Creating Global Shared Services: Lessons from Reuters

Executive Summary

Creating shared services requires a coordinated integration of four change programs: business process redesign (BPR), organizational redesign, sourcing redesign, and technology enablement. If managed properly, shared services reduce costs, improve services, and can even generate revenues. However, surveys show that many executives fail to achieve the promised results. In this article, we present the lessons Reuters learned during a five-year journey to create global shared services within its finance organization. The lessons highlight how to: (1) Adopt the right transformation approach; (2) Identify processes for shared services by analyzing the costs, attributes, and readiness of process activities; and (3) Get business unit clients and internal staff to cooperate and embrace the shared services initiative.

THE PROMISE OF SHARED SERVICES

According to Accenture, the definition of shared services is “the consolidation of support functions (such as human resources, finance, information technology, and procurement) from several departments into a standalone organizational entity whose only mission is to provide services as efficiently and effectively as possible.” Organizations create shared services to dramatically reduce costs, improve services, and even to generate revenue. Early adopters of shared services reported enormous benefits. General Electric—recognized as the first leader of shared services—implemented shared financial and accounting services in 1984 and reduced staff by 30%. DEC created shared financial services in 1985, and reduced finance staff by 450 and reported annual savings of $40 to $50 million.

Although IT organizations have not adopted shared services as widely as finance and accounting, recent reports indicate that IT shared services is growing at a faster rate. Indeed, successful management of IT shared services was recently listed as one of the seven habits of effective CIOs. CIOs increasingly need to understand shared services because of the growing trend for them to become part of the CIO portfolio.

Studies have shown, however, that not all organizations achieve the full benefits they expect from shared services. For example, in a survey of 210 senior managers, IBM...
found that the results of shared services have been “mundane rather than magical.” Another study of 140 executives in North America and Europe found that actual benefits were less than expected benefits in the majority of cases. Thirty-three percent of respondents reported no cost savings, and the average cost savings among the remainder was 14%. Furthermore, the average time to fully implement shared services was two years in Europe and four years in North America. Given the long implementation times and obvious risks of achieving only mundane outcomes, senior executives need advice on how to realize the full potential of shared services. Based on a case study at Reuters, we found that shared services require senior managers to manage four change programs.

CONCEPTUALIZING SHARED SERVICES AS FOUR CHANGE PROGRAMS

Shared services are best conceptualized as the orchestration of four change programs: (1) Business process redesign (BPR); (2) Organizational redesign; (3) Sourcing redesign; and (4) Technology enablement (see Figure 1). BPR specifies what business processes the organization will perform. The main goals of BPR are to standardize processes around best practices, to reduce costs, and to improve controls. Organizational redesign specifies where business processes will be performed. The goal of organizational redesign is to locate staff based on the value of the services they provide; high-touch, high-value services are typically located close to internal customers while standard services are moved to shared services facilities. Sourcing redesign specifies who performs the business processes. Sourcing options include a mixture of in-house provision and outsourcing. Enabling technologies are used to implement the newly designed business processes and to coordinate

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work across different organizational units and across sourcing partners.

Organizations must also determine the best sequence for carrying out these change programs. Some organizations (BAE Systems and Lloyds of London, for example) outsourced first and let the supplier lead the transformation initiative. However, as we describe below, Reuters followed a different sequence.

**APPLYING THE FOUR CHANGE PROGRAMS AT REUTERS**

In the Reuters case, the sequence for creating shared financial services was iterative and involved two overlapping phases. Phase I ran from 2001 to 2004. First, BPR, organizational redesign, and enabling technologies led to the creation of six regional shared services organizations. However, before the end of Phase I, senior executives required an additional 33% cost savings to help improve profitability. In Phase II, Reuters’ finance managers focused on organizational redesign, BPR, and sourcing redesign. They established a new captive center in Bangalore, India, and outsourced specialized financial services to third-party suppliers.

Over five years, the two transformation phases resulted in the finance staff being reduced by 47% while both service satisfaction (as measured by user surveys) and controls increased. Overall, these change programs at Reuters resulted in better services, increased cost controls and compliance, and lower costs. Reuters has since won awards for Best New Shared Service Organization, Best Use of Technology for Shared Services, and Best Shared Services Leader.

As the Reuters case shows, these change initiatives—if managed correctly—result in shared services organizations that are highly effective and function as a business within a business. Our research on Reuters and other businesses shows that great shared services organizations breed high-performers focused on customer service excellence. Such organizations use service-level agreements to align expectations and define responsibilities between internal clients and the back office providers. About 60% of shared services centers charge internal customers for services based on usage, although Reuters is not one of them.

Creating shared services thus requires radical transformation, which needs a tremendous amount of change management to achieve success. In the rest of this article, we present detailed, actionable practices learned from Reuters. We explain the choices Reuters made and the lessons they learned.

**PHASE I: BUSINESS PROCESS REDESIGN, ORGANIZATIONAL REDESIGN, AND TECHNOLOGY ENABLEMENT**

In the late 1990s, Reuters faced significant changes in its external and internal business environment. The proliferation of the Internet had caused some of Reuters’ core content to become commoditized. For example, companies were buying information from Reuters and widely distributing it over the internet, thus eroding Reuters’ revenue. Increased competition in both the European and U.S. markets was causing prices to fall. Internally, rapid growth—both organically and through acquisitions—had created duplicate back offices resulting in high costs and integration concerns. Increased profitability became the primary concern of Reuters’ senior management team.

Reuters’ finance leaders were concerned about the company’s ineffective finance operating model and relatively high costs, which exceeded 2.3% of revenue. At that time, best-in-breed financial costs were approximately 1.5% of revenue. In 2001, the corporate CFO decided to significantly reduce finance costs by standardizing finance policies for global delivery (BPR), implementing standard, global enterprise resource planning (ERP) and workflow systems (technology enablement), and moving a significant amount of work from decentralized business units to six new regional services centers (organizational

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11 A captive center is a wholly owned facility.
12 These awards were sponsored by the International Quality and Productivity Center.
14 Proponents argue that usage-based chargeback motivates shared services staff to remain competitive, stimulates internal customers to think before they consume, and provides a way for shared services to generate revenue for further improvements. Opponents argue that usage-based chargeback creates too much administrative burden and can create conflicts between shared services organizations and internal clients. For more information, see: Webster, D. “Financial Management and Shared Services,” *The Journal of Government Financial Management* (56:2), Summer 2007, pp. 39-42; and Ross, J., Vitale, M., and Beath, C. “The Untapped Potential of Chargeback,” *MIS Quarterly* (23:2), 1999, pp. 21.
design). Each of these three change programs and the key lessons Reuters learned are described below. Although the programs posed significant challenges, Reuters reduced financial service staff by 35% and reduced finance costs from 2.3% to 1.8% of revenue. The major activities, challenges, and lessons for the three Phase I change programs are summarized in Figure 2.

**Phase I Business Process Redesign**

Reuters’ main BPR activity was to reduce the number of idiosyncratic business processes by creating global finance policies and standard business processes. In addition to reducing costs, another major reason for redesigning business processes was to prepare for the new organizational design. The company needed to standardize its processes so it could relocate some of them from decentralized business units to new regional services centers.

Prior to Phase I, Reuters had nearly 600 finance processes. After the redesign, the number had reduced to 359. Of these, 279 were truly global standards and only 80 were localized business processes. Key control standards were implemented concurrently under the new global template. Although key controls added challenges to the implementation, they later served as the foundation for the Sarbanes-Oxley (SOX) program and other process standardization initiatives.

The major challenge of BPR was getting “clients” in the business units to accept the changes caused by the re-engineered business processes. The purchasing activities within the source-to-payment process were the most difficult to change. For example, the finance team in charge of the redesign needed to implement unpopular policies, such as “no purchase order, no payment,” among nearly 2,000 employees with purchasing authority. Local business units preferred to buy from their local suppliers even though some of the suppliers had no warrantee. In some cases, controls were ineffective and there was little accountability for expenditure. In many other areas, such as allowable travel and entertainment, policies varied widely by country. For example, some countries paid for family support costs when employees traveled for business. Other countries had generous, but expensive, health club policies.

**Lessons Learned From Phase I Business Process Redesign**

Reuters learned two valuable lessons in getting business unit clients to accept business process changes.

**Figure 2: Phase I Transformation Programs**

<table>
<thead>
<tr>
<th>Business Process Redesign</th>
<th>Organizational Redesign</th>
<th>Technology Enablement</th>
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<tbody>
<tr>
<td><strong>Major Activity:</strong> Create standard processes for global delivery</td>
<td><strong>Major Activity:</strong> Move end-to-end processes to six new, client-focused regional services centers</td>
<td><strong>Major Activity:</strong> Implement single instance of a global ERP system</td>
</tr>
<tr>
<td><strong>Major Challenge:</strong> Business acceptance</td>
<td><strong>Major Challenge:</strong> Retaining finance staff</td>
<td><strong>Major Challenge:</strong> Timing</td>
</tr>
<tr>
<td><strong>Major Lessons:</strong> 1. Coach, don’t police</td>
<td><strong>Major Lesson:</strong> 3. Envision the future for retained employees</td>
<td><strong>Major Lesson:</strong> 4. Invest in enabling technology first</td>
</tr>
<tr>
<td>2. Solicit clients for innovations</td>
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Lesson 1: Coach, don’t police, business unit clients. Rather than coerce business unit clients to accept the changes, Reuters’ finance team acted as coaches who evangelized the vision set by the “owners” (in this case, the CEO, the corporate CFO, and business unit CFOs). As coaches, the finance team constantly conveyed the message “This is your unit’s vision—we are here to help.” If users violated the new procedures—for example, bypassing the new policies to procure on their own—they were coached, not policed. The “offender” was gently reminded of the vision and rules. Once coached on the sidelines, offending users played by the new rules.

Lesson 2: Solicit innovations from business unit clients. The finance team fostered a culture that valued change by creating awards for the best continuous improvements. Any Reuters’ employee could submit ideas, but the finance team found that the best ideas came not from their internal team members, but from business unit clients. For example, clients in the editorial division had difficulty sending new employees to training courses because they were remotely located. In particular, editorial employees needed to understand Reuters’ travel and entertainment policies, procedures and technology. The editorial division suggested that finance put a training video on the shared services Web site. A member of the finance staff created an inexpensive video that explained the travel and entertainment policies and showed employees how to submit expense claims electronically. The finance team gave awards to employees for ideas such as this that significantly reduced costs and increased service levels. Because the awards were very visible and prominent, they served as a positive motivator for behavioral change.

Phase I Organizational Redesign

Reuters’ main organizational redesign activity in Phase I was to move as many end-to-end processes as possible from decentralized business units to the new regional services centers. The idea was that the new centers would be client-focused and house subject-matter experts.

Prior to the organizational redesign, Reuters’ finance employees were located in 25 countries and supported business clients in 90 countries. The finance employees reported to one of three organizations:

1. Corporate finance. 11% of the finance employees worked in the corporate finance group at Reuters’ London headquarters. Their roles included financial reporting, internal audit, group treasury, group tax, and reporting to the audit committee.

2. Decentralized business units. 81% of the finance employees worked in decentralized business units in 25 locations. They supported all the financial processes, such as strategic analysis, business planning, financial management, investments, budgeting and forecasting, and payroll.

3. Non-integrated subsidiaries. 8% of the finance employees worked in independent subsidiaries. In 2001, these independent businesses were completely separate from the corporate finance group and were thus outside the scope and control of the shared services initiative.

The finance team in charge of creating regional shared services estimated that half of the finance processes in decentralized business units provided direct value to the business or had to remain local. The activities in these processes included strategic analysis, budgeting and forecasting, performance management, financial reporting, statutory and tax accounting, payroll, and project investment management and analysis. These processes were not initially moved to the regional services centers. However, the finance team estimated that the other half of the work done by finance staff in decentralized business units provided only indirect value to the units. These processes included purchasing, payables, cash application and management, and account entries and reconciliations. Many of these processes were moved to regional services centers.

The six regional services centers were located in London, New York (later moved to St. Louis), Amsterdam, Buenos Aries, Nicosia (Cyprus), and Singapore. The choice of locations was based on balancing close physical proximity to internal clients against low-cost provision. Although London is an expensive location, a services center was needed there to closely support Reuters’ London headquarters. St. Louis and Buenos Aries were low-cost areas that supported Reuters’ operations in the Americas. Amsterdam supported European operations, Singapore supported Asian operations, and Nicosia supported Reuters’ emerging markets.15

15 In an analysis of 150 articles on nearshoring, 60% of them gave the main reason for nearshoring rather than offshoring as the balance between proximity advantage and lower costs. See Carmel, E., and Abbott, P. “Why ‘Nearshore’ Means that Distance Matters.” Communications of the ACM (50:10), October 2007, pp. 40–46.
Lesson Learned From Phase I
Organizational Redesign

Reuters learned one important lesson during the initial organizational redesign.

Lesson 3: Envision the future for retained employees. During Phase I, some finance employees did not want to move from the business units to the regional services centers. Some simply did not want to relocate. Others perceived the changed roles as deskilling them, switching them from client-facing services to transaction processing. In the end, about 60% of the employees in the regional services centers were new hires.

In hindsight, the shared services team felt they could have prevented much of the resistance by proactively articulating the vision and career paths for finance staff. In fact, the perceived deskilling did not occur. The resultant culture in these regional centers was strong, and the finance staff relished their expanded role of servicing more clients across more business units. Senior finance leaders did not repeat this mistake during Phase II. As described later, they identified early in Phase II which finance employees would remain at Reuters and more clearly articulated the career paths available to them.

Phase I Technology Enablement

The newly designed business processes and organizational structure were enabled by several technologies. The most important activity in technology enablement was the migration to one single instance of Oracle ERP across all of Reuters. Oracle was implemented first in the United Kingdom in 2000. The company hired a management consulting firm to help the finance and HR functions roll out Oracle and launch the shared services initiative. The consulting firm’s team of 25 people was instrumental in defining the shared services operating model and supported the IT function in the global installation of Oracle. Most of the installation was completed by December 2002.

In addition to the ERP system, Reuters invested in systems for invoice scanning, approval workflow, and electronic employee expenses. These technologies helped it create a more paperless office and enable geographical independence. Reuters also customized existing systems to enable language transition workflow. This application reduced the risk of language dependency.

The company also custom-built four applications. Two—electronic invoice uploads from major suppliers and accounts receivable cash application automation—were designed to reduce error rates. The third was a helpdesk logging and workflow application to track incidents across geography and functions. The fourth was an automated system for straight-through processing and approval of payments to ensure security and control.

These technologies and applications enabled the business process and organizational redesigns during Phase I.

Lesson Learned From Phase I
Technology Enablement

The Reuters’ case offers the following lesson about the timing of the technology enablement change program vis-à-vis other change programs.

Lesson 4. Invest in enabling technology first. Reuters found that technology was a critical enabler of its regional shared services. In particular, it discovered that its best initial investment was the global, single-instance ERP system. As one manager said, “This is worth investing in before anything else.” The global ERP system drove process standardization and was the “engine” of the regional shared services. Its role during Phase II was even more important, because the now stable technology platform could be replicated in the new Indian captive center.

We note that this lesson is counter to the one published in a previous MIS Quarterly Executive article. In that article, we described how BAE Systems redesigned business processes before technology enablement. Its transformation partner—Xchanging—believed that technology enablement should follow BPR. At Reuters, implementation of the global ERP system started before business process standardization, which gave the finance team additional leverage in convincing business clients to accept the standard global policies. Because the global ERP system was imminent, business clients would need to follow the new policies as embedded in the new ERP system.

The finance team was proud of the results emerging from its three transformation programs. The team was well on its way to meeting the objectives of reducing finance costs while simultaneously increasing controls and service levels. The celebration, however, was short-lived because Reuters faced a financial crisis.

DECIDING HOW TO DELIVER AN ADDITIONAL 33% SAVINGS

In 2002, for the first time since it went public in 1984, Reuters recorded a pre-tax loss of £493 million ($971 million). Revenue also dropped by 2%. Early in 2003, the company announced a formal three-year program to achieve total cost savings of £440 million ($867 million). Senior management mandated that the finance organization reduce costs over two years by a further 33% ($6.5 million), without reducing controls or service levels. The senior finance leaders brainstormed how they could deliver the additional savings, given that Phase I of the transformation program was almost complete. Initially, two possibilities were considered—outsourcing and commercialization—but both were rejected.

Outsourcing and Commercialization Rejected as Viable Options

Initially, the senior finance leaders tried to attract a supplier to move Reuters’ regional financial services to India and to continue supplying services once the move was completed. Although a few suppliers showed interest, they all required significant upfront management fees. In the end, the leaders were concerned that an outsourcing supplier would not be able to manage the global complexity, and they eliminated fee-for-service outsourcing as a viable option.

Next, the senior finance leaders considered commercializing the company’s financial service support organization. Because Reuters considered this organization as best-in-class, the finance leaders were very excited about the possibility of exploiting this asset, much like Procter & Gamble did when it sold its shared services operations. However, Reuters’ shared services operation was too small to excite a serious buyer. While Procter & Gamble is a $40 billion company and had a few thousand people in its shared services center, Reuters is only a $4 billion company with a few hundred people in shared services.

With large-scale outsourcing and commercialization eliminated as viable options to achieve the savings, the finance leaders considered which other more aggressive organizational redesigns could deliver the savings. They were also open to selective outsourcing. By January 2004, they had narrowed the choices down to three options.

17 In January 2008, £493 million = $971 million.

Option 1: Consolidate Six Regional Services Centers Into One “Transaction Center of Excellence”

This option would migrate the work from the six regional services centers to a Center of Excellence. The team considered locating the center in Singapore because of its lower cost structure and opportunity for scale. Locating it in one of Reuters’ existing centers offered the added benefit of moving quickly enough to meet the two-year cost-reduction deadline. But the team questioned whether Singapore’s costs were low enough to achieve the aggressive target of 33% cost savings.

Option 2: Use Nearshoring to Reduce Regional Services Centers From Six to Three

This option entailed moving financial support services from higher-cost regional services centers to existing nearby lower-cost regional centers. Work from London and Amsterdam would be moved to Cyprus, work from St. Louis would be moved to Buenos Aires, and work from Singapore would be moved to India. The team questioned whether Buenos Aires and Cyprus had enough local resources to accommodate more services. Other risks included higher inflation, lower tax incentives, and less political stability than other destinations.

Option 3: Redesign Regional Services Centers, Build a Captive Center, and Engage Outsourcing Partners

This option would entail moving some higher value work that remained in decentralized business units to the six regional services centers and moving many of the standardized processes now in the regional centers to a new lower-cost captive center that would be located offshore. Selective use of outsourcing partners would fill in gaps in Reuters’ capabilities. This option became a candidate because the Director of Shared Services began to question whether Option 1 (consolidate six regional services centers in Singapore) would just be a half-way step to an eventual move to China or India. Clearly, Singapore’s prices were higher than these two alternative destinations. Independent of the finance organization, other units within Reuters were considering transferring some of their operations to Bangalore and Bangkok. As the finance leaders further considered this option, they quickly identified Bangalore as the preferred location for the captive center. They selected Bangalore because of available talent and because they thought they could leverage
another Reuters’ presence in that city. However, this option entailed multiple moves and needed closer inspection.

**Evaluating the Options**

The investment, total saving, and payback period for each of the three options are shown in Figure 3. The cost assessment was comprehensive and included technical, communications, administrative, employee package, training, travel, and capital outlays. This analysis showed that Option 3 would generate the most savings ($6.5 million) and would have the fastest payback period (2.03 years).

<table>
<thead>
<tr>
<th>Option 1: Consolidate Six Regional Services Centers Into One Transaction Center of Excellence</th>
<th>Option 2: Use Nearshoring to Reduce Regional Services Centers From Six to Three</th>
<th>Option 3: Redesign Regional Services Centers, Build a Captive Center, and Engage Outsourcing Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One Time Investment</strong></td>
<td>$10 million</td>
<td>$10.8 million</td>
</tr>
<tr>
<td><strong>Total Savings</strong></td>
<td>$3.2 million</td>
<td>$2.9 million</td>
</tr>
<tr>
<td><strong>Payback Period</strong></td>
<td>3.05 years</td>
<td>3.75 years</td>
</tr>
</tbody>
</table>

| Risk | Option 1: Consolidate Six Regional Services Centers Into One Transaction Center of Excellence | Option 2: Use Nearshoring to Reduce Regional Services Centers From Six to Three | Option 3: Redesign Regional Services Centers, Build a Captive Center, and Engage Outsourcing Partners |
|---|---|---|
| Systems/Communications | 2 | 8 | 6 |
| Location Stability | 1 | 5 | 3 |
| Eggs in One Basket (1 location) | 8 | 4 | 7 |
| End-to-End Process Control | 6 | 3 | 7 |
| Time Zone Support | 5 | 2 | 3 |
| Language Coverage | 5 | 2 | 7 |
| Business Case Delivery | 3 | 7 | 4 |
| Scale Opportunities | 3 | 6 | 3 |
| Continuous Improvement | 3 | 6 | 3 |
| Flexibility/Agility | 2 | 3 | 2 |
| Strength of Governance | 3 | 5 | 2 |
| **Average Risk** | 3.727 | 4.636 | 4.272 |
The shared services team also evaluated the risks of the options. It identified 11 risks and rated them on a scale from 9 (highest) to 0 (lowest) for each of the three options. As Figure 4 shows, the least risky was Option 1. The riskiest was Option 2.

The three options were presented in late January 2004 to the executive sponsor of shared services, the Director of Shared Services, and the shared services leaders. The mood of the meeting was colored by it being an election year in both the U.S. and U.K., and by the then current very anti-offshoring sentiment in the media and among the public. However, the Director of Shared Services said a move to India was inevitable within a few years, so he lobbied that Reuters should “take the higher risk, do it once, do it right.” The group voted to recommend that Option 3 be adopted, and the corporate CFO approved this recommendation. Reuters created a shared services team to manage a second phase of transformation for the finance organization.

PHASE II: ORGANIZATIONAL REDESIGN, BUSINESS PROCESS REDESIGN, AND SOURCING REDESIGN

During Phase II, Reuters launched three transformation programs (see Figure 5), the most challenging of which was organizational redesign (each program is described in detail below).

The shared services team needed to rethink the organization yet again. This time, the six regional shared centers services would further exploit their subject matter expertise by assuming more customer-facing responsibilities. Thus even more processes would be moved from decentralized business units to the regional centers. In addition, the highly standardized transactional processes would be moved from the regional centers to a new captive center in India.

The organizational redesign prompted changes to business process flows. Although the policies, controls, and standards remained the same, the shared services team had to ensure seamless end-to-end delivery (BPR). In addition, the new organizational design left gaps in some areas, requiring Reuters to engage partners in selective outsourcing (sourcing redesign).

**Figure 5: Phase II Transformation Programs**

<table>
<thead>
<tr>
<th>Business Process Redesign</th>
<th>Organizational Redesign</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major Activity:</strong> Ensure processes work in new organizational design</td>
<td><strong>Major Activity:</strong> Decide which processes to move where</td>
</tr>
<tr>
<td><strong>Major Challenge:</strong> Linkages across multiple delivery channels</td>
<td><strong>Major Challenge:</strong> Move enough processes to obtain savings without sacrificing service or controls</td>
</tr>
<tr>
<td><strong>Major Lesson:</strong> 7. Reassemble processes to ensure seamless end-to-end delivery</td>
<td><strong>Major Lessons:</strong> 5. Locate “greyzone” activities in customer-focused services centers</td>
</tr>
<tr>
<td><strong>Sourcing Redesign</strong></td>
<td><strong>Major Lessons:</strong> 6. Analyze processes at the activity level</td>
</tr>
<tr>
<td><strong>Major Activity:</strong> Create new captive center and outsource to fill gaps in internal capabilities</td>
<td><strong>Major Challenge:</strong> Transitioning work</td>
</tr>
<tr>
<td><strong>Major Challenge:</strong> Transitioning work</td>
<td><strong>Major Lessons:</strong> 8. Keep transition managers until new service model is stable</td>
</tr>
<tr>
<td><strong>Major Lessons:</strong> 9. Make those whose work will be transferred accountable for migration</td>
<td><strong>Major Lessons:</strong> 6. Analyze processes at the activity level</td>
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</table>
Thus a tremendous amount of work was moved around the organization.

After Phase II, finance staff located in decentralized business units decreased by 44%, finance staff in the six regional services centers decreased by 61%, and the captive center hired 174 new people. The net result of Phase II was a decrease in finance staff by 18% and cost savings within $100,000 of the targeted $6.5 million.

**Phase II Organizational Redesign**

The new organizational design meant moving more processes from decentralized business units to regional services centers (arrow 1 in Figure 6) and moving the standardized processes in the six regional services centers to a new captive center in India (arrow 2 in Figure 6). The aim was to downsize the regional services centers, with remaining staff focusing on higher value-added processes that require specialist client knowledge. The Indian captive center would operate the standardized, transactional processes that had already been automated and optimized to minimize error rates.
Lessons Learned From Phase II Organizational Redesign

Reuters learned two lessons from the organizational redesign in Phase II.

Lesson 5: Locate “greyzone” activities in customer-focused services centers. Although Reuters had already moved many business processes from decentralized business units to the six regional services centers during Phase I, senior finance leaders thought many more processes could be moved. The regional centers were earning a reputation for excellent customer service and were regularly highly rated in internal client surveys for enhanced user experience, improved self-service functions, and improved quality of information. Thus they were ready for more client-focused work.

The shared services team decided to move processes that were non-strategic but still required specific customer knowledge—so called “greyzone” processes—to the regional services centers (see arrow 1 in Figure 6). Greyzone activities included preparing baseline budgets and forecasts, creating standard management reports, and performing standard accounting functions, such as recoveries and statutory, tax, and payroll processing. The regional services centers were also responsible for processes that required physical proximity to customers, that required specialist knowledge, and that frequently changed. However, despite the increased responsibility for higher-value work, the overall headcount in the six regional services centers declined by 61% because many processes were moved from these centers to the new captive center in India (arrow 2 in Figure 6).

Deciding which activities to move from the regional services centers to the captive center in India required a more detailed level of analysis. While end-to-end processes could be moved from decentralized business units to regional services centers because of the centers’ client expertise, the shared services team could not move entire processes from the regional centers to the Indian captive center. They could only move the standard, low-value transactional activities within processes to the Indian center. The next lesson shows how to analyze candidates for shared services at the activity level.

Lesson 6. Analyze costs, attributes, and readiness of process activities to identify contenders for

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Figure 7: Process Analysis at the Activity Level

![Diagram of process analysis at the activity level with cost, activity attributes, and readiness]

- Process 1: Activity 1.1, 1.2, 1.3, 1.4, 1.5...
- Process 2: Activity 2.1, 2.2, 2.3, 2.4, 2.5...
- Process x: Activity x.1, x.2, x.3, x.4, x.5...

**Cost:**
Which activities provide opportunities to reduce costs?

- Process 1: Activity 1.1, 1.2
- Process 2: Activity 2.1, 2.3, 2.4
- Process x: Activity x.1, x.2, x.3, x.6

**Activity Attributes:**
Which activities are suited for shared services?

- Process 1: Activity 1.2
- Process 2: Activity 2.1, 2.3
- Process x: Activity x.2, x.3, x.6

**Readiness:**
Which activities are ready to be moved to shared services?

- Process activities for shared services
shared services. The shared services team pulled apart the 279 global finance processes and assessed the component activities by cost, attributes, and readiness. For each of the six regional services centers, the team created an inventory of processes and the major activities within each process. The team was open to the idea that different activities within a process could be sourced in different locations. For example, a regional services center might work with a purchasing agent in a business unit to decide which server to buy from which supplier, but the Indian center might create the requisition form. To decide which location should carry out which activity, the shared services team assessed the activities through three conceptual funnels (see Figure 7).

The first funnel tested activities for costs: would moving this activity from a regional center to India reduce costs? The volume of work had to be sufficient to justify the extra transaction costs of moving an activity.

The second funnel tested for activity attributes: is this activity suited for shared services? The specific criteria used were the extent to which the activity

- Is repetitive and transactional
- Has few touch points with internal customers
- Is highly structured and rules-based
- Uses standardized inputs, outputs, and technology
- Has low material business impact on internal customers
- Is independent of third parties
- Requires simple skills
- Is either language neutral (only requires a one-time translation of forms) or local-language-independent (does not require extensive oral or e-mail communications).

The shared services team also assessed whether it was legally possible to relocate an activity. This analysis funneled about 80% of the activities within the 279 processes to the next assessment step.

The third funnel tested for process readiness: could this activity be moved? Activities that were ready were well documented, stable, optimized (that is, had low error rates), had common service levels, were technology ready, and were politically acceptable to move. The team also had to ensure that the sequencing of activities still made sense. For example, it did not want a process where the sequence of activities would be onshore, offshore, onshore, offshore, onshore. This assessment eliminated about 40% of the remaining activities within the 279 processes.

The activities that remained in the regional services centers included purchasing and call center activities. The shared services team knew that purchasing was the most politically sensitive process, so it had to be careful which purchasing activities would be transferred and when. The team also kept call center activities within the six regional services centers because it believed Reuters needed stability in the first line of communication between internal customers and shared services. The call centers would also provided the best mechanism for spotting trouble and identifying opportunities for continuous improvement.

Once the team had decided on the optimum location for each activity within a process, the process had to be reassembled to ensure seamless end-to-end delivery.

**Phase II Business Process Redesign**

The shared services team did not intend to change any of the business process policies or standards, but moving activities within processes to new sourcing locations affected process flows. Reuters had to redesign all the flows to ensure end-to-end delivery. For example, the keying of invoices would be moved to the Indian captive center, but what would happen if the center received an invoice written, say, in Swedish? The Indian center would not support the Swedish language. In this example, employees in a business unit administrative function would translate the invoice from Swedish to English before sending it to India for keying.

**Lesson Learned From Phase II Process Redesign**

Reuters learned one lesson from its Phase II process redesign program.

**Lesson 7: Reassemble activities to ensure seamless end-to-end delivery.** Because different activities within a finance process could be sourced from three types of services centers (regional, captive, or outsourced), the shared services team had to build solid controls and interfaces across services centers and to/from business clients. Each process was fully documented. The documentation included the process name, process reference, author, service description, SOX control requirements, process narrative, and all process activities. The processes were fully diagramed.
to show inputs, automated process steps and sub-steps, manual process steps and sub-steps, control process steps and sub-steps, decision points, and outputs. Clear lines of responsibility were drawn around the diagrams, indicating the duties of each party. Service levels were defined for each process in terms of the quality and timeliness of outputs. In addition, the detailed process flows were used for training new hires at both the Indian captive center and outsourcing partners.

**Phase II Sourcing Redesign**

While the shared services team was engaged in the organizational redesign, it was also overseeing the set-up of the new global captive center in India. Reuters purchased a new facility in Bangalore, and its internal IT department built and implemented the entire technology and communications infrastructure within four months.

In July 2004, the company hired a new manager to head up the captive center. He had very relevant experience because he had spent three years establishing a 300-person captive center for a Fortune 500 company. Unlike other applicants who had managed captive centers with 1,500 or more people, this man knew how to efficiently and effectively manage a smaller center.\(^{18}\)

Reuters also hired 150 employees at a rate of 30 per month. To attract good people, it promised that employees would work normal hours, unlike many U.S.-centric Indian support centers.\(^{19}\) Also, the company offered slightly higher than market rates. Once hired, the Indian employees were fully trained via courses delivered onsite in India and also traveled to Reuters’ locations around the world for knowledge transfer. New hires shadowed the workers they would replace in the regional centers for two to four weeks to learn about business processes, clients, technology, and procedures. Once training was complete, the captive center began providing standardized transactional processes, optimized processes, structured processes, automated processes, processes with low error rates, and processes that would benefit from economies of scale.

**Filling the sourcing gaps with outsourced partners.**

Reuters needed a variety of outsourced partners to enable the new financial operating model. It selected one major outsourcing partner, several specialty partners, and expanded relationships with its existing banking partners.

Reuters selected the major outsourcing partner to provide services for statutory accounting and for tax and filing—activities that could not be moved across borders. It leveraged this partner’s truly global presence to provide country-specific processes, rather than trying to retain and develop deep functional expertise in specialized areas throughout the world. For example, Reuters couldn’t afford to retain specialized staff versed in local Finnish tax law, but the outsourcing partner could. This outsourcing partner took on the work of approximately 40 full-time equivalents. It either hired Reuters’ staff or leveraged its existing staff to fulfill Reuters’ needs.

In addition to the major outsourcing partner, specialty partners were engaged to perform very specific processes like scanning, facilities administration, and local taxes. The shared services team also expanded existing relationships with Reuters’ banking partners to ensure that global shared services could handle payment transactions across borders and across partners.

**Lessons Learned From Phase II Sourcing Redesign**

Because sourcing redesign changes who performs certain business processes, the transition of work to different people requires special care and attention. Reuters learned two important lessons.

**Lesson 8: Keep transition managers until the new service model is stable.** Part of the estimated cost savings for global shared services came from lower management costs. The “power players” on the shared services team knew they were planning for their own redundancies. The Senior Vice President of the Americas Shared Services said:

“We actually did put our business case to management and said, ‘you don’t need the same level management layer you have today. You need a strong management layer in India, and you need the solid customer center management layer onshore, but you don’t need us.’”

In September 2004, senior management wanted the transformation plan accelerated by three months to capture an additional $500,000 in savings. As a result, some members of the shared services transformation

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\(^{18}\) According to research done by Gunn Partners, “it takes roughly 100 people to make a shared services center worthwhile” and beyond 600 people, “size becomes counter-productive.” Cecil, op. cit., 2000.

\(^{19}\) Only nine employees work the night shift at Reuters’ Indian captive services center.
team were moved to other programs or left Reuters before the new service model had stabilized.

Although this decision accelerated the cost savings, there was a price to pay in terms of a loss of focus. The shared services transformation team had always envisioned that the captive center in India would be staffed with supervisors who acted as process experts and who would be responsible for the execution and quality of service delivery. However, the new manager hired to run the captive center had a different vision aligned more with Indian business culture. He organized the captive center so that supervisors were primarily responsible for managing employees and for allocating work to them.

Initially, the captive center suffered from the resulting lack of subject matter expertise. For example, when payments were missing, a significant amount of client knowledge is required to find and reconcile errors. Initially, the Indian staff couldn’t perform these duties, so the six regional centers took them back. Over time, however, the regional services center staff coached the Indians to better perform these tasks, and the processes were eventually moved back to India.

The captive center initially also experienced higher-than-expected staff turnover. Reuters had to hire more people in India than it had anticipated to provide a turnover buffer. It also had to hire more people than anticipated because the Indian employees were not as experienced or as efficient as the finance employees who were displaced. In all, 24 additional Indian employees had to be hired, but because they are so much cheaper to employ, the additional headcount did not significantly erode the anticipated savings.

**Lesson 9: Make people whose work will be transferred accountable for successful migration.**

Many organizations find it difficult to retain the cooperation of employees targeted for redundancy. Reuters was very careful to treat fairly employees who would be made redundant and found a way to ensure they were accountable for the success of the migration.

First, Reuters gave employees plenty of notice. It officially informed employees of the intention to downsize the regional centers in March 2004. Employees were told that the transition team did not know exactly who would be impacted, but that everyone would know by July 31, 2004. Some employees would be retained, and some would be given severance packages. Some of those who would be let go were given 18 months advance notice that they would no longer have a job at Reuters.

Second, Reuters built into the retention package a requirement that employees facilitate and sign off on the transfer of their work. Part of this responsibility was getting workers in the new Indian or outsourcing partner to shadow them in their daily jobs. To receive the full redundancy benefits, a person whose work was being transferred had to agree that his or her shadows were ready to take over the process.

Reuters’ Program Transformation Leader said:

“If you remember nothing else from the transition process, remember this: let the people that are giving away the work give it away. Make them responsible for it. They know the job the best, and most will enjoy the process of teaching what they do everyday.”

**GENERAL LESSONS LEARNED**

Reuters’ two phases of transformation took nearly five years (2001 to 2006). In the end, Reuters realized its vision for effectively and efficiently delivering financial services through global shared services. The finance employees remaining in the decentralized business units focus on strategic finance activities. The six regional services centers focus on finance activities that require close proximity to internal clients, specialist local knowledge, and non-optimized processes that would have high error rates without special care. The Indian captive center efficiently delivers the highly standardized finance activities. The outsourcing partners fill critical gaps in Reuters’ capabilities.

Reuters’ finance leaders all but achieved the additional 33% mandated cost reductions (they fell short by just $100,000)—significantly more than the average 14% cost savings most companies achieve. The cost savings came primarily from staff reduction. The senior finance leaders were successful because they were committed to the vision of global shared services, dedicated the right resources, and, most importantly, managed well the four change programs (BPR, organizational redesign, sourcing redesign, and technology enablement).

In addition to the lessons specific to the four programs, there are two other high-level lessons from the Reuters case.

**Lesson 10. Integrate within silos before integrating across silos.** As in several companies we have studied,
Reuters’ top management mandated cost reductions from each back office director simultaneously. Back office directors frequently meet such mandates by creating shared services organizations and by implementing other cost reduction tactics within their own functional silos. Given that all the directors share the cost reduction mandate, it is reasonable to ask if companies should create shared services organizations across functional silos to gain better efficiencies. The answer is not simple. The amount of change management required within each functional silo is enormous. Trying to coordinate the changes across functional silos would require agreeing on locations and addressing vastly different client needs, different types of work, and different types of capabilities. This is why Reuters, and other companies we have studied, first adopt shared services within silos.

Although this article focuses on the Reuters’ financial services organization, other functional areas within Reuters—most notably IT and HR—were also making drastic changes at the same time. For example, IT Product and Software Development was implementing captive centers in Hong Kong and Bangkok while finance was moving to Bangalore. Hong Kong was a good base for the IT department because of the availability of high quality IT talent and close proximity to major stock exchanges that the department supported. In 2006, IT Product and Software Development implemented another captive center in Beijing. By 2007, 40 employees worked in that facility, and the IT department predicts the number will grow to a few hundred by 2009/2010.

The next logical step for Reuters may be to integrate shared services across functions. By 2007, the company was expanding its presence in Bangalore by offshoring some analysis and procurement. Some organizations eventually unify most back offices into one global shared services organization, as Procter & Gamble has done.

Lesson 11. Consider a blended transformation approach. To create shared services centers, a company requires major capabilities to manage large-scale change, re-orient staff, redesign processes, install the enabling technology, establish and enforce standards, and re-organize. Senior managers must consider the right approach toward such major transformation programs. In our previous MIS Quarterly Executive article,21 we described five approaches for creating shared services: (1) Do-it-yourself; (2) Hire management consultants to manage the change; (3) Fee-for-service outsourcing; (4) Joint ventures for commercialization; and (5) Transformational outsourcing through enterprise partnerships. We found that many senior managers were not willing to make an upfront investment in shared services to pursue the do-it-yourself option. This is why many businesses use outsourcing options to create shared services because suppliers often make the upfront investment on behalf of the client.

Rather than pick one approach, Reuters selected a blended approach. This approach relied primarily on the do-it-yourself approach but was supplemented by management consultants who helped implement the global ERP system, and by fee-for-service outsourcing that provided global coverage of country-specific processes. An IBM survey of 210 senior finance managers found that blended approaches are becoming recognized as a best practice. The benefit of a blended approach is access to best-in-breed sources for the myriad capabilities needed to create shared services. The caveat, of course, is that the additional transaction costs associated with coordinating work across different centers and providers can be significant. In retrospect, though, Reuters found that the benefits of a blended approach outweighed the costs.

EPILOGUE

The efforts by the finance (and other) functions have helped to significantly improve Reuters’ financial health since its losses in 2002. Reuters has reported year-on-year growth in both revenue and operating profit from 2003 to 2006. Revenue in 2006 was £2.57 billion (a 7% increase from 2005) and operating profit was £256 million (a 24% increase from 2005). In May 2007, the boards of Reuters and Thompson announced a proposed merger, subject to approval by shareholders and the relevant regulatory authorities. Approvals from the European Commission and the U.S. Department of Justice are anticipated in 2008.

ABOUT THE AUTHORS

Mary Lacity

Mary Lacity (Mary.Lacity@umsl.edu) is Professor of Information Systems at the University of Missouri-St. Louis, Research Affiliate at Templeton College, Oxford University, and Doctoral Faculty Advisor at Washington University. She has written eight books, most recently Offshore Outsourcing of IT Work, (Palgrave, 2008; co-authored with Joe Rottman) and Global Sourcing of Business and IT Services.

21 Lacity et al., op. cit., 2005.

Jim Fox

Jim Fox (jim.fox1@gmail.com) is currently Chief Financial Officer for Mobile Armor, a company that offers products and services to protect data on mobile devices. Prior to his current position, Fox was a partner with DataServ LLC, a market leader in technology-enabled business services for finance and administrative functions. Before joining DataServ in 2005, he was Senior Vice President of Finance at Reuters Ltd. In this role, he was responsible for developing and managing the Americas Finance Shared Services function, as well as driving the overall implementation of Reuters’ world-class finance strategy. His experience at Reuters included establishing an offshore service capability in Bangalore, India, outsourcing various activities, and designing best-in-class finance management capabilities. Prior to Reuters, he was a corporate controller for Bridge Information Systems. Earlier in his career, he spent 10 years with Deloitte and Touche, LLP, where he was a senior manager of global multinationals in St. Louis, New York, and Brussels, Belgium. Fox holds bachelor’s degrees in accounting and finance from the University of Tulsa. He is also a certified public accountant. As an active member in the St. Louis community, he serves on the boards of Junior Achievement and the Juvenile Diabetes Research Foundation. In 2004, he was honored as one of St. Louis Business Journal’s 40 Under 40.