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Leap ahead or lag behind?
Enhancing value from your
service delivery organization

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Executive summary

Increasing competitive pressures, coupled with the ongoing push by shareholders for enhanced controls, has made service delivery capabilities for a company's general and administrative (G&A) functions more important than ever before. Companies are working to drive down costs as well as to enable the business to focus on core strategic challenges rather than simply "run the engine."

In such an environment, senior executives face a hard reality: To stay competitive, a company's service delivery organization must either continually improve by driving down costs, or else risk falling behind. Standing still is not an option.

Many companies have used shared services organizations and outsourcing for non-core, transactional activities to generate economies of scale and improve productivity. Now, companies are searching for ways to further develop these approaches and take service delivery to the next level.

We believe that many companies can find important opportunities to enhance service delivery effectiveness by:

- Expanding their service delivery organization's functional scope
- Enhancing internal customer management
- Creating a strong service culture
- Rethinking facilities and infrastructure

Companies that adopt leading-edge approaches in these areas can gain the ability to leapfrog the competition by reaping enhanced benefits from their service delivery organizations.



Introduction

Increased competition, economic uncertainty, and globalization are among the forces that are driving companies to seek to reduce the cost and improve the effectiveness of their G&A functions. In our view, companies can greatly enhance their pursuit of these goals by thoughtfully managing their service delivery organizations according to leading marketplace practices. Yet our experience suggests that many companies could benefit from greater focus and planning with respect to service delivery.

Companies typically start their service delivery organization by moving a single G&A function into shared services or to an outsourced service provider. They then expand incrementally based on internal customer requests rather than following a strategic plan. This ad hoc evolution often gives rise to the following issues:

- **Lack of strategy**, which can result in misalignment between the service delivery organization's objectives and the company's overall vision and strategy
- **Lack of continuous improvement**, which can hamper effectiveness due to a failure to look inward to correct mistakes and look outward to incorporate leading practices
- **Lack of people development and management**, which can make it more difficult to attract and retain the talent needed for effective service delivery
- **Lack of effective operations and technology**, which can increase process inefficiencies and decrease productivity
- **Lack of discipline and standardization**, which may lead to performance inefficiencies

Over time, these issues can limit a service delivery organization's ability to operate cost-effectively and meet the requirements of its internal customers.

While some companies facing such issues have already made great strides in improving their service delivery organizations, others are asking how they can take their service delivery efforts to the next level. Executives in these organizations are asking:

- What is the next level, and how do I get there? What should be my short-term and long-term goals?
- How does my company's service delivery strategy compare to the strategies used by other companies?
- Am I leveraging leading practices?
- Where should I focus my scarce resources?
- How can I continue to improve operations?

To help answer these questions, leaders can benefit from using a framework as a yardstick against which to assess their service delivery organization against internal and external practices. Key elements of such an assessment should include four dimensions: strategy, service delivery, organization, and operations and technology (see sidebar, "Deloitte's service delivery maturity model"). These four dimensions encompass 20 capability areas that we believe represent the spectrum of competencies that an effective service delivery organization should possess.

A "service delivery organization" is a centralized unit that provides services to G&A functions such as finance, human resources (HR), and information technology (IT). Services may be delivered by one or more internal shared service centers, one or more third-party service providers, or a combination of both.

Because every company is unique, leaders should carefully evaluate their company’s individual set of capabilities and organizational requirements to determine which of these 20 capability areas should receive the highest priority for improvement. That said, we believe that four particular capability areas stand out as realms where many service delivery organizations could gain significant benefits from improvement:

- Expand scope of services
- Enhance internal customer management
- Create a strong service culture
- Rethink facilities and infrastructure

Below, we discuss innovative approaches to each of these areas and give examples of how a variety of companies have addressed them.

What do successful service delivery organizations do differently? What sets companies that leapfrog the competition apart from those that lag behind?

Deloitte’s service delivery maturity model

Deloitte has developed a service delivery maturity model that can serve as a diagnostic tool to help a company quickly understand the current state of its service delivery organization, envision its target state in both the short term and the long term, and apply a combination of levers to make progress and measure results. The model measures the maturity of a service delivery organization along four key dimensions that encompass 20 corresponding capability areas, as illustrated in the diagram below.

The maturity model compares a service delivery organization’s current practices across 20 capability areas with leading marketplace practices. Using stakeholder input to rate the service delivery organization along a five-point capability maturity scale, the model assesses the service delivery organization’s current state and forecasts its future state in each of the 20 capability areas. Armed with this assessment, a service delivery organization can develop a multi-year plan to generate additional value by increasing its effectiveness in key capability areas.

Strategy	Service delivery	Organization	Operations and technology
<ul style="list-style-type: none"> • Scope of services • Location of services • Business planning • Mission/vision • Value 	<ul style="list-style-type: none"> • Performance management • Governance and issue resolution • Customer relationship management • Sourcing and vendor relationship management • Continuous improvement 	<ul style="list-style-type: none"> • Organizational structure • People management • People development • Culture • Recruiting 	<ul style="list-style-type: none"> • Process • Technology • Controls • Program management • Facilities and infrastructure

It is important to recognize that a service delivery organization need not achieve the highest possible maturity scores in *all* dimensions and capability areas to be successful. Rather, service delivery leaders should aim for a mix of maturity levels across the capability areas that most effectively align the service delivery organization with the company’s broader short- and long-term goals.

Expand scope of services

Market forces impose a constant pressure on companies to improve operating margins and productivity. Expanding a service organization's functional scope can help companies meet these demands by allowing it to achieve economies of scale by spreading its service delivery infrastructure across more functions.

As mentioned previously, most companies start their service delivery organization by moving a single function, typically finance, into shared services or to an outsourced service provider. Indeed, finance is by far the function most often placed in a service delivery organization. In Deloitte's 2011 global shared services survey, which surveyed 270 companies of a range of sizes across multiple industries, 93 percent reported that their shared services organizations included finance. This compares with 60 percent for human resources (HR), 48 percent for information technology (IT), and 47 percent for supply chain/procurement.¹

Over time, companies tend to expand the scope of their service delivery organizations to include more processes, serve more internal business units, and cover a greater geographical area. In Deloitte's 2011 survey, 82 percent of respondents expected that their company would increase the number of transactional processes in their shared

services organizations over the next three to five years, while 76 percent expected it would increase the number of business units being served.²

As companies become more mature in their shared services efforts, many also begin to extend the shared services model to additional functions and to employ multifunctional service delivery organizations. These newer shared functions may include fleet management, marketing expense management, commercial finance, earnings optimization, equipment maintenance, transportation planning, and R&D. In addition, companies are increasingly including advisory as well as transactional processes in their service delivery organizations. Deloitte's 2011 survey showed that 61 percent of respondents expected their company to expand the number of advisory processes handled by shared services over the next three to five years.

Companies that expand shared services' functional scope should do so in a planned manner that enables the service delivery organization to better pursue the company's goals and vision. Whether the goal is to cut costs, reduce errors, or standardize processes—or all of the above—a successful scope expansion typically has a well-defined business case endorsed by both business and service delivery leaders. It rarely occurs in an ad hoc manner.

Expand scope of services: Examples

Increasing the service delivery organization's functional scope helped a major **food and beverage company** to meet its CEO's goal of reducing annual operating expenses by \$500 million. By including HR in addition to finance in its service delivery organization, the company was able to realize close to 50 percent of the expected cost reduction. In its efforts to meet the target of \$500 million in reduced operating expenses, the company is also considering moving some nontraditional activities, such as marketing expense management, to the service delivery organization.

A large **food distributor** had not developed a service delivery strategy until prompted to do so by decreasing operating margins. Although a late starter, the company included multiple functions in the launch of its service delivery organization, including finance, HR, transportation planning, equipment maintenance, menu consultation, pricing, and master data management. This broad functional scope helped the company reduce its operating expenses by 10 percent, even as its revenues grew by 3 percent.

Another late entrant, a major **retail company**, also included multiple functions when launching its service delivery organization, including finance, HR, IT, marketing, sales, supply chain, order entry, and corporate communications. Having its service delivery organization cover multiple functions allowed the company to set realistic and attainable goals and make more effective use of scarce resources.

¹ "Executive summary of Deloitte's 2011 global shared services survey results," Deloitte Development LLC, 2011. Available online at http://www.deloitte.com/view/en_US/us/Services/additional-services/Service-Delivery-Transformation/31334fc2655ce210VgnVCM3000001c56f00aRCRD.htm.

² *Ibid.*

Enhance internal customer management

Developing close, collaborative relationships with internal customers is a critical component of a service delivery organization's success.³ Satisfied internal customers are likely to recognize and promote the value generated by the service delivery organization, helping it to grow in scope and size.

Service delivery organizations need to meet their internal customers' expectations regarding reliability, quality, and responsiveness. This requires a service delivery

organization to communicate effectively with its customers to understand their needs, establish clear goals and service-level agreements (SLAs), implement appropriate performance measures to determine if customer needs are being met, and report on performance. Effective customer management also requires strong governance mechanisms, which typically include customer councils that provide a forum for the service delivery organization and internal customers to work in partnership.

Most companies have instituted some form of customer management program to assess and improve customer satisfaction. More than three-quarters of the participants in Deloitte's 2011 global shared services survey indicated that they employed performance metrics, while a similar percentage employed SLAs in their governance structures. In addition, 60 percent said that they used customer satisfaction surveys. Some companies are also using techniques such as balanced scorecards, governance boards, and internal customer councils. With respect to effectiveness, survey respondents identified site visits, joint leadership meetings, SLAs, and continuous improvement objectives as the most effective mechanisms for keeping a service delivery organization connected with its customers.⁴

Yet our experience in the field suggests that customer management continues to be a challenge for many service delivery organizations. Many have not cracked the code with regard to practices that can help them establish stronger connections with their internal customers.

In our view, a strong and sustainable governance framework is critical to effective customer management. The governance framework should establish clear goals and include components around strategy alignment, process sustainability, business partnership, and performance improvement. A service delivery organization that can give its customers confidence that it offers clear, tangible benefits will be well positioned to forge a "win-win" partnership with its customers—one that helps the service delivery organization mature into a trusted advisor rather than remaining a mere transactional service provider.

Enhance internal customer management: Examples

At a large **food distributor**, delivering a consistent experience to internal customers was a critical objective for the service delivery organization. It implemented a balanced scorecard approach that helped the service delivery organization assess its progress in meeting its financial, service quality, efficiency, and talent management goals. Taking advantage of its technology infrastructure, the service delivery organization also employed operational dashboards to allow internal customers to view its performance in near-real time. In addition, the service delivery organization's compensation plan was linked to internal customer satisfaction as well as to the company's performance.

At a major global **retailer**, the service delivery organization and its internal customers have formed a strong partnership. The service delivery organization has standardized and communicated its governance processes around performance management, issue resolution, and internal customer management. Its internal customers are continually involved in assessing and evaluating improvements around scope, performance, governance structure, and process. Internal customers also play an integral role in driving improvements, which has helped the service delivery organization achieve its targets for cost savings and productivity.

In contrast, the service delivery organization has a weak relationship with internal customers at a major **insurance company**. The service delivery organization, which is primarily focused on IT, lacks structure around performance metrics, SLAs, process, and governance. This has diluted its value within the company to such an extent that some business units have removed key components of IT from the service delivery organization, which has reduced efficiency and increased costs. The company has also decided to transfer one of its service delivery centers, which focused primarily on application development and management, to a third-party service provider. Further, the company has significantly decreased investments in its remaining service delivery center, even though a recent assessment found that implementing an effective service delivery center could reduce IT expenses by up to 20 percent.

³ Customers for a service delivery center's G&A services are typically internal customers, such as business units, rather than external customers who purchase the company's products and services. However, some functions, such as accounts payable, also have vendors as external customers. While this section uses the term "internal customer management," it is also meant to include management of vendors by finance and procurement.

⁴ *Ibid.*

Create a strong service culture

Culture—the shared norms or values among a group of individuals—is a key factor in how a service delivery organization performs as well as how it is viewed by the company. In our opinion, the culture of an effective service delivery organization has four defining attributes:

1. **Customer focus.** A strong focus on customers allows a service delivery organization to set the strategic context for its work and to develop shared goals with business leaders.
2. **Results orientation.** Being results-oriented increases the likelihood that a service delivery organization will remain focused on achieving the performance levels that are important to the company.
3. **Continuous learning.** A service delivery organization that promotes continuous learning stresses the importance of innovation and flexibility.
4. **Structure and consistency.** An effective service delivery organization typically has a high level of standardization and formal processes around the feedback, reporting, and operations that it uses to perform its work.

Taken together, these four attributes can provide a framework for evaluating the impact of culture on achieving customer service levels, quality, and process efficiencies.

All companies should explicitly address the culture of their service delivery organizations. Service delivery organizations whose culture fails to support the four attributes described above are likely to confront serious problems with performance and customer satisfaction. On the other hand, by fostering a culture that emphasizes these attributes, companies can help their service delivery organizations embed a strong service culture throughout their activities and thereby drive more value for the business. With a service-oriented culture as its foundation, a service delivery organization is poised to function as a strategic business partner and trusted advisor, both for its internal customers and the company.

Create a strong service culture: Examples

At a global **food and beverage company**, the finance and HR service organizations historically reported to their respective business leaders: namely, the CFO and the CHRO. In the process of its service delivery transformation, the company changed the reporting structure so that both service organizations reported to a single global business services leader outside finance and HR, who was responsible for delivering these services to the businesses. However, this new reporting structure did not work well with the company's consensus-driven decision-making culture. The global business services leader failed to build consensus and drive the combined shared services organization in an integrated manner. In the end, the company migrated back to its original dual reporting model. Implementing a strategy that was at odds with the organization's culture led to at least a year's delay in meeting the company's goals.

Companies can learn valuable lessons in managing service delivery organizations from third-party service providers, which work with multiple clients and complex projects. A leading **outsourcing provider** that serves multiple clients in a variety of industries allocates a separate physical space to the resources serving each of its large clients. The employees supporting each client are given the same orientation and training that the client's own employees receive. These innovative people practices help to transfer each client's culture into the outsourcer's service delivery organization, giving its employees a much better understanding of the context surrounding their responsibilities. Additionally, the client's functional managers work with the outsourcer's resources on a daily basis. Learning and innovation are shared goals between the outsourcer and its corporate clients, which has resulted in high customer satisfaction and performance ratings. Finally, the outsourcer has established a culture of healthy competition among its client teams. Individual and team performance is measured, and high performers are identified and rewarded on a daily basis.

Rethink facilities and infrastructure

Facilities and infrastructure are often viewed as the brick-and-mortar physical space in which service delivery centers are located. However, today there are more options for where, when, and how work gets done than the traditional office building. More and more service delivery organizations are allowing employees to work from home or other locations outside the office, and such flexible work arrangements can yield dramatic cost savings.

Implementing flexible arrangements in which employees can work remotely—from various other corporate sites, customer locations, home, or other locations—can increase efficiency, yielding savings that, in our experience, can range from 20 percent to 50 percent of space costs. This type of flexible work arrangement can not only increase efficiency, but also make it easier to attract and retain talented employees by making the company a more attractive employer. Our experience suggests that providing flexible work options for service delivery employees is becoming standard practice due to the resulting cost savings as well as the improved work/life balance that such arrangements can offer to employees.

For functions and roles in which employees continue to use a company's physical office space, the design of the work environment can greatly influence employees' productivity

and satisfaction, and therefore the quality of the work they perform for internal customers. While usually more expensive than remote working arrangements, having employees work from company office space can yield benefits by fostering collaboration and innovation. Companies should design their shared services centers to encourage such collaboration—for example, by providing ample common space where employees can connect or by keeping workspace separators low to increase interaction.

Whether its employees are working in dedicated physical office space or from remote locations, many service delivery organizations may benefit from assessing their facilities and infrastructure assets to bring them into greater alignment with its own objectives and the company's culture. A variety of workforce and workplace strategies exist that can help service delivery organizations increase efficiency, reduce cost, and improve customer service. Flexible working options can enable the service delivery organization to more easily hire and retain the talent they need; improved technology can enable the workforce to work anywhere at any time, a valuable asset in a global business environment; and innovative space design can bring new energy, increased productivity, and improved collaboration to the workplace.

Rethink facilities and infrastructure: Examples

While in the process of adding HR to its service delivery organization, a major **food and beverage company** realized that the HR function supported geographies that differed widely in their regulations and internal customer characteristics (such as language, culture, and religion). While the service delivery organization for the finance function employed a hub-and-spoke model with large teams in regional locations, the company recognized that the HR service delivery organization needed many smaller local teams to effectively serve the broad spectrum of its internal customers. However, the operating costs required to maintain and manage a large number of shared service centers housing such small teams would have been prohibitive. So instead of building physical centers, the company created "virtual teams" for HR service delivery in which HR representatives worked primarily from home. This example illustrates that, even within a single company, the same shared service model may not fit all situations.

A global **financial services company** has launched a broad reengineering initiative to reduce structural costs. As part of this plan, the company is planning a large, rapid implementation of an alternative workplace strategy (AWS). The AWS program's key objectives are to improve employee attraction and retention, increase productivity, support corporate responsibility and sustainability, and reinforce a performance-oriented culture focused on what people do, not where they do it. The company expects that the AWS will allow it to eliminate 47,000 seats, representing an annual run rate cost reduction of \$400 million. Shared service centers represent 70 percent of the company's total seats; the company has targeted 50 percent of those seats for elimination through the AWS.

Conclusion

Increasing competitive pressures will continue to force companies to scrutinize G&A functions to understand how they can better drive shareholder value. Yet most service delivery organizations are the result of a series of individual decisions over the years, resulting in piecemeal operating models that are unable to sustain or expand value for the company.

The need to improve operating efficiencies while simultaneously maintaining or increasing internal customer satisfaction makes it imperative for companies to constantly reexamine their service delivery organizations' strategy and operations. Companies should analyze their past service delivery approaches and experiences to learn what worked well and what did not. In addition, they should look at and learn from innovative service delivery approaches that other companies are using to achieve success.

For their part, service delivery organizations should make a concerted effort to redefine themselves as strategic business partners and trusted advisors that can help their companies achieve their strategic objectives. Innovation, fortitude, and a relentless passion for continual realignment and improvement are the defining characteristics of service delivery organizations capable of leapfrogging the competition to become tomorrow's leaders.

Contacts

Shamal Sivasanker

Director
ssivasanker@deloitte.co.za
+2711 209 6592

Mike Vincent

Director
mivincen@deloitte.co.za
+2783 263 4163

Andrew Crooks

Executive Lead
acrooks@deloitte.co.za
+2711 209 6885

Vanessa Vermeulen

Executive Lead Strategy and Innovation
vermeulen@deloitte.co.za
+2711 806 5400

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