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# IT Shared Services

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## Perspectives on Best Practices

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**Steve McCoy**

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# Background

## *"The Enterprise Challenge"*

Every great company in America has come to depend on Information Technology functions and organizations to some degree or another today. While we are a world that loves the academic use of the term "best practices"; it is important to recognize that major differences exist in how technology applies in any particular environment. When it comes to establishing guidelines for deployment and management of IT with Network/ Telecommunication services; "one size" DOES NOT fit all! For that reason this document is intended to provide a range of perspectives on what may be considered "best practices" and not to pretend to be anything that it is not.

That said; there are still common denominators that can and should be weighed when establishing common IT services roles in larger organizations. This paper is intended to outline some of those principles that will be part of most "shared services" solutions and to offer some points for consideration on that topic. Companies have a long history of "sharing" services in core "business" disciplines such as, Accounting, Procurement, Security, Human Resources, etc. For this document the term, "Shared Services", will primarily focus on IT operations and telecommunications topics although there will also be recommendations for interfaces to the other areas mentioned. (the term IT will include elements of computing, data management, and telecommunications)

## *Author qualifications*

This is not intended to be any kind of definitive document, but rather a primer on the topic. I'm quite sure that are plenty of so-called experts out there that would be happy to offer consulting engagements for substantial figures. These views are based on a 20+ year career where much of the time was spent running shared services organizations for systems and telecommunications groups in the world's largest provider of third-party credit/debit processing services, First Data Corporation. That included organizations of several hundred people and annual budget responsibilities in excess of $100 million. It also involved managing numerous organizations that were the result of acquisitions that provided particular challenges in dealing with "territory" and bad attitudes.

# "Shared Services" Definition

The concept(s) of sharing services across corporate entities can and will take on a variety of flavors depending on:

(1) the nature and type of the business,
(2) the role of IT in the delivery of products and services, and
(3) the role of IT in the delivery of administrative functions.

For purposes of this communication, I will suggest the following definition as a business concept:

> "**Shared Services defines the convergence and streamlining of an organization's functions to ensure that they deliver the services required of them as effectively and efficiently as possible.**"

Living up to this definition requires any organization to carefully consider both how the shared services organization will operate itself and how it interoperates with peer groups.

## *Commercial Structures*

The following provides a definition for the range of ways that business entities can operate. Most businesses run and interact with others as the based on the establishment of "commercial structures". This is just as true in running shared services groups inside a company as it is working with partnerships across external relationships. The five basic "commercial structures" include:

- **Centralized** - A single organization consolidating and centralizing a business service
- **Lead department** - An organization consolidating and centralizing a business service that will be shared by other organizations
- **Joint Initiatives (Internal)** – Agreement between two or more organizations to set up and operate Shared Services
- **Strategic Partnerships (External)** – Contractual arrangement with third party provider for a range of services which include Shared Services
- **Joint Venture (JV)** – Joint Venture legal entity between organization and third party provider

Since "Centralized" describes a singular approach to doing business, it is not part of this discussion, but each of the other structures (and in some cases a mix of them) define ways that shared services may be set up within businesses. While most the following observations and discussion will attempt to describe a list of lower level items that should be focused on in the establishment of shared services, it would be useful for most organizations to carefully consider how the models of commercial structures influence their objectives and why.

# "Shared Services" - Initiation

The definition of shared services includes the reasons justifying any initiative in terms of efficiencies and economics but; the ways that a business "starts" up a shared services group can take on many faces. We have a long history of shared services for HR, Facilities Management, Financial management, and some other corporate disciplines, but sharing IT and telecommunications services is a "young" art form in many respects. Considering that PCs have only been a practical part of most businesses for little more than 25 years and telecommunications has evolved, perhaps more rapidly than any other technology in history; claims of expertise are often based one or two successful experiences. We find ourselves driven by the term "time to market" and often take too lightly the word "time" in that phrase.

Okay. With that little adventure in philosophy behind me, there tend to be four ways that shared services IT organizations are created:

1. **Intentional** – this occurs when businesses carefully determine exactly what elements of IT will be best managed in a centralized organization, establish service level agreements with "customers", establish a full and separate business plan for the shared service group, and then staff and operate shared services according to that plan in support of the "customer" objectives.

2. **Evolutionary** – this is a more typical, where businesses start to assign "shared" responsibilities to individuals and organizations that have performed the same or similar function in the past successfully and may represent an agreed upon level of expertise. Over time, functional responsibility replaces the presumption of responsibility and management is forced to begin to address the operational characteristics of the "Intentional" model above. This usually takes significant time and is fraught with a wide range of challenges because of the lack of initial planning.

3. **Incidental** – some organizations facilitate shared services with no formal planning. Services are assigned and performed based upon generally accepted perceptions of responsibility. This does not imply poor planning or processes, as service providers may still be fully integrated into Quality and Change Management, but it does describe simpler mode of operation that may only be practical in smaller businesses.

4. **Hybrid** – many businesses operate this way. No matter what the best intentions of #1 above or the logical progressions from #2 and #3; many groups will find themselves in an ever-changing mix of the above. At the very least, this points out a **most serious need, in all cases, to establish expectations & deliverables between shared service providers and internal customers**.

No matter what method is at the root of starting shared services, there is a requirement for the formal acknowledgement of its role, at some point, with the "business" entities that it is supporting. While we can agree on common functions most characteristic to shared IT

services; business units will always have to determine the value of those functions according to their discrete needs.

# Common IT Shared Services Functions

It's important to recognize that there are a wide range of things that tend to fall under the heading of IT and related shared services. As mentioned before this is much more immature than historical shared business disciplines and, therefore, "best practices" can and should be much more variable. With most environments it is also useful to classify the shared services under the type of role that they fulfill in business, operations, or engineering. This information is not provided with any intention to define "where" the function resides, but rather to suggest characteristics along with some pros & cons for consideration. There are many ways of combining some of these functions together differently that may work in specific organizations. It is incumbent for organizations establishing shared services for IT to identify how these items are, or are not dealt with in their particular implementation. It is that process of definition that offers the highest likelihood of success for shared services.

## *Business Functions*

**Vendor ("Common") Management**: When vendors are required by multiple organizations with in a business, the communication with those vendors is typically better facilitated by have someone that can be aware of the vendors broad capabilities and not just focused on the requirements of a single business unit. This usually allows the shared role to maximize the benefits from the vendor by managing the scalar consumption of multiple "customers" and providing insights on vendor capabilities that might be exploited across consumer organizations.

**Capacity Planning**: Capacity Planning for IT is most commonly deployed within shared services organizations because the inherent intention to maximize the value of shared resources requires a view of ALL of the users of any platform. It is a relationship that requires VERY close coordination with representatives of all associated businesses. There are, most commonly, also dedicated resources with those business areas as well that spend substantial time providing forecasts and summarization of customer requirements to allow for preparations to meet future objectives. This Capacity Planning role in shared services must view all consumption requirements for the "multiple" partners that may be running on a system, and communicate requirements for additional processing capacity and/or impacts on a recurring basis.

**Project Management**: Most shared services agencies must provide resources to manage activities that are being handled on behalf of their clients. This can mean coordination with single clients or communication across a range of groups when projects impact multiple customers (internal customers).

**Financial Operations**:  While sharing of resources for financial management is one of the most common business functions in any company; shared IT services organizations often provide personnel that specialize in accounting practices related to assets and contracts associated with computing resources and telecommunications.  This may be closely coupled with the above Vendor Management functions as well.

**Network pricing**:  Because of the nature if IT, some specialization is required in a shared services organization for this skill.  It may be closely tied to Vendor Management and/or Financial Operations.

**Asset Management**:  Because of the nature if IT, some specialization is required in a shared services organization for this skill.  It may also be closely tied to Vendor Management and/or Financial Operations.

**Risk Management:**  This heading may serve to cover a couple of different areas.  Most prominently, it is important that shared IT services provide appropriate **Security Administration** for all shared resources and ensure both physical and logical integrity that customer businesses require.  The heading of Risk Management may also include coverage for **Audit & Regulatory Support** that customer units may require.  Independence from the line business roles can often simplify responsibility in this area and should not be undervalued.  It may also encompass the **BCP (Business Continuity Planning)** role for a company.

**Quality Assurance**:  Close coordination with shared service customers dictates substantial understanding of what is required for delivery to their end clients.  This may have overlap with some items under the category of Operations Functions below, but in this  business role should represent assisting the internal customer in ensuring that there is (1) always sufficient resources for their requirements, and (2) that reasonable timelines are available for them to expand resources when needed.


## *Operations Functions*

**Data Center Operations**:  Probably one the most straight-forward of all roles in IT shared services, this involves providing all resources necessary in a data center to ensure that normal operations keep running .  This will include both routine activities and intervention when any faults or failures occur.

**System & Network Monitoring/Alerting**:  Many businesses have developed consolidated Network Operating Centers as the line between computer operations and network control work has been become difficult to define.  Examples include consolidated control and management of shared resources.  This function provides realtime monitoring of "physical" performance characteristics and facilities resources.

**"First Line" Problem Management (CRM):** This is a frequent role provided within shared organizations. It is generally limited to problem reporting and trouble ticket initiation as well as escalation into business organizations for resolution and/or further caller/customer interface. It may be associated with **Data Center Operations** or **System & Network Monitoring/Alerting** roles above**.**

**Facilities Management**: This involves all physical plant management for locations where shared services functions are provided. It also couples with Vendor, Asset, and Capacity Planning elements in the Business functions areas.

**PC User installation & support**: Another of the most commonly used 'shared IT services' is the deployment and management of end-user systems in business environments. It typically has direct linkage to other shared functions like Asset Management, Vendor Management, and Risk Management. Across most industries, this typically may offer the greatest overall benefit to combining both efficiency and economics.

**Equipment Installation**: Typically tightly coupled with Data Center Operations and/or PC support along with Facilities and Asset Management; the degree to which shared services will either provide hardware support for installations or to manage vendors completing this type of work usually offers high returns versus individual businesses attempting to manage it.

**Change Control**: As a natural extension of the wide range of other functions under the heading of "Operations", responsibility for consolidated Change Control groups and procedures typically falls into shared services for IT. Often companies will assign the bulk of corporate change methodologies into these groups because they typically represent the most frequent and challenging sources of change to be managed.

## *Technical Support Functions*

**Equipment/Network Design** (vendor selection): Generally there are benefits to overall understanding for equipment configuration and design residing primarily in shared service groups for IT. With the rapid speed and scope of hardware solution changes and availability, it is difficult for organizations to focus both on understanding their client requirements and evaluating all the solutions. Having the solutions "screened" on an ongoing basis can shorten the time needed to match resource capabilities with business driven requirements. By closely coupling with Vendor Management roles in a shared services organization, substantial savings may be recognized in both time to market and capital expense. This does not and should not replace the role of defining the business requirements however. The Technical Support functions, in general, should be resources to assist the businesses in defining solutions, not to stand in place of them for that business responsibility.

**Network design & configuration**: On a close parallel with the above Equipment Design, network engineering may be even more important from the perspective that the best way to

gain efficiency and cost reduction in a business is to share "network" resources. This is another of the areas of most common and greatest benefit with shared services across the marketplace. It is also closely coupled with Vendor Management, and Financial management roles because of the impact of network and telecom costs on both the cost of shared services itself and how those costs are "allocated" to internal business "customers". This role should support, not replace, responsibility in businesses for understanding the requirements to deliver unique business solutions to their end-clients.

**Quality Control** (deliverable elements): Quality Control differs from the Quality Assurance item mentioned in the above "Business Functions" in that this refers to the engineering and deployment of specific resources or controls that contribute to the physical quality of products and services. Put simply, Quality Assurance defines what must be delivered and Quality Control guarantees that it is delivered. This engineering role should be utilized early in projects as a resource to Quality Assurance personnel that requirements are properly matched to resources provided by shared services for the actual product delivery (..or Service Delivery)

**System Performance** (Capacity information & reporting): This role is often filled within the scope of interfaces in the above Business and Operations functions, but it is important to note that it is often not provided the focus that it should be. The capacity planning role is more closely coupled to the business functions whether they are in shared services or in a business unit itself. Capacity Planning provides the analysis and definition of characteristics in a product/service model and how that relates to growth and resources required. In order to be successful Capacity Planning depends on information that must come from low-level resource measurements and information. It is this engineering role that should provide a shared services organization with the ability to provide the data for Capacity Planning to be built on. As it relates to application specific information, this may require direct cooperation between Shared Services and business staff to find the "lowest common denominators" in configurations.


Again this summary is intended to represent "Common IT Shared Services Functions", not to provide a roadmap for any particular shared services implementation. It is important to recognize the roles will have to be filled in some fashion though, for any business to operate IT and network/telecom services.

# Opportunities & Pitfalls

With every "Shared Service" environment there will be a wide range successes and failures. Companies that implement these types of arrangements often do not do a good job of evaluating how they are truly working.   The following outlines frequent examples of both the positive and negative possibilities that can exist with Shared IT Services groups and points out the need for specific understandings as to role responsibilities, especially in large organizations.

## *Routine Successes & Opportunities*

**PC/LAN/WAN Support**:  This is probably the most frequent and successful shared service model in the industry.  Providing centralized support for the daily PC access and use of most of a company's employees, is at the forefront of ensuring stability, security, and integrity, while typically providing businesses with one of the highest ROI opportunities by literally enable most of their workforces to function.  Let's face it, most service businesses in the United States is almost totally dependent on placing computers in the hands of their employees.

**Facilities Management**:  Managing the physical plant for business is a long standing "shared service" and certainly has plenty of "best practice" history in general.  For shared IT environments it is not as mature, but still can build on most environmental management background.  IT disciplines have introduced more specialization in cable management, power backup and distribution, air conditioning, and security.  Despite the relationships with overall facility planning, most organizations have specialists in the IT facilities and it is not uncommon for those parties to be part of IT Shared Services or have dotted-line reporting relationships with Corporate Facilities groups.

**Financial Support**:  Like Facilities Management, finance organizations usually are well rooted in providing support across corporate entities and defining the methods for reporting and projections in business units.  Because it is not uncommon for significant portions of a business' expenses to be tied up in technology areas, IT Shared Services can frequently benefit with specialists in asset management, facilities costing, and especially network and telecommunications accounting.  As with some of the other disciplines; close working relationships, if not common management structures may be aligned with some of the other functions defined in this document.

**Vendor Interfaces**:  Centralizing negotiations and management of vendors that are used in multiple facets of any business can provide big dividends to a corporation.  Almost every vendor will provide improved pricing based on a customer's consumption.  Without this central management, companies can end up with multiple unnecessary contracts that do not exploit that opportunity.   It is generally to the advantage of both the vendor and the consuming organizations to have relationships brokered from one place.  Depending on the

services this may be filled by a corporate procurement group, but again, for IT Shared Services, it may be more effective to have specialization with that team.  A most common example would be having centralized management of Microsoft software resources that can result in extraordinary savings.

This just suggests a few of the topics that most often provide significant advantages to a corporation.  Numerous other examples like **Network Monitoring, Data Center Operations, Change Control, "First Line" CRM,** etc. can all provide dramatic operational and financial benefit by centralization into shared services functions.  It is critical, however that, as these functions are designed, the priority to defining how they operate is **first** on meeting the requirements of the "customer" business units and **second**, on defining corporate guidelines.


## *Pitfalls & Common Traps*

The establishment of corporate guidelines is very important, but the operation of any shared function, particularly IT Shared Services should not result in putting any internal customer organizations at operational disadvantages in meeting their goals.  Beyond financial and legal/regulatory compliance, business units must identify best practices for their unique success.  Providing service that meets those objectives must be paramount to shared groups.  Otherwise, business units must be free to pursue other alternatives that provide more opportunity to their organizations in meeting their discrete goals.  Any organization that falls into the trap of providing "shared function" that tries to "define" the business versus "support" the business will ultimately fail.

The above comments present an example of an extreme.  Most commonly, shared services groups (as any other business) must constantly manage themselves to find the right balance of providing management and guidance with customers versus "listening" to what the customer requires and complying as needed.

The following are some examples of common situations that can arise between IT Shared Services and customer organizations.  There are probably many more that could be identified, but this may serve as a "short list" of things for parties on both sides of "shared services" to try to avoid.

**Poor/Missing Service Level Agreements**:  The most fundamental problem with any shared service involves misperceptions regarding service expectations by the parties.  In order for a business to meet the expectations of their clients, they must have reasonable confidence in the delivery systems that may be run by shared service organizations (and that refers to more than just physical systems).   SLAs need to be developed for all facets of resource operation being provided by shared groups and they should be the result of negotiations just like any other customer/supplier relationship.  If a shared service group is not able to find ways to meet a customer's objectives, then that customer must be free to look at other alternative delivery mechanisms.  They may often discover that the shared entity is still the "best"

solution, but the ultimate objective is to ensure that all parties understand how they will operate together.

**Accountability**: This is a very difficult topic that always comes up. Since the definition of "shared services" includes an objective to"…..**deliver the services required of them as effectively and efficiently as possible";** these groups are typically zero-based budget organizations. They are not intended to contribute to revenue lines directly. Since the business groups typically have accountability to end-clients (often with financial liabilities) they must carry all the risk associated with product delivery even though the shared service organizations may play a major part in providing that work. There is often a perception that the shared services group "has no skin in the game". This is another reason that the commitment to SLAs is so critical. With no risk of financial penalty in a shared services group; management must accept and communicate responsibility across their organization based on personal performance and define appropriate remediation for any team failures. The business unit must understand and accept those guidelines or provide alternative requirements for the shared service team.

**Confusion of 'Ownership'**: One of the most difficult perspectives for parties to maintain is proper understanding of "who is in charge" regarding physical and logical assets in a delivery system. It is the obligation of "shared services" to define the characteristics of resources to customer organizations. This should include whether those resources are dedicated to a business or shared across multiple groups and how they are managed. Again, SLAs should establish the criteria under which these operations should be dealt with. For example, if a shared service group is providing the physical hardware and facility for a server, but a business unit is responsible for all installed software because it is dedicated to them, what actions are taken if the server fails? Failure to identify "ownership" in Service Level Agreements can only result in organizational conflict and delivery difficulties.

**Application Development**: While it is not uncommon to look for opportunities for "shared applications" across different organizations to be maintained centrally, this simply does not often work well. As with some of the other observations here, requirements gathering really does need to stay as close to end-customers as possible and the concept of shared service generally has different objectives than "client facing" teams. Applications that support IT operations, BCP, and very low-level functions (e.g. date/time calculations, currency translations, etc.) might be fine, but having shared service organizations "define" methods for business units to be held to for applications will typically meet many difficulties.

**Design vs. Operation of Solutions**: This should be one of the simplest principles in IT Service Delivery, but is often not dealt with well. As the party with P&L responsibility and end-client relationships, business units should retain primary responsibility for solution design. Since those solutions will require operation by IT Shared Services, they should be an important contributor to designs. As described under the Technical Support functions in the above "common services" section, business units should be able to depend on design support from IT Shared Services, and should most frequently comply with configurations deployed to gain the targeted advantages from shared resources, but must also be working with that

support role to <u>meet customer needs not to force customers to meet ours</u>.  With the responsibility for managing P&L and end-customer relationships comes the responsibility for translating requirements into solution design, and those tasks fall to the business unit.

**Financial Practices & Allocations**:  Since most "shared services" groups are defined as zero-based budget organizations and do not usually "contribute" to revenue lines directly, it is the responsibility of financial management to allocate the costs associated with running "shared services" to consuming business units appropriately.  Failure to identify and allocate these costs correctly can do serious damage to any particular business unit model and even result in a corporate business that focuses on the wrong strategies and objectives.  It is <u>imperative that shared services groups account for utilization of resources correctly</u> in order for corporate finance to direct internal charges properly.  Business units have a right to define the nature of reporting required to ensure that they are billed correctly.  In practice, this usually results in shared organizations providing an "allocation methodology" on a recurring basis (typically annual) that can be amended as resource consumption changes.  It is also common practice to periodically "true-up" actual costs with any forecast rates and ensure that business units are recognizing benefits from having the shared services groups.

**Capacity Management**: Capacity Planning is a core IT discipline that is frequently underestimated by business organizations.  There are a wide range of ways that it can be dealt with at the business level, but there are key elements that must be accounted for in a shared services organization.  Without proper minimal capacity planning capability, there is no way that a shared services group can correctly provide SLA information, nor allocation data.  In the absence of disciplined reporting on resource consumption it is also typical for expansion of resources to be less accurate resulting in either higher costs than necessary or operating at higher risks than desired.  While the role of Capacity Planning should largely, reside with the business entities that have relationships with customers and need to plan P&L accordingly, that planning can only be accomplished if shared services provide appropriate information to work from.

# Summary

As previously stated; this document is provided to offer a wide range of discussion material on common operational characteristics with "Shared Service" organizations in general and IT shared services in particular. It is intended to respect the great advantages that can benefit a corporation using shared resources. It is also intended to offer consideration of some of the common problems that are often encountered in operating these solutions.

Most prominently it should be noted that all parties should consider two key viewpoints in structuring their relationships and respect business roles accordingly.

1. Often individual business units do not have a good view of the scope of the challenges that a shared services organization may be driven by and can provide. Business groups should take advantage of opportunities that shared services' breadth of understanding might provide.
2. Shared Services organizations can not presume to understand nor encumber the relationships with end customers that a business unit with Profit and Loss responsibility has, to include definition of requirements and design of solutions.

*No member of a crew is praised for the rugged individuality of his rowing.*
*~Ralph Waldo Emerson*

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