The new case for shared services

Growth fueling challenges

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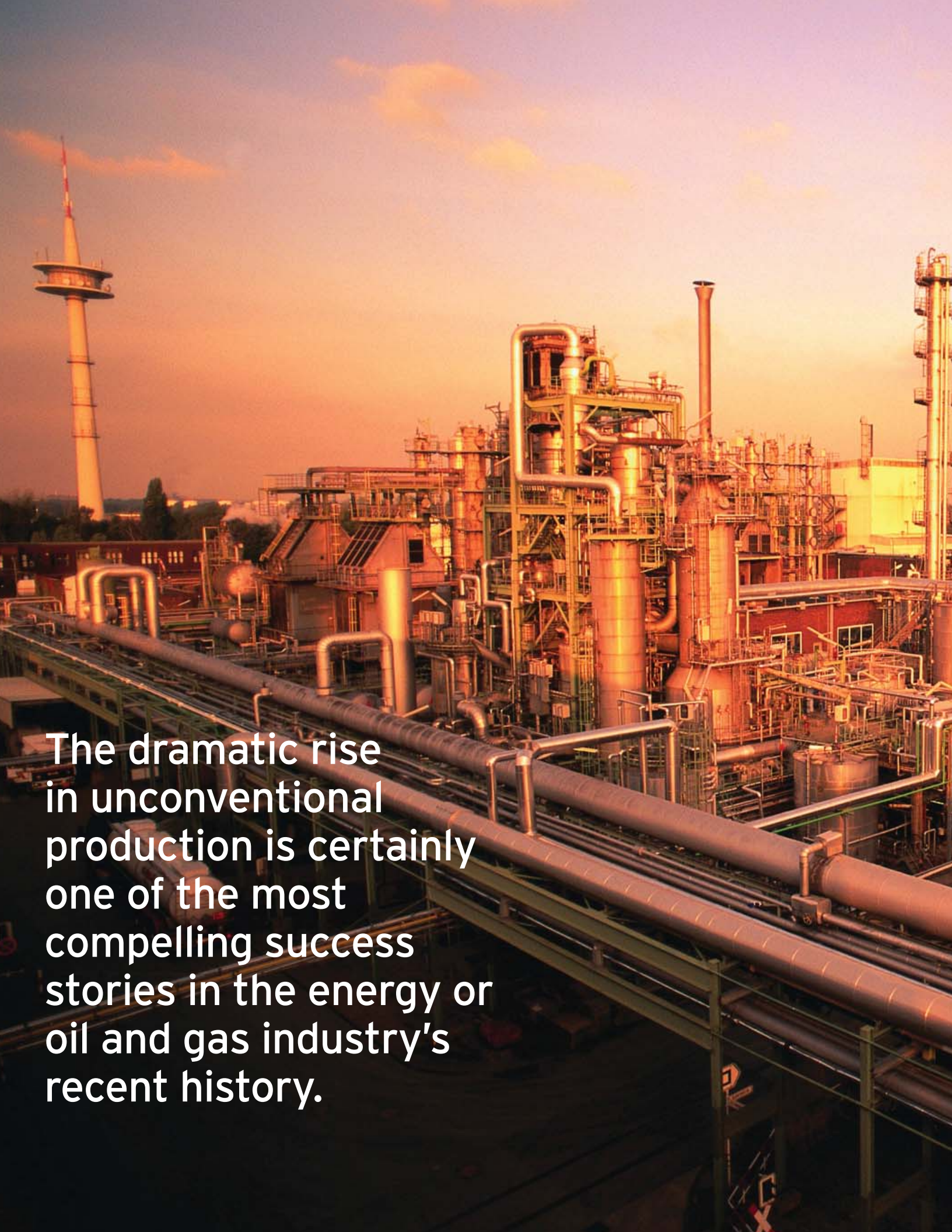

The dramatic rise in unconventional production is certainly one of the most compelling success stories in the energy or oil and gas industry's recent history.

The new case for shared services

The oil and gas industry is enjoying an unprecedented growth cycle that is likely to continue for many years. But that growth brings capital, cost and capacity challenges that can be overcome by changing the way services are delivered internally.

The dramatic rise in unconventional production is certainly one of the most compelling success stories in the energy industry's recent history. The rush to develop tight oil, oil sands and other unconventionals has increased North American liquids supply to levels not seen since the 1980s, and the trend is expected to continue well into the future.

But that success comes with new and unique challenges. The growth in crude production, coupled with the extended global recession, has pushed the price of oil down to a range of US$90 to US$110 per barrel, tightening margins. At the same time, the need for cash continues to rise, from capital requirements to back-office expenses, with most related to the boom in shale drilling.

The situation is much the same for downstream companies. Many face expensive capital requirements to upgrade aging facilities and provide a refining outlet for increased production of light crude.

In addition to these margin and capital challenges is the fact that the industry's workforce is aging and a significant talent shortage is impacting performance in key areas.

The innovation and technology advances that have spurred a new "energy renaissance" in North America have left many companies struggling to manage growth. There is a very real need for sustained cost reduction and system scalability to accommodate continued increases in activity. A key challenge for energy companies today is to identify structural, long-term organizational changes that can strengthen their ability to compete in a low-margin/high-capital capital growth market.

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What needs to change

To remain competitive, energy companies today need to maximize cash from operations. They can achieve this in large part by lowering back-office costs, but this must be done without negatively impacting service.

In addition, it will be critical for companies to keep the rate of increase of future costs below that of their revenue growth. And they must have adaptive cost structures in order to flex with constant, unanticipated change.

In other words, companies must find a workable balance between staffing, costs and a high level of service for back-office operations.

To achieve this balance, companies have several talent and cost levers they can use, including:

- Knowledge management
- Workforce specialization
- Labor arbitrage
- Process improvement
- Process standardization
- Process automation

The following chart visually maps the goals and available levers.

	Knowledge management	Workforce specialization	Labor arbitrage	Process improvement	Process standardization	Process automation
Cost level		●	●	●	●	●
Cost flexibility				●	●	●
Cost scalability	●			●	●	●
Workforce sustainability	●	●		●	●	●
Workforce flexibility		●	●			●
Service level						●
Service flexibility	●					●
Service scalability				●	●	●
Service sustainability	●	●		●	●	●

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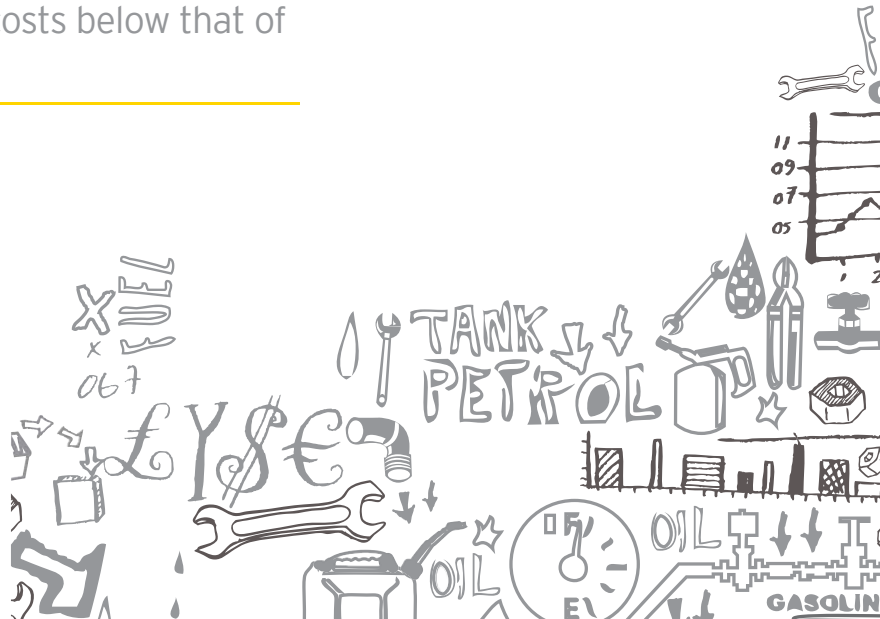
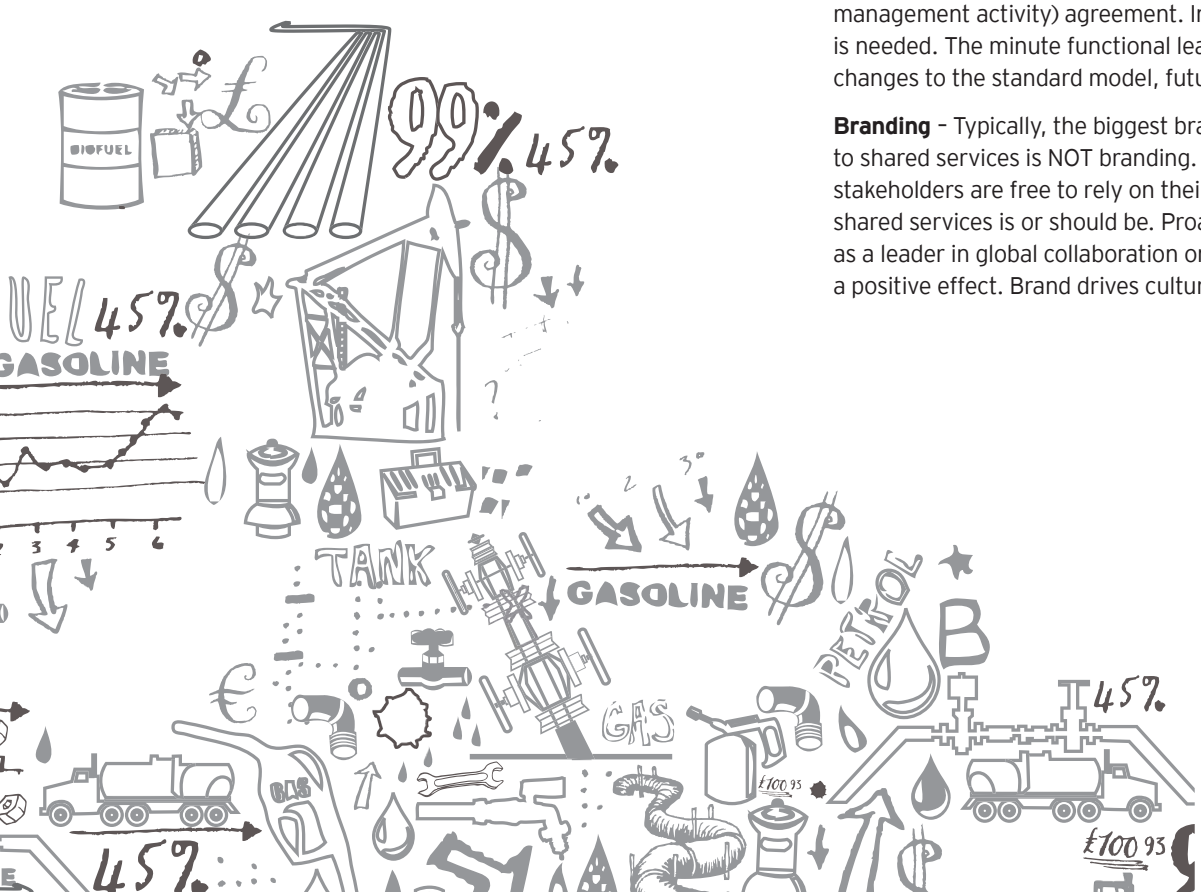


Choosing the right operating model

There are pros and cons to each of the various models for delivering back-office services — outsourcing, captive shared services or hybrid structures.

However, many organizations have learned that in order for outsourcing to be an effective solution, a highly functional internal governance model is required. And once that mature model is in place, companies could enjoy the benefits of outsourcing — cost and efficiency — while using a captive shared services approach that also enabled flexibility.

Consequently, there has been a trend toward insourcing among energy companies, allowing organizations to save the margins they previously passed on to their outsourcing partners. Given today's constraints, both established super-majors and start-ups alike should take a fresh look at shared services to help them realize their cost management goals.



Maximizing the potential of shared services

Historically, shared service organizations have underperformed for many oil and gas companies, for a number of reasons. Thus, discussion of expanding these operations into new geographies and new, more complex functions — such as budgeting, planning and analysis — is often met with skepticism.

But there is a great deal of value to be gained by fixing and optimizing existing shared service operations, and then transitioning to new functions. Doing so, of course, requires understanding what is currently not working, and then designing and implementing corrective actions. Issues that companies need to consider and address include:

Leadership support — Is company leadership tangibly supporting shared services? If executive leadership does not mandate shared services and allows an "opt-in" approach, many predictable events negatively impacting performance often follow. Functional leaders may agree to migrate certain activities to shared services but may only agree to do so as long as they can maintain control and exclusively determine the definition of success of shared services. A better formula for success is to agree upon which activities will be migrated, based on leading-practice criteria, and agreeing on a standard delivery model, along with a cross-functional RACI (i.e., who's Responsible, Accountable, Consulted, and Informed for each management activity) agreement. In short, a standard delivery model is needed. The minute functional leaders are allowed to negotiate changes to the standard model, future success is compromised.

Branding – Typically, the biggest branding mistake when it comes to shared services is NOT branding. Without effective branding, stakeholders are free to rely on their preconceived notions of what shared services is or should be. Proactively branding the organization as a leader in global collaboration or as an innovation center can have a positive effect. Brand drives culture and culture drives performance.

Governance — Allowing your shared services governance organization to be structured as a one-way, top-down oversight organization specifically focused on shared services improvements is a very common mistake that can result in missed improvement opportunities, negativity and morale and retention problems. Frequently, performance problems originate within the shared services ecosystem, but outside of the shared services organization's control. Examples include:

- HR employee requisition and approval policies result in continual understaffing of the centers.
- IT infrastructure results in slow and unreliable system response, thus handicapping productivity.
- Facilities sharing policies, if not well communicated and executed, can result in second-class treatment for center personnel, placing a drag on morale.
- Internal corporate process owners place external customer contact constraints or approval requirements upon the center, but don't keep the work flowing by performing these additional intermediary steps they have added.

Effective governance takes an arm's length view of the entire shared service ecosystem, including the enabling organizations that provide service to the shared service organization as well as their customers.

Further, the governance organization should demand performance accountability wherever there are performance gaps, across the entire ecosystem. Governance should be both an advocate and a critic for all stakeholders. Ongoing, proactive, multidimensional, effective risk assessments should be incorporated into the governance process.

Effective governance has to be designed. In addition to councils and accountability documents, there are many processes that should be designed and enabled.

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Expectations management — Shared service organizations are often burdened with unrealistic expectations. Internal customers do not want to accept a drop-off in performance during the migration period, specifically when knowledge transfer and new employee training is taking place, and where an infrastructure may not be mature.

Also, customers commonly demand a performance level that has never been measured or achieved in the legacy organization. An outsourcing company would never agree to delivery on an unproven, unrealistic performance baseline, nor should a captive shared services organization.

External benchmarks are helpful in understanding what is possible, especially when these benchmarks are linked to leading practices that helped these companies achieve their desired performance goals. Internal historical performance measures are also helpful, but cannot be looked at in isolation. Processes that have been migrated to a center are different for a variety of reasons (for example, more hand-offs, more workflow, more specialization) and therefore will likely result in new peak performance levels, either higher or lower.

As such, committing to replicate or exceed legacy performance may be a mistake. Shared services organizations are often best served by committing to establish a performance baseline over a period of time, then agreeing to a migration period where performance will increase up to a steady state.

Then, once a steady state is achieved, setting continuous improvement targets is often an effective way of demanding constant change over what is controllable and measureable.

Though it's not easy to accomplish, an attempt should be made to tie performance to migration timelines and milestones. Progress compared to these time-adjusted performance measures should be communicated. For example, invoice processors can commit to processing 50% of the number processed by the legacy organization by month three, and 90% by month nine. Historical training data and other pertinent facts should be used to arrive at these percentages.

Just as importantly, a shared services handicap should be applied to discount the commitment number. This number is much harder to estimate, but should directly correlate to the quality and completeness of the training material, as well as to any changes made to the process in order to move the work.

Innovation and automation can obviously have a big impact on performance and are often the key to achieving top results.

Innovation and automation can obviously have a big impact on performance and are often the key to achieving top results. If an internal customer expects top performance, the shared services organization needs to invest in automation and/or needs some level of process ownership in order to innovate. The shared services center cannot fix a broken process without the necessary tools. Structuring process ownership remotely with no stake in the game is a common organization design mistake.

Performance measures — It is common for shared services organizations to agree to performance measures that cannot easily be achieved or in which they have no control over.

Performance measures are never perfect, but they can be developed in a manner that is fair and that serves the best interests of the service organization and its customers.

We have found that five types of performance measures cover most situations and should be considered for each function delivered by a shared service organization. The five are:

1. **Net cycle time** — This measures the time that a work product is within the control of the center. This does not include time that the work product is sent back out for approvals, clarification, additional information, etc. This process requires time-stamps for each hand-off into and out of the center, and timestamps generally require a technology platform. Functions that are transactional in nature, require quick turnaround time, vary greatly in volume from day-to-day and are customer-facing are good candidates for effective net cycle time tracking.
2. **Net quality** — This measures controllable quality by considering both the defects of each work request coming into a work cell and measuring the errors created in that work cell. Understanding the types of defects coming in as well as the errors going out and analyzing the cause-and-effect will help provide a true picture of controllable performance and end-to-end process improvement opportunities. Tracking and categorizing defects and errors can often be accomplished with a spreadsheet. However, in higher volume, more transactional functions, technology can definitely help with this tracking and measuring process.
3. **Cost or efficiency** — Shared service organizations often strive to be market-competitive. In order to measure their relative competitiveness, calculating cost per work unit — for example, the cost to produce an invoice — should be considered. Since investment in automation can add a cost to each unit, it is helpful to measure the cost and benefit of such investments in automated work units separately. When comparing cost or efficiency versus internal and external benchmarks, investment in automation should be considered.
4. **Strategic alignment** — Process owners often make decisions that they expect shared service centers to execute. It is insightful to understand how effectively a shared service center is carrying out the strategy, as it can have a significant impact on overall performance. Measuring progress can help force an ongoing critical review of the strategy and its execution. An example of a strategic alignment measure in the area of cash application is the percentage of autocash achieved versus the strategic goal of the order-to-cash process owner.
5. **Value contribution** — Back-office functions exist for a reason. One function may exist in order to help the company comply with an external requirement, such as general accounting. Another function may exist to save money. Measuring each function's value will help ensure the focus of these groups does not shift completely to other considerations, such as efficiency, at the expense of their purpose. An example of a general accounting value contribution measure is the number of audit exceptions compared to a threshold.

Companies sometimes make the mistake of not investing in a measurement infrastructure to save money, but they pay later when they are unable to manage with facts. Other companies are concerned that if they measure everything, retention will be negatively impacted because employees will feel like they are constantly being watched. What we have found is that these measures and dashboards often highlight problems with end-to-end processes outside of the center, which allows center employees to only be accountable for the activities they directly control.

Cultural alignment – Declaring that "we are all one culture" and that the shared service centers are treated no differently than other internal groups may not be enough to make it so. Many things are different when work is moved to a remote location, often performed by people with much different backgrounds than their predecessors. Not achieving "cultural alignment" may adversely result in an underperforming shared service organization in the form of low morale, productivity and employee retention. There is a real business need to understand and address these differences. Inherent differences should be reviewed along with desired culture. Then specific action plans should be adopted with the ultimate goal being to attract, retain and motivate all of the people in the shared service organization. Human resources (HR) should be part of the team that helps review how HR policies can support these endeavors.

People and organizational effectiveness – Designing a structure for how diverse human beings interact and maximize each other's performance is not easy. Some of the more common challenges include:

- **Shared service center leadership** – Center leaders need to use both the left and right side of their brains. They need to be good relationship managers (most companies get this right), and they also need to be good operations managers (this is an area many companies often don't recognize). When customers have a problem, they invariably want to go straight to the top. The person at the top needs to understand operations at some level in order to be credible with their customers and to be able to support their people.
- **Career paths** – Shared service center employees from remote locations are typically highly educated and often come from the middle-upper class in their country. They have high career aspirations, and they consider a position with a shared services organization as a stepping stone – and they often have options with other companies. Leading shared service organizations take career planning very seriously. Unfortunately, many organizations figure this out too late – after employees begin leaving and performance begins to dip. Frequent, small, prescribed promotions tied to achievements can help maintain performance and enhance retention.
- **Talent mix** – Certain skills, such as data management, become much more important in a central environment where jobs are specialized. Many companies make the mistake of staffing their shared services centers with the same mix of talent as in the legacy organization.

Cross-functional tools and enablers – Like a manufacturing plant, back-office operations need infrastructure – a way to accept and route work. They need ways to manage the quality of the requests coming in, and a defined process for handling non-standard requests. Shared services centers need to be able to collect information that helps them continuously improve, and they need to be efficient and effective with the way they handle data.

Without some basic cross-functional infrastructure, centers will likely never reach the productivity of the legacy team. Acquiring knowledge to do a job proficiently, having a way to manage hand-offs into and out of the shared services center, and effectively handling customer and policy exceptions are all needed just to enable the shared services center to replicate the efficiency of the legacy team. Cross-functional processes and enablers are needed to achieve baseline performance. Other infrastructure is needed to promote innovation and superior performance.

When work is being prepared to shift to a shared services center, it is common to have functional experts design processes similar to how they looked in their previous, decentralized organization. Further, processes in one function are often designed completely differently than the others, making it very difficult for shared services leadership to effectively manage. And functions often overlook critical new processes such as the hand-off of work into and out of the shared services centers.

ERP integration – The most common mistake is not building the necessary infrastructure. Many organizations learn about their infrastructure needs as they march along the maturity curve, implementing point solutions as they go. The result is limited integration with their ERP.

SAP recognized the market need for an integrated shared service infrastructure and subsequently designed, built and marketed their "Shared Service Framework" (SSF) offering. Although SSF does not do everything that every function in a shared services center needs to achieve optimum performance, it integrates with other SAP offerings to provide a highly effective suite of tools.

Expanding shared services into new areas

Many companies have expanded their shared services organizations beyond transactional activities, often called "business services," into more analytical or certification-based functions known as "centers of excellence." Some companies have even offshored or outsourced large parts of strategic functions such as research and development.

A trend with energy companies today is to move a majority of the activities in functions such as budgeting, planning and analytics or supply chain analytics to a shared services center.

In order to determine which functions or activities to move, the criteria of the work should be analyzed, as illustrated below. In general, leadership, entrepreneurial, judgment-based and strategic activities that require significant industry or company-specific skills are not good candidates for centralization.

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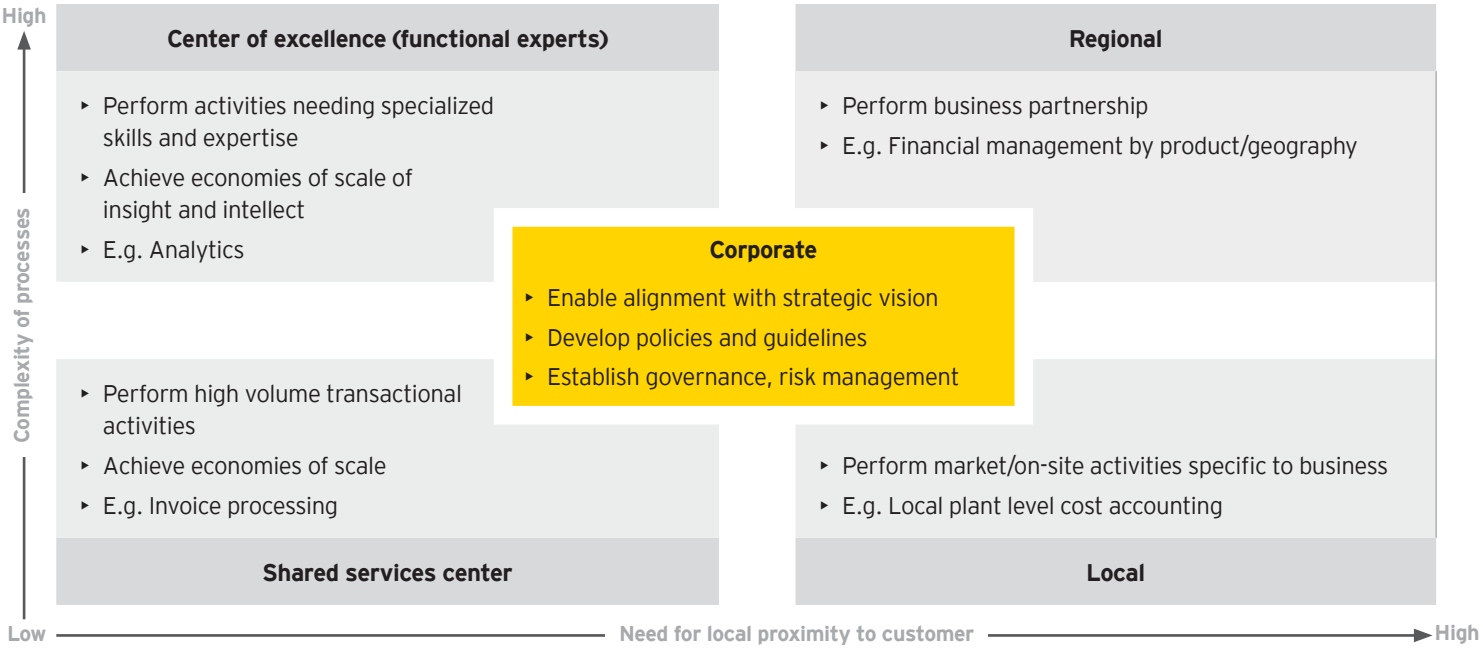

In addition to looking at the activity breakdown of a function and applying a centralization criteria like the one illustrated, "core activities" should be considered. A core activities review can highlight what work is truly being performed and what skills are needed to successfully complete these activities. This additional review generally results in a more aggressive level of centralization and helps provide clarity to what skills will be needed in the centralized organization. Examples of core activities include: data management, routine analytics and judgment-based analytics.

An effective strategy

The energy industry is in the midst of a historically impressive growth phase that is putting a significant strain on cash and talent at many companies.

For many oil and gas companies, a global, multifunctional, shared service center — that includes centers of excellence in key areas — can play a strategic role in providing a competitive cost advantage and improving back-office performance. And although some oil and gas companies have experienced suboptimal performance from shared services in the past, this model can help manage growth considerations when applied correctly and with the proper design and rollout.

How EY can help

What we do

EY uses its sector-focused approach and global delivery capabilities to help our clients transform business performance, manage risk and sustain improvement.

Our global structure, including our shared services center practitioners' network of over 800 subject matter professionals, enables us to operate seamlessly with our clients and across our own organization in over 140 countries. Our Advisory capabilities are forged by our heritage in Assurance, Tax and Transactions, and enriched with our people to inject sector-specific knowledge.

- With various benefit forecasting and management tools, we are able to monitor development and outcome — starting from the global business services strategy refinement to the point of implementation.
- EY's change management approach will be a focus area from day one of such a project. It closely aligns communication and change elements to project evolution and the issues that may arise for stakeholders. For each project phase, road-tested tools and methods are in place, which enable change. We recommend deploying our EY "Advanced Solution Center" toward the end of the design phase, to achieve strong stakeholder alignment on the target operating model and gain additional momentum for change.
- We employ a multitude of proven tools to tackle the challenges that clients typically face during each project phase.

Our end-to-end Global Business Services framework can improve your business performance. We provide the business intelligence, planning and analysis to help enable our clients to make practical, informed decisions about business direction and the technology needed to enhance these services. Our global knowledge can help you to increase your operational effectiveness, drive sustainable and measurable results, and protect your business.

What we offer

- **A highly integrated business, a highly integrated Advisory practice.** We operate as a single business across all our geographical areas, which improves our decision-making and speed of execution.
- **Highly experienced shared service professionals.** We attract and retain top talent across industries in a structure that enables us to mobilize our people quickly — and allocate them to projects in the right place, at the right time.
- **One global methodology.** We have a highly integrated modular methodology so that wherever we work, we deliver consistently.

Contacts

For more information on how EY can help your company, contact any of the EY professionals listed below

Jim Franks
james.franks@ey.com
+ 1 214 969 8550

Jim Perrine
jim.perrine@ey.com
+1 704 338 0537

Greg Handley
greg.handley@ey.com
+1 312 879 5740

We provide the business intelligence, planning and analysis to help enable our clients to make practical, informed decisions about business direction and the technology needed to enhance these services.

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The oil and gas sector is constantly changing. Increasingly uncertain energy policies, geopolitical complexities, cost management and climate change all present significant challenges. EY's Global Oil & Gas Center supports a global network of more than 10,000 oil and gas professionals with extensive experience in providing assurance, tax, transaction and advisory services across the upstream, midstream, downstream and oilfield service sub-sectors. The Center works to anticipate market trends, execute the mobility of our global resources and articulate points of view on relevant key sector issues. With our deep sector focus, we can help your organization drive down costs and compete more effectively.

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