

CFO Insights

Global Business Services – Managing complexity in center organizations

Shared service organizations are facing fundamental structural change. Current trends and complexity drivers identified by Deloitte's international shared service center survey indicate the need for a cross-functional umbrella organization and governance for shared services. The Global Business Services Organization, characterized by its network approach and holistic governance, has been developed as a solution to fill this need.

Center organization: successful development creating the need for new organizational solutions

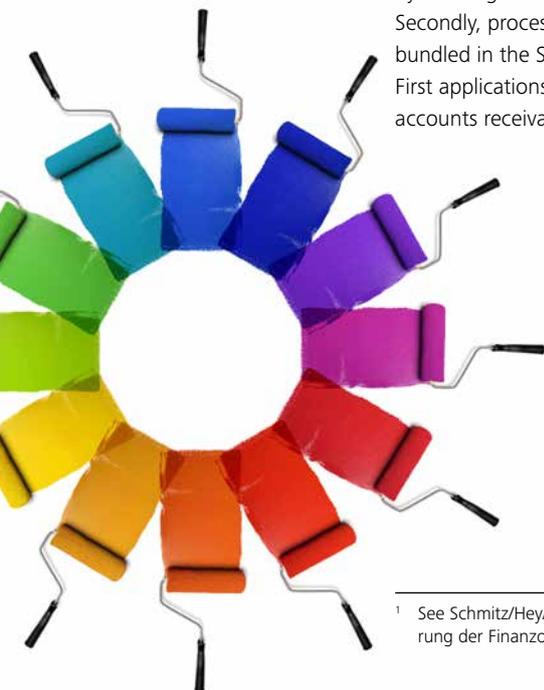
Establishing Shared Service Centers gains strategic relevance for the implementation of corporate and functional strategies. Shared Service Centers (SSC) emerged from the need of US companies in the 80s for company-wide support services. The goal was to centralize transactional support processes or repetitive activities and increase their efficiency. This was first implemented by building an SSC as a central organizational unit. Secondly, processes were standardized and resources bundled in the SSC in order to employ them collectively. First applications arose in payroll, accounts payable, and accounts receivable.¹

The complexity and heterogeneity of this original archetype has increased in recent years. The main improvements and trends in shared services which led to this development are:

- 1) the integration of broader functions and processes, including knowledge-based activities being centralized in Centers of Expertise (CoE),
- 2) the conceptual design of new organizational models for Shared Service Centers and
- 3) the design of an umbrella organization to meet the need for a specific shared service governance and to manage the large size of center organizations

These three key drivers will be presented below for two purposes: firstly to consider the magnitude that Shared Service Center business has reached and secondly to illustrate the relevant interdependencies between various shared-service design options.²

The key drivers are the basis for the conceptual enhancement of the original archetype according to a reference model using a Global Business Services (GBS) network approach. GBS will be discussed as a solution for an appropriate exposure to complexity and to depict shared services as a network organization. The focus is not on the organization and design of individual SSCs but on the entire SSC organization, in contrast to previous research. Furthermore, governance is understood as a central element of GBS, and GBS itself as a comprehensive network organization.



¹ See Schmitz/Hey/Winn, Shared Services als Hebel für die Optimierung der Finanzorganisation, Controlling 7/2013, p 368.

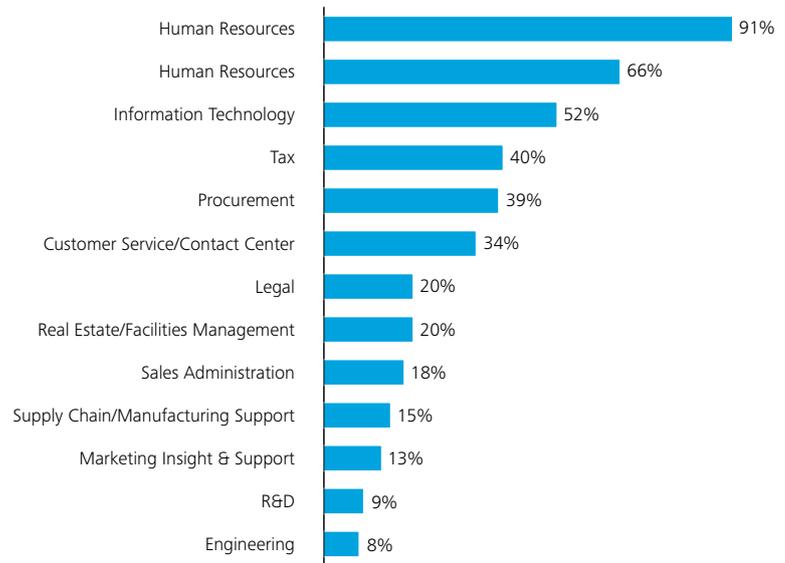
² Outsourcing will not be covered for reasons of complexity and clarity. Nevertheless the following considerations are also valid for outsourcing solutions and are capable of being integrated into the reference model presented. For current outsourcing trends and aspects see: Deloitte, 2014 Outsourcing and Insourcing Survey Results, 2014.

Complexity driver #1: expansion of center organizations

Since SSCs appeared they have focused on the corporate functions of finance, human resources, and IT. These three functions still play a major role in SSCs' service portfolios. However, other corporate functions' processes such as customer service and procurement are increasingly being provided by SSCs. This development underlines the rising demand for efficient and effective support services and leads to a growing number of SSCs covering a variety of corporate functions (see Figure 1). These SSCs need to be integrated and coordinated. SSCs typically provide their services company-wide and therefore need to interact with various affiliated companies and functions. This leads to an exponential rise in interfaces between SSCs and their customers as well as between SSCs themselves, depending on the number of SSCs. The increasing number of interfaces and rising complexity accelerate with the integration of additional corporate functions into SSCs. As a result, the management of SSCs is directly confronted with this challenge.

In addition to this development, the functions and the corresponding processes are being more and more restructured into cross-functional processes. Previously, these processes were more separate and were related directly to one single function. Cross-functional processes are characterized by the demand for a single activity by several processes. For example, the management approach anchored in IFRS accounting follows traditional accounting processes, requiring services from management control and financial controlling. Hence the latter are not only required by management control processes, but also by processes assigned to other functions, in this case accounting. The rising cash flow and risk orientation in accounting and management control processes in turn necessitate Treasury services. Sustainability issues are increasingly part of reporting and other control processes. IT activities and technology have risen to an important success factor for most corporate functions. Hence support service activities are used by several processes and various functions. Mutual, network-like relationships among existing SSCs themselves and between SSCs and their stakeholders arise.³

Fig. 1 – Corporate functions incorporated in SSCs⁴



³ See Drerup/Wömpener, Controlling-Transformation – Erfolgreiche Gestaltung durch Change Management, Controller Magazin 4/2014.

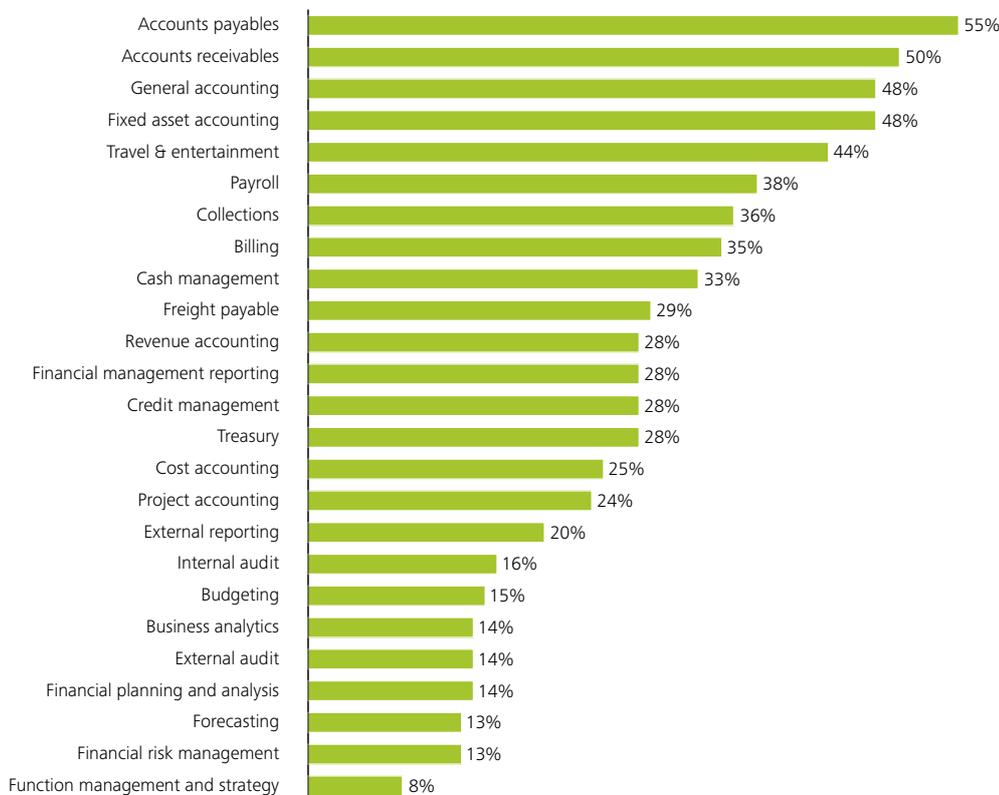
⁴ See Deloitte, Global Shared Services Survey Results, 2015.

Shifting the focus

Simultaneously, SSCs are increasingly shifting their focus towards analytical processes after concentrating on repetitive activities for a long time. These analytical processes require appropriately qualified personnel. A central organizational unit is created analogously to the establishment of an SSC, which contains the corresponding processes (Center of Excellence CoE or rather Center of Competence). For example, reporting processes (Reporting Factory), risk management processes, and financial planning processes are increasingly being organized in a CoE context. Repetitive activities such as accounts payable, accounts receivable, general accounting, fixed asset accounting, travel and entertainment, and payroll are frequently designed as an SSC (see Figure 2).⁵

The focus when establishing SSCs lies primarily on the standardization and efficiency improvements of high volume support functions. By contrast, bundling specialist knowledge is the key benefit of a CoE. The method of adding value, the objectives, and therefore the control and steering of these two center types differ fundamentally: the primarily relevant factors for SSC control are cost efficiency and process optimization (efficiency). By contrast, service quality and personnel aspects play a major role for the control of CoEs (effectiveness). Here efficiency is perceived as a necessary constraint (sine qua non) for effectiveness.

Fig. 2 – Finance processes executed in SSCs and COEs⁶



⁵ See Deloitte, Global Shared Services Survey Results, 2013 and Schmitz/Lawrenz/Drerup, Center of Excellence Controlling/Reporting Factory – Neue Potenziale für das Controlling, in: Becker/ Ulrich, Praxishandbuch Controlling, appearing in print.

⁶ See Deloitte, Global Shared Services Survey Results, 2013.

The extension with regards to content consists, in a nutshell, of two dimensions: firstly a larger number of functions and processes established in SSCs, which are increasingly connected among themselves. Secondly, analytical processes are gaining in importance compared to repetitive processes. This implies different control systems and objectives. Both aspects lead to an exponential increase in interfaces and complexity and to a larger heterogeneity of control systems and methods of adding value.

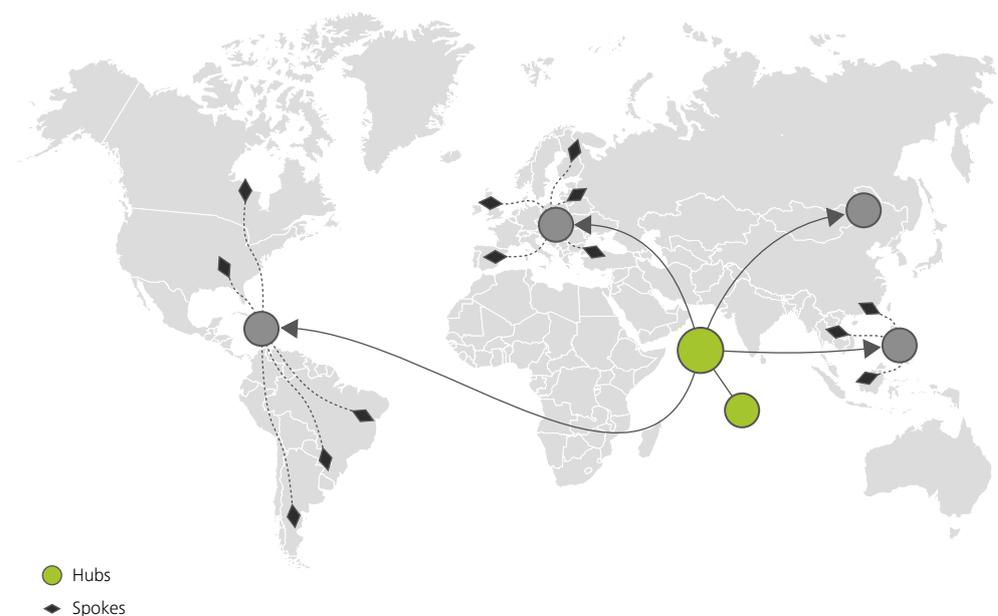
Complexity driver #2: necessity for new organizational models

The original archetypal SSC bundles support services across locations. It is centrally located at one site including the complete SSC personnel. The bundling facilitates the realization of economies of scale and a fast standardization of support processes. Hence a central organization is appropriate for repetitive processes modeled in the original archetypal SSC with the objective of increasing efficiency. This organizational model is still common for repetitive processes.

The integration of further functions and analytical processes into the center organization leads to additional criteria to be included in the evaluation and selection of the organizational model. Effectiveness objectives gain relevance alongside efficiency criteria established in the center’s control system. Well-grounded expertise in the operational business model and a strong customer focus are important in order to ensure that support services are delivered with high quality and meet customer needs. A knowledge-based value creation is only possible by meeting these criteria.

A purely central organization is not designed to meet these requirements and control mechanisms. Therefore, center organizations that exceed the original archetype are designed using peripheral or hybrid organizational models. This article illustrates the peripheral organizational model and the “hub and spoke” model, one of the hybrid organizational models (see Figure 3).

Fig. 3 – Regional footprint of a hub and spoke model (illustrative)⁷



⁷ See Schmitz/Hey/Winn, Shared Services als Hebel für die Optimierung der Finanzorganisation, Controlling 7/2013, p 370.

Staying flexible with hub and spoke

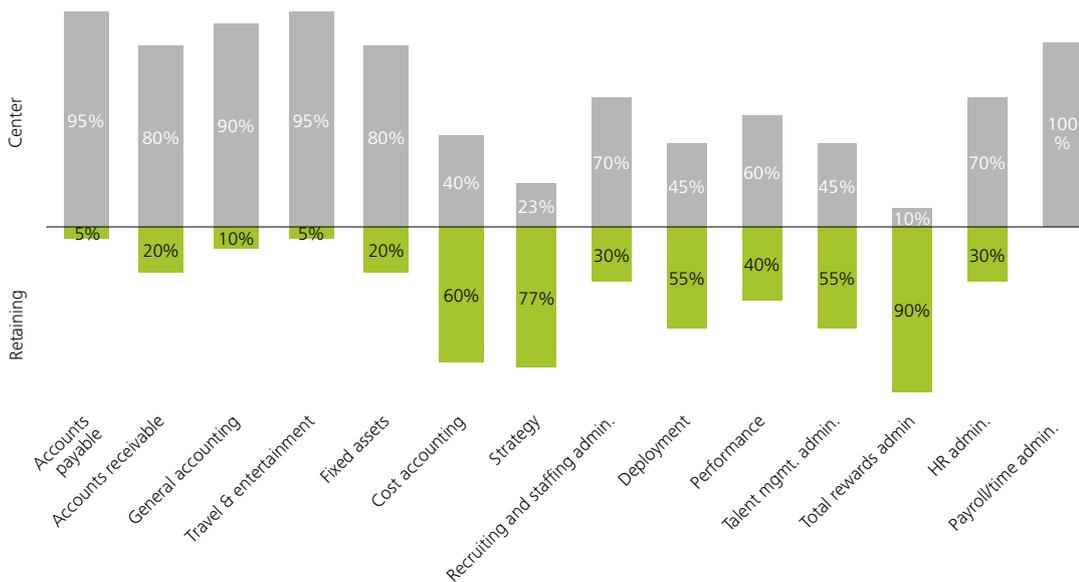
A peripheral organization is characterized by an entirely local service delivery at customer locations. Criteria such as customer focus and expertise in the operational business model can be fulfilled properly. However, acceptability issues can occur with customers because they potentially do not experience the Shared Service Center or Center of Excellence as an autonomous organization. Furthermore, the center personnel possibly lacks a sense of affiliation to the center. This can hinder steering and control due to large regional distances between the center locations. The utilization of knowledge- and resource-based synergies is also restricted.

Hybrid organizational models such as the hub and spoke model combine the advantages of central and peripheral organizations. Spokes deliver support services using small teams which are located at customer locations. This is analogous to the peripheral organization. Spokes are used for processes that require a strong customer focus and an extensive adaption of services to local business needs. These processes are difficult to centralize. Possible reasons are necessary expertise of local accounting rules, legislation, or a local product portfolio.

In addition, activities that do not necessarily require direct customer contact and whose centralization is accompanied by the utilization of efficiency gains are operated in hubs. This includes mass transactional processes such as the processing of travel expenses and financial transactions. For this reason, hubs are large locations within the center organization. Every hub contains a leadership function which coordinates the service portfolio and corresponding processes and systems. In 2013, 26% of companies are using the hub and spoke model to design their shared service organization. The remaining companies use less developed regional and peripheral organizational models.⁸ Further application of the hub and spoke model is expected as companies set up their center organization more globally. Among companies using SSCs, the percentage of companies operating an SSC in one country has decreased from 36% to 22%. Accordingly, companies with a global SSC landscape located on several continents increased from 64% in 2013 to 78% in 2015.⁹

Individual centers have heterogeneous activity splits in addition to their varying regional arrangements (see Figure 4). The activity split indicates to what extent the

Fig. 4 – Illustrative activity splits for selective finance und HR processes



⁸ See Deloitte, Global Shared Services Survey Results, 2013.

⁹ See Deloitte, Global Shared Services Survey Results, 2015 and Deloitte, Global Shared Services Survey Results, 2013.

support processes are transferred to the center and which part remains in the retaining organization. The decision on this partition is based on transaction cost theory: the costs of a service are calculated for several options regarding the organizational model and type of coordination. This allows for the selection the most favorable option.

The original archetypal SSC is characterized by a thorough transition of support processes to the Shared Service Center. Merely a negligible amount of activities remains in the retaining organization for the reason that the transactional costs are more favorable in a center organization in comparison to other organizational models. By contrast, with regard to analytical support processes in a Center of Excellence, a substantial part of the processes remains in the retaining organization because transactional costs are significantly higher. Heterogeneous activity splits lead to new challenges, firstly regarding the limits of a center and the retaining organization and secondly in the coordination of interfaces between centers themselves and their customers.

Adding value by standardization of governance models

Companies with several Shared Service Centers and Centers of Excellence typically use different organizational models and activities for each center. Hence the design of a center organization is characterized by the application of heterogeneous organizational models and activity splits in addition to the diversity of functions, processes, and methods of adding value.

In addition, centers develop dynamically over time. This evolution can refer to the service portfolio or the method of adding value, or to other characteristics such as the organizational model. The more activities and processes are standardized, the higher the potential amount of activities and processes that can be transferred to a center organization. On the one hand this leads to a shift in activity splits: the SSC or CoE adopts activities and processes from the retaining organization step by step. On the other hand these activities and processes subsequently transferred into a center are commonly analytical, since they postulate an earlier standardization of repetitive processes and their transition into an SSC. Therefore the method of adding value shifts from efficiency to effectiveness. For instance, a Reporting Factory initially provides central systems and applications to support operational reporting and generates mass reports. The reports are standardized step by step and systematically within the Reporting Factory

in order to evolve into a Decision and Planning Center. This new Center is characterized by the company-wide support of strategic planning processes in addition to the retaining organization and other management and planning processes. This implies changes in the activity split and a different regional alignment. Individual centers such as a Reporting Factory continue to grow and thus the demand for an umbrella organization and governance for all centers in a company grows.

Complexity driver #3: umbrella organization and governance – functional center organization

The importance of an umbrella organization and governance for individual SSCs and CoEs increases in accordance with their size and complexity. Responsibilities and interfaces to divisions have to be defined and the center has to be managed. It is a first step towards managing emerging complexity. Below, we argue that the manifold design options of an umbrella organization themselves lead to complexity within the entire center organization. An umbrella governance is required that covers all SSCs and CoEs.

How to design good center governance

Corporate Governance includes all processes and mechanisms by which companies are controlled and steered. This contains the management control system and organizational decisions. A „good governance“ practice aspires to adhere to four main principles: accountability, responsibility, transparency and fairness. Shared Service governance is not the same as Corporate Governance, because an SSC or CoE is one entity within a company amongst many others. It contains the management control system of a center and defines its organization. We will discuss the design of the management control system; the center head and the four governance principles as organizational models such as hub and spoke were already outlined.

The role of process owners

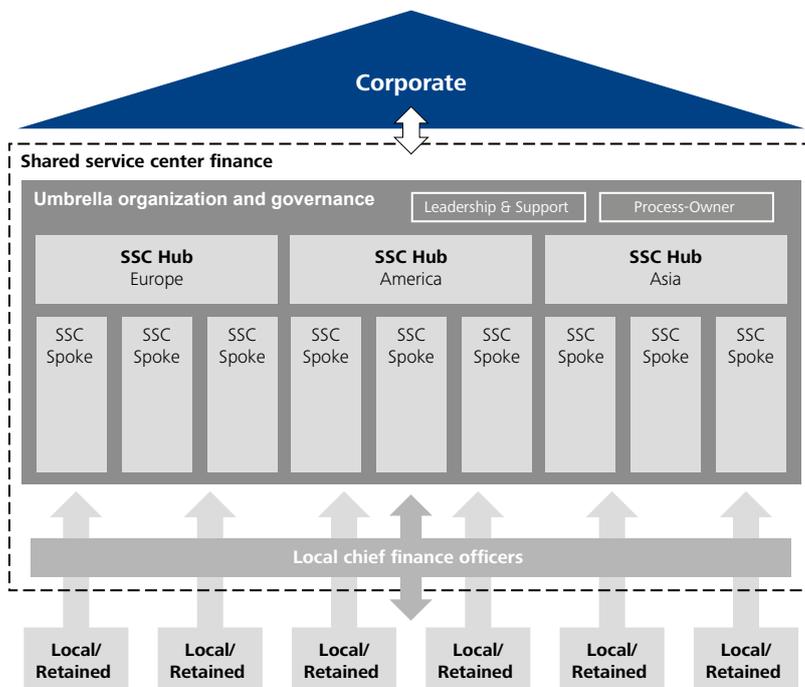
Additional areas of responsibility have to be staffed, in addition to the head of a center, in order to implement the principle of responsibility. These areas have to be aligned with the organizational structure and the organizational models used as well as the operational structure. Once an organizational unit, for instance a large hub within a hub and spoke model, has reached a critical size it has to be staffed with management. These executives fulfill the management function of a center. They are responsible for the establishment and operation of back-office processes that facilitate service delivery (leadership and support). The operational struc-

ture requires process owners to be in charge of single support processes.¹⁰ Process owners and executives organizationally belonging to the center organization and not remaining in the retaining organization is a critical success factor for powerful governance. Local experts and managers act as interfaces to local entities, in particular in CoEs, in order to coordinate local stakeholders and to propose local needs to the center. According to the principle of responsibility, they have to be part of the center organization once they take over leadership or professional responsibility. Figure 5 shows an illustrative organization and governance of a finance SSC using a hub and spoke organization and local Chief Finance Officers as an interface to local customers. Comparing the illustrated leadership structure with the one of the original archetype, a centralized SSC for repetitive support functions, demonstrates that it helps to manage complexity. But it is by far more complex than the governance of the original archetypal SSC.

Management of customer contacts is a strategic factor

Managing customer contacts is crucial for SSCs and CoEs, as they mainly provide internal services. This can be implemented strategically by frequent service reporting and key account meetings with headquarters and business units. This supports the principle of accountability. The interaction with customers is operationally determined by service delivery itself, self-service possibilities, and background processes, for example demand management and IT support. This serves the principles of fairness and transparency. The further a center evolves and the larger its scope is, the more important is the institutionalization of background processes. These aspects can also be found in the original archetype, but with lower complexity and scope. This is based on the positive relationship between the extent of complexity and heterogeneity on the one hand and the level of the need for reporting, stakeholder management activities, and customer care on the other hand. The more complex the center landscape, the more reporting, customer, and stakeholder activities are needed.

Fig. 5 – Governance of a Shared Service Center - Finance (illustrative)¹¹



Another function of the umbrella organization is the design and coordination of service delivery (Service and Performance Measurement). While original archetypal SSCs are operated as cost or profit centers, Service Level Agreements (SLAs) are increasingly asserted as an operational service charge model for complex SSCs and CoEs. Medium and long-term service contracts and catalogs form the basis for SLAs. They describe the services to be delivered by and the responsibilities of the center and the retaining organization. Services delivered are documented, measured, evaluated, and reported on in terms of performance reporting by means of specific KPIs. This complex system primarily supports the principles of transparency and accountability.

¹⁰ For detailed information about the role of process owners in center organizations and their contribution for value creation, see: Deloitte, The value of global process owners in global business services, 2014.

¹¹ See Schmitz/Drerup, Global Business Services, Zeitschrift für Corporate Governance 8/2015, p 158.

Global business services: development of a center network organization

On the one hand, specific components of an umbrella organization contribute to the control of complexity and heterogeneity within the SSC and CoE landscape. As illustrated this is caused by various organizational and value-creation models and the extension of scope to various functions and processes. On the other hand, design options are manifold. This leads to additional complexity due to the divergent design of individual centers in terms of umbrella organization and governance. This is at odds with the corporate concern of a consistent service landscape and leads to increased transactional costs. This again contradicts the basic idea of shared services to deliver services efficiently and at optimal transactional costs.

The solution for managing center complexity: Global Business Services

Hence the need for a cross-center umbrella organization and governance arises, which ensures a transactional cost-optimized service delivery by a consistent general framework aligned with corporate interests. Accordingly, the need for an umbrella organization and governance covering all existing centers emerges. This should ensure the corporate interest in a service delivery at optimal transactional cost through the implementation of a consistent general framework. It also replaces umbrella organizations for individual centers and is therefore a kind of centralization. The following reference model Global Business Services (GBS) is developed as a solution which uses the network-like relationships between centers and functions in order to create a homogeneous service landscape within a company.

A network organization is an organizational structure with four key characteristics: players within the network (1) act autonomously to the greatest possible extent, (2) work in a coordinated way, (3) are linked by long-term goals and (4) have many vertical and horizontal interfaces to other members of the organization. Below, the GBS is illustrated as an overall organizational unit. Furthermore we discuss how the characteristics of a network organization occur within the GBS organization. On this basis we argue that these characteristics can be used in terms of an umbrella governance to establish a target-oriented center organization. The resulting center organization has the ability to represent complex and heterogeneously designed support processes in a uniform way. For this reason, a GBS can also be labeled as a center network organization.

Superordinate activities take place at a higher level than individual SSCs and CoEs. This includes the definition of governance which deviates from Corporate Governance. It ensures that medium and long-term service contracts are concluded in a cross-functional and uniform manner. In addition to advantages of uniformity, economies of scale can be realized by bundling, analogously to the bundling of support services in a SSC. Furthermore, interfaces and complexity can be reduced. Customers negotiate service contracts centrally with the GBS Organization instead of every single center. The same applies to proximate Service and Performance Management using SLAs and the infrastructure of center locations such as buildings, IT infrastructure, and back-office processes.¹² Furthermore, the GBS Organization is able to define standards, for instance for software utilization. This facilitates the realization of additional synergies.

Organization: hub and spoke

The total organizational models that were established separately from each other now form a global center organization that can be realized by means of a hub and spoke model. Hubs and local spokes now no longer deliver services assigned to one single function. They are part of cross-functional support processes. The leadership of locations provides a local infrastructure and ensures the supply of local back-office processes. A GBS organization is able to implement cross-functional support processes entirely and to assign a process owner to each one. This is not possible when using SSCs and CoEs that only cover specific functions. Hence the governance principle of responsibility can be more easily and better implemented in a GBS Organization than in several centers separated by function. Furthermore, the definition of support processes is undertaken centrally and can be harmonized across processes. In addition the GBS Organization defines the scope of services delivered and ensures that they do not overlap over time.

GBS as a high speed network

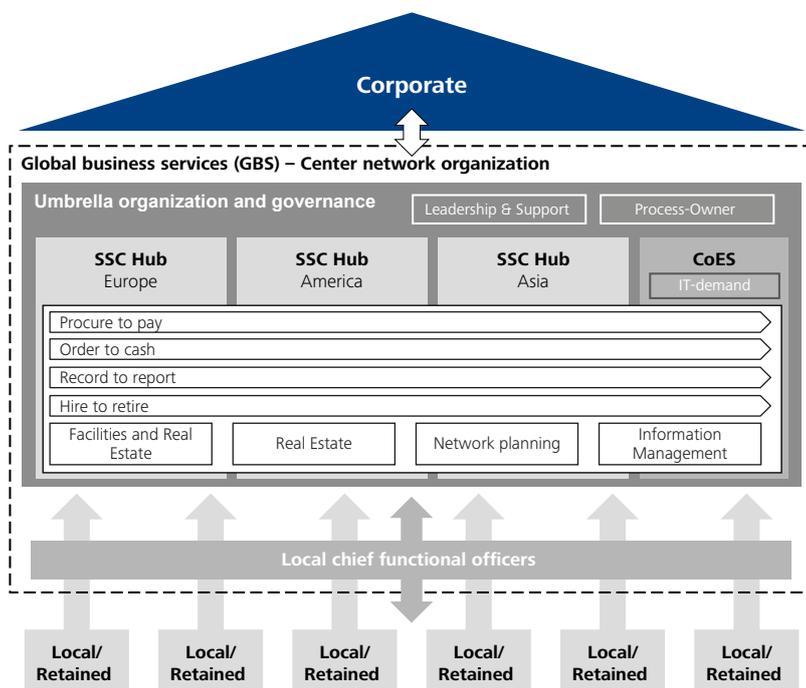
The network-like coordination and management of players within the network is carried out by governance, in particular uniformly concluded and administrated service contracts and definition of the leadership structure including process owners. The service delivery is executed autonomously, enabled by the definition of processes without overlapping and by the naming of process owners. This corresponds to a typical network organization. The rising relevance of cross-functional

¹² See Schmitz/Hey/Winn, Shared Services als Hebel für die Optimierung der Finanzorganisation, Controlling 7/2013, p 369.

processes and company-wide service delivery result in a high number of interfaces between support processes and customers. The GBS Organization provides a framework or rather umbrella organization for horizontal and vertical relationships. Process owners design their support process in detail autonomously within this framework. They also decide on outsourcing options.

Figure 6 shows a GBS Organization for cross-functional support processes (GBS Generation II). CoEs can be optionally designed in addition to the hub and spoke model in an exceptional position due to their eminent relevance. An intermediate step is the position of individual functional SSCs and CoEs at the level of the processes, if a definition of cross-functional processes is not possible (GBS Generation I). This can be necessary if the standardization of processes is insufficient.

Fig. 6 – Governance of a process-oriented and cross-functional GBS Organization¹³



¹³ See Schmitz/Drerup, Global Business Services, Zeitschrift für Corporate Governance 8/2015, p 160.

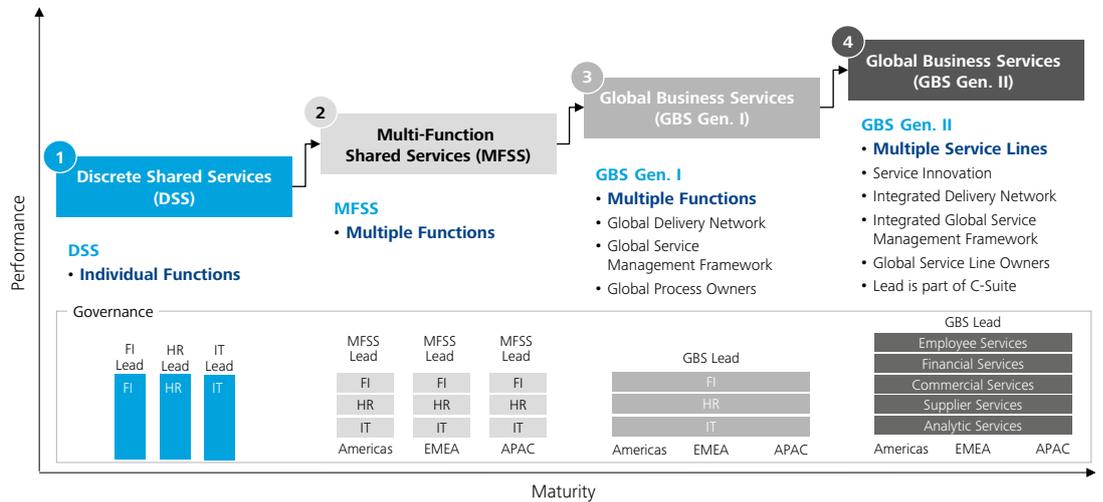
Center organization in a nutshell, and outlook

The original archetypal Shared Service Center (SSC) emerged from the starting point of a peripheral service delivery which evolved into a coordinated delivery of internal services. This discrete SSC delivers transactional support processes in order to realize efficiency gains by the use of economies of scale (see Figure 7).

The expansion of center organization in terms of functions and support processes and the formation of Centers of Excellence were portrayed as key drivers for complexity. Thus Centers of Excellence (CoEs) are seen as value-oriented SSCs delivering analytical support processes with strategic relevance. Other complexity drivers are new and hybrid organizational models like the hub and spoke model. Furthermore, we argued that an umbrella organization and governance of a single center does not lead to optimal transactional costs. The manifold design options and the exponential increase in interfaces account for complexity.

The reference model Global Business Services Organization (GBS Generation II) was introduced as a solution for an organization of SSCs and CoEs at optimal transactional costs. Thereby we discussed the design of a governance and organization across all existing centers and characterized GBS as a network organization by using concepts of organizational theory. In a nutshell, by using these two characteristics, the GBS manages and coordinates individual, cross-functional support processes. These processes are actors in a center network organization and deliver their services autonomously for customers spread across the whole company. As an intermediate step (GBS Generation One) functional SSCs supersede cross-functional processes as long as the level of standardization of processes is not sufficient. Hence Global Business Services is a solution for managing the increasing complexity of center organization.

Fig. 7 – Maturity types in the evolution of center organizations



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