



Corporate **Renaissance** Group



CREATING A WORLD CLASS SHARED SERVICES ORGANIZATION (SSO) IN THE PUBLIC SECTOR

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"This week has been probably the worst week of my life," Sandra Mark said to her management team. She had just come from a budget meeting for her newly formed Shared Services Organization (SSO). The reaction of her internal clients (business units in the department) was close to being hostile. In essence, the message was "your costs are too high, your service quality is poor; you have client-unfriendly processes, your managers do not know what we want from them and they do not seem to care; many of your employees are dis-engaged and show little empathy." It was clear that this situation had to change and quickly.

The last few weeks had been extremely busy for Sandra. A month ago, after two years of intense internal negotiations within the Department, the SSO was formed and Sandra was appointed as the Executive Director. The SSO constituted four service lines: HR, IT, Finance and Procurement, and Other services. Sandra had met with each of the key client contacts and her own Service Line leaders to get an understanding of their regular and anticipated requirements in order to develop the budget estimates. However, the reaction to her budget meeting was much different than she expected.

"What guarantee can you give me that the number of days needed to fill positions will improve significantly under your watch? And how can I know that SSO services are going to be market competitive on costs?"

"The slow response time on my financial application is unproductive. What are you going to do about it?"

"The last three office moves that I requested have been over budget and delayed from three to six weeks. Can you get Portfolio Services to deliver on time and within projected cost estimates?"

"We never reach a live person when we call the help desk and wait days to get our technical problems solved. Will the SSO give us better help desk response?"

This meeting took place just before a Shared Services conference that Sandra was attending. She realized that, at the workshops and presentations, she might find a solution to her current challenges and a road map for the future. Sandra heard one consulting team's presentation that she thought offered a complete management framework - an integrated view with an underlying principle that the SSO needed to operate more like a third party service provider ... operating as a real business and practicing real business principles.

Sandra decided that the SSO must show its "value" to her internal customers. She knew that if the SSO could deliver high quality services at market comparable costs, it would be considered by internal clients as a value-added partner. The following case study illustrates Sandra's journey to create a world class performance-driven SSO.

STARTING THE JOURNEY: ESTABLISHING THE SERVICE DELIVERY EXCELLENCE FRAMEWORK

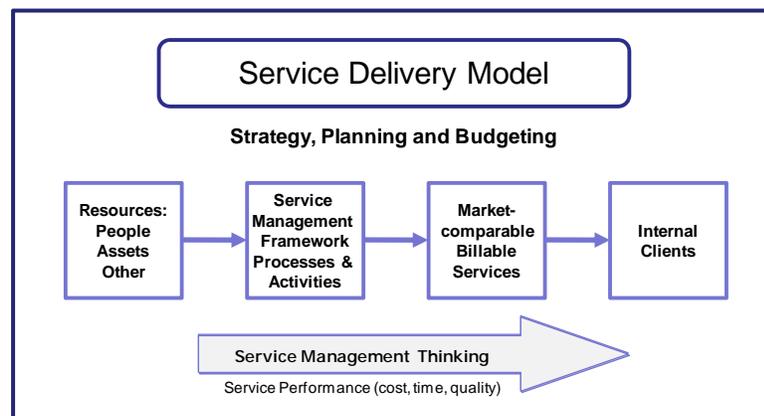
Sandra felt she needed help along the way. Her first step was to contact a consulting firm that had presented a workshop at the shared services conference she attended.

After meeting with the consulting firm, it was clear to Sandra that if the SSO was to become performance-driven, all service lines would have to **manage** and **deliver** excellent services. The service standards framework would have to take into account the organizational structure and skills requirements. Sandra wanted to ensure that it included comprehensive effective management processes that the SSO could use to manage operations efficiently. Sandra decided to create a high-level information package for her service line directors and for the SSO's internal clients, including a simple **service delivery model** to convey that the SSO was serious about becoming a performance-driven organization. The reasons for introducing this model were to:

1. Ensure that internal clients would receive services comparable to those of external service providers.
2. Understand the link between the SSO's resources (budget, expenditure) and its activities and services.
3. Ensure that the "service delivery excellence" mission remained integral to the SSO strategy and embedded in the SSO planning and budgeting process.
4. Ensure a clear understanding of the range of activities undertaken to deliver services and the costs of these activities and services.
5. Understand the Cost, Quality and cycle Time (CQT) metrics for each service.

Figure 1 clearly shows that a service delivery model links the resources of a SSO to internal clients through a set of market-comparable services. To ensure that the services are managed properly, the performance of individual services (CQT) and client satisfaction must be tracked and reported. The SSO's strategy, planning and budgeting must explicitly ensure that it has an action plan to become a client-centric, performance-driven organization. The linkage between resources-activities-services-clients is crucial.¹

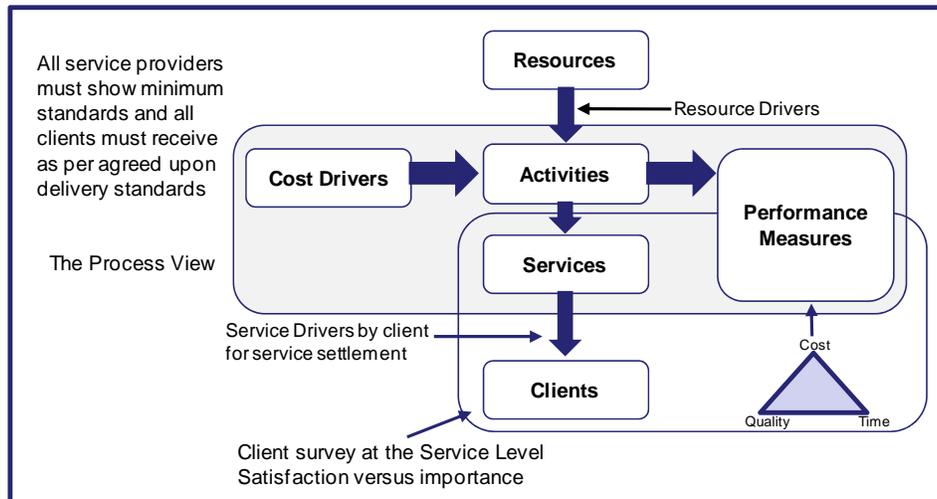
Figure 1
Service Delivery Model



¹ Some common terminology: An "activity" consists of the subordinate/lower set of work actions contained within a core/support process or sub-process. A "process" is a grouping of activities all focused on converting an input into a value-added output. A "service" is also a grouping of activities or processes but it represents the client view. It is what the client recognizes as being provided by the service provider. Delivery of each service may constitute one or more processes comprised of one or more activities. "SMF" is Service Management Framework.

In addition to the enhanced resource-activity-service-client view, **Figure 2** illustrates the importance of the client voice and further reinforces the importance of managing the service performance on the CQT metric so that the SSO can report on improvements in service delivery corresponding to increases in client satisfaction. It also shows the importance of understanding the cost drivers behind each service.

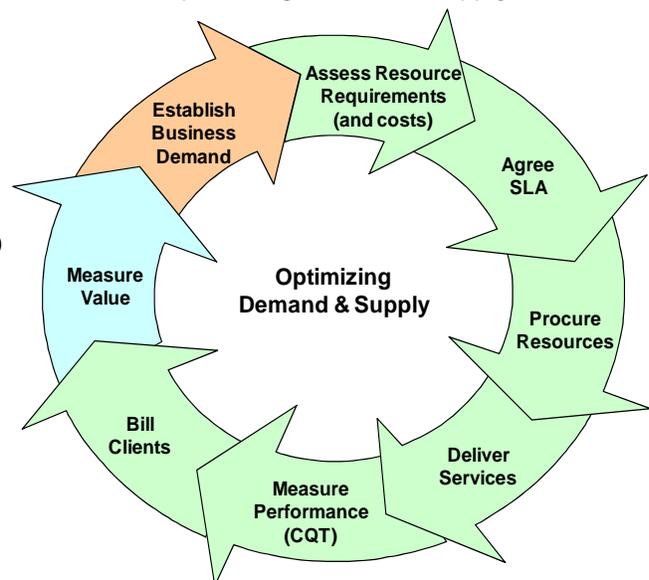
Figure 2
The Underlying Service Delivery Excellence Model



Sandra's other challenge was to embed this framework in the SSO (and the departmental) budgeting and planning cycle. As the SSO's ability to deliver excellent service depended on very good knowledge of the demands made on it by various internal clients, an effective demand management process had to be in place.

Figure 3 demonstrates clearly that all parties need to have a good knowledge of the demand for SSO services in order to see improvements in the effectiveness and efficiency of services. It was clear to Sandra that neither the SSO nor the internal clients had any idea about what services were being provided by the SSO, let alone the impact of the demand for these services on the SSO. Figure 3 also illustrates the requirements for an annual planning and performance reporting cycle. The SSO budget was based on client demands and, when approved, it was up to the SSO to deliver services and be ready to report on its performance. The component "measuring value" was the point at which the SSO would provide reports on the service performance (CQT) and the results of client surveys in order to make improvements in the next cycle.

Figure 3:
Optimizing Demand & Supply



The SSO team's first step was to decide upon the SSO services. Each service was meant to be "billable", external-market comparable, and recognizable by internal clients as something worth consuming and paying for. The team began identifying services from each of the four SSO service lines: HR, IT, Finance & Procurement, and other "Portfolio Services". As this was the first time an attempt at defining services was conducted, the team wanted to avoid overwhelming internal customers with a long, technical list. The consulting company's team called this an "outside in" approach to service modeling where the focus was on the services recognized by internal clients rather than creating an exhaustive list of tasks and activities conducted by the service provider ("inside out") that bore little resemblance to what clients received.² A sample list of services is provided in Table 1.

Table 1: Examples of Services by SSO Service Lines

Service Description	Unit (Service Driver)
HR Services	
Compensation and Benefits	# of FTEs
Recruiting and Staffing	# of staffing actions initiated
Classification Services	# of classification actions
Labour Relations	# of FTEs
Official Languages Advice, Training and Testing	# of training sessions
IT Services	
Personal Computing and Support Services	# of PCs
PDA and Blackberry Services	# of PDAs and Blackberries
IT Application, Database and Project Management Services	# of Hours
Records and Information Management	# files
Finance and Procurement Services	
Accounts Payable / Accounts Receivable	# of AP / AR transactions
Asset Disposal	# of Assets Disposed
Inventory Accounting	# of FTEs
Portfolio Services	
Mail and Messenger Services	# of pieces handled
Fleet, Vehicle Pool and Parking Services	# of vehicles
Facilities Management	% of square feet

As demonstrated, many service drivers were based on # of FTEs. While the team wanted more applicable drivers for some services, they did not have this information readily available at a reasonable cost of collection. In most cases, they believed that usage could be accurately approximated by the relative number of FTEs within individual business units.

² The joint team decided that this indeed was the right approach to fast track the process and then identify internal tasks/activities and processes to undertake activity/process improvement projects

ESTIMATING SERVICE COSTS

Once the service listing was agreed upon, the next step for the project team was to develop a cost model to calculate and understand the “unit cost” of delivering a unit of service to a customer.

The first requirement was to understand the level of effort and cost for each service. This was done by mapping SSO departments (cost centers) and linking the services that they performed to the efforts required. In certain areas (like IT), recording time was already a normal way of doing business. In these cases, the number of hours (weighted by salary dollars) could be used to cost individual services. Where time recording was not in place, “percent of effort” data was gathered through a group-based “storyboarding” process. The percent of effort was then linked to salary costs in that cost center to estimate service costs.

Below is an example of the process relationship mapping for a specific HR service using the “percent of effort” estimation procedure and then linking it to salary and non- salary costs within that cost center. For example, “compensation and benefits” was comprised of at least seven different but interlinked activities (numbers are illustrative only).

*Table 2: Estimating percent of efforts and costs
Cost Center - HRS 1 Service: Compensation and Benefits*

Activity	Activity Description	% Effort	Costs
HRS 1.1	Process new departmental employees	25%	\$411,056
HRS 1.2	Remove employees from payroll	30%	\$349,284
HRS 1.3	Process regular pay cheques	15%	\$262,035
HRS 1.4	Process supplementary cheques	5%	\$525,484
HRS 1.5	Provide benefit advice and process benefits	10%	\$370,008
HRS 1.6	Process retirements	10%	\$263,088
HRS 1.7	Provide pension advice and process pensions	5%	\$319,045
		100%	\$2,500,000

This view allowed the service delivery managers to understand the cost structure of the individual services. As the SSO and its systems mature, this information could be used to manage the activity costs along with estimating demand for various services, since employee composition was changing rapidly within the department. For example, an increasing number of employees were seeking benefits advice and the number of retirements was increasing. Clearly, this information could be very useful in resource and budget allocations. After conducting similar analyses across all four service lines, the project team was able to estimate the total cost and unit cost of each SSO service (numbers are illustrative only). Table 3 provides a partial list of service costs.

Table 3: Example of Total Service Cost and Cost per Unit

Billable Service	Total Cost	Number of Units	Cost Per Unit
Recruiting and Staffing - # of staffing actions initiated	\$3,000,000	6,000	\$500.00
Classification Services - # of classification actions	\$1,500,000	4,200	\$357.14
Fleet, Vehicle Pool and Parking Services - # of vehicles	\$550,000	670	\$820.90
Facilities Management - # of service requests	\$4,500,000	60,000	\$75.00
Personal Computing and Support Services - # of PCs	\$3,800,000	5,900	\$644.07
PDA and Blackberry Services - # of PDAs and Blackberries	\$600,000	1,800	\$333.33
Accounts Payable - # of account payable transactions	\$7,550,000	655,000	\$11.53
Accounts Receivable - # of accounts receivable transactions	\$650,000	42,000	\$15.48
Procure goods - # of transactions	\$1,500,000	11,000	\$136.36
Receive Goods - # of transactions	\$259,901	47,160	\$5.51
Procure services - # of contracts	\$900,000	12,700	\$70.87

Transparency around the cost per unit allowed the SSO and its clients to start comparing unit costs with market-comparable services. In at least one case, information on external provider costs was available; the external unit cost was 30% more than the internal cost.³

SERVICE PERFORMANCE METRICS

The next step was to identify performance metrics for each service, along quality and response time dimensions, where applicable. The most important element in designing and developing performance metrics is first to understand the expectations of internal customers. What do they expect from their SSO, and how do they perceive “value”? Some examples of expectations, including the proposed targets, are described in Table 4, below.

Table 4: Example of Service Performance Metrics and Targets

Service Description	Metric	Target
Recruiting and Staffing	Average days to complete staffing action	30 Days
Classification Services	Average days to complete classification action	15 Days
Personal Computing and Support Services	Average hours to complete request	8 hours
PDA and Blackberry Services	Average hours to complete request	8 hours
Forms Management	% of time online forms available	95%
Web Communication Services	Average days to complete request	2 Days
IT Application, Database and Project Management Services	% of customer projects delivered on time	99%
Records and Information Management	Average days to complete request	2 Days
Accounts Payable	Average hours to complete a transaction	2 hours

For some services, the team could not identify quality or response time metrics that were either relevant or measurable without significant additional investment. In those cases, the project team decided to use client satisfaction as a key metric.

³ Contrary to popular belief, this observation should not come as a surprise. A well run public sector SSO should always be able to compete against an outside provider since a private sector provider has to pay taxes and has to generate a return to its shareholders. So, unless the private sector service provider has a very low wage structure, arising either from a union-related environment or by shifting work to a low-wage country, and the SSO is very inefficient, the public sector SSO should always have a cost advantage. For consistency, it is also important that the unit cost comparison be made by considering the associated Q and T metrics.

SERVICE LEVEL AGREEMENTS (SLAs)

With the unit cost for each service and the corresponding performance metrics now identified or estimated, the team was ready to create annual service level agreements (SLAs) with each internal client. An SLA can be thought of as an operating contract between the SSO service provider(s) and each of its clients. It should be as simple as possible and include some very important information for each billable service:

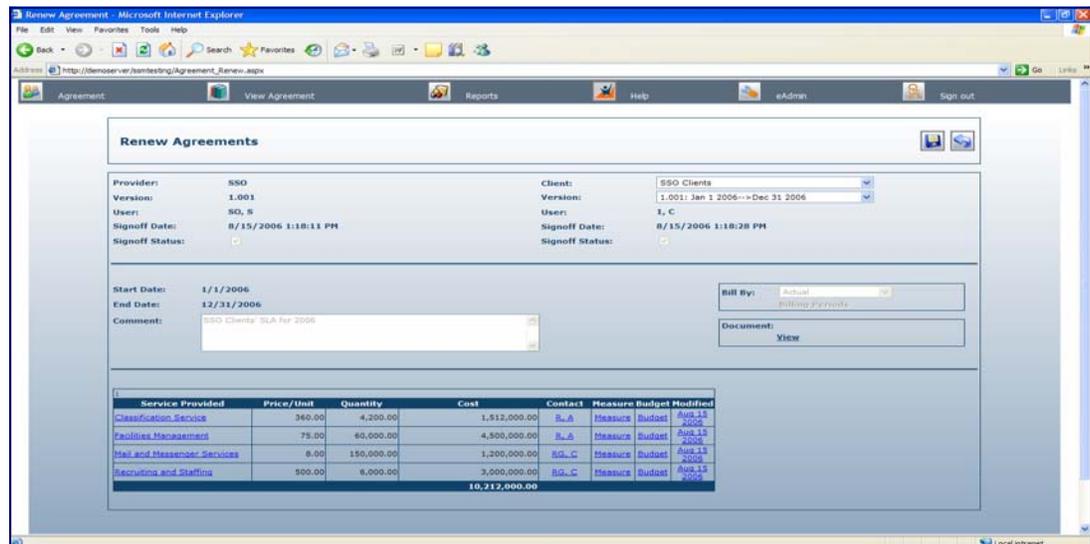
- ◆ Coverage period,
- ◆ Full description,
- ◆ Price,
- ◆ Estimated annual demand,
- ◆ Performance metrics, and
- ◆ Specific governance statements.

Since the SSO and the internal clients are within the same entity, an SLA should not have legalese but should serve more as planning/communication document between the provider and consumer. As such, an SLA does not need multiple pages of legal paragraphs normally found in contracts between a company and external vendors.⁴

Most importantly, the SLA details the SSO services available, the price that the client will be paying, the estimated demand, the performance expectation(s), and the escalation process for dispute resolution. SLAs should be used as management tools to direct the SSO provider regarding service delivery during the year.

The consulting team also convinced the project team to move away from paper-based SLAs to a web-based, collaborative infrastructure with version control and electronic signoffs. Figure 4 illustrates an example of a collaborative, web-based SLA accessible at any time by the service provider and/or service consumer.

Figure 4
A web-based
collaborative
SLA



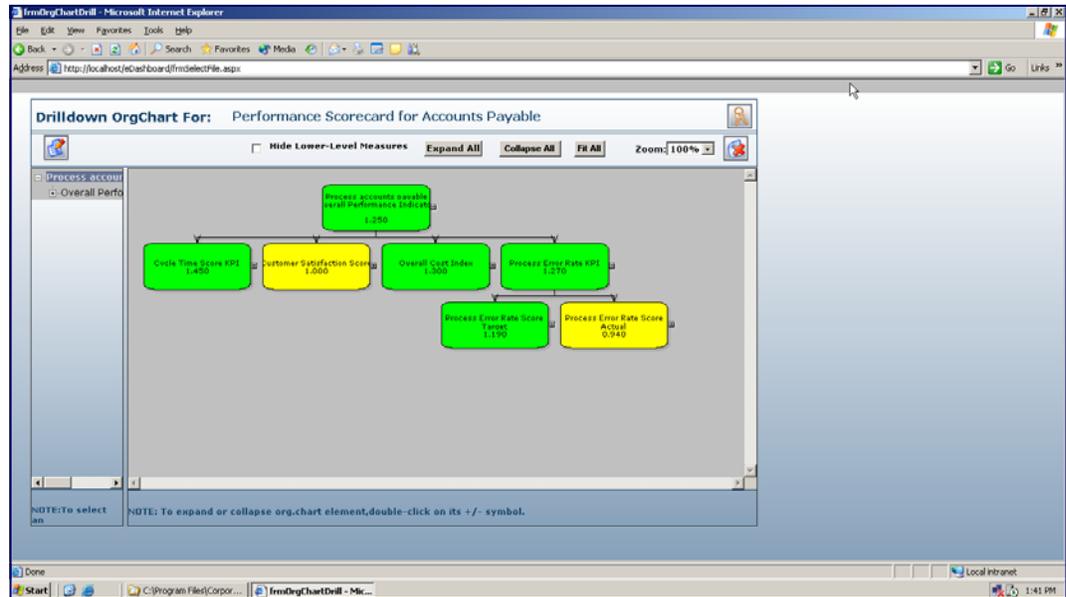
Service Provided	Price/Unit	Quantity	Cost	Contact	Measure	Budget	Modified
Classification Services	360.00	4,200.00	1,512,000.00	R.A	Measure	Budget	Aug-15-2006
Facilities Management	75.00	60,000.00	4,500,000.00	R.A	Measure	Budget	Aug-15-2006
Mail and Messenger Services	8.00	150,000.00	1,200,000.00	BG.C	Measure	Budget	Aug-15-2006
Recruits and Staffing	300.00	8,000.00	2,400,000.00	BG.C	Measure	Budget	Aug-15-2006
			10,212,000.00				

⁴ The consulting team described its experience in other organizations and convinced the internal team to keep SLAs as simple as possible.

PERFORMANCE SCORECARDS

With the performance metrics identified for at least some of the services, the team needed to ensure that the SSO was capable of reporting on performance, by service. However, the SSO knew that, in many cases, getting data was not easy. A lot of work was required to capture and then report and use the information to improve service delivery. Figure 5 is a screen capture of a sample Performance Management solution that the project team was going to use to provide service performance dashboards over the web to SSO managers and their clients.

Figure 5
Performance
Scorecard
Dashboard



CLIENT SATISFACTION

The SSO team needed to establish a “satisfaction” baseline for its services so that it could measure changes to the level of satisfaction, on an ongoing basis. The solution recommended by the consulting company included a web-based survey tool that was flexible and easy-to-use, allowing the SSO to create new surveys at any time.

CHARGEBACK/BILLING

The business-oriented service management framework required that internal clients receive a “bill” similar to one from an external service provider. However, the SSO was reluctant to charge its internal customers, so the project team decided that for the first year the SSO would send something akin to a bill but call it a “Management Information” report for services delivered. The SSO wanted to avoid any negative sentiments, such as:

- ◆ It’s not our culture
- ◆ We may be too high priced
- ◆ Customers may want a choice if they see the “bill”
- ◆ Customers won’t like it
- ◆ It will cause our internal customers’ costs to look bad
- ◆ It’s an administrative burden
- ◆ If customers have to pay, they may decide they don’t need the service

DEMAND MANAGEMENT/PLANNING

Sandra's team learned from the consulting firm that one of the most difficult concepts of service management relates to understanding and planning for service volumes demanded by internal clients. In many cases, consumption had not been tracked regularly by clients or by the SSO. However, this very important management information was needed for both planning and better use of resources.

The only way to implement this concept was to begin tracking monthly volumes of services demanded by each internal customer. This information was also required to calculate service costs, create SLAs, and "bill" clients through chargebacks, so tracking mechanisms had to be identified. In many places, this data was already captured in time reporting systems, service request tools, mainframe computer counters, asset management tools, etc. Simple spreadsheets and intranet forms could also be set up to capture the required data. This was the next step for the project team.

CONCLUSION

Imagine the environment if the SSO is managed as a real third-party provider of support services! Would the threat of "outsourcing" go away? Would internal customers be getting better value from their SSO? Would they quit complaining about the cost of the SSO and the lack of service? The answer to these questions should be a resounding YES!

The SSO service management model and the case study described above encompass all dimensions of service delivery: resources, processes, services, CQT metrics, customers, and tracking customer satisfaction. The process framework establishes a good model for managing the SSO. The case study illustrates the work that must be done to provide value-added services to internal customers.

Let's fast-forward and check on Sandra one year later...

Sandra has started her planning process for the upcoming fiscal year. Again, she has scheduled discussions with clients to talk about the SSO budget and performance, this time armed with performance data and support from the Department's senior management team to begin a formal monthly invoicing process (chargeback). She has SLAs with each customer that list the billable services, cost per unit, an estimate of the number of units to be consumed, and the performance expectations for each service.

She can now discuss with authority the costs of any increase in demand and get feedback regarding the client's willingness to pay for services. The SSO budget is developed based on these SLAs. The difference is that Sandra now knows the amount of additional volume of service that can be delivered by her current staff. She calculates that 90% of the new demand is permanent and can be delivered without additional staff, and that she can get temporary help for the other 10% (short-term) increase in demand.

During the planning meeting with executives, she gives them all of this economic information. She reports that cycle times have decreased by 60%, satisfaction with SSO services is at an improved 95%, and prices quoted in the annual SLAs are 10% lower than current market prices. Sandra also reports that increased demand for IT services will cause her to hire external programmers for six months, but that her customers have approved the additional spending as part of their budgets.

This time, there are no questions.

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