago, we took a bunch of haphazard finance groups from round the US and centralized them in California," Flickinger began.

> Within a couple of years, we started up in Manila, realizing the labor arbitrage benefits. Then we started a second center in Buenos Aires. We still have some shared service activity in the US, though that is declining. The centers have finance, IT, HR, and supply chain, including procurement. We also have a big customer service contingent in Manila. Everything transactional takes place inside the service centers. More detailed analysis and decision support remains in the business units.
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> All these groups are co-located, but still managed largely by the functions. In each location we have a senior committee made up of the leaders of each function that manages all local decisions, and they have quite a bit of autonomy. At the top, we have a board that looks after all our shared services activities, as well as more strategic issues around capabilities and staffing and risk management.
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> Our biggest surprise is that we've never had a regret for anything that we've moved to these service centers. Every time we lift-and-shift, we find that if we have seven positions to migrate, we can design only five into the new structure, without consequence. So we get efficiencies right off the bat. And once we move past an initial burn-in period, the centers provide a higher-quality, well-oiled, and reliable work product. The teams are strong, they're hungry, they're curious, and they've been able to handle everything we've thrown at them. That may mean we should be more aggressive about what we move into the centers.

"Even as we had success, we did fall into a trap though," countered Bill Braun, Chevron's CIO.

> We started to move more and more IT functions into the centers, trying to find the limit of capabilities of these teams, and we lost some discipline around what should go there. Processes no one wanted got put there, and the centers turned a bit into islands of misfit toys. That wasn't a good model, and so we've had to reel back a bit, and be more deliberate about what goes into shared services. We came too close to letting it become a collective of everything.

Eaton: The Journey Never Ends
"Eaton's been doing shared services for almost 25 years," commented Ray Huber, Eaton's SVP of IT.

> We started in the mid-'90s with finance, and we have expanded to IT, supply chain and HR. The original objective was two-fold: One was that we were making lots of acquisitions — 70 or more over 20 years — and we wanted to move all these businesses onto a common financial platform. The second was to standardize processes, at least regionally, to take cost out of the transactions. So we created one in the US, one in EMEA, and eventually one in Pune for Asia Pacific. Although these started as regional centers, in the last several years we've tried to move to more global processes and standards. Our other current initiative is to increase automation, and we've implemented bots to manage a lot of the transactions that occur in the service centers.

"Did you achieve your goals?" asked moderator John Gallant, Senior Content Strategist of Ledgewood Media.

"Our goals have changed over the years," explained Dan Hopgood, Eaton's SVP and Controller.

> We started out just to centralize regional activities so we could standardize. Then we started to go down the low-cost/labor arbitrage path, while also moving towards global standardization. Now we have three *global* process leaders who manage across all our centers. That's led to enough additional standardization that now we focus on automation. Robotics is a piece of that, and we have 15-16 bots today in finance alone, and more in other areas.
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> So this clearly gives us cost efficiencies. Every year we've been also able to contribute millions, cumulatively tens of millions of dollars, in addition to offsetting inflation. But the real benefits are in the ability through standardization to provide better control and oversight. We're also starting to make inroads in our ability to crunch data and provide insights, around issues like supply chain optimization, or deciding how to allocate our working capital.
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> The next stage of the journey that we are thinking about is the global business services approach. We struggle with that idea. We manage our shared services independently — finance, HR, procurement, and IT. But we collaborate closely, and we are already leveraging scale by co-locating these operations. Pune is our largest center in the world, and finance is right there with IT, HR, and customer service as well. So, we are wondering, "What additional benefits would come from a global business service model?"

The Road to Returns

“There seems to be a common evolution from transactional efficiency to more strategic shared service center activities,” Dossi observed. “Sometimes ‘strategic’ means more intangible value, and intangible value is not easy to measure. Are there any problems in measuring the performance of the shared service centers, as they move more towards automation?”

“We are wrestling with that question,” Flickinger admitted. “We’re good at building bots and automating, but we’re not seeing the headcount reductions on the other end. People are more inclined to re-purpose individuals than to actually diminish headcount.”

“When we started our automation team at Chevron, I challenged the leaders to see how many jobs they could remove each year,” Braun recalled. “They had very little interest in displacing their colleagues’ positions. After we made it clear that those people would be re-assigned to other work, then it was OK. But the resistance was so deep we were not going to be successful the way we had originally framed it.”

“Our employees find it easier to support a change to shared services if we make sure to help them understand that as we eliminate processes, and possibly jobs, we’re giving them a path to something new,” Unger affirmed. “That path could be a completely different skill set, so we build in training time to help them learn what else might be available.”

“Our automation efforts now finally have enough leverage that at last people are saying they’re not going to backfill roles,” Simon added. “They’re going to take the cost out. But it’s taken three years to build that kind of muscle.”

“That hits home,” Schaefer said. “Building RPA for the enterprise is now costing a material amount. How do we make sure the ROI is being realized? One place we’ve started is an RPA dashboard. Every time we build an automation, the function receiving the benefit has to align to the ROI: upfront, we’re agreeing the value that we’re going to drive from the automation.”

“Eaton has established dashboards and tracking right up front,” Hopgood volunteered. “We build the savings targets right into our forecast and our planning, and we track our headcount versus service ratios. We average around 15 percent savings on automation projects, and as we’ve added services and activities, we’re able to hold headcount flat and just absorb the technology. The follow-on benefit is that we use the dashboards to further improve and streamline our processes. Those are additional soft savings that were not even in our business cases.”

“We are just at the beginning of strategic business control types of activity,” Moraldo reflected. “We believe we can leverage more capabilities, but the growth is gradual. The challenge is to ensure that you have some repetitive tasks to work on, for example, reports. We now have a center of business information management to help build standard reports and dashboards, so the businesses can shift the nature of the work they focus on: more time with the managing directors, more time with customers, more time collecting money, et cetera.”

“It’s very important to help people to understand the benefits beyond labor arbitrage,” Marossero summarized. “Not only are processes cheaper in the shared service center, but we’ve also reduced lead time on submitting customer invoices from 30 days to 2 days, and we’ve reduced duplicate payments from A/P because we incorporated technology that does in real-time what an auditor used to do once a year. There are a lot of KPIs that help remove the idea of labor arbitrage and reveal the real advantages of the shared services concept.”

“It really makes sense to centralize reporting and analytics,” Hopgood agreed. “When organizations need different sets of data analyzed, shared services is the team that has it all in one place. We’ve created a CoE for reporting. Several times now businesses have struggled for weeks to pull something together. Then they ask us, and we do it in half a day.”

“Does anyone believe that shared services are a competitive advantage, or could become a source of competitive advantage?” Gallant asked.

“A good shared services organization has become table stakes,” Flickinger suggested. “It lets you survive. And the converse is true, if you don’t have good shared services, you’re at a competitive disadvantage.”

“The co-location that several of you have described makes intuitive sense, but what are the actual benefits?” Brechbühl asked. “Can you exchange people between one function and another, or does it enable process handoffs that couldn’t otherwise happen?”

“It’s really just the benefit of scale,” Hopgood answered. “There’s not a lot of talent-sharing, because people tend to be expert in specific fields. We have more than 5,000 people in Pune, with the facility managed by one team: all the infrastructure, all the support services. It eliminates the duplication that comes from multiple facilities.”

“Tetra Pak also has a huge site near Pune,” Meyer stated. “It’s not just a shared service center: it’s a factory, it’s engineering operations. And we don’t just run pure labor arbitrage there, though we do enjoy the benefits of operating out of India. We get lots of benefit from having a campus environment, where there are shared learning capabilities because of the movement of people.”

Talent Attracts Talent and Needs Career Paths

“That was one of the main lessons when we built our first shared service center for Tetra Pak in Manchester,” Moraldo added. “Manchester was a completely greenfield location, and the people were disconnected from the rest of the company. So, one of our guiding principles became, No new locations in greenfields! Now we go to ‘brownfields,’ where we already have a factory or a big operation, so that we can stimulate career development, and people are more connected to the business.”

“Not a lot of people say they dream of working in a shared service center,” Schaefer acknowledged. “Shared services haven’t typically been a career destination. We’ve had to develop the roles that we have, how we recruit talent, and how we talk to our people about career growth and development. Talking more strategically about the roles in terms of the transformation they can help provide has been key for us in terms of attracting talent."

"That was an important lesson in our journey as well," Marossero agreed.

> We entirely shifted our recruiting to a more strategic profile. We are fighting tradition, so it's more challenging, but I'm completely convinced this is the way to increase retention. We need to leverage technology, make the repetitive work disappear, and turn shared service employees into change agents for process standardization and to identify opportunities for technology to improve processes.
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> This requires a completely different kind of resource than those we hired first for the shared service center concept. There was an explicit claim at the beginning that no one would have a career in shared services. But as shared services become one of the main competitive functions, the more important it is for top management to have worked in the shared service center at some point in their careers.

Brechbuhl offered an example from outside of the Roundtable:

> Luxottica developed a strategic idea with exactly this kind of employee development in mind. They made the conscious decision to locate shared service centers *only* where they already had a strategic presence as an employer in the country. Their goal was to create career opportunities so that employees were not locked into shared-services jobs for life, and still could stay as part of Luxottica.

"It's important to have the right people leading these things," Simon pointed out. "Talent attracts talent, and so Conagra deliberately moves its functional leadership around. We don't prioritize domain as much as we do agility and adaptability. We've found that when good talent has both agility and the combination we call 'funtech' — functional and technical skills — you put them into a new domain, and they just take off."

"We actually have in mind people who make their careers in the shared services center," proclaimed Jan Provoost, VP Supplier Management for Tetra Pak. "The combination of strategic tasks and virtual hubs make a very interesting mix for talent management."

"That's really the next challenge," Fulton confirmed. "How do you make sure that you're giving those people more opportunities, and really developing them?"

"We did start our staffing with back-office talent," Simon admitted. "Then we migrated to putting top-tier talent in business-facing roles, and that move definitely changed what we could do from the shared services center. Don't look at shared services as a land for misfit skill sets: These people have skill sets that can transform and grow and have a huge impact."

"And then the compensation models become another source of tension," Braun pointed out. "Chevron tries to keep the whole company on a single compensation system, but that results in higher attrition rates than you want to have in IT groups. That's been exacerbated lately by hot job markets and inflationary pressure. If you lose your top talent, what are you left with over time? They go work for someone else, and you've done a really good job training up someone else's strong person."

"We have the same issue in different places around the world," O'Neill sympathized. "If we're not going to compensate people as well as our peers do, then we're just training them to go work somewhere else. You can't apply US policies to the India market, for example, or you'll lose everybody. It's a constant challenge to operate under different rules in order to be successful in some countries."

"On the compensation piece, Tetra Pak does market-based comparisons," Meyer explained. "We have shared IT services in India, and the team is compensated based on IT market prices there. We just eliminate that unnecessary conflict in wage management."

> On the talent piece, if you bring people into a good environment, they're even more likely to find other good people to come into that environment. We've learned that the help desk is a great breeding ground for future second-tier engineers who can ultimately become backbone support.
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> We used to struggle because we were losing people, but we were losing them internally, so it wasn't that bad. Then we started to think, we should do this on purpose: Bring young, talented people in, start them going, but don't hold onto them. Placing our shared services in locations where we also have full operations makes that possible. If we'd continued the Manchester experiment, there'd be nowhere for them to go. But on a corporate campus, there are plenty of options.
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> We let good people be first in the recruitment process for open positions within the company. This is now built into how shared services works. Our managers know they're going to have that turnover, so they're always looking, they're always hiring. And the managers know that when those people leave, they're the same people who are going to help the managers later on.

"We've been surprised at times by the difficulty of finding talent," Huber commented. "Other companies went to some of the same regions we went to, and we've been battling them for talent. We've managed, but it's been harder than we thought it would be."

Building to the Norm

"You've all been on long journeys," Gallant observed. "Were there any surprises along the way, or hidden costs? What did you discover that you hadn't expected?"

"All transformations suffer from a number of different things, not the least of which is there's always hidden complexity that you don't see until you start to try to standardize," Meyer answered.

> The change management aspect — "What do I trust? What do I believe in?" — always takes longer than you expect. These things take more time and are more difficult than

> you think, but in no case did we give up and say, “Wow, that was a bad idea, there’s nothing here.” It was more “OK, we need to learn how to do that in a more efficient and effective way.” Even our Manchester experiment — we scrapped that method in order to do things in a different way.
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> We learned early that trying to spec everything before you start is the wrong way to go. That’s just a huge investment that doesn’t really help. Handle the key stuff and accept there’s 20 percent that you have no clue how to do, but you’re committed to figuring it out. That’s how to have the right attitude and the right direction and move faster. And then you do weird stuff for a while until you take care of all of it.

“And there are always going to be exceptions,” Moraldo continued.

> You can centralize a lot, but can you centralize 100 percent? Some things require physical presence. Sometimes it’s a security issue, or legal requirements for a local presence in a specific country. The mindset needs to be, “Build to the norm”. Then deal with the exceptions afterwards. When we started, no one believed we would be able to centralize out of Brazil into Panama, or out of Russian into Hungary. But as time went on and things evolved, we’ve managed to do so. If we’d started our model with the exceptions, we definitely would not have succeeded.

“ABS didn’t necessarily plan for that 20-30 percent of exceptions,” Fulton admitted. “Some things fell through the cracks, and the hidden costs to us have been how to deal with them. We didn’t necessarily have the right people in place, so that required some extra heavy lifting, and bringing in additional resources.”

“Eaton has tended to move shared services to lower-cost countries,” Huber contributed. “The labor costs may be lower, but we’ve been surprised by infrastructure costs, by the costs of building out new sites, by IT costs, putting wide area networks in place. We weren’t anticipating these, and by the time we built everything out, the price was more expensive than what we would have paid in the US or Europe.”

“We learned how critical decision rights were to the process, along with clear definitions of value and costs, in terms of charge-backs to the businesses,” Lanza added.

“Moving to shared services is a huge change process, that needs 100 percent top management support, but that’s not all it needs,” Braun amplified. “You also must have really clear, simple, and transparent governance: Who is deciding what? We are struggling a bit in IT because we have had a very centralized setup, and now that we are dealing with internal and external partners, governance is becoming more challenging. So, it’s very, very important to have clear functional leads *beyond* organizational borders and silos.”

“The governance is super-important,” Moraldo agreed.

> There must be a permanent set of interactions and dialogue at the strategic and management level, *and* at the operational and transformation level. Strategically, we hold an annual review with the management team to bring forward the initiatives we

> have in mind for how to expand the shared service centers. There's no longer any question about whether there is value or not — the question is, "How can we bring more value"? On the other side, each function has a team that drives operations, and a different team that drives transformation. That creates quite intensive — but healthy! — discussions.

"How do you make sure decision rights land in the right place, and that local or functional leaders still have ability to weigh in?" Brechbühl asked. "Or does everything move to the shared service center, and that's that?"

"Things are still moving, because the businesses are evolving quickly," Lanza replied. "When shared services are commodities, it's simple. But when you are talking about transformation projects, there's a balance between what the process owner wants and what technology best fits that need, so decisions must be shared. And sometimes the process owners want to stay in their comfort zones with old technology, and that creates problems for the shared services."

"More than surprises, the challenges all come down to change management," Hopgood summarized. "There's always resistance, and finding the best way to work through that to help the organization understand the value and why this is the right thing to do in the long-term is just the constant backdrop you have to work through. Because we're never finished. We have a current strategy that we're deploying. We have the right strategy today, but when we're finished, we're not done. We will just move to the next phase."

Uncertain Futures

"Looking forward," Gallant asked, "what issue or development has the potential to have the biggest impact on shared services? What's coming on the horizon that could positively or negatively affect your shared services strategy?"

Moraldo offered two topics: "Cybersecurity, especially because we are working remotely. And then remote work itself: one of the legacies of COVID is that no one is willing to go back to work the way it was. That's a reality: some people want to be 80 percent at home and 20 percent at the office, and others want to be 20 percent at home and 80 percent at the office. How are we going to build a flexible framework? We cannot avoid the question."

"A lot of folks don't want to go back to the service center office," Huber agreed. "They want to continue to work remotely. That's going to change how we look at service centers and where people are located, because technically they don't need to be in one place. They don't even all have to be in a particular country."

"Automation and artificial intelligence will have huge impacts," Meyer confirmed. "We've had large groups of people following strict processes to execute transactions in order to centralize those processes from distributed locations. Now we can automate these processes. A central organization should still figure it out, but the people component won't be as big. That will drive the question, do labor arbitrage and location have such important roles anymore?"

“The implications of that are pretty wide, including simple things like billing models,” Hopgood observed. “A common question is, ‘Hey, you’re billing me for ten FTEs. Who are they?’ And the reality is, those FTEs don’t exist anymore, because we automated those jobs. This isn’t an FTE business anymore.”

“As skills increase in markets where we have shared service centers, it opens opportunities for staff to take on more complex processes, with the market implications that come with that,” Swarovski’s Braun pointed out. “Automation takes out the menial work, and enables more capability on higher-level tasks, which continues to feed the cycle.”

“Service centers are taking on more complex and more important work, and so they are starting to gain power and build advantages,” Flickinger mused. “As these places grow more sophisticated and the people become more valuable to our company, does that put upward pressure on wages? Is automation a natural counterbalance to that pressure?”

“Another element the pandemic showed us is that we are at risk by having all our eggs in one basket, in our case Pune,” Fulton added. “Now we’re wondering if we need to break up that shared service center into a couple of other country locations. When India said ‘Thou shalt work from home,’ the country wasn’t set up to do that. Our BPO wasn’t set up to do that. So, we were challenged through the first few weeks of the pandemic. We’re also looking at business continuity plans to make sure that we have back-ups to the back-ups.”

“The whole COVID experience has rendered our old business continuity plans obsolete,” Flickinger confirmed. “We had all these contingencies for what to do if we couldn’t go to the office. 2020 showed we can work with zero occupancy. What kind of event could cripple a service center? If a pandemic can’t, what can? Natural disaster? It almost has to be something geopolitical or labor-related.”

“It’s going to be cyber,” Meyer suggested. “If there’s an event you can’t control, and you can’t connect, you can’t execute the robots, then you can’t do business, no matter what. Cyber is now the biggest risk, because we’ve all proved we can handle a heck of a lot of other things now.”

“Just a year and a half ago, we were wondering if our business continuity plan could work for more than one week,” Moraldo laughed. “Now ‘business continuity’ is normal. That resilience was thanks to technology, but if we want to sustain the new way of working, we need to ensure that *human* resilience can be sustained. Sustaining team performance in this new hybrid way of working is going to be fundamental. We have the technology, but the other aspects are what allow us to keep the culture and the sense of belonging.”

“On the one hand, it might really be a plus for people in shared service centers to work from home and not feel like they’re in a factory,” Brechbühl mused. “On the other hand, they might have next-to-no connection to the enterprise. These are built-in tensions, and it’s not clear how you solve them.”

“I don’t see how an office environment can go completely remote and provide what’s needed, whether it’s development, purpose, or helping others instead of just yourself,” Simon argued.

“The vast majority of companies going 100 percent remote are making a financial play on real estate. I’m curious how long that will live, and whether it actually be better for the business or for the experience of the employees.”

“There are now employees who have never been on site at their company’s location, who’ve never met any of their colleagues physically,” Oliver remarked. “This hasn’t been a great experience for them, and yet we expect them to be enamored with culture and engaged with the company. The technology can support it, but there’s a lot of downside to it. We have a lot of work to do before we can move to a totally virtual world.”

“I don’t believe we’ll go completely virtual, even though we are accelerating digital transformation,” Moraldo declared.

> You still need social interactivity, social connection, team leadership — all the aspects of emotional intelligence that bring balance to team performance. There’s sometimes a tendency to make an opposition between the technology and the human, but it’s not one or the other. The question is how we manage the interface and the connectivity between the human and the bot.
>
> We will be forced to think through the workplace we have today: how to make it more attractive and how it brings something in terms of performance that we cannot achieve through digital alone. There are aspects where we need to be physically together, just to build and maintain trust between people in the organization. We probably need to re-think the whole *purpose* of the workplace.

Driving Forward

Gallant posed a broader question to the group: “During the pandemic there has been a lot of talk about increasing agility and moving faster, and we saw acceleration of digital business and digital transformation initiatives. Do shared services help advance digital transformation, or do they make it more difficult?”

“Large service centers allow us to deploy automation more readily against repetitive tasks,” Huber answered.

“So, automation is part of digital transformation, and shared services makes automation easier?” Gallant followed up.

“Automation is one aspect, but it goes way beyond that,” Hopgood explained. “Shared services facilitate broader data analysis and the ability to bring information together. They lend themselves to business intelligence platforms and other digital activities to provide actionable insights that we can use to drive the company.”

“There are lots of benefits to analytics and automation coming from shared services,” Fulton reiterated. “When you put people together, they’re going to figure out how to do things faster, simpler, easier, and how to automate.”

“Shared service centers are clearly the places to collect the new tools and try automation,” Lammertyn emphasized. “Digitalization belongs where the transactions happen, so shared services really are the best fit. The worry is actually how the *rest* of the enterprise will respond.”

“Everyone wants to do good things in digital, and there’s a lot of pressure to go digital,” Flickinger agreed. “So, we have a lot of people pushing digital initiatives, but what they forget in all the excitement is that every initiative requires IT support on the backend, and that inevitability winds up in shared services. People forget about that unpleasant administrative backend, and when they run the business cases, those costs never make it into the staffing forecasts.”

“There sounds like a conflict between digitalization and its wild-west experimentation movement versus standardization for effective and efficient execution,” Meyer stated. “That’s odd, because standardization and efficiency of execution should be an enabler, along with automation, to digitalization. But the perspective seems to be, ‘If you’re slowing down my experiments, then you’re not on my team.’”

“That’s a challenging part of a shared services organization,” Oliver agreed. “How to get independent organizations that have their own P&Ls, their own objectives, to collectively see the bigger picture, and become part of a shared group. Versus having them say, ‘We’re different, we’re special, we need to do things our own way in order to compete, and you’re holding us back by forcing us into this shared service model. Standardization is hurting our profitability.’”

“There can be a tendency to separate the positive impact of shared services on digital transformation from the potential benefits coming from the digital transformation itself,” Angelini’s Tino warned. “Some business leaders see shared services as stable, as not being capable of supporting digital transformation. If there is a need for agility and flexibility, they think, then maybe they shouldn’t disrupt existing shared services, maybe they should experiment at the local level instead, or even extract their own operations from shared services so that they can move faster.”

“The functional areas are happy to hand over activities that they don’t like,” Lammertyn emphasized. “But when it comes to core and critical elements that they need to defend their businesses, they often don’t want to rely on shared services to do it.”

“So, innovation is difficult because processes and organizational flow and structure crush innovation as soon as it starts to happen, and they try to put it into the framework of what’s been done previously,” Gallant summarized. “There’s an interesting tension between needing to introduce new things to the flow, and the flow washing them away. Standardization and process don’t fit well with the ‘move fast and break things’ motto of digitization.”

“If the right answer were clear, everyone would be doing it,” Flickinger shrugged. “Yes, there’s tension. Pick one governance model, recognize that it creates trade-offs, but stick with it. Stop being schizophrenic in choosing between one and the other.”

“What does all this mean for how shared services will look in 10 years?” Gallant asked in conclusion. “How will they be different from today?”

“Centralization will continue, because it brings value,” Moraldo answered. “Economies of scale, adoption of best practices, improving compliance and quality, reducing risk … They all bring better support to the business. Moving forward the focus will be robotics and automation, and we’ll have to build more and more in analytics.”

“Another way to ask the same question is, ‘If you were starting anew today, how would you construct the shared service center model?’” Chevron’s Braun suggested. “I don’t know the answer, but I wonder how born-in-the-cloud companies think about it? Do Amazon or Netflix or Tesla use a shared service center model? Or is the need just a function of reaching a certain scale, with multinational dimensions, such that you get inefficiencies, and a shared service center is a strategy to offset some of those inefficiencies?”

“If we’re building it from scratch, we don’t need to have everybody physically in one place, the way we do today,” Fulton offered. “We would create a shared service *function*, but I don’t know where the people would actually sit. They would have to come together as a team, but I don’t know if they would do that physically, or virtually, or both.”

“Where is the next country we would even move people to?” Meyer asked. “We don’t have to be anywhere anymore. We do need to automate. The next arbitrage will be with bots.”

“And we’re just in the infant stages of using RPA and automation,” O’Neill proposed. “All bots do now is duplicate what a human being would be doing at the computer. As I look out 10 years, I can see a situation where bots use machine learning and artificial intelligence to make decisions and act on them. Bots could do a lot of the testing and verification of new technologies that humans do now. There’s so much more we could do with them.”

“I envision a day when shared services bring broad P&L value to the company,” Schaefer continued. “The transactional teams are closest to customer behavior and to supplier behavior, so they have the ability to analyze broader sets of data to unlock value beyond simply optimizing cost per transaction — they can help with broader revenue growth for the company.”

“Automation is certainly one aspect, but shared services go way beyond that,” Hopgood emphasized. “These organizations have access to the most robust set of data of any group in the company. That gives us the ability to create centers of excellence for business intelligence, to provide insights and actionable information that we can use to drive the company.”

“In being so enthusiastic about savings and centralization, we may have missed what the shared service concept really brings us,” Marossero concluded.

> The important question was, it is possible, is it feasible, is it convenient to split Operations from Strategy? When you do that, you step out of the trap of siloes, and you start to build synergies that you were not able to discover earlier. If you embrace

that possibility, and you recognize that Operations has a completely different dynamic, then you discover opportunities to apply technology and standardize processes, and *this* is the benefit that shared service centers bring, far beyond labor arbitrage. Don't think about the savings — think about higher quality and better operations, with more control. This is why shared service centers will go far beyond where they are now for most companies.

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