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How shared-services organizations can prepare for a digital future

To complement their efforts to build innovative customer experiences, companies should consider ways to digitize back-office functions and optimize company performance.

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Over the past few years, companies have taken many routes to digitizing the front ends of their businesses to create seamless customer interactions—for instance, building mobile apps that make it easier for customers to, say, order clothing or open a bank account.

To ensure greater success with those efforts, companies may want to consider ways to digitize their back-office functions, which in many companies are handled by shared-services organizations. These groups typically manage and deliver technical and administrative support in areas common to all business units in a company, such as finance, human resources, and IT. In many cases, they undergird core business functions. In a financial-services setting, for instance, the shared-services organization might be charged with processing loan applications or insurance claims. By incorporating automation, virtualization, advanced analytics, and other digital technologies into their operations, shared-services organizations may be able to streamline processes. These technologies also may enable them to make better decisions and improve the quality of internal and external customer interactions. McKinsey research suggests that companies, by digitizing their shared-services organizations, can achieve significant savings in both time and money—for example, up to 50 percent increases in efficiency in some back-office functions.[1]

Consider the digital transformation at one global bank. The customer-onboarding experience has been largely automated. Customers build their

Takeaways

Companies that digitize their back-office activities have an opportunity to realize significant savings in time and money—up to 50 percent increases in efficiency in some activities, for instance.

But most have not developed digital capabilities within their shared-services organizations, which are centralized groups that deliver technical and administrative support to all business units.

These organizations have a key role to play in the digital environment, given their expertise in efficient delivery of software and services, coupled with the value of the back-end data they capture. But they are held back by lack of the right talent, oversimplified growth models, and overreliance on locations in far-flung "service factories."

To kick off the digital transformation, these organizations need to address challenges in process and work flow, talent, and operating models. Solutions include automating high-priority processes, redefining the skills required to serve an increasingly digital business, and shifting to new product-development approaches (such as agile and DevOps) and technology platforms that can deliver higher-order benefits to the parent company.

own profiles and initiate lower-level transactions; shared-services teams intervene only to check documents and manage approvals if required. Managers of the shared-services organization can monitor employees' capacity in real time and allocate support assignments accordingly. The results have included a productivity increase of more than 40 percent, improvements in internal controls, and greater customer satisfaction. Indeed, customers' likelihood of recommending a product or service to others rose by about five percentage points over a 12-month period. The bank attributes this increase in part to its digital back-office capabilities.

As great as the opportunities are, however, our research suggests that shared-services groups in most companies are not yet prepared for a full-scale shift to digital ways of working. In fact, less than a quarter of the companies in our research base have started to build the digital capabilities required to improve internal processes, interact with customers and partners more efficiently, and create innovative products and services. Companies seeking to make such a transition face constraints relating to process and work flow, talent development, and operating models. There may be concerns about integrating legacy systems with newer digital technologies, for instance, or a shortage of the talent and skills required to undertake such a huge transformation program, as well as conflicting strategic priorities within the leadership team.

In this article, we discuss the opportunities companies may gain by digitizing their shared-services groups, the challenges they may face in trying to do so, and ways to get started on such an initiative. By systematically considering the size and scope of the opportunities presented by digitization (see sidebar, "Assessing digital readiness"), and by prioritizing elements of the back-office digital transformation according to the company's near-term and long-term objectives, companies can take advantage of new technologies to reduce costs and optimize performance.

Understanding the opportunities and challenges

Most consumers rely on one digital channel or another to interact with companies. Many say they prefer shopping through mobile devices or laptops for ease of use, greater choice and control, and timely delivery of products and services, among other benefits. In turn, most companies are piloting new applications, products, and digital tools that allow them to collect and analyze data, and turn insights from those data into decisive frontline actions that can help improve interactions with customers and business partners.

Shared-services organizations have a central role to play in this digital environment. These groups exist to streamline the management of internal processes and to assist in the quick and efficient delivery of software and services to customers. Increasingly,

Assessing digital readiness

Before undergoing a digital transformation, leaders in shared-services organizations should ask themselves a few core questions relating to their current and desired states of operation, their existing talent pool and other resources, and the parent organization's top-level support for a change. Questions might include the following:

- How real are digital threats and opportunities in the eyes of the parent organization?
- How would the shift to a digital model reshape the core value proposition of the shared-services organization?
- How can the organization simultaneously operate at three speeds—traditional, transformative, and disruptive? IT and business leaders will need to determine how to keep the lights on and deliver threshold service levels while exploring potentially disruptive new ways of thinking and working.

The answers to these questions can help shared-services leaders build the business case for digital transformation and can inform their longer-term strategy, planning, and resource decisions.

the back-end work they perform is critical for capturing data that the parent company can use to create even better, more seamless front-end experiences. The shared-services group at one global bank, for instance, built an integrated database that gives sales representatives a holistic view of products and customer preferences and activities. Using available customer data and some digital technologies, it was able to categorize types of customer activities across product lines (for instance, credit- and debit-card-application processes and loan-application processes) and present this information in a unified view for the parent company, thereby easing transactions and improving customer service.

Companies in most industries have similarly begun to explore the possibilities created by digital technologies—but they are still very much in the exploratory phase. Widespread adoption has not happened yet. Only about 22 percent of the shared-services organizations in our research base are beginning to build capabilities in automation, freeing up employees to manage tasks that are critical for providing satisfying digital customer experiences while still keeping up with manual record-keeping tasks. Only 15 percent of the shared-services organizations in our research base are building up their social-media skills and integrating data from multiple channels. Nearly 20 percent of the shared-services organizations in our research have invested in streamlining internal operations through analytics (for instance, using real-time management information systems). However, when it comes to using analytics for external use to support the business (such as building predictive analytics to make better product-sales decisions or improve management of customer churn), only about 10 percent have systematically built this capability. Similarly, we found that fewer than 10 percent of shared-services organizations are contributing to the creation of new service lines or bringing operations and technology together in a seamless way—an area that shows particular promise.

Adoption is still relatively low because companies face several challenges in building digital shared-services organizations. Among them, the talent base in a typical shared-services organization tends to skew more heavily toward those with "processing" mind-sets—a strict focus on keeping the trains running—and with experience in lean principles and Six Sigma. These groups typically have too few of the data analysts and managers required to support the advanced-analytics programs many companies are building: employees with more of an end-customer perspective.

Meanwhile, the typical model of growth for shared-services organizations—consolidation of operating units—has become infinitely more complicated as these groups work with their IT departments to determine how to knit together legacy systems from various business units and how to update processes and systems for a new digital context. This can be challenging. At a retail company, for instance, some of the digital processes and capabilities established in one operating unit (among them, a live-chat forum for real-time customer interactions and a team of designers dedicated to managing the planogram for the company's website) did not even exist in the parent organization.

Finally, how companies organize and where they locate their shared-services organizations need to change in response to digitization. The current model is far-flung "service factories" that exist to process simple transactions, but this model won't be sufficient in a digital world that emphasizes faster, more frequent, and more complex interactions with customers and vendors.

Addressing the challenges

Clearly, the traditional focus areas for shared-services organizations will need to change to accommodate digitization (exhibit). Rather than operate as far-flung service factories, shared-services organizations would do well to think of themselves as centers of expertise, with less emphasis on completing lower-level manual tasks and more time spent devising and launching innovative and efficient service options. Rather than hire low-cost, entry-

Exhibit

Shared-services organizations' performance objectives may need to change in a digital environment.

Areas of focus

	Traditional areas		**New areas**	
Operational efficiency	Unit cost of full-time employees	Performance on service-level agreements	Total cost to serve	Processes that support entire consumer purchase experience
	Reach and size of low-cost locations	Simplified tasks, improved annual productivity	Network of sites, with capability hubs	Large-scale automation
Business outcomes	Up-front investments	End-to-end process ownership	Effectiveness metrics and return on investment	Multichannel customer integration
	Technology/IT know-how	Scale-to-skill migration	Analytics-based decision making	New service lines and products

Source: McKinsey analysis

level talent, shared-services organizations will need to look for expertise in areas such as point robotics, data analytics, and agile software development. Also, operations and IT groups will need to collaborate more closely in order to create, test, and deliver new services quickly and seamlessly.

In this digital environment, shared-services and IT groups have an opportunity to take the lead in planning for the long term. They can partner with the business units at the outset of the digital transformation to determine how best to automate or otherwise digitally transform end-to-end processes, and they can set mutually agreed-upon expectations about performance, rather than having to incorporate late-breaking requirements after the bulk of the reengineering has been done. Elements of the digital transformation should be phased in based on the shared-services organization and the company's near-term and long-term objectives.

Changes to process and work flow. Most immediately, shared-services groups can work with IT and the business to designate specific areas in which to incorporate automation and point robotics into their existing manual workflows. A typical starting point would be for a joint team to systematically scan entire portfolios of back-office activities and processes and categorize them according to business purpose, system interdependencies, and level of manual intervention required. IT and shared-services groups would then have a common perspective on which processes and activities can be fully automated, which should not be automated at all, and which would benefit from a hybrid approach. With this information, they can tailor their decisions about technology investments, system architecture, and operational changes accordingly. Shared-services groups may want to utilize real-time management information systems, for instance, that provide detailed performance metrics. In this way, they can better measure and manage service requests and allocate resources to high-priority and low-priority requests accordingly.

Changes to talent development. Also in the near term, shared-services groups can redefine the core competencies required to support an increasingly digital business. The traditional model has been a pyramid structure, where a small set of team leaders manage a much larger group of processing agents who have lower-level skills (data entry, rules-based decision making, and so on). Under a digital model, the shared-services group will still need a cadre of people fulfilling basic requests. But it will also need to establish domains of expertise for specific processes, and, within each domain, task small teams of technology and user-experience experts to work together. Some shared-services groups may need to hire, train, and retain employees differently under this model. IT and business leaders will need to identify the specialized skills required—machine-learning analyst, user-experience architect, or social-media strategist, for example—and determine where to find such talent, possibly looking outside traditional talent pools.

Changes to the operating model. Over the longer term, shared-services organizations should invest in building capabilities that will allow for continual business-model renewal, so that as new technologies emerge, the shared-services group can adopt them, adapt to them, and ensure consistency of operations across business units. Specifically, they may want to explore a shift to integrated product-development approaches and technology platforms, so they can deliver higher-order benefits to the parent organization. This might mean adopting agile software-development capabilities—for instance, assimilating the company's product-development team with its IT operations team, an approach known as DevOps, so that both groups can jointly and quickly release new software applications that will benefit customers.[2] The IT and operations groups in shared-services organizations have traditionally been siloed; in a digital world, the two entities will need to collaborate more frequently and more effectively, through DevOps, agile, and other development approaches.

Companies will likely want to target initial changes in those areas that could provide immediate value and help build momentum for future digital initiatives. Some companies may choose to start with a large-scale automation project, acknowledging that the benefits will likely accrue over the long term. Others may seek a smaller pilot, such as getting closer to internal and external customers through social media, as one large insurance company did. It uses social media to support basic service queries, such as a change of address or a change in marital status; to highlight new offerings; and to support loyalty programs and customer forums (for instance, health and fitness groups). Currently, about a third of the company's service requests are managed through chat technologies—a lower-cost channel—and the company is also generating 50 percent more cross-sell leads than it did using traditional channels. Small pilot or large, it is important to measure outcomes in order to provide proof of concept and build momentum for change.

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Digitized shared-services organizations can introduce valuable capabilities into the parent organization. They can help devise new online products and services. They can utilize analytics models to assist in business planning. They can leverage social media to improve the parent company's responsiveness to customers. They can create "next-best-action-to-take" road maps to facilitate online consumer purchases, and they can ensure efficiencies across the company through automated processes and work flows. From their back-office perch, shared-services organizations are uniquely positioned to help companies realize their digital strategies, improve front-end customer interactions, and increase internal productivity. ■

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[1] Findings are based on McKinsey research conducted between January 2015 and October 2015, in which we performed operations diagnostics on 120 shared-services organizations in different industries around the globe, interviewed more than 40 operations and technology executives, and conducted on-site visits.

[2] For more on the DevOps approach, see Satty Bhens, Ling Lau, and Shahar Markovitch, "Finding the speed to innovate," April 2015, mckinsey.com.

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