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Impact of a KPI-Driven Shared Service Dynamic Fee Model

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Abstract

The objective of this study was to analyze the current corporate fee model and transform it to a dynamic model to help drive performance toward goals that are aligned with the overall departmental objectives and overall corporate strategic plan. The second objective was to identify KPIs that will provide the proper navigation tools that the equity partners or local companies can easily understand whether they are successful in their journey in maximizing shareholder wealth. The intent is to drive best practices and reduce overall corporate labor expense through financial incentives and to document the financial improvements of the program.

Some of majority shareholder's local company transactional processes have degraded below acceptable corporate standards. Whereas other local companies are leveraging the majority shareholder's corporate shared service departments without removing or properly deploying the expense. Each corporate shared service department charges fees based on a percentage of gross margin generated by the local company or another basic metric and does not account for actual transactional volume, data quality or actual time committed with the local company on their transactional processes. It is proposed a dynamic fee model replaces the current static fee model accounting for key variables or expense drivers including transactional volume, processing effort, and key local company KPIs that measures the transactional quality received from the local company. Initial indications of transitioning to a dynamic fee model would be an improvement of transactional best practices that not only would drive down the cost of the transaction and labor costs at the local company, it would drive down the labor cost at the corporate level due to increased levels of straight through, no touch document processing. This is especially impactful for an organization where each individual's compensation is heavily weighted toward the generous, uncapped profit sharing plan for the employees as well as local stock appreciation and dividend flow to the local employee equity owners.

This study will focus on the impact of a KPI-driven shared service dynamic fee model on shared office solution (SOS) shared service group within the majority shareholder's organization. Once tested and proven, the conceptual model can be expanded across all shared service groups including being applied against the historical fee model. Although the KPIs will vary between shared service departments, the conceptual design should hold true across the organization.

The study would be pioneering a new way in promoting best business practices and will create shareholder value and bottom line improvement at both the local company as well as majority shareholder. It will also create a cultural shift on how to influence behaviors throughout the organization, in particular, at the local company level. This will require the operational team to fully support the implementation of this study.