Shared Services

Learning and Skills Shared Services Programme

Sourcing options

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Paul Ennew

L&S Shared Services Programme Manager
Sourcing Models

Understanding the range of possible options is a key to successful solution

Internal delivery: internal shared service centre

Full outsource: shared services are fully outsourced to a third party supplier

Client consortium: a JV supplier is set-up by 2 or more companies with similar needs to share common services

Outsource JV: a JV supplier is set-up with one or more third party suppliers to provide shared services

Best of breed consortium: shared services are fully outsourced to a third party supplier, who subcontracts other third party suppliers

Multi in-sourcing: an internal supplier primes the service delivery through other internal suppliers

Multi-sourcing: shared services are fully outsourced to a number of third party suppliers

Prime Contractor: a Prime Contractor vehicle is set-up by a number of third party suppliers in order to supply holistic shared services to the customers
Sourcing

There are three main models for sourcing

- Internal Delivery
- Joint Venture
- Outsourcing
What is Internal Delivery?

The Internal Delivery route to Shared Services involves establishing a programme to create a new Shared Services capability that will be run as a separate organisational unit. This new organisational unit will be distinct part of the overall organisation (or sector) with the capital and revenue costs being met by the organisation (or sector).

The typical reasons for considering the internal delivery of a Shared Services capability includes:

- The desire to retain greater control
- High risk profile of potential JV or outsourced solution
- Knowledge and Skills available in-house with little need for outside assistance
- Funds available to develop and little outside investment required
- Corporate ERP systems already in place and steady state
## Internal Delivery

### Advantages
- Processes retained within business
- Take advantage of labour arbitrage depending on location chosen
- No requirement to go through detailed contracting / supplier selection phase
- Consolidate activities and potentially standardise processes
- Agility – scope can be changed quickly
- Reduced need for TUPE transfer

### Disadvantages
- Management & administration burden
- Capex spend and operational costs
- In-house transition management required
- Need to develop own document management, workflow and other technology
- Non-contractual relationship potentially weakens focus on continuous improvement and service levels
- Shared service centre may not operate at an optimum efficient scale
- Leadership/Delivery body for Sector?
Internal Delivery

Most current Government Shared services programmes are building an internal shared services capacity, with the help of 3rd party suppliers

Government Shared Services Programmes that are building their own Shared Services capability include:

- Department for Transport (Finance Shared Services)

- Home Office (Finance, HR and Procurement Shared Services)

- Prison Service (Finance, HR and Procurement Shared Services)

- Department for Work and Pensions (Finance, HR and Procurement Shared Services)
A joint venture (often abbreviated JV) is a legal entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise\(^1\).

The typical reasons for considering a JV is where the parties objectives are:

- Spreading costs and risks while retaining more control
- Improving access to financial resources
- Economies of scale and advantages of size
- Access to new technologies
- Access to innovative managerial practices

\(^1\)http://www.wikipedia.org 13 October 2006
## Joint Venture

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>• Both parties have “skin in the game” – potentially leading to a stronger relationship</td>
<td>• Investment in Joint Venture may be significant</td>
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<td>• Benefit from outsourcer’s experience</td>
<td>• Exit may be more difficult than just terminating a contract</td>
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<td>• Retain a greater element of control</td>
<td>• JV governance and management may require significant time input</td>
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<td>• Potentially take advantage of labour arbitrage</td>
<td>• Need for rigorous vendor selection process</td>
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<td>• Partner organisation reduces financing requirement</td>
<td>• Separate legal entity to be set up</td>
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<td>• Consolidate activities and potentially standardise processes</td>
<td>• Charging structure may be complex</td>
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<td>• Use supplier’s customised tools for project, workflow and document management</td>
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Joint Venture

National Health Service Shared Business Service centre is the primary example of how Joint Ventures are being used to create Shared Services

Focus
- Creating shared services with a JV partner, covering Finance initially

Context
- The project was managed by the Finance function of the Department of Health for the NHS
- The NHS comprises a wide range of organisations (including NHS Trusts, Strategic Health Authorities and various Arms Length Bodies) covering in excess of one million staff

Aims
- Need to reduce costs and improve service levels
- Did not want to give away the value of the NHS scale and monopoly position

Approach
- Started with small scale pilots in Bristol and Leeds which failed to produce the anticipated benefits
- Sought a more radical approach, guided by principles of:
  — needing to create a true commercial relationship
  — recognising that administration is not a core competence
  — aiming to retain a long term share of any venture within the NHS
- Began an eighteen month tender process, eventually selecting Xansa as the JV partner
- Forming NHS Shared Business Services Ltd, controlled by Xansa but with 50/50 ownership. Will cover Finance and payroll and may extend to HR. 10 year deal, 600 employees; 25% of activity will be in India

- Profits in the JV are shared 2:1 in favour of the NHS
- Participation in the Shared Services company is voluntary for NHS bodies (e.g. PCT’s, SHA’s) but encouraged through economic incentives/penalties including loans to cover the cost of transition, much lower cost Oracle licences and a guarantee of 20% reduction in current costs (subject to standardising processes). So it becomes hard to refuse

Critical success factors and insights
- Need to be very clear and as directive as possible about the case for change
- Financial incentives and penalties help to underpin the case for change and encourage movement in the right direction in an organisation with many semi-autonomous parts
- Recognition of and understanding of power within customer/client relationship, but clients understand the need to change their own systems

Source materials
- Tender document
- Transfer pack for potential clients moving into shared services

Contact
- Peter Coates, Deputy Finance Director, Department of Health
Outsourcing

What is Outsourcing?

Outsourcing is defined as the "the process of transferring an existing business function, including the relevant physical and/or human assets, to an external provider in order to strategically use outside resources to perform activities previously handled in-house".

The typical reasons for considering outsourcing are:

- Lowering costs (set up and transition)
- Transferring risk to a supplier
- Access to new skills
- Economies of scale and advantages of size
- Access to new technologies
- Access to innovative managerial practices

1http://www.wikipedia.org 13 October 2006
Outsourcing

Advantages

- Utilise industry / market best practices
- Formalised contractual relationship
- Suppliers can be penalised if services not up to standard
- Potentially low costs of implementation (if supplier to bear costs of transition)
- Use existing suppliers service centres potentially speeding up transition
- Suppliers are experts in the outsourced activities
- Consolidate activities and potentially standardise processes
- Use suppliers customised tools for project, workflow and document management

Disadvantages

- Loss of control of processes to third party supplier
- Contract management can take significant time
- Changes to scope of services governed by “change control” and may incur incremental cost
- Potentially a need for long term relationship to make deal attractive to supplier
- Greater impact on employees – need for TUPE transfer’s and potentially redundancies