Global Business Services

Enhancing the Benefits of Shared Services and Outsourcing

Point of View

November, 2014
New approach to managing global sourcing – one integrated global business services framework

Many organisations have shared services and manage outsourcing relationships in today’s business environment. But most of them are yet to benefit from combining shared services and outsourcing into one integrated global business services framework.

A well-executed global business services strategy is distinctly different from shared services’ and outsourcing strategies’ narrower focus.

How is it different?
• It identifies corporate objectives and encourages internal functions to collaborate with each other and also with third-party service providers to create breakthrough, strategic operational capabilities for reaching the desired outcomes.

The result
• Standing out in the market
• Competitive advantage

As more organisations leverage global business service strategies to align business objectives and get economies of scale, outsourcing is an important tool in accelerating and complementing shared services strategies. But executives should be wary of relying too heavily on uncoordinated hybrid strategies. The goal of a global business services strategy is not only to source globally, but also to leverage shared services, outsourcing and third-party investments in the best interests of the organisation.

It is a new approach to managing global sourcing.

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Agenda

1. The Evolution of Global Business Services
2. Successfully Implementing Global Business Services Strategies
3. Service Delivery Model
4. Global Business Services Governance Principles
5. Case Study
1. The Evolution of Global Business Services
Global businesses need a company-wide strategy to increase accountability and value

Shared services and outsourcing have matured in various ways. These are frequently addressed as part of a GBS strategy. In particular, customer service, IT, document management, finance and accounting, HR operations and procurement are frequently part of organisation-wide efforts to reduce costs and refocus on corporate strategies.

- Increasing consolidation and improved efficiency and effectiveness.
- Lack of distinction in customer types/requirements.
- Cost focus metrics and little chargeback method.
- Functional, local/regional effort.
- Efficient and effective with high service levels, embedded accountability and sophisticated chargeback methods.
- Increased BU focus on core business.

Degree of accountability, management centralisation and organisational change

- Fragmented, scattered, inefficient and lack of customer focus.
- Increasing consolidation and improved efficiency and effectiveness.
- Lack of distinction in customer types/requirements.
- Cost focus metrics and little chargeback method.
- Professional management combining shared services and outsourcing.
- Strong vendor management capabilities.
- Benchmarked quality/pricing with negotiated, measured service levels.
- Aligned business units.
2. Successfully Implementing Global Business Services Strategies
**The 9 GBS commandments**

1. Corporate strategy drives global business strategies
2. Adapt global business strategies to suit market changes
3. Invest in innovation to develop ideas and implement solutions
4. Create a culture of open problem-solving, root-cause analysis and leading practice sharing
5. Develop a comprehensive multi-process, multi-year plan
6. Get the right mix of professional, experienced staff for governance and focus on their career development
7. Get prescriptive with vendor management activities
8. The right people and culture matter
9. Get rid of silos by developing a cross-functional, cross-business unit global business services governance strategy
The 9 GBS commandments will help meet any organisation’s strategic objectives

A company’s strategic objectives can be met in the fastest possible way by setting up a global business services strategy. This applies to any organisation across industries, specific strategic objectives, variety of reporting structures or alignment of functional responsibilities.

But in all organisations, the focus of executives must be on transformation.

The key factors or the ‘Commandments’ of the success of a global business strategy are given on the next page.

82% of organisations SSCs make a significant contribution to the optimisation of the organisation as a whole.

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Drive corporate strategy, adapt to changes in the market and invest in innovation

1. Corporate strategy drives global business strategies
   Global business strategies must focus on enterprise strategies. Keep a tight rein on change orders, ancillary decisions and stakeholder alignment.

2. Adapt global business strategies to suit market changes
   Despite the best efforts to anticipate needs for scalability, extensibility and flexibility, global business strategies must constantly adapt to what the market demands of the business. No matter the momentum of current strategies or the effort required to realign global business strategies, executives must refocus global business strategies depending on market demand. This will help optimise enterprise objectives.

3. Invest in innovation to develop ideas and implement solutions
   While most organisations are dissatisfied with the amount of innovation they receive from service providers, the truth is most organisations underinvest their own resources and efforts to innovate. Only if you invest in innovation will you reap benefits from it.
Solve problems early on, develop comprehensive plans and get the right people

Create a culture of open problem-solving, root-cause analysis and leading practice sharing
A global business services strategy does have its own share of issues which you may face when you try to set it up and keep it running. Encourage open, early disclosure of problems. Take a problem seriously before it gets too big to handle. Focus teams on root-cause analysis and sharing best practices. Though the two processes may be dissimilar, the teams managing them can learn a lot from common transition, management and contracting leading practices.

Develop a comprehensive multi-process, multi-year plan
Well-planned and executed global business services strategies don’t happen overnight. So don’t be over-ambitious and take on more than you can handle. Develop a two- to three-year plan to smoothly achieve objectives.

Get the right mix of professional, experienced staff for governance and focus on their career development
The governance team drives the execution of global business strategies. Acquiring the right mix of strategic thinking, operational focus and relationship management skills is critical to success. You need to create clear career development opportunities and open new paths for qualified staff.
Manage vendors well, collaborate among diverse stakeholders and get rid of silos

7. Get prescriptive with vendor management activities
   Poor-quality vendor management activities led by business process owners mar many global services strategies. Governance organisations are not ivory towers. They must make sure that business units are managing service providers consistently and reliably by deploying and monitoring common processes.

8. The right people and culture matter
   Collaboration among diverse internal stakeholders can happen by assigning the right people to lead global business services strategy development. But change doesn’t stop with the leadership. It must percolate to all employees. Each employee must increasingly rely on his/her counterpart in different companies to devise new strategies, solve problems and work collaboratively.

9. Get rid of silos by developing a cross-functional, cross-business unit global business services governance strategy
   A strong governance model is necessary for business process owners to make the changes necessary that are good for the entire enterprise.
3. Service Delivery Model
Strategic single points of contact and strong planning build strategic partnerships

One of the most important objectives of a global business services team is to be a strategic partner to the business. Strategic partnerships create a healthy tension and synergistic benefits once both parties have visibility of each other’s objectives and opportunities. But two critical investments must be made for this:

Collaborative, strategic single points of contact  +  Business-relevant planning processes  =  Strategic partnerships
**Invest in collaborative, strategic single points of contact and strong business-relevant planning**

**Collaborative, strategic single points of contact are essential investments**
Personnel decisions fundamentally drive relationships. To reduce risks, many organisations assign either a subject matter expert or a project manager to strategic partnership roles, but they may not have the relationship skills necessary to manage strategic business leaders and service provider management teams. Two things can earn them a strategic seat in their customers’ leadership circles:
1. Highly collaborative management styles
2. Desire to provide business solutions
These single points of contact can also represent their customers in the internal planning processes.

**Business-relevant planning processes build the foundation of a strategic partnership.**
The fundamental relationship management tool of a global business services team is a planning process driven by business objectives. A strong planning process creates both value and vision, based on which both organisations can invest and take decisions. The end result is to deliver required service at a reasonable cost. GBS organisations that deliver value to their customers become strategic partners.

**Strategic partnerships**

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Any company’s backbone is its services delivery model

The service delivery model of an organisation is key to delivering services to internal stakeholders. It can make or break any organisation’s value or credibility. While the right model can add value, the wrong one can lead to a complete breakdown.

The following leading practices can guide you in setting up the most innovative and successful GBS organisation:

- Mix local and global delivery
- Consolidate services by location and service provider
- Deliver services as a separate commercial entity
- Use labour arbitrage and offshore opportunities smartly
- Provide standard business architecture
How to get the right services delivery model

Mix local and global delivery
Don’t rely too heavily on local delivery as it hinders standardisation and limits cross-business efficiencies. But relying entirely on global delivery may alienate local customers who may need customisation based on local requirements. The most effective and efficient service delivery models create a perfect balance between global delivery with regional delivery capabilities allowing for local customisation in cases where it is mandated.

Consolidate services by location and service provider
While services may be organised by customer segment or product, leading organisations frequently centralise based on geography. Organisations that distribute functions across multiple locations can be unnecessarily complex, except when intended to provide regional delivery capability. If organisation choose to outsource a function, it should assign the entire end-to-end process to a single service provider. Splitting a business function across multiple service providers can limit standardisation, increase management overhead and decrease ownership.

Use labour arbitrage and offshore opportunities smartly
Leverage offshore labour for operational and cost efficiency. It is not always about cost reduction. Offshore resources can also provide improved access to skills and language capabilities, which are important differentiators for global businesses.

Provide standard business architecture
In the same way that IT organisations use ITIL methodologies to focus on building a standard service catalogue, a GBS organisation must deliver a standard set of published solutions available to all its customers. For example, all customers who need an imaging and workflow solution should leverage the same service, using the same service provider.

Deliver services as a separate commercial entity
Running GBS as a stand-alone cost or profit centre forces has several benefits:
- Focus on both customer-focused and operational efficiency perspectives
- Strong visibility of business process and technology solution costs and performance.
- High level of transparency
### Some must-dos for an effective services delivery model

1. **Appointing a single, global end-to-end process owner** provides leadership and common vision to a process. The process owner is responsible for all process and technology investment decisions for the process.

2. **Develop and implement standardised processes, policies and procedures.** Whether a process is used by different business units or regions, the methodology should remain the same.

3. **Maintain a constant, strong focus on process efficiency and quality improvements.**

4. **Process owners should focus on eliminating unnecessary and automating work.**

5. **Provide self-service visibility and analytics to internal stakeholders.** Beyond providing visibility to a global business process owner, GBS needs to make data readily available to its internal stakeholders for using in analyses and strategic decision-making.
4. Governance Principles
The challenges are many and varied...

Tackling complexity
What began as a small initiative has grown to multiple (frequently inter-related) processes, requiring more disciplined management.

Tackling an increasingly globalised environment
Expanding geography, more providers and more delivery centres increase the number of diverse stakeholders that governance teams must manage. The simpler days of managing a stand-alone shared service centre are long over.

Tackling a deficiency in management skills:
Organisations realise that hybrid (blend of shared services and outsourcing) and shared service models outperform outsourcing on a number of criteria, but managing them requires broader skills.
Our research has settled the debate on comparative outcomes created by shared services and outsourcing initiatives. Outsourcing programmes ensure the best savings because of offshore labour and forced internal stakeholder compliance with contract minimums. In all other areas, shared service programmes provide better results, particularly in terms of quality and innovation. But governance teams who are used to ordering service providers to comply with their contracts or building consensus among internal business units on a standardised service catalogue find managing both simultaneously considerably more challenging. Getting service providers and shared service centres to focus on collaboration and delivering end-to-end processes is a challenge.

Escaping from a singular focus on short-term cost reduction
The cost impact is only part of the long-term solution, so you must look elsewhere for value. Whether it was the economies of scale brought about by functional centralisation or the offshore-based labour arbitrage, cost was king because most early successes were borne by cost-reduction initiatives. But focusing purely on cost has limitations. So to add value, you must emphasise on improving insight or enhancing revenue.

Tackling underutilised shared services and outsourcing efforts
With such a large proportion of processes still outside shared services and outsourcing, the vast majority of organisations have the opportunity to add significant scope and scale.
... but can be addressed by the right governance operating model

This model has three critical elements.

1. The GBS governance team is responsible for defining and building services by leveraging global sourcing alternatives, operating model transformation and location strategies. This responsibility creates direct accountability to corporate strategy instead of individual business unit’s goals.

2. The GBS governance team is responsible for performance management and innovation. This gives the team accountability for driving consistent results and raising performance expectations.

3. The GBS governance team is accountable for servicing internal and external stakeholders. This means the team focuses on customers and does not live in an ivory tower.
Executives are recognising the need to:
- Create more strategic global sourcing objectives;
- Exercise more control over global business services decisions;
- Drive more innovation from service providers; and
- Manage increasingly complex contracts more tightly.

Our research shows that success largely depends on the degree to which these responsibilities, roles and processes are formalised in the GBS organisation.
5. Case Study
GBS as a key enabler to leverage a FMCG company’s global scale

The organisation has experienced considerable growth in recent years. In line with the company’s strategic business priorities to capitalise on this growth, the global business services (GBS) organisation is a key enabler to leverage the company’s global scale. GBS aims to deliver to Operating Units (OUs) selected business services of the highest necessary quality by leveraging on its scale that will, in turn, enable the OUs to focus on consumers, customers and products.

The GBS running organisation has carried out three improvement projects, which are distinct in nature, but linked and interdependent.

- **Finance Shared Services (FSS)**: The central provision of transactional finance business services to OUs via a cross-border captive finance shared services centre in CEE, with an outsourced back office in India.

- **Global Procurement (Trading company)**: The provision and transformation of procurement through reinforcing existing procurement models and introducing new Centre-Led and Buy-Sell purchasing models as well as by providing central procurement services to OUs via a Netherlands-based legal entity.

- **Enabling Infrastructure**: The provision and deployment of a focused suite of solutions at both global and OUs levels with a formalised data governance, supported by data solution, data readiness tooling and organisation blueprint.
In 2014 the GBS organisation comprises Procurement, Finance and IT, and is expanding

*GBS Finance includes Process Innovation and Global Accounting & Reporting
Things that work well in the FMCGs service delivery model

The Chief Business Services of the company is part of the Executive Committee which ensures relevance and authority.

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The company has an integrated portfolio management programme to evaluate projects in light of the GBS strategy.
This Point of View is partly based on a number of papers issued by HfS Research and PwC.

The Evolution of Global Business Services: Enhancing the benefits of Shared Services and Outsourcing by Phil Fersht, CEO and Founder of HfS Research, Tony Filippone, Research Vice President, Governance Strategies at HfS Research, Charles Aird, Managing Director at PwC and Derek Sappenfield, Director at PwC.

The Three Tenets of Global Business Services Execution: Customer alignment, Accountability, and Economies of Scale by Phil Fersht, CEO and Founder of HfS Research, Tony Filippone, Research Vice President, Governance Strategies at HfS Research, Charles Aird, Managing Director at PwC and Derek Sappenfield, Director at PwC.

Global Business Services: Getting Strategic About Global Sourcing Governance by Phil Fersht, CEO and Founder of HfS Research, Tony Filippone, Research Vice President, Governance Strategies at HfS Research, Charles Aird, Managing Director at PwC and Derek Sappenfield, Director at PwC.