Kicking the habit: Alternatives to the low cost labour addiction in Shared Services?

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Introduction

Over the last 15 years, Shared Services has become a well-established delivery model for the provision of common functions used across departments or countries within an organisation.

Funding is usually shared by those departments consuming the services or charged back on a transactional basis.

The aim is to ensure that the consolidation and standardisation benefits outweigh the potential disruption to the service flow (caused by moving the work to a central location, creating waste in handoffs, rework and duplication, etc.). So, what could possibly go wrong?

Once functions are delivered by a separate unit the people cost stands out and the temptation to start the race to the bottom looms large. Companies get hooked on low cost labour – potentially chasing from continent to continent to get a better “fix”.

Here’s the argument in a nutshell:

- Without care, continually chasing lower labour cost will cause more impactful measures to be overlooked and ultimately deliver the opposite of the desired effect.
- While reducing the overall salary bill is a big deal, just going for ever cheaper individual employees ignores the challenge of achieving a genuinely efficient workforce.
- Here are three starting points to help kick the low cost labour habit: reduce the costs of aggregation, improve the process of balancing work and time, and really sharing in the Shared Service centre.

In this ActiveOpinion, I consider the unseen challenges with chasing low cost labour and some of the other measures, rarely used in Shared Services, that can be deployed as complementary value levers.
Why do Shared Services focus on the cost of labour?

Let’s first consider how organisations typically evolve their Shared Services, while there is variety in approach, broadly speaking the stages are similar (assuming governance, business case and management of change are all in place):

- **Creation**
  - Extract common processes from the business
  - Consolidate in country
  - Standardise processes
  - Reconfigure the retained organisation

- **Expansion**
  - Continued process extraction from the business
  - Regional consolidation
  - Sourcing (new locations or outsource)

- **Value Add**
  - Optimisation (lean, six sigma etc)
  - Business partnering
  - Multi-function
  - Global process ownership

Naturally, the first step is the creation of the service by identifying those common transactions usually related to enterprise administration (like purchase order admin), as they are common to all business units. These transactions are extracted into a separate operation to take advantage of any economies of scale with additional capacity added as required. With the processes side by side, it is easier to see the differences and best practices, so standardisation can follow an ‘adapt and adopt’ strategy.

The establishment of a Shared Service is often accompanied by moving to a standard operating model. At some point the retained organisation is reconfigured to release excess capacity from moving the work to the Shared Service and to ensure the business units know how to take advantage of this new capability.

Scale is added to the Shared Service by identifying more and more transactions where there is a clear benefit from centralisation. This stage enables regional consolidation and the sourcing of new locations. Hub and spoke models emerge as the very standard or language-neutral transactions can be further consolidated into a Global Centre (hub) with business unit or country specific activity in Regional Centres (spokes).

How much capacity to provision follows a typical rule of thumb - take the number of FTEs used in the sending organisation and allow 10% overstaffing in the receiving organisation. This overstaffing is eliminated as the receiving organisation becomes familiar with the nuances of the work. Experience shows that no one has the data to challenge whether the starting number was correct or whether latent capacity is also being utilised. Outsourcing can happen at any point on the journey and, rather than take on the risk and expense of setting up in-house capability, some organisations will use the outsourcer’s delivery network to enable global consolidation.
Continuous improvement is present throughout and once the operation has stabilised, the industrial engineers can get to work with their Lean and Six Sigma box of tricks. Large enterprises will often see the success from one domain and use their Shared Service capability to deliver in others, creating a multi-functional Shared Service. These Global Business Services provide additional layers of value (beyond sharing of the infrastructure) through ‘Process Owners’, who optimise, standardise and improve processes at a pace that the business units can accept, or ‘Business Partners’ who use the transactional knowledge to support better decision making by the business units.

IT enablement is relevant at all stages, hence its representation in our simplified evolutionary model as an underpinning service. Elements of IT will need to enable the movement of work to different locations (and/or providers), to track the work and some will be used to improve the efficiency of process, with the promise of reducing the number of FTEs needed.

It is both the classic operational context, together with the pitfalls of this evolutionary journey that draw Shared Service executives to focus on labour cost, when looking to create value for their enterprise:

- **Fixed costs** – operations require infrastructure that is not very elastic (things like facilities, recruitment and training machine, connectivity, etc.) so ongoing savings here are hard to achieve.

- **Lack of control** – many of the elements in the ecosystem are not in the control of the Shared Service. The ERP for example, will be there for functions beyond accounting and HR. Changing processes that require a change in ERP configuration get caught up in corporate change governance and product development. More commonly revenue related change get priority.

- **Technology delivery issues** – we don’t need to repeat here all the times that technology projects have not delivered the expected headcount reductions.

- **The long tail** – finance process in particular have issues. Take e-invoicing for example, getting to an e-invoicing penetration of 70% - 80% (by value) is not uncommon, but that often leaves a significant volume of work to be processed manually (80:20 rule applies). With uncontrolled work arrival patterns and service level commitments to be maintained, the staffing levels cannot fall linearly. So unless it’s a 100% channel shift, the tail will mean disproportionate levels of FTE remain.

- **Expense mix** – a good-sized Shared Service (say 1,000 FTEs), will have a cost structure made up of roughly 75% people, related with around 15% on technology and the rest on other infrastructure. The numbers highlight where to focus.

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So what’s wrong with low cost labour?

Nothing. An operation should run at the lowest cost to meet the service and quality requirements, and not overpaying for skills has to feature in the mix. The issues emerge when the cost of input resource, rather than the amount of resource, becomes the dominant value lever.

As the industry has found, if we want to mitigate resource availability risk (with communications links, graduates, etc.) and don’t want to be first, when the work is placed in a city where other Shared Services exist. Whether it’s competition for talent, managing the cost of attrition (recruitment, training, time to competency), or good old inflation, low cost labour doesn’t stay low cost for long. For example, according to data from Euromonitor International(1), hourly incomes in China now exceed those in every major Latin American state apart from Chile, and are at around 70 per cent of the level in weaker eurozone countries. So, we up sticks and move from China to Vietnam, but for how long? Vietnam is forecast to see the highest ‘real’ wage increase in Asia Pacific in 2017(2). The dilemma is clear.

What about robots? Is the ultimate in low cost labour and automation a good thing? Yes it is, but if the process meets the usual criteria for RPA (e.g. doesn’t need judgement, uses machine readable data and is of sufficient volume and frequency), then surely the automation should be in the core business systems? If not, then when our processes are embedded in the bots we are always at risk of their labour rising in cost(3).

The 30% - 50% savings from moving to a lower cost location can easily be eroded by a few years of compounded 10% wage inflation. Other upward pressures on cost emerge from regularly moving the work – the potential increase in failure demand is just one.

Best-case scenario, this is just additional work for those that cause the error. But to maintain the confidence of the Service User, the resolver groups are staffed with more “senior” resources, in locations closer to the business. Resulting in more, not less, cost for the system as a whole.
Kicking the habit

We’ll consider 3 ideas that don’t suffer the same contextual challenges as other interventions and add balance to the current focus on labour cost as a way for Shared Services to maintain value delivery to their Service Users.

Eliminating the cost of aggregation

Have any of us thought to consider the cost of aggregation? Baggage handling is a great example, bags arrive at an airport perfectly sorted and matched with their owner. Freeing our hands to empty our wallets and carry our purchases, the bags are aggregated into massive halls under the terminal stacked full of scanners, belts and staff – this complex web of physical and IT infrastructure then disaggregates the bags and matches them to the flight. Inevitably, there are failures (straps get caught on belts, labels cannot be read by the scanners, etc.) that cause further cost to remediate. Historically, due to the cost of transacting in the legacy world (paper and traditional bank payments) the same now exists in finance and accounting Shared Services:

• Invoices from suppliers can be made up of multiple line items, each needs to be matched against the purchase order and the confirmation that the service or product has been received. Not only is there the extraction of the line items but an issue with one can hold up the processing of the whole invoice. Leading to the inevitable toing and froing (e.g. issue of credit notes and new invoices) associated with disputed invoices. This consumes resource from the collections team in the supplier’s Shared Service and the accounts payable team in the buyer’s Shared Service.

• Payments by buyers can be for amounts covering multiple invoices (each with the potential to have multiple line items) with the remittance data separated and often containing insufficient reference information. The supplier’s accounts receivable team then has to reconcile each of the line items and invoices with the remittance and bank statement, to ensure they have actually received the right amount for the right item. Then the cash for each item has to be applied to the correct ledger, with the associated reconciliation and balancing errors that need to be resolved.

While it may have been challenging in the past, the current level of IT maturity in the procure to pay process (with things like e-invoicing, VAT payments, etc.) now make it completely possible to transact at the line item level. This would eliminate work by avoiding first the transaction aggregation and then disaggregation, reconciliation and error. Given that the man-time savings are at both ends of the process (‘Accounts Payable’ in the buyer and ‘Accounts Receivable’ in the supplier), it would seem an easy win for all ends of the service chain.

Stepping back from the process

Most of the Lean and Six Sigma interventions look at process flow and efficiency, reducing the time, number of steps, or complexity it takes to process an item of work. All necessary and good, but take a step back and think how much of the time that you are paying for is actually consumed by a process. The average transaction processing team, of say 12 resources, might have 8 - 10 things they do over again during the normal working day/week. Output won’t be evenly distributed across these tasks and, it’s reasonable to assume the most common process might deliver, say 12% of the work of the team. But they are not available for production all of the time and this shrinkage (huddles, town halls, training, system issues, breaks, etc.) could easily account for 20% of the time you are paying for. Then what if through no fault of the agents, there is less work than expected and the time taken is allowed to expand to consume the slack, easily another 5%.

So the process we are acting on might actually only consume 9% of the resource. Taking 30% out of this from a process based intervention is only saving 3% of the time you are paying for and this saving could easily be lost – the process in theory has fewer steps but work is allowed to fill the available time.

While it may have been challenging in the past, the current level of IT maturity in the procure to pay process (with things like e-invoicing, VAN payments, etc.) now make it completely possible to transact at the line item level.
Wouldn’t it be better if first there was a way of balancing the work that you needed to get done (using good forecasting to get ahead of the game) with the capacity available, and that capacity was actively managed (using real data about agent production and challenging but achievable goals)? Work arrival patterns and SLAs can then be used to your advantage with performance becoming a managed output.

Organisations who adopt these practices easily achieve 20% - 25% improvements in productivity of the operation as a whole and separate to any other intervention. The staff respond positively as they can see their part in the plan with the operation feeling in control and not driven by the inbox. These types of operations are much better placed to cash the cheque from subsequent business process based changes.

Sharing in Shared Services

The desire to achieve economies of scale has been the driving force behind many Shared Services. However, as more and more transactions of a similar nature are delivered by the same operation, the work arrival profile starts to bite, peaks upon peaks and troughs upon troughs. Our experience is that Shared Services are run by finance or HR experts, which limits their confidence (especially without a framework where they can see their own work will get done) to actually share resources. Whether that be across teams, departments or domains with counter cyclical workloads.

With planning, a decent skills matrix and an open mind, the sharing of capacity is easy and can have a staggering effect on the actual number of resources needed. It is perfectly feasible, and very common in banking and insurance, to have “multi-disciplined teams” or “on demand teams” who have skills in a variety of transactions and can be truly shared. Most transactions in Shared Services are not that hard to master, otherwise the operations would not be able to cope with the attrition replacement.

Perhaps the opportunity is greatest in the outsourced Shared Service market, who have the additional potential to share resources across customers. Often the basket of customers are in different industries or have different financial calendars – increasing the chances of counter cyclical work - but visit any outsourced operation and you will see teams ring-fenced by the customers they serve and fiercely guarded.

Resource input cost is of course important but Shared Services need to consider alternative strategies like these.

Sources:

