# The Next Step for Mature Shared Services Organizations – Establishing an Independent Entity

Smart. Focused. Done Right.

scottmadden
MANAGEMENT CONSULTANTS

Major Fortune 500 companies have been using shared services as an efficient, effective means of providing corporate support services to subordinate businesses since the 1980s. Major companies like British Petroleum, Ford, General Electric, and others have used the shared services model to reduce costs, improve service, improve compliance, and/or streamline processes with great success. A survey conducted by the Shared Services and Outsourcing Network (SSON) in conjunction with Hackett reports that at least 30 percent of companies enjoy greater than 20 percent cost savings by implementing this model. Some companies have reported much higher savings.

In a fully developed model, shared services are operated as a business unit providing services to other business units in a corporation. Chargeback models with service level agreements (SLAs) are used to fund operations. As the shared services organization matures, it is natural for leaders to consider spinning off the organization into its own entity—separate from the parent company—that then provides services to both the parent company and other external customers. In another scenario, companies have sold the shared services operation to outsourcing companies that then provide the same services back to the parent corporation. However, for both of these scenarios, independence does not necessarily infer complete financial separation from the parent company. Parent companies often strive to maintain substantial ownership to ensure stringent controls over data and services provided.

In this paper, we will examine the considerations, advantages, disadvantages, and risks of spinning off a shared services organization to provide services to its parent company.

## DIVESTING SHARED SERVICES BUSINESSES

Divesting or spinning off shared services operations can be very challenging for a company. So, why do some companies consider it? Typically, companies have streamlined and improved shared services operations to the point where further improvement, other than adding more customers, is extremely difficult. If the parent corporation is not planning on expanding operations, the only way to add more customers is to go to the external market. However, spinning off from a parent company can be quite a large project—there are financial, legal, and tax considerations, as well as the need for defining the strategic vision and determining the future culture for the new entity.

The two most prevalent scenarios seen are 1) companies spinning off shared services to provide services back to their business units or 2) companies that have sold shared services operations to business process outsourcers. The following are examples of both approaches:



Smart. Focused. Done Right.



scottmadden MANAGEMENT CONSULTANTS

| Company | Actions Taken | Results |
|---|---|---|
| Dutch Power Company | Regulatory authorities mandated the split up of a Dutch power company into three entities to foster competition. The company elected to sell personnel and salary administration to an outsourcer who provided these services back to the three entities. | Companies avoided 1.75 million Euros of costs by not building duplicating services in two of the three surviving firms. |
| Parallon Business Solutions, LLC | Launched by HCA Corporation in May 2011 to provide shared services back to HCA and to other healthcare providers. Services include revenue cycle management, purchasing management, supply chain, contingent and permanent staffing services, and IT cloud solutions. | News releases indicate that the company is adding clients and wining innovation awards in several localities for innovation in services. |
| Global Business Services Inc. | Warner Communications Inc. formed GBSI to provide shared services to multiple companies in the Warner Bros. group. The company provides various human resources, payroll, travel and expense management, and select IT services. | The GBSI scope of services has continually grown over several years. The company facilitated various acquisitions and divestitures of businesses for the Warner Bros. group. Services have been continually expanded while operating costs have been maintained proportionally lower. |
| American Express Travel | AmEx Travel outsourced back office operations to EXL, an outsourcing and transformation company. | Julie Bottner, Senior Vice President and General Manager, American Express Global Business Travel Service Delivery stated: "The partnership with EXL to support our business travel back-office gives us the flexibility to support evolving customer needs. The partnership enables us to leverage our scale, continue our commitment to service excellence, while creating more efficiency, and therefore value, in business travel.” |
| UBS | UBS sold its off shore shared services center to Cognizant. Cognizant provides business process outsourcing in the areas of securities operations, compliance, finance and presentations, and design. They also provide knowledge process outsourcing capabilities in research and analytics and IT infrastructure management services. | UBS decided to adopt a buy rather than a build strategy for its outsourcing needs. The goal was to take advantage of the scale and expertise of third parties to improve efficiency, while reducing costs and increasing flexibility. |

## COMPARISON OF STRUCTURES

Organizational structures for an internal shared services organization and an independent shared services organization need not be significantly different. Independent shared services organizations must be able to provide the same services to its original parent that it provides to other companies. The key is having robust and proven infrastructure to operate as an independent business.

The following figures illustrate high-level differences in organizational structure. Figure 1, Classic Reporting and Service Model for Internal Shared Services, illustrates a common structure. Figure 2, Reporting and Service Model for Independent Shared Services Serving All Entities, illustrates the reporting and operating relationships when shared services are split off from the parent.

*Figure 1: Classic Reporting and Service Model for Internal Shared Services*

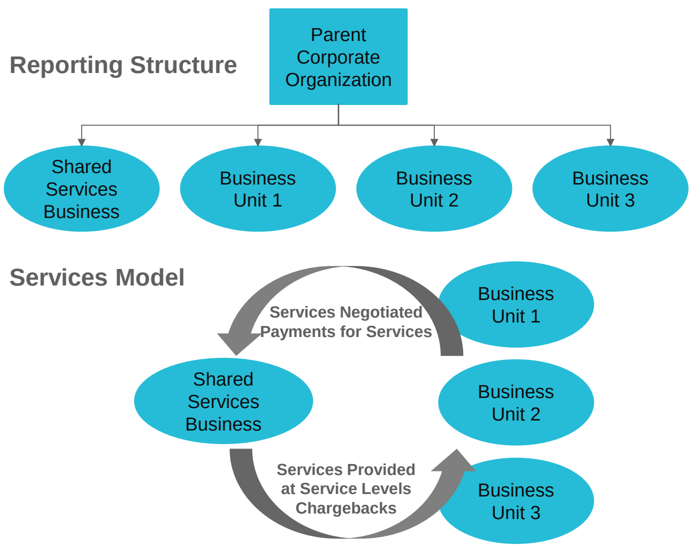
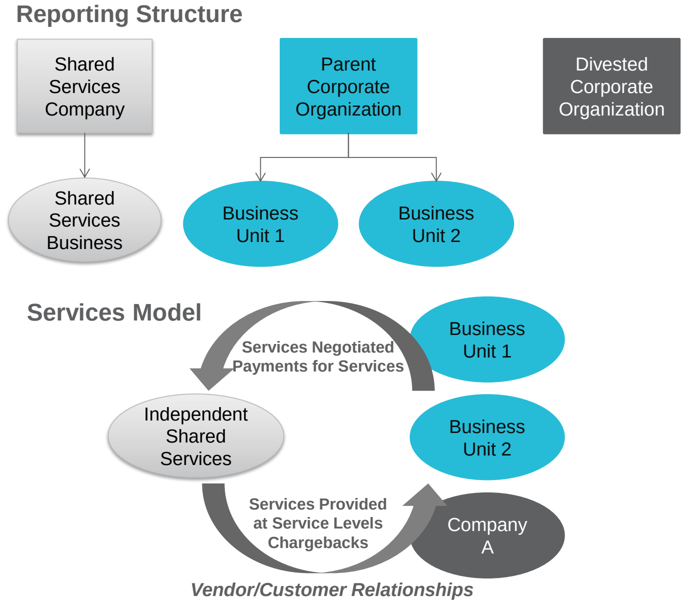


*Figure 2: Reporting and Service Model for Independent Shared Services*




Internal and independent models have similar and differing characteristics and considerations for organization, contracts/ SLAs, systems, data, integrations, and security. These similarities and differences are discussed in the following table.

| Considerations | Internal Shared Services | Shared Services During Transition | Independent Shared Services |
|---|---|---|---|
| Organization | Organization typically reports to a shared services executive for all services or reports to individual functional leaders, i.e., CFO, CIO, CHRO, etc. Organization usually includes transactional and administrative components of processes, but may include centers of expertise and more consultative services. | The organization usually starts to segregate people, processes, systems, and data in anticipation of splitting off the capacity in each service area to the independent entity. Organizations may establish parallel staff and processes while building parallel systems and databases. | Independent shared services organizations can be set up as a wholly owned subsidiary, sold to investors, or sold to an outsourcing company. Some companies maintain approximately 18.5 percent ownership so as not to incur accounting and tax obligations required by higher percentages of ownership. This minority ownership ensures a greater degree of control over people, processes, and data. |


Smart. Focused. Done Right.

| Considerations | Internal Shared Services | Shared Services During Transition | Independent Shared Services |
|---|---|---|---|
| Contracts/SLAs | SLAs usually outline service catalogs, service levels, responsibilities, chargebacks, governance, and administration. Some provide for business continuity and disaster preparedness. Chargebacks take many forms from “showbacks” to formal invoices for “service by the drink.” | Transition service agreements (TSAs) are formal contracts that include many of the same elements of internal service level agreements. These agreements are formalized contracts with expirations and provisions for penalties for delivery failures or for extensions of the TSA. | In addition to the normal internal shared services SLAs, these contracts provide for penalties for failure to deliver services according to a table of service levels. Contracts usually include strict provisions for security of data, requirements for unwinding contracts, contract extensions, business continuity, and disaster preparedness. |
| Systems | Internal shared services use enterprise systems to deliver services. In some cases, shared services organizations provide services on systems that are unique to individual business units. | Companies can implement additional systems for the shared services business processes. Cloning and deleting is one approach, but some may want to set up entirely new systems to leverage newer technologies and to improve processes. | System requirements for independent shared services depend on the concept selected. Contracts can require full service, which can mean fully segregated systems. Contracts also can be for services only using the customer’s (former parent’s) systems. The latter option may create cost/scale issues as the parent or other customers may have differing system requirements. |
| Data | For integrated companies, data is usually segregated by hierarchies in the chart of accounts and by organizational structures in the HR systems. Less integrated companies have differing sets of data by business unit. | For integrated companies, segregation of data is one of many work streams to achieve divestiture. For less integrated companies, data segregation may be elementary. | Independent shared service organizations must ensure data segregation if contracted to provide full service. This data segregation is usually achieved via unique databases for each customer. |

| Considerations | Internal Shared Services | Shared Services During Transition | Independent Shared Services |
|---|---|---|---|
| Integrations | Internal shared services can usually operate without difficulty using one set of integrations among enterprise applications. Companies that are loosely integrated (independent subsidiaries) may require a unique set of integrations for each business unit. | Unless the divesting entity is using very independent enterprise systems, new integrations must be built among the newly built systems. | Independent shared services must develop a unique set of integrations to customers' systems that are not in scope of services provided. These integrations may be to on premise systems or to hosted/SaaS systems depending on the architecture after divestiture. |
| Security | For companies operating in various countries or dealing with sensitive external customer information, data between business units already may be compartmentalized. | For divesting companies, data in the former parent is usually deleted out of systems after confidence is gained that the divested entity's systems/data are stable and backed up. | Independent shared services organizations must build systems, protocols, and procedures to ensure data security. Physical, communications, and database security is required for each customer. The use of unique employees to provide services to individual clients depends on the level of segregation and security required. Usually, non-disclosure agreements with appropriate penalties can enable service provision by common service representatives. |

## ADVANTAGES AND DISADVANTAGES OF INDEPENDENT SHARED SERVICES

Divesting a shared services organization to form an independent operating entity can be a key driver to long-term success for the shared services operation. As an independent entity, the shared services organization must focus on being service and cost competitive with external providers. Ideally, the independent entity will benchmark itself against other potential providers to demonstrate the competitiveness of its services and costs. Areas that are not competitive are high priority for redesign or similar improvement.

In addition, as an independent operating entity, the shared services organization can gain the stature to drive adherence to policies and processes that is sometimes hard to achieve as an internal provider. This adherence is important when attempting to minimize costs and for producing comparable data and meaningful analytics.

In some instances, the formation of an independent shared services company allows the entity to provide services to other business units or operating entities in the corporation that might not accept services if the organization were not independent. This is especially true in holding company set-ups. In addition and as mentioned above, as an independent shared services organization, it is possible to offer services to other companies inside or outside of the original parent's industry. While this is not commonplace, there are successful examples, especially in specialized industries, such as healthcare, or with unique services, such as safety.

Creating an independent shared services organization is not without its challenges. To be successful, the organization must have the internal infrastructure to operate as a standalone business. It must be able to market and sell its products and services, determine lifecycle costs, price products and services competitively, provide exceptional customer service, bill and collect for products and services rendered, as well as other basic operating functions. Because most new shared services operations do not have the majority of these elements in place at launch, the path to independent shared services typically occurs only after honing the model and operations over years as internal entities.

A key enabler for the successful divesting of a shared services organization is the development of formal contractual agreements with all legal entities to whom it will be providing services.

These shared services contractual agreements can vary from providing all systems and services to providing services using customer systems and data. It is wise to avoid complex arrangements as these can create disparities among customers' systems and processes. These disparities can in turn increase the costs of providing services therefore adversely impacting the independent shared services organization's profitability.

## CONCLUSION

There are numerous successful examples of independent shared services entities. Typically, these cases are true for mature operations that have demonstrated their service and cost competitiveness with external providers of similar services; however, this is not a move to be taken lightly. Creating an independent shared services organization is challenging, especially if the organization's processes and infrastructure are deeply entwined with its parent.

The more honed the organization's operations and infrastructure, the more likely it will be successful.

## ABOUT THE AUTHOR

Scott Manning (sbmanning@scottmadden.com) is a partner in ScottMadden's Atlanta office.

## ABOUT SCOTTMADDEN'S CORPORATE & SHARED SERVICES PRACTICE

ScottMadden has been a pioneer in corporate and shared services since the practice began decades ago. Our Corporate & Shared Services practice has completed more than 1,100 projects since the early 90s, including hundreds of large, multi-year implementations. Our clients span a variety of industries from entertainment to energy to high tech. Examples of our projects include business case development, shared services design, and shared services build support and implementation.

**ABOUT SCOTTMADDEN, INC.**

ScottMadden is the management consulting firm that does what it takes to get it done right. Our practice areas include Energy, Clean Tech & Sustainability, and Corporate & Shared Services. We deliver a broad array of consulting services ranging from strategic planning through implementation across many industries, business units, and functions. To learn more, visit www.scottmadden.com | Twitter | Facebook | LinkedIn