THE THREE TENETS OF GLOBAL BUSINESS SERVICES EXECUTION: CUSTOMER ALIGNMENT, ACCOUNTABILITY, AND ECONOMIES OF SCALE

Authors

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Executive Summary

Turning processes on their heads to align them with corporate strategy is a challenge for the best of business leaders – especially when many are non-standard, fragmented, or even siloed. There is no doubt that reforming the plethora of prior investments, uncoordinated contracts, and vociferous human capital (in the midst of a turbulent business environment) requires courage. Yet, the benefits of implementing a Global Business Services (GBS) strategy merit the effort

In our first paper on the topic, The Evolution of Global Business Services: Enhancing the Benefits of Shared Services and Outsourcing, we described Global Business Services as distinctly different from the narrower focuses of shared services and outsourcing strategies. They identify corporate objectives and encourage internal functions to collaborate with each other and third-party service providers to create breakthrough, strategic operational capabilities that drive business outcomes that can result in real marketplace differentiation and competitive advantage. In that paper we asserted that senior leaders can leverage a Global Business Services strategy as a powerful approach to achieve strategic objectives through shared services and outsourcing solutions. In this paper, we are sharing leading practices from organizations that have successfully implemented a Global Business Services strategy. In particular, these leading practices include:

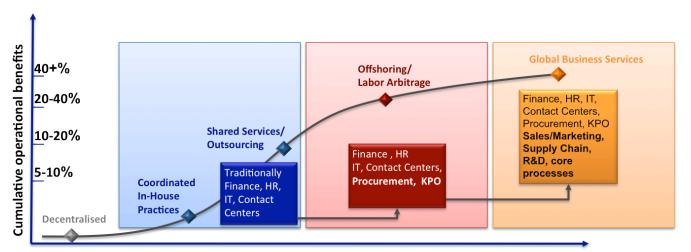
- **Focusing on the Customer** Global Business Services' processes and technologies enable business unit strategies. Building alignment and sharing a vision is imperative to achieving successful results.
- » Building the Service Delivery Model Achieving economies of scale and scope requires well-defined and common business architecture. Effective organizations have a strategy to construct and leverage their Global Business Service capabilities.
- **»** Aligning Processes and Technology Providing leading practice back office services requires vision, agility, and coordination across multiple functions. It requires a focus on the provision of solutions, not technology.



Global Business Services' integrated approach drives cumulative operational benefits

While global sourcing has long been recognized as a complex activity, solutions have matured in a variety of categories that are frequently addressed as part of a Global Business Services strategy. In particular, customer service, information technology, document management, finance and accounting, and human resources operations are frequently part of organization-wide efforts to reduce costs and refocus on corporate strategies. Even industry-specific solutions, within insurance, banking, and life sciences emerging solutions are quickly maturing and can be delivered via shared services or outsourcing. Exhibit 1 depicts how organizations frequently evolve their global sourcing activities and the increasing need for an integrated, enterprise-wide approach.

Exhibit 1: Evolution of Global Sourcing Activities



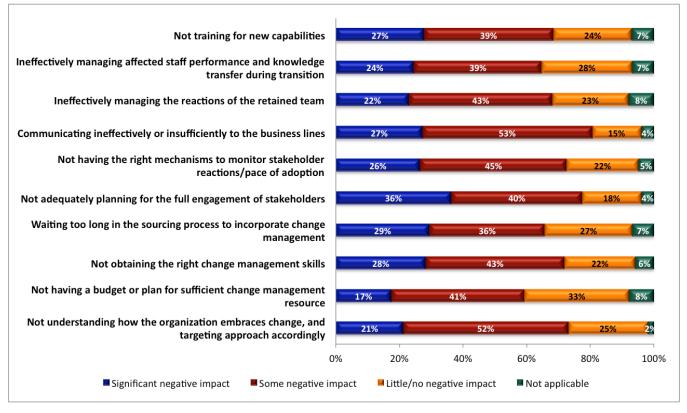
Degree of accountability, management consolidation and organizational change

Source: PwC, 2011

Global Business Services execution faces a change management challenge

As more companies deploy Global Business Services to enable execution of corporate business strategies, their critical focus is on re-engineering existing business processes and redesigning the support organization. These companies have learned very poignant lessons about global sourcing, driving innovation across functions and business units, and capitalizing on the benefit of enterprise-wide process improvements and system harmonization. In order to achieve desired benefits, organizations must effectively manage change within their organizations. Yet, they have not demonstrated a strong capability to effectively manage change. As shown in Exhibit 2, the most significant challenges facing an organization implementing a Global Business Services strategy are failure to communicate effectively with business units and inadequate planning to engage stakeholders. As global business strategies rely heavily on stakeholder engagement, this finding is significant to global business service-based strategies because this approach is focused on delivering services to internal stakeholders. Therefore, effective communication and integrated planning is a requirement of success.

Exhibit 2: Largest challenges facing global sourcing implementation



Source: HfS Research and Sourcing Change, "State of Change" Study, 2011

Sample: 104 Enterprises

Corporate Strategy Propels Alignment with a Global Business Services Vision

As discussed above, strong change management and integrated planning capabilities are necessary to execute global business strategy. As common processes and technologies collapse into a centralized Global Business Services organization, visibility to internal business units' strategies can become challenging. Market competitiveness and new product introductions place a constant strain on management attention. As a result, Global Business Services strategies must be relevant and aligned to the company's internal customers. Organizations with the greatest alignment have implemented some or all of these leading practices.

Strategic relationships are the result of strategic single points of contact and strong planning processes

One of the most important objectives of a Global Business Services team is to become a strategic partner to the business. Strategic partnerships create a healthy tension and synergistic benefits once both parties have visibility to each other's objectives and opportunities. However, strategic partnerships require two critical investments.

First, **Collaborative, Strategic Single Points of Contact** are essential investments. Relationships are fundamentally driven by personnel decisions. To help ensure there are few risks, many organizations assign either a subject matter expert or a project manager to strategic partnership roles, but rarely do these two types of resources have the relationship skills necessary to manage strategic business leaders and service provider management teams. Organizations generally find that



subject matter experts and program managers frequently build tactical relationships. Organizations with the most strategic relationships have assigned resources with strong business strategy acumen and high collaboration skills. These highly skilled resources build relationships based on opportunities that maximize both business unit and Global Business Services strategies. Highly collaborative management styles and the desire to provide business solutions earn these resources a strategic seat in their customers' leadership circles. In addition, these single points of contact can represent their customers during internal planning processes. One large entertainment and media company recognized this problem and changed their hiring profile from "IT manager" to "MBA business manager." Virtually overnight, relationships flourished as collaborative relationship managers proactively sought solutions to major business issues.

Second, **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 value for the business unit and a vision both organizations can utilize for decision making and investment allocation. The net result of a well-managed, business-driven planning process is that a Global Business Services organization delivers required service levels at a reasonable cost to its customers. Global Business Services organizations that deliver value in the eyes of their customers become strategic partners.

A large healthcare insurance organization undergoing a transition to a Global Business Services model overhauled its previously IT-centric planning process as operations and technology teams were consolidated within a single shared service organization. Instead of discussing "upgrades to claims adjudication platforms", the new senior leader focused on elimination of manual effort through automation and process redesign. As a result, all projects developed a business focus that business unit leaders could leverage to sell-through as benefits to commercial customers, while improving profitability of the company. Meanwhile, the business units began to focus on market differentiating activities and new product design because they could count on strongly managed planning processes to deploy solutions to support them.

A focus on solutions drives relevancy and a comprehensive vision

Leading Global Business Services organizations embrace a **focus on solutions**. Instead of deploying new document workflow systems or customer self-service portals, the most experienced global business service teams deploy productized solutions that allow multiple customers to leverage the same feature set. For example, instead of deploying natural language enhanced Interactive Voice Response (IVR) systems to call centers, these organizations seek opportunities to improve the rate of customer self-service. Another example is improving return on working capital instead of deploying an improved Optical Character Recognition (OCR) system to an accounts payable function. By focusing on solutions that improve business units' competitive capabilities, global business service organizations become relevant to a business's success.

In another example, instead of building data warehouses, Global Business Services teams deploy powerful analytics tools for use by business users seeking to understand customer behavior, and gain improved visibility to supply chain performance and profitability of products. As such, Global Business Services teams are measured by the ability of their solutions to meet business needs. And, in order to succeed, these organizations must maintain a comprehensive vision and performance framework creating transparency around how their solutions provide customer value.



Service Delivery Model Enables Global Business Services Strategy

How an organization delivers services to internal stakeholders is driven by its Global Business Services strategy. The right delivery model can drive efficiency and innovation into the hands of business owners. The wrong model can lead to breakdowns and failure. Though organizations may differ widely based on industry, corporate strategy, and culture, several leading practices have evolved among the most innovative and successful Global Business Services organizations:

- Mix local and global delivery As a general rule, any service delivery model that relies entirely on local delivery hinders standardization and limits cross-business unit efficiencies. Conversely, any service delivery model that relies entirely on global delivery limits customers' ability to differentiate locally, often requiring non-standard exceptions for local requirements. The most effective and efficient service delivery models ride a backbone of global delivery with regional delivery capabilities that allow for local customization in cases where that is mandated.
- Consolidate services by location and service provider While services may be organized by customer segment or product, leading organizations frequently centralize based on geography. Except when intended to provide regional delivery capability, organizations that distribute functions across multiple cities create unnecessary complexity. In the event that the organization elects to outsource a function, it awards the entire end-to-end process to a single service provider. Organizations that split a business function across multiple service providers limit standardization, increase management overhead, and create the likelihood of finger pointing when things go awry.
- Deliver services as a separate commercial entity Running Global Business Services as a standalone cost center or profit center forces an organization to run the unit as a business with both a customer-focused perspective and an operational efficiency perspective. The ability to centralize and then allocate costs to business units forces an organization to focus on its customers' requirements while creating strong visibility to business process and technology solution costs and performance. An added benefit of creating a separate commercial entity is a high level of transparency.
- Deliver scalable, agile services With so much change in many corporate environments due to mergers, divestitures, and product mix changes, a leading Global Business Services organization must deliver scalable services. The ability to ratchet up capacity or divest it is a design factor in all leading GBS organizations.
- Provide standard business architecture In the same way that IT organizations utilize ITIL methodologies to focus on building a standard service catalog, a Global Business Services organization 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, utilizing the same service provider (whether internal or third party).
- **Exploit labor arbitrage and offshore opportunities** Leading organizations maximize all opportunities to leverage offshore labor to improve operational capabilities and cost structures. These opportunities are not always about cost reduction. They can also provide improved access to skills and language capabilities, which have become important differentiators for global businesses.

Process and Technology Leadership Differentiate Service Delivery

The process and technology solutions a company employs will be largely dictated by the company's industry and product mix. However, Global Business Services leaders across different industries utilize the same leading practices to improve the quality and cost structure of their units. In particular:



- Appointing a single, global end-to-end process owner provides leadership and common vision to a process. The global process owner is responsible for all process and technology investment decisions related to the process. He or she is responsible for managing service delivery, including managing service providers and internal staff supporting the process. The global process owner also owns all financial budget associated with the business process.
- Develop and implement standardized and leading practice processes, policies, and procedures. Whether a process is used by different business units or by different regions, the methodology should remain the same. More importantly, the chosen methodology should represent leading practice vision. For example, an accounts payable organization should standardize net payment terms to maximize the organization's working capital. Or a procurement organization should leverage the same global procurement policy and contract templates. While there may be a need for customization at a local level, leading organizations limit variation based on predetermined reasons.
- Maintain a constant, strong focus on process efficiency and quality improvements. Leading organizations differentiate themselves based on the quality and efficiency of services delivered to their customers. However, the ability to deliver "highest quality" and "most efficient" processes is directly attributable to the adoption of continuous improvement methodologies by the Global Business Services team. Most importantly, changes should be implemented across an entire process owner's domain to help maximize the benefits of the improvements. For example, improvements in OCR accuracy and methodology should be deployed across accounts payable, human resources, and customer service. This often entails embracing the methodology employed by service providers or rolling-out a common methodology across multiple processes and technologies.
- Eliminating unnecessary work and automating required work should be the primary focus of all process owners. Manually performed activities should be the choice of last resort. Therefore, every leading Global Business Services execution strategy should include maintaining a strong focus on automating processes, leveraging common workflow technology across multiple processes and functions, and sharing investments in common, leading applications.
- » Leverage agile systems, data, and processes. Leading Global Business Services organizations anticipate change and build flexibility into processes for scope to be eliminated or volumes to be scaled up or down. In some cases, this level of flexibility calls for extensible systems that increase a business's ability to interface seamlessly with other systems. When services are sourced to an external service provider, this often requires creating modular contracts with flexibility to terminate portions of the scope of services or to increase or decrease volumes without triggering renegotiation.
- Provide self-service visibility and analytics to internal stakeholders. Beyond providing visibility to a global business process owner, Global Business Services needs to make data readily available to its internal stakeholders for use in analyses and strategic decision-making. While most processes and systems provide some level of out-of-the-box static reporting, most stakeholders require ad hoc data visualization tools that allow decision-makers to spin data cubes to validate hypotheses or create better understanding of consumer behavior. By empowering stakeholders with a single source of the data and appropriate visualization tools required to run a business unit, Global Business Services teams build improved trust, deeper relationships, and more strategic roles in their customers' business.



Case Study: How One Global Conglomerate Employed Global Business Services to Create a Platform Supporting Corporate Strategy

Until 2010, one global conglomerate had been viewed as an early pioneer and visionary in business services globalization. They had an existing shared services structure under a Global Business Services organization with a footprint in over 120 counties, including mature global operations in developed North American and European markets. The portfolio of Global Business Services included financial, employee, travel and compliance services that were provided through multiple third party service providers. These operations were successfully delivering high quality, cost effective services to the businesses and partners.

In 2011, robust growth in several emerging global markets required the company to establish support operations that would exploit significant growth opportunities, but its GBS was not properly equipped to do so (as demonstrated in Exhibit 3). In response, the company initiated a strategic back office initiative with the goals to ensure expansion to emerging markets would leverage synergies of existing Global Business Services and support larger scale operations. In addition, the organization sought to drive global process and technology standards across the organization.

An Assessment Points the Way

The company conducted an assessment of the current state of services performed by GBS and the businesses within certain pilot regions. The company began by performing broad-based quantitative and qualitative analyses of areas such as headcount, cost, volumes, and service levels across global business service operations and the businesses in the pilot regions. The team then compared results against leading practices of other competitive multi-nationals to develop a target vision and operating model for their GBS organization.

What followed was a detailed plan to achieve the newly defined operating model with focus on five key dimensions:

- Strategy, including vision, location, and scope of services
- Business processes, including standardization, documentation, and metrics
- >> Technology, including cost efficiency, service quality, complexity, risk mitigation, and operational flexibility
- Operating structure, including organization, cost, governance, and service delivery
- >> People programs, including recruiting, training, and retention

In particular, the company realized that transforming existing shared service centers and their portfolio of disparate outsourcing relationships would be a key enabler to support growth in emerging markets. The following chart compares the company's current environment across the five dimensions to the attributes typically found in a leading Global Business Services organization.



Exhibit 3: Mapping Current State to Leading Practice Global Business Services

	Current Operating Model	Target Operating Model
Strategy	Siloed, fragmented back office with multiple locations and disparate operations; non-standard consumption of service offering across the businesses; multiple third party service providers	Predictable service delivery with primary focus on compliance and controllership; proactive customer management; lower cost sites; enterprise-wide focus
Business Processes	Product / function based processes; non-standard processes with manual workarounds; KPIs exist, but there are opportunities to enhance SLAs and SOWs	Global end-to-end process based standards and ownership; automation / optimization; active process monitoring and control
Technology	Multiple ERPs and tools; manual interfaces; poor integration of functional systems	Simplified technology landscape based on a core set of standard ERPs; fewer charts of accounts; integrated best of breed systems; Service Oriented Architecture (SOA)
Operating Structure	Functional reporting; informal, limited governance and performance management at the business; businesses have fragmented service delivery and multiple points of contact	Global governance model; Global Business Services structure aligned to global growth organizations regional model; local execution, decision making; formal service definitions and service level agreements; GBS relationship managers; rationalized and centralized administration of third party service providers
People Programs	Back office career paths undefined; retention challenges; resourcing sub-optimized, "islands" of capacity	Structured career paths; GBS access to deep pool of talent; ongoing training and development

In order to achieve the target operating model, the company developed a multi-year roadmap to transform existing operations into a leading-edge Global Business Services team. The company expects to obtain superb value from its future state operations:

- » Significant Savings The company projects its service delivery costs will be reduced by 23%.
- **Scalable Operations** Expansion into emerging operations and mature market operations will feature enhanced capacity for accommodating business growth and adapting to changing market conditions.
- **Visibility and Control** The new operations will be managed in a manner that will enhance control and compliance, which will in turn avoid penalties, regulatory issues, and negative public relations events.
- » Simplified Technology Reduced numbers of systems and supporting standardized processes will have lower cost structures to maintain, while also contributing to important management needs to maintain unified reporting and performance metrics.
- **Agility** The modular business architecture planned will allow the company to more easily manage acquisitions and divestitures.
- People This more strategic approach to GBS creates a more explicit and robust career path for back office staff.



Final Thoughts on Implementing a Global Business Services Strategy

The architecture of a Global Business Services strategy is not simple. Yet, the business value provided by a common set of services under centralized management that spans businesses and geographies is a powerful motivator to leverage the approach. As demonstrated in the case study, a significant reduction in operating costs with additional agile scalability and improved control is achievable. While these results cannot be achieved quickly, a multi-phase approach that builds on foundational strategy regulates the amount of change and risk a company will experience. And it will allow early successes in piloted areas to ignite adoption across business units. In summary, companies considering this approach should keep in mind lessons learned by other organizations that have already adopted the strategy:

- Corporate strategy should drive the Global Business Services strategy and the target operating model. The objectives of any Global Business Services strategy must include alignment with corporate strategy and empowering business units to compete in the marketplace.
- » Eliminate 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.
- Focus on solutions to align global business processes and IT strategies. Managing business processes and IT strategies independently will lead to lower quality results.
- Develop a comprehensive, multi-process, multi-year plan to implement the target operating model. Few organizations have the management capability and staff to manage all change in a short period of time. As a result, a multi-phase plan is necessary to rollout new initiatives, learn lessons, and then ramp-up capability.
- Be prescriptive and disciplined with program management, transition, performance management, and governance activities. While these investments may initially seem overly burdensome, the net result will be improved operational results, better customer relationships, and reduced operating risk.
- Do not allow business units to opt-out of Global Business Services initiatives unless there is an exceptionally strong business reason. Diluting a Global Business Services initiative due to differences in leadership vision, or lack of acceptance of the anticipated benefits will only lead to future disagreements and inefficiencies. Because of the strategic importance that Global Business Services initiatives have, Global Business Services should operate across the entire enterprise.

About the Authors

Phil Fersht

Phil Fersht is Founder, Chief Executive Officer and Research Director of HfS Research, the leading global research analyst organization covering global sourcing strategies. He was named "IIAR Analyst of the Year 2010" by the Institute of Industry Analyst Relations (IIAR). This is the most coveted global award for industry analysts in technology and services. His specialist coverage areas include finance, HR and supply chain BPO; he also focuses on industry-specific issues and the convergence of BPO, SaaS and Cloud in a business utility context.

He is an acclaimed industry analyst, practitioner, advisor and strategist across BPO and IT services worldwide, having worked extensively in Europe, North America and Asia. He has advised on more than 100 major outsourcing and offshoring engagements, and consults regularly with senior operations and IT executives on their global sourcing strategies. At HfS Research, Phil directs and contributes to the firm's research and social media strategy, in addition to administering the global finance operations.

Before founding HfS Research, Phil worked at AMR Research (Gartner Group), leading the firm's BPO and ITO practice. Previously, he served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing advisor Everest Group, leading the company's BPO research practice. Phil began his career at IDC across its European and Asia/Pacific operations.

Phil is a frequent author and speaker on IT services, finance, HR and procurement BPO trends and issues. He was named both an "FAO" and "HRO Superstar" by *FAO Today* and *HRO Today* magazines in 2005 through 2010, and was featured as the cover story in the December 2006 issue of *FAO Today* as one of the outsourcing industry's most prominent advisors. He was also nominated for "Advisor of the Year" at the FAO Summit 2008. He speaks regularly at industry conferences, including those produced by The Conference Board, NASSCOM, IDC Directions, the Sourcing Interests Group, the Shared Services & Outsourcing Network and the Council of Supply Chain Management Professionals. He is also a regular columnist for several industry publications, including *Global Services*, *Shared Services & Outsourcing Network, FAO Today* and *Finance Director Europe*.

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Prior to joining HfS, Tony spent nine years at WellPoint, the United States' largest health benefits company, where he had multiple leadership roles. He initiated and led the company's enterprise-wide BPO governance for a multi-vendor, multi-process (call center, back office processing, imaging/data entry/mailroom and KPO) program with thousands of FTEs. He led strategic sourcing in complex indirect services procurement, where he managed the selection and enterprise-wide implementation of an industry leading procurement application while simultaneously leading cross-functional sourcing teams in outsourcing, marketing, consulting, facilities, contingent labor and HR. Tony also led WellPoint's strategic procurement initiatives, including creating and leading its strategic supplier management program, demand and consumption management analyses and business process benchmarking. Before WellPoint, Tony spent seven years consulting with Accenture and MarchFirst, where he specialized in business process simulation and reengineering, strategic customer relationship management and post-merger/acquisition integration management.



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About HfS Research

HfS Research (<u>www.HfSResearch.com</u>) is the foremost research analyst firm and networking community, focused on helping enterprises make complex decisions with their business process operations, IT outsourcing and shared services strategies. It has the largest audience and regular following in today's global sourcing and services industry.

With 60,000 subscribers, HfS Research provides the most impactful and frequently-visited global collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing and shared services dynamics. The organization is distinctive in that it integrates personable social networking with market research and expert advisory services.

The HfS Research mission is to provide a unique environment for collective research, opinion, experience and knowledge across the global outsourcing industry to help enterprises explore new performance thresholds. Led by industry expert Phil Fersht, the HfS Research team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in business process outsourcing, information technology services and cloud business services.

Launched in 2007, HfS Research's acclaimed blog <u>Horses for Sources</u> has more than 120,000 monthly visitors across the global outsourcing industry, and is widely recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community, <u>The BPO and Offshoring Best Practices Forum</u>, is thriving with over 14,500 industry professionals sharing views and information daily. You can access information about HfS at <u>HfSResearch.com</u> and on Twitter at <u>www.twitter.com/horses4sources</u>.

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About PwC

PwC (http://www.pwc.com/us/advisory) provides industry focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 161,000 people in 154 countries across the PwC global network share their thinking, experience and solutions to develop fresh perspectives and practical advice. Our Shared Services and Outsourcing Advisory practice is comprised of 450 core practitioners supported by an additional 1300 professionals across all lines of service whose skills and experience map directly to global sourcing issues. The team helps clients anticipate, create and manage the change associated with all aspects of the global sourcing journey from strategy through implementation and achieving the business case. By leveraging our firm's resources, deep industry experience, and functional acumen across the areas of operations, finance, organizational strategy and structure, process improvement, technology integration and implementation, human resources strategy and organization, benchmarking and risk mitigation, we translate strategic objectives into practical results.

As trusted advisors across the entire global sourcing lifecycle, we bring rigor and discipline to decision making and drive value by helping clients reduce risk and form the bridge among buyers, providers and shared service teams. We help clients formulate and implement strategies, reduce costs, increase efficiency, drive innovation and expand into new markets. We help clients create a Global Business Services model that is customer focused, with standard, cross-functional processes that will free resources and let them focus on the organization's core business. We assist clients in shared services and outsourcing of Finance and Accounting, IT, HR, Procurement, Application Development and Maintenance, Supply Chain, Facilities and Marketing.

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