

[5] Key Steps to Designing Effective Shared Services

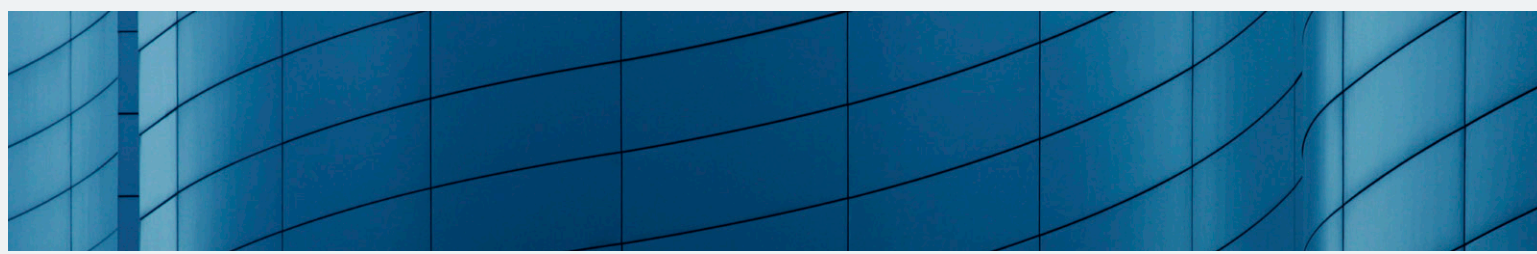
Designing and implementing a shared services and outsourcing (SS&O) delivery model can be daunting but enormously rewarding when done effectively. **A 30% reduction in the cost of delivery is commonplace, and 50%+ reductions have been achieved.** Most senior finance and C-suite executives are familiar with the SS&O concept and benefits, but few have the in-house expertise to design and implement it from tip to tail. The more they dig into the design, the more they find themselves repeatedly asking, “What else have we forgotten?”

Having worked with hundreds of companies along this journey, we suggest that, to dramatically reduce back-office cost structure and improve the quality of service delivery, CFOs and other members of the C-suite take an implementation-informed approach and consider the following five steps as a high-level framework for SS&O design success.

[1] Develop a detailed case for change.

A proper business case is fundamental to any strategic initiative, and shared services and outsourcing initiatives are no different. The risks and challenges associated with intelligently designing SS&O models are numerous, and the interdependencies exposed during implementation have foiled many well-conceived efforts. A few key considerations around the case for change include:

- Be explicit about your goals and objectives. Valid and achievable SS&O goals may include cost reduction, improved process efficiency, better service levels, greater scalability and/or implementing “follow-the-sun” global delivery, among others.
- Understand your current state at a detailed full time equivalent (FTE) and activity level. Although high level, back-of-the-envelope analysis is sufficient to understand if an opportunity might exist, it lacks the necessary level of precision and can often be wildly inaccurate. Spend the time and do your homework — it is typically the difference between a few hours and a few days of your time.
- Forecast both one-time and recurring costs and benefits against the current-state baseline. Be comprehensive and be detailed. SS&O efforts can have enormous ROI, but they also involve significant change. The effort of the detailed analysis will be worth it since you do not want to embark on the program and then realize the return was not worth the effort.



[2] Make the decision on whether to build captive center(s) and/or to outsource.

When evaluating SS&O opportunities, many companies initially default to keeping the activities and services in-house (a captive delivery center). For many companies that can be the right decision; for others it can create problems that could take years to effectively address. Some high-level considerations around choosing between a captive delivery center or outsourcing include:

- Analyze the in-scope activities to ensure they can be effectively executed remotely. The COVID-19 pandemic proved that most transactional back-office activities can be remote. Many transactional back-office activities (e.g., finance, accounting, HR, procurement, IT) are well suited for either a captive or an outsourcing model. A small subset of back-office activities may require a deep knowledge of the business or be too complex to hand off to a captive center or a third party. During this phase, some organizations also examine the opportunity for process automation. When considering automation, it is important to develop a deep understanding of the implementation timeline, which can be significantly longer and even more complex than SS&O initiatives.
- Ensure you have the scale to justify building your own captive delivery center. Many organizations find greater efficiency and cost-effectiveness in partnering with a third party that already has the infrastructure, serves multiple clients and commits to best-in-class service levels.
- Confirm whether your organization is equipped to manage the ongoing recruiting and IT requirements of a captive shared-services center. Many organizations underestimate the on-site resource requirements and the level of ongoing activity which will be necessary to manage their own captive center.
- Finally, you need to be honest about whether process transformation is one of your core competencies. A huge benefit of SS&O is the ability to drive continuous improvement and process transformation. However, if you are unable to effectively implement process transformation today, then it will be even more challenging in a captive delivery center. Outsourced providers, when managed properly, often provide access to best practices and assets, and can drive financial and operational benefits you would never be able to achieve with an in-house operation.



[3] Design the future state around activities, not individuals.

It may seem like a “no-brainer,” but designing SS&O is your opportunity to start redesigning your processes and interaction models. Taking on this challenge can create a platform for working smarter. However, too many organizations permit the legacy state (and many of its flaws) to weave its way into designs for the future-state design, eroding many of the immediate and downstream benefits. And throwing activities “over the wall” to a delivery center rarely ends well. A few guiding principles include:

- Think through how to work smarter at the outset and avoid being hero-dependent on specific individuals. Most organizations have individuals who come to the rescue on a monthly or quarterly basis. Now is the time to design an interaction model which removes that unsustainable and unfair reliance on those key individuals.
- Ensure you have accurate and detailed process documentation (“desktop procedures”) so you can manage an effective transition and train inexperienced staff. The downstream benefits of this level of documentation are also enormously helpful in future process improvement, automation and AI efforts.
- For most organizations, best practice is to initially consolidate activities into a delivery center and then actively drive process improvement and automation efforts. The co-location of staff, along with a fresh mindset unencumbered by the past, can be a huge enabler of process improvement.



[4] Begin transition planning and execution.

The implementation of the new captive or outsourcing arrangement is one of the more complex and challenging efforts most organizations will face. Keeping the wheels of the business turning while actively training new staff (typically in a new, remote location) puts a significant burden on both your key functional staff and other back-office support staff. Beyond the employee bandwidth constraint, most organizations have neither the SS&O expertise nor the experience to effectively manage a transition. Some key considerations include:

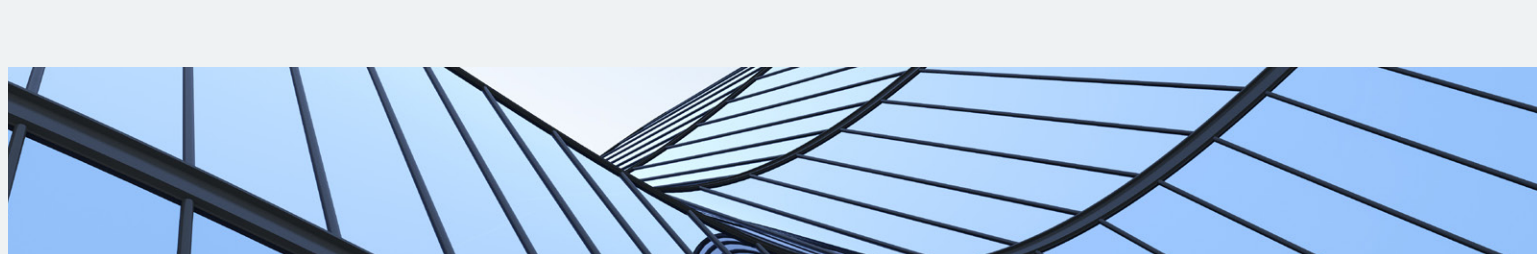
- By their nature, transitions involve many interdependencies between Recruiting, HR, Real Estate/Facilities, IT and your functional experts. Engaging these interdependencies means building-in longer lead times, requiring the planning to be done six or more months in advance. The alignment of milestones and lead times with training schedules and new staff start dates requires significant attention to detail and ongoing communication and escalation.
- In transitions, staying on plan is critical. Deviating from the transition plan or missing milestones has significant financial and operational implications. Dedicating someone on a full-time basis who understands the upcoming challenges and best practices can accelerate the effort and save months of disruption and unnecessary costs.
- Breaking down the transition into a series of sequential waves tends to be much more successful than a “big bang” (all at once) event. While a sequenced transition plan may initially appear to take longer, in our experience a methodical, disciplined approach ends up being both faster and less disruptive to the organization.



[5] Effectively communicate the transformation.

As with most significant transformations, incentives provided to and communication between the people involved are often the difference between success and failure. Even the best SS&O strategy can fail without an effective approach to communications and change management. A few, final considerations on designing an effective SS&O delivery model include:

- The C-suite (or at least a subset) needs to be seen as the SS&O program sponsor by all stakeholders. They should provide truthful, genuine and highly visible support for the effort.
- People involved in the transition can often be unfamiliar faces to those most affected, sit in different time zones (and sometimes in different continents), and have different working and communication styles. Aligning the extended team from the beginning and maintaining that alignment via a regular cadence is paramount.
- Deliver proactive, tailored (yet consistent) communications to various stakeholder tranches around the SS&O design. Do not let the rumor mill spiral and become uncontrollable.



For many organizations, designing and implementing shared services and outsourcing is a journey well worth taking. This guide should help you understand some of the most critical success factors. If you would like to explore the topic in greater detail, we are always open to a discussion.

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