

The future of Shared Services in the Public Sector

The commercial world is embracing Cloud technology; attitudes to the way we all consume services and information are changing, sparking a new wave of evolution in Shared Services.

The government believes Shared Services will save the Public Sector 20% or more of their back-office costs.

But how can this be achieved and what impact will it have on the future services that it provides?

This report considers the experiences of early adopters in implementing Shared Services and discusses the lessons for the Public Sector.

Where have Shared Services come from?

Since the early 1990s, large organisations such as the BBC, BP, Bristol Myers Squibb, Ford, GE, HP, Pfizer, Rolls-Royce, ArcelorMittal and SAP have operated Shared Services with great success. According to the Institute of Chartered Accountants, more than 30% of Fortune 500 companies have implemented a shared-service centre and have reported cost savings of up to 46%.

The objective of providing shared services was often to drive efficiency across the organisation by reducing the downtime in departments where work is replicated, and by increasing efficiency by simplifying, standardising and centralising processes using a range of IT solutions.

Finance centres were the early adopters, as they automated much of their transactional activity, followed by other back-office functions including IT, Payroll, Legal, Procurement and HR.

The 2018 Global Survey: 'Trends in Shared Services and Outsourcing' shows HR as the most common function for Shared Services in some countries. This is unsurprising given that as much as 60% of the cost and time spent on HR is transactional. Data Analytics is also becoming increasingly common.⁽¹⁾

Benefits of shared services

Reductions in cost are seen as an easy win for many who are embarking on a move to Shared Service Centres (SSCs).

A global Service Centre Benchmark study carried out by the Shared Services & Outsourcing Network (SSON), which surveyed more than 250 companies, found that about a third of all participants were able to generate cost savings of 20% or greater from their SSC's.⁽²⁾

This may be fewer than we might expect, but Shared Services are not just about generating cost savings. Moving transactional activities to automated self-service activities can allow managers and staff to work efficiently, focusing on high-value activity, and delivering an improved quality of service and increasing value from a function.⁽³⁾

Real examples from the private sector

- ▶ Outsourcing company Amey was able to demonstrate savings of 30% while increasing the level of service delivered.
- ▶ Vodafone's project prioritised quality in local markets over headcount reduction and achieved improved service levels and a cost saving of 20%.
- ▶ IHG estimated that the General Managers of their hotels spent half their time on the back of house HR activity. By setting up four service centres around the globe, that were all aligned to local internal customer needs, they freed up the General Managers' time to improve the guest experience.

Successful SSCs tend to be run as a business, delivering services to internal customers at a cost, quality and timeliness that would allow them to compete with external organisations.

This commercial idea, which we believe can and should be transferred to the Public Sector, means:

- ▶ Increased efficiency through standardisation of processes and procedures
- ▶ Best practice processes being adopted through the standardisation
- ▶ Economies of scale which reduce labour costs for undertaking the same tasks
- ▶ Optimum investment in technology
- ▶ Re-engineering how organisations internal operating model works.

How Shared Service differs from Centralisation and Outsourcing

Shared Services are not merely about centralising a function in one geographical location. This type of centralisation to an HQ might meet the requirements of a short-term strategy but would only provide a one-off cost reduction.

Instead, SSCs have been developed to take advantage of technology to allow the transactional activities to be automated. The rapid development of Robotic Process Automation (RPA) and Cloud-based systems means this technology is becoming affordable to a broader range of organisations.

This technology allows for cost savings or redeployment of staff into value-added areas such as providing management information to business units to enable them to make more accurate operational and strategic decisions.

Table 1 The difference between a SSC and a centralised service.

| Attributes | SSC | Centralisation |
|-------------------------|---|---|
| Accountability | Directly answerable to business units | Leaders are responsible to corporate leads |
| Key Performance Targets | Service Excellence, Continuous Improvement, Comparison with best in class | Cost reduction and central control |
| Use of KPIs and SLAs | Widespread | Rare |
| Likely location | Neutral location, potentially separate to the corporate business unit | Corporate Office |
| Run by | Entrepreneur / Business Leader | HR, accountant or subject specialist |
| Governance | Strong structured performance reporting, to deliver efficiency and effectiveness | Efficiency and effectiveness goals are guaranteed |
| Customer Focus | Business unit leads have strong input in setting priorities | Structure and decisions on what is required agreed at corporate level |
| Service orientation | Service is tailored to meet the requirements of each business unit they work with | Service is standardised |
| Flexibility | Have the opportunity to work with external customer and service providers | Will only deal with internal customers |
| Performance Monitoring | Against external best practice | Against internal targets |
| Charging | Charge back on actual usage of service from service catalogues / tariffs | Charge back to central account or on a prescribed allocation |

The growth of Shared Services in the public sector

The growth of Shared Services in the public sector is not new. One of the biggest reviews in the public sector, The Gershon Review (2003-2004) ⁽⁴⁾, identified significant opportunities for streamlining and automating work patterns to release resources. Many in Government and the Public Sector have

looked at this review as a benchmark to identify opportunities to achieve these savings - with varying degrees of success.

‘Shared Service and Management – A Guide for councils’ ⁽⁵⁾ found that 60% of local authorities were not sharing services or management, leading to duplication and inefficiency.

Examples of where Shared Services had worked included collaboration on resource

planning between Northamptonshire and Cambridge County Councils that delivered £9m in savings.

The same publication identified that the strategy in many instances would be seen as a centralising of resources as opposed to the more strategic approach of an SSC because the main priorities had been of a transactional nature, i.e.:

- ▶ Avoiding duplication
- ▶ Securing economies of scale
- ▶ Increasing purchasing power that resulted in procurement savings.

To monitor the progress and benefits of Shared Services in the public sector, the National Audit Office (NAO) undertook a review of the implementation of two SSCs that had been set up for central Government ⁽⁶⁾. Their findings identified that in the 2.5 years since the projects started, they had generated impressive savings of £94m.

However, the costs of the projects had reached £90m, and a further £272m in efficiencies had not materialised.

The NAO identified that much of this was down to a lack of clarity in the business case and a lack of buy-in from stakeholders and internal customers.

This was compounded by delays in decision making, meaning that technology had moved on to the point that the project leaders needed to re-assess their IT options more than once before implementation.

One example of where shared service has worked well is East Lancashire Financial Services (ELFS). ELFS is a business division

of Salford Royal NHS Foundation Trust that provides finance and payroll shared services to 33 NHS Trusts. An independent division to the Trust building on its knowledge and experience to help other NHS trusts take advantage of successful automated systems that can be updated whenever there is regulatory change.

Future of Shared Services

Since the instigation of the initial SSCs in the 1990s, the activities undertaken by them have progressed through an evolution from a focus on administration, to cost reduction and now delivering added business value. For HR, for example, this includes addressing areas such as:

- ▶ Recruitment – From tracking the process, pre-screening and video interviews.
- ▶ On-boarding - Automating administration by giving new employees a streamlined introduction to the company through a personal dashboard.
- ▶ Performance Appraisal - Performance metrics are updated and management can get real-time, up-to-date information on an employee's performance.
- ▶ Time-sheet tracking - Removing the need for manual tracking and increasing the efficiency of the process. It reduces the chances of mistakes, miscalculated hours and the need for subsequent validation.
- ▶ Benefits tracking - Real-time analytics mean that both employers and employees know what should be achieved and can see progress towards performance rewards.

- ▶ Payroll – A single integrated HR and payroll system can remove a significant amount of administration work for HR professionals. Having a secure system in place can also streamline the data protection processes and relieve HR of data security concerns.
- ▶ Holiday Request forms - Automated workflows can turn this into a seamless process where approval can be sought and given instantly and holiday allowances are automatically calculated.

Having now evolved through these necessary early stages, SSCs are in a position to take a more significant strategic role in organisations. SSCs will need to draw upon the convergence of technologies such as the Robots, the 'Internet of Things', Big Data, analytics, mobile and social collaboration. Each enables organisations to be intelligent, more agile, and better able to scale their operations and shift to new business models with speed. In service functions, the emergence of artificial intelligence (AI) and cognitive computing is likely to transform service delivery and outsourcing completely.

As SSCs evolve and the demands upon them become greater, the consolidation of the operating unit has become more complicated, as IT departments try to determine how to knit together legacy systems from various business units and how to update processes and systems for a new digital context.

The use of data to produce business-relevant insights that lead to action has been heralded as the new step change for HR. Yet few HR functions have a robust analytic capability. Collecting data on employees has historically been expensive and time-consuming and traditional, annual surveys fail to provide a real-time view of engagement.

Moreover, companies have found it challenging to gather clean, consistent and integrated data. But service-oriented architecture, data analytics, master data management of HR data technology and industry consolidation will help companies surmount these challenges. Such developments can unify talent management applications and enable companies to integrate data from transactional systems with business data and HR data in a single database.

As processes themselves become automated, the core services they deliver will become leaner, with more self-service solutions. However, the Public Sector will also have more data about its own performance, enabling it to predict future needs and to scale or align services accordingly. This scalability will support core business performance in a way that was not previously possible.

The most significant moral question will be around what happens to current jobs and those delivering them with all this automation. An Oxford University research study ⁽⁷⁾ predicts that by 2035, 47% of current tasks will be performed by robots.

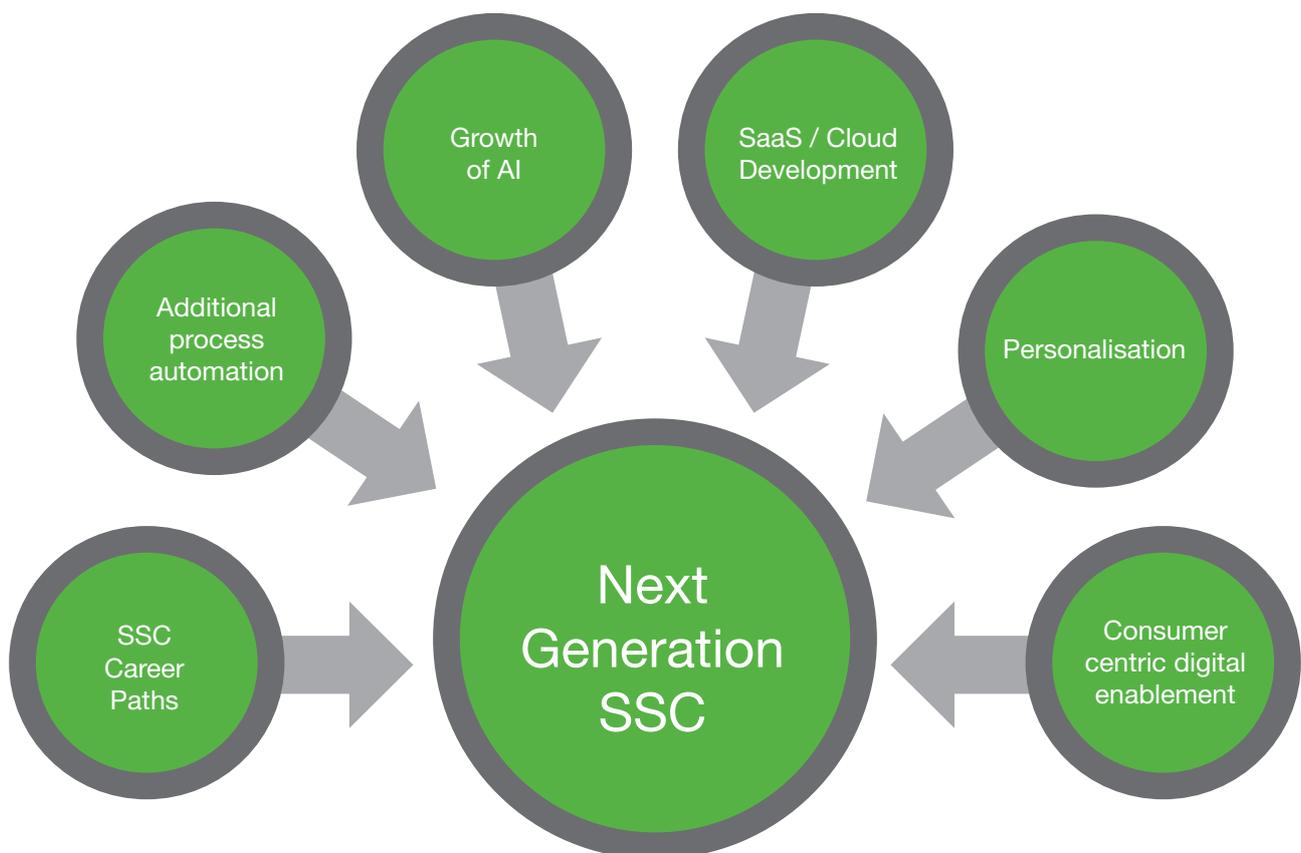
Surprisingly, this can bring its advantages as identified in a report by Deloitte ⁽⁸⁾. Since 2001 automation has seen the loss of 800,000 high-risk jobs but the creation of 3.5 million low-risk jobs, where each newly created safer job pays about £10,000 more. Along with low unemployment rates, this makes for a positive outcome so far.

Whether this continues depends on how successfully blue-collar employees and those performing transactional roles can successfully transition to white-collar roles. And of course, as technology becomes increasingly sophisticated, so the risk of one's role being automated rises up through the organisation.

Looking ahead

Most organisations appreciate the importance of the wider strategic value of SSCs over just creating cost savings. Within a dynamic public

sector, organisations need to be able to be more agile and scalable at speed. There are multi-dimensional levers now available to enable these changes to take place:



1) Customer-centric digital enablement (social/mobile/interactive)

SSCs are becoming much more aware of the requirement to understand their customers far better than ever before. Customers want accurate information in real time. They can get this as a customer for companies such as Amazon and Uber, so they expect

the same level of service from their public services.

And these expectations are not limited to external customers. Up to 30% of internal customers say their shared service is not providing the experience they need.

As the use of mobile technology became more common than the use of desktop computers (around November 2016), it

became important that shared service technology solutions work on all types of devices and operating systems, with a focus on mobile first.

Those who have grown up as digital citizens will expect nothing less than a consumer-grade user experience with streamlined processes and automated workflow within the workplace and when interacting with public services. This may involve gamification and technology platforms that reflect the design and intuitiveness of the social media platforms they have used all their lives.

The needs of a multigenerational workforce today must not be overlooked. While organisations introduce digital employee experience tools that promote self-service and collaboration, they may need to preserve existing voice-channel capabilities, at least in some situations, particularly those with additional levels of complexity. However, maintaining multiple platforms can be expensive and cumbersome although will be seen to add value.

2 Additional Process Automation

Process automation is an essential and necessary element of SSC to generate the efficiency required. Many organisations have previously made a move to HRIS. Additional automation has come through Business Process Automation, where technological or digital transformation will often consist of integrating applications, restructuring labour and using multiple software applications.

RPA (or bots) can already be used to deal with exception handling, where a transaction outcome exceeds a threshold or parameter that requires remediation. The RPA can initiate the workflow automatically rather than waiting minutes or hours for human intervention. RPA will continue to learn as it

goes, making it appropriate for higher-level decisions. One example being at Overstock.com where they rely on a bot called Mila to field notifications from employees who ring in sick. It then takes the information and passes it on to the managers and adjusts the schedules accordingly, and so provide continuity of service.

Automation of repetitive tasks can have a positive impact on morale, as people focus on the more rewarding work that requires judgement and soft skills, such as advising customers or undertaking analytic reviews.

3 The growth of Artificial Intelligence (AI)

The growth of AI is likely to be seen in two main stages. The first is becoming commonplace, the conversational interface where it is possible to talk and ask questions of a computer, known as chatbots. This can be as simple as the interactive tools to filter calls to call centres such as banks and is particularly prevalent in highly regulated environments such as Pharmaceuticals, where the ability to standardise responses is essential for compliance. The next phase of this development will see chatbots 'learning' on the job.

One US company, Crowded, claim that for their recruitment campaigns, the use of Chatbots, which links with text messaging and Facebook Messenger is delivering an 88% response rate to potential candidates with an average response time under two minutes compared to their experience of it potentially being days if they send an email.

The use of AI will not be restricted to the private sector as the development of IBM's Watson and Deepmind's AlphaGo are aligned to deal with the scale and complexity of the public sector.

4 SaaS and PaaS to replace on-premise solutions

SaaS (Software as a Solution), PaaS (Platform as a Solution) describe technology that runs applications from the Cloud instead of on single devices. This allows easier technology updates, flexible configurations and better applications integration.

Currently, there are challenges about the different data structures that suppliers use (think VHS vs Betamax!). If suppliers can agree on a preferred structure, then this will allow the integration of multiple applications into the existing tools.

To ensure that there is no overload, and to ensure the most appropriate applications are being incorporated, project leaders need to work closely with IT to regularly evaluate new software innovations and functionality, assess current processes and determine if and how emerging software may change those processes.

The technology is becoming easier to use. Neocase, for example, is now developing a front-end Service Delivery Platform which will provide:

- ▶ Global and local processes, with no coding needed
- ▶ Creating forms in seconds that populate data onto PDFs or trigger a new process
- ▶ Managing responses from any location with digital signatures and acknowledgements
- ▶ Improving response times with a centralised view of tasks, automated notifications and digital HR documents
- ▶ Gaining transparency in the process
- ▶ Quickly adapt existing forms or processes based on changes to legal or corporate requirements

- ▶ Integrating their service delivery platform with customers HRIS, to enable HR to provide better service to employees through case management, employee management and process automation.

Slack has developed a range of 'Slackbots' that enable their staff to interact with their existing talent management and HR software. For example, instead of logging onto the company time-and-attendance platform to request time off, an employee could type a command into Slack such as "I'd like to request time off". It would trigger the HR program's 'Slackbot' to ask questions about the type of time off being requested, before processing the request in the time and attendance app.

The UK Government plans that by 2020, shared services will be provided via an Applications Store for the Government and Government Cloud. This will include HR, procurement, finance, pension administration, grant payments and security vetting.

The gov.uk website anticipates that the move to shared services in the government will:

- ▶ Lead to 20% reduction in back-office costs
- ▶ Professionalise back office efficiencies which in turn improves taxpayer value
- ▶ Improve management information to inform decisions
- ▶ Release staff to frontline roles.

5 Personalisation

Many organisations fail to recognise and measure how personalisation can positively impact the user experience.

In line with the online lifestyle that has developed, most people are now happy to use self-service modules. In the same way that you

may be expected to set up your user profile for a bank account or social media page, employees are happy to set up their profile and tailor their benefits package, arrange holiday and check salary payments improving the productivity of HR teams and their users.

However, to be able to achieve this it must replicate the intuitive user functionality as seen in the best in class commercial organisations, and this includes a portal that feels personal to them.

6 SSC Career Path

To build and operate a successful SSC requires the right staff with the right skills, which will involve training staff in new competencies and skills compared to working in silos or centralised functions. Employees in SSCs tend to lean towards processing mind-sets that are focused on ensuring the day-to-day delivery. However, there needs to be more of a skew towards recruiting and training data analysts and managers required to support the advanced-analytics programs many companies are building. To retain and develop them will mean organisations need to be offering employees the right development and career opportunities.

Effective talent management will include well-laid plans for recruiting talent and managing the use of contractors, engaging and retaining talent through a variety of tactics, and developing talent to build future leaders for the SSCs.

Despite the focus on talent management, the SSON State of the Shared Services Industry reports that SSCs are only spending 1-3% of their total budget on training. Given the need to up-skill resources to deliver higher value services, this level of training is a significant gap.

By managing talent well, SSCs will benefit by having a stable, engaged workforce that has the skills to meet the future needs of the organisation.

SSCs will need to view talent management as a strategic priority. To be able to attract the best talent, the perception of SSCs needs to move from 'transaction factory' to 'innovation lab'.

SSCs will need to become a brand in themselves that people want to work for and not just seen as being sidelined from the organisation. There will also need to be senior leader sponsorship to demonstrate the strategic importance of the SSC to the core organisation.

Many SSCs are now looking at entry-level recruitment, often with degree level qualifications, with a professional qualification for mid-level managers. As a recognised growth area for specialist services; the Public Sector, the corporate world and relevant professional bodies will need to liaise with those developing education curriculums for vocational degrees, to ensure there is a significant level of interest from graduates and that undergraduates are learning the management and problem-solving skills required by the SSCs.

Managing the change

To be able to drive through the potential changes and opportunities and maximise the benefits available from the next generation of SSCs, they will require strong leadership at all stages.

Senior leaders are traditionally more optimistic about change than middle managers. Senior leaders will need to be able to justify the change and further automation as a benefit to the service users, and not just the financial benefits, though some of their reports may perceive it as more of a threat.

In addition, as part of this role, leaders will need to be able to:

- ▶ Create alignment around Shared Services
- ▶ Build and manage capability
- ▶ Broker relationships through the SSC and the organisation's core business
- ▶ Analyse data, gain insight to develop a strategic direction for the SSC
- ▶ Develop brand and culture for the SSC
- ▶ Focus on ROI and not cost and clarify how success will be measured
- ▶ Monitor the benefits post-transformation

Being able to develop these elements will enable the SSC's functions to move from traditional back of house functions to a front of house role, where they can influence the core business strategy and performance through facilitating effective decision making.

Summary

As the use and structure of Shared Services in the Public Sector continues to evolve, arguably, the early adopters have had to learn the hardest lessons. Albeit lessons that will now allow public sector Shared Services to be both more efficient and effective.

HR is a function that has particularly benefited from the introduction of Shared Services, and we anticipate this will continue as more Public Sector organisations adopt the approach. These developments in Shared Services for HR will provide a new level of information and data on employees and elevate the role of HR as a key strategic influencer on the long-term success of organisations.

The public sector has excellent opportunities to learn from the work within the private

sector, although as Prof John Seddon⁽⁹⁾ recognises, there needs to also be lessons learned from where the move to Shared Service has gone wrong.

His work encourages UK government to focus on economies of flow rather than economies of scale.

To be able to achieve this, the following will need to continue to evolve:

- ▶ The Shared Service needs to be aligned with the needs of its users, with a customer first mindset and consumer grade experience
- ▶ A focus on continuous improvement and the value that can be added, not just a focus on cost savings.
- ▶ A clear business focus for moving to SSCs and what the benefits for the organisation will be and leadership capability to deliver this.
- ▶ Value the strategic importance within the SSC and develop and recruit experts to support it
- ▶ Technology to further simplify intuitive transactions with personalised content
- ▶ Standardisation of process and procedures to include a degree of flex to tailor to the service users
- ▶ Embrace the PaaS and SaaS to enable an agile organisation that can change and adapt quickly with the support of an SSC
- ▶ Robots and AI will have an increasing role in how they interact with service users. Their ability to learn will expand and provide data to support both short-term agile and longer-term strategic actions.

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