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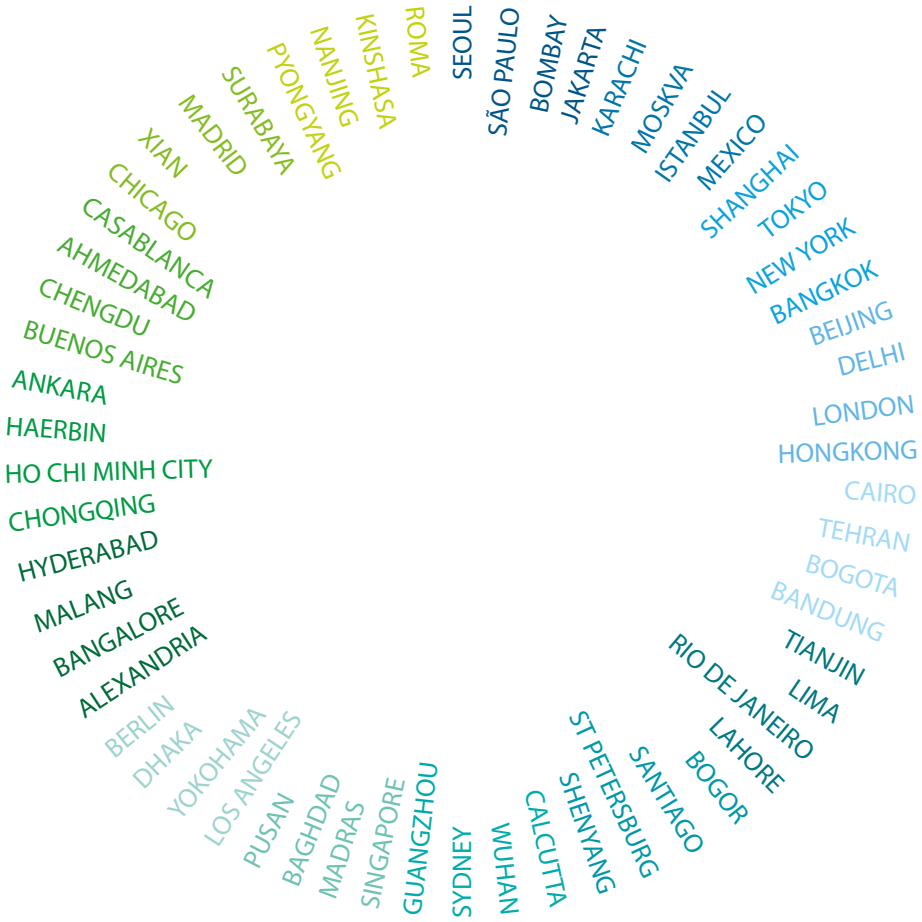

Global Business Services

Performance improvement

From cost center to competitive advantage
Deloitte Consulting reader

Summer 2016

Preface

For more than two decades, organizations around the world have been using shared services and outsourcing to improve service delivery and reduce costs in defined parts of their businesses. Leading organizations are now taking the next steps. Instead of operating numerous shared services centers and managing outsourcing vendors independently, organizations are implementing global business services (GBS), providing integration of governance, locations, and business practices to all shared services and outsourcing activities across the enterprise.

This in-depth guide by leading Deloitte Consulting LLP specialists in shared services, outsourcing, technology, and organization, is compiled from years of research and client engagement experience. It is a collection of articles based on research, case studies, and client work. Several of the articles first appeared in Deloitte Review, the quarterly management journal from the Deloitte University Press. Other pieces have previously been available only to Deloitte clients and have been adapted specifically for this book.

This GBS Reader is divided into three sections that represent key principals of GBS. The first chapter "GBS Operations –Aligning with the Bigger Picture" examines the evolution of GBS and highlights the principles that make GBS organizations successful.

Chapter 2 "Next-generation GBS capabilities: Capturing the full value," explores the latest trends and developments in this fast-changing area. The final chapter, "GBS as a business within a business: Instilling a commercial mindset," examines opportunities to learn from the external marketplace to operate GBS more like a commercial enterprise (e.g., using a defined catalog of services with set prices and service levels).

This book is for both public- and private-sector organizations in any part of the world. It can help organizations fundamentally change how they think about and manage shared services and outsourcing. Those that get it right can achieve performance improvements.

Introduction—The first word on GBS

You picked up this book, no doubt, because you hoped it might offer new solutions to your shared services enterprise. It does...and it doesn't. For more than two decades, organizations around the world have been using shared services to improve service delivery and reduce costs within defined parts of their businesses. Now, leading organizations are taking the next step. Instead of operating numerous shared services centers and managing outsourcing vendors independently, they are implementing Global Business Services (GBS), providing integration of governance, locations, and business practices to all shared services and outsourcing activities across the enterprise.

A move to GBS requires much more than simply asking shared services centers to cooperate. It represents a fundamental shift in how businesses think about and manage shared services and outsourcing. Those that get it right can achieve performance improvements.

While there are many flavors of GBS in the market, the following five essential characteristics and behaviors are necessary to drive the sustainable performance improvements most organizations seek.

Essential characteristics

- **Multi-function:** GBS is multi-functional in scope and has significant integration across those functions (IT, HR, finance, procurement, customer service, operations, etc.)
- **Multi-region:** GBS supports all regions within an organization, typically providing services in the Americas, EMEA, and APAC regions.
- **Multi-location:** GBS consolidates to fewer locations. Some organizations continue to rely on a regional delivery model, while others choose a hub-and-spoke approach, with the bulk of work typically performed in an Asia-based hub.
- **Multi-sourced:** Typically, transactional activities are outsourced, while higher value advisory activities are delivered through captive centers. The most mature organizations hold GBS accountable for service levels while letting the GBS decide exactly how those services will be delivered.
- **Multi-business:** GBS organizations serve more than one business unit, applying the best and most sophisticated practices to the entire organization; this can help to ensure greater support and quicker adoption by business units.

Essential behaviors

- **Common approach to governance:** Incorporate a standard approach to governance, structured by business process. By having a single global owner for each process, they are able to improve efficiency and control.
- **Common leadership structure:** Incorporate a common leadership structure that balances the need for commonality with business intimacy; effective GBS leadership is often part of the C-suite and is thus empowered to make decisions for the entire organization.
- **Common approach to service management:** Set up a common approach to service management, overcoming the mish-mash of service level agreements and reporting structures. A consistent approach across functions and regions improves customer satisfaction and reduces the effort required for reporting.
- **Common approach to continuous improvement:** GBS bring a business-wide approach to continuous improvement, which can deliver greater benefits from less investment and effort by building a culture that values continuous improvement.
- **Common talent development model:** Standardized approach to talent development enables the development of a unit recognized as high-performing throughout the organization; it also creates a strong brand value.

What additional benefits–apart from cost reduction, enhanced efficiency, improved control, and better quality and service levels–can GBS offer? The answer lies in approaching GBS as much more than a loose collection of shared services and outsourcing. The potential benefits of a successful GBS are:

- Improved alignment with the business strategy and growth agenda
- Increased CEO attention that breaks down barriers and attracts talent and investment
- Consolidation that drives economies of scale
- Expanded process scope that enables operational excellence
- A global approach that improves visibility, control, and risk management

GBS organizations are destined to become a common part of the business landscape. However, it might not be right for every company. Each organization should consider its unique business requirements and culture to determine if a GBS model makes sense. A GBS model tends to work best for organizations with operating models and cultures that are truly global in nature.

The road to GBS can be a bumpy one, given the complex mix of people, processes, technology, and multiple geographies involved. Yet companies that persevere are likely to see significant benefits, including service quality and costs savings over and above what could be achieved through more limited approaches to shared services and outsourcing.

The principles and practices described in this GBS Reader are no longer experimental; shared services and outsourcing alone have been implemented, with excellent results, at many of the world's highest-performing companies. Yet despite this legacy of success, integrated approaches to internal services still remain the exception among large and mid-sized companies. We hope our collection stirs you to action—or, if you've already started this journey, we hope it encourages you to explore new paths to profit from improved internal service delivery. In this case, you are your customer, and you can always serve yourself better.

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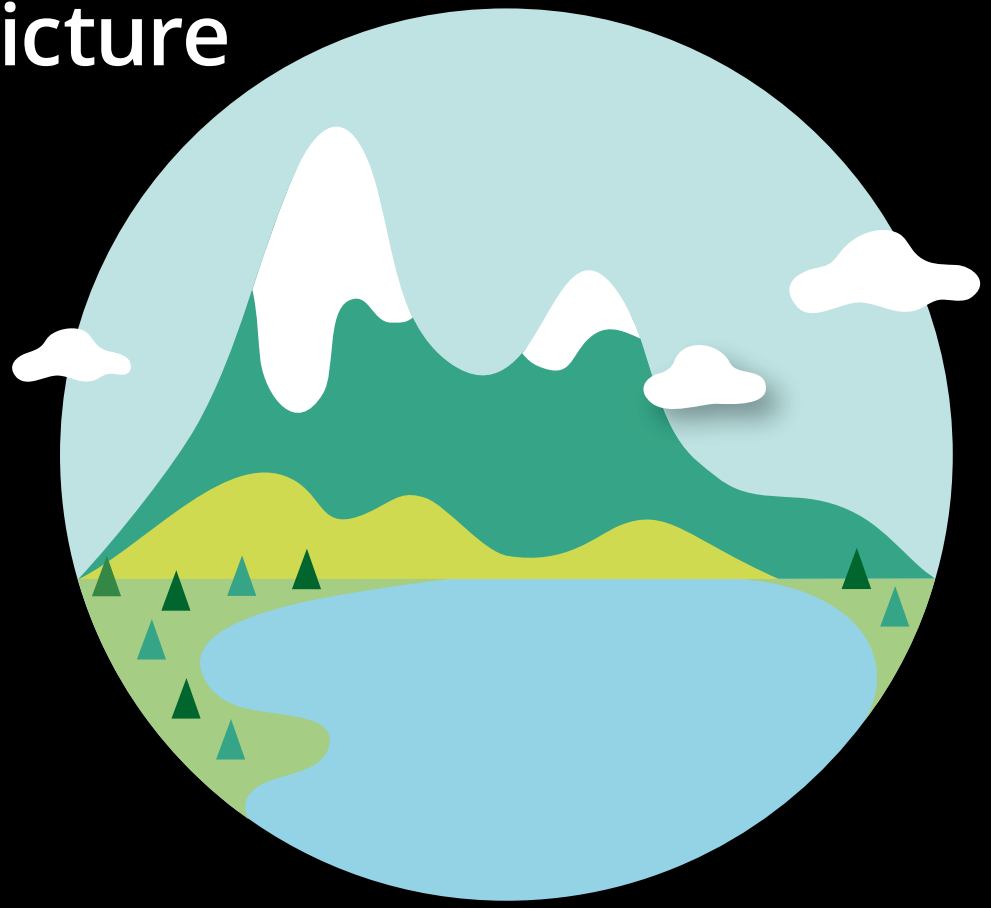

Leap ahead or lag behind?

Enhancing value from your service delivery organization

Increased competition, economic uncertainty, and globalization are among the forces that are driving companies to seek to reduce the cost and improve The effectiveness of their G&A functions. In our view, companies can greatly enhance their pursuit of these goals by thoughtfully managing their service delivery organizations according to leading marketplace practices. Yet our experience suggests that many companies could benefit from greater focus and planning with respect to service delivery.

GBS operations: Aligning with the bigger picture

Companies typically start their service delivery organization by moving a single G&A function into global business services (GBS). They then expand incrementally based on internal customer requests rather than following a strategic plan. This ad hoc evolution often gives rise to the following issues:

- Lack of strategy, which can result in misalignment between the service delivery organization's objectives and the company's overall vision and strategy
- Lack of continuous improvement, which can hamper effectiveness due to a failure to look inward to correct mistakes and look outward to incorporate leading practices
- Lack of people development and management, which can make it more difficult to attract and retain the talent needed for effective service delivery
- Lack of effective operations and technology, which can increase process inefficiencies and decrease productivity
- Lack of discipline and standardization, which may lead to performance inefficiencies

Over time, these issues can limit a GBS organization's ability to operate cost effectively and meet the requirements of its internal customers.

While some companies facing such issues have already made great strides in improving their GBS organization, others are asking how they can take their service delivery efforts to the next level. Executives in these organizations are asking:

- What is the next level and how do I get there? What should be my short-term and long-term goals?
- How does my company's service delivery strategy compare to the strategies used by other companies?
- Am I leveraging leading practices?
- Where should I focus my scarce resources?
- How can I continue to improve operations?

To help answer these questions, leaders can benefit from using a framework as a yardstick against which to assess their GBS organization against internal and external practices. Key elements of such an assessment should include four dimensions: strategy, service delivery, organization, and operations and technology (see sidebar, "Deloitte's service delivery maturity model"). These four dimensions encompass 20 capability areas that we believe represent the spectrum of competencies that an effective GBS organization should possess.

Because every company is unique, leaders should carefully evaluate their company's individual set of capabilities and organizational requirements to determine which of these 20 capability areas should receive the highest priority for improvement. That said, we believe that four particular capability areas stand out as realms where many GBS organizations could gain significant benefits from improvement:

- Expand scope of services
- Enhance internal customer management
- Create a strong service culture
- Rethink facilities and infrastructure

Below, we discuss innovative approaches to each of these areas and give examples of how a variety of companies have addressed them.

Deloitte's service delivery maturity model

Deloitte has developed a service delivery maturity model that can serve as a diagnostic tool to help a company quickly understand the current state of its GBS organization, envision its target state in both the short term and the long term, and apply a combination of levers to make progress and measure results. The model measures the maturity of a service delivery organization along four key dimensions that encompass 20 corresponding capability areas, as illustrated in the diagram below.

The maturity model compares a GBS organization's current practices across 20 capability areas with leading marketplace practices. Using stakeholder input to rate the service delivery organization along a five-point capability maturity scale, the model assesses the GBS organization's current state and forecasts its future state in each of the 20 capability areas. Armed with this assessment, a GBS organization can develop a multi-year plan to generate additional value by increasing its effectiveness in key capability areas.

Strategy	Service delivery	Organization	Operations and technology
• Scope of services • Location of services • Business planning • Mission/vision • Value	• Performance management • Governance and issue resolution • Customer relationship management • Sourcing and vendor relationship management • Continuous improvement	• Organizational structure • People management • People development • Culture • Recruiting	• Process • Technology • Controls • Program management • Facilities and infrastructure

It is important to recognize that a GBS organization need not achieve the highest possible maturity scores in all dimensions and capability areas to be successful. Rather, service delivery leaders should aim for a mix of maturity levels across the capability areas that most effectively align the GBS organization with the company's broader short- and long-term goals.

What do successful service delivery organizations do differently? What sets companies that leapfrog the competition apart from those that lag behind?

Expand scope of services

Market forces impose a constant pressure on companies to improve operating margins and productivity. Expanding a service organization's functional scope can help companies meet these demands by allowing it to achieve economies of scale by spreading its service delivery infrastructure across more functions.

Over time, companies tend to expand the scope of their service delivery organizations to include more processes, serve more internal business units, and cover a greater geographical area. In Deloitte's 2011 survey, 82 percent of respondents expected that their company would increase the number of transactional processes in their shared services organizations over the next three to five years, while 76 percent expected it would increase the number of business units being served.

GBS operations: Aligning with the bigger picture

As companies become more mature in their GBS efforts, many also begin to extend the model to additional functions and to employ multifunctional service delivery organizations. These newer shared functions may include fleet management, marketing expense management, commercial finance, earnings optimization, equipment maintenance, transportation planning, and R&D. In addition, companies are increasingly including advisory as well as transactional processes in their service delivery organizations. Companies that expand shared services' functional scope should do so in a planned manner that enables the service delivery organization to better pursue the company's goals and vision. Whether the goal is to cut costs, reduce errors, or standardize processes—or all of the above— a successful scope expansion typically has a well-defined business case endorsed by both business and service delivery leaders. It rarely occurs in an ad hoc manner.

Expand scope of services: Examples

Increasing the service delivery organization's functional scope helped a major food and beverage company to meet its CEO's goal of reducing annual operating expenses by $500 million. By including HR in addition to finance in its service delivery organization, the company was able to realize close to 50 percent of the expected cost reduction. In its efforts to meet the target of $500 million in reduced operating expenses, the company is also considering moving some nontraditional activities, such as marketing expense management, to the service delivery organization.

A large food distributor had not developed a service delivery strategy until prompted to do so by decreasing operating margins. Although a late starter, the company included multiple functions in the launch of its service delivery organization, including finance, HR, transportation planning, equipment maintenance, menu consultation, pricing, and master data management. This broad functional scope helped the company reduce its operating expenses by 10 percent, even as its revenues grew by 3 percent.

Another late entrant, a major retail company, also included multiple functions when launching its service delivery organization, including finance, HR, IT, marketing, sales, supply chain, order entry, and corporate communications. Having its service delivery organization cover multiple functions allowed the company to set realistic and attainable goals and make more effective use of scarce resources.

Enhance internal customer management

Developing close, collaborative relationships with internal customers is a critical component of a service delivery organization's success.[1] Satisfied internal customers are likely to recognize and promote the value generated by the GBS organization, helping it to grow in scope and size.

GBS organizations need to meet their internal customers' expectations regarding reliability, quality, and responsiveness. This requires a GBS organization to communicate effectively with its customers to understand their needs, establish clear goals and service- level agreements (SLAs), implement appropriate performance measures to determine if customer needs are being met, and report on performance. Effective customer management also requires strong governance mechanisms, which typically include customer councils that provide a forum for the service delivery organization and internal customers to work in partnership.

Most companies have instituted some form of customer management program to assess and improve customer satisfaction.

Some companies are also using techniques such as balanced scorecards, governance boards, and internal customer councils. With respect to effectiveness, survey respondents identified site visits, joint leadership meetings, SLAs, and continuous improvement objectives as the most effective mechanisms for keeping a service delivery organization connected with its customers.[2]

Yet our experience in the field suggests that customer management continues to be a challenge for many service delivery organizations. Many have not cracked the code with regard to practices that can help them establish stronger connections with their internal customers.

[1] Customers for a service delivery center's G&A services are typically internal customers, such as business units, rather than external customers who purchase the company's products and services. However, some functions, such as accounts payable, also have vendors as external customers. While this section uses the term "internal customer management," it is also meant to include management of vendors by finance and procurement.

[2] Ibid.

GBS operations: Aligning with the bigger picture

In our view, a strong and sustainable governance framework is critical to effective customer management. The governance framework should establish clear goals and include components around strategy alignment, process sustainability, business partnership, and performance improvement. A GBS organization that can give its customers confidence that it offers clear, tangible benefits will be well positioned to forge a "win-win" partnership with its customers—one that helps the GBS organization mature into a trusted advisor rather than remaining a mere transactional service provider.

Enhance internal customer management: Examples

At a large food distributor, delivering a consistent experience to internal customers was a critical objective for the service delivery organization. It implemented a balanced scorecard approach that helped the service delivery organization assess its progress in meeting its financial, service quality, efficiency, and talent management goals. Taking advantage of its technology infrastructure, the service delivery organization also employed operational dashboards to allow internal customers to view its performance in near-real time. In addition, the service delivery organization's compensation plan was linked to internal customer satisfaction as well as to the company's performance.

At a major global retailer, the service delivery organization and its internal customers have formed a strong partnership. The service delivery organization has standardized and communicated its governance processes around performance management, issue resolution, and internal customer management. Its internal customers are continually involved in assessing and evaluating improvements around scope, performance, governance structure, and process. Internal customers also play an integral role in driving improvements, which has helped the service delivery organization achieve its targets for cost savings and productivity.

In contrast, the service delivery organization has a weak relationship with internal customers at a major insurance company. The service delivery organization, which is primarily focused on IT, lacks structure around performance metrics, SLAs, process, and governance. This has diluted its value within the company to such an extent that some business units have removed key components of IT from the service delivery organization, which has reduced efficiency and increased costs. The company has also decided to transfer one of its service delivery centers, which focused primarily on application development and management, to a third-party service provider. Further, the company has significantly decreased investments in its remaining service delivery center, even though a recent assessment found that implementing an effective service delivery center could reduce IT expenses by up to 20 percent.

Create a strong service culture

Culture—the shared norms or values among a group of individuals—is a key factor in how a GBS organization performs as well as how it is viewed by the company. In our opinion, the culture of an effective service delivery organization has four defining attributes:

01. Customer focus. A strong focus on customers allows a GBS organization to set the strategic context for its work and to develop shared goals with business leaders.
02. Results orientation. Being results-oriented increases the likelihood that a GBS organization will remain focused on achieving the performance levels that are important to the company.
03. Continuous learning. A GBS organization that promotes continuous learning stresses the importance of innovation and flexibility.
04. Structure and consistency. An effective GBS organization typically has a high level of standardization and formal processes around the feedback, reporting, and operations that it uses to perform its work.

Taken together, these four attributes can provide a framework for evaluating the impact of culture on achieving customer service levels, quality, and process efficiencies.

All companies should explicitly address the culture of their GBS organizations. GBS organizations whose culture fails to support the four attributes described above are likely to confront serious problems with performance and customer satisfaction. On the other hand, by fostering a culture that emphasizes these attributes, companies can help their service delivery organizations embed a strong service culture throughout their activities and thereby drive more value for the business. With a service-oriented culture as its foundation, a service delivery organization is poised to function as a strategic business partner and trusted advisor, both for its internal customers and the company.

Create a strong service culture: Examples

At a global food and beverage company, the finance and HR service organizations historically reported to their respective business leaders: namely, the CFO and the CHRO. In the process of its service delivery transformation, the company changed the reporting structure so that both service organizations reported to a single global business services leader outside finance and HR, who was responsible for delivering these services to the businesses. However, this new reporting structure did not work well with the company's consensus-driven decision-making culture. The global business services leader failed to build consensus and drive the combined shared services organization in an integrated manner. In the end, the company migrated back to its original dual reporting model. Implementing a strategy that was at odds with the organization's culture led to at least a year's delay in meeting the company's goals.

Companies can learn valuable lessons in managing service delivery organizations from third-party service providers, which work with multiple clients and complex projects. A leading outsourcing provider that serves multiple clients in a variety of industries allocates a separate physical space to the resources serving each of its large clients. The employees supporting each client are given the same orientation and training that the client's own employees receive. These innovative people practices help to transfer each client's culture into the outsourcer's service delivery organization, giving its employees a much better understanding of the context surrounding their responsibilities. Additionally, the client's functional managers work with the outsourcer's resources on a daily basis. Learning and innovation are shared goals between the outsourcer and its corporate clients, which has resulted in high customer satisfaction and performance ratings. Finally, the outsourcer has established a culture of healthy competition among its client teams. Individual and team performance is measured, and high performers are identified and rewarded on a daily basis.

Rethink facilities and infrastructure

Facilities and infrastructure are often viewed as the brick- and-mortar physical space in which service delivery centers are located. However, today there are more options for where, when, and how work gets done than the traditional office building. More and more service delivery organizations are allowing employees to work from home or other locations outside the office, and such flexible work arrangements can yield dramatic cost savings.

Implementing flexible arrangements in which employees can work remotely—from various other corporate sites, customer locations, home, or other locations—can increase efficiency, yielding savings that, in our experience, can range from 20 percent to 50 percent of space costs. This type of flexible work arrangement can not only increase efficiency, but also make it easier to attract and retain talented employees by making the company a more attractive employer. Our experience suggests that providing flexible work options for service delivery employees is becoming standard practice due to the resulting cost savings as well as the improved work/life balance that such arrangements can offer to employees.

For functions and roles in which employees continue to use a company's physical office space, the design of the work environment can greatly influence employees' productivity and satisfaction, and therefore the quality of the work they perform for internal customers. While usually more expensive than remote working arrangements, having employees work from company office space can yield benefits by fostering collaboration and innovation.

Companies should design their GBS centers to encourage such collaboration—for example, by providing ample common space where employees can connect or by keeping workspace separators low to increase interaction.

Whether its employees are working in dedicated physical office space or from remote locations, many service delivery organizations may benefit from assessing their facilities and infrastructure assets to bring them into greater alignment with its own objectives and the company's culture. A variety of workforce and workplace strategies exist that can help GBS organizations increase efficiency, reduce cost, and improve customer service.

Flexible working options can enable the service delivery organization to more easily hire and retain the talent they need; improved technology can enable the workforce to work anywhere at any time, a valuable asset in a global business environment; and innovative space design can bring new energy, increased productivity, and improved collaboration to the workplace.

Rethink facilities and infrastructure: Examples

While in the process of adding HR to its service delivery organization, a major food and beverage company realized that the HR function supported geographies that differed widely in their regulations and internal customer characteristics (such as language, culture, and religion). While the service delivery organization for the finance function employed a hub-and-spoke model with large teams in regional locations, the company recognized that the HR service delivery organization needed many smaller local teams to effectively serve the broad spectrum of its internal customers. However, the operating costs required to maintain and manage a large number of shared service centers housing such small teams would have been prohibitive. So instead of building physical centers, the company created "virtual teams" for HR service delivery in which HR representatives worked primarily from home.
This example illustrates that, even within a single company, the same shared service model may not fit all situations.

A global financial services company has launched a broad reengineering initiative to reduce structural costs. As part of this plan, the company is planning a large, rapid implementation of an alternative workplace strategy (AWS). The AWS program's key objectives are to improve employee attraction and retention, increase productivity, support corporate responsibility and sustainability, and reinforce a performance-oriented culture focused on what people do, not where they do it. The company expects that the AWS will allow it to eliminate 47,000 seats, representing an annual run rate cost reduction of $400 million. Shared service centers represent 70 percent of the company's total seats; the company has targeted 50 percent of those seats for elimination through the AWS.

Conclusion

Increasing competitive pressures will continue to force companies to scrutinize G&A functions to understand how they can better drive shareholder value. Yet most GBS organizations are the result of a series of individual decisions over the years, resulting in piecemeal operating models that are unable to sustain or expand value for the company.

The need to improve operating efficiencies while simultaneously maintaining or increasing internal customer satisfaction makes it imperative for companies to constantly reexamine their GBS organizations' strategy and operations. Companies should analyze their past service delivery approaches and experiences to learn what worked well and what did not. In addition, they should look at and learn from innovative service delivery approaches that other companies are using to achieve success.

For their part, GBS organizations should make a concerted effort to redefine themselves as strategic business partners and trusted advisors that can help their companies achieve their strategic objectives. Innovation, fortitude, and a relentless passion for continual realignment and improvement are the defining characteristics of GBS organizations capable of leapfrogging the competition to become tomorrow's leaders.

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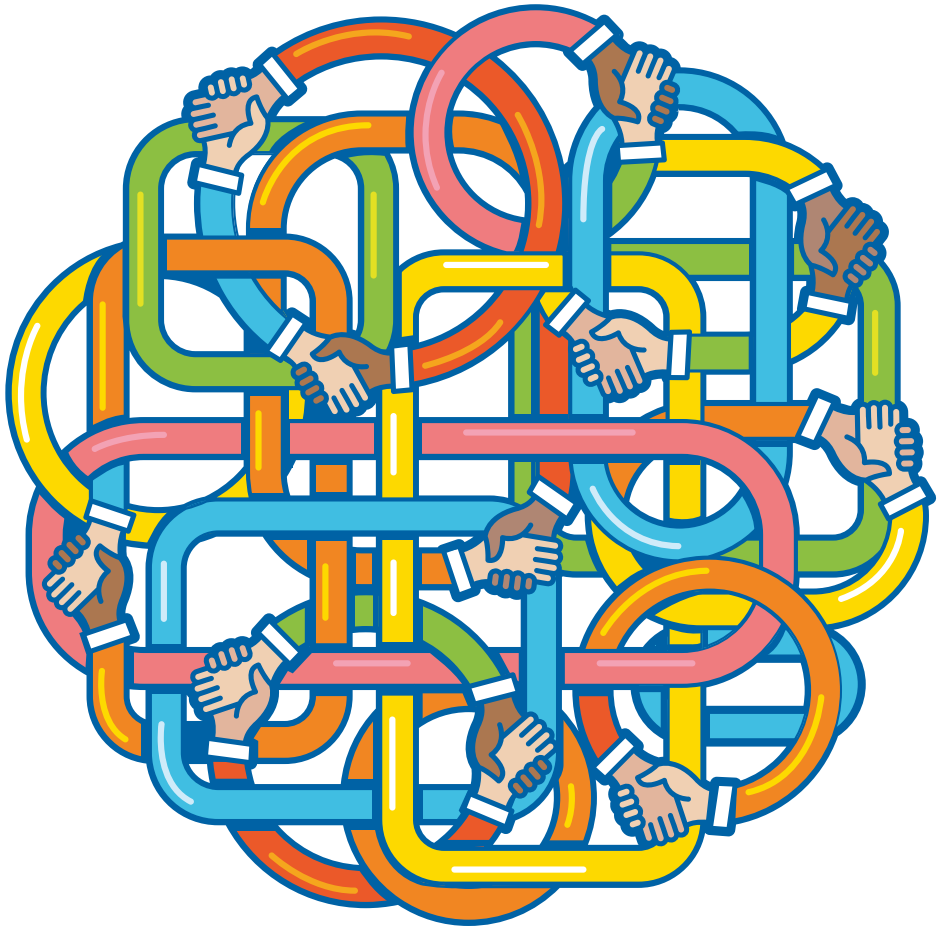
The value of global process owners in global business services

Global process owners (GPOs) are individuals who own an end-to-end process across functional silos, geographic and business unit boundaries. The role has become increasingly common, in line with the development of global operating models and the concurrent evolution of the process model.

Traditionally the GPO sits in a shared services model where they drive value by better integrating and improving activities across the organization. However, we are increasingly seeing that the GPO is taking on broader responsibilities as part of Global Business Services and, in certain instances, reporting outside of the delivery organization and directly to a 'C' level executive.

While GPOs have arguably been successful in bringing about gains in process efficiency and effectiveness, there may be opportunity for GPOs to add enterprise-wide value. Research[1] suggests that companies are pushing to manage global business services as a single organization and are leaning towards a service delivery model that has fewer global locations rather than more regional ones. Aggregating transactions to build scale helps create synergies which, if captured, can significantly reduce the cost to operate. This presents new opportunities for GPOs to play an instrumental role in helping global business services grow as a partner to the business and deliver real strategic value.

In the paragraphs below, we outline five specific and significant ways a GPO can create enterprise-wide value. We also explain what the leadership at global business services can do to support and enable GPOs to create value for the enterprise



How can a GPO create enterprise-wide value?

The day to day role of a GPO often straddles strategy, service delivery, managing competing initiatives, sourcing talent and aligning the organization. However, given the transaction volumes and scale of global organizations, it is possible for GPOs to be distracted and to under-invest in the strategic aspects of the role.

Specifically, we have identified five ways the GPO can create enterprise- wide value. We have found that these drivers should be at the forefront of the discussion so as to help build capability and inform the future of transaction processing.

Setting and managing the strategic agenda

The GPO owns the end to end process. While there may be political, organizational and regional differences in how work is conducted, the GPO needs a vision for how the pieces of the process come together, where the integration points are, and how performance can be improved over time.

This allows the GPO to make choices on 'where to play' and 'how to win' in the global business services game. This is not a 'once and done' exercise; in the fluidity of global business there is a need to continually be sensing, adapting and integrating. The strategic agenda will change over time and be subject to changes in the business environment.

Aligning the organization

Having all the horses pulling the carriage in the same direction creates the opportunity for high quality performance. Building on the strategic agenda, the GPO needs to align key stakeholders (customers, business unit leaders, management etc.) on the direction of the global process. While this differs in each organization, in our experience we have found that GPOs who co-create with key stakeholders a set of anchoring choices, design principles and performance metrics, and continually speak to these points are better at aligning the organization. Getting out in front of the discussion is an effective way to resolve differences and build momentum. Equally, close alignment with continuous improvement teams to help coordinate the implementation of transformation initiatives is a key driver for the GPO to be able to sustain results.

Given the transaction volumes and scale of global organizations, it is easy for GPOs to be distracted and to under-invest in the strategic aspects of the role.

Changing behavior

At some level change does not occur until individual behavior changes. The third strategic driver of the GPO's role is to advocate individual behavior changes, both inside and outside global business services, in a way that facilitates the desired outcomes. This may be as simple as teaching managers to follow a new automated process or as complicated as identifying the 'work-arounds', understanding why they occur and how to eliminate them. Equally the behavioral change may be more complex and nuanced—the GPO is challenged with educating stakeholders on the efficacy of global business services, or the potential benefits of standardizing policies. The key to changing behavior is to involve the community of users in the design of processes and then constantly communicating, engaging and empowering them to be part of the solution. Changing individual behavior is an effective way to achieve accelerated adoption. Working in the context of the organization, it is essential that the GPO learns how to exercise this change lever.

Reinforcing cultural norms

Each organization has a unique culture based on their organizational history, management style and organizational design. This impacts many components of the end to end process and can be insightful in how to design, implement and manage the end to end process. As an example, if your organization has a high touch, low cost culture then model that in service delivery. If your organization is highly decentralized or regional in nature ensure that you care for the important localization of the work. Understanding decision rights, centers of power and points of control can help in understanding how to start the journey and adapt as you go. Use the culture of the organization as a strength and guide rather than a weakness or something that requires changing overnight. The GPO can tweak and tailor the model over time. It may be better to move into action sooner with an 80% solution and adapt as you go versus waiting for the extra 20%.

Reinforce brand

While many global business services organizations develop their own internal brand over time most are representative, in the beginning, of the overall organizational brand. Reinforcing the corporate brand helps the GPO create affinity with the organization rather than a point of separation and distinction. When the GPO deals with processes that touch customers, suppliers, or employees they need to do so in a way that supports the brand that those groups experience. Reinforcing the brand helps build trust. With the trust of the organization the GPO can achieve greater performance over time.

Clearly, a GPO can bring significant value to the table. However, the natural question that arises from this discussion is: "What can organizations do to help GPOs create enterprise-wide value?" We will address this question in the next installment of our two-part article series.

In our experience, we see some common factors behind the general lack of widespread impact of GPOs in global business services—and they relate more to leadership and executive management, rather than individual GPOs themselves. We've outlined some critical concerns an organization should address and take action on, based on our experience.

Invest in finding and honing the right talent for GPO roles

When there is a lack of appreciation for the demands and potential of the GPO role, companies are prone to staffing this role like they would any other mid-to- senior management vacancy—where a high performer from the largest involved function in a process is picked and asked to shepherd the other functions that touch the process. While this may be a common solution, results are rarely spectacular and improvements, often marginal.

While organizations usually set out with the right vision for the GPO role, we observe that they often don't see the impact they were hoping for.

We have found that the most effective GPOs have a consistent set of capabilities.2 Organizations need to invest the time and effort, and cast a wide enough net to find talent that meets these criteria:

- **Strategic thinker, yet detail orientated**
  The GPO must be able to think strategically and connect the end to end process to the strategy of the business. Yet the GPO must also be comfortable in the detail with a broad understanding of the transactions; how they are performed, where the levers are, how they can be improved, etc. Finding someone with the right balance of strategy and detail can often be difficult but it is an imperative competency for one who needs to understand strategic impacts of the minutest details.

- **Leadership skills**
  The GPO has a number of leadership roles to perform, each with different stakeholders. The GPO could lead the team performing the end to end process, play a leadership role in the development of the global business services organization and also lead the expansion of the end to end process across the organization. Authoritative, transformational and charismatic leadership styles typically work well amongst these differing stakeholders. The challenge for the GPO is to identify the right leadership style for stakeholders and apply it consistently.

- **Action oriented**
  GPOs need to be action oriented. In the fast-paced world of transaction processing, speed and accuracy are critical. This can lead to 'analysis paralysis' where a GPO wants to cover all the issues and risks before changing any part of the process. We see that effective GPOs favor action, are comfortable with some element of risk and understand that they can fix what doesn't work the first time. Effective GPOs understand that once they 'own' part of the process they can get to work on the standardization, automation and continuous improvement initiatives. If they have not consolidated first, this can be extremely difficult.

High degree of process and functional knowledge A thorough understanding of the end to end process as well as knowledge of the functional organization is critical for an effective GPO.

Their knowledge and understanding not only allows them to lead the transformation but also to drive the continuous improvement efforts, advocate for transitioning additional work into the end to end process, and manage the day to day transactions. Their familiarity with the process and the drivers of efficiency and effectiveness can help the GPO create the right set of programs for advancing the end to end process in terms of maturity, scale and performance.

In Figure 1, we have mapped out how each of these skills directly translates to creating strategic value for the global business service organization.

Figure 1

Key skill/competency for a GPO

Strategic value delivered by GPO

It does not end with finding the right person for the job—due consideration should also be given to the long-term career path, training and development opportunities in order to attract and retain leading talent as well. A high-performing GPO should be able to grow as a key strategic leader in the organization, potentially as a future Global Transformation Director or Officer.

Provide political authority and immunity to the GPO

One of the most debilitating challenges a GPO may face is the lack of real authority. Designing and improving global end-to-end processes is complex and requires functions to look beyond their respective silos. Functional managers need to re-orient themselves to understand, agree to and adopt new processes that are better for the overall organization but may be less desirable for some individual functions. Any such change typically creates some "winners", and some "losers" who resist movement from status quo. If a GPO doesn't have the executive and management support to press forward in such situations, he or she may be unable to make any significant impact to the organization. Some especially skilled GPOs are able to negotiate this situation and shortcoming through their own forceful, emphatic managerial style but this is probably more the exception than the rule.

One of the most debilitating challenges a GPO may face is the lack of real authority.

It is key for executive management to realize that without some real authority, the credibility and impact of the GPO's role may become diluted. But given the right seniority, the right reporting relationships and a supporting mandate from the management, the GPO could be a real force for positive change.

"Get the basic stuff right"—global business services performance

The primary focus for a management team is to ensure that their global business services organization get the 'basic stuff' right and demonstrate good results—in improving and standardizing processes, introducing automation and eliminating non-value add work. This is essential to signal to all stakeholders that business process improvement is a key strategic goal for the entire organization. This serves as the context and starting point for GPOs to begin the conversation on the higher-impact, more strategic agenda discussed above, in bringing about behavioral change and creating strategic value in the organization. Without the backing and foundation of strong process performance in his organization, a GPO lacks the credibility needed to galvanize key process stakeholders and move functions in the right direction.

Management teams need to keep in mind that these three factors are mutually dependent—that is, they need to be addressed in concert— in order for the GPO to make a substantial contribution to the business. A competent person, with no managerial mandate and a poorly performing global business services organization behind him is likely to struggle just as much as wrong talent in an otherwise- high performing organization. Enabling a GPO's achievements is just part of the broader, holistic strategy to improve the functioning of the overall global business services organization.

Conclusion

In coming years, GPOs will have the opportunity to play an important role in enhancing how global business services organizations partner with the overall business. With the right level of management support, GPOs can greatly help in aligning the organization better, changing detrimental behavior and reinforcing the overall culture and brand in the organization. However, this will all remain a pipe-dream, until leadership teams recognize the potential value of this role in maintaining and improving overall global business services performance; and are willing to invest time, money and effort in finding the right talent to fill the GPO role and mandate a governance landscape where the GPO can effect true change.

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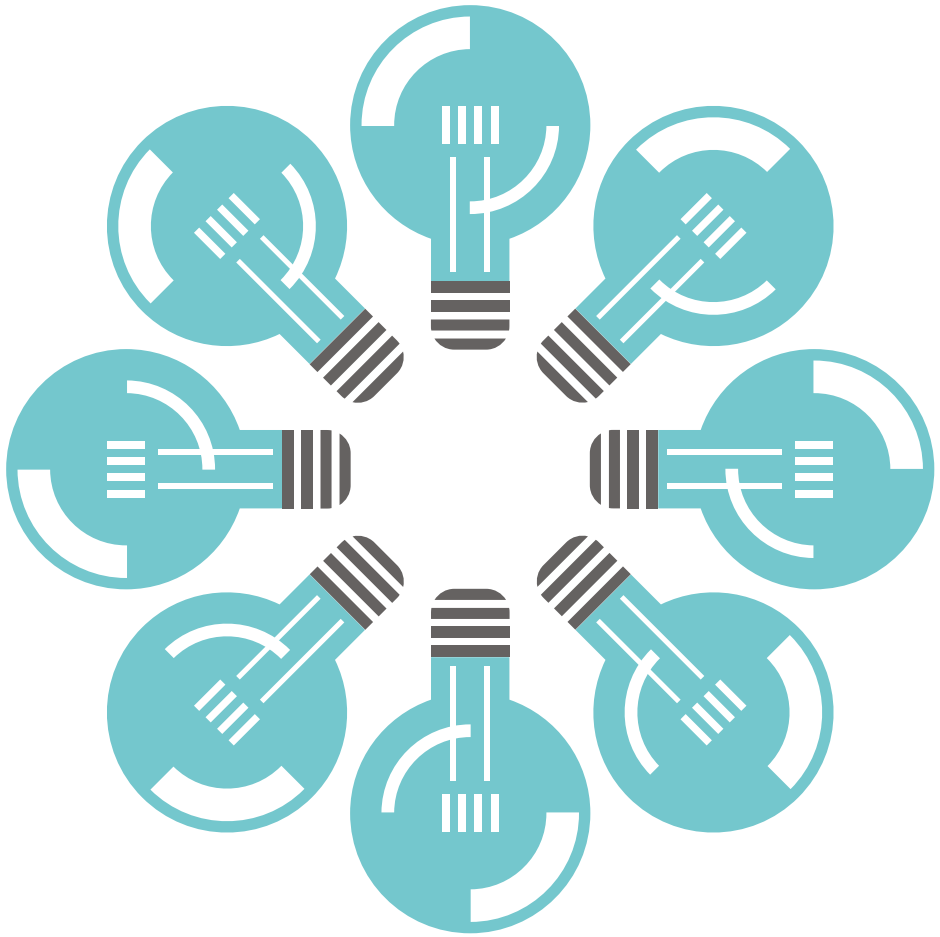
Struggling with unfinished business?



Company leaders were sure that the company's new Global Business Service (GBS) was going to be good for everyone. Administrative costs would go down, the quality of support services would go up, and back-office processes would be easier to maintain, improve, and control. But a year or two after implementing the GBS, the company just isn't getting the benefits they expected. Internal customers are unhappy about the center's quality of service. The GBS can't get the internal customers to follow standardized processes. GBS morale is low. Turnover is rising. Costs are higher than expected. Everyone is pointing fingers, yet no one seems to be able to figure out where the problems are coming from...

If this sounds familiar, you're not alone. We've found that many organizations don't realize the full benefits from their GBS even several years after implementation. The symptoms are clear enough—frustrated internal customers, unhappy staff, missed performance metrics, unexpectedly high costs—yet the underlying cause can be maddeningly elusive.

Fortunately, we've also found that the problem in such cases usually isn't with the initial decision to implement global business services. It's that the company hasn't yet fully or effectively executed on some of the key principles of implementing a GBS. If important elements related to organization, people, process, technology, and governance aren't adequately thought through and addressed, a company and its GBS may struggle with a continuous stream of problems that aren't likely to go away until the underlying issues are resolved.

Building a GBS that's effective: Five key dimensions to consider

We believe that the crucial elements in implementing a well- functioning GBS fall into five areas: organization, people, process, technology, and governance.

Organization refers to the way the GBS is structured in terms of physical location, reporting relationships, and career path. Most GBSs are set up as a separate business unit under the leadership of a director (or equivalent title). The director reports up to the executive(s) with ultimate responsibility for the process(es) housed in the GBS, whether it's a functional executive, CAO or even the CEO. This can be a major change for many organizations, as it usually involves the consolidation of multiple reporting relationships that used to exist in individual business units.

By **people**, we refer to the degree that the broader organization has adopted the GBS. As such, it includes the HR programs and practices intended to support new ways of working and getting things done in a shared environment. "People" issues can manifest themselves in a variety of ways. These include resistance to change, lack of clarity around how the GBS affects roles and accountabilities, inadequate training, and employee retention. If not proactively and continuously managed, the people dimension (both within the GBS and in the business units) can ultimately derail the long-term viability of the GBS.

By **process**, we refer to the way in which tasks are performed, originating with internal customers in the business units and carried to completion by GBS personnel. The fact that processes span both the business units and the GBS is a key point that companies sometimes miss in their efforts to localize problems. Even though an issue may not surface until after a process reaches the GBS, the root cause may just as well reside in the business units as it may with the GBS itself.

Technology, of course, refers to the technology infrastructure and tools used to enable a GBS to execute its processes and work remotely with multiple business units. Because automation is one of the important ways that the shared model strives to control costs, most GBSs require a significant investment in technology as part of their implementation.

By **governance**, we mean the procedures by which decisions related to shared services are made and the organizational mechanisms to enforce those decisions. This includes processes to set and clarify expectations between the GBS and those with whom it interacts: its business-unit customers, the company's IT department, and corporate headquarters. An effective governance system establishes accountability for each party, defines the ways in which the parties interact with each other, and helps to keep all parties' strategies and goals aligned with each other.

Commonly used governance mechanisms include service level agreements (SLAs), customer-service liaisons, and governance committees.

Why would companies overlook any of these areas during a GBS implementation? Because often, the "unfinished business" isn't obvious on the surface, and the impact on performance shows up only after the GBS is up and running. For example, the GBS's technology implementation may be completed on schedule and on budget, making it seem that all is well on the IT front. But if the technology is cumbersome to use, or if there are shortfalls in how some applications are configured, then IT-related issues can sabotage GBS performance even though the technology implementation itself went "according to plan."

Then, too, some companies may simply not recognize how much investment in these areas is typically required to establish and maintain a well-functioning GBS. The most common blind spot, in our experience, is governance. It's easy to fall into the trap of assuming that a corporate mandate to use a GBS, plus the appointment of a shared services leader, is enough to facilitate smooth working relationships between the GBS and its internal customers. The reality we see is that most companies need to set up a number of explicitly defined governance mechanisms with clearly defined roles and responsibilities to enable productive communication and collaboration among the GBS, the business units, and corporate.

Some common issues

Here are some issues we often find are left unaddressed in each of the five key areas mentioned above:

Organization. Most companies have a solid grasp of the basic organizational changes that need to occur to implement GBS: consolidate reporting relationships so that all administrative processing personnel report up to a director or equivalent, transfer the work into one or several physical or virtual facilities, and appoint a director to lead the GBS. There can be subtleties in developing a strong organizational structure, however, which are often missed.

An organizational structure isn't just a bunch of boxes and lines on a page. It represents the fundamental components of the GBS, retained function, and business unit. As such, organizations need to encompass everything from determining who does what and how work flows, through defining the competencies and standards against which employees are evaluated, to clearly defining career paths. Many organizations miss the target on designing and implementing a comprehensive organization design that is a solid foundation for a high performing center and driving maximized business value.

It's dangerous to assume that a consolidated organizational structure in and of itself is enough to reap shared services' benefits. One large U.S. consumer products company we know, for example, physically moved its finance and accounting roles from the business units to a single location and changed the reporting relationships within finance and accounting to have everyone report up to its director of GBS. However, the company took no steps to reengineer its finance and accounting processes, implement supporting technologies, or install formal governance mechanisms. In essence, even though the bodies and the reporting relationships were consolidated, the resulting organization was far from delivering on the value that management expected from GBS.

Even selecting the appropriate location to house the GBS organization, for instance, can be trickier than it seems. A convenient location, or one with low labor costs, may not necessarily be the most appropriate. One company we know that decided to place its GBS in an existing facility in the Bay area of California found that competition from dot-coms was sabotaging its efforts to recruit and retain staff. The fix? Move to New Mexico, a market with better labor availability.

GBS operations: Aligning with the bigger picture

People. People-related challenges—such as training, culture, communication, and executive alignment—can be the biggest barrier to a GBS's success. That's partly because they're hard to anticipate.

For example, an international conglomerate of advertising agencies we know faced some significant compliance issues. These included inconsistent controls, limited agency accountability, frequent restatements, and a lack of transparency. They decided the solution was to establish a global finance services center. But that, as it turned out, was only half the battle. The business units weren't on board, and without them, the service center didn't stand a chance.

The key to managing the human aspect of global business services is to understand that integration doesn't happen by itself. People with authority need to support it in a highly visible way. Everyone else needs to be engaged. In the advertising conglomerate's case, leadership accomplished this through a communications campaign that targeted senior business unit executives, using tactics such as road shows, town hall meetings, and employee newsletters.

In addition to gathering buy-in, a smooth transition needs to take place among everyone affected by the change—GBS employees as well as internal customers within the business units. Incentives to drive behavior, training to help employees work well in the new shared services environment, and HR programs to address changing talent needs all play a role here.

One global multi-industry business we know discovered this after deciding to implement a finance GBS, an effort that included the installation of a new automated system. Leadership quickly realized that standard systems and process training weren't going to be enough to help GBS employees make the transition to a service orientation. Instead, they developed a curriculum and program that included training in systems, process and soft skills such as customer service, phone etiquette, and effective teaming. This comprehensive approach to training resulted not only in better customer service levels, but in more well-rounded GBS employees who could hit the ground running.

Process. Companies implementing global business services should expect to perform a major overhaul of the processes to be housed in the GBS. Because much of an GBS's efficiency depends on process standardization, a company should standardize all inputs from the business units into the GBS. This can be daunting if the business units take widely varying approaches to the same basic task. Process efficiency and effectiveness also need to be examined; even if standardized, an inefficient process will continue to be inefficient if it's simply handed over to a GBS to execute. And then there's the need to get personnel in both the business units and in the GBS to consistently follow the agreed-upon procedures, as work-arounds, exceptions, and errors all tend to compromise standardization and efficiency.

Companies that leave loose ends around any of these process issues are likely to run into difficulty keeping costs down and turnaround times up to par. One large U.S. consumer products company we know, for example, discovered that the apparent inefficiency of its finance GBS's revenue settlement process was actually linked to the poor quality of the information its delivery truck drivers were sending to the GBS. The company addressed the issue by stepping up driver training, giving the drivers instruction sheets that they could carry in their trucks, and testing prospective drivers for the requisite English-speaking and math skills to enter the information correctly.

Streamlining processes can not only help a GBS address performance problems, but also open up opportunities to add strategic as well as transactional value. For example, as part of its consolidation of benefits administration into a single GBS, one large U.S. organization plans to reduce the number of separate benefits plans it offers from nearly 100 to a dozen or less. The nonprofit expects that this will not only reduce costs by reducing the number and types of benefits transactions, but also enable GBS personnel to develop and analyze metrics that will allow the organization to make strategic health care decisions—whether the organization could reduce costs by encouraging preventative care, for example.

Technology. The effective use of technology is critical to getting the expected value out of a GBS. Automation is a key tool to enable cost reduction and improved data quality, as it enables a GBS to reduce the number of full-time employees and cut down on the through rigorous leadership alignment amount of manual processing. Working with remote customers, too, requires a strong IT infrastructure to receive and return data. As with processes, standardization in IT systems and applications is an important factor in driving GBS efficiency.

We've found that technology is one area where many companies, no matter how well-intentioned, encounter difficulties when implementing and maintaining a GBS. Sometimes, the issue is lack of standardization: if the business units are permitted to continue to use multiple systems to feed input into the GBS, the GBS staff will be forced to learn multiple ways of processing the data they receive, hindering efficiency and increasing the probability of error. An extreme example is given by one of the GBS leaders interviewed in Deloitte's 2005 survey of shared services organizations, who reported "16 to 18 different ERP systems" in use at his global company.[1] At another company we know, a large, diversified U.S. manufacturer created by a merger between former competitors, the combined organization decided to use the finance GBS belonging to one of the companies for the entire enterprise. However, while that GBS's SAP implementation worked well with the first company's business units, the other company's business units had many legacy systems that hampered efficiency and created a great deal of dissatisfaction among those business units' internal customers.

The nature of the technology implementation itself can also lead to problems. If a system is configured ineffectively, the user interface is difficult to use, or the technological tools otherwise fall short, internal customers and GBS personnel alike may shun the use of the "official" tools in favor of work-arounds that slow down processing and introduce errors. It's also important for an enterprise's IT department to help both the internal customers and GBS staffers to understand how to use the enabling technology correctly. This is most effectively accomplished by explaining how the new tools can help solve problems within the user's business context—that is, by showing users not just the general capabilities of the software, but also its application to their day-to-day jobs. The "keep it simple" rule also applies when configuring new software: it's usually wise to start with easier-to-use configurations so that the users aren't immediately overwhelmed by the learning curve required to use the technology.

One reason GBSs run into such problems with technology is that it's rarely cheap, and few companies, in our experience, allot as much money or resources to shared services IT infrastructure as many GBSs need. One energy company we know, for instance, had its IT department sequentially implement the technology to enable shared services at one business unit after another. After the first business unit's implementation was complete, the internal customers asked IT to fix several issues that they had noticed during the first few months of use. But the IT department, which was by then proceeding with the implementation of the next business unit, didn't have the resources to address the issues identified by the first business unit. What's more, the implementation was carried out in the same way at all subsequent business units—without modifications to take the first business unit's concerns into account.

Governance. Constructing effective governance mechanisms to keep the GBS, the business units, IT, and corporate working together smoothly can be one of the most challenging aspects of a shared services implementation. Governance mechanisms don't usually grow organically over time; they must be deliberately installed. And when companies fail to implement processes to keep all parties in alignment, the resulting lack of communication can seriously damage an GBS's ability to effectively serve its internal customers.

Ineffective governance can put a shared services initiative at risk due to fundamental differences in opinion about the GBS's strategy and goals. At the diversified U.S. manufacturing company mentioned in our opening paragraph, for instance, the finance GBS management decided that their strategy was to be a low-cost transactional service provider to the rest of the business. To execute on that strategy, they had a policy of hiring low- cost resources with well-developed technical skills but without a broader business background. Some of the internal customers, however—specifically, the business units from the company that had not owned the GBS before the merger—wanted the GBS to act more as a strategic partner whose people could understand the business units' issues (such as materiality differences among different business units) on a more detailed level. The solution was to bring together the business-unit CFOs and the GBS's leader to better align expectations and develop a mutually satisfactory solution in this case, appointing formal customer-service liaisons in the GBS to communicate with the business units and fulfill the strategic partnership role.

Gaps in governance can lead a GBS and the internal business units to work at cross-purposes with each other on a more granular level, too. For example, at one professional services company we know, the GBS's collections department came under fire for a high "days sales outstanding" metric. When the issue was examined more closely, it turned out that the GBS was having trouble collecting payments because of errors made in the business units' billing departments. The business units, meanwhile, were paying its billers based on the number of invoices processed per hour, with no adjustments made for error rate or error resolution. This incentive system meant that the billing departments took a long time to send corrected invoices to the company's external customers—a delay that had been blamed on the GBS until the situation was more completely understood. The solution, in this case, was to establish reciprocal SLAs that set quality metrics for the billing departments, as well as to adjust the billing departments' incentive system to encourage timely error correction. By aligning the business units' incentives with the ultimate goal of receiving payment more quickly, this company was able to considerably improve its GBS's days sales outstanding metric.

We've found that GBSs are most effective when they are serious about governance and incorporate critical elements such as service level agreements, customer service liaisons, and governance committees or boards.

Tying up loose ends

Making the move to global business services is a major undertaking, and it's unreasonable for any company to expect to execute flawlessly from the beginning. Instead, we suggest an evolutionary view of global business services that emphasizes continuous improvement along all five dimensions. Below are some tips for you to consider in your efforts to steer clear of issues such as those described above.

When first implementing a GBS

Don't underestimate the difficulty of the job. Let's face it. Implementing shared services is hard work, and it can take more of an investment in time, money, and resources than many companies expect. Simplistic as it sounds, having a realistic attitude about just how much effort it can take to set up a GBS can go a long way toward helping a company see the job through to the desired end.

Don't box yourself in too soon. Because there are so many decisions to be made when implementing shared services, it can be tempting to make an early decision on some aspect of the implementation—where the GBS should be located, say, or which ERP platform to use—to cut down on the number of variables to be considered. But making hard-and-fast decisions too early in the process can be counterproductive. Narrowing down one's options can make it easier to reach a decision, but remaining open to different possibilities may allow for better decisions that account for factors that may not have been considered earlier in the process. In our experience, taking a concurrent rather than a sequential approach to solving organizational, process, technology, and governance challenges usually results in a more effective implementation than trying to achieve premature closure on one or more of these dimensions.

Influence the influencers. The most influential people in an organization don't always have the biggest titles. Identify people within each of the affected business units who command the most respect, then get them involved as champions for the GBS.

Follow through on execution. Most new GBSs will need a certain amount of troubleshooting and refinement before they start to run smoothly. Don't make the mistake of taking the people most qualified to troubleshoot and refine—the people who have been working on setting up the GBS—off the job too soon. It's a natural temptation to hand over the GBS to a qualified executive as soon as things look done, but if the implementation team moves on before the kinks are out, the executive isn't likely to have the knowledge base or time to set things on the right track. It's critical that the GBS is well on its way to achieving its cost, service, volume, and other performance goals before disbanding the implementation support team.

Reach beyond those directly affected. Identify and engage every relevant stakeholder group who may be directly and indirectly impacted: customers, suppliers, service providers, works councils and trade unions.
Don't just focus on employees. Most shared services implementations affect a wide range of individuals, so it's important to develop and execute a well thought out change management plan to increase the likelihood that all parties receive the appropriate level of involvement, communications, and training.

Establish a dedicated continuous improvement function. In our experience, one of the most effective ways to deal with problems is to establish a dedicated continuous improvement function at the GBS as soon as possible—even before the implementation is complete. The job of the continuous improvement function, which can include one or several people, is to improve the GBS's processes and to manage any quality issues. Housing improvement in its own function separates troubleshooting from day-to-day shared services operations, enhancing the GBS's ability to focus on each. You may want to consider assigning someone on the GBS implementation team to the continuous improvement role; he or she can bring valuable experience and knowledge from the implementation work to the task of making improvements.

Proactively design the new GBS culture. Remember that you're creating a new organization. Work with key leaders and stakeholders to determine the ideal culture for the GBS that aligns with the overall organization's culture, but also fosters the attributes of effective GBSs such as operational efficiency, customer service, and continuous improvement.

When improving an existing GBS

Understand the nature and source of the problem. This can be trickier than it sounds, mainly because the issues that are most obvious on the surface don't always clearly point to the underlying cause. In our experience, a problem is rarely localized within just one of the players in the shared services system. More often, what at first seems to be "just" a shared services problem, "just" a business-unit problem, or "just" an IT problem has multiple roots. An unacceptably long turnaround time, for example, could mean that the process itself is inefficient, the customers and/or GBS staff aren't following the process, the technology isn't adequate for the job, the SLAs haven't specified appropriate turnaround time metrics—or any combination of the above. It's really not about finger-pointing, it's about joint accountability.

Seek buy-in from corporate executives and business-unit leaders. Usually the obstacle isn't getting the business units or C-executives to recognize there's a problem; it's getting them to participate in solving it. Make it clear that a GBS doesn't operate in a vacuum and that the quality of the handoffs between a GBS and its customers has a significant effect on the GBS's performance. Seek support from those within the business units and among corporate executives who believe that fixing the GBS is a joint effort.

Leverage the original business case. Most likely, one of the reasons you want to improve the GBS is that it's not yielding the benefits spelled out in the original business case. One way to make the case for additional investments in the GBS is to dust off the original business case and use it as a tool to highlight the need for improvement. Quantify the return on investment as clearly and accurately as possible, and take your analysis to the C-executive in charge of the GBS to enlist their help in selling it to whomever controls the budget for GBS improvements, preferably with the support of a coalition of business-unit leaders and other corporate executives.

Set concrete goals and hold the organization to them. As when first implementing shared services, it's important during an improvement initiative to define metrics to alert you when GBS has reached its target performance level. Set performance expectations for the GBS using well- understood, quantified metrics, and communicate them broadly among all key project stakeholders so that everyone can easily tell whether or not the GBS is performing at the desired levels and maximizing potential value.

Don't forget that your GBS's most important asset is its employees. One of the biggest challenges faced by GBSs is employee turnover. Working in highly transactional environments where employees are constantly performing repetitive tasks can result in low morale and motivation. Be thoughtful about putting in place the appropriate people programs that will keep your GBS employees engaged, such as career paths, development training programs, job rotation, regular employee counseling and creative remuneration programs.

GBS operations: Aligning with the bigger picture

Don't let the GBS become a corporate overhead center. Many organizations get the initial setup of their GBS correct. However, over time, they let the critical elements—including customer service, people development, and governance—slip. In reality, they cease to truly be a GBS, instead becoming a corporate overhead center. When this happens, the GBS becomes unable to drive incremental value to the organization. All the GBS elements contained within organization, people, process, technology, and governance must be continually improved for the GBS to be effective long term.

A final thought: There's no need to wait for a performance crisis to take stock of an GBS's performance and look for ways to improve it. In a sense, no company is really ever "finished" with a GBS implementation. A GBS should be viewed as a perpetual work in progress, with room for improvement over time even when things are working relatively well. It's never too late to address any items of unfinished business such as those discussed in this paper, or to revisit an GBS's organization, people, processes, technology, and governance mechanisms to make additional refinements.

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Towards a portfolio approach for GBS optimization

Since the inception of GBS, companies have been working to take their organizations to the next level of performance. Today, the challenges and opportunities presented by an increasingly global economy have made improving GBS more important than ever. Ever-intensifying global competition, a slowed economy, shrinking workforces in mature economies, increasing pressure from shareholders, and greater demands from regulatory bodies are all pushing companies to seek significantly greater performance.

GBS has evolved at a steady but relatively incremental pace. Pressures to perform are pushing companies to make great step changes in how they conduct their operations. Where early GBSs typically covered only one of a limited range of functions (IT, finance, and human resources), GBSs today are looking across multiple functions. They are expanding the scope of functions to include capabilities such as marketing, sales, engineering, R&D, and real estate. Where an early GBS might have served a small number of business units or geographies, companies today are applying GBS across the enterprise and across continents. Indeed, the explosion in offshoring and outsourcing has turned GBS into a globe-spanning operation.

GBS operations: Aligning with the bigger picture

A *portfolio* approach is emerging among forward-thinking companies. Under a portfolio approach, these companies strategically and proactively balance flexible options with respect to:

- What the GBS does: operating multiple functions and processes and servicing a number of business units
- How the GBS sources services: flexing between outsourced and in-house service delivery
- Where the GBS operates: leveraging the labor pools, costs, and risks of geographies across the globe

A portfolio approach, when applied to all three dimensions of what, how, and where, can yield exceptional value to a company. Such an approach, in our experience, can significantly reduce the cost of GBS by 25% to 60%—a function of process standardization, operating efficiencies and flexibility, labor cost arbitrage, and tax efficiency. A portfolio approach can also provide substantial other benefits—reduced risk, greater scalability, workforce flexibility, and access to deeper and broader infrastructure, talent pools, and capabilities.

A rich body of knowledge, experience, and marketplace capabilities exists today for companies to more aggressively establish and expand their GBS activities, enabling them to greatly accelerate and increase level of performance and financial return. For companies with more mature GBSs, this body of knowledge can be leveraged to get greater value out of their existing operations. For organizations in relatively early stages of the journey, the lessons learned by trailblazers represent an opportunity to leapfrog to a state that might otherwise take years to attain.

In this paper, we discuss ways companies are using a portfolio approach to take GBS to the next level. The foundation for our observations and recommendations are:

- Data from a Deloitte survey of GBS leaders
- In-depth interviews with the shared services leaders of three large global companies in the consumer products, technology, and life sciences industries
- Insights from Deloitte's senior shared services practitioners
- Our experience from our work with a wide range of companies across the globe

The "what": Functions, processes, and businesses

Most companies approach GBS in a highly incremental, siloed manner, starting with one function (e.g., finance) and the most basic processes (e.g., A/P and A/R) and serving only a single geography or a few businesses. Gradually, they then expand to additional processes, functions, and geographies and/or business units.

Moving multiple functions, processes, and business-unit customers to GBS under a portfolio approach can reduce cost by consolidating and standardizing larger numbers of business-specific support processes. Additionally, it can help reduce risk by using a single set of work processes, centralizing decision-making, and applying central governance and controls. For companies moving toward a more integrated operating model in their larger business, it's a natural step to also pursue greater integration in their operating model.

Corporate leaders are clearly eager to take advantage of the benefits that extending their service scope and customer base can offer. Eighty-nine percent of our survey respondents reported that they were planning to add more processes, functions, businesses, or geographies to their GBS. Adding more transactional processes was the most popular primary method of expansion, closely followed by adding additional functions (Figure 1).

One company's journey

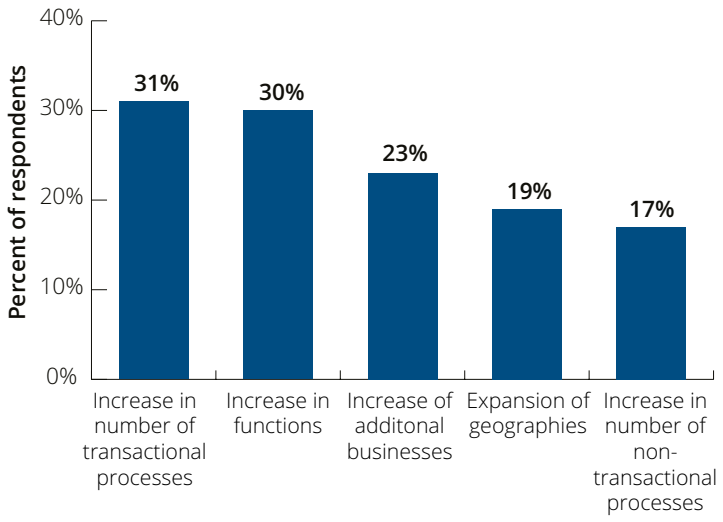
The history of one global consumer products company's GBS—from simple aggregation, to regional consolidation, to a centrally coordinated, global operation—illustrates the evolutionary process that many mature GBS have followed.

Like many others, this company aggregated back-office processes into corporate functions long before adopting a fully fledged GBS model. A major impetus came with the rollout of a single ERP instance across the global enterprise. By standardizing processes and data, the ERP implementation allowed the corporate services organization to leverage back-end commonalities for scale and efficiency, while maintaining flexibility in their interactions with different customers.

Another turning point came when the services organization's U.S. and Latin America operations began to outsource a number of processes. With outsourcing emerging as a complement to in-house service delivery, the GBS is working to standardize the scope and sourcing strategy for its services and to roll them out across the rest of the global enterprise.

The GBS's broad scope—which includes finance, payroll, and employee services, with IT and procurement to be added in the near future—has allowed the company to leverage the size of the shared organization to achieve considerable economies of scale. In addition, the company's single technology platform, its global presence, and the enterprise-wide process standardization has enabled it to effectively pursue its goal of holding costs down while delivering its targeted level of service.

Figure 1. If you plan to expand your shared services organization, where will most of the growth come from?



GBS operations: Aligning with the bigger picture

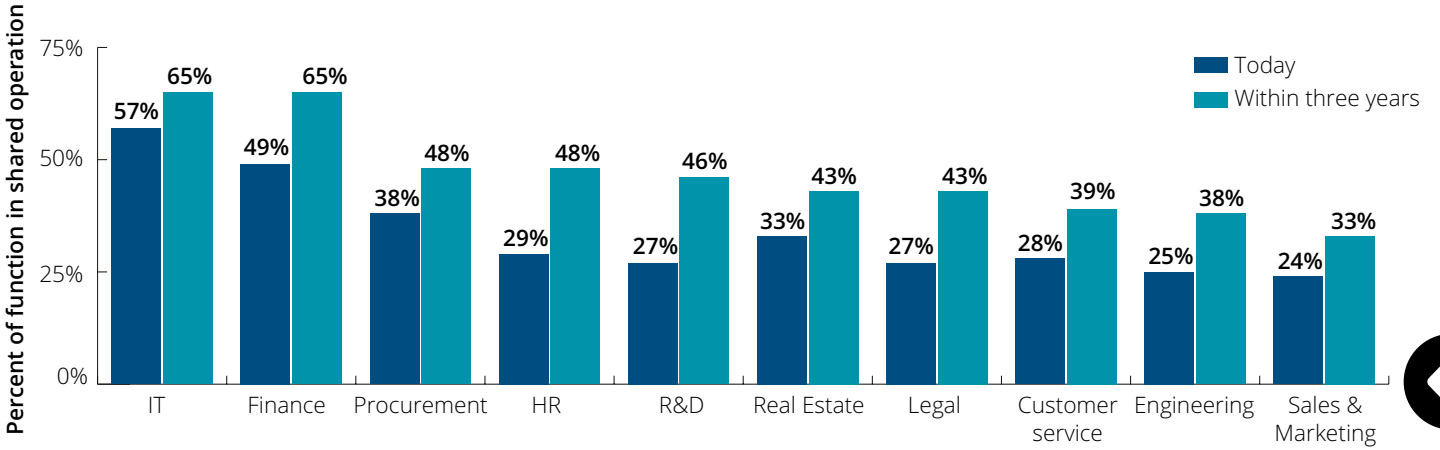
Of the traditional "big three" GBS functions—IT, finance, and HR—IT and finance are expected to reach nearly two-thirds shared, with finance and HR growing by between 15 to 20 percentage points (Figure 2). In executing such expansion, the GBS leader of a global technology company indicated that it was highly valuable to incrementally increase the scope of its activities to processes closely related to those already in the GBS, building on the skills that the GBS already has and moving steadily "up the value chain" in each functional area.

Nearly a fifth of our respondents also plan to expand their use of GBS for processes in more complex and knowledge-oriented areas that have traditionally been closer to the businesses. These include research and development, engineering, and sales and marketing, as well as more pioneering applications of shared services to business research, investment research, data analytics, product planning, logistics, and transportation management.

We believe that the trend toward cross-functional GBS offers many benefits over a functionally siloed management approach:

- Improved efficiency and accuracy. Support functions often need to interact with each other to deliver an end-to-end process. Placing those functions under single management in a multi-functional GBS can enhance seamless process design and execution. Instead of bringing together siloed processes from tasks owned by local business units and other functions with different operating procedures and priorities, a cross-functional GBS can design a single process spanning all relevant functions to decrease the number of handoffs, speed execution, and reduce the risk of errors.
- Improved data integrity. Putting multiple functions in the same GBS can make it easier for a company to integrate multiple technology platforms, allowing data to more seamlessly flow through a multi-functional process without having to be converted for compatibility with different systems. It can also allow a company to work with a single master data set across all the GBS's functions to reduce the risk of inconsistencies among redundant "active" databases in use by different functions.
- Economies of scale. If all the functions in a multi-functional GBS are physically located in a single site, a company can realize synergies and economies of scale on core shared functions and supporting facilities, site support and IT infrastructure requirements, and costs. We have witnessed scale economy benefits typically in the 5% to 10% range.
- Easier cross-functional improvement. If done right, the functional diversity and change culture of multi-functional shared services can serve as a laboratory for innovation, readily facilitating the sharing and implementation of effective practices across functions. It can also be easier to gain buy-in to change, as single management should eliminate the need to convince multiple stakeholders in different organizations to change their procedures.

Figure 2. What percentage, on average, does your organization have in shared services for the following areas?

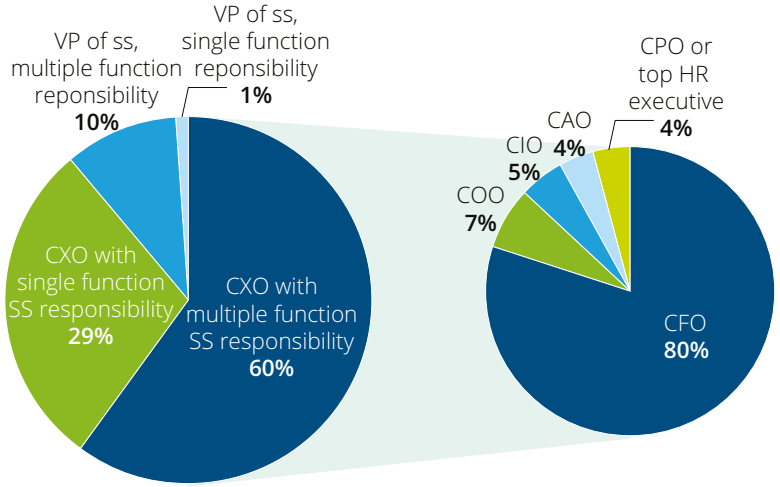


- Better talent management. One of the biggest challenges SSOs face is providing career paths and development opportunities that will make it an attractive place to work. A multi-functional GBS can give its employees a greater variety of work opportunities by allowing them to cross- train and rotate jobs among different functions. Cross- staffing can also give the GBS more flexibility to scale up and down in a particular function by allowing people to be redeployed to different functions if needed.

Expanding the portfolio of shared services functions, processes, and business-unit customers can pose a number of challenges:

- Resistance from business units: It is not uncommon to encounter considerable business-unit resistance when trying to expand the scope of the GBS and add more customers. One way to overcome this is to set up an organization specifically focused on "selling" the GBS to the company's business units and/or locations. Helping the GBS's prospective customers understand the advantages of using the GBS is key to bringing prospective internal customers on board. At one technology company, for example, the leader of the GBS's internal business development group meets personally with business-unit leaders to discuss ways to expand the benefit of shared services to the business by increasing the number of in- scope processes or geographic regions. The GBS will also prepare competitive bids against outside providers if requested —a procedure in keeping with the company's policy of strongly encouraging, though not mandating, use of the SSO over external vendors.
- Shared governance and accountability: Adding functions to a GBS's portfolio of services can complicate shared services management. It is not always clear to whom a multi- functional GBS should report or who should have overall responsibility for its performance. The predominant model is to place the multi-functional GBSs under the CFO. We also see a growing trend of creating a VP of GBS role (Figure 4).

Figure 4. Who has overall GBS responsibility?



Multifunctional shared services as part of business model change

As organizations transform their business models to be more "integrated," their business units are super- specializing and focusing on their core responsibilities to better pursue growth amid increasing competitive and cost pressures. According to the shared services leader of one Fortune 50 multinational company, this change is driving the need for a shift towards a multifunctional back-office strategy in which the GBS will not only include several functions, but also be administered and governed on a relatively independent cross-functional basis. As part of greater business integration, this model is expected to not only shrink the company's cost base, but also make it easier for the functions to focus on delivering specialized services to the business units where necessary without the distractions of overseeing the GBS's day-to-day transactional processes.

A multi-functional GBS can also face challenges in balancing the demands of multiple functional stakeholders, and the delivery of end-to-end processes with multi-functional involvement can complicate the GBS's service chargeback model. For all these reasons, effective governance, control, and service delivery and chargeback management are a must for a multi- functional GBS to yield the desired benefits.

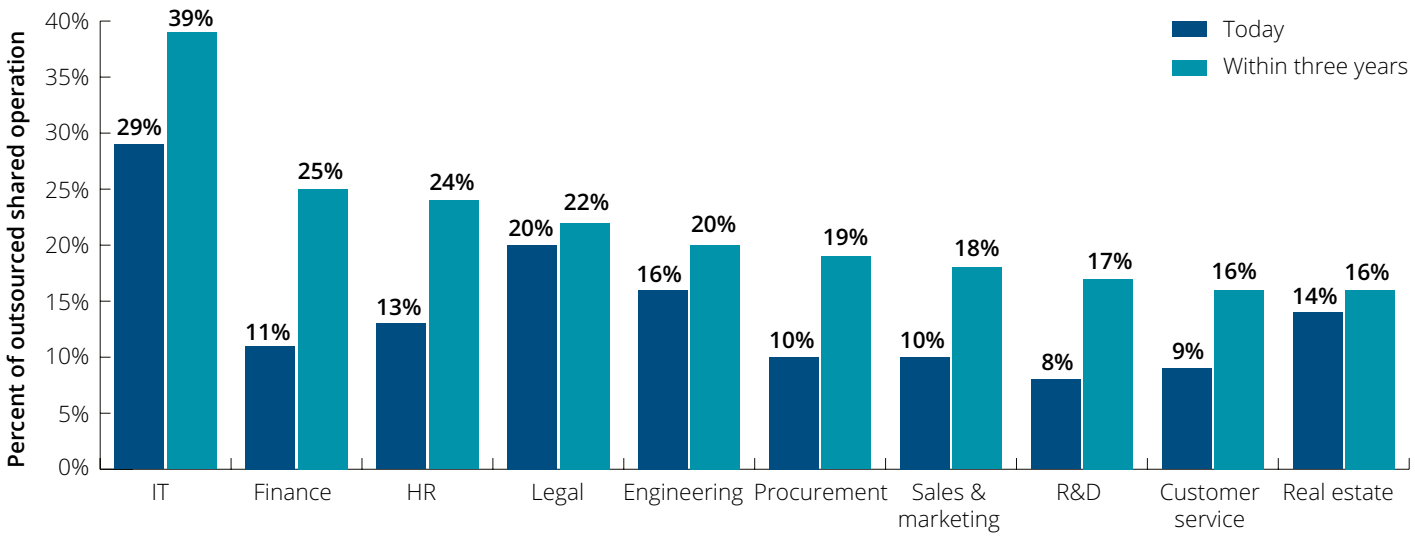
The "how": Combining outsourcing with in-house service delivery

Our survey confirms the emergence of a portfolio approach with respect to service delivery, with many of our respondents using a mix of outsourced service providers and internal service centers to serve their customers. The continuing emphasis on efficiency and cost reduction, as well as the growing maturity of the outsourced service provider market, appears to have made process "ownership" a secondary concern. For many companies in our survey, the important issue today is not who does the work but its cost, quality, and associated risks.

Our respondents outsource a fair percentage of their shared processes today, and they plan to outsource even more processes and functions in the future (Figure 5). The greatest growth in outsourcing is expected in finance, HR, IT, procurement, sales and marketing, and R&D. This projected increase in outsourcing is consistent with the results from our survey of global shared services leaders, in which 41% of respondents indicated that they were increasing the number of processes outsourced.

Our experience finds that a careful mix of in-house and outsourced delivery of processes within a GBS's scope can greatly improve shared services value. However, it is important to centrally coordinate the service delivery strategy to leverage strategic sourcing cost savings, drive effective processes and service delivery, and to achieve effective governance of both external and retained services. In practical terms, this involves having the GBS, in close collaboration with functional leaders, manage both the strategy and the day-to-day vendor relationship management for outsourced shared processes. Strong governance, of course, is essential in order to give all stakeholders—business units, functional leaders, and the GBS itself—an appropriate say in major outsourcing decisions such as which processes to outsource or which provider(s) to choose.

Figure 5. Please indicate the percentage of your outsourced



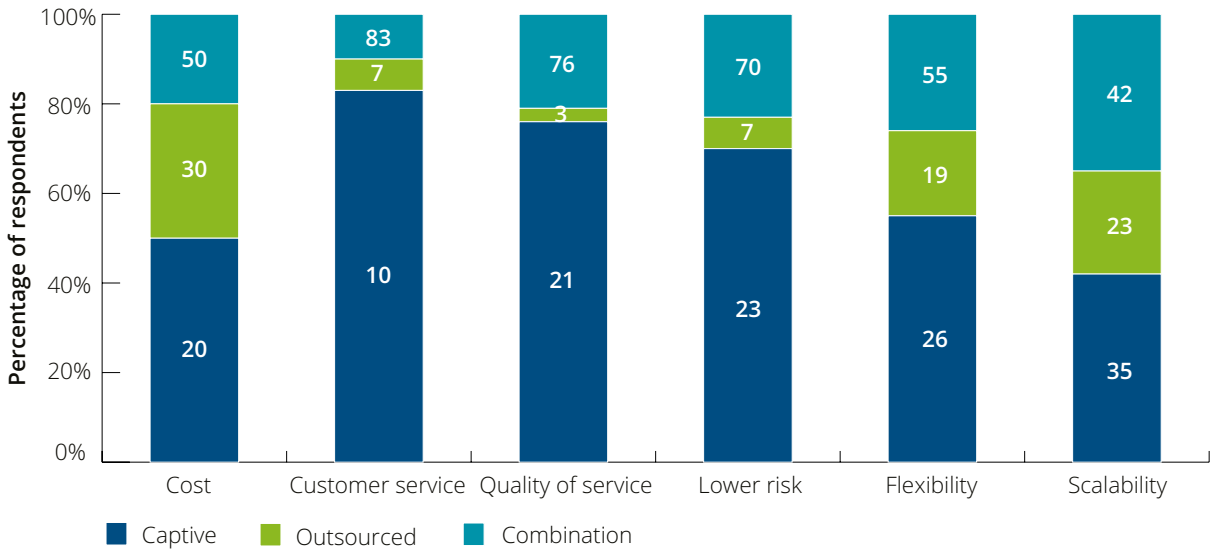
GBS operations: Aligning with the bigger picture

Under a coordinated approach, the advantages of combining in-house with outsourced service delivery include:

- Lower start-up costs. Outsourcing can reduce the initial cost of moving services out of local offices, including significant IT and facilities infrastructure costs and one-time human resources costs.
- Better geographical coverage. With outsourcing providers' diverse global footprints, especially in lower-cost locations, outsourcing can allow companies to place services in a preferred geography without the effort and investment needed to create an in-house presence in a new location.
- Improved scalability. The external provider model is designed for flexibility, adding and contracting work within and across centers. Outsourcing can be part of a GBS's strategy to add resources quickly to handle peak periods and scale back during the times in between.
- Access to effective practices and specialized skills. Outsourcing can give a company fast access to effective industry practices in use at vendor organizations that may be difficult to quickly duplicate in-house. For services that need highly specialized capabilities, outsourcers also offer companies the ability to quickly obtain those capabilities.
- Improved business continuity. The use of several service providers, external as well as internal, can allow companies to more easily turn to another service provider as back-up if a primary provider falls through.

Outsourcing relationships should be entered into and managed with a focus on customer service, service quality, and risk management issues. Our survey respondents reported better performance in all these areas with their GBS operations than with their outsourced service providers (Figure 6). Consistent with these findings, more than 50 percent of executives identified quality of service as their greatest area of dissatisfaction with outsourced providers. A mixed approach, combining internal and external delivery, showed more positive results in the areas of flexibility and scalability.

Figure 6. Where are you getting the best performance in the following areas—captive operations, outsourced operations, or a combination of both?



Certain processes and activities lend themselves to outsourcing more easily than others. Factors to consider when deciding to outsource a process include its strategic importance to the company, the degree to which the company wants to maintain control over the process, and the skills or specialized knowledge needed to carry it out. Other important considerations include the maturity of the outsourcing marketplace, the potential impact of outsourcing on key controls, the company's appetite for the risks associated with outsourcing, and the degree of possible resistance to outsourcing from internal customers.

A company should periodically reevaluate its GBS's mix of in-house and outsourced service delivery for continued alignment with the company's cost and service goals. Changes in the outsourcing marketplace and to the company's functional support needs may warrant changes in the overall balance between outsourced and in-house service delivery, as well as adjustments to specific outsourcing contracts.

The importance of "relationship" in outsourcing

In outsourcing, a strong working relationship—with high engagement on both sides—can be the difference between outstanding value and merely adequate results. One GBS leader describes the relationship with its outsourcer as a "partnership" characterized by a collaborative approach to operational management and open discussion on matters such as terms of service, service delivery issues, and changes in scope. As a result, the leader reports, the outsourcer's attrition rate on the company's account is one of its lowest—even though the work is demanding and the outsourcer is held to very high standards.

The "where": Location and global management model

Offshoring, or reaching beyond in-country service delivery to take advantage of the cost arbitrage and talent pools of more distant geographies, is becoming standard operating procedure. As they strive to balance labor availability and quality considerations against cost and risk, the question most companies struggle with is not whether to offshore, but where.

Geographically, the first wave of GBS redeployment had its origins within the United States, with U.S. companies consolidating shared operations in lower-cost U.S. communities. The same phenomenon occurred in Europe, with European-based companies pushing into lower-cost in-country locations or locations elsewhere on the continent. The next wave involved pioneering companies redeploying North American and European content into lower cost "global" hub locations, primarily in Asia.

Asia, a large growth market for products and sales, has rapidly come to require increased support, with shared services following to serve the region. Asia has some of the lowest costs in the world and a substantial depth of talent, but it is still evolving. Over time, we expect to see more and more companies select Asia for regional "global centers" encompassing a wider range of functions.

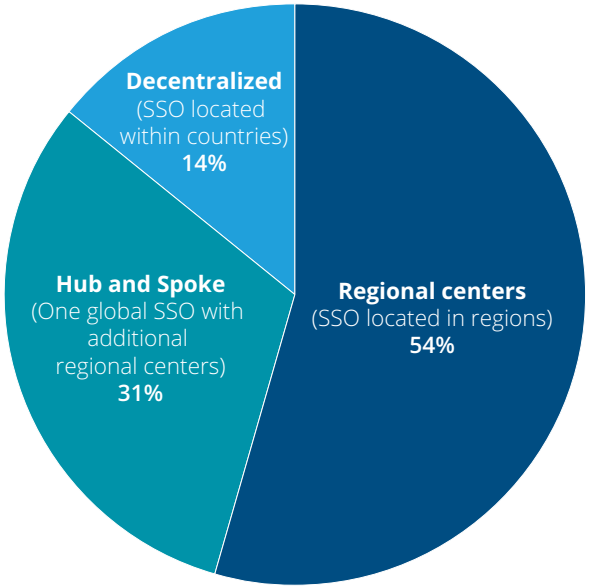
Shared services activity in Latin America has picked up dramatically in the past two years, as companies seek to establish shared centers to serve operations in North America and/or Latin America.

Our survey found that:

- Slightly more than 40 percent of respondents had centers in the Americas. Seventy percent of those centers were in North America (most were in the United States, dispersed across the country) and 30 percent were in Latin America (with Brazil, Argentina, and Cost Rica the most populated locations).
- Thirty-five percent had centers in Europe, the Middle East, and/or Africa, with almost 80 percent in Europe and 20 percent in the Middle East/Africa sub-region (South Africa had the largest number of centers in this sub-region). Within Europe, 72 percent were in Western Europe (the U.K., Belgium, and Germany had the most) and 28 percent were in Central/Eastern Europe (the Czech Republic, Hungary, Poland, and Slovakia had the most).
- Twenty-five percent of respondents had centers in the Asia Pacific region. India (most of whose centers were global hubs), the Philippines, and China were the most popular locations in this region.

The geographic management and delivery model for shared services is evolving from highly decentralized country operations to a "hub-and-spoke" model, which splits work between a global center for highly transactional, location-agnostic processes and regional centers for specialized or location-specific processes, knowledge, or skills. While our study shows that regional centers are the predominant model today, nearly a third of the companies operate in a hub-and-spoke structure (Figure 7). By eliminating regional redundancy of simple, location-agnostic processes and consolidating them in a single low-cost global center, a hub-and-spoke arrangement can operate at a significantly lower cost than would be possible under a distributed model. In our experience, these savings can range from 25 percent to well over 50 percent.

Figure 7. What is the predominant operational model for your GBS?



Global operating models are incremental for most companies, starting with centralization within a country, then moving to a regional model one region at a time, as management, the functions, and business customers become comfortable with the change. Typically, once the regional model is well-established, a global center is considered. However, by moving more directly to a hub-and-spoke model—tried, tested, and effectively deployed by a number of mature GBSs—a company can leapfrog to the substantial benefits that it offers in as little as half to a third of the time that it typically takes to evolve shared services up through the regions, and without the substantial rounds of labor and operating disruptions from multiple reorganizations.

Factors to carefully consider in such an initiative include:

- **Which processes to place in the "hub."** Lower-value-added, standardized, and automated processes are the best initial candidates for global hubs. Because a global "hub" performs work for the entire enterprise, the processes placed in the hub must be standardized across participating countries and business units to most effectively move them into a hub. Processes traditionally more amenable to global standardization include intercompany transactions and other relatively routine activities, such as basic finance, HR, and IT processes. As companies become more comfortable with global processing and experience the substantial benefits it can bring, we see them moving more complex processes to global centers.

- **Which processes to place in the "spokes."** High-value-added, customer-facing, and interaction-intensive processes are generally placed in the regional centers, closer to the home country. We find that as the functions and business units get more comfortable with shared services, they are often later moved to the global center or outsourced.
- **Labor quality and availability.** With labor comprising over three-quarters of a shared services center's operating costs, the cost of labor is a major consideration in siting shared services centers. However, with the significant rise in offshoring activity in recent years expected to continue, the competition for low-cost resources make it imperative to focus on the quality and availability of labor as well as its cost. A comprehensive and deep due diligence around these issues should be part of location strategy. Companies should be alert to the risk of wage escalation, high turnover rates, and/or unfavorable labor climates in popular offshore locations.
- **Risks associated with out-of-country operations.** Offshoring is not without potential challenges. Distant centers require greater effort to establish and greater management attention to operate than nearby ones. There are often additional business customs, governmental issues, and cultural factors to accommodate. In choosing a location, the choice between established and pioneering locations depends on a company's comfort with the trade-off between costs and risks related to labor, infrastructure, geopolitical conflicts, language, and cost escalation.

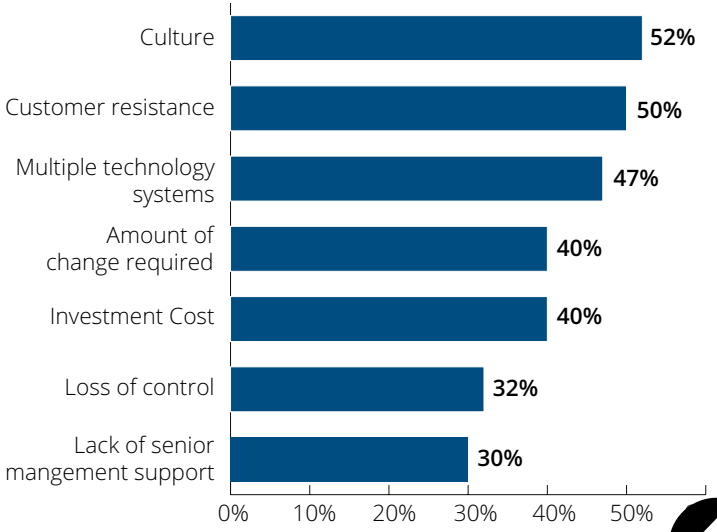
Accelerating and multiplying the benefits—and anticipating the challenges

For most companies, moving to global shared services is an exploration and a journey, starting cautiously with a limited number of functions, considering only captive centers, and slowly expanding geographies. This approach, while less risky, can be riddled with stops and starts, organizational quagmires, and challenges that can slow and sabotage progress, increase costs, and dilute the return on investment for the initiative.

The body of experience and knowledge exists today to enable more rapid deployment and transformation to an advanced state. A portfolio approach to shared services can provide greater scalability, more flexibility, lower risk, and better cost performance than the evolutionary steps that typically precede it—and newer GBSs can take advantage of the lessons learned by more advanced GBSs to get to a portfolio approach more quickly. We believe that now is the time for companies to aggressively pursue a portfolio approach to shared services, whether they are mid-way through the shared services journey or new to shared services. It is not a matter of whether a company should pursue global shared services, but how fast it can get to the end state.

Such an aggressive approach is not without its challenges. Our survey found that the greatest challenges to advancing global shared services were culture, customer resistance, and multiple technology systems (Figure 8). A second tier of challenges includes investment costs, loss of control, and lack of senior management support. Anticipating and planning for these challenges will increase the chances of success. Proactive change management, strong governance, senior management leadership, and effective collaboration with customers and external providers are the most critical "must haves."

Figure 8. How great of a challenge does each of the following pose for your advancement of global shared services?



Percentages indicate the percentage of respondents describing each factor as "very challenging" or "potentially insurmountable."

GBS operations: Aligning with the bigger picture

Based on our experience helping companies in their efforts to improve their GBSs, we offer the following recommendations for consideration:

- **Add the more purely transactional, back-office activities into the shared services portfolio before tackling customer-facing and skill-intensive activities.** Just as when implementing shared services in the first place, it's easier to move routine, less highly visible activities, such as accounts payable/ receivable or payroll, into shared services than skill-based activities such as tax planning or budgeting or market- facing activities such as an external customer call center. The customer interface and chargeback arrangements for transactional activities are simpler to develop, and business-unit customers may be more amenable to using shared services for back-office functions.
- **Aim to roll out a broad but homogeneous scope of services across business units, even if it means getting fewer business units on board at a time.** Pushing out the same broad set of services to the business units at once—as opposed to implementing one or two services at a time over a period of months or years—can simplify shared services management and governance, economize on knowledge transfer effort and costs, and drive process standardization among the business units. If the choice is between establishing a broad scope of services at fewer business units versus pushing out services piecemeal to more business units, we recommend the former, both because of the benefits of a homogeneous scope and because change management tends to be easier when dealing with fewer new customers at a time.
- **Standardize data and technology platforms.** Ideally, a company should have standardized the enabling technology within each in-scope function as part of its initial move to shared services, as doing so can minimize data conversion and maintenance issues and reduce the risk of errors and delays due to data incompatibility. The potential issues and costs related to incompatible technologies increase as the geographical scope of the GBS expands, making it even more imperative to standardize technology as more countries are brought into shared services. In a global GBS, standardized technology has the additional benefit of allowing work to be shifted from location to location more easily as the need arises.
- **Standardize processes.** As with technology standardization, enterprise-wide process consistency becomes even more critical when pursuing a portfolio approach to shared services. The greater the standardization a company can drive, the less complex the GBS's operations will likely be, and the less it will likely cost to run. Process and technology standardization also can make it easier to work with outsourcers on a global basis. For processes that are challenging to globally standardize in one fell swoop, a phased approach in which the processes are standardized in certain regions or countries as a pilot, then rolled out globally once the kinks are worked out, can help facilitate the standardization process.
- **Be sensitive to internal stakeholders' appetite for change— but press on.** It is critical to secure internal stakeholders' buy-in when planning and implementing technology, process, and organizational changes. Especially at a relatively decentralized company, pushing too hard too fast can spark resistance that can lead to exceptions in an GBS's standardized processes and technologies—exceptions that the business units may not have requested if they had been fully on board with the effort. Generally speaking, the more transparent a shared services reorganization is to the internal customer, the less resistance it will encounter. Significant changes are usually best made in a way that only affects the customer once.

The importance of business-unit buy-in
Because much of the responsibility for realizing shared services' benefits lies with the business units, getting them to buy into the idea—and, more importantly, to follow through—is critical to driving the expected results. When this doesn't happen, the shared services effort may not deliver the desired value even though the GBS appears on the surface to be operating as expected. For example, if a business unit fails to rationalize its retained organization after the work is moved to an GBS, the processes in question may actually cost more than they did before the SSO's establishment, as the business unit is now supporting both its (redundant) retained organization and the services it receives from the GBS.

- **Proactively and frequently leverage senior leadership support.** Strong corporate-executive advocacy is important in the journey to develop a portfolio approach to service delivery. Adding more functions into the GBS, gaining business-unit acceptance for outsourced service provision, and moving toward a global shared services model requires active support and involvement from the top to bring functional and business-unit leaders, as well as their constituents, on board. In addition, corporate leaders should continually be on guard against the business units' tendency to rebuild local support organizations instead of using the SSO, whether through outsourcing or by creating internal "shadow organizations." Continuous, consistent senior leadership endorsement of the GBS—combined with appropriate monitoring and enforcement—is a must to counteract such behavior.
- **Engage and communicate.** Creating and managing a portfolio of options in the "what," "how," and "where" of shared services requires a great deal of change—something that few companies and people are comfortable with. Internal customers in the business units may worry that adding functions to shared services, offshoring, and/or outsourcing will compromise service quality. Shared services staff will wonder how outsourcing processes or establishing new locations will affect their jobs. To combat fears and increase buy-in, a company needs to help everyone affected to understand how their world will change as a result. As the journey unfolds, the successes and benefits of shared services should be lauded—and the challenges acknowledged. Business-unit leaders, business-unit employees, shared services management, and shared services staff should all receive frequent communications through a variety of channels: e-mail, voice mail, road shows, and personal meetings with company leaders. With the competitive and cost challenges that companies face today, the shared services imperative is more pressing than ever. Pursuing a portfolio approach to shared services can provide substantial benefits on many fronts: greater efficiencies, substantially lower costs, increased scalability and flexibility, and reduced risk. While the challenges are not trivial, we believe the benefits of a portfolio approach more than justify the investment—and will get the company far greater results much faster. Empowered by the experience of others that have moved down this path, companies that can quickly build, manage, and expand a portfolio of shared functions, service delivery methods, and locations will be positioned to thrive in today's demanding environment.

Facilitating change

One technique we have found especially helpful is to establish a "change agent network" of selected managers or team leads within the business units and/or the GBS to communicate progress and to help identify and escalate issues to the appropriate leaders. It can also help to acknowledge that, during the first year or two of moving a function or process to shared services, the cost may actually rise due to transition and ramp-down costs. Managing the business units' expectations in this way can be very helpful in convincing them to stay on board for the long-term benefits.

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Getting the retained organization right

Transforming the service delivery model for back-office functions such as finance, procurement, human resources (HR), real estate, and information technology (IT) continues to be a top priority for many companies. Such efforts usually aim to achieve several interrelated goals: to increase the function's strategic contribution to the business, to improve operational efficiency and reduce cost, and to drive global data and process consistency.

One widespread strategy for pursuing these goals is to establish a GBS organization to execute transactional processes on behalf of multiple operating units. However, our experience shows that such efforts often fail to yield their intended benefits. Why? One important reason, in our view, is that many companies tend to focus almost exclusively on the processes to be moved into the GBS while paying little attention to the retained organization's design and operation. We have seen many companies underestimate both the level of effort to get the retained organization "right" and the extent to which failure to do so may diminish the value of the shared services program. On the other hand, companies that do make the necessary investment in their retained organizations have a greater chance of reaping satisfactory returns on their investment.

GBS operations: Aligning with the bigger picture

Figure 1: Characteristics of the four types of functional activities

Relationship to the business	Method of adding value: Low cost/defined service level	Method of adding value: Knowledge-based/ management involvement
Specific (site, unit, region)	**Site support** • Distributed to location(s) for local service needs • Required for local input/data capture or local programs • Manual or end user-intensive	**Business partner** • Aligned with function/unit • Line/management focus • Knowledge and know-how transfer • Decision/action-intensive
Generic (company-wide)	**Transaction processing** • Consolidated organization • Operational focus • Standardized services • Process-intensive • Could cover countries or region	**Center of Expertise** • Expertise focus—ability to leverage • "Best practice" development • Issue/knowledge-intensive • Organized by region

Retained organization

Transactional SSO

What is a retained organization?

We use the term "retained organization" to refer to a function's services and staff that are not placed in a GBS as part of the shift to a shared services model. Typically, the retained organization delivers three types of services to the business: "site support," "business partner," and "Center of Expertise." Ideally, all three aspects of the retained organization work hand in hand with the GBS to seamlessly provide the operating units with the entire range of functional services.

As shown in Figure 1, the retained organization's activities, as well as the processes performed by an SSO, can be classified along two dimensions: the method by which the activity adds value (e.g., operational efficiency versus strategic enhancement), and the degree of the activity's business independence (e.g., operating unit-specific versus standardized across the enterprise). In an effective service delivery model, each type of activity calls for a different delivery approach. The shared services model consolidates readily standardized, rules-based transactional activities.

Strategic, knowledge-based activities that apply across the entire enterprise, such as tax planning, treasury, or internal audit, can be consolidated into a Center of Expertise in much the same way as an GBS consolidates standardized transactional activities. Site support services—routine administrative support that cannot be consolidated—continue to be delivered locally at each operating unit. Some or all operating units may also maintain on-site business partnership capabilities to deliver knowledge- based support tailored to the operating unit's specific needs.

Why the retained organization matters

Done well, the move to shared services doesn't simply mean doing business as usual, only with administrative processes housed in one place instead of spread out across the operating units. Rather, an effective shared services effort will recognize that establishing the GBS is only one part of a larger functional service delivery transformation. The other vital part of the transformation is to modify the retained organization so that its capabilities, its relationships with the business, and its dealings with the GBS itself support the enhanced value that the overall effort aims to achieve.

Seen in this light, it becomes clear that the retained organization's readiness to assume its roles in the new service delivery model is critical to the effort's overall value. The retained organization must thoughtfully examine its administrative site support activities to determine what work can be placed in the GBS and what truly needs to remain at the operating units. In a thorough transformation effort, the retained organization will also seek to reposition itself as a strategic advisor to the business through its business partnership and Center of Excellence roles. We believe, in fact, that the opportunity to increase a function's strategic contribution can and should be one of the major drivers of any shared services effort. A company that does not articulate or pursue such a goal, in our view, is at high risk of leaving substantial value on the table.

Getting the retained organization right

We have found several key factors that significantly influence the retained organization's readiness to help drive value after the shift to a shared services model. Some of these factors are essentially "table stakes"—the business case, leadership support, and change management activities that should underlie any business transformation. Others fall into the realm of "lessons learned": less obvious but critical factors that we believe companies should address in the areas of governance; process design; staffing, sizing, and deployment; and value creation.

Table stakes

Any effective business transformation requires a solid and clearly articulated business case, sustained leadership support, and effective change management and end-user education. Briefly, key considerations in these areas include:

- **Business case.** The case for change must spring from a business-driven value proposition against which the entire program can be measured and managed. The business case should include expectations for both cost savings and value- added benefits, and both should be tied to measurable performance indicators. In addition, clear expectations for the scope, level, and cost of service should be defined early in the effort (with robust service-level agreements or at least a clear process for setting service parameters).
- **Leadership support.** Senior corporate leaders, up to and including the CEO, need to demonstrate a strong mandate for and sustained commitment to the program. They should formulate clear guiding principles and encourage timely decision making based on those principles; allocate skilled, dedicated core team members and measure their performance against program milestones; articulate a clear retention strategy for critical staff through the entire program lifecycle; and consistently reinforce the case for change.
- **Change management and end-user education.** The case for change will need to be cascaded through all levels of the organization, tailored to the needs and concerns of the various stakeholder groups, and reinforced at all critical milestones. Realistic expectations must be set early on to minimize frustration with the program both before and after the GBS goes live.

Table 1

Governance	• Integrate retained and shared services program management • Map and manage interdependencies • Dedicate the right team • Appoint a transition manager • Stay the course
Process design	• Start with the customer in mind • Develop appropriate "work splits" and design end-to-end processes • Establish clear ownership and accountability • Plan ahead
Sizing, staffing, and deployment	• Staff key roles early on • Avoid building the retained organization around existing roles • Assess your talent and act on your findings • Don't let staff go too soon • Align talent development with new staff responsibilities
Value creation	• Find the sweet spot • Pursue "quick wins," but don't promise too much too soon • Set clear goals and define the path forward

Lessons learned

Our experience shows that a company's efforts around program governance, process design, organizational sizing and staffing/talent deployment, and value creation often have a particularly strong influence on the retained organization's effectiveness. We have identified several key steps in each area that companies should consider in their efforts to pursue the desired results (Table 1).

Governance

Often, companies moving to a shared services model set up a robust plan and a strong implementation team for the GBS, but neglect to do the same for the retained organization. However, an integrated program governance approach should address the retained organization on an equal footing with the GBS to help maintain the rigor and due diligence needed to establish effective operations for both.

In our view, such a program governance approach should:

- **Integrate retained and shared services program management.** Govern the shared services and retained organization as one cohesive, integrated program through a joint program management office. The joint governance team should focus on timely realization of critical milestones on both sides—not only to meet the service commitments associated with the go-live, but also to make good on the promise to enhance business performance through effective service delivery.
- **Map and manage interdependencies.** The joint program management office should establish and maintain a project plan that clearly maps the "must meet" milestones and interdependencies between the retained organization and the shared services implementation teams. Ramifications of potential delays on either side need to be comprehensively understood in order to be better prepared to appropriately manage associated risks.
- **Dedicate the right team.** Just like the shared services implementation team, the implementation team for the retained organization requires a sufficient number of dedicated, skilled, and experienced project management resources and subject-matter specialists. These individuals will need to effectively work across organizational silos and geographic regions to address design questions and support on-time delivery.
- **Appoint a transition manager.** This role is essential in connecting the dots between the "old" and "new" worlds. Among other things, the transition manager should be responsible for clarifying new organizational roles and responsibilities, facilitating knowledge transfer from the implementation teams to steady-state staff in both the GBS and the retained organization, and aligning staff selection and deployment with the overall timeline and goals.

- **Stay the course.** Work the new job, not the old one. Functional leaders need to eliminate all redundant work and resist the temptation to provide transactional services that are out of the retained function's agreed-upon scope, even if the GBS experiences initial challenges in providing them. Otherwise, the function will create a shadow organization to the newly established service center that can have a negative impact on the shared services effort's long-term value.

"We established a retained organization design subteam within our shared services transformation team. This team was charged with designing the future-state procurement organizations within each business unit, which included identifying the skills required and estimating the number of resources needed to complete those tasks. Dedicating a team to do this allowed us to both meet our savings targets and position the retained procurement organization as a strategic asset focused on analysis and decision making."

Corporate controller at a construction company

Process design

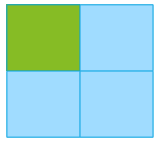
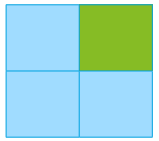
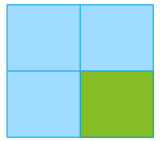
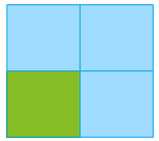
Many end-to-end business processes cut across traditional functional boundaries (e.g., the procure-to-pay process includes accounts payable, typically part of the finance function, as well as activities generally housed in the procurement function). This often presents several challenges to effective process design and execution. Lack of communication between the participating functions can prevent realization of synergies and improvement opportunities across teams. Likewise, poor cross-functional coordination can muddy the definition of roles and responsibilities and lead to unclear "ownership" of various components of the process. Such confusion, both within the retained and the shared services portions of each function, can cause the GBS and the retained organizations to become out of sync with each other as well as foster an "us against them" culture. To help avoid these pitfalls, it is critical to:

- **Bring all stakeholders to the table when designing new processes.** Involve representatives from all of the functions that touch the process at any point, including representatives from both the retained organization and the SSO. Giving all stakeholders a voice in process design can help garner buy-in, establish ownership and accountability, identify efficiencies, and head off potential surprises and delays down the road.
- **Start with the customer in mind.** Develop a clear understanding of customer needs by identifying specific areas of importance and criteria for a satisfactory customer experience. This determination should be based on objective data (e.g., interviews and surveys) rather than the department's unsupported opinions on what its customers might want. Leaders should take care that this exercise truly informs decision making throughout the entire program.
- **Develop appropriate "work splits" and design end-to-end processes.** Clearly define appropriate "work splits"—that is, which roles in which organization will be doing what kind of work—under the new service delivery model (Figure 2). Involve key stakeholders from all parts of the organization to identify cross-functional synergies and seek buy-in. Different departments may not be fully aware of similar work occurring in other areas, and products deemed "business critical" by a supporting function may be considered less important by the business itself. Use these insights to document how information will flow between functional areas, between the retained organization and the GBS, and within each organization. While it is not necessary for every organizational unit to have detailed visibility into the other organization's portion of a process, it is critical that the process be designed in an integrated fashion and that all participants in the process clearly understand the boundaries between their roles.

"One of [HR's] main challenges in transforming the service delivery model was to quickly demonstrate how we could add value as strategic business partners. If our HR people were not up to the task, the business made it very clear that they would hire their own 'people strategy' officers to effectively address our company's critical talent issues."

HR Chief Operating Officer at a financial services company

GBS operations: Aligning with the bigger picture

	Site support	Business partner	Center of expertise	Transactional GBS
				
Questions to ask	• What activities are inextricable from each location?	• What services need to be close to each operating unit's management team?	• What knowledge- based activities require specialized skills, but can be applied across multiple operating units?	• What rules-based processes can be delivered independently of business location?
Typical attributes	• Requires local interaction or data capture • Manual processes	• Requires interaction with line managers • Decision-making or support services	• Requires specialized knowledge and skills	• Requires little or no local input • Transactional, process-intensive
Representative services	• Cost accounting • Inventory accounting • Employee relations • HR generalist services	• Financial planning and analysis • HR executive support • Regional hiring	• Tax planning • Treasury • Consolidation and external reporting • Compensation/ benefits design	• Accounts payable • General accounting • Payroll processing • Compensation/benefits administration
Location	• Local sites	• Local sites, regional service centers, and/or corporate headquarters	• Virtual organization, regional service centers, or global service center	• Regional service centers or global service center

- **Establish clear ownership and accountability.** The retained organization's future leaders should personally take ownership of process design, taking care to structure project teams in a way that overcomes organizational boundaries.
- **Plan ahead.** During the GBS scoping and planning phase, define and document the retained organization's required skills and competencies as well as key changes that will occur during and after the GBS implementation. This can give the implementation teams a head start on planning staffing and change management activities that will occur later on in the project.

Organization sizing, staffing, and talent deployment

A third set of challenges in establishing an effective retained organization revolves around sizing the new organization and finding and deploying the appropriate talent to appropriate roles. Key questions to consider early on include the number of people the retained organization will need to carry out its new responsibilities; the skills that the retained organization's staff will need to execute; and how to manage the transition to the new organizational structure. Steps that can help a company effectively address these challenges include:

- **Staff key roles early on.** This will position leaders to own the creation of their future organization, rather than inheriting it from someone else. Staffing key positions early on will also provide clear direction to incumbent staff. While this may induce some talent to leave the organization because they felt "left out," it will ultimately enable the formation of a cohesive leadership team that is ready to act on day one of the new organization. Failure to do so will likely have senior staff focusing most of their attention on themselves, rather than their business, during the most critical times of the transition.
- **Avoid building the retained organization around existing roles.** Redesigned processes almost always require related changes to existing roles and responsibilities. These changes can run the gamut from making minor adjustments to creating entirely new roles; most fall somewhere in the middle. Leaders should beware of allowing the old organizational structure to cloud their vision of what roles and responsibilities must be in place to effectively enable the new processes.
- **Assess your talent and act on your findings.** The new retained organization will require different competencies, skills, and behaviors from those that existed before the move to shared services. Not all current functional employees will be an appropriate fit for the future organization, so it's important to make and execute the tough decisions on whom to keep, whom to let go, and whom to hire from outside. Very roughly, our experience suggests that about one-third of current functional staff members will have the required attributes to be effective in the retained organization, another third may be able to acquire the needed skills through training, and the remaining third will not be suitable for the retained organization. In particular, it can be difficult for individuals with transactional skills to develop the strategic competencies needed to build a better advisory capability in the retained organization. Leaders can address this issue by hiring new talent with greater analytical abilities and/or by rotating some of their current or future business leaders into strategic roles in the retained organization. This could serve as a development tool for individuals on their way to a more senior role.
- **Don't let staff go too soon.** In our experience, many business plans call for reducing the retained organization's headcount immediately after shared services goes live. This can be a costly mistake. The more complex the transformation, the greater the need for experienced staff to aid the new retained organization—in adjusting to new roles and processes. Often, retained organizations will initially find themselves supporting the double burden of increased administrative work and new strategic work during the break-in period. If its headcount is adjusted too early, the retained organization may be forced to backfill key roles with external consultants, eating away anticipated savings.

GBS operations: Aligning with the bigger picture

- **Align talent development with new staff responsibilities.** Simply providing retained staff with their new job descriptions will not be enough to change old routines and behaviors. Leaders must invest in a comprehensive curriculum to develop their new breed of professionals. They must clearly communicate what they expect from the retained organization's employees, and they should link individual and team performance to business objectives.

"Don't make the mistake of thinking that the project has been completed once the GBS has gone live. The initial few months AFTER go-live are a critical period during which the inevitable teething problems of a project of this magnitude become apparent. In order to minimize the impact of this, we found it essential to identify and retain critical business-unit resources, such as credit account managers, for a period of time following the transition. This duplicate staffing may have appeared to cost more, but it actually saved us time and potential business disruption by allowing additional time to transfer business-critical knowledge."

Chemicals manufacturer
Project manager for finance transformation

Value creation

Finally, functional leaders need to have a clear understanding of how the function's new service delivery model will create business value. Often, leaders aim to achieve more than "just" cost savings; they also set the goal of becoming a more strategic business partner. To make good on this promise, each function's retained organization will need to go above and beyond the status quo, adding to its existing consultative services and solutions to more fully address critical business challenges. Key steps to take in this area include:

- **Find the sweet spot.** The company's overall business strategy and market environment will dictate the retained organization's strategic focus. The retained organization should define specific goals up front for achieving tangible business results—for example, increasing financial forecast accuracy.
- **Pursue "quick wins," but don't promise too much too soon.** Not all of the promised value of the new service delivery model can be delivered on Day 1. Some changes will take time. For example, a retained HR organization may develop new talent management policies and tools that can enable better development, retention, and succession planning, but the results will not be immediate. Similarly, new workforce trending and forecasting capabilities may require longitudinal data not collected in the past. Having said that, it's also important for a retained organization to demonstrate its value by recording some immediate wins. Realizing any expected savings is certainly one of them. Others, again using HR as the example, may include shorter recruiting cycles, the deployment of on-demand learning programs, or the development of new HR reports to inform business decisions.
- **Set clear goals and define the path forward.** In our experience, objectives such as "greater strategic contribution" and "more value-added services" for a retained organization often appear in the initial business case. But while such broad statements can be key to obtaining buy-in and support from senior business leaders, it's also critical to define specific metrics and milestones for realizing these goals and to follow through on their execution. Establish clear "toll gates"—specific goals that must be satisfactorily achieved before the project can move on to the next phase.

Conclusion

To tap the full value of their shared services initiative, companies must focus not only on implementing the GBS, but also on preparing the retained functional organization for its new role in the future service delivery model. In our experience, companies that make the necessary investments in both the shared and the retained organizations are far more likely to gain the expected return on their investment. Leaders who understand that the adoption of shared services requires a whole new service delivery approach—one in which the retained organization plays a crucial part—can greatly increase their chances of realizing the double benefit of improved operational efficiency and greater strategic value.

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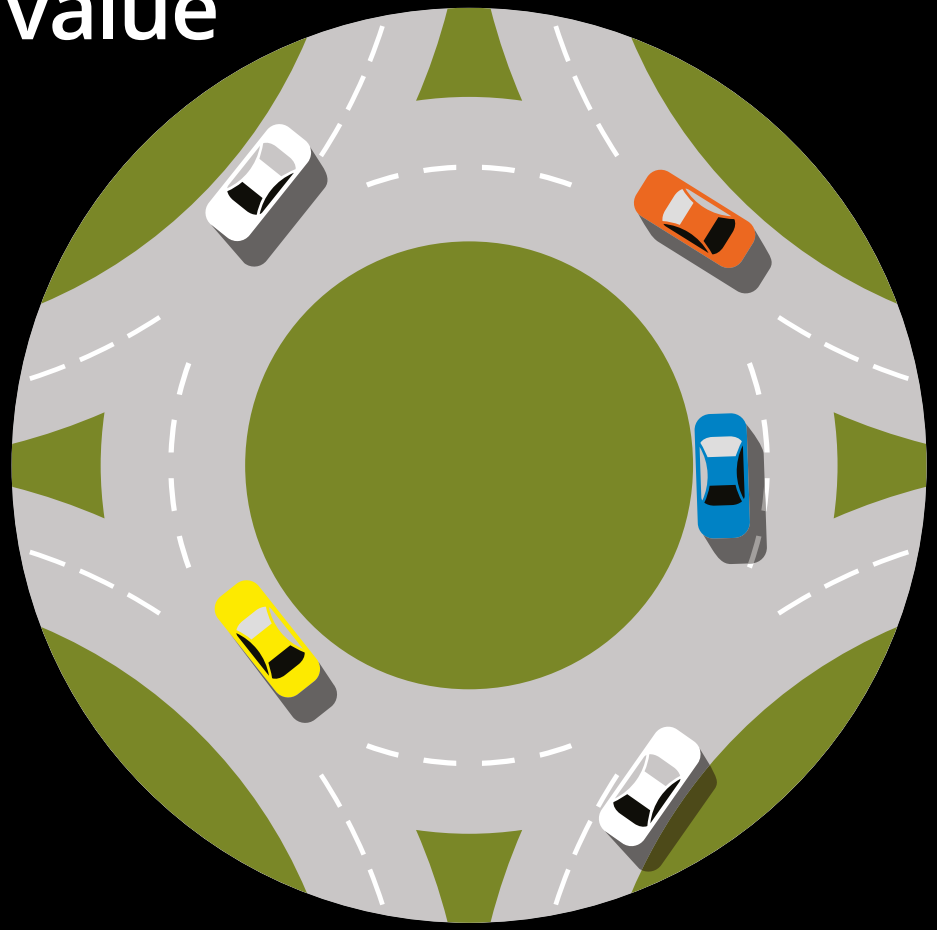
Next-generation GBS capabilities: Capturing the full value



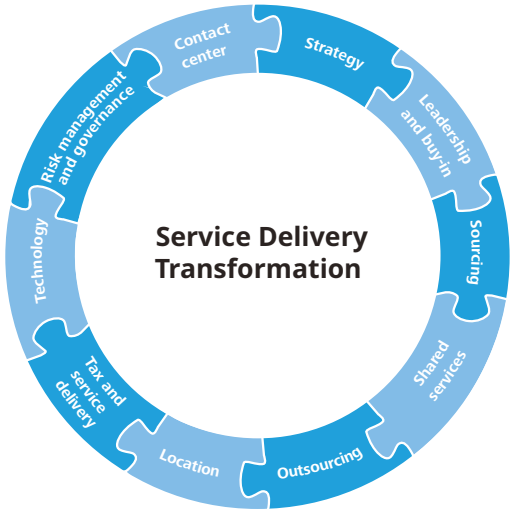
Ten ways to get more from your service delivery organization

Foreword: Service delivery transformation—finding the opportunities

Think of all the money and effort your enterprise puts into business support services—finance, human resources (HR), information technology (IT), and the rest of the "supporting players" that underlie your organization's core business activities. Now think of the value your business could gain if support service quality was consistently high, costs were consistently under control, and the whole thing ran so smoothly that everyone was consistently satisfied with the service they received.

Next-generation GBS capabilities: Capturing the full value

Service delivery transformation is about making the journey to such a state. It's about creating a business services organization that's precisely aligned to your enterprise's needs, and keeping it that way through all the changes that an evolving strategy and shifting environment may bring. It's about developing a multi-shore, multi-delivery, multi-solution service delivery platform that can help your business effectively pursue long-term value. Most of all, it's about putting together the leadership, strategy, and execution to consistently deliver high-quality, cost- effective, user-friendly service, freeing the rest of the enterprise to focus on core business activities.



Few organizations, of course, have the luxury of creating an ideal service delivery model from scratch. Instead, companies need to build on the service delivery processes they already have, strengthening what works and transforming the rest in a process of continuous improvement. Sometimes, the transformation may be major: setting up a Global Business Services (GBS) offshoring and/or outsourcing multiple functional processes, or implementing a new Enterprise Resource Planning (ERP) system. At other times, the changes can be more incremental as leaders make ongoing adjustments to service delivery strategy and operations, such as rationalizing vendors or moving to a shared model for skill-based activities such as real estate, knowledge management, or legal services.

But no matter how big or small, a change to a company's service delivery approach can represent an opportunity for improvement. And the potential for improvement can arise in multiple areas—from obvious candidates such as sourcing strategy and technology to areas farther afield, such as tax and risk management.

In this paper, we offer you a sampling of areas in which we believe you may find compelling opportunities for enhancing the value of your service delivery model. Although the areas we highlight may seem disparate and far-flung, each area can be essential to helping a service delivery organization improve performance. We hope the ideas presented here are helpful to you in your organization's service delivery transformation efforts.

1. Strategy: Get aligned

In our experience helping companies with service delivery transformation, we've seen surprisingly few organizations whose service delivery approach is in harmony with its strategic objectives. Instead, we've found that most leaders see service delivery as tangential to business strategy: necessary for execution but not a critical success factor. If support services are considered at all in strategic planning, it's usually from a budgetary perspective ("What do support services cost us and what can we do to reduce it?"). And that's a problem, because making a conscious, conscientious effort to align an organization's service delivery model with its business strategy can make an enormous difference—and still save money.

Here's an example of what we mean. One global life sciences company was pursuing a strategy of aggressive expansion in the Asia-Pacific region. Whenever the company set up operations in a new country, it would also set up an entire new support infrastructure in that country to provide HR, IT, finance, and other services to the local business. This meant that the company was incurring a significant fixed cost for support services in each country—before that country's business had grown enough to pick up the tab. The result: The company was in danger of growing itself out of business, becoming less and less profitable with each country it added to its portfolio. The solution? Leaders created a GBS to serve all of its new Asia-Pacific businesses, which allowed the company to expand into new countries in the region without taking such a large hit to its cost structure every time.

Situations like this can put a business at risk of either over- investing or under-investing in its service delivery infrastructure, or investing in approaches that are less than optimal for its needs. To combat this risk, we encourage leaders to explicitly map out their organization's service delivery needs as they develop their business strategy. Ask what kinds and levels of support services the business will need to effectively execute the strategy, and then explore options for delivering those services at an acceptable cost. Then create a service delivery strategy that parallels and supports the business strategy—one that can serve as a high-level guide for taking the organization's service delivery infrastructure from "what is" to "what needs to be." And don't forget to revisit the service delivery strategy if the business strategy changes, or you may wind up with a service delivery organization that may operate at cross- purposes with the rest of the enterprise.

At many organizations, the people who drive corporate strategy and the people who make service delivery decisions move in separate worlds. We think that bringing them together for a strategic dialogue before major service delivery initiatives take place is key to maintaining long-term service delivery excellence.

2. Leadership and buy-in: Understanding your organization

In any service delivery transformation effort, you'll want to make some important tactical decisions about the steps you'll take to implement your new service delivery model. For example: What functions and processes will you outsource first? Should you roll out your ERP before, after, or at the same time as you set up your GBS? What part of the world will you begin with? Should you consolidate processes within countries first or go directly to a regional or global service organization? And who should champion the effort, both overall and to specific groups within the enterprise?

Usually, such decisions about transformation timelines and activities are driven by concerns around time (what's fastest?) and money (what's most cost-effective?). But while these are important considerations, they're not all that should shape an implementation plan. In many ways, the success of any major strategic change depends on an organization's people. And that's why we think it's critical to understand how your people are likely to respond to the transformation effort—before you make any firm decisions about what to do, when to do it, and whom to involve.

Information about which stakeholders are most likely to support or resist the transformation, what changes evoke the most resistance among whom and why, which groups respond best to what leadership styles—all this can be vital to developing an implementation plan that works with, not against, the grain of a company's underlying organizational dynamics. In particular, we think it's especially useful for leaders to understand:

- How closely do people identify with various groups within the enterprise? If business-unit leaders in Europe identify themselves more with their country than with the global organization, for instance, they may not be as amenable to a pan-European GBS effort than business-unit leaders with a more global orientation. Or to take another example, accounting personnel who feel a strong affiliation with the finance function may be more receptive to messages coming from the CFO—one of their own—than from a local business- unit leader, or even from another corporate executive.
- How committed are people to a particular goal, and why? All other things being equal, it's wise to begin any transformation effort with the groups who are most committed to it. Are IT and Finance supportive of outsourcing, while HR is on the fence? Then consider IT and Finance for the first wave of outsourcing, and work on understanding and addressing HR's concerns about outsourcing in the meantime.
- What decision-making styles exist within different groups across the enterprise? Understanding how best to gain buy-in requires a nuanced understanding of group decision-making styles. Some groups, for instance, respond best to strong top-down guidance articulated through a compelling vision for the larger organization's good. Other, more autonomous groups may opt in only after understanding why an initiative is important to fulfilling their own personal goals as well as those of the organization.

Make no mistake: It's hard to get people to change. Proactively seeking to understand your people's views about the change, as well as leaders' and followers' perceptions and preferences regarding the ways they work together, can help you chart the path of least resistance to your new service delivery model—and give you a head start in garnering the support you need.

3. Sourcing: Keeping the mix current

Should a company outsource business support processes, set up an internal GBS, or perform them locally? As most leaders realize by now, the right answer is almost always "all of the above." In fact, many companies today are pursuing a "portfolio" approach to sourcing, using a mix of outsourced vendors and in-house resources—including both shared services and locally based support—to deliver business services.

Developing an effective sourcing mix isn't a one-time decision, however. Your business and the external environment both evolve over time, and so should your sourcing strategy. Perhaps your company's overall strategy has changed since you originally set up your service delivery model. Or the outsourcing marketplace might have matured, making it more feasible to outsource certain processes than in the past. That's why we encourage leaders to periodically reevaluate their service sourcing strategy to keep the mix of options in line with the business' evolving priorities and needs.

Whether you're revisiting the sourcing mix or making the decision for the first time, the question inevitably arises: Which sourcing options would be most effective for which processes and functions? In our view, the decision should progress in three steps.

The first step is to evaluate each process for its suitability for placement in a shared environment (whether outsourced or in-house): How well would the process work, and what would be the benefits, if it were standardized and performed by a shared group on behalf of the entire enterprise? Key issues to consider are the degree to which the process can be standardized across multiple locations or business units; the extent of direct interaction needed between the service provider (internal or external) and end users; and the potential for consolidation to yield cost savings, risk and control improvements, or other business benefits.

For each process that leaders feel would work well under a shared model, the second step is to decide which of the two options for shared service delivery—outsourcing the process, or transferring it to an internal GBS—would align better with the organization's core values, brand, and business strategy. Issues to consider include whether or not the process provides a critical competitive advantage; the degree to which the process requires inside organizational knowledge to perform; the extent to which the skills needed to execute the process are critical competencies within the organization; and the degree to which outsourcing the process could provide a strategic benefit, such as access to superior external skills.

Finally, for each process, leaders should evaluate the strategically preferable sourcing option—whether outsourcing or shared services—from a feasibility perspective: How easy or difficult would it be to implement the "ideal" sourcing option? Factors to weigh include the organization's cultural and political readiness to go forward with either outsourcing or shared services; the maturity of the outsourcing marketplace for the process in question; the extent to which the process may need to be standardized, consolidated, and/or re-engineered before giving it to an outsourced service provider or an internal GBS; and any language, regulatory, legal, and privacy considerations that may come into play in the service relationship.

4. Shared services: Run it like a business

Is a GBS a cost center or a profit center? On paper, it looks like a cost center—after all, it doesn't bring in revenue from outside. But we think there's an excellent argument to be made for treating it like a profit center in the way it's funded, resourced, and run. Why? Because unless an enterprise runs its GBS like a stand- alone business—making the same kinds of investments that an independent service provider would put into its own organization—the chances are high that the GBS's efficiency and effectiveness will fall further and further behind where the enterprise needs the GBS to be.

Investing in a GBS as if it were a profit center can take some fundamental shifts in mindset that may seem counter intuitive at first. For instance, a company may need to evaluate the business case for improvements with an eye to more than just their cost-saving potential. A project (such as a new financial system) that could yield a 10 percent reduction in the operating costs might not make the cut for funding if evaluated according to a company's "regular" thresholds—but if the project may also deliver other benefits to the organization, such as greater financial reporting transparency, it may be worth doing even if the savings from an enterprise-wide standpoint are relatively small. Taking an end-to-end process view of the impact of investments, rather than evaluating their impact on the GBS alone, can help leaders more effectively evaluate the business case for improvements to the GBS. It is also important to remember that investments may deliver benefits that are real but difficult to quantify, such as greater customer satisfaction and improved connectivity with the business.

Leaders can use several approaches to appropriately meeting the GBS's needs for investment. One strategy might be to self-fund improvements by giving it an initial funding "grant," which its leaders are then responsible for reinvesting; the more money the GBS is able to save, the more it will have available for further reinvestment. Another approach can be to budget and plan for the GBS in the same way as would be done for any "regular" business unit, but to set aside a separate pool of funds for potential investment so that it would not be competing against large capital projects proposed by the rest of the business.

The GBS, of course, must be prepared to hold up its end of the bargain by pursuing investment opportunities that would lead to real benefits for the enterprise. Among other things, the leaders should be rewarded not just for driving cost reductions, but also for looking for opportunities to add value in ways other than simply by cutting costs. This, in turn, calls for leaders to think more like entrepreneurs than like administrators. Putting the right person in charge is key, as is finding the right team to plan improvement efforts and make the case for investment to corporate.

Running GBS like a business is more than just a nice idea. It takes a conscious effort and a sea change in thinking about the value of a GBS—but if done well, it can help keep pace with the strategic needs of the business it serves.

5. Outsourcing: Managing relationships for competitive advantage

Most companies that outsource rightly put a tremendous amount of thought and effort into choosing their vendors and negotiating their contracts. However, far fewer companies, in our experience, invest comparable effort in managing the relationships with those vendors once the contracts are executed. This becomes even more critical in a complex environment where a company is managing multiple vendors that provide a wide range of services, possibly in multiple locations.

Given the risks and complexities inherent in working with external parties, we believe a structured vendor relationship management program should be a critical part of any large-scale outsourcing initiative. In fact, our experience suggests that the creation of a dedicated vendor management group can be of great benefit in helping companies address the challenges of managing vendor relationships after contract execution.

One key consideration in establishing such a group is to staff it with appropriately skilled people. The skills needed to make complex outsourcing relationship work on an ongoing basis include strong project management skills, executive relationship skills, and experience in portfolio and enterprise services management. Also important is to have a collaborative outlook and a commitment to working with vendors as equal allies in pursuit of a shared goal.

It's also important to think carefully about the models, processes, policies, and tools that should be implemented in order to successfully manage vendor relationships. Ad hoc approaches are no substitute for well-defined, mutually agreed-upon procedures for dealing with key issues such as performance management, risk monitoring and management, and issue escalation and resolution. Especially critical is the need to establish strong governance processes in order to provide overall relationship oversight and forums for discussion between key stakeholders from both sides.

We encourage companies to establish strong vendor relationship management capabilities relatively early in the outsourcing process. That's because effective vendor relationship management, in addition to helping drive the expected value from an existing relationship, can also help companies make an effective transition from in-house to outsourced service provision in the first place. The amount of change that typically takes place during such a transition can open up the risk of "scope creep"—and, hence, unexpected costs—as both parties reevaluate the extent of the work that needs to be done, the contractual obligations of each party to perform, and the associated fees. A thoughtful approach to planning, monitoring and reporting, communication, and governance during the transition can help reduce the risk of incurring unnecessary costs and unnecessary delays.

6. Location: A question of talent

The question of where to locate a services facility, we think, should ultimately come down to talent: its cost, quality, availability, and sustainability. The reason is simple. Talent is by far the biggest driver of the cost savings and quality improvements that consolidating services can deliver. And that means that getting talent right can be the most important determinant of whether a consolidation effort delivers on its business case.

Unfortunately, talent is also where we've most often seen companies fail in their due diligence when examining potential service center sites. It's not that leaders ask the wrong questions; it's that most organizations don't investigate the answers in enough detail. For instance, it's one thing to understand that different cities in the same country may have radically different talent profiles. It's another thing to realize that even different neighborhoods or suburbs of the same city may be considerably more suitable than others—for reasons ranging from ease of access and the length of the likely commute to the area's crime rate to the local community's appeal as a home for relocated talent.

Evaluating locations through a highly focused talent lens can be as much of an art as a science, so it's important to keep a clear focus on the organization's talent needs—both current and future—throughout the whole process. Detailed due diligence is key to getting the information needed to make a smart decision. Demographics surveys and government reports are a useful starting point, but they're no substitute for robust research and a conscientious, on-the-ground investigation of a location's talent dynamics.

Location and talent: Tips for conducting the search

- **Be specific about skill requirements.** The more precisely you can define the kinds of talent you'll need, the more focused you can be in your assessment of your ability to find and grow it in any given location. Instead of saying that you need "bilingual HR professionals," for instance, ask yourself if the local labor pool can meet your needs for people "fluent in both spoken and written Spanish and English, with an advanced degree, and with experience in U.S. benefits administration."
- **Plan for future expansion.** Project yourself several years into the future and speculate on what skills the center will need over the long term. If you know, or even think it may be possible, that you will eventually add a particular process into a facility, examine the candidate locations for the skills associated with that future process just as thoroughly as for the skills you need at the present time. And don't forget to factor the potential for labor cost increases into the business case for each location.
- **Use multiple data sources.** Instead of relying on just one or two sources of commonly available information—typically, reports from government agencies and/or demographic surveys—find multiple labor market inputs. Be especially careful about validating information that comes from parties with a vested interest in attracting business to a particular city or building.
- **Think about talent sustainability.** Attrition can be a perennial problem, especially at "hot" locations, so it is important to investigate how the talent pool will be refreshed at each location in question.
- **Watch out for hidden costs.** Base salaries alone don't reflect the true cost of talent. Regional differences in everything from benefits costs to holiday schedules can have a significant impact on talent's total cost. So can the effect of attrition differences on recruiting and training costs, as well as differences in projected annual salary and/or benefit increases. This means that costs need to be estimated based on the workforce's anticipated total cost—not just on salaries.
- **Interview organizations that are already there.** Try to get an insider's view of what it's like to find, retain, and motivate talent in each location on the table, and how the local talent market has evolved over time.

7. Tax and service delivery: A layperson's guide

"Get your tax people involved." Sound advice for any business transformation effort—so why do many executives often find it so difficult to do? After all, most leaders recognize that the level of tax borne on a transaction or a business model directly affects how much profit the organization ultimately realizes.

In our experience, the issue usually isn't that executives don't recognize tax's value. Rather, it's simply that they're not focused on the connections between business decisions and actions on the one hand and tax consequences on the other, particularly in the context of enabling processes. As a result, executives often don't appreciate how and when to bring tax into the discussion.

The importance of tax, and its relevance to overall business planning, is highlighted by the experience of one shared services leader who cited tax as the major driver of where to consolidate its four Latin American locations. "The economies of scale from consolidating in Latin America can easily be upset by the tax impact of cross-country charges," explained the leader. "The tax impact of importing services to Brazil, in particular, is huge. So instead of having one center for all of Latin America, we decided to set up a center in Brazil that will serve just that country, and serve the rest of Latin America from a second center elsewhere in the region."[1]

Virtually everything about a business transformation may have tax implications, so it's important to focus on the issues that could have the greatest impact on value. We think that the discussion points in the accompanying sidebar ("Taxing issues") can give most executives a solid basis for dialogue with tax that can help identify potential tax risks and benefits before they become realized losses or missed opportunities.

[1] "Shared services shines in challenging times," Deloitte Development LLC, 2009.

Taxing issues

Here are our candidates for the top questions that an executive should bring to his or her tax team when contemplating changes to the service delivery model:

- **Are there any tax reasons that we should lean towards or away from a particular location for a service center?** Avoiding high-tax jurisdictions may seem an obvious strategy, but there are also considerations related to cross-border taxation that may push an enterprise toward or away from certain configurations of locations.
- **What kinds of credits or incentives might we be able to pursue for our activities?** Many jurisdictions offer credits or incentives designed to encourage businesses to set up operations in the local community. Organizations may also be able to pursue credits or incentives related to employee training and development.
- **Will the service delivery organization need to charge its customers any form of transaction tax, such as sales and use tax or Value-Added Tax?** Transaction taxes on service delivery charges, whose rates can range into the high teens, can represent an "above the line" cost to the enterprise. Because of this, the enterprise should explore the impact of transaction taxes for various possible scenarios to determine potential chargeback alternatives or entity structures that would be effective.
- **How can we determine how much a service center should charge its internal customers?** Often, different countries have inconsistent rules for calculating taxes on value transferred between subsidiaries in different countries. This makes it necessary to carefully design and implement an appropriate transfer pricing policy to manage the risk of double taxation.
- **Will there be any issues about whether the business units can deduct the charges they receive from the service delivery organization?** If the charges are not deductible, the tax rate borne by the service recipient could be higher than it was under the old service delivery model.
- **Which entity should make the investments needed to make the service delivery model work?** Investments to build out the service delivery infrastructure—and, more importantly, the information and know-how to get the work done—may represent taxable "intangible value," making it important to make a tax-informed decision about who owns (and therefore owes tax on) that value.
- **What data do our processes and systems need to capture in order to support effective tax planning and compliance?** An outsourcing or shared services initiative, especially if it also involves a technology implementation, can give companies an excellent opportunity to revamp support processes and systems to collect essential tax information after changes are implemented to the service delivery model.

8. Technology: Fitting costs to value

IT services, whether they're delivered from an SSO or outsourced, can be one of the hardest areas to get "right" in terms of delivering the expected return on investment. Either the technology doesn't work well, or it costs too much, or both—a perennial sore point for many leaders.

In our experience, one reason for mismatches between technology's cost and its value is the way IT cost reductions are typically made. Many organizations take a primarily bottom-up approach to reducing technology costs, scrutinizing individual processes and applications for inefficiencies and rationalizing them where possible. Other organizations use a top-down approach that relies on benchmarking against competitors to set cost reduction goals, and then making cuts more or less across the board.

Both of these approaches can work to reduce costs—but a frequent problem is that IT service quality can suffer as a result. To reduce this risk, we recommend a "service-based" approach to planning IT cost-reduction initiatives. Instead of focusing purely on operational redundancies and inefficiencies, or setting cost-reduction goals based purely on taking competitor benchmarks, a service- based approach seeks to first understand what services are currently being delivered, the value users derive from them at a given service level, the cost of delivering the services, and how demand affects cost. The company can then determine what levels of which services are appropriate and necessary, and structure their cost-cutting efforts around the functionality end users need to work effectively.

Once the company has a firm idea of its IT services' desired state, it can then drill down to identifying specific cost-saving opportunities. These opportunities may come through efforts such as consolidating processes, rationalizing applications, and/or taking advantage of existing ERP capabilities instead of legacy systems. Such initiatives can drive savings from lower maintenance and licensing costs as well as a lesser need for data storage and server space to run multiple applications, which can translate into less frequent hardware purchases and upgrades. Consolidating and rationalizing applications and data can also significantly reduce the need for IT support, thereby allowing the organization to reduce or redeploy IT staff.

Just as important is to put strong governance and demand management processes in place to manage IT spend on an ongoing basis. A disciplined approach to evaluating proposed IT investments will consider not only the financial business case, but also the project's alignment with business priorities and the possibility of alternative solutions.

Streamlining the IT portfolio and installing the discipline to keep it that way is one of the most effective ways we've found for organizations to deliver the right technology to support business needs—at the right price.

9. Risk management and governance: keep yourself covered

Most executives considering a service delivery transformation are well aware of the big-ticket risks that the effort might entail. But beyond the obvious risks implementing a new service delivery model, there's another, equally important aspect of risk management that often falls off the radar during a transformation. That's the fact that your business support organization carries a significant amount of the responsibility for executing risk management on a day-to-day basis. Which means that making changes in that organization can cause a corresponding upheaval in even the most routine risk management activities unless you are well prepared.

To understand why, consider the huge role your accounts payable and receivable personnel (for instance) play in something as basic as managing financial reporting risk. They're the ones who record the data, perform the controls, and reconcile the books. They follow specific processes and use familiar technology tools to do what's required to control the risk of errors, omissions, and fraud. Then imagine what happens when accounts payable and receivable are outsourced or moved offshore. Inevitably, this means a major reshuffling of people, processes, and technology, all within a relatively short time. Add to this the pressure to meet deadlines and hit cost-reduction targets, and it's no wonder that risk management sometimes falls between the cracks, especially if it's viewed as peripheral to the "real" job of getting the new service delivery model up and running.

The antidote to such disorganization, we think, is largely a matter of governing the three key elements of risk management infrastructure during the transition:

- **People:** When jobs are in flux, it's common for roles and responsibilities to fall into confusion. Treat risk management just like any other essential responsibility for which you need to maintain coverage. Clearly define what needs to be done, identify who in the new organization needs to do it, and train them, if necessary, in the skills they need to do it.
- **Process:** Radically redesigned service delivery processes may require radical rethinking of the risk management activities that go along with them. Align your risk management processes with the new service delivery processes, and look for opportunities to take advantage of the process redesign effort to make risk management more effective and efficient.
- **Technology:** Technology implementations often run up hard against deadlines and budget constraints, which may force managers to cut or reprioritize various aspects of the implementation to keep the project on time and within budget. We encourage leaders to take a risk intelligent approach to decisions about what to eliminate, what to defer, and what to keep. For example, we have seen organizations attempt to defer decisions about segregation of duties or delay installing functionality related to internal controls; yet these two elements are a vital part of the technological infrastructure for effective risk management.

The business services organization is often one of risk management's unsung heroes. It's vital to understand how to transform it without derailing the myriad risk management activities it performs.

10. Contact center: Fast track to improvement

A contact center is the function that allows your service delivery organization to engage its customers, whether they are internal or external. An effective contact center gives an organization's customers the right answer at the right time through the desired channel in a cost-effective and efficient fashion.

But a contact center can do much more for service delivery than simply manage interactions with customers. It can also play a key role in improving the effectiveness and efficiency of the service delivery organization itself. In fact, a contact center can serve as a window into service delivery difficulties, giving leaders valuable intelligence on where the most important opportunities for improvement might be with respect to revenue, customer satisfaction, or overall.

Essentially, a contact center exists as a resource for customers who, for one reason or another, have a request, question, problem, or concern related to the service they are receiving. This means that the contact center, given the right processes and tools, can collect a wealth of information about what aspects of service people find most troublesome, whether it's a glitch in the e-mail system, a question about health care benefits, or a request for a payment exception. And this, in turn, means that companies can use that information to find —and, if possible, fix—the root issues that are driving people to the contact center in the first place. Repeated complaints about buggy e-mail associated with your latest smartphone rollout, for example, might point to a need to reexamine the smartphone e-mail solution. An inordinate number of queries about a particular health care benefit could indicate the need for clearer up- front communication about that benefit. And an abundance of requests for exceptions might suggest that policies around payments need to be revisited—or that the company needs to invest in change management efforts to bring the number of requests down to a supportable level.

Of course, not every customer query points to a problem. There are many times when the contact center will need to assist customers even when the service delivery organization is performing as well as it should—in which case the contact center should have the right processes, operational capabilities, and enabling technologies to support service delivery strategy and objectives. The contact center and the service delivery organization should be well enough integrated so that the service delivery organization can help the contact center prepare to assist customers in potential areas of concern. For instance, the IT department can alert the contact center to known e-mail issues and supply contact center personnel with work- arounds, answers to frequently asked questions, and other helpful tips. Or the HR function can arm contact center representatives with scripts to explain complex benefits programs to customers.

By creating an ongoing feedback loop between the contact center and the service organizations they support, you can do more than just improve service delivery. You can also help the contact center control service delivery costs, reduce service center headcount, and improve customer satisfaction. The more smoothly and effectively services are delivered, the less reason customers will have to use the contact center, and the fewer queries the center will need to take—with a resulting impact on cost. And the better prepared the contact center is to field common questions, the more effectively its representatives can help customers with those concerns, and the happier the customers will be with the service.

Afterword: A continual work in progress

In many ways, service delivery transformation is a journey, not a one-time event. Our experience shows that, at companies where service delivery is most effective, leaders think of the service delivery organization as a continual work in progress—one that can require both major changes and incremental improvements. Because your business needs are continually evolving, your approach to service delivery can and should shift over time.

We encourage you to keep these ten areas in mind as you continue to invest in your service delivery organization:

- Align your service delivery strategy with your business strategy.
- Craft an appropriate mix of services and sourcing options to effectively support the organization's execution of that strategy.
- Invest in shared services as if it were a profit center.
- Pay careful attention to how outsourcing relationships are managed.
- Perform detailed due diligence around talent before making any decisions about where to locate a facility.
- Remember that any transformation effort is likely to have tax implications.
- Don't let risk management lapse during the transformation.
- Take a service-based approach to IT investments and cost reductions.
- Explore ways to use the contact center as a resource for improving overall performance.
- Design your change management efforts based on a solid understanding of the way your people are likely to respond to different communication and leadership strategies.

Creating value with a service delivery organization takes discipline, commitment, a willingness to invest, and—most of all—a strategic view of how service delivery can support the organization's overarching goals. The journey may be challenging, but the value of the potential payoff cannot be denied: high-quality service, a sustainable cost structure, and, ultimately, an improved ability to help your organization achieve its strategic goals.

Transition: Getting there

Sooner or later, most enterprises will undergo a shift to their service delivery model. Whether it's implementing an internal Shared Services Center, contracting with an outsourced service provider, or both, getting from "what is" to "what will be" can be a difficult journey.

In our view, an effective transition is essential to realizing the expected value from a new service delivery model. A successful transition process can set the infrastructural and process foundation for effective future service delivery. It can establish the functions' and business units' confidence in the new service delivery model. And it can help the company realize benefits more quickly. On the other hand, an ineffectively managed transition can cast a damaging pall over the new service delivery model, which may take years to turn around.

The service delivery transition will depend on the particular service delivery model to which the enterprise is moving. For example, transitioning work to an outsourced service provider requires an awareness of inevitable divergences in client and provider interests, such as the provider's interest in stabilizing operations for profitable delivery versus the client's interest in adapting to evolving business needs and achieving continuous improvement.

That said, we believe that several basic principles underlie any effective service delivery transition, whether it's to internal shared services, outsourcing, or a combination:

- Lead from the top. As with any transition, a service delivery transformation effort will likely generate noise from internal stakeholders. C-suite executives must publicly and visibly support the effort in order for the transformation to succeed.
- Experience matters. The success of an effective service delivery transition is directly related to a company's experience in previously managing transitions. Select leaders for the effort who have been there before—or at least have experience managing other types of complex initiatives and organizational changes.
- Set up strong governance. Identify key decisions that need to be made in the transition and make it clear who is responsible for making them and when. Form a steering committee that includes the functions and businesses, and develop a clear reporting and governance structure that facilitates timely, effective decision-making.
- Manage the details. Create a detailed master transition plan that clearly details all parties' tasks, roles, and responsibilities across the entire span of the transition. Identify key interdependencies and risks, and set critical milestones.
- Resolve issues quickly. Set up monitoring, reporting, and collaboration processes that can identify and escalate transition issues early and help to constructively resolve them.
- Work across silos. Functions such as IT, HR, real estate, tax, procurement, communications, and legal, among others, play critical roles in a transition. Workstreams, activities, and timelines need to be synchronized across functions. Find out which people from each function need to be involved, and set up processes that allow them to coordinate their transition-related activities.
- Keep your eye on results. Executive reporting during the transition is essential for allowing leaders to track progress towards business objectives. Develop business-focused key performance indicators for the effectiveness of the transition as well as for ongoing operations.
- Keep people informed. Communicate progress to the larger enterprise and celebrate successes.
- Manage your stakeholders. Understand what leadership styles and communications approaches work best for key stakeholders and the groups affected by the transition. Timing and messaging are key to winning over their hearts and minds.

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Developing a financial planning and analysis capability in your GBS

In recent years, several industries have experienced significant challenges stemming from cost pressures, issues with R&D productivity and uncertainties from evolving legislative and regulatory action.

This environment isn't likely to improve soon. As a result, operating cost reductions will likely continue to be a focus for many companies. Many of these companies have already trimmed finance budgets through successful global business services programs that focused on traditional transaction-processing activities, such as accounts payable, accounts receivable, and general accounting. Now, however, companies need to find additional savings in other areas.

One area that holds significant cost-reduction opportunities is the financial planning and analysis (FP&A) function. According to Deloitte experience, FP&A functions typically make up approximately 25 percent of finance spend and represent the next frontier of finance savings opportunities.[1]

For many companies, the FP&A function represents an even greater opportunity. Some companies typically have global operations with decentralized P&L responsibility within individual countries. These localized business operations result in significant country-based FP&A support. Based on recent analysis by Deloitte, such geographically dispersed operating models result in some large companies allocating upwards of 30 to 40 percent of their finance spend to FP&A activities.

However, one effective approach which can reduce the high cost of the FP&A function, and allow skilled FP&A staff to spend more time on business decision support activities, is to move currently decentralized FP&A decision support activities into centers of excellence.

Not all FP&A work is equal

The FP&A function serves a critical role by delivering relevant and insightful information to top executives to help them make informed business decisions. FP&A personnel are typically among the most seasoned and well- compensated staff members within an organization.

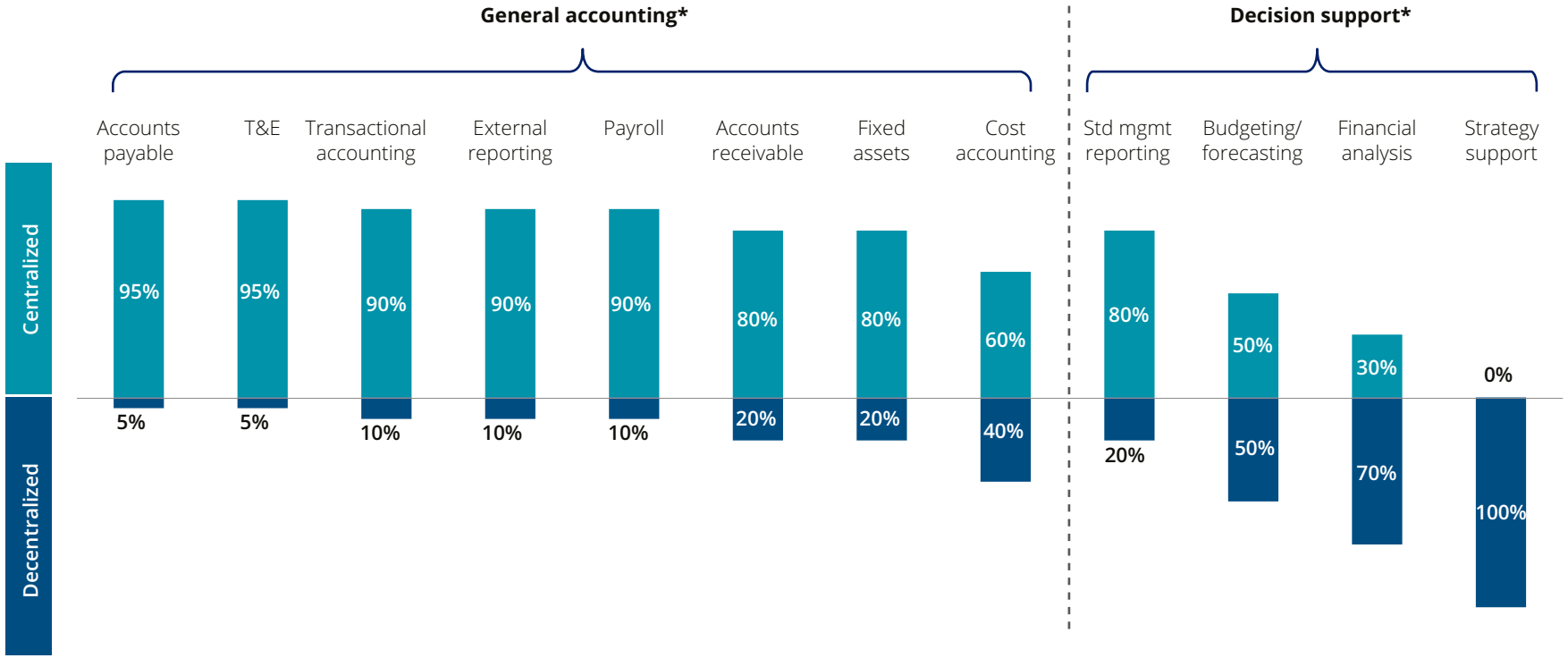
However, close examination of day-to-day FP&A activities may reveal some inefficiencies. For example, FP&A processes are typically fragmented with significant customization, redundancies, and inefficiencies as each local entity seeks to best serve its specific business customers. This can lead to highly compensated FP&A employees' time spent on the transactional aspects of FP&A processes. We believe that most of these transactional FP&A processes could be more efficiently performed in a centralized environment.

Despite such cost-saving opportunities, the FP&A function has typically not been a candidate for centralization due to the high visibility and strategic nature of the work performed. FP&A activities have frequently been considered "untouchable" candidates for centralization given the perceived level of business knowledge required to perform these activities. The FP&A function interacts directly with business leaders, helps set strategy, supports decision making, and affects future financial performance.

Executives should challenge this blanket characterization of the work performed by FP&A staff given the industry pressures these companies face. Transactional, low-value- add FP&A activities can be successfully decoupled from the more strategic knowledge-based activities and centralized in an FP&A center of excellence (COE) to support a more cost-effective operating model (Figure 1). Doing so can result in quantifiable cost reductions while freeing up local FP&A resources to perform more valuable business partnering activities. The centralized decision support model should link operational requirements to corporate objectives and provide a basis for functional design.

[1] Source: Deloitte's Global Benchmarking Center, which has more than 800 participants in its various proprietary studies. To learn more about Deloitte's benchmarking capabilities, please visit our Web site: www.deloitte.com/us/benchmarking.

Figure 1. Companies are centralizing selected decision support areas



While the opportunity for centralization within Decision Support is not as large as in General Accounting, significant benefits can still be achieved. Leading organizations are moving decision support activities to a centralized environment so that additional time can be allocated to business strategy and support.

* Splits based on Deloitte experience

An FP&A COE offers many potential benefits

Some of the potential benefits organizational leaders can expect to achieve by implementing an FP&A COE include:

Process standardization and automation

Transitioning activities to a centralized environment helps promote process standardization. Standardization improves an organization's ability to train resources, develop talent, and further streamline through technology deployment. As activities are standardized across an organization, data analysis, data quality, and the way in which data is used to make business decisions also becomes more consistent.

For example, a large international pharmaceutical client's finance organization in one country identified an automated way to perform volume, price, and exchange analyses. Once this process was centralized, it became the standard blueprint for all regional markets, driving significant time savings across the organization.

Local process elimination

Migrating activities to a centralized environment helps eliminate custom activities that have historically been performed locally. Through centralization, non-value-add local processes become more visible and can be more easily challenged.

As one Deloitte client began an FP&A COE implementation, it discovered that certain balance sheet and cash-flow analyses were regularly performed by a local entity. As activities were evaluated for centralization, it became clear that these analyses were of little value to leadership and were subsequently eliminated.

Labor arbitrage

FP&A activities are typically performed by highly trained and educated employees. These staff members are expensive; transitioning transactional components to a lower-cost resource pool can lead to significant savings and allow skilled finance employees to focus on areas that are commensurate with their level of expertise and pay grade.

A global manufacturer sought to streamline and enhance the effectiveness of its finance function while reducing operational costs. The company moved 80 percent of its corporate FP&A work to a lower cost COE, including ad-hoc reporting and analysis, balanced scorecard reporting, and management reporting and board presentations. It also moved select business unit FP&A work offshore, including segment profitability reporting, product profitability and profiles, and competitor analysis. Through these transitions, the company reduced its FP&A costs by between 50 and 70 percent.

Span and level savings

Through centralization, eliminating organizational layers and improving span of control is possible. The typical structure of an FP&A COE would allow for a broader span of control that can ultimately result in a lower-cost operating model.

A global hospitality company wanted to reduce its SG&A spend due to increasing cost pressures from changing economic conditions. The finance function was an obvious candidate for centralization due to the significant number transactional activities completed by its highly compensated staff. This company identified these transactional activities and transitioned them to a newly-created FP&A shared service center in the UK. As a result, the company was able to realize significant labor savings by better matching job requirements to staff levels.

Economies of scale

Migrating activities to a centralized environment provides additional cost-saving opportunities due to economies of scale. Activities such as data validation and standard report creation can be performed more efficiently through a centralized model and in large volumes by a team dedicated to these specific activities.

A global consumer business company, facing significant margin and price pressures, embarked on a major cost- reduction initiative, as well as transformation of its commercial operating model. To keep up with these changes, the company's finance function reorganized around a global structure with harmonized policies, processes, data, metrics, and controls. It increased its use of COEs and shared services centers for transactional and common FP&A activities, and it instituted a standard global framework for management reporting that enabled significant economies of scale through centralized delivery. The result was substantial reduction in overall finance operating costs.

Talent alignment

Leading organizations are continually looking to identify and retain top talent. However, a 2007 Deloitte study shows only 50 percent of survey respondents believe that their finance organization is strong in the competencies needed to align talent with the business.[2] Moving transactional components of FP&A processes to a COE can help position an organization's talent more strategically and improve this metric.

A large pharmaceutical company implemented a regional decision support COE. Shortly thereafter, senior finance leaders found that they could spend more time driving complex analytics and future business decisionmaking. This not only allowed for additional time to focus on decisionmaking capabilities, but it also improved morale within the finance function. The organization's focus became more strategic and better aligned with the organization's Finance service delivery model.

Overcoming concerns about centralization

Organizations have been hesitant to consider FP&A as a candidate for a COE model for several reasons. The shared services concept is not new, but the concept of applying a centralized model to business-facing activities is. If implemented without great care, the FP&A COE could hinder an organization's ability to provide a critical partnering function to the business.

Key concerns that organizations need to overcome as they evaluate the risks associated with an FP&A COE include:

Dedicated local support

The idea of moving FP&A activities to a global business services model has typically been off-limits due to the significant visibility and high value of the end product. The output from the FP&A function is often used by business customers and senior finance executives who are very protective of local FP&A resources. Significant efforts need to be made in managing the change associated with centralizing these activities to ensure that expectations are clearly set and service levels are maintained.

Future leader talent development

The FP&A function is often a training ground for future leaders of the finance organization. The finance talent career ladder needs to be modified to reflect the new operating model and allow for movement of junior employees from the FP&A COE to the more value-add local finance units.

End-to-end process efficiency

The FP&A COE typically only performs a portion of a process and not the entire process. As a result, additional handoffs are created as activities are being performed. As activities are being considered for migration, they must be carefully evaluated to ensure that the new end-to-end process has not created a burden for the organization. See Figure 2 for criteria to be considered when identifying processes for transition to a COE.

[2] The finance talent challenge: How leading CFOs are taking charge, Deloitte, 2007.

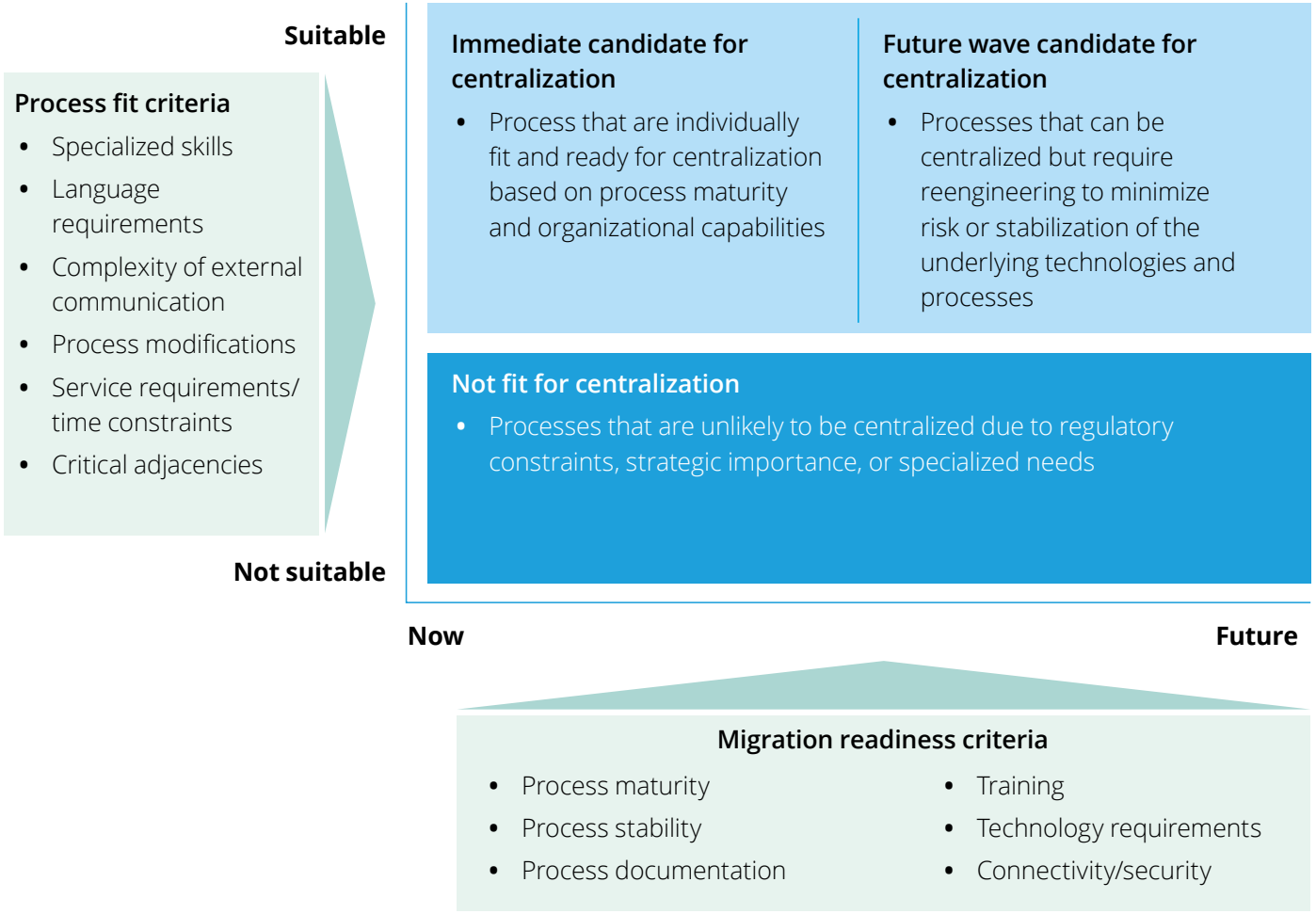
Realizing partial FTE efficiencies

When migrating transactional activities from locations with low volume, or where finance support is minimal, it may be difficult to realize savings. If cost savings is the driving factor behind considering an FP&A COE, the volume of activities migrated from local FP&A functions needs to be large enough to ensure that full resource savings can be achieved. If cost savings is not the driver behind centralization, the additional resource capacity created by migrating local FP&A activities to a COE can be used to focus on more analytical, higher value-add activities.

Fear of going it alone

Finance organizations are already stretched to their limits with day to day demands. Burdening them with a transformational project such as evaluating and implementing an FP&A COE may be beyond the current staff's experience and could be tremendously disruptive. Teaming with a service provider that has both the experience and resources to carry out long-term finance transformation initiatives can allow companies to continue day-to-day activities with minimal disruption while moving toward the envisioned future state organization and operating model.

Figure 2. Process centralization evaluation framework



When considering processes to be centralized into a COE, an assessment must be made as to whether they are "fit and ready" for migration in the near or long term.

Toward a brighter future for FP&A

Finance executives should not wait to explore the possibility of creating an FP&A COE. The FP&A CoE model has shown to be successful at a select group of leading companies and many more are now beginning to assess how to implement it within their own organizations.

The high potential for reducing costs, improving FP&A effectiveness, and adding to the bottom line make this an opportunity at a time when companies are under significant performance pressures. Finance executives should challenge their company's traditional FP&A organizational structure and explore a solution that could make their organization more efficient, flexible, and strategic.

List of FP&A activities that can be prime candidates for COE transition:

- Market/Segment Profitability Reporting
- Product Profitability and Profiles
- Management Reporting and Standardized Presentations
- Data Validation and Standard Report Creation
- Ad Hoc Reporting and Variance Analysis
- KPI Performance Monitoring
- Baseline Modeling for Budgeting and Forecasting Activity
- Standardized Volume Price and Exchange Analysis
- Balance Sheet and Cash Flow Analysis
- Competitor Analysis

Consider migrating these FP&A functions:

- Volume, price, and exchange analyses
- Balance sheet and cash-flow analyses
- Ad-hoc reporting and analysis
- Balanced scorecard reporting
- Management reporting and board presentations
- Segment profitability reporting
- Product profitability and profiles
- Competitor analysis
- Data validation and standard report creation

Reducing finance operating costs by 25 percent at a global pharmaceutical company

A major global pharmaceutical company asked Deloitte to help implement a decision support center of excellence (COE) that targeted management reporting, planning, budgeting, and forecasting activities. Initially, a finance group developed a proof-of- concept operating model, which indicated that 20 to 30 percent of FP&A employees perform transactional, low-value-added work that could be migrated to a COE. Deloitte then conducted more than 20 global workshops to further define an operating model that aligned with corporate objectives, create a governance structure, and develop a road map for implementation across multiple international markets and business units.

Each market's implementation began with a series of meetings designed to explain the concept of the COE and gain leadership buy-in. The next step was to gather an inventory of activities in management reporting, forecasting, and operating plan processes from local subject matter experts. Using an agreed-upon decision framework, Deloitte analyzed each activity to determine if, and to what extent, the processes could be decoupled. The team identified transactional, noncustomer-facing components of these activities for migration to the COE.

Activities like data validation, basic variance analysis, and standard reporting comprised a significant portion of the activities that met the decision criteria. The team documented these migrating activities with detailed step-by-step work instructions for COE staff hired in regional support centers located in low-cost areas. Before migrating these activities, the team conducted a series of parallel runs to ensure that the COE staff could produce the same results as the original FP&A colleagues.

Post go-live, the COE addressed continuous improvement opportunities, including standardizing reporting activities and offshoring highly standardized FP&A processes. In aggregate, these activities led to approximately 25-percent reduction in overall finance operating costs, as well as increased FP&A efficiency and effectiveness.

Based on the success of this global implementation, other pharmaceutical companies are exploring implementing a COE. A critical first step for interested companies is to review which activities within their organization are candidates for transition to a COE. This can help them assess the potential impact and savings for their organization.

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Sharing internal expertise

The next wave of GBS

With the economy showing signs of recovery, business leaders are starting to look past the downturn to prepare for the upturn. Unfortunately, the recession has forced many companies to shed at least some of the strategic planning and advisory capabilities that typically come into play during times of growth and expansion: capabilities such as strategic pricing, M&A deal execution, financial analysis, and others. As leaders look to build up their competencies in these areas, one strategy to consider is to create a shared advisory group that can deliver business advisory services across the entire enterprise—similar in concept to the transactional global business services (GBS) that many companies have used for years to deliver enterprise-wide administrative services. We believe that the effective use of a shared advisory group can have significant advantages over the more usual approach of allowing each operating unit to hire its own analysts, assign advisory responsibilities to existing staff, contract for outside services, or simply do without a particular advisory capability altogether.

A difference in kind

Business advisory services, as we'll use the term here, are activities in which skilled professionals draw on specialized competencies, knowledge, and experience to make strategic business recommendations. Examples of advisory services that might be placed in a shared environment include:

- Strategic sourcing
- Strategic pricing
- Service provider management
- Fraud management
- M&A deal support
- Management reporting
- Financial planning and forecasting
- Treasury
- Global tax planning
- ERP implementation support
- Master data management design strategy

Many executives we know, even those at companies with extremely effective transactional GBSs, are highly skeptical that a shared model can work effectively for advisory services like these. The operating units won't accept it, they think. The quality of service wouldn't be up to par. Or the insights a shared advisory group might offer just wouldn't be worth the time, cost, and effort of setting one up.

In our view, however, such wholesale pessimism is misplaced. The challenges of effectively sharing advisory services are certainly real—but so are the potential benefits. One key, we think, is to appreciate the real and important differences in the nature of a business advisory service and a transactional support process—and tailor the GBS approach to the distinctive nature of each.

Just as the strategic value of sound business advice differs in nature from the operational value of efficient transaction-processing, the value proposition of a shared advisory capability differs substantially from that of a transactional GBS. A transaction-processing GBS is fundamentally a center of scale. Beyond maintaining a minimum acceptable level of service, its value lies mainly in improving efficiency and reducing service delivery costs by consolidating, automating, and improving business processes.

A shared advisory capability, in contrast, is fundamentally a "center of expertise" (a term many companies use, in fact, to officially designate such groups). It drives value not by consolidating business processes but by aggregating demand for an advisory service across the entire organization. This pooling of demand can make it economically feasible for the enterprise to maintain a dedicated capability for delivering the service in question. While each operating unit might previously have assigned a local employee to an advisory role on an ad hoc or part-time basis—thus making it unlikely that that employee would ever develop a great deal of expertise in the area a shared advisory group can give all the operating units access to highly skilled full-time specialists to help improve the quality of service and allow even operating units with low local demand to take advantage of strategic business insights.

A shared advisory group can benefit the operating units by giving them greater access to high-quality advisory capabilities that would otherwise be difficult, or at least prohibitively expensive, to obtain. The functions to which the advisory capabilities belong also can benefit: Its ability to offer those capabilities on an enterprise-wide basis can enhance its position as a "strategic partner" to the business. And if the shared advisory capability does its job well, the enterprise as a whole can benefit from receiving strategic insights that can help improve business outcomes.

In our experience, the business benefits delivered by a shared advisory organization can add up to many times its own operating costs. The head of global shared finance at a consumer packaged goods company, for example, estimates that his seven-person fraud audit group—whose salaries total about $300,000—helps the company avoid "a minimum of seven figures' worth" of theft and fraud every year. And the benefits go beyond cost avoidance.

Said the shared finance head, "I can't imagine how many times our fraud auditors are paying for themselves in protecting our brand and our customer relationships."

The devil is in the details

Why do so many companies find it so hard to make shared advisory capabilities work? We think that it's because most business leaders tend to use the same approach in implementing and managing a shared advisory group that they use, with good results, to run their transactional GBSs. But what works well for transactional shared services isn't necessarily suitable for fostering the kind of consultative service relationship that should exist between an advisory group and its clients. To establish and maintain an effective shared advisory capability, leaders must take an approach that reflects the same basic principles as transactional shared services—continuous improvement, customer focus, and value to the business—but that also takes the many important differences between advisory and transactional shared services into account (Table 1).

Table 1: Transactional GBSs versus shared advisory organizations

	Transactional GBS	Shared advisory organization
Overall philosophy	• Center of scale • Factory production model	• Center of expertise • Consultative service relationship
Nature of service	• Rules-based	• Judgment-based
Value proposition	Lower costs, greater efficiency	Improved business outcomes
Methods of delivering value	• Asset consolidation (facilities and headcount) • Low-cost location • Wage arbitrage • Process standardization, automation, and improvement	• Access to otherwise unavailable capabilities • Higher-level skills and experience • Deeper "bench" of skilled resources
Location drivers	Cost is a primary consideration	Cost is a secondary consideration
Labor considerations	Availability is a primary consideration	Capability is a primary consideration; cost is secondary
Organizational structure and governance	• Service levels, customer service procedures, and costs are negotiated directly with internal customers • Self-contained organization	• Service levels and customer service procedures typically negotiated between functional heads and internal customers • Usually reports to functional head
Metrics	• Quantitative • Output-based (e.g., error rate, turnaround time)	• Evaluative • Outcome-based (e.g., degree to which service met expectations)
Customer relationship management provided by	Account managers, service desk, and/or call center	The actual professionals who do the work
Demand for service	Continuous	Episodic/event-driven

Expectations and business case

Appropriate expectations and a business case based on value creation are essential to the creation of an effective shared advisory capability. Leaders should rest their business case for a shared advisory group primarily on its potential for improving business results, rather than on the cost savings that may also result from the effort.

In the long term, too, it's vital not to lose sight of the fact that a shared advisory capability is about driving value rather than reducing costs. We have seen more than one company treat a shared advisory capability as essentially a cost-reduction play, making investments in the shared group with an eye to cost control rather than value creation. Not surprisingly, advisory groups managed in this way usually deliver neither the cost reductions nor the improvements to business outcomes that were originally expected.

The primary focus on value creation should drive all key decisions in establishing and managing a shared advisory capability, including decisions about location, staffing, talent management, and infrastructure. Often, these value- based considerations may point to choices that contrast sharply with what would make sense for a transactional GBS. For instance, executives may choose to place a shared advisory group close to corporate or to the business unit that benefits most from the advisory group's services, even if that location is in a relatively high-cost city with a high standard of living. Also, unlike with a transactional GBS, much of whose value proposition depends on labor arbitrage, executives may also design a total rewards strategy for its shared advisory group that offers above- average pay and benefits in order to attract and retain highly qualified staff.

Location

When choosing a location for a shared advisory capability, it is advisable to give less weight to cost-related factors, such as wage arbitrage and infrastructure expenses, than when making the same decision for a transactional GBS. Instead, the choice of location for an advisory group should revolve more around factors related to the advisory group's accessibility to its customers and any other groups with which it must work, as well as factors related to talent quality and availability. These considerations will be highly individual for each business as well as for each type of advisory service to be shared. With some shared advisory capabilities, such as strategic sourcing, a company may wish to place the advisory group in the same facility as the transactional GBS to facilitate data exchange and communication with GBS staff. In other cases, the advisory group's location may be dictated by how close it is to headquarters or to the business units. In still other cases, availability of talent may be the deciding factor. And in some cases, a shared advisory capability may not have a physical location at all: The company may instead choose to operate a virtual center with staff strategically located in multiple time zones so as to enable around-the-clock service delivery.

Metrics and performance management

Because a shared advisory capability's main goal is to improve business outcomes, measuring and managing its performance depends on understanding which outcomes the capability affects and the value that those outcomes ultimately drive for the business. However, the precise extent of the advisory group's impact on any given business result is often hard to isolate and to quantify. For example, a shared pricing organization may recommend pricing changes to an operating unit that, after implementing them, experiences a 5 percent margin increase in the next quarter. But it can be difficult to understand how much of the increase to attribute to the pricing changes and how much may have been due to unrelated factors, such as seasonal buying patterns or the state of the global economy.

The usual way around this problem is to develop metrics that can serve as a reasonable proxy for the actual bottom- line value of the advisory group's contribution. Such metrics are usually based on customer satisfaction ratings, but they can also reflect intermediate outcomes such as (for example) time to deal close for an M&A advisory group or user adoption rates for a shared ERP implementation support group. In all cases, however, it is critical to use metrics that fairly assess the advisory group's impact on eventual outcomes rather than the nature of its raw output. Turnaround time, error rate, and other output-based metrics are well suited for measuring a transactional GBS's contribution to value, but managing a shared advisory group's performance calls for less emphasis on immediate outputs and a correspondingly greater focus on business results.

Organizational structure and governance

Unlike transactional GBSs, almost all of which are set up as separate organizational units (and sometimes even as separate legal entities), shared advisory groups typically sit within a larger organization within a company. Often, shared advisory groups will report to the head of the function to which the advisory capabilities belong; sometimes, an advisory group will fall under the jurisdiction of an overall head of shared services. Which arrangement is likely to be more effective for any particular group will depend on a number of factors, including the nature of the service, the extent to which the advisory group must collaborate with the transactional GBS, and internal organizational politics.

No matter where an advisory group reports, however, it should take the same customer-focused approach to governance as a transactional GBS. The tendency to exclude customers from governance can be especially strong when an advisory group falls under one of the functions, as both the operating units and the function itself may expect the function to make all the decisions. To combat this, companies should establish mechanisms, such as a joint governance council, that allow representatives from the advisory group and the operating units to collaboratively set the terms of service (scope, level, and cost) and decide on performance metrics and improvement approaches. Informal approaches to obtaining customer feedback, in our experience, are no substitute for formally established procedures, although informal interactions and touch points can also be vital in keeping the advisory group aligned with its customers.

One caution here is that, even if a shared advisory group is nominally part of transactional GBS, the advisory group should be represented in negotiations with customers by individuals familiar with the group's area of specialty. Usually, this means the head of the advisory group itself or someone from the function to which the capabilities belong—not a negotiator from the transactional GBS. The consultative nature of an advisory service demands that council members bring a certain amount of subject-matter knowledge to the table in order to properly understand the business' needs as well as any concerns related to the service delivery process.

Customer relationship management

Developing an effective shared advisory capability presents companies with two distinct customer relationship management challenges. The first, for all but the most integrated of operating companies, is the question of how to sell the idea of a shared advisory group to the operating units. Most local leaders resist losing control even of the kinds of administrative activities typically placed in transactional shared services; resistance is usually much greater for advisory services, which many people think must be "close to the business" to be effective. The challenge is especially great if going to a shared approach represents the "loss" of an existing local capability rather than the opportunity to gain access to an entirely new service. To gain buy-in, it is essential to develop a strong business case that details the upside business value each operating unit can expect to gain from the move to a shared model. It's also important for the person leading the advisory capability to have enough organizational stature, as well as strong political and interpersonal skills, to work effectively with the customers and advocate for the shared capability's use. In many cases, buy-in can depend at least as much on the relationship between the head of the advisory group and the heads of the operating units as on the business case.

The second major customer challenge for advisory shared services is to maintain a smooth, productive working relationship between the advisory group and the end users. Here, because developing strategic business recommendations usually requires at least some back-and- forth between client and service provider, we find that the most effective approach is usually to have the advisory group's staff work directly with customers to understand the details of each service request and to develop project plans, monitor progress, and make changes or refinements. The approach usually taken at a transactional GBS, which typically funnels service requests through a "middleman" such as a help desk or customer service representative, simply cannot support the kind of hand-in-hand collaboration needed to deliver effective business advice.

Paths to effective shared expertise

Like transactional shared services, a shared advisory capability is generally easier to create at highly integrated operating companies than at companies that operate under a more decentralized model, simply because an integrated operating company's command-and-control management style can push through changes in a way that a less tightly controlled organization cannot. That said, the very process of implementing and promoting a shared advisory capability can help leaders catalyze a shift to a more centralized operating model, if that is their eventual aim.

We have seen organizations follow several different paths to establishing an effective shared advisory group. At some companies, especially those with strong central control and a highly capable transactional GBS, a shared advisory capability may "grow" out of the transactional GBS as a natural extension of its original transactional activities. Other companies may find it more practical to implement a shared advisory capability as a discrete project, promoting the advisory group to the operating units as an enhancement to the function's capabilities and de-emphasizing any connection with the transactional GBS. This latter approach may be the method of choice for companies where the operating units view transactional shared services purely as an administrative center incapable of providing strategic support. Leaders may find it helpful in such cases to formally designate the advisory group as a "Center of Expertise" or similar to encourage the operating units to accept it as a credible source of business insight.

The path to shared expertise: One company's story

The finance group at the consumer packaged goods company includes a specialized fraud audit group that drives several times its own operating costs' worth of savings in fraud and theft avoidance. But although the idea of a fraud group was easy to sell to both corporate and the local business units, it took a fair amount of groundwork before the group could actually be established as a shared capability. First, the company's basic route accounting process—the activities related to balancing delivery drivers' accounts at the end of each day—was moved to the shared finance environment. This accomplished two things: It consolidated the route settlement data that would be needed to conduct fraud audits on an enterprise-wide basis, and it yielded savings that the company was able to reinvest in training 20 additional employees to join what had been one of the local divisions' five-person fraud audit group. Then, as the shared organization made further process improvements and deployed additional technology, the company was able to gradually reduce the fraud audit group's size without compromising its effectiveness. Now, a seven-person group handles the fraud audits for the multi-billion company's entire U.S. operations, saving the company at least a million dollars every year.

Whichever route an enterprise chooses, a variety of controllable factors can significantly affect the rate and ease of progress to an effective shared advisory capability. Steps that leaders should consider in their efforts to smooth the path include:

- Achieve outstanding transactional shared services performance before attempting a shared advisory capability. Many business advisory services, such as strategic sourcing and pricing, rely heavily on data collected and/or generated by a transactional GBS. The more effective the GBS's stewardship of the data, the more accurately that data will inform the advisory group's activities, and the more reliable the advisory group's advice will be. Apart from this, a high- performing transactional GBS can build credibility and help leaders gain buy-in for the idea of a shared advisory group. The shared model worked for transactional services, leaders can point out; why not give it a chance for advisory services as well?
- Show local leaders the money. A business case that demonstrates value for the enterprise as a whole is necessary but not sufficient to garner widespread support. Break out the anticipated outcome enhancements for each operating unit—and use the numbers to help bring reluctant local leaders on board.
- View advisory staff as ambassadors to the business. Remember that the vast majority of customer contact with a shared advisory group takes place with the people actually doing the work. Because of this, leaders may wish to offer the staff of an advisory GBS some kind of formal training on how to effectively manage a consultative service relationship with clients.
- Use appropriate metrics to monitor and measure performance. As previously discussed, metrics based on customer satisfaction and intermediate outcomes are often a useful proxy for a shared advisory group's actual contribution to a financial result. Cost and efficiency metrics may also have their place in managing an advisory group's operations, but leaders should keep in mind that these are secondary factors in evaluating its performance.
- Choose a charismatic leader. Whoever leads the shared advisory group, whether it's the functional head or a designee, needs a certain amount of organizational stature and outstanding political skills to drive operating unit buy-in and organizational acceptance of the shared capability.

Transactional GBS, for a growing number of companies, is essentially a done deal. With the playing field now leveled in that respect, we believe that the next wave of competitive advantage will accrue to organizations that can effectively apply the shared model to business advisory services as well. The imperative is clear: Organizations that can successfully do so can enjoy enhancements to value that, ultimately, can help them outperform those that cannot.

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Where will global business services go next?

In choosing a new location for global service delivery deployment, global business services leaders literally have a world of options. While emerging markets with low labor costs receive considerable attention, established locations offshore, near-shore, and even onshore still provide compelling opportunities to support the business. Location decisions today are driven by more than labor-cost arbitrage opportunities, with critical operating factors, risk appetites, and corporate growth strategies also coming into play. A company should additionally weigh its ability to drive efficiencies across the organization and to provide value-added services to the business. With these considerations in mind, we present our views on some hot topics in global service delivery deployment to help executives better frame their thinking about where their GBS could go next.

Offshore: Do the rewards outweigh the risks?

Our view

Reports of the death of offshoring have been greatly exaggerated, and are probably outdated. Even though rising costs were speculated to erode their cost advantages, labor-cost arbitrage opportunities continue to exist in some of the most established locations, such as India and the Philippines. Although wages may have risen in recent years, these increases, by and large, have not been prohibitive and companies are still benefitting from substantial wage differentials.

Similar concerns about deficits in labor availability and quality have demonstrated to be manageable when companies perform proper analysis and market entry planning. The combined value of accessing a labor supply that is low-cost, productive, and dependable can swing a location decision past concerns about natural disasters, political upheaval, and economic instability—factors that might otherwise cause them to eschew an offshoring strategy.

Additionally, pioneering locations continue to pique interest, but fewer companies have been willing to tackle the perceived drawbacks that often intersect with blazing a trail in an emerging, and largely unproven, market. These hurdles, which can be both genuine and merely assumed, include shallower talent pools, access constraints, inadequate infrastructure, and higher risk of business disruption (e.g., political, social, economic, safety, and natural disaster).

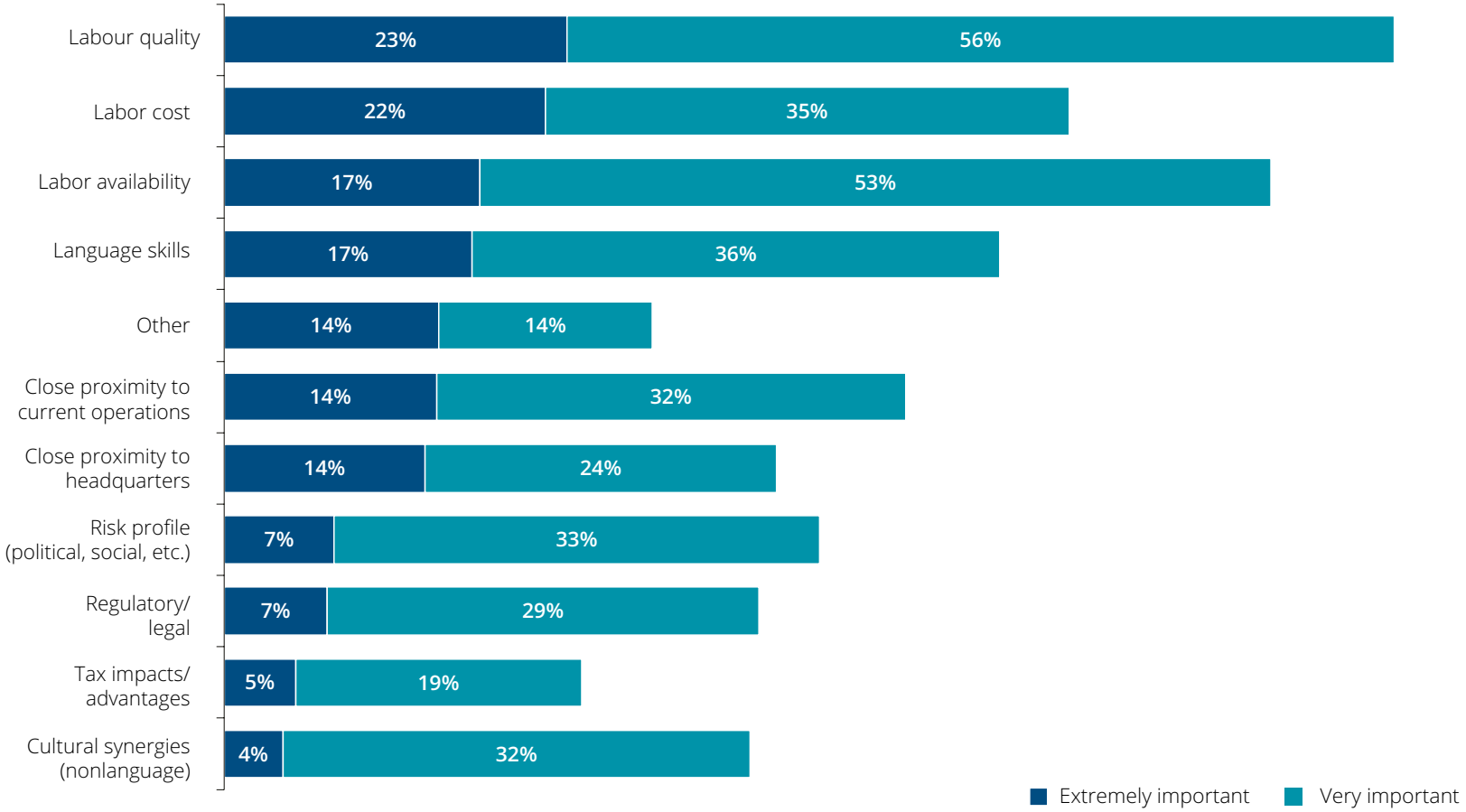
Lastly, there are some cases in which companies have consolidated their operations to locations with higher market costs, but they were still able to achieve positive returns on their investments due to productive talent pools, the resulting efficiencies and systematic improvements gained through GBS, and dogged management focus on getting it right.

Commentary

- Despite rising wages in some established locations, labor-cost arbitrage opportunities remain broad. The scale below, which has been developed based on our field experience, provides a relative sense of labor-cost differentials for non-IT business processes. Excluding pioneering locations, if the U.S. is 100, then:
  - Philippines is approximately 20–25
  - Malaysia is generally in the 30s–40s
  - Excluding Brazil, most of Latin America (LATAM) is in the 40–60 range—Central and Eastern Europe is in the 50–60 range
  - India is about 20–25
- In a number of established locations, governments and universities have begun to implement programs to enhance the skills of the local labor force for language training and back-office proficiency, thus enhancing their long-term potential. Universities in India, for example, still produce more English-speaking college grads than most.[1] Some emerging locations are also taking similar steps to improve their competitiveness. Examples of governments with strong, coordinated efforts to develop a pipeline of talent for attracting SSCs include:
  - Established: Philippines, Costa Rica, Ireland, Poland, and Malaysia—Emerging: China, Uruguay, and Colombia
- Selecting not only a suitable country, but also the optimal metropolitan area and appropriate sub-market within it, is critical for endeavoring to provide access to the applicable talent. In our experience, the variance of costs and conditions among cities within the same country can be greater than between countries.
- Taking measures to gain "employer of choice" status is becoming even more critical around the globe. Beyond offering competitive benefits and wages these measures include aligning the human resources and facility strategies with the local culture. For example, family and work environments are closely related in many countries, including India and the Philippines. Accordingly, effective GBS operations in these locations sponsor weekend activities, such as showing movies at the office, for workers and their families. Relationships matter strongly as well. For instance, if a manager leaves his or her job in India, it's common for employees to follow that individual, staying more loyal to the relationship with the manager than to the employer.
- Many offshore emerging locations are evolving in their capabilities and support structures. Some now possess experienced managers and leaders, well-trained and more available labor, stronger local infrastructures, and more favorable and supportive government policies. This ongoing maturation can make it easier to implement GBS than in the past.

Even if the price is right—location decisions are based on more than cost

What were the most important factors in selecting location(s)?



Source: Deloitte's Global Shared Services Survey

Near-shore—can proximity be gained at lower cost?

Our view

"Near-shoring" is commonly defined as the transfer of business or technology processes to a country that shares a border with, or is close to, the company's home country, with the objective of leveraging the benefits of proximity. These benefits can range from the operational convenience of easy travel to the center, to similar time zones and languages. Some companies also find strategic value in deploying under a regional model, assuaging internal political pressure, and minimizing change by not moving too far, too fast. Near-shoring is often narrowly used in the context of companies headquartered in a mature market , such as the U.S. or Western Europe (e.g., England or Germany).

Location strategy is a global consideration, with companies today serving global markets through a network of operations extending throughout the world. This network typically includes regional headquarters, sales and marketing offices, distribution and service operations, manufacturing, and retail. Accordingly, many effective organizations today are pursuing service delivery strategies that align their global markets and operations to regional hubs. Often times this strategy will have a near-shore component to it. For instance, a U.S.-headquartered multinational company may go elsewhere in North America or to Central America to support its North American operations. Regardless, location decisions concerning proximity should take into account both critical short- and long-term operating objectives—and not be based solely on cost.

Commentary

- Near-shoring can serve several purposes:
  - Language alignment
  - Cultural alignment
  - Change management
  - Proximity to critical operations
  - Minimal time-zone variances—Travel and logistics
  - Familiar, reasonable cost
  - Market entry
- Examples of near-shoring, often implemented as part of a regional-hub deployment strategy, include:
  - Central/Eastern Europe serving Western Europe
    - Regional language flexibility
    - Approximately 30-50% cost savings[1]
    - Growing market opportunity
    - Minimal time-zone differences
  - Southeast Asia serving Asia
    - Regional language flexibility
    - Little to no cost savings, unless a majority of the processes are migrating from higher cost locations (e.g., Japan, Korea, or Singapore)
    - Growing market opportunity
    - Minimal time-zone differences

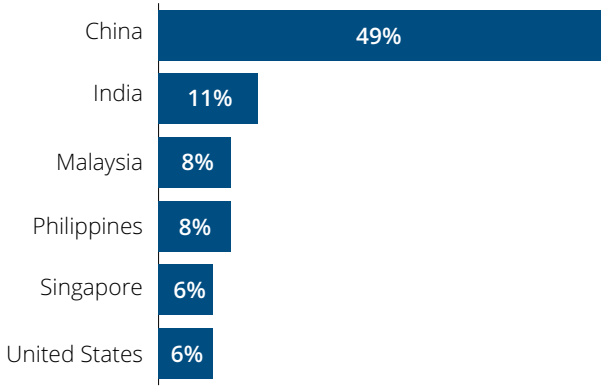
Commentary

  - Latin America serving Latin America
    - Spanish language, limited Portuguese
    - Accent clarity
    - Cultural alignment
    - Little to no cost savings, unless a majority of processes are migrating from higher cost locations (e.g. Brazil and Chile)
    - Growing market opportunity
    - Minimal time-zone differences
  - Latin America serving all of the Americas
    - Language access (Spanish, English, and limited Portuguese)
    - Cultural alignment
    - Approximately 40-60% cost savings, as compared to U.S. operations
    - Minimal time-zone differences
- A few nations are difficult to serve via a regional hub. Brazil, Russia, India and China (the BRIC countries) and Japan stand prominent. These countries are large markets within themselves; therefore, many companies already have substantial, existing operations within them. In addition, the political power wielded by their company country leaders often requires these nations to be served by some form of GBS operation located within their borders. Even when it is politically possible to serve these nations from elsewhere, language access constraints, regulatory requirements and protectionist policies often make it uneconomic or less feasible to do so, even from a near-shore location. However, facing the costs and complexity of operating from within these countries, companies find creative approaches for servicing the countries from outside of the country.

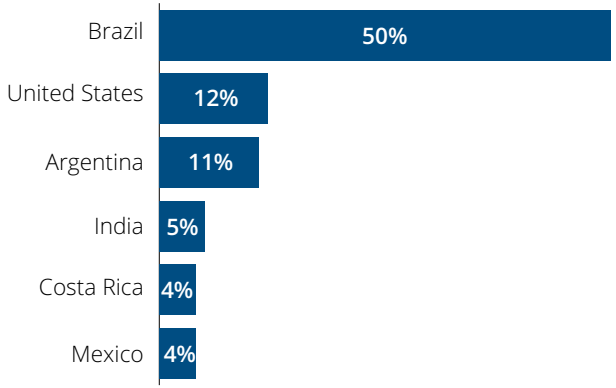
[1] Based on Deloitte project experience.

From where are your GBS providing services for China, India, Brazil, Japan, and Russia?

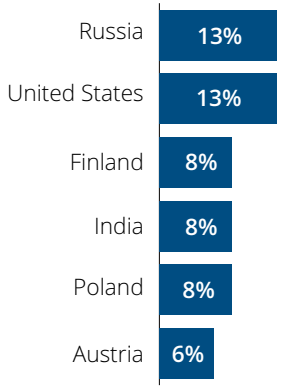
From where are you serving China?



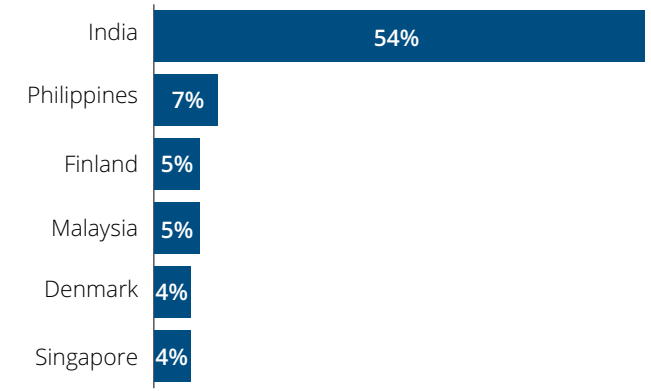
From where are you serving Brazil?



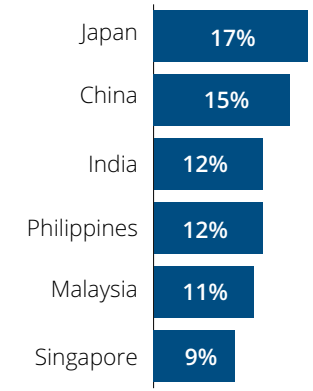
From where are you serving Russia?



From where are you serving India?



From where are you serving Japan?



Source: Deloitte's Global Shared Services Survey

Onshore—is this the time for the United States?

Our view

Onshore is still a common strategy for companies in several mature, established locations, including the United States. There have been occasional media stories about American companies that have brought offshore operations back to the United States. These stories have been the subject of recurrent debate within global business services circles. Are they based on facts or are they anecdotal? Do they indicate a trend? It's hard to conclude based on a handful of these reports that offshoring does not work or that the United States is now the "right" choice.

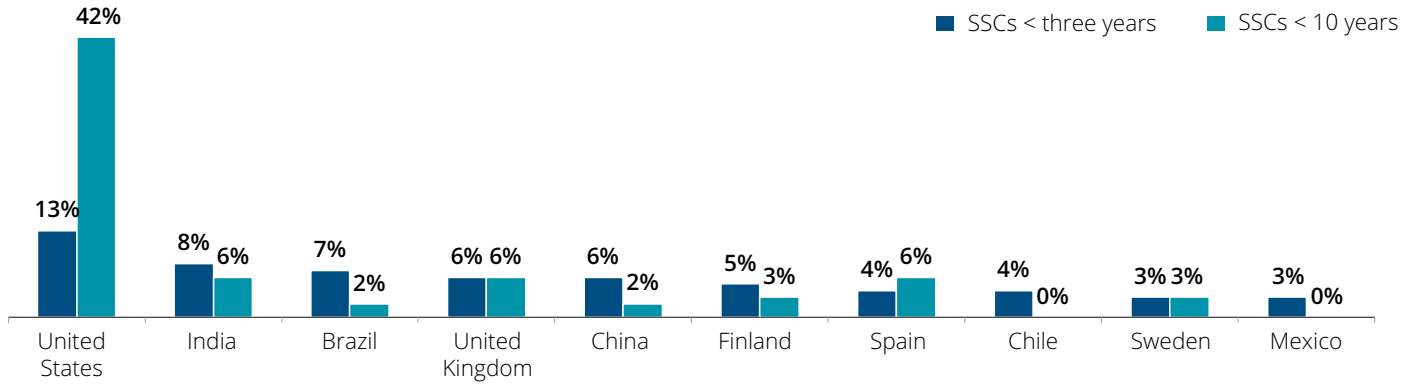
The decision to move operations away from the United States is often made in the context of larger global alternative delivery strategies, and it is typically driven by labor-cost savings and market entry and expansion goals. But pursuing these goals may also come with tradeoffs: the need to deal with substantially more risks, while managing distant operations in less familiar and often challenging business and operating environments. Some companies are willing to accept these trade-offs in order to realize the cost savings and strategic benefits; some are not. Despite media reports to the contrary, this has normally been the case. The United States today still remains an onshore consideration and it is often the applicable choice for some US companies, especially those with headquarters and administrative operations in higher cost metro areas. For them, smaller US metropolitan areas can be very attractive, offering capable talent pools, safer political and business environments, minimal risks, 25-35% lower costs,3 and opportunities to "employ American."

Commentary

- The United States is a desirable location for
  - Wage arbitrage of 30% or more may be realized4 by moving processes from high-cost large metro areas to mid-sized and/or central ones.
    - If the US average is 100, then several coastal cities are in the 120-130+ range (e.g., New York, Los Angeles, San Francisco, Boston, and Washington, DC)
    - Several options at or below 100 can be found, particularly in Central and Southern states
    - Reducing tenure and re-marking salaries to market can further reduce labor costs
  - Larger "household name" companies may have recruiting advantages in these markets, with employer-of-choice strategies providing a further edge.
  - Onshoring can be particularly appropriate when the vast majority of a company's "global" presence is based in the U.S.
  - Business units may be reluctant at first to support sending processes offshore, especially the more complex and higher value ones. One tactic for gaining their support is to use the U.S. as an initial step, later moving offshore after the processes are effective, efficiencies are demonstrated, and the organization is aligned.
  - Despite its importance, cost isn't the only consideration in the location decision. Many factors come into play that can affect a company's willingness or reluctance to send work offshore. These include economic/political stability, intellectual property risk, currency stability, taxes, regulatory familiarity, perceived talent quality, and language clarity.

The United States is still home to a high-quality deal of activity—how have the locations shifted over time?

Top 10 locations of three years of younger



Source: Deloitte's Global Shared Services Survey

Closing comments

Geography is an essential element in achieving the objectives of a company's global business services strategy and operations. Regional and global "hub and spoke" deployments are now becoming standard. But when it comes to choosing a location, don't rely on hearsay. Many of the old stand-bys still have a lot to offer; pioneering locations hold promise; and onshore opportunities may exist in one's own backyard. Each location strategy, however, has a distinct balance of risks and rewards. Understanding the trade-offs involved is critical and so is weighing them against the individual priorities of each organization. Whether journeying to new lands offshore, near-shore or onshore, companies should investigate the risks, rewards, and priorities of the topography before setting out.

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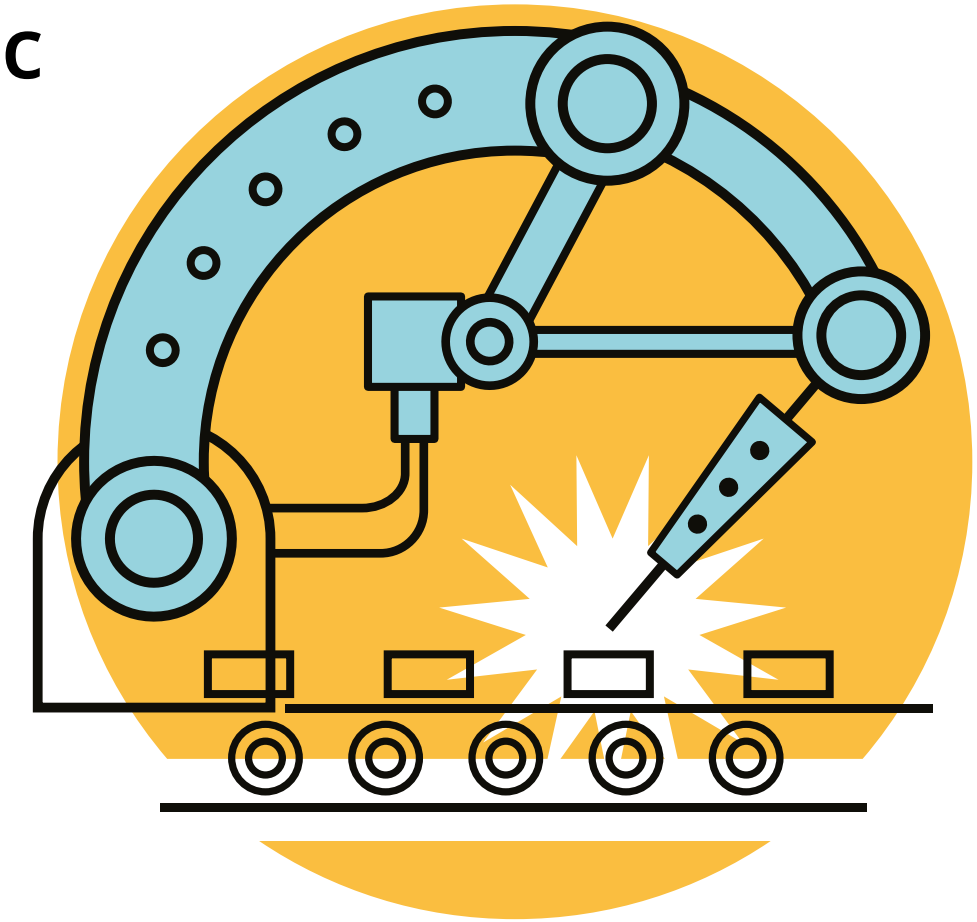
Show me the money—Business process robotic autonomics



Robotic Autonomics offers a potential solution where technology replaces human resources to perform the transactional GBS work.

From the 1977 Star Wars movie character C-3PO and KITT from the 1982 TV series *Knight Rider* to the 2013 Her movie character Samantha, we have envisioned "artificially intelligent" technologies that enhance human life by learning the human way of performing tasks and requiring no intervention. Robotic Autonomics, the new buzz word among automation enthusiasts, may help bring us one step closer to that dream.

For almost two decades, shared services and outsourcing served as a means for companies to standardize their non-core processes across geographies to promote operational efficiency. A primary benefit of outsourcing was financial savings due to labor arbitrage. However, this advantage is depleting due to lack of available skilled resources or increasing wages for skilled labor. Companies are now being forced to either move back or relocate to another country—both ineffective approaches in the long term.[1]

Autonomics offers a potential solution where technology replaces human resources to perform the transactional work. This can have multiple benefits—decoupling of business growth from labor requirements and freeing human resources to focus on more innovative and value-added work. The question is, is it real or hype?

Autonomics—a new era in outsourcing?

The term "autonomic" describes systems which are designed to perform routine tasks and operations performed by humans. The technology interfaces with existing applications for processing transactions and triggering responses.

In the context of shared services and outsourcing, autonomics refers to automation where a computer drives existing enterprise application software in the same way that a trained user does. This means that unlike traditional application software, autonomics is a tool or platform that "observes" the way a trained user resolves issues and replicates the same "decision making" process to troubleshoot similar issues in the future, thereby eliminating the need for a human operator.

Autonomics can be impactful in back-office centers running high volume, rules-based work. It can perform these tasks round the clock at a fraction of the cost of a human resource without any manual errors maintaining or mitigating processing risk.[2] Industry analysts predict this technology will completely transform the business process outsourcing (BPO) industry.[3]

A number of companies have hyped this technology, and have developed early incubated software platforms with hopes of improved accuracy, enhanced service levels, and reduced costs. In 2013, a humanoid named Eliza[4] was created by IPsoft as a virtual service desk employee to enable back office process automation with no human intervention.

[1] Harvard Business Review. "Restoring American Competitiveness." (https://hbr.org/2009/07/restoring-american-competitiveness/ar/1, 2009)

[2] Outsourcing Center. "Adding Autonomics to Outsourcing." (http://www.outsourcing-center.com/2014-06-adding-autonomics-to-outsourcing-63251.html, 2014)

[3] CIO.com. "Virtual Engineers Could Transform IT Outsourcing." (http://www.cio.com/article/2600329/outsourcing/virtual-engineers-could-transform-it-outsourcing.html, 2014)

[4] Livemint. "Meeting Eliza." (http://www.livemint.com/Industry/v4FOP20RTBJKE5ucqsqhKO/Meeting-Eliza.html, 2013)

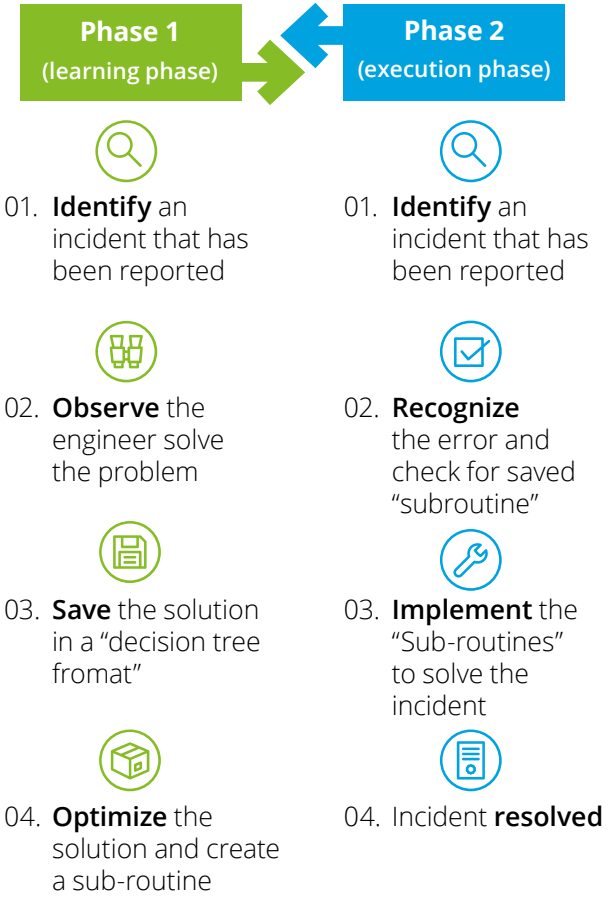
Some reports say it could answer up to 100,000 emails and 67,000 phone calls per day.[5] Blue Prism, a U.K.-based firm, enables business users to create software robots to automate rules-driven business processes. According to Blue Prism's website, its robot full-time equivalents (FTEs) can be scaled up to any number based on demand instantly and cost a third of offshore human FTEs. Blue Prism already has many large clients.[6]

A look under the hood reveals how this technology could work

Early autonomic platforms combine both back-end and front-end automation to enforce logic and imitate the human decision making process. Simply put, it controls the engine and the driver of a car.

The platform goes through two phases—learning phase and execution phase—as it learns to solve incidents. The below table summarizes the steps in these two phases.

Iterative "learning-execution" process



[5] Times of India. "'Blond humanoid' Eliza might take over low-end BPO work." (http://timesofindia.indiatimes.com/tech/computing/Blond-humanoid-Eliza-might-take-over-low-end-BPO-work/articleshow/22643548.cms, 2013)

[6] CIO.com. "IT Robots May Mean the End of Offshore Outsourcing." (http://www.cio.com/article/2390305/outsourcing/it-robots-may-mean-the-end-of-offshore-outsourcing.html, 2012)

Autonomics is poised to disrupt the market

Autonomics could be the next wave to shake the market at its roots, with technology at the heart of the revolution. Early adopters, those now thinking about using this technology could realize cost reductions in the range of 60% in contrast to 15-30% offered by the conventional approach (that relies on labor arbitrage).2 Autonomics landscape is nascent with only a handful of autonomics technology players in the market. However, as these players continue to develop their products and new players enter the market, the potential of autonomics to be a market disrupter is significant. It would be prudent for the outsourcing market players to carefully scrutinize developments over the next few years in order to plan for changes in revenue streams, avoid cash flow erosion, and ride the autonomics wave in style.

Conclusion

Autonomics has the potential to be a disruptor in the industry, particularly altering the conventional approach to GBS and BPO. However, due to the lack of sufficient number of industry use cases, stakeholders are waiting to witness how the large scale implementation of autonomics will pan out. It is important to remember that successful automation of complex services is as dependent on the orchestration of diverse initiatives and proper service delivery as on the technology itself. It remains to be seen if autonomics will vastly transform the industry in the near term or is a technology with a lot of potential whose time is yet to come.

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Chapter: 3

GBS as a business within a business: Instilling a commercial mindset

Using outsourcers' secrets to achieve commercial competence

For years, the internal global business services (GBS) model held pride of place as the way for large companies to consolidate back-office processes and reduce support costs. Today, though, business process outsourcing is encroaching on GBS's once undisputed domain.

The reason for this is that outsourcers promise to deliver better, cheaper service than some businesses are getting in-house. But outsourcing can be disruptive and risky, too, which makes the choice hard for companies that have invested considerable time and money in shared services.

The good news is that there's a third option: improve your internal services and cost structure so that they are comparable with top- of-the-line outsourcers. To do this, you need to understand the key differences between internal operators and outsourcers—then empower the group to close the gaps.

Irreconcilable Differences?

There's a school of thought that sees shared services and outsourcing as essentially interchangeable concepts. In other words, they're two trivially different ways to obtain high-quality transactional services for the lowest possible price.

As a commercial business, though, an outsourcer is fundamentally different from an internal group. For example:

- **Cost structure.** Outsourcers' up-front capital investments and cost overruns are largely invisible to their clients. Most outsourcing deals require the outsourcer to absorb any unforeseen or unplanned expenses to meet agreed-upon price levels. The ability to lock in projected support costs for the duration of the outsourcing contract is one of outsourcing's biggest attractions. Not so with internal operations whose total operating costs and up-front investments must come out of corporate's bottom line.
- **Investment.** An outsourcer is free to reinvest its profits in whatever process improvements it sees fit, and it is highly motivated to do just that. Back-office work is its core competency, so improving processes is an essential business imperative. But internal operations are formed to save money, not make money. As a result, they're apt to be poorly funded and resourced by executives who see little reason to invest in a non-core activity. Any savings the internal group enables are more likely to be passed along to the business units through lower rates or service credits than used to improve the internal GBS.
- **Profitability.** An outsourcer is at liberty to treat its clients in any way necessary to maximize its own profitability, which can include trimming unprofitable clients and non-strategic business. Few GBSs can do the same. For one thing, the GBS and its clients are under the same ownership, so business unit leaders can escalate their objections to (and force policy changes through) corporate management. And because an GBS's market is limited to the internal business units, dropping poor business—assuming GBS management has the authority to do so—is next to impossible without an accompanying drop in volume.
- **Risk.** Outsourcing clients have a healthy respect for the risks and dangers of sending business processes to a third- party provider. They therefore invest a great deal in account management in order to maintain healthy relationships. The element of risk is much less apparent when the service provider is an internal organization. As a result, the need to manage the shared services relationship is frequently overlooked.

Because of these differences, bringing internal GBS closer to outsourcing-style standards requires more subtlety than simply transplanting outsourcing "leading practices".. But even though you can't change your business fundamentals, you can take many tactics outsourcers use and adapt them to the distinctive nature of the shared services environment.

In order to do this successfully, several things will have to change. First, the relationship between the GBS and corporate. Second, the GBS's relationships with the business units. And finally, the GBS's own procedures. Let's take a closer look at each of these areas.

The GBS and corporate: Hang together or hang separately

If you want to match outsourcers at their own game, the first and possibly hardest step is to change corporate's mental model. Instead of viewing the GBS as a cost center, look at it as a value center whose efficiencies and cost savings are logically equivalent to revenue. In effect, a GBS's "value motive" can be just as profitable as the commercial outsourcer's revenue motive.

Next, think about what needs to be different about the GBS in order for it to fit this mental model. If the following hasn't been done, now is the time to do it:

- **Actively encourage shared services use.** When companies outsource, they typically establish incentives that reward business units for appropriately using the service provider while discouraging them from forming alternative relationships. Give your business units similar reasons to engage the GBS Position the shared services leader as a peer of the business unit leaders. The leader of a GBS should no more be subservient to his or her customers than the president of an outsourcing firm. Otherwise, the leader will have a hard time developing collegial working relationships within the business. Make sure the GBS leader is a senior executive with considerable political and organizational savvy. Relationship skills have the edge over technical skills for success in this role.
- **Manage shared services through a corporate-level governance board.** The governance board is the forum for corporate, business unit, and shared services executives to discuss strategy, formalize expectations, and manage enterprise-level issues. Its purpose is to forge a true linkage among corporate, the business units, and the GBS in which each party feels that its own best interests lie in supporting each other. This is especially important when it comes to implementing and enforcing potentially unpopular policies that can affect how the GBS interacts with business units Absent the outsourcer's ability to impose policies on its clients through a legally binding contract, a GBS needs corporate leaders to take clear responsibility for bringing the business units on board.
- **Invest in the GBS based on market demand.** It's no good having a cost-effective GBS if it can't fulfill the needs of its internal "market." Think about the reasons business units turn to outside providers. Is it hard for business unit employees to negotiate? Is the GBS authorized to add staff as needed to handle the workload? Does it have the skills, tools, and sub-contracting relationships that business units are looking for? Is a cumbersome approval process hindering the GBS's ability to react quickly to service opportunities? If your answer to any of these questions is wrong for a commercial business, then it's wrong for your GBS.

Dealing with the business units: Formalize relationships, manage expectations

A new GBS often meets stiff opposition from business units. It's understandable. The process standardization allows the service provider to develop a highly focused competency around its tasks, and it opens the door to further savings through automation. But it can also make the service seem impersonal and inflexible. To work in a standardized manner, service providers need users to conform to policies, whether by providing complete and accurate information, meeting agreed-upon timeframes and deadlines, or accurately forecasting demand to support resource allocation.

Of course, outsourcers operate this way all the time. So how do they get away with it? For one thing, with outsourcers there are no misunderstandings. Outsourcers write input requirements directly into client contracts, encourage standardization by charging higher fees for errors and exceptions, and require clients to provide demand forecasts so resources can be allocated. A similarly structured system can work for a GBS, though only if corporate and the GBS have the leadership skills to enforce it.

In addition, outsourcers set up formal governance procedures for fostering a collaborative outlook and for surfacing, validating, and addressing service and customer satisfaction issues. One outsourcing approach that GBSs can borrow is to manage client relationships at three levels:

- A **strategic** level at which the client and service provider together develop strategy, identify improvement opportunities, and agree on expectations and goals
- A **commercial** level to oversee contractual compliance and performance management
- An **operational** level to regulate day-to-day operations and resolve technical issues

Unfortunately, a strong working relationship doesn't always come cheap. In complex outsourcing arrangements, both the out-sourcer and its client invest substantial time and resources in managing the relationship. Each party may deploy a standing committee, or at least a dedicated person, to each level of the relationship management structure. Substantial technology investments may also be made to streamline outsourcer-client information sharing and performance monitoring.

To those with a "cost center" mindset, spending 10% of the shared services budget on relationship management is unacceptable. For the commercially competent GBS, however, it's a smart investment. To make it work, consider doing the following:

- **Formalize issue escalation and resolution, change request, and project management procedures.** Most GBSs and their internal clients are reasonably good at managing the financial side of their relationship—chargebacks, accounting, and so forth—but less adept at managing negotiations around the actual work being performed. Issue resolution, change requests, and project management won't take care of themselves just because the service organization is in-house. For guidance, look at some outsourcing contracts, which include procedures for governing these areas.
- **Don't let metrics interfere with performance.** Though indispensable, metrics are also easily abused. Especially if the GBS and business unit take an "us vs. them" approach, so many metrics and checkpoints can find their way into a service level agreement (SLA) that the effort needed to track and report them hampers productivity. So resist the temptation to overengineer the SLA. Focus instead on what outsourcers call "critical SLAs"—the most important metrics for each service relationship—and motivate people to reach them.
- **Vigorously pursue mutually beneficial process improvements.** A business unit's understanding of the company and its unique service requirements can yield shrewd insights that can improve the performance across the board. If the GBS and business unit can develop an ongoing, shared commitment to finding and pursuing these improvements, the services will be too customized for internal clients to easily switch providers.

Inside the GBS: Streamline, Standardize, and Focus on Service

With its client relationships under control, an GBS can focus on doing what commercial businesses must do best: provide high-quality service at competitive costs. This involves doing three things well:

- **Cost control.** The GBS's cost structure must compare favorably to the alternatives.
- **Quality of output.** The quality of the GBS's work must equal or exceed that of commercial providers.
- **Client satisfaction.** Business units must perceive the GBS's services favorably enough for the "walk away" cost to seem unacceptably high.

As important as all three are, the commercially competent GBS knows that client satisfaction is first among equals. Global business services are formed to save money, but few commercial organizations can compete on price alone and remain in business. The one indisputable competitive advantage enjoyed by the GBS is its insider's access to clients. Outsourcers will have a tough time penetrating any business whose GBS can cultivate this asset.

To contain the cost of customer satisfaction, make it as easy as possible for clients to behave in ways that help the GBS operate best. First, ensure that routine service request procedures are reliable, uncomplicated, and readily available to users. Second, enable the GBS to live up to its end of the bargain. This requires not only the right processes and technologies to support efficient production, but also a system within the GBS that rewards service excellence and continuous improvement. Third, develop "people skills" as well as technical skills among those in the GBS whose responsibilities bring them in contact with clients.

Outsourcers manage client satisfaction by isolating the production process from client contact as much as possible. User requests—from the initial job requisition through scope adjustments to the final delivery of output—are handled by an account manager who communicates with the people actually doing the work. This way, the account manager can field user requests in a productive, courteous manner while filtering out nonstandard or otherwise disruptive requests before they reach the production line. Freed from the pressure of multiple user demands, production can focus on doing the required work with care, skill, and efficiency.

Account managers may not be enough to solve one problem peculiar to GBSs, however. Especially at organizations that have been consolidated from multiple on-site service centers, shared service employees are often pressured or persuaded to provide out-of-scope assistance to particular users.

Compliance with a steady stream of such requests, while convenient for the users in question, degrades the GBS's overall effectiveness. To mitigate this, do the following:

- **Publicize what services the GBS provides and how to request its help**. A surprising amount of unnecessary duplication can be avoided simply by raising awareness of the GBS's capabilities and procedures. Supplement the effort with an ongoing user education program and a convenient, easy- to-use customer interface.
- **Make the relationship between cost and service clear.** For pricing to be a useful tool to shape behavior, users must clearly understand the cost of each service as well as the effect of deviations and exceptions on that cost.
- **Treat problems at their source.** Barriers to quality and cost-effectiveness can arise at any point in the service chain. To guard against user-related cost over-runs, outsourcers use sophisticated tracking procedures to identify problem patterns and trace them upstream to specific client departments or even particular individuals. A GBS could use the same capability to pinpoint and correct the drivers of error instead of routinely compensating for errors itself.
- **Build "skill pools" to deploy workers more effectively.** A GBS with a fixed cost structure can't maintain a "resource pool" to scale costs in response to short-term changes in demand the way an outsourcer can. But GBSs can develop "skill pools" of workers with multiple competencies that can be applied as needed. For example, an GBS that consolidates accounts receivable, payable, and payroll could train its employees to help in all of these areas. Or it could combine a business process with a month-end close with one whose deadlines are more flexible, and assign both tasks to the same group.
- **Employ a dedicated process improvement specialist.** Virtually all outsourcers have at least one specialist on the payroll whose sole responsibility is to uncover, develop, and help carry out process improvements. Consider doing the same at the GBS for the potential payoff.

- **Build in performance incentives for shared services employees.** Commercial businesses motivate their employees to meet business targets. Why not your GBS? Shared services leadership can determine business goals for the GBS as well as the metrics and rewards for meeting them at all professional levels. The more these performance incentives look like an outsourcer's, the more your GBS will perform like one—provided GBS employees are empowered to achieve their goals.

Case in point

A little discipline goes a long way

Sometimes, all it takes to fix a problem is the diplomacy of the dollar—and to educate the occasional users for whom it doesn't work.

At one large company, the leaders of its financial GBS suspected that its people were spending inordinate time responding to the 500-plus "emergency" check requests it received every week. So the leaders sat down and calculated the cost of complying with these requests. The results surprised even them: Each emergency check request cost the GBS about $50 to fill, compared with under $3 for a standard request.

A significant percentage of these requests could have been avoided if proper procedures had been followed. To keep unnecessary expenses to a minimum, the GBS, with its governance board's blessing, announced that it would start charging back the extra cost of filling emergency check requests. Business unit managers were told that these chargebacks were considered a controllable expense that would affect the calculation of their year-end bonuses. In two weeks' time, even before the first chargeback was calculated, the number of emergency check requests dropped from 500 to 200 per week.

What about the remaining 200? Looking at the data, GBS leaders quickly realized that most of these were coming from the same geographic region. Further investigation revealed that the regional manager was somewhat lax about enforcing policies and procedures. Several discussions with the manager, coupled with remedial training for users unfamiliar with the proper procedures, eventually succeeded in reducing the total number of emergency check requests to the target rate of 50 to 60 per week.

The bottom line

Even in a rapidly growing outsourcing market, many companies see enough practical and economic advantages to the shared services model to choose it over outsourcing. And there's no better way to make shared services more competitive than by learning from the competition. As you work to optimize your GBS, remember the key lessons that outsourcers can teach:

- **Invest in service center improvements.** Every dollar an GBS saves in process improvements is another dollar of margin for your company.
- **Establish and enforce effective GBS- business unit interaction policies.** Cost- effective service may require business units to rethink how they work with the service provider. Make sure that users understand the requirements for efficient service and back up policies with corporate-level enforcement.
- **Formalize relationships between the service center and business units.** Issue escalation and resolution, change request, and project management procedures are especially important to govern with formal policies.
- **Make the GBS easy to use, its costs transparent, and its output first-rate.** Ensure that people know what the GBS can do for them and how to ask its help. Even more important, pursue service excellence just as zealously as an outsourcer would, so that users come to choose the GBS over other options for its quality as well as for its price.

If you've made the decision that shared services is right for your company, then there's every reason to invest the time and resources needed to take your GBS to the next level. By applying outsourcing tactics in a way that works for shared services, you can transform your GBS into a true value center that actively contributes to your business' success.

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The price is right—or is it?

During the past decade, organizations of every shape and size have been talking about Global Business Services (GBS)—to boost performance and cut administrative costs. Almost every senior executive would now agree that GBS, done well, can help to move an organization forward.

But doing GBS well can be tricky. Even the firms with the most experience have been forced to come face to face with some difficult questions. First and fore-most, what is the most effective way to price or charge back for services?

GBS as a business within a business: Instilling a commercial mindset

Answering this question has proved difficult for many executives because different price and chargeback approaches can yield a complex mix of costs and benefits. Yet getting it "right" is more important than ever. Drivers that can make pricing and chargeback an imperative include:

- Behavior change—rewards business units that choose more efficient processing options (for example, by using electronic instead of manual invoices).
- Transparency—gives business units the opportunity to compare the effectiveness of GBS against those of external providers.
- Equitability—promotes fairness among business units served.
- Regulatory compliance—helps structure legal requirements to provide arm's-length transactions (for example, for transfer pricing purposes and compliance with Sarbanes-Oxley and other regulations).
- Taxes—supports tax strategies that align with the organization's overall business objectives while remaining compliant with local tax laws.
- Benefits capture—provides mechanisms to measure and report on benefits that demonstrate the business case for GBS.

To gain insight into the most effective way to price and charge back, we asked several directors and managers of GBS to share their approaches and opinions. Here's what we learned.

Types of chargeback methods

We conducted phone interviews with leaders of 32 GBS organizations. They represented a range of industries, including manufacturing, retail, software and business services, telecommunications, and high tech. The annual revenue of the organizations they served ranged from $1 billion to $50 billion.

Among this group of respondents, the most common GBS service process by far was finance and accounting, used by 97 percent of organizations. The next most common were IT (44 percent) and HR (28 percent).

Just over half of the respondents (56 percent) were what we labeled "start-up", meaning they have existed for less than five years. The remaining 44 percent were "mature", which have been around for five years or more.

Our first goal was to get the lay of the land by finding out what pricing and chargeback methods they use now. About three-quarters of the directors and managers we spoke with said they use some form of pricing or chargeback to pass shared services costs to internal customers. Almost half (48 percent) of require business units to pay for all of the costs of services, 36 percent charge only a portion of those costs to business units, and 16 percent have all GBS costs absorbed by corporate.

GBSs that do charge business units for services rely on a range of methods, some of which provide more cost visibility than others. The methods, listed in ascending order of cost visibility, are described below.

No specific allocation—GBSs do not allocate charges to business units. Instead, costs are recorded below the operating margin. This method provides the least amount of cost detail to business units. (It is the most widely used approach in our sample, used by 24 percent of GBSs.)

Flat rate—Allocate charges based upon one metric or headcount. (16 percent)

Budgeted rate—Charges are allocated based upon a metric that approximates the distribution of cost. (13 percent)
Budgeted rate with penalties. Charges are allocated using a budgeted rate with penalties designed to drive behavior. (0 percent)

Activity-based costing—Charges are allocated based on a per-unit system of pricing developed to aggregate key costs of service: labor, systems, overhead, etc. (19 percent)

Full direct charging—Costs are identified at time of use, with each transaction charged to a specific business unit. (6 percent)

Market-based costing—This method, in which GBSs define costs for service time and actual volumes, provides the most visibility. (3 percent)

In addition, 19 percent of GBSs did not specify a charging or pricing method for their services.

The pricing methods GBSs really want

Once we discovered what methods GBSs were using, we wanted to learn whether respondents thought they had gotten pricing and chargeback "right." The overall survey results and the individual conversations with the directors and managers clearly indicate the answer is a firm "no."

One of the strongest indications of dissatisfaction is the big gap between the pricing and chargeback methods that they actually use and those that they indicated they would prefer. The most preferred methods (regardless of current method) were activity-based costing and budgeted rate with penalties. Yet only 19 percent of organizations used the former, and none of the organizations in the survey reported using the latter.

The obvious question is: why?

Our talks with the directors and managers revealed that they want to implement chargeback methods to achieve five key objectives.

Simplicity and efficiency—More than two-thirds of the respondents (68 percent) said that complexity would affect which pricing and chargeback method they selected. As a leader from a consumer products company told us, "We want to form behavior based on customer relationships and customer management rather than through a complex chargeback methodology."

Visibility/transparency—Asked to rate how important it was for a chargeback method to provide visibility to business units, every respondent said it was "very important."

Fairness—Not to our surprise, we found that business units do not want to pay for services they are not receiving and that are going to other units. As a leader of a food products company told us, "We're not going to allow any division to subsidize another. This has generated some very interesting consequences … By implementing this new fair-ness principle, we have discovered that subsidization was occurring, and we're having to correct for it."

Incentives for good behavior—Almost 80 percent of mature GBSs and 53 percent of start-ups said they try to use chargeback methods to drive business units' behavior. A leader of one of the nation's largest e-businesses told us, "We're looking at metrics on performance—timeliness and accuracy—and sharing that back with our internal business unit partners to create behavior changes on their side to help us reduce our cost structure and improve the quality of our service to them."

And a power utility leader lamented, "Just charging back costs to the business units was not enough to drive behavior … We had to set a corporate mandate."

Control and accuracy—GBSs want chargeback methods that improve the control of costs and the accuracy of cost data. As a food products company leader explained, "If the business units reduce their units of consumption, then their actual [cost] goes down. There's a direct relationship there and it gives them the controllability they need."

Pluses and minuses

Unfortunately, our respondents reported that they have not found a pricing method that enables them to achieve all of these key goals. In fact, they have learned the hard way that, while each methodology helps achieve some of these key goals, each can make it hard, if not impossible, to achieve others. Here's what the directors and managers told us about the pluses and minuses of each approach.

No specific allocation—It's definitely simple and effective. The training that managers must undergo allows business units to see the impact of the total costs of shared services. However, this method does little to change behavior, providing no incentives to control costs or create profitability.

Flat rate—Simple and predictable, this method is also very easy to explain. However, there are fairness problems because it doesn't assign costs based on amount of use. Moreover, it only really works for companies that have larger economies of scale. Our respondents also reported that it locks business units into monthly quotas.

Budgeted rate—It's fairer than most methods because it differentiates among internal clients. It's also simple and effective and provides shared services with some control. Unfortunately, it takes a toll on accuracy, because the chargebacks are based on an approximation. Moreover, respondents reported that it does not influence behavior enough, and it is time-consuming and complex to explain all the costs.

Budgeted rate with penalties—In theory, this method would improve on the budgeted rate method because it would drive internal client behavior. The big problem is that nobody who participated in the survey is using it. Evidently, directors and managers fear that the internal client penalties involved would be counterproductive, and that there may be cultural barriers to adoption.

Activity-based costing—The good news is that this method provides more accurate cost distribution than some of the others. It's transparent and lends itself to easy benchmarking. The bad news is that implementation costs are high, and administration is complex. Our survey also found that the reports involved are difficult to compile quickly.

Full direct charging—It provides business units full visibility, while enabling them to keep cost down. It is also more accurate than other methods and can drive behavior. Nevertheless, this method has complexity problems and is hard to track, and it provides no incentive for performance improvement. GBSs also report difficulties in establishing the base metrics of target costs.

Market-based costing—Our survey found that this is a method used only by mature GBSs. It does influence behavior by creating benchmarks that encourage better performance. Unfortunately, it has simplicity/efficiency problems. It can be difficult for IT to use, because rapid technological changes can cause big cost swings within a fiscal year. Our respondents also saw it as far too complex and unmanageable, involving too much administrative effort. It can also be unfair for regions with lower costs a may not be workable for not-for- profit organizations.

The culture barrier

As it turns out, the complex cost/benefit equations for each of the different chargeback methods are not the only things standing between GBSs and the pricing systems they would prefer. When we asked executives to list the types of barriers they faced when using a particular chargeback method, the number-one response was "cultural barriers," cited by 40 percent.

Next came technology and organizational barriers (21 and 19 percent, respectively), followed by cost of implementation, company regulations, assessing unforeseen expenses to customers, tracking difficulty, and resources.

The most significant cultural barrier is that, for a GBS pricing system to be effective, business units will likely have to think in a revolutionary way. In most companies, the business units are used to considering GBS functions—such as finance and accounting, IT, and HR—as overhead functions. They are services the company must supply just to do business, the company includes their costs in the annual budget, and the business units don't have to worry too much about what each of the services costs.

To price its services effectively, GBSs have to shatter this traditional view. They have to convince business units that they must now pay for services they once took for granted. Moreover, they have to convince business units they must decide what level and quality of service they want and what price they believe is appropriate. Fostering this kind of culture change is a huge challenge.

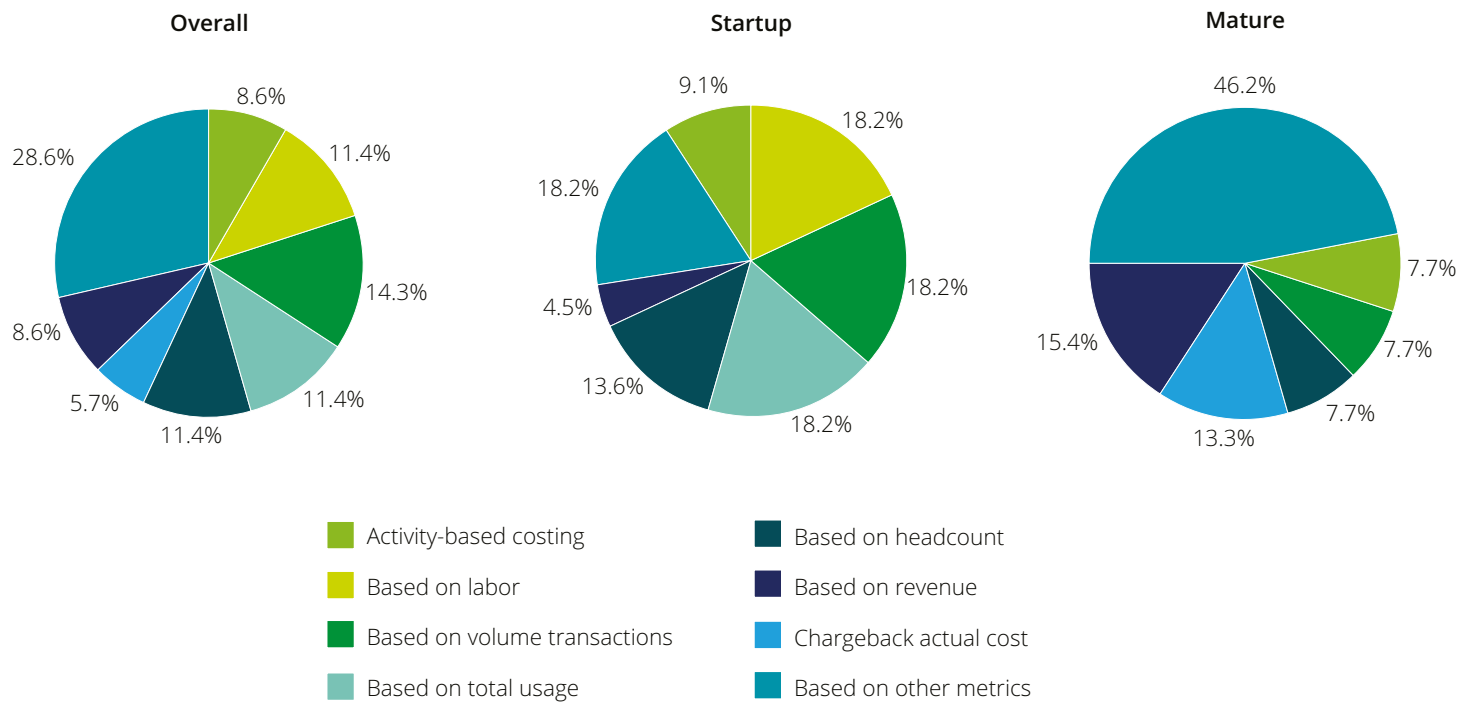
Start-ups versus mature GBSs

As mentioned above, we divided the respondents into "start-up" GBSs (which have had GBS in place for less than five years) and
"mature" organizations (which have had GBS for five or more years). We suspected there would be very clear differences in chargeback practices and preferences between the groups, which turned out to be true.

- The majority of start-ups and mature GBSs had chargeback methods in place (66 and 78 percent, respectively).
- Start-ups most often based chargebacks on the volume of transactions, labor, total usage, or a headcount, while mature organizations most often based chargebacks on revenue or actual cost.
- Start-ups used activity-based (22 percent) and flat rate (17 percent) methods the most.
- Mature GBSs used activity-based (14 percent) and budgeted rate (14 percent) methods equally.
- More than three-quarters of mature organizations (77 percent) and more than half of start-ups (53 percent) said they use charge-back methods to drive business units' behavior.
- The mix of metrics that mature GBSs use for chargebacks is very different from the mix that start-ups use. (See Exhibit 1 on next page.)

Exhibit 1. Metrics for chargebacks

- Some companies base their chargebacks on multiple metrics so there is some overlap in response.
- "Other metrics" include but are not limited to: "Based on volume of sales," "Based on unit cost," "Based on payroll," and "Based on projected usage."



Getting it "right"

The most important difference we found is that start-ups and mature GBSs seem to be moving in opposite directions when it comes to chargeback methods. Start-ups are moving away from methods that rely on metrics using total sales, volume, or revenue. Instead, they are trying to introduce more transaction-based pricing approaches. The start-ups believe these will produce more visibility as well as be more specific and more accurate. Those features will make it possible to use pricing to drive behavior, or so they hope.

Mature GBSs have been down that road and have decided to change course. Many tried using chargeback methods to drive behavior but concluded that it didn't work. So the more experienced companies are moving away from more transaction-based metrics. Instead they are opting for simplicity, trying out less administratively complex metrics such as flat rate and budgeted rate.

The evolving approach of the mature GBSs would seem to indicate that the simpler methods, which provide less cost visibility, would be the more effective ways to price or charge back for shared services. However, Deloitte Consulting LLP's long experience working with GBSs reveals a more complex picture.

We have found that companies that price all of their services in the same way are making a mistake that often makes their pricing method unworkable. In particular, our experience has shown that certain kinds of services are well-suited to the simpler price methods, such as flat rate and budgeted. These are mandatory, "commodity" services, such as payroll and HR, without which the company could not stay in business. Because every business unit must use these services, they are not well-suited to pricing methods using more complex metrics, which are meant to influence behavior.

The mature GBSs in the survey started out using the more complex approaches to price everything—finance, payroll, accounting, human resources, etc. Over time, they realized that the simpler methods were more effectively suited for the commodity services.

On the other hand, we have seen that the transaction-based pricing approaches are better suited for ad-hoc custom services. These include certain advanced IT services such as customized reports. Some business units will make heavy use of these services, and others will not. The key is that these business units should use these services only when it makes economic sense. Therefore, they need to know the costs they will incur when they opt for the services.

Transaction-based pricing approaches (such as activity-based costing, full direct charging, and market-based costing) provide the cost visibility, specificity, and accuracy that custom services demand. Moreover, where these services are involved, it is possible to use pricing to drive behavior.

On the other hand, using the simpler, less cost-visible methods to price custom services can cause problems. If custom services are "free" to business units—or if every business unit is charged the same for a service whether it uses the service or not—business units will likely be tempted to use them heavily.

We began with the question, what is the most effective way to price or charge back for services? The answer clearly is that there is no single "best" way that works for all services. Based on our research and experience, companies that want to get the most out of their GBSs will price commodity services one way, and custom services another.

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Understanding the total cost of ownership

If you're considering building or expanding a Global Business Services (GBS) function, it's important to take your time and build a Total Cost of Ownership (TCO) business case first. Without this crucial step, you're likely to leave significant savings on the table, especially if your company has complex processes. This step is particularly important in view of today's challenging economy.

GBS as a business within a business: Instilling a commercial mindset

If your organization has experienced increasing difficulty in extracting useful and timely information from data; has a global reach but lacks globally standardized processes, or has large numbers of employees performing small pieces of multiple business processes (fractional FTEs), then you're not alone.

In our experience, many Fortune 500 companies face situations such as those just described. After global expansions, acquisitions, divestitures, and new product launches, these companies often must transform and modernize their legacy systems and processes in order to reduce complexity and cost.

We believe TCO is a key concept that you should consider in your efforts to address these common problems. It's crucial for you to look at how services are delivered globally so that you can understand the true cost of various business processes.

TCO refers to the real and complete cost of delivering services across a global organization. A TCO assessment is an important first step in the broader transformation effort, because it can help determine a cost effective way to consolidate, standardize, re-engineer processes and deliver services to the business.

TCO involves identifying a comprehensive set of business levers that can help drive improvement, instead of any single lever in isolation.

The TCO-based Business Case

Measuring TCO goes beyond a simple budgeting approach. A TCO analysis can help determine the complete costs of delivering business processes globally—those retained, shared and sourced, to provide stakeholders with a total cost view.

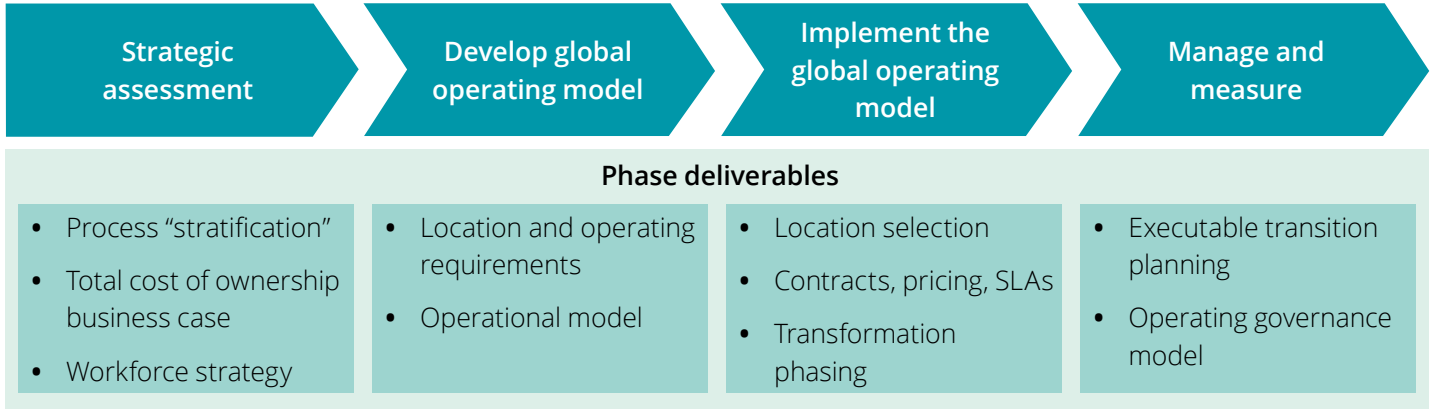
A TCO-based business case is an essential foundation of any GBS journey. Such a business case can provide a realistic and detailed view of savings potential across each sub-process and exposes levers that could potentially add or destroy value.

A thorough and complete TCO analysis should:

- Baseline current internal costs, on both an operating and capital expense basis
- Disaggregate and include any corporate allocated costs
- Compare current internal TCO costs to external vendor TCO costs
- Identify financial and transformational opportunities
- Support a service delivery and sourcing strategy with process-driven, stakeholder accepted data
- Be an ongoing effort during contracting and transition, and over the course of the contract
- Be deployed as the measure for scenario analysis comparisons

Every business process transformation life cycle should begin with a complete strategic assessment that includes a TCO analysis (see chart below).

The output of the above phases should be a global delivery model that minimizes TCO by utilizing the right mix of captive onshore and offshore shared services, retained and sourced services.



Outsourcing is only one part of a larger GBS savings strategy

Outsourcing is one "lean" business lever that companies can utilize when they consider optimizing their GBS function. The sequence of levers and degree of impact depend on a company's characteristics, desired end state, and organizational awareness.

By focusing less on the "transaction" elements of outsourcing, a TCO business case can identify which processes are ready for outsourcing, those fit for low-cost centers, and processes suitable for more traditional re-design. Taking a comprehensive, data-driven approach is critical in obtaining buy-in from stakeholders who need to fully understand why a particular path forward is truly the best of several options.

An effective end-to-end TCO effort should also support:

- Executable recommendations that can add measurable value through a portfolio approach to service delivery. This approach can be implemented and operated together with a robust governance model designed to promote and measure success.
- More value through a rigorous, strategic assessment that evaluates the fitness and readiness of specific business processes for outsourcing.
- Data-driven decision criteria well beyond simply making outsourcing recommendations, spanning the entire outsourcing lifecycle, including vendor selection, due diligence, contracting, transition and vendor management, in addition to shared services optimization and process redesign.

- Sound, unbiased, long-term decision making designed to mitigate risk by preventing expensive, multi-million dollar, multi-year outsourcing contracts that don't realize savings or meet service expectations.
- Effective negotiation with vendors with the required detail to support hard savings targets and preventing vendors from making abstract savings claims.

Identify savings gained over time via different service delivery options

Our experience has shown us that once an effective TCO model has been created it can provide the critical inputs required for a detailed financial model:

- An accurate estimated maximum (vs. just labor arbitrage) of potential scope
- An implementation schedule based on economic value to the enterprise
- A basis upon which to prioritize processes to be outsourced
- Processes and systems that require improvement

After a TCO business case is completed, stakeholders can easily compare different paths forward on a process-by- process level. If the TCO business case shows that a company is already efficient at a certain business process, there may be relatively little to gain from outsourcing. In such instances, further process improvement and centralization may be the recommended path forward. On the other hand, the TCO business case can also help determine which processes are performed at above industry competitive cost, making them better fits for outsourcing. Each TCO business case should estimate net savings that will be gained over time via different service delivery options at a process level. With this vital information in hand, stakeholders can more effectively determine whether or not alternative service delivery is worth pursuing.

Further, a TCO business case should be a living document that is continually updated and refreshed throughout the sourcing initiative and resulting contract duration. An effective outsourcing business case should not only look into the future, but also provide a mechanism to measure results over time and go beyond a simple vendor contract to provide real value to the organization.

Benefits of this approach

In our experience, developing a TCO business case and complete service delivery model encompassing the retained organization, shared services optimization, outsourcing and proper governance can typically help companies:

- Reduce costs through labor arbitrage
- Reduce transaction costs
- Convert fixed costs to variable costs
- Improve shareholder value
- Reduce implementation costs
- Lower days payable outstanding
- Improve cash management

Companies are more likely to realize financial benefits in a timely manner if adequate time is invested in due diligence.

A TCO analysis can provide a holistic view that can support an optimized total service delivery model.

By using a data-driven approach in the analysis of end-to- end processes, internal costs, and existing 3rd party vendor fees, we have frequently seen companies uncover additional opportunities to boost bottom line savings and minimize implementation/transition risk. It is critical to note that the overall goals of the business must be tightly integrated with this exercise.

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The myth that could be costing you big

Internal customer service: it's what we all provide every time we do some-thing that helps a co-worker do his or her job. For many of us, it happens on an informal basis—we help a colleague track down some numbers for a presentation, pass along a hot lead to the sales department, or send someone a link to a page on the company intranet. Some corporate functions, notably HR and IT, deliver internal customer service as part of their overall role, as when HR specialists help new hires understand their health care coverage options or an IT help desk staffer helps callers with their technology problems.

GBS as a business within a business: Instilling a commercial mindset

But of all the functions in the business, none should take the internal customer service concept more seriously than the global business services organization (GBS). As its very name shows, a GBS is explicitly positioned as a service provider to the rest of the business. This role often is documented by service level agreements that resemble outsourcing contracts. It's reinforced by performance measures that treat customer satisfaction as a key barometer of performance, and constantly emphasized with a stream of communications to GBS personnel urging them to "put the customer first." Visit a shared services center, and you may see a half-dozen ways in which internal customer service is planned, executed, measured, and refined, from continuous improvement initiatives to performance metrics graphs posted on the walls.

So what's wrong with this picture? Nothing—except that the business units aren't in it. The fact is, some business units have come to believe internal customer service is a one-way street. And that attitude can do the larger business a lot more harm than good.

The one-way myth

This may seem counter intuitive to those who think a GBS is basically the same as an outsourced service provider, just one that happens to live within the company's four walls. Many GBS users are accustomed to dealing with external vendors that don't judge their customers' objectives and generally deliver exactly what was asked for. But there are good reasons to hold a GBS to a different standard.

First of all, as a joint venture of the business units, the GBS depends on their support in order to reach its potential. If the cultural expectation is for internal customer service to flow only outward from the GBS, the results are likely to be disappointing to the business units. That's because an GBS's prime directive is to work efficiently and effectively, which means business-unit users often must change their behavior to align with the standardized processes. Users understandably resist such change, which can range from seemingly simple adjustments like filling out a requisition form instead of calling in a check request, to major disruptions such as switching to a new financial accounting system. But users who expect differentiated service can sabotage efficiency—perhaps by refusing to modify their work habits or by demanding costly, time-consuming exceptions.

Moreover, one-way internal customer service can mask serious problems within the larger business because it holds GBS accountable for failures that originate outside the GBS and are beyond its control. At one manufacturing company, for example, the business units were unhappy with it because of prolonged turn- around time and high chargeback costs. Upon further inspection, though, it turned out that the data the GBS was receiving from the business units was incomplete, inaccurate, or otherwise unusable, which hampered efficiency. The culprit? A recent ERP implementation whose applications the enterprise was having trouble using correctly because of the complexity of the new system environment, created by lingering legacy systems and the new ERP. The business units, having blamed the GBS for not providing the expected level of service, hadn't considered the possibility that the source of the problem might lie elsewhere.

Because of business units' one-way expectation of service, the "supplier" analogy can also be overextended in order to justify having the GBS meet its internal customers' needs whether or not they're right for the entire enterprise. This can create a tough situation for a GBS if it receives conflicting directives from different internal constituencies. For example, an GBS's purchasing function may have a mandate from corporate to buy the cheapest part possible, no matter what. The GBS's customers in manufacturing, however, may want it to buy the highest-quality part because they believe that using it would be less expensive, in the long run, than the cost to repair or replace units made with the cheaper part. The GBS is caught in the middle, unable to meet one internal customer's requirements without violating the other's.

But even that isn't as big a problem as what could happen if the GBS accepts either one directive or the other without understanding the business reasons behind it. To take the previous example further, if the GBS follows corporate's policy of buying the cheapest part—and if manufacturing is right that using the cheapest part drives up long-term costs—then the overall out-come could clearly be bad for the external customer, and therefore bad for the business as a whole. But if the GBS follows manufacturing's request to buy a more expensive, higher-quality part—and if it turns out that using the cheaper part wouldn't have increased repair and replacement rates after all—the outcome could also be bad for the external customer. If the GBS is viewed simply as an institutionalized order-taker, it is unlikely to be given the strategic reasoning behind either of these options, and thus unable even to realize that a more thorough consideration of the issue would be appropriate.

Who's the real customer?

This leads us to the most dangerous aspect of the one-way myth. Yes, it can undermine employees' ability to move the enterprise forward. But it also can impede the business' ability to deliver exceptional service to those who buy what the company produces—the external customer.

The link between a tunnel-vision focus on internal customer service and external customer dissatisfaction isn't always as obvious as in the purchasing example discussed previously. Consider what can happen, and often does, when a business unit asks a GBS to create, say, a financial report containing certain pieces of information formatted in a particular way. When such requests support improvement efforts, the GBS is often expected to fulfill them, no questions asked. The problem is that these report requests cost money to accommodate, but may not be cost justified. Ultimately, these costs may be passed along to the external customer.

The point is not that a GBS should second-guess its internal customers or that business units shouldn't make suggestions and request improvements. Rather, it's that following orders to the letter in the name of "internal customer service" should take a back seat to doing what best meets the enterprise's standards for serving the external customer. For this to happen, the GBS, the business units, and corporate must all work together to understand what their colleagues in other departments need to achieve their business objectives, and then fulfill those needs as resources and the scope of their responsibility allow.

We're all in this together

Why is inter-departmental dialogue and understanding so important to serving the external customer? Because, when you examine a customer service breakdown by process rather than by function, it becomes clear that at varying points along the chain, GBS is both an internal supplier (produces output) and internal customer (receives input). In this respect, GBS and the business units are interdependent. It's when that interdependence breaks down that a company's ability to serve its external customers could suffer.

That's why the one-way myth's immediate casualty – teamwork—has grave consequences for its ultimate casualty, the external customer. Because of the damage it can inflict on external relationships, the one-way myth can deal a double whammy to a company's competitiveness: by alienating paying customers as well as by dragging down operational efficiency.

At one company, for example, customers were billed by the business units, but collections were handled by the GBS. This meant that the GBS had to send any disputed charges back to the business units for resolution before moving ahead with collection. However, the business units' billing departments, which were evaluated on the number and timeliness of invoices issued but not on the number or timeliness of invoices corrected, could take up to several weeks to resolve a customer's dispute. Because the business units blamed the GBS for the problem, it took a long time before anyone realized that the issue actually originated in the billing departments' incentive structure. Meanwhile, revenue that was owed to the company went uncollected, and the customers whose disputes took weeks to resolve may well have questioned the company's competence to handle such issues.

Debunking the myth

Debunking the one-way myth won't happen by talk alone. Here are some practical steps for management to consider:

Maintain a governance committee in which business-unit and GBS leaders can discuss the overall business strategy. Governance committees have many uses, but one of the most important is to provide a forum for business-unit and GBS leaders to learn how their roles complement each other in the pursuit of business goals. Getting everyone on the same page about what the company is trying to accomplish can be a huge step toward improving collaboration and service levels to both internal and external customers.

Make the costs of GBS, as well as the benefits, clearly visible to all parties along the customer service chain, from product development through manufacturing and distribution through payment or settlement. One way to do this would be to make the cost of the services visible to its users by charging service expenses back to the business units. It's not uncommon for GBS adopters to initially pay for the GBS out of the corporate budget to encourage business-unit buy-in and utilization. But past a certain point, corporate's footing the bill can be more of an encouragement to irresponsible spending than to GBS acceptance.

Establish a joint continuous improvement team that includes representatives from both the business units and the GBS, and require the team to perform a cost-benefit analysis on all continuous improvement suggestions before deciding which ones to implement.
Sometimes, a business unit may ask for an expensive service not because it's irresponsible, but simply because it doesn't realize how much the service would cost. The business unit understands the benefits of the change, but probably doesn't know what it would cost to implement it. The GBS, on the other hand, may be able to determine the cost, but might not have a full understanding of the potential benefits. That's why it's important for both sides to pool their knowledge to get a complete picture of how the change would affect the overall business so they can make an informed decision on how to proceed.

Change the reward structure to support desired business outcomes. Incentives for both business-unit users and GBS staff should be tied to behavior that contributes to the desired outcome of each process. This can sometimes be tricky, as it may involve identifying exactly where in the process a breakdown occurs and who should be doing what to keep it from happening. At the previously described company with the collections and dispute resolution issue, part of the solution was to adjust the business unit's billing departments' performance metrics to include invoice correction rates.

Build reciprocity into the service level agreements (SLAs) so that each side is held responsible for doing what the other needs to do its job. SLAs that define responsibilities and expectations for the GBS but virtually no responsibilities or expectations for the business units are a prime example of the one-way myth in action. To help drive efficiency as well as encourage constructive collaboration, it's a good idea for SLAs to clearly define the roles and responsibilities of both parties—the business units as well as the GBS. Don't, however, rely on SLAs alone to create a collaborative environment. They're more useful for setting initial expectations than for enforcement. Compliance is usually more effectively accomplished through joint teams and face-to-face interactions.

Establish regular online and face-to-face meetings among employees in the external customer service chain (both business unit and GBS) in order to eliminate perceived gaps in what people believe is their "real" job and the needs of others in the process. For instance, maybe a company's sales-people don't think it's their job to have to enter expense data into the GBS's standardized reimbursement system. They'd argue that their "real" job is to be out selling. But even if entering expense data wasn't their job before the GBS was formed, it is their job now. Or to take another example: maybe purchasing thinks its job is to drive down supplier costs, not to understand the pros and cons of the materials they buy as they pertain to the company's product. In fact, though, it had probably better be their job to understand.

Give everyone enough background about the business purpose behind each service request to understand what they need to do to accomplish it. To work smoothly together toward common business goals, it's not enough for GBS users and staffers to know the company's high-level strategic objectives. They must also understand the business purpose of each service request and process change that comes into and out of the GBS. That way, service providers and users can help each other spot inappropriate requests, make constructive suggestions, and improve the company's overall ability to serve its external customers.

Too many organizations follow a false dichotomy. Either you serve internal customers, or you serve the ones outside. Responsibility for the external customer, the thinking goes, lives with the business units. Meanwhile, GBS personnel ought to be dedicated to internal service.

The fact is, though, that GBS's activities directly and indirectly touch the external customer every day—and the business units can often improve external customer service by encouraging GBS to work with them instead of strictly "for" them. Demolishing the one-way myth can help the true principles of internal customer service assert themselves. With false expectations out of the way, employees can understand better that customer service is everyone's business... no matter which side of the wall the customer's on.

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