APQC INTERNATIONAL BENCHMARKING CLEARINGHOUSE

# Reshaping the Corporation:

## *Emerging Best Practices in Shared Services*

CONSORTIUM BENCHMARKING STUDY

**BEST PRACTICE REPORT**

APQC
AMERICAN PRODUCTIVITY & QUALITY CENTER

ERNST & YOUNG LLP

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For information about how to become a member of the International Benchmarking Clearinghouse, a service of APQC, and receive publications and other benefits, call (800) 776-9676 or (713) 681-4020 or visit our Web site at <www.apqc.org>.



**STATEMENT OF PURPOSE**

*The purpose of publishing this study is to provide a reference point for and insight into the processes and practices associated with certain issues. It should be used as an educational learning tool and should not be used as a "recipe" or step-by-step procedure to be copied or duplicated in any way. This report may not represent current organizational processes, policies, or practices because changes may have occurred since the completion of the study.*

# Contents of Study Report

# Sponsor Companies

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**MASCO Corporation**

**Mobil Corporation**

**Navistar International Transportation**

**Olin Corporation**

**The Sun Company**

**Texas Utilities**

**Wisconsin Electric Company**

# Partner Companies

**Aetna Life & Casualty/Aetna Business Resources**

**Amoco**

**Deere Credit Services**

**Monsanto/Monsanto Business Services**

**Seafirst Bank**

# Executive Summary

Thirteen sponsoring companies and five best practice partner organizations collaborated in a study conducted by the American Productivity & Quality Center (APQC) on emerging best practices in shared services. This report presents successful strategies for developing a shared service organization and delivering customer-focused shared services.

**STUDY BACKGROUND**

Whether or not to centralize is no longer the burning issue for organizations under pressure to achieve greater economies of scale from multimillion dollar investments. Leading-edge companies are moving away from autonomously run operations to efficient, customer-focused functions known as "shared services."

Under shared services, scattered operations are pulled together into mega-service centers, which then serve all of a company's business units around the globe. This results in the creation of a separate support organization with P&L responsibility that "sells" its services to other operating units. Such organizations are being designed to provide lower costs and one-stop services to all parts of the corporation.

Shared services is viewed as an essential initiative that will help organizations make a quantum leap in lowering their operating costs and improving overall performance. Shared services represents the next step beyond consolidation of corporate services. And, although consolidation and shared services represent opposite ends of a continuum (as opposed to easily distinguishable categories) the primary differences between the two are:

1. The shared service has a customer-focused mind-set—users of the service are viewed as customers, and the shared service is dedicated to providing high-quality, cost-effective, and timely service.
2. The shared service is run as an independent business, with its own budget and bottom-line accountability.

**METHODOLOGY**

APQC's International Benchmarking Clearinghouse, in conjunction with Ernst & Young, LLP, and 13 sponsoring organizations, conducted a study of innovative and successful strategies for delivering corporate shared services. This study focused on shared services at five "partner," or best practice, organizations.

**Phase I: Selecting Best Practice Partners**

A list of best practice candidates was developed through primary and secondary research. The study team compiled suggestions from APQC's Information Services Department; Ernst & Young, LLP; periodicals and industry journals; and sponsors. As part of the Phase I data collection, a screening survey was developed and sent to 65 candidate organizations. Eight surveys were returned.

Based on the screening survey data, as well as other information collected by the study team, sponsors nominated five best practice organizations. These five organizations were invited to join the study as best practice partners.

**Phase II: Learning from the Best**

The sponsor group and the study team developed a Detailed Questionnaire and a Site Visit Interview Guide for use as the Phase II data-collection tools. The five best practice partners completed the Detailed Questionnaire and hosted subsets of the sponsor group in facilitated site visits. During the site visits, key company personnel were asked questions from the Site Visit Interview Guide. Excerpts from the site visit summaries are included throughout this final report. The Detailed Questionnaire responses provide the quantitative basis of the report.

## KEY COMPONENTS OF A SUCCESSFUL SHARED SERVICES STRATEGY

Findings from this study, which focused on transforming internal support services into customer-focused shared service providers, indicate that the key components of a successful shared services strategy are:

1. **Making appropriate "upfront" decisions to focus and manage the change—determining the scope of the effort, the location of the shared service center, how to roll out the change, how to staff, and the governance structure.**
2. **Organizational change management/focusing on employees during the change—communicating with and motivating employees during the change, involving employees in the change process, and educating and training employees to prepare them for their new roles within the shared services organization.**
3. **Developing a customer-focused mind-set—developing two-way communication with customers, educating employees regarding the shared service role, and tying compensation to performance.**
4. **Developing service-level agreements—working with customers to design and develop appropriate agreements and reaching consensus on cost and quality issues.**
5. **Developing performance measures—determining what to measure and what not to measure.**

Additional critical success factors necessary to support the change include:

- a corporate culture supportive of change,
- executive sponsorship, and
- information technology support.

The following diagram shows the relationship of the factors that contribute to shared services success (Figure 1):

This report examines each critical component in detail and explores the critical success factors. We will discuss the importance of each to an overall successful shared service organization and draw on specific examples from the best practice organizations to identify enablers of successful strategies.

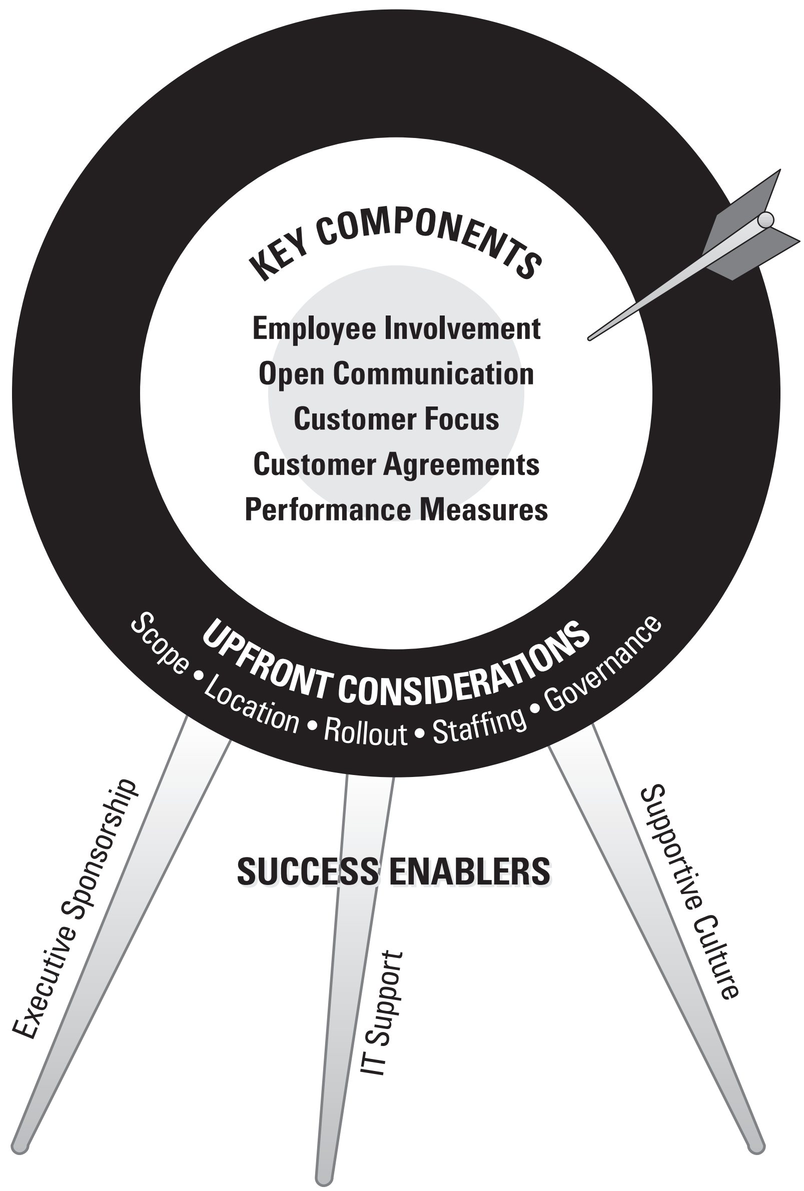


*Figure 1*

# Entry into Shared Services

# Entry into Shared Services

## DRIVERS FOR ENTRY

The increased global competition of today's business environment forces organizations to better manage and control costs, provide better service, and leverage information more than ever before. Shared services offer a means to attain these ends. The consolidation of people and processes reduces costs by eliminating manual and/or duplicate activities. In addition, shared services establish a customer-focused mindset within the organization, improving service quality. Shared services also provide a single point for continuous improvement. Finally, shared services leverage information through improved accessibility and consistency.

## COST REDUCTION/COST CONTROL

*Economies of Scale*

Consolidation of processes and people into the shared service center (SSC) helps reduce costs by reaping the benefits of economies of scale. For example, implementation of shared services enables:

- a decrease in salary costs as a result of eliminating redundant efforts and staff, and
- a decrease in systems costs as a result of eliminating redundant systems.

**Deere Credit Services:**

Deere Credit Services participated in an activity-based costing study to identify efficiency improvement opportunities. All employee levels created flowcharts for each business process. The processes were broken down to the activity level within categories (customer services, dealer-related, etc.). Internal and external comparisons helped highlight areas needing improvement.

***Business Unit Accountability***

The shared services charge business unit (BU) customers on a service-usage basis. Shared services help control costs by making the BUs more aware of the costs involved with using specific support-related services. The BUs tend to focus on using the services that best support their operation; in some cases, this drives the BUs to make more economical choices regarding the services—and the level of services—they use.

**Aetna Life & Casualty:**

At Aetna Business Resources (ABR), the move to shared services created an awareness of cost versus service levels, which has resulted in increased business unit accountability. In the old paradigm, customers gave little thought to the cost impact of their choices.

**OPERATIONAL EXCELLENCE**

The reengineering and standardization of processes, systems, and data associated with moving to shared services helps the organization achieve operational excellence by:
- eliminating redundant data entry and other nonvalue-added processes,
- eliminating unnecessary corporate services (the only services provided are ones that customers pay for), and
- enabling the business units to focus on improving performance in their core business areas.

In addition, the performance measurement and charge-back mechanisms associated with shared services ensure that the business units receive cost-effective, high-quality service.

**IMPROVED INFORMATION**

Shared services help control and standardize information across the organization as a result of consolidation, standardization, and reengineering of processes and systems. The use of consistent data facilitates cost reduction and enables more broad-based decision making. For example, the organization may be able to rationalize its vendor base to significantly reduce costs of materials or services by purchasing from the same vendor organizationwide.

**RESULTS ACHIEVED BY THE BEST PRACTICE COMPANIES**

All partner organizations cited "cost improvement" as one of the three most significant results achieved through the move to shared services. "Consistency in service delivery" and "value focus for the organization" were also common outcomes. Other results were "effective resource utilization," "more timely information," "customer focus," and "improved credibility." These results are presented in the following graph (Figure 2).

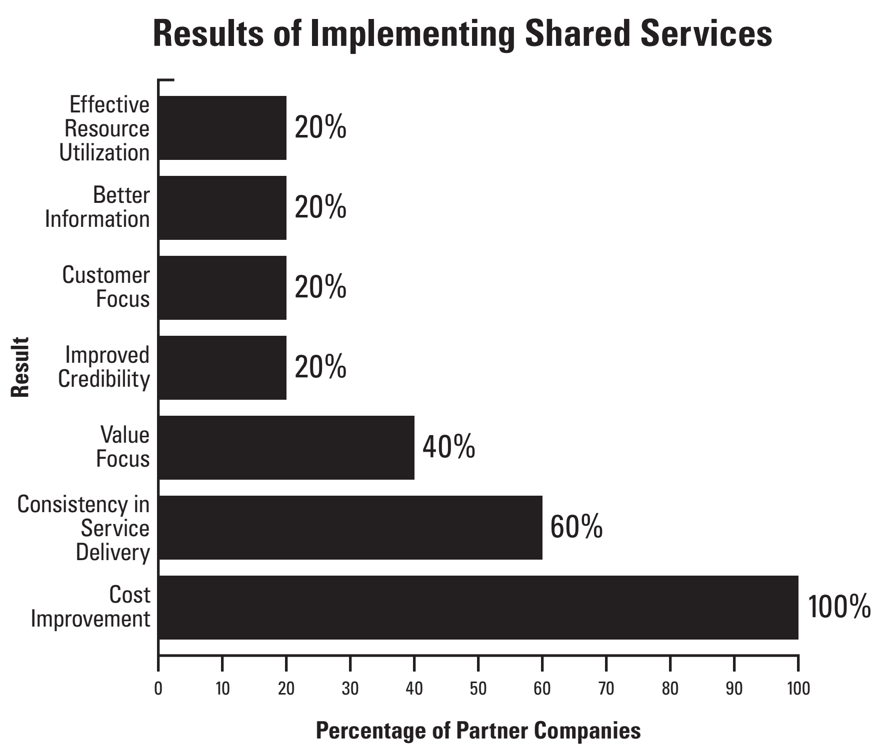


*Figure 2*

# Upfront Considerations

*Once the decision to move to shared services is made, several key aspects of the change must be considered as part of the design.*

# What Is the Scope?

The scope of the shared service effort must be defined prior to the design and implementation of the operation. The scope decision encompasses three dimensions:

1. Geography—Is this a global effort or limited to a specific geographic area? What are the priority and strategy for moving the various geographic areas to the shared service operation?
2. Business units—Is the effort directed at all of the business units or only one division? Are any business units exempt from the move to shared services? What are the strategy and priority for moving the business units to the shared service operation?
3. Functions and processes—What functions (i.e., finance, human resources, legal, facilities) are to be moved to shared services operations? What processes within those functions (i.e., accounts payable, credit, building management, benefits) are within scope?

    *What to include?* Typically, any function or process that is not critical to the unit's core business (i.e., accounts payable) or is similar across the entire company is a good candidate for inclusion in a shared service. Transaction-based processes are particularly good shared service candidates since unit costs can be easily defined, and in some cases, significant staff reductions can be made through consolidation. Removing such functions from the business units enables the remaining staff to focus on core business. In addition, shared service providers can increase analysis and decision support for their customers.

    Shared services are not limited to administrative processes. Companies are beginning to evaluate moving consistent operational functions to shared services (i.e., claims processing within the insurance industry).

    Although the exact details of the effort may change throughout the design and implementation of the shared services operation, the overall scope must be defined upfront and must remain constant in order to produce clear, definitive results.

**Amoco:**

Amoco categorized business unit processes as either "needed to win" (those that are critical to the business unit) or "needed to play" (those that are essential but not critical). The shared services organizations took over the functions deemed as not critical to business unit survival. Business units participated fully in this process. The dialogue helped each business group define its core business.

Amoco centralized its high-volume, transaction-processing functions, allowing economies of scale to be realized. However, the business units believed that they needed to own decision support capability. Thus, a small component of financial staff remained in the business units to provide decision support.

*Lessons learned:* You cannot anticipate everything. It is important to maintain the ability to be flexible. There is no substitute for just getting in there and doing it.

**Seafirst Bank:**

Senior management set the general guidelines for what would be done by the shared service center, and the shared service functional managers worked with the state offices [business units] to determine which specific processes to bring in. This negotiation led to some morale issues.

*Lessons learned:* It probably would have been better to set more clear direction upfront and leave less open to individual interpretation. The project will change as new facts are learned, as political realities come to light, as you learn what other organizations have accomplished, and as constraints become evident.

# Location, Location, Location

## EXISTING LOCATION OR "GREENFIELD"?

Organizations must determine whether to locate the shared service center at an existing site or choose a greenfield location. Frequently the shared service will be set up in a greenfield location, since this tends to remove politics and any strong business unit ownership from the implementation equation. However, using an existing location is generally more cost effective in the short term. Thus, a combination of economic drivers, the strength of business unit autonomy, and the strength of corporate leadership usually drive the organization's location decision. Some organizations change their location over time as part of their implementation strategy, to facilitate implementation and deal with internal politics.

Most of the best practice companies located shared service centers at existing sites, with the site chosen for its proximity to a critical mass of customers and the amount of available space.

## LOCATE NEAR CUSTOMERS?

All of the best practice companies operate regional shared service centers, recognizing that locating relatively close to customers creates the perception of maintaining a strong alliance between the shared service center and its customers.

Some best practice companies use a "hybrid" approach to providing shared services, with some shared services staff members centralized and some located within the business unit. The nature of the work to be performed drives the decision to locate at the customer's site or at a centralized site. The more hands-on the related service, the more necessary that the shared service be located near the customer.

**Amoco:**

Amoco's Facilities & Services staff needs to be located at customer sites because most of the department's work involves hands-on assignments in office complexes.

**Monsanto:**

By design, Monsanto Business Services (MBS) is not completely centralized. Monsanto strives to realize the benefits of centralization and decentralization by allowing each service leader to decide (based on the needs of each business unit) what is most important: having the team members close to one another or close to the customers.

Monsanto is trying to drive decisions regarding structure and location by focusing on process, as opposed to just creating a centralized process. This requires an understanding of how the work is being done and putting people in place to handle the work.

# How to Roll Out the Change

Organizations must also determine whether to roll out the move to shared services incrementally or all at once. The best approach will depend on the organization's need for results, the availability of funds to support the move to shared services, and the risk profile of the organization. In addition, the organization's experience with change should be considered.

Aetna, Monsanto, and Amoco converted all selected functions to shared services simultaneously and expressed satisfaction with the process and the results achieved.

*Pros of converting all functions at one time:* Simultaneous conversion of all functions and locations can generate strong results and impressive cost savings in a short time frame.

*Cons of converting all functions at one time:* Simultaneous conversion is higher profile and higher risk than conversion to shared services in waves over time. Simultaneous conversion requires more resources dedicated to the effort and stronger senior leadership and support.

Change management must be emphasized, and the conversion will go more smoothly if the organization has experience with change. If the employees are not well prepared to deal with organizational change, the transition can be difficult.

# How to Staff

Organizations must determine the staffing levels for the shared service organization. Assuming there are no constraints on staff reduction, companies can determine appropriate staff levels by benchmarking (internally and/or externally) or conducting an activity-based costing study for the processes to be moved to the shared service center(s).

The processes that the best practice partners used to fill positions in the shared service organization are graphed in Figure 3.

**Amoco:**

Amoco's Corporate Centers Team decided, based on "affordability" criteria, that a support services staff of 35–40 percent (of total staff) was too high. The individual design teams determined how to reduce support staff to the target level.

On a corporate level, the focus has dramatically shifted from head count to costs. The key is cost performance. For example, one business has reorganized, resulting in a 30 percent reduction in costs with only an 18 percent staff reduction.

For the Business Systems Group, an aggressive 80/20 (Amoco employees/contractors) staffing policy has been implemented. This allows the group to flex and move with the volume demands, avoiding the headaches of downsizing.

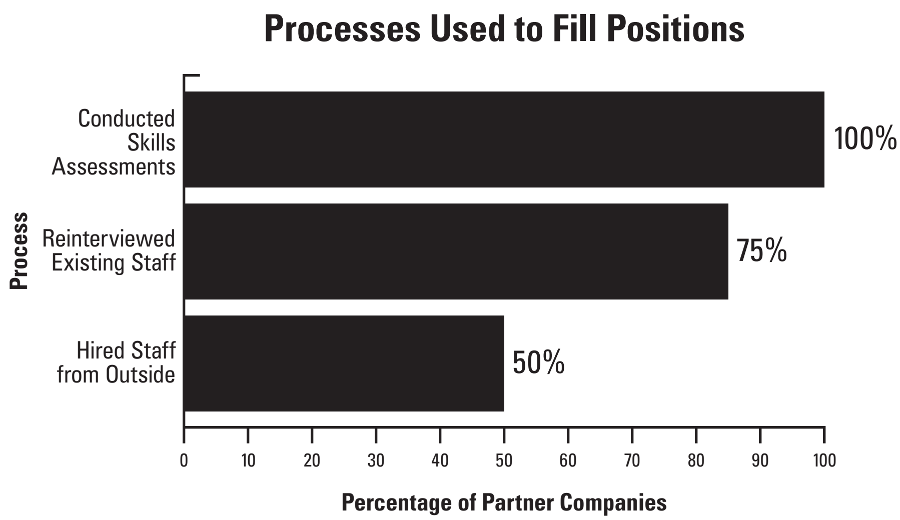


*Figure 3*

**Deere Credit Services:**

Deere Credit Services' Information Systems (IS) shared service operates like an independent business. Therefore, levels of staffing are determined by market needs and linked with activities in the business units.

**Monsanto:**

Monsanto's Staff Alliance Study helped identify target recommendations regarding the number of people required to perform various functions, relative to the size of the company and the type of work to be done. These targets were presented to the design teams as initial recommendations. In addition, some best practices work was done to set the targets.

# How to Govern

A well-defined governance structure is essential for effective shared service operation. This structure may be a steering committee made up of business unit representation and senior management of the corporation, or it can consist of one or more functional senior executives responsible for that function within the corporation (i.e., CFO, vice president of human resources, vice president of legal services).

This group or individual will be responsible for establishing policy, resolving disputes (billing and service-level), adding services to or removing them from the operation, setting performance goals, establishing the reward structure, etc.

Forty percent of the best practice companies have an oversight board to direct operations and to assist in conflict resolution.

**Aetna Life & Casualty:**

Aetna Business Resources' Advisory Team (oversight group) includes a direct report of each business unit president. Having high-level representatives involved in this group ensures that information will reach the highest level.

The Advisory Team meeting agenda item is distributed before the meetings to allow representatives to solicit input from their respective businesses. The energy level at these meetings is very high. Sharing the agenda with team members prior to the meeting sets the communication expectations.

Team members are responsible for communication as well as decision making—the Advisory Team serves as the conduit to each of the business units.

**Amoco:**

Amoco's Shared Services Council consists of the heads of the 14 shared service functions, as well as the senior vice president of shared services. The Council does not serve as a formal oversight group for day-to-day operations. Rather, it provides a forum for discussing contract form and substance, policies and procedures, standardization, integrated solutions, and visioning.

The Council does not serve as a forum for dispute resolution. The true point of resolution occurs at the point of service delivery. However, higher levels in Amoco's service delivery network (such as the business group financial manager, all the way up to the senior vice president of shared services) can be accessed if necessary to resolve a dispute.

**Deere Credit Services:**

Deere Credit Services' IS shared service has divisional steering committees made up of managers of the various departments in the division. These committees focus on budget and resource allocation decisions within the divisions.

The IS senior-level steering committee keeps senior managers involved so they understand what is going on, why there is a need for more staff members, why there are problems, etc. This committee exists for information sharing, not controlling.

**Monsanto:**

The MBS Board comprises business unit presidents and other key senior leadership. The president of the MBS leadership team reports to the Board. The role of the MBS Board includes setting strategy and direction; making leadership selections; determining compensation policies; and providing a framework for executive decisions, incentives, and MBS budget approval. In addition, the Board serves as the court of appeals for any outsourcing issues and conducts a performance assessment at year end. The Board also considers the development of new business or service offerings and opportunities for MBS. The Board meets for half a day, every other month.

A functional vice president or senior executive makes policy changes and key decisions at organizations that do not utilize a formalized oversight board.

# Key Components

*Component 1: Organizational Change Management*
*Component 2: Customer-Focused Mind-set*
*Component 3: Service-Level Agreements*
*Component 4: Performance Measures*

# Component 1:

## *Organizational Change Management*

The transition to shared services is not an easy path. Before attempting to implement shared services, a company must assess its readiness for and experience with successful change management and identify areas on which it needs to focus its efforts. Based on this information, a plan for handling the move to shared services can be developed.

Change management plans should deal with the employees (those who are displaced, as well as the survivors) and the service center's customers. The disruption in people's lives is dramatic and unavoidable. Companies that have the best success during these traumatic times are those that deal with the issues upfront. Failure to adequately prepare employees and customers for change contributes to difficulties related to the business units' perceived loss of power base and low employee morale.

**Amoco:**

Amoco's management is viewed as the leader of the change process. Amoco follows a change model (developed many years ago) that stresses the following components of change:

- strategy,
- process,
- people, and
- rewards and recognition.

This model has been a powerful tool for creating a change-oriented mind-set at Amoco.

**Monsanto:**

*Lessons learned:* More focus could have been placed on preparing people for the change. Some employees simply were not ready for the change and the transition became difficult as a result.

**TIMELINE FOR THE CHANGE**

Because of the level and intensity of disruption the move to shared services causes to the affected individuals, the more quickly the change can be made, the better.

**Amoco:**

*Lessons learned:* Amoco has learned the importance of implementing the change as fast as possible, even if you don't have all the answers. The team prided itself on the ability to make decisions based on the 80 percent rule: If 80 percent of the information is available, go ahead with it.

**Monsanto:**

The ability of MBS to keep good employees was attributed to its tight time frame of change.

**EASING THE TRANSITION—OVERCOMING BUSINESS UNIT RESISTANCE**

Implementing shared services can be threatening to the business unit/customers—the business units often feel that they are losing control over decisions and services that they have traditionally owned. In addition, the business units may have experienced poor support and decreased responsiveness in past centralization efforts.

The keys to overcoming business unit resistance are to demonstrate to the BUs the value of converting to shared services and to involve them in the design and implementation.

Shared services benefit the business units because:

- each BU can focus on its core business,
- the BU staff has more time for analysis and other value-added functions,
- the BU receives better information at lower cost than its own staff can provide,
- shared services can provide higher-quality service at a lower cost than the business unit,
- the BU has access to increased comparative data from other business units, and
- shared services can leverage technology and functionality that individual business units could neither justify nor afford.

**Aetna Life & Casualty:**

The customer relationship before the development of Aetna Business Resources was "mushy"—no one understood the value of services provided or the price tag of business propositions. Today, the relationship is more professional; it is an arm's-length relationship. Customers recognize that they are typically getting a product or service that has been tested in the market. The consistency of service delivery is precisely what has helped sell shared services.

**Deere Credit Services:**

Deere Credit Services' activity-based costing study helped make a strong case for change, because employees could see that decisions about what to change were not being made arbitrarily. This study also helped the shared service groups demonstrate their value to the business units.

*Lessons learned:* The distinction between control and influence is important. Although the business units may be relinquishing some control, it is important that they realize the service providers are open to their ideas, suggestions, and influence. In addition, the company must strike a balance between what the business units are responsible for and what the shared service provider does.

**Monsanto:**

The business units need to accept short-term decreases in service levels while the newly created shared service works through the glitches.

None of Monsanto's business units were satisfied initially with the shared service organization's performance, and they wanted to have options. MBS asked the business units to work exclusively with MBS from April 1995 through 1996, to give it a chance to work through the glitches. During that time, if MBS was not providing better, faster, and cheaper service than the business units could access externally, it would work with the business units to access vendors that could meet their needs.

**Seafirst Bank:**

Providing incentives to business unit managers who are losing functions helps the transition go more smoothly.

## EASING THE TRANSITION—FOCUSING ON EMPLOYEES

### *Communication*

Change-related communication generally serves two purposes:

1. to create a sense of awareness and understanding, and
2. to gain commitment to the change (increase buy-in).

If employees feel that they have input into the change process (both before and during the change) and are aware of the changes that are occurring, they will feel more in control, less "victimized," and generally more comfortable with the new environment.

Organizations tend to shy away from communicating before all the details are worked out. However, keeping employees apprised of the situation as the change moves forward is critical to overall success. It is also important to communicate at key decision points. Open communication tends to lessen anxiety, whereas lack of communication creates it.

All-employee and/or departmental meetings, electronic mail messages, and newsletters are the most common communication mediums used by the best practice partners. Yet, all of the partners agree that there is no substitute for one-on-one communication—it is the most effective means for getting the message across. Talking with employees and listening to their concerns is critical. It is also extremely important to educate managers on communicating with employees during these stressful times.

Using a variety of communication vehicles is essential, as is measuring communication effectiveness. Committed employees will help secure a successful shared service operation, whereas uncommitted employees can undermine the change effort. Therefore, it is important to assess the effectiveness of change-related communication.

**Aetna Life & Casualty:**

ABR's "Koffee with Kathy" provides employees an opportunity to speak with the director in a comfortable, open setting. This program involves randomly inviting ABR employees to have coffee with the leader of ABR (Kathy Murray), ask questions, and explore issues. None of Kathy's direct reports are allowed to attend.

**Amoco:**

Amoco attempted to keep the employees updated on the process, even when direct answers were not yet known. The company tried to stay one step ahead of the rumor mill in its communications. This created a sense of openness during a difficult change process. The acknowledgment that people wanted information even though the teams didn't yet have all the answers was important.

Amoco administered surveys at three or four critical points during the change process. The surveys helped gauge the level of employee commitment to the effort.

**Deere Credit Services:**

Deere Credit Services surveyed employees to identify opportunities for improvement. This helped address the behavioral aspect of the change.

**Monsanto:**

The fact that MBS didn't have all the answers made increased communication difficult during its creation. Some of the issues that employees wanted information on had not yet been defined, and it was difficult to answer the unknown.

*Support Programs*

Programs that help both the displaced and the "surviving" employees deal with change are highly recommended. Partner companies gave their Employee Assistance Programs (EAP), as well as specialized offerings, high marks for effectiveness.

**Amoco:**

Amoco provided several "coping with change" training sessions. An outside contractor provided employee training for survivorship. This program was well received, and internal Amoco trainers were certified to provide this training. The program dealt with change at the employee and management levels and focused on:

- understanding the dynamics of change and recognizing where an individual is in the change process, and
- diagnosing whether employees need assistance in dealing with change.

The seminar on survivorship was voluntary but probably should have been mandatory. Increased EAP capabilities in the organization are needed to support change of this magnitude.

**Monsanto:**

One of the most successful aspects of Monsanto's change management process was its use of programs to help employees cope with the changes associated with moving to shared services. In 1994 alone, Monsanto underwent five rounds of downsizing. Obviously, this process had a continuing impact on the morale of employees.

Specific training for the service group leaders was implemented. The training focused on how to recognize when an employee needs outside (or EAP) assistance, how to be proactive in recognizing resistance to change, and other related topics.

*Motivating Employees During the Transition*

Efforts to assist employees in responding positively to the change process can enhance the overall success of shared services. Most of the best practice partners focused on keeping staff with critical skills motivated during the change process. Motivating factors included incentives, stay-on bonuses, the selection process itself, and programs tying compensation to performance.

**Aetna Life & Casualty:**

Aetna did not offer individual "stay" incentives. The choice of whether to remain was left up to each employee individually. The employees were responsible for obtaining training needed to upgrade skills. ABR clearly communicated that although the organization could not guarantee each employee a job, it could guarantee them better employability as a result of upgraded skills.

**Amoco:**

Some of Amoco's shared service group used retention incentives to retain critical staff members. Retention incentives were offered to employees with skills recognized as critical to a successful transition. Amoco achieved its goal of retaining 10 percent to 15 percent of employees with this type of incentive.

**Deere Credit Services:**

Deere Credit Services has recognition programs in place to motivate shared services employees—employees receive, for example, free lunch or John Deere items.

*Use of Teams to Involve Employees in the Change Process*

The best practice companies demonstrated that the use of teams made up of business unit personnel was an excellent way to build support for the move to shared services (Figure 4, page 31).

**Deere Credit Services:**

Deere Credit Services recognized the importance of identifying key players—i.e., those individuals (not necessarily at the highest levels of the organization) who are key links in the chain. These people had a lot of influence and interaction with other employees; gaining their buy-in helped the change process go more smoothly. Deere formed teams of key players and kept them involved in the change process so they could serve as champions.

**Partners' Use of Teams to Build Support for Shared Services**

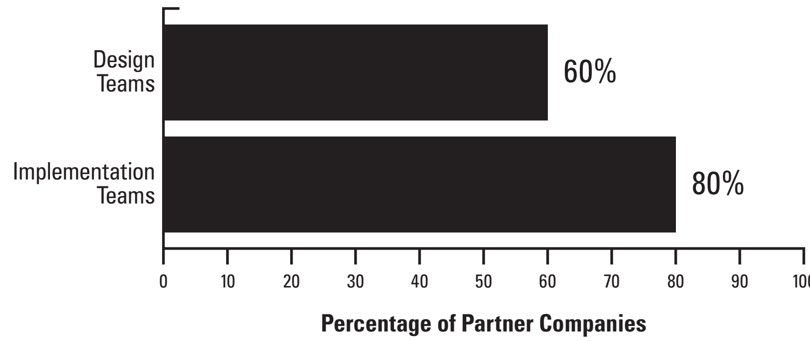


***Figure 4***

*Design Teams*

Sixty percent of the best practice partners relied on a team of employees to design the shared services operation. The design teams typically included representation from senior management, middle management, and the affected locations. In some cases, customers also participated in shared service design. As a rule, design team members were dedicated full time during the design phase. All of the best practice companies that developed their design-utilizing teams also had a steering committee guiding, reviewing, and approving the recommendations.

**Monsanto Business Services:**

Monsanto relied on teams to design various shared service functions. Each team consisted of service recipients (customers) and service providers. The team was charged with designing the operations in a short time frame, about six weeks.

*Implementation Teams*

Eighty percent of the best practice companies relied on teams during the implementation phase. The implementation teams were generally charged with system and process implementation, policy documentation, and migration of information from the old process and system to the shared service operation. The composition of the implementation teams differed from the design team composition at two of the four partner companies that used implementation teams. Senior management participation typically was reduced, and shared services functional leadership often was included on the implementation team. Team members were generally dedicated full time to the implementation effort; however, that did vary by team member. The use of a steering committee continued through the implementation phase for the majority of companies.

***Education and Training***

Training is a key element in the successful implementation of shared services. Employees must receive training to upgrade their technical skills in areas such as customer service and consultant skills to prepare for their new roles.

**Aetna Life & Casualty:**

In addition to technical and customer service training, Aetna offers training to support the consultant role of shared services employees. These courses include negotiating, decision making, and social skills. Employees can also attend "soft skills" training on topics such as diversity and group dynamics.

Aetna's Purchasing shared service has gone through three phases of rightsizing. Purchasing employees were encouraged to seek needed skills to move with the change. A complete skills and competency assessment was done for the whole department.

**Amoco:**

Amoco focuses its training efforts in two specific areas:

- continuous improvement and customer satisfaction, and
- Amoco Progress/TQM.

In addition, each of the functional groups within shared services may have its own training and education goals.

**Deere Credit Services:**

Deere Credit Services offers training to some lower-level/clerical IS shared service employees to enable them to respond to basic inquiries. This frees up more experienced staff to address more complex problems.

Training materials at the best practice companies are developed and delivered by in-house resources or outside contractors. Most companies use a combination of educational techniques including classroom settings; video- and audiotapes; and computer-based, self-paced, and on-the-job training. As the following graph indicates, the best practice companies rate on-the-job training as the most effective means of training employees in the use of shared services and shared services operation. On-the-job training is also the most widely used training method (Figure 5).

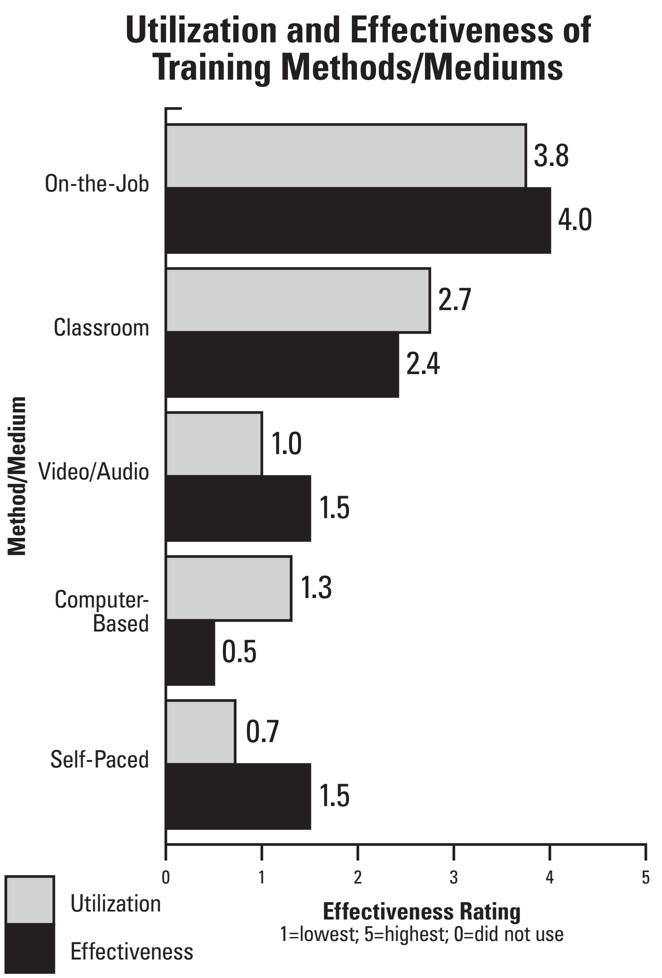


*Figure 5*

# Component 2:

## *Customer-Focused Mind-Set*

The move to a cost-conscious, customer-focused shared services organization requires changing the attitude of the company. The concept of customer service and focus must be taught and continually reinforced within the new shared services organization.

The shared service center must recognize the business units as customers and adjust to its new role of providing the services requested by its customers at the agreed-upon quality and cost levels.

**Deere Credit Services:**

Deere Credit Services' IS shared service recognizes that it must reflect the customer environment in order to be responsive. The IS shared services group has made changes over the years to get more in touch with its customers. The businesses have input into what projects get done and what priority is assigned, and the IS group looks across other efforts to leverage work already done.

IS shared service employees are assigned to work closely with (as a member of) many of the departments and other shared service operations. These individuals report to the central IS operation, although the various departments view them as part of their own staff. This type of partnership has worked well for IS and accounting, for example, because it enables IS to better understand and anticipate customer needs.

**Seafirst Bank:**

Seafirst Bank's regional staff recognized early on that the success of the transition to shared services depended on its ability to satisfy customers. So, the focus was on trying to provide excellent service to the state affiliates. Issues and problems were given the highest priority for resolution.

Regularly scheduled (weekly or biweekly) conference calls between state CFOs and regional accounting/finance staff members provided a forum for bringing up issues.

In addition, the regional staff provided key contacts for the state CFOs to help the regional (shared services) staff keep in touch with its customers outside of these meetings.

### PROVIDING FEEDBACK TO CUSTOMERS

Communicating with customers is critical before, during, and after the change to ensure that the shared service organization stays in touch with their needs. Providing feedback to the business units enables them to adjust their use of the available services to improve their overall performance. Business units often receive summaries of their usage of various shared services and associated costs. In addition, the shared service providers often serve as internal consultants to help the business units make more cost-effective decisions regarding service levels.

#### Aetna Life & Casualty:

ABR proactively provides financial information and utilization feedback, as well as information on options or alternatives, to the business units. Providing its internal customers with this type of information supports improved decision making without putting ABR in the role of "traffic cop."

ABR uses many mediums to help educate shared services customers—in addition to developing service-level agreements with its customers, ABR shares performance measures and customer satisfaction ratings.

#### Monsanto:

Monsanto's service group leaders serve as internal consultants and have continual dialogue with customers to learn what their needs are.

Monsanto recognizes the need to educate customers regarding their use of shared service, i.e., determining what levels of service they need—the lowest-cost service versus a service that enhances the ability to serve the ultimate customer (the one who buys the end product). The key is to not focus on selling more services but to sell only those services that will help the business units be more successful.

### RECEIVING FEEDBACK FROM CUSTOMERS

Leading-edge companies assess customer satisfaction through a number of methods including surveys, monitoring customer usage, focus groups, monitoring customer response to pricing, and service-level agreements. In addition, most shared service customers have the opportunity to provide informal feedback regarding their satisfaction with the service they receive.

#### Aetna Life & Casualty:

ABR's customers generally take it upon themselves to let ABR know how they feel. ABR is constantly asking for feedback at all employee levels. Product and service managers are encouraged to receive customer complaints. This means meeting with customers in person on their turf and reviewing e-mail, letters, etc.

**Monsanto:**

MBS' customers complete an annual survey via an electronic process that provides anonymity. The survey results go to the MBS Board, and the findings are communicated back to the business units.

### TYING COMPENSATION TO PERFORMANCE

Recognizing that "what gets 'incented,' gets done," 80 percent of the best practice companies tie compensation of shared services staff to service-level, agreement-specific performance measures. Tying compensation to performance is an effective tool for helping the shared services staff maintain its customer focus. Maintaining customer focus is paramount in a shared service organization.

The bonus opportunity tends to vary among organizations and by employee level within organizations. Typical performance compensation opportunities for each employee level (as a percentage of base salary) are presented in the table below:

| | |
|---|---|
| Senior Management | 25% to 50% |
| Middle Management | 10% to 40% |
| Individual Staff Members | 10% to 20% |

### ASSIGNING STAFF TO CUSTOMERS

Each organization must deal with the relationship between the shared services staff and its customers in the manner most effective for its culture and the service being provided.

To facilitate communication and build stronger relationships between the shared service providers and customers, some of the best practice companies assign staff members to act as contacts for specific business units/customers. These assignments can be made in a variety of ways: focus by customer, focus by process, or focus by customer and process.

Other organizations assign a limited number of shared services staff members to work directly with, and as a dedicated agent for, a particular business unit. The assigned staff members may physically locate at the shared service center or in the business unit. Best practice companies tend to avoid assigning a large contingent of shared service employees to any specific business unit.

**Amoco:**

Some of Amoco's shared services functions have staff members embedded in the business units, allowing these employees to dedicate 100 percent of their time to a specific business group. For services such as Environmental Health and Safety (EH&S), it is critical to have the staff fully integrated with plant/facility operations so that the EH&S managers can gain an intimate knowledge of the plant's full operations. Staffing decisions have been determined by looking at the requisite skills and completing an organizational capability analysis.

**Deere Credit Services:**

Some representatives within Deere Credit Services' IS shared service are assigned to work with specific customer groups, because it is critical to have close customer contact. In other areas, the basic infrastructure must be generic and therefore cannot be focused by customer group. These decisions are evaluated continually and on a case-by-case basis.

**Monsanto:**

Approximately 10 percent of the MBS staff is dedicated to serving specific customer groups. The philosophy at MBS is the more dedicated you become, the less shared services-minded you also become. The transfer of knowledge becomes difficult, and both the benefits of scale and the flexibility for the shared services entity to deploy the resources are limited.

MBS has created a matrix of the content and contact responsibilities within the organization so the customer knows where to go for service.

**Seafirst Bank:**

Prior to regionalization, Seafirst Bank's regional management pushed to develop a customer-focused mind-set among the regional/shared service center employees. Each state office was provided with the name of a contact person within the SSC to contact with any questions.

# Component 3:

## *Service-Level Agreements*

A service-level agreement (SLA) is a contract between the shared services provider and its customer. SLAs enhance the market focus of the shared services organization and ensure that a clear understanding exists between the customer and provider regarding the services to be provided and costs of those services.

SLAs typically specify more than just the billing agreement between the two parties. Other areas covered by the SLA include anticipated volume, billing rate, quality and/or service guideline, and dispute resolution. Organizations often include customer performance measures such as timeliness and accuracy of customer inputs in their SLA. Forty percent of the best practice companies' SLAs include customer performance measures.

All of the best practice partners rely on SLAs that are tailored to meet specific customer requirements for at least some of the services they offer.

**Aetna Life & Casualty:**

Basic components of Aetna's SLAs include:

- What is the service we offer, and
- What is the expected turnaround time?

**Amoco:**

Amoco offers three general types of SLAs: simple, moderate and complex. The company customizes its SLAs for the appropriate service and billing requirements.

The specific elements of Amoco's agreements are:

- description of the service and levels,
- unit costs and yearly consumption,
- metrics to measure effectiveness,
- cost comparisons and external benchmarks, and
- plans for improving service.

**Monsanto:**

The objectives of Monsanto's SLAs are:

- to share as much information with clients about existing and ongoing services,
- to educate clients about specific service costs by forecasting annual costs,
- to outline specific service descriptions, and
- to spotlight new services.

## SLA DESIGN AND DEVELOPMENT

Face-to-face meetings between shared service providers and customers are the most effective way to reach consensus and develop SLAs. Best practice companies tend to attempt to resolve disputes at point of contact; escalation is rarely necessary.

**Aetna Life & Casualty:**

Aetna considers the needs of multiple groups of service users when making agreements regarding what services and service levels to offer or not offer.

In some situations, ABR asks customers to make trade-off decisions. Different business units have different needs, and sometimes they clash. Because ABR is an internal entity, the customer is always aware of the trade-off dilemmas. Meetings between customers who use the same service at various levels are an effective means for minimizing these dilemmas.

**Amoco:**

Amoco depends on the budgeting process to drive the ability to reach consensus and resolve issues regarding level of service, cost, etc.

**Deere Credit Services:**

Deere Credit Services' local IS SLAs were written at the customer interface level. This provided a level of comfort to the users, since they felt they had a voice in setting up the standards under which the service providers would be operating.

Deere, like Amoco, depends on the budgeting process to drive the ability to reach consensus and resolve issues regarding level of service, cost, etc.

**Monsanto:**

Bringing in the user's perspective is paramount. The key is to develop more of a partnership by creating the opportunity for ongoing discussions regarding modifications needed to improve the client service agreements, rather than simply meeting once a year.

A lot of dialogue is needed, stressing flexibility versus rigidity. The oversight board addresses issues when consensus cannot be reached, although, to date, this level of intervention has not been required.

**CHARGE-BACK MECHANISM**

Successful shared services organizations are market focused, as opposed to being cost centers. Thus, shared service centers must recoup the cost of operation from their customers, and they must offer quality service at competitive prices. The dimensions of service quality include frequency of service delivery, response time, and dedicated customer contact. Pricing may be fixed, variable, usage based, or value based.

As noted above, the SLA between the shared services function and the business unit establishes the relationship for charging for the services provided. Some of the more common methods of charging include customer usage of services; actual cost; and allocations based on head count, square feet, market, etc.

Shared service providers must understand the competition in order to stay competitive.

**Aetna Life & Casualty:**

Aetna Business Resources periodically issues requests for quotation to third parties to ensure that it is competitive.

**Amoco:**

*Lessons learned:* Amoco charged on an FTE-basis for the first two years. This created some problems. Starting out on a unit-based (activity-based) cost would have been better. More education of the consumer regarding charge-backs would have been helpful.

**Deere Credit Services:**

Deere Credit Services' method of pricing has several objectives:

- to make sure users understand cost,
- to help determine levels of resources needed, and
- to ensure that the price represents a full absorption cost and is comparable to marketplace rates.

In addition, Deere recognizes that price adjustments can be used to drive behavior, so it is important to set and adjust prices according to what the company wants to encourage.

**Monsanto:**

MBS fully bills out costs—the organization is not a profit center. If a customer does not want to pay for a service, the service is typically eliminated or continued at a higher cost to other users. This adjustment in cost is needed to cover the volume variance.

Each Client Service Agreement contains a line item for "administrative costs." These costs include rent, incentive compensation, utilities, and related information technology costs.

Currently, allocations are done by transaction. The new SAP system is being implemented to handle differentiation. For nontransaction areas, MBS tries to default to its best judgment for managing the pricing.

# Component 4:

## *Performance Measures*

Performance measures are a critical consideration for the successful implementation and ongoing effectiveness of shared services. Shared service organizations rely on performance measures for two primary purposes:

1. to make agreements with customers regarding service levels and pricing (see Component 3), and
2. to define and measure the success of the shared service operation and its employees. (Shared services employee incentives may be tied to performance measures.)

The time and effort required to collect and analyze the measures must be considered. The key is to not over-measure. The organization should identify and track a limited number of critical performance indicators related to its business drivers.

**Aetna Life & Casualty:**

Some organizations put a lot of effort into measuring everything. ABR has evolved to using fewer measures and emphasizes providing quality service. ABR's philosophy is the fewer metrics used, the better.

There are several methods for establishing, measuring, tracking, and reporting performance. Examples are:

- tracking the year-to-year cost of operations, based on a few key measures (i.e., cost per invoice, cost as a percent of revenue);
- benchmarking internal and external organizations;
- activity-based costing to target high-cost areas and gain a true understanding of the organization's costs; and
- using a balanced scorecard to align multidimensional indicators with corporate and organizational goals.

**Amoco:**

Amoco uses the scorecard methodology to collect performance measures. These scorecards are used by every business group and are aggregated quarterly to roll up the measures to the shared services scorecard and financial reports.

The company uses a variety of data sources, including employee surveys, Lotus Notes, customer satisfaction surveys, financial data, and conversations with business payers.

Amoco's key dimensions of satisfaction by product or service include:

- overall satisfaction with service;
- value and/or worth the cost;
- addition of value to the business;
- meeting service unit requirements (on time);
- communications—making the partner aware of service ranges and service values, costs, etc.;
- expertise—customer's perception of whether the necessary skills to deliver the service are available;
- proactive solutions versus what the SLA specified (transfer of knowledge); and
- partnering—understanding customers' requirements and helping them meet business goals and knowing whom to contact for a particular service.

These key dimensions were determined by input from Amoco's Quality Process group. The business focus on adding value also shaped the direction for determining customer satisfaction.

Amoco's customer satisfaction survey was designed to be dynamic and to avoid the problems associated with "analysis paralysis." The emphasis is not on simply collecting the data, because perceptions vary from customer to customer. The only way to really understand the data is to sit down with the customer and explore the data. The survey is a vehicle for sharing best practices internally for those groups with high scores.

**Monsanto:**

During the first year, MBS focused on measuring performance related to "keeping the boat afloat." In the second year, the emphasis has changed to measure people-related issues.

The MBS Client Survey is one of the main data-collection tools used to assess performance. Each MBS Client Survey consists of 15 to 20 questions specific to a service, with a rating scale of one to five. These surveys are not randomly distributed—individual customers/users are targeted to complete a specific survey. For each service, approximately 100–200 surveys are distributed. This means that different clients will receive the HR and Finance client surveys.

The key performance dimensions are directly related to the organization's overall performance measures. Monsanto uses a knowledge performance index (KPI)—a balanced scorecard focusing on quality, people, innovation, and cost.

# Success Enablers

# Success Enablers

Enablers of shared service success include a culture supportive of change, strong executive sponsorship of the change, and information technology support. In addition to the previously discussed key components, these enablers must be in place to support an organization's transition to shared services (Figure 6).

The best practice partners ranked top management commitment as the strongest factor contributing to the success of shared services implementation in their organizations. Effective communication and organizational acceptance of change ranked second and third, respectively.

**EXECUTIVE SPONSORSHIP**

Successful shared services implementation requires a strong executive champion who leads by example; with words *and* actions. The executive sponsor and/or champion must serve as a decision maker, capable of balancing consensus with unilateral decision making.

In addition, strong senior management leadership can focus and direct the change effort. The ability of a high-level champion to pull support into the effort when needed is critical. Senior leadership also needs to be involved in developing the scope and timeline of the change effort, and this information needs to be communicated from the top to all employee levels.

**Monsanto:**

Key to Monsanto's shared services success was dedicated senior management

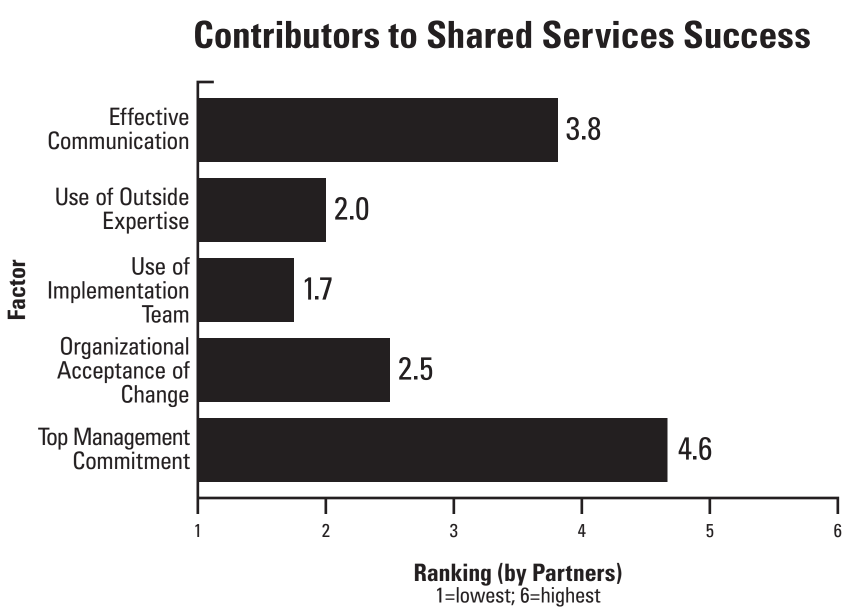


*Figure 6*

support through the Staff Alliance Study project and the president's active involvement with the MBS Board.

**Seafirst Bank:**

Seafirst Bank's senior management made a case for why the move to shared services was the right thing to do, and the regional staff was charged with making it happen.

Because the change was mandated from the top with established dates, the change was more focused than it may have been otherwise. If left open, it probably would have dragged on longer.

### CULTURE SUPPORTIVE OF CHANGE

An organization's culture can significantly influence the overall success and timing of its transition to shared services. A culture that is change oriented, embraces diversity, and involves employees in decision making will probably experience a less traumatic transition in a shorter time frame.

**Aetna Life & Casualty:**

Every employee is a change agent. Cross-functional teams are used to ensure everyone's involvement.

**Seafirst Bank:**

Dealing with the change to shared services was not outside of Seafirst Bank's culture. Five mergers in the past five years provided the regional (shared services) staff with the necessary skills and consolidation experience to deal with change successfully.

### IT SUPPORT

The move to shared services is often the cause for, or the result of, a reevaluation of systems and technical architecture within an organization. A shared services organization requires a strong technical infrastructure to support its customers effectively. In addition, technology provides the means to improve data integrity, thus facilitating the use of data as information throughout the organization.

**Deere Credit Services:**

In establishing its shared services organization, Deere started with the information systems group because it was a key area and one of the largest expenditures. The additional reengineering efforts provide the opportunity to identify commonalities that may be leveraged in the IS area.

# Change Strategies

# Change Strategies

Shared services are a means to an end. This study confirms that there are two primary drivers for the move to shared service:

1. cost reduction, and
2. improved information.

Below is a decision matrix to help evaluate the viability of a shared services strategy for an organization based on current costs and use of information (Figure 7).

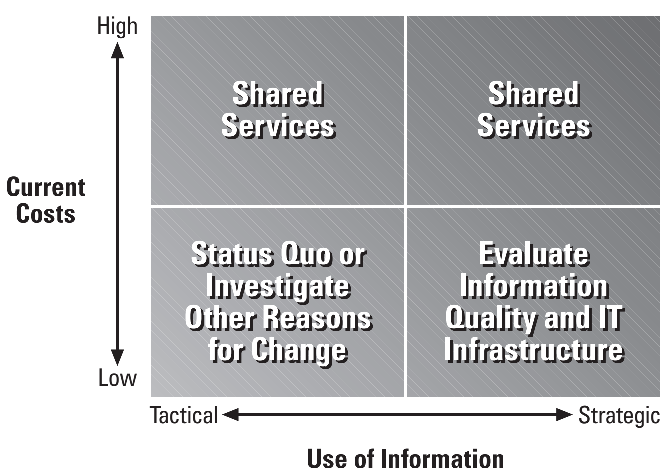


*Figure 7*

Current costs represent the total cost of providing a service (i.e., accounts payable) across the entire company. These costs should include the cost of the current IT infrastructure.

The use of information can be looked at in two ways:
1. How do I use information today, and
2. What importance does the organization place on information for the future success of the company?

Tactical use of information refers to the data required to close the books, provide standard reports for the daily operations of the organization, meet regulatory statutes, etc. Strategic use of information refers to information as a competitive weapon to support and evaluate decisions pertaining to long-term growth and strategic direction (i.e., acquisitions and divestitures, new product analysis, new market analysis, competitive analysis). Strategic use of information is a less tangible benefit than cost reduction. To successfully use this as a driver, it requires a forward-looking senior champion who understands the competitive value of information.

The study confirmed that there is no single solution or implementation strategy. It is the combination of drivers, goals, benefits, and company culture that will craft the appropriate solution for your organization. However, you can build upon the fundamental elements and leading practices that have been identified through this and other studies of those experienced with shared service design and implementation.

The transition to a customer-focused, technology-supported, streamlined shared services organization is driven by the obligation to become more cost efficient and effective and to have strategically useful information. Shared services will facilitate:

- cost reduction by enabling economies of scale, eliminating nonvalue-added activities, and leveraging information technology across a broader customer base.
- process standardization to eliminate redundant activities, streamline processes, and achieve productivity improvements.
- supporting major investment commitments for information technology software and hardware. It is often more cost effective and efficient to install technology at one location rather than in multiple, geographically dispersed sites.
- improvement of the information technology infrastructure. Few organizations have been able to stay abreast of the rapid changes that are taking place in the technology-reliant world today. Shared services often act as the "straw that broke the camel's back" to move the technology infrastructure to the next level.
- the ability to leverage information across the company to help strategic and tactical decision making on a divisionwide or companywide basis.

Once the decision is made to adopt a shared services strategy, the organization must address:

- which processes and how many processes will be shared,
- which locations will be included, and
- how many shared service centers are required.

These decisions will impact the amount of risk assumed and the rewards that can be received from the move to shared services.

These decisions are influenced by the management culture of the company. The management culture spectrum ranges from autonomous business units over which corporate has minimal influence (it tends to be only in regulatory areas) to total control by corporate (all decisions are mandated by corporate; business units have limited or no authority to make decisions; their goal is solely to execute). The management culture will impact the risk that should be assumed and the breadth of the effort.

The drivers and the organization's management culture can result in conflicts that affect or influence the implementation strategy or potential for successful execution of the strategy. Assume, for example, that the primary driver for the consideration of shared services is a reduction in cost. Historically, however, the business units have been autonomous. In this situation, it will be difficult, if not impossible, to successfully implement a shared service organization that is able to support all business units in a cost-effective manner.

It is essential to have at least one champion with the authority and power to influence the business units. This individual must be able to convince the business units that it is in their best interest to reduce costs and that this is best accomplished through the sharing of specific functions.

The issues that must be managed throughout implementation and operation of shared services include:

- communication,
- training,
- senior management guidance and support,
- performance metrics to provide incentive and reward,
- continuous improvement,
- development of a customer focused culture, and
- effective cost and billing methodologies with supporting SLAs.

The bottom line is strong—shared services are a proven, effective means to reduce cost, increase customer value, and provide better information. There is no single solution; every organization must craft the appropriate alternative that creates its own best practice for shared services.

# Partner Company Profiles

PAGE

# Aetna Life & Casualty

Aetna Life & Casualty is one of the three largest insurance company providers of group health and life benefits, the sixth-largest underwriter of commercial property/casualty coverages, and one of the top 10 underwriters of personal property/casualty products in the United States.

Aetna Life Insurance Company legally separated from Aetna Insurance Company in 1853. Aetna Accident and Liability Company formed in 1907 to market insurance to automobile owners and industrial employers. In 1967 Aetna Life & Casualty became the parent company for the corporation.

With the sale of the property/casualty business, Aetna made a strategic decision to focus on growth opportunities in its managed healthcare and financial services businesses, both in the U.S. and selected international markets. Aetna now has three core businesses: Aetna Health Plans, Aetna Retirement Services, and Aetna International.

Aetna Health Plans (AHP), the nation's third-largest healthcare company, provides healthcare coverage through health maintenance organizations, point-of-service plans, preferred provider organizations, and traditional fee-for-service plans. AHP also offers an extensive range of specialty health and group insurance products. AHP products and services reach 19 million Americans, serving 25 percent of Fortune 1000 companies and 19,000 employers overall.

Aetna's Retirement Services markets a variety of retirement, investment, and life insurance products to individuals, businesses, and not-for-profit institutions. "Aetna has built a strong position in several important retirement market niches," Chairman Ronald E. Compton said. "We are working to strengthen our position as an equity fund and financial planning provider and broaden our distribution channels to give customers easier access to our products and services. We are exploring investments and acquisitions to achieve that goal. This market is growing at about 15 percent a year, fueled by the aging of the baby boomers and their concerns about gaps in their retirement benefits. We see real opportunities here."

Aetna International has a strong, established position in key emerging markets including Chile, Hong Kong, Malaysia, Mexico, and Taiwan. Healthcare, financial secu-

## SNAPSHOT

**Primary Industry:**
*Healthcare and financial services*

**Headquarters:**
*Hartford, Connecticut*

**Revenue:**
*$12 billion (1995)*

**Employees:**
*35,213 (1996)*

rity, and retirement planning products and services are offered to approximately 2.5 million customers in 10 countries. Continued development of current international operations and penetration of new markets where suitable opportunities exist are expectations of Aetna International.

**HISTORY**

| | |
|---|---|
| 1853 | Aetna Life Insurance Company is formed; it legally separates from Aetna Insurance Company. |
| 1891 | Aetna's Accident Department is formed in the first step toward becoming a multiline company. |
| 1903 | The engineering and Inspection Division is formed. |
| 1906 | The first formal training program is introduced as a series of six lessons in the Aetna Life News. |
| 1907 | Aetna Accident and Liability Company is formed to market insurance to automobile owners and industrial employers. |
| 1913 | First group policy is sold to a New York fabric manufacturer. |
| 1917–19 | Aetna implements fund-raising efforts and new products to help World War I servicemen and their families. |
| 1920 | Aetna passes the billion-dollar mark in insurance in force. |
| 1921 | Aetna holds its first Bond School. |
| 1930 | Aetna enters the group annuity field. |
| 1936 | Aetna introduces a driver education program. |
| WWII | Aetna provides workmen's compensation and liability insurance for the Manhattan project, which produces the first atomic weapon. |
| 1955 | First major installation of IBM computers. |
| 1963 | Aetna insures the lives of the first seven astronauts. |
| 1968 | Aetna Life & Casualty is listed on the New York Stock Exchange. |
| 1973 | Aetna Health Management, Inc., is organized. |
| 1981 | The major company is reorganized along market lines. |
| 1983 | Diversification efforts are abandoned as Aetna focuses on its core business—insurance and financial services. |
| 1990 | Major reorganization is announced. |
| 1991 | Personal health insurance book of businesses is sold to Mutual of Omaha, ending a 93-year-old line of business. |
| 1993 | Global expansion establishes a global investment unit and opens a property/casualty subsidiary in London and two representative offices in China. |
| 1994 | New investment company, Aeltus, is launched. |
| 1996 | Aetna completes merger with U.S. Healthcare. |

# Amoco

## SNAPSHOT

**Primary Industry:**
*Oil and gas services*

**Headquarters:**
*Chicago, Illinois*

**Gross Sales:**
*$31 billion (1995)*

**Employees:**
*43,000*

Based in Chicago, Amoco is one of the world's largest producers of crude oil and natural gas. With 9,600 retail outlets, it is the top gasoline seller in its 32-state marketing area. The company is the largest producer of natural gas reserves in North America, and it conducts exploration and production activities in 25 countries.

Amoco is also the world leader in a number of chemical products, including purified terephthalic acid (PTA, which is used to make polyester fabric, cassette tapes, microfilm, tire cord, and plastic containers) and polybutene (used in cable insulation, fuel additives, and adhesives). It is also a leading producer of polypropylene, which is used in synthetic fabrics and fibers for carpet backing, food packaging, appliances, and bags for agricultural products.

The company's cost-cutting drive and reorganization have eliminated $1.2 million in costs and reshaped Amoco as a well-oiled, smaller corporate machine. In 1995 Amoco divested noncore holdings, such as its motor club and credit card operations, while investing in refinery maintenance, UK natural gas operations, gas storage in the Netherlands, oil exploration in Colombia, and oil production in China. In the same year, Amoco and Shell Oil announced the creation of a limited partnership to handle much of their U.S. exploration and production operations. Amoco will own 65 percent of the venture, cutting operating costs for both companies.

**HISTORY**

| | |
|---|---|
| 1882 | John D. Rockefeller organizes the Standard Oil Trust. |
| 1886 | Rockefeller risks buying and storing Lima (Ohio) oil, a high-sulphur crude. |
| 1889 | Standard Oil organizes Standard Oil of Indiana as its upper-Midwestern subsidiary. |
| 1911 | Supreme Oil orders Standard Oil to split up because of antitrust violations; the breakup creates 33 new independent oil companies. |
| 1917 | Standard Oil of Indiana begins buying crude-oil production companies. |

1923 Pan American buys a 50 percent interest in American Oil, which introduced antiknock, marketed under the Amoco name.
1925 Standard Oil of Indiana purchases a controlling interest (81 percent by 1929) in Pan American Petroleum & Transport, one of the world's largest crude producers.
1945 Amoco Chemicals is established.
1956 Amoco Chemicals purchases Utah Oil Refining.
1978 Amoco "Cadiz" supertanker runs aground, dumping 120,000 tons of oil off the French coast.
1979 Standard (Indiana) buys Cyprus Mines (copper and industrial minerals).
1985 The company changes its name to Amoco.
1988 Amoco buys debt-ridden but resource-rich Dome Petroleum of Canada, making Amoco the largest private owner of North American natural gas reserves.
1992 Amoco signs agreements for drilling exploration wells in Romania and for exploration rights in China.
1994 Amoco makes two significant natural gas discoveries off Trinidad, as well as major oil discoveries in the Gulf of Mexico, Columbia, and the North Sea.
1995 Amoco teams up with Shell and Exxon to develop a deep-water oil platform.
1996 Amoco starts production in the largest oil field in the South China Sea.

# Deere & Company

Deere & Company is the world's largest manufacturer of farm equipment and a leading producer of industrial and lawn care equipment. Deere's farm equipment, painted its signature green color, includes tractors, harvesters, sprayers, and crop handling equipment. Other products include construction equipment, diesel engines, chain saws, snowblowers, and lawn trimmers.

Deere also provides financing, leasing, and a range of insurance coverages for its customers. Its healthcare operations, first designed for employees, now serve about 700 companies and more than 300,000 people.

To boost sales, the company is expanding its product lines and adding more high-tech farm equipment and lower-priced lawn and garden equipment. Deere also has its wide eyes on overseas markets. It has signed letters of intent for two joint ventures in China and is looking for opportunities in other developing markets in the Pacific Rim.

The company has also found opportunities closer to home, thanks to the passage of NAFTA. In 1996 it announced plans to build a diesel engine factory in Torreon, Mexico.

### SNAPSHOT

**Primary Industry:**
*Farming equipment*

**Headquarters:**
*Moline, Illinois*

**Revenue:**
*$10.2 billion (1995)*

**Employees:**
*20,000 (1995)*

**HISTORY**

| | |
|---|---|
| 1836 | John Deere moves westward to set up a blacksmith shop. |
| 1842 | Production of the "whistle plow" reaches 25 per week. |
| 1847 | Deere moves to Moline, Illinois. |
| 1853 | Deere's son, Charles, joins the firm. |
| 1907 | Charles Deere's son-in-law, Charles Wiman, is selected as president. |
| 1907–28 | The company extends credit to farmers during the Depression. |
| 1931 | First foreign plant opens in Canada. |
| 1955 | William Hewitt, Wiman's son-in-law, becomes CEO. |
| 1958 | Deere surpasses International Harvester to become the largest U.S. producer of agricultural equipment. |

1963 Deere becomes the largest producer of agricultural equipment in the world.
1982 First nonfamily CEO, Robert Hanson, is selected.
1986–87 Sales slump culminates in losses totaling $328 million.
1989 Deere introduces its largest new product offering, including the 9000 series of combines; the company acquires Funk Manufacturing, a powertrain components manufacturer; Hans Becherer succeeds Hanson as CEO.
1991 Deere acquires a majority stake in SABO Maschinenfabrik, a German manufacturer of commercial lawn mowers.
1993 Deere gains distribution rights to Zetor tractors and Brno diesel engines (from the Czech Republic).
1994 Deere replaces its tractor line with new models and purchases Homelite, a leading maker of hand-held outdoor power equipment, from Textron.
1995 Deere agrees to a three-year contract with the UAW, which creates an incentive-pay program.
1996 Deere signs a deal to sell farm equipment to the Ukraine's Ukragroprombirzha of Kiev.

# Monsanto

"Biotechnology"—not "plastics"—is Monsanto's word of advice for today's aspiring science graduates. St. Louis-based Monsanto, the No. 3 U.S. chemical company is betting on biotechnology as the key to the company's future. In addition to biotechnology products that rewrite the genetic "software" of crops, the company develops agricultural goods such as herbicides, lawn and garden products, and drugs to boost milk output in cows. It also makes chemicals, including fibers and phosphates; specialty products, including fire retardants; pharmaceuticals, among them Searle anti-inflammatories and oral contraceptives; and NutraSweet—the world's leading sugar substitute—and other food ingredients.

Monsanto is teaming up with other biotech firms such as Calgene and Ecogen to develop new products. Also, it agreed in 1996 to acquire the plant biotechnology assets of W.R. Grace's Agracetus Inc. unit, a pioneer in using a "gene gun" to inject plants with genetically engineered material. Monsanto's new products include insect-resistant cotton and potatoes, as well as genetically engineered soybeans and canola.

## SNAPSHOT

**Primary Industry:**
*Agricultural goods, chemicals, and pharmaceuticals*

**Headquarters:**
*St. Louis, Missouri*

**Revenue:**
*$8.9 billion (1995)*

**Employees:**
*42,179*

**HISTORY**

| | |
|---|---|
| 1901 | Monsanto Chemical Works is established by John Queeny, a buyer for a St. Louis drug company—its main product is saccharin. |
| 1904–17 | The company diversifies into caffeine, vanillin, phenol, and aspirin. |
| 1928 | John Queeny's only son, Edgar Monsanto Queeny, becomes president. |
| 1929 | The company purchases Rubber Service Laboratories of Akron, Ohio. |
| 1939 | The company purchases Fiberloid. |
| 1943 | Production of styrene monomer (used in synthetic rubber) begins for the U.S. Army's first synthetic tires. |
| 1949 | Monsanto Chemical Works creates a joint venture with American Viscose, forming Chemstrand. |
| 1952 | Monsanto Chemical Works develops Acrilan fibers and the synthetic surface AstroTurf (first used commercially in Houston Astrodome in 1966). |

| | |
|---|---|
| 1954 | The company partners with Bayer (Germany) in a joint venture called Mobay Chemical for the research and development of urethane foams. |
| 1960 | Edgar Queeny resigns as chairman. |
| 1964 | The company name is changed to Monsanto Company to emphasize its diversity. |
| 1969 | Monsanto purchases 67 percent of Fisher Governor, a maker of valves and control systems and changes its name to Fisher Controls. |
| 1969–73 | New products called Lasso and Roundup are introduced. |
| 1972 | Saccharin production is abandoned due to Japanese competition. |
| 1985 | Monsanto acquires G.D. Searle (a pharmaceutical company founded in 1868); it also buys the licensing rights to produce NutraSweet. |
| 1991 | Monsanto sells its animal feed business. |
| 1992 | Fisher Controls is sold to components-maker Emerson Electric. |
| 1993 | Monsanto acquires oil giant Chevron's Ortho lawn and garden products business. |
| 1994 | Monsanto receives EPA approval to market Harness Plus, a corn herbicide; the company launches its first biotech product of the year—Posilac Bovine Somatotropin (BST), used to increase milk yields. |
| 1995 | Monsanto acquires Kelco, the specialty chemicals division of pharmaceutical behemoth Merck. |
| 1996 | Monsanto agrees to buy 10 percent of the voting stock of DeKalb Genetics, the nation's second-largest seed company, which controls about 10 percent of the U.S. corn seed market. |

# Seafirst Bank

Like many industries, banking has changed dramatically in the recent past. For more than 125 years, Seafirst has been a leader in offering banking choices and convenience, providing innovative ways to make banking easier and delivering the highest quality service to its customers.

Founded in 1870, Seafirst Bank operates Washington state's largest consumer banking network, serving more than 1 million households every day. Seafirst is also the leading business and real estate lender in Washington and offers a wide range of trust, investment, international, and capital management services designed to meet the diverse needs of the state's emerging businesses and large corporations.

The Seafirst financial network includes 234 traditional branches, with 35 grocery store branches. In 1971 Seafirst introduced the first ATM in Washington. Twenty-five years later, it has more than three times as many as any other bank in Washington.

## SNAPSHOT

**Primary Industry:**
*Financial services*

**Headquarters:**
*Seattle, Washington*

**Gross Sales:**
*$1.23 billion (1995)*

**Employees:**
*7,199*