

# THE EVOLUTION OF GLOBAL BUSINESS SERVICES: ENHANCING THE BENEFITS OF SHARED SERVICES AND OUTSOURCING

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## **Executive Summary**

**In today's business environment, nine out of every ten enterprises have shared services and 97 percent manage outsourcing relationships. However, the majority have 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 the narrower focuses of shared services and outsourcing strategies. It identifies corporate objectives and encourages 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.

When employing a full-lifecycle global business services framework, it is essential to ensure goal alignment, execution and ongoing governance. As more organizations leverage global business services strategies to align business objectives and obtain economies of scale, outsourcing has become an important tool to accelerate and complement shared services strategies. However, 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 to advance the objectives of the enterprise. It is a new approach to managing global sourcing.



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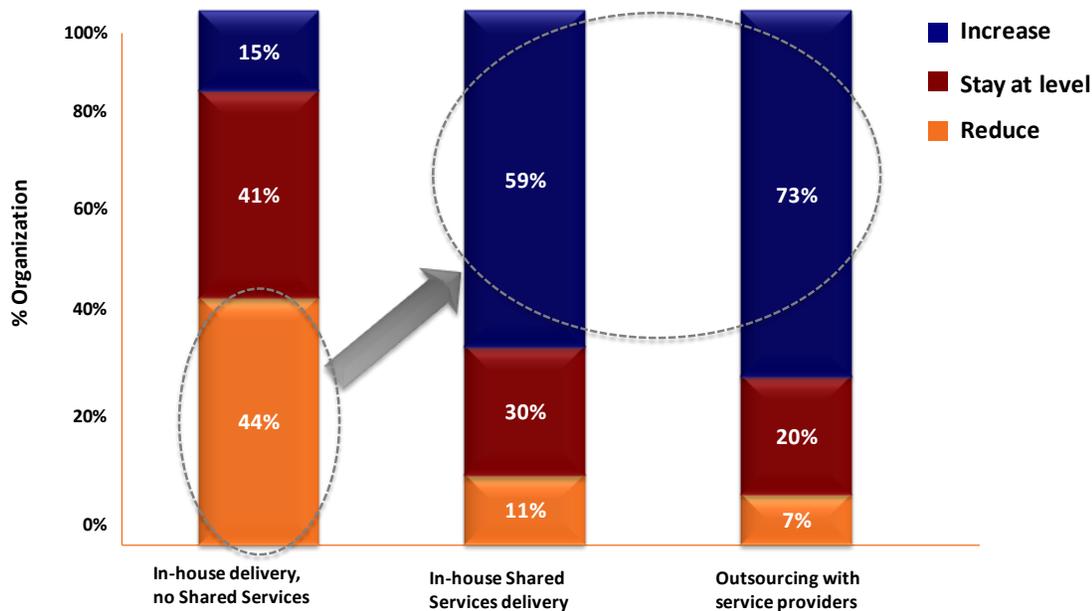
## The Evolution of Global Business Services to Drive Business Objectives

Corporate executives struggle with competitive pressures to be aggressive in the market, but often lack the required capital to develop important administrative and support processes. In too many instances, corporate functions act alone and fail to provide a convincing cross-functional business case. For example, IT organizations may attempt to invest in applications without close linkage to operations, marketing or other important functions. Other times, functions focus too much on their own operational efficiencies, instead of their contributions to broader corporate objectives. For instance, HR organizations may outsource their processes to drive down administrative costs, but fail to build a business case that provides (or develops) highly talented, cost effective human capital to global operating units.

To accelerate business benefits such as lower cost of operations and improved business processes, the vast majorities of organizations centralize some functions into shared services and outsource various others to third-party service providers (see Exhibit 1). While these initiatives are often singularly successful at providing benefits to the individual function, research shows that these initiatives have, in most situations, failed to improve comprehensively the broader corporate strategic objectives of these organizations. As shown below, 44 percent of organizations seek to reduce their in-house delivery capabilities and shift to shared services (59%) or outsourcing (73%) models.

### Exhibit 1: Planned adoption of shared services and outsourcing drives the need for a global business services framework

*Emerging from the recession, will your company increase / reduce its reliance on the following Operating models for general and administrative functions, over the next three years?*

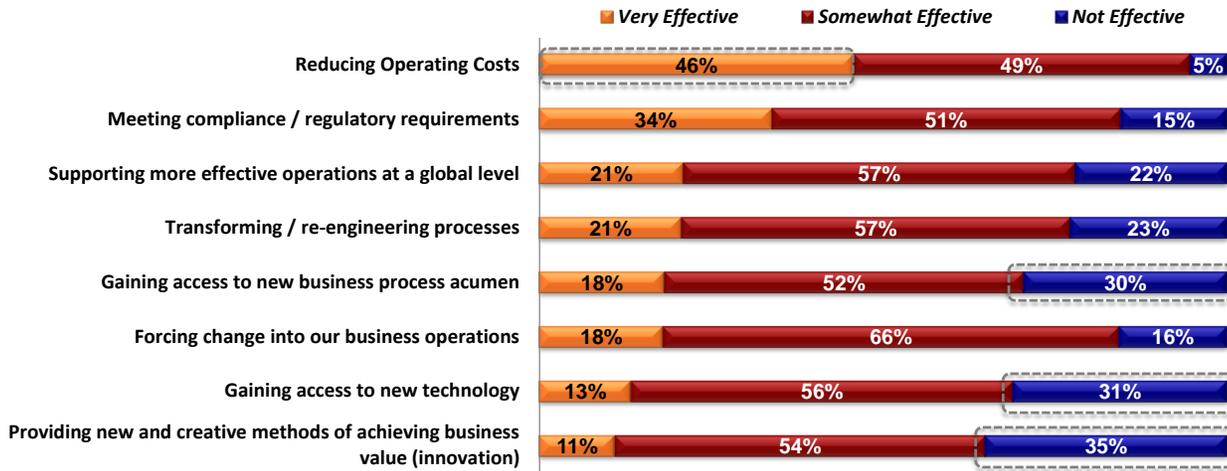


Source: HfS Research and the London School of Economics Outsourcing Unit, 2011  
Sample: 336 buyers of Outsourcing Services

If these organizations fail to establish an effective global business services strategy, they'll likely repeat the same failures. Exhibit 2 shows that 46 percent of organizations have been very effective at leveraging outsourcing to reduce operating costs, but other important benefits – such as transformation, new technology and innovation – lag far behind.

**Exhibit 2: Business benefits beyond cost reduction have been modest with outsourcing engagements to date**

*Q. How effective have your current outsourcing initiatives been at achieving the following business benefits to-date?*



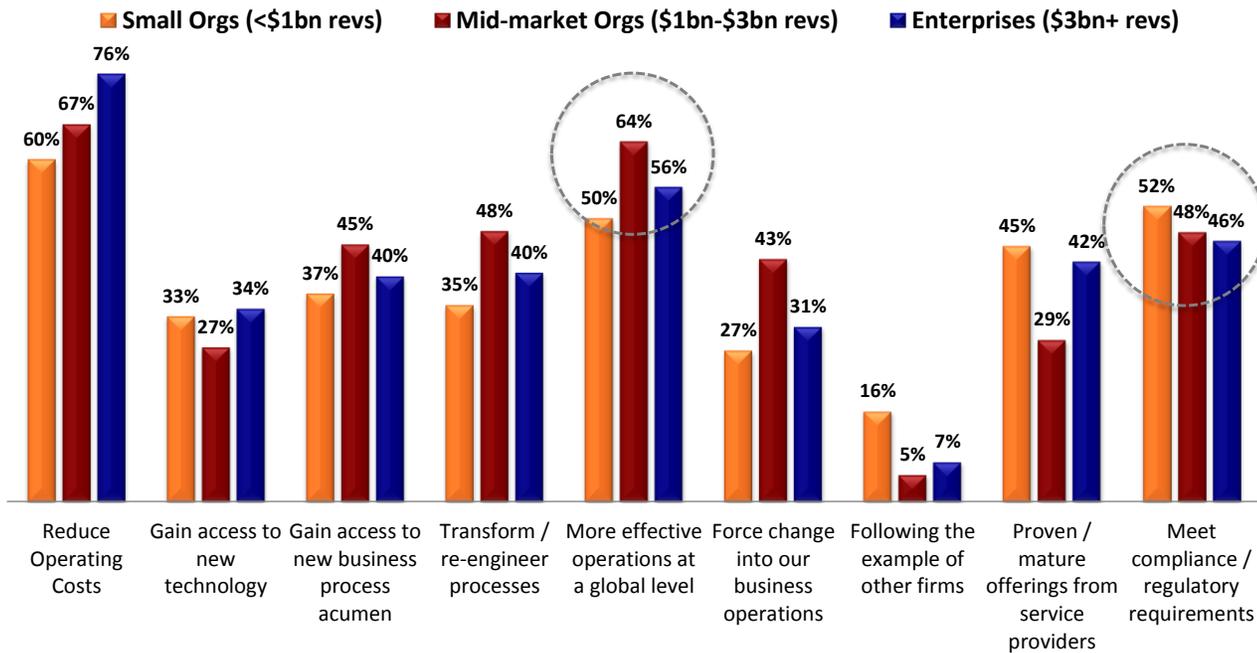
Source: HfS Research and the London School of Economics Outsourcing Unit, 2011  
Sample: 347 Buyers of Outsourcing Services

Organizations need to focus on aligning corporate strategy, improving investment portfolio decisions and reallocating current spending. To do so, they are adopting global business services models. The executives at these enterprises are corraling their functional leaders and third-party service providers to assess common business practices to operationalize their companies' strategic global objectives. Then, they are together making three to five year technology decisions to address the most challenging issues, such as applications consolidation and establishment of common business processes. To accelerate these changes, these companies are leveraging economical shared services and third-party relationships to develop process acumen, reduce labor costs and consolidate operations.

HfS Research has observed a significant shift in outsourcing drivers, which is symptomatic of the evolution of global business services strategies. As shown in Exhibit 3, organizations still need to reduce cost, but they are executing global business services strategies that will improve global operational effectiveness and enable them to meet increasingly complex global regulatory requirements.

**Exhibit 3: Enterprises are looking for global business effectiveness with their operations**

*How important are the following business DRIVERS behind your company's IT outsourcing and BPO decision-making this year?*  
*Answer = Very Important*



Source: HfS Research and the London School of Economics Outsourcing Unit, 2011  
Sample: 336 Buyers of Outsourcing Services

## Global Business Services Makes Sense of the Tangled Web of Outsourcing and Shared Services

As organizations adopt a global business services model, executives are realizing that administrative costs are already low, but the allocation of administrative spend is suboptimal – too much of it is simply being spent in the wrong and fragmented ways. Moreover, executives are struggling to advance functional capabilities to drive corporate strategies, and traditional outsourcing simply has not delivered these outcomes. As noted earlier, while 46 percent of organizations have effectively reduced operating costs through outsourcing, other than meeting compliance and regulatory requirements they have only somewhat effectively received other benefits of outsourcing.

Whatever motives enterprises have when they adopt shared services or outsourcing, the first critical metric they must reach is to save the money they had intended at the onset of the initiative. These cost savings targets are being met – and being met well, with over 95 percent of current outsourcing clients viewing their engagements as effective for reducing their operating costs. Half of them are very pleased with their cost-reduction progress, and the other half sees their progress as “somewhat effective.” However, that’s pretty much where the good news tapers off, as the rest of the business benefits are relatively modest.

In the process of reevaluating allocation of spend and making new technology/business process decisions, organizations are running into a hodgepodge of uncoordinated, suboptimal outsourcing and shared services decisions to which their disparate businesses and functions have previously committed. Managing disconnected shared services, existing outsourcing contracts with limited flexibility and large service providers with dissimilar motives is a significant challenge. An

important task while consolidating shared services organizations and outsourcing relationships is recovering from the piecemeal, labor arbitrage-focused outsourcing agreements entered into during recent recessions.

Driven by the need to make dramatic improvements in costs, but without forethought as to aligning corporate strategies, most existing outsourcing contracts and shared service functions are dead ends. The service providers have little motive to provide innovations, and may lack the ability to do so as they were likely never selected on the basis of having this capability. This is the “same mess, for less” quandary in which IT organizations grapple with a wide variety of Application Development Maintenance (ADM) and infrastructure vendors doing the same work as internal organizations previously did, and administrative and operations areas managing customer service, finance and accounting outsourcing (FAO), human resources outsourcing (HRO) and back-office processing service providers, but without the necessary interfaces to make them work seamlessly. In some cases, these functional areas outsourced operations to service providers that provided key applications in order to avoid internal IT oversight, but these applications may not be easily linked, and rarely operate using the same security and privacy compliance requirements.

Senior executives also discover a variety of issues underlying their organizations’ shared services and outsourcing efforts that are due to a lack of a well-integrated, strongly positioned global business services governance team. These issues often include:

- Functional shared services centers inhibit cross-functional synergies.
- Business cases were vague and are no longer managed, while a series of change orders and/or delays in execution have eroded the value and focus of the initial strategy.
- Service providers have used their influence to sell services to different business owners, which has increased their leverage.
- A true governance organization (as compared to a vendor management team) does not guide the use of global business services — including opportunity assessments, service provider selection, performance management and leading practices regarding communications, transitions and retained organizations — within the enterprise.
- Internal vendor management teams are not managing the service providers well, and infrequently follow any common approach.
- Business owners with limited outsourcing experience negotiate complex contracts, while their service providers employ heavily trained, well-staffed negotiation teams.
- Few organizations utilize strong enterprise-wide change management and do little to prepare cultures for outsourcing, which results in ripples of post-sourcing dissatisfaction among employees.

## Global Business Services Improves Collaboration Across the Enterprise Ecosystem

Since organizations need to quickly propel their business processes forward (and, in some cases, source the previous sacred cows), they must evaluate how they can leverage a comprehensive global business services framework to obtain value beyond labor arbitrage, while also bringing consistent approaches to global services strategy formation, transition, and governance. Enterprises need to bring their functional leaders under a single operating framework to establish, with each other and their service providers, clear innovation and transformational objectives that take into account investment models, gain sharing and ownership. In some cases, organizations need to tap into service providers’ best-in-class applications and global footprint.

A global business services framework is not the same as shared services or outsourcing. While the framework calls for evaluation of shared services and outsourcing solutions, the difference lies in an entire organization collectively leveraging global business services to propel attainment of corporate strategies. As mentioned previously, many shared services and outsourcing strategies remain siloed and poorly integrated into corporate strategies, leading to functional operating efficiencies with little alignment within the organization. A global business services strategy unites functional strategies into

a collective plan to achieve enterprise objectives. Exhibit 4 clarifies why global business services strategies are more compelling than standalone shared services and outsourcing strategies.

**Exhibit 4: The enhanced value of a global business services framework compared to siloed shared services and outsourcing environments**

Dimension	Shared Services	Outsourcing	Global Business Services
Objective	Cost savings, improved efficiencies and occasionally compliance	Typically cost savings driven	Cost savings, efficiencies, compliance, service focus, agility, scalability and innovation
Scope	Typically 1-2 non-core process/es, May include business critical processes	Typically 1-2 non-core process/es  1 or more providers. Typically does not include business critical processes	2 or more processes, often including the less obvious choices  Includes business critical processes  Process are considered for GBS unless core to the business. Chooses best solution (i.e., shared services vs. outsourcing)
Scalability	Typically limited to initial scope	Highly scalable	Highly scalable by design
Efficiency	Leading practice is focused on driving reduced cost and process efficiency	Leading practice is focused on driving reduced cost and process efficiency	Ability to achieve greater efficiencies across processes (e.g., handoffs)
Effectiveness	Standardized processes but limited to those processes in scope	Ability to drive improved effectiveness depends on the provider	Highly focused on driving cross-process effectiveness  Highly standardized processes  Standard data model
Cost Savings	Cost savings of 20-50% typically achieved on the processes in scope	Cost savings of 20-50% typically achieved on the processes in scope	Cost savings are optimized across all processes in scope, often resulting in enhanced savings
Agility	Agile as it relates to in-scope processes	Limited by the scope of the contract with provider	High, because coordinated centrally
Process Reengineering (Innovation)	Very limited	Leverages provider-owned capabilities to drive process redesign, but is typically siloed	Focuses on cross-process redesign, which drives benefits  Focuses on developing new services
Relationship Management	Tends to be arms length	Arms length with third-party	Strategic partner with the business

Dimension	Shared Services	Outsourcing	Global Business Services
Governance	Variety of approaches ranging from siloed to coordinated	Frequently managed as separate contracts within functions	Centralized and coordinated
Degree of Change from Decentralized Operations	Moderate	Significant	Transformational
Culture	Practice is to establish a service-focused culture	Typically approached as managing a third-party contract	Service-focused culture is fundamental  Work as a single team regardless of whether shared services or outsourced. Transformational change
Integration	Typically depends on number of shared services locations	Varies depending on size of service provider portfolio	Highly integrated sourcing strategy and execution across processes, leveraging leading practices and lessons learned
Information Technology Alignment	Alignment with IT depends on whether IT is in shared services	Limited opportunity to achieve alignment even if IT is part of contract	Strong coordination between IT and processes  Becomes a provider of solutions, not technology. Leverage common IT platform (not necessarily single ERP)
Impact on M&A Activity	Can provide some synergies, depending on level of maturity	Can be challenging to bring processes back in-house, if that is the intent  Opportunity to leverage existing contract	Very high degree of synergies can be achieved  Speed of integration is improved significantly

Many enterprises have successfully implemented global business services strategies. A large global consumer products company is particularly well known for developing a shared services organization that has propelled the enterprise's strategies. It leveraged its third-party service providers to reduce operating costs by up to 50 percent, drive global compliance and leverage innovative, best in class solutions for all global business units. In the process, the shared services function went from being an organization employees dreaded due to continued cost cutting efforts to an organization in which the company's best employees want to work. All this because the organization delivers significant value to corporate objectives and employees want to be part of that change.

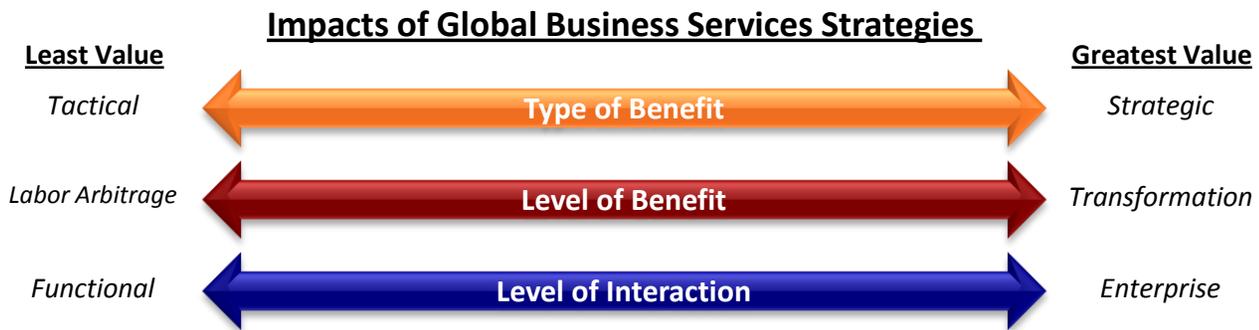
Another example: a large healthcare organization, facing significant government regulatory changes, sought to drive \$1 billion from its administrative costs. To do so, it employed a global business services framework to force functional operating silos to collaborate on its objective. This meant that procurement no longer begged operating units to reduce their costs. Instead, procurement was thrust into their most strategic acquisitions as a valuable partner. The operations and

IT organizations were forced to make difficult decisions on system consolidations, and radical innovations to automate, eliminate and improve the operations team’s results.

## A Well-executed Global Business Services Framework is Closely Tied to Corporate Strategy

In general, senior executives can evaluate the level of impact global business services strategies will have on their company based on three criteria:

**Exhibit 5: Value impacts of global business services**



The first criterion is the intended type of benefit a global business services strategy will bring to the organization. The collaborative nature of integrating internal functional strategies and service provider capabilities to achieve corporate objectives is strategic. Global business services strategies require focus to go beyond labor arbitrage in non-core areas such as finance, HR and IT. Scope will expand to procurement, supply chain, customer service and operations functions to advance market share gains. Global business services strategies’ wider focus on broader business objectives requires cross-discipline coordination, and therefore necessitates strong grounding in corporate objectives to drive decision-making. For example, one large global software and services organization woke from decades of rapid growth to an underbelly of administrative functions that hampered its global competitiveness due to a lack of global, standard processes and underinvestment in technologies to support accounts receivable, procurement and HR. The enterprise realized the lack of standards was creating serious compliance issues in Europe and North America, and making its global commercial clients’ lives difficult when handling invoicing and payments. The company partnered with a large outsourcing organization to make significant investments in technology, and to centralize its functions into regional centers close to its customers.

The second criterion is the intended level of benefit a global business services strategy will deliver to the organization. For some enterprises, the historical manner in which they have delivered the same administrative services is sufficient to obtain objectives. For example, one large insurer’s CFO simply needed to reduce costs and improve management focus, so he chose a labor arbitrage solution that employed little third-party supplier- provided technology. However, another organization’s senior vice president of operations was more interested in transformation, and needed to increase the level of benefits his organization delivered. When he outsourced his print operation, he selected a supplier that leveraged advanced technology to reduce the number of customer mailings and dramatically reduce postage costs.

The third criterion is the level of cross-functional interaction required to drive the necessary results. An HR- specific shared services function is likely to require some interaction between itself and IT for a platform, but little other interaction with other functions. A medical device service provider attempting to significantly improve its cash flow by enhancing order management and inventory management capabilities would likely consider a shared services strategy that relied on closer alignment of IT, order entry and warehousing/logistics organizations.

Remember, global business services strategies are not “one size fits all” as no organization’s corporate strategy is the same. As a result, the application of a global business services assessment framework to advance different organizations’ objectives will have different results. For example, regional operating and compliance differences required a different strategy for driving consolidation and strategic technology to a large automotive company’s North American operation, while its European operation didn’t allow for the same level of consolidation due to differences in European company personal financing marketplaces. However, a large insurer made the strategic decision to centralize its shared services in India not only to leverage availability of high quality technical skills, but it also planned to leverage the shared service center as a regional hub to provide new insurance products to the local population. Clearly, different corporate strategies will result in different global business services strategies.

## Deploying an Opportunity Assessment Model to Align Functional Leaders and Service Providers

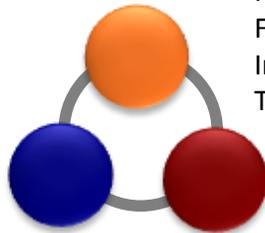
The biggest challenge confronting functional leaders and service providers with limited experience in collaborating to drive corporate strategy instead of functional objectives is assessing their collective opportunities. To address this challenge, business executives must leverage a consistent global business services assessment model that can focus their management team on the value obtained through global services, the costs and the key execution factors required to succeed.

Exhibit 6 depicts a simple assessment model that focuses stakeholders on the benefits an organization can receive, the opportunity costs of these decisions, and the factors that can make execution successful.

### Exhibit 6: Opportunity assessment model for global business services

#### The Benefits

- Obtain Operational Improvements
- Improve Flexibility (volumes, scalability)
- Reduce Operating Costs
- Reprioritize Working Capital
- Focus Management Attention
- Improve Expertise
- Tax Incentives



#### The Costs

- Limit Staff Development
- Increase Exposure to Intellectual Property Risk
- Increase Exposure to Geopolitical Risk
- Risk Other Companies’ Performance Failures
- Limit Flexibility (contractual commitments, difficult to undo/unwind)
- Increase Exposure to Customer and Supplier Risk

#### Execution

- Standardizing Requirements and Processes
- Documenting Policies, Processes, Interfaces, and Performance Metrics
- Standardizing Applications
- Implementing Governance and Performance Management Processes
- Improving Compliance and Security Measures
- Executing Change Management
- Adapting Business Continuity Plans

**The Benefits** – To an organization leveraging a global business services model, sourcing must be more than simple labor arbitrage. The model should look to improve operational results (quality and timeliness), while relying on the service provider’s expertise, infrastructure and economies of scale to improve flexibility and reduce costs. Importantly, when enterprises and their service providers explicitly agree on an innovation roadmap, global business services strategies allow

organizations to reallocate their capital investment and management attention to areas more essential to their business objectives, and thus rely on their providers to spread their investments across multiple clients and make the necessary improvements to their operations. In some cases, organizations simply find they are not good at executing a particular function, and leveraging the expertise of an external provider will deliver significant benefits.

**The Costs** – Every global business services strategy needs to accommodate direct and indirect impacts. Organizations frequently find that their staff development models post-transition are inadequate for continuing to build the necessary expertise and management skills over a function. Enterprises must become more explicit in their management of intellectual property. Some organizations employing external providers in a global business services model realize that it's more challenging to influence a third-party supplier's performance – and non-performance can impact stakeholders, end customers and regulators. Ultimately, as outsourcing contracts and global shared services often limit flexibility and typically expose organizations to new geopolitical risks, the client must be aware of these issues and manage them.

**Execution** – The devil is in the details, and a successful global business services program requires consistent management approaches. The more standardized the organization's requirements, the better documented the processes, and the simpler the application strategy, the simpler the strategy execution will be. However, execution must be actively managed – we believe *hyperactively* managed. It is essential that governance organizations are created to manage performance, ensure compliance and plan for new business continuity events. Importantly, global business services strategies are not one-time decisions – the results will continue well after the strategy is determined, but the business will change for a variety of reasons, requiring adjustments to the global business services strategies. Execution is about adapting to change.

One large manufacturing company recognized that its global competitiveness was hampered by 13 legacy ERP platforms, five "enterprise" data warehouses and distinct regional operating processes. Under the guidance of a consulting firm, its executives facilitated a process wherein it identified 19 primary opportunities to improve its competitiveness (benefits) and assigned high potential leaders to cross-functional organizations to develop detailed strategies and financial businesses cases (costs) to implement their strategies. Each workstream presented to executive management its plan several times, iteratively elaborating on its strategy. Following this process, the executive team asked the workstream leads to develop detailed requirements (execution) they needed to succeed. Collectively, the company identified \$430 million of net benefits in just the first two years by collaboratively developing its global business services strategy.

## Selecting the Right Execution Model for Global Business Services

While some organizations will make a quick leap into a shared service model, they must first understand how the model will contribute to their objectives. It is only after an enterprise understands how its global business services strategies will derive benefits, costs and execution objectives, while advancing the business processes' contribution to the organization's corporate objectives, that a global business services operating model should be determined. Selecting the right model can tremendously improve execution of the strategy. Exhibit 7 details the pros and cons of the three basic operating models.

- In a **facility-centric model**, operations – such as HR, finance and IT – are consolidated into a specific facility (or group of facilities) typically in a low labor cost region, although sometimes in areas where there is great availability of particular skills (e.g., the Philippine's expertise in medicine and nursing).
- Some organizations elect an operating model that increases **focus on specific processes or customers**. These may be centers of excellence (e.g. finance and accounting-specific locations) or regional hubs that bring the delivery model closer to the customers they serve (e.g., language-specific customer service locations).
- The **outsourcing model** is the most frequently used – an organization simply enters into a contractual agreement wherein an external provider delivers the defined services.

As stated earlier, some organizations elect hybrid, rather than single, execution models.

**Exhibit 7: Execution models for global business services strategies**

	<b>Facility-Centric</b>	<b>Process or Customer Focus</b>	<b>Outsourcing</b>
<b>Pros</b>	<p>Achieve economies of scale by co-locating facilities for large centers</p> <p>Standardize business continuity planning, transportation, housing and dining options to manage risk and cost</p> <p>Create more opportunities to improve communication, enhance leadership effectiveness, informally –craft serendipitous innovations in the hallways, and foster cross-discipline career development</p> <p>No profit margins, long-term contracts or SLAs to negotiate</p>	<p>Co-locating all processes in a specific function accelerates standardization and provides greater scalability to handle volume fluctuations</p> <p>Region-based hubs can more readily service languages that are not globally available (e.g., Latin America, Europe)</p> <p>Service providers can be selected based on regional or functional strength</p>	<p>Leverages the capabilities and investments of the service providers</p> <p>Allows more flexibility (depending on the contract language) to adjust to volumes and process changes</p>
<b>Cons</b>	<p>Concentrates geopolitical risk</p> <p>Difficulties associated with having different service providers work in the same location</p> <p>Recruiting in some locations can be a challenge</p> <p>Typically does not effectively leverage service providers' expertise or investments</p> <p>Organizations often underestimate the amount of effort required to build a new center in an unfamiliar location</p>	<p>Function or region-specific centers can limit cross-functional collaboration and, in some cases, create alignment challenges</p> <p>Economies of scope are reduced, and this is one of the primary drivers for organizations seeking greater cross-functional alignment</p>	<p>Changes are more difficult to manage, as they often require contractual renegotiation</p> <p>All contracts end, and the client must make decisions at the end of the term to renew, renegotiate or move services</p>

## Developing a Governance Strategy for Global Business Services

Forming, executing and updating global business services strategies is a significant responsibility requiring a mix of skills that are unique but necessary to achieve the organization's goals. Executives are recognizing the need to create more strategic global sourcing objectives, exercise more control over global business services decisions, drive more innovation from service providers and more tightly manage increasingly complex contracts. Our research strongly suggests that success is largely based on the degree to which these responsibilities, roles and processes are formalized within a specialized global business services governance organization.

While there is no one-size fits all global sourcing strategy, we believe there is a leading practice standard for a global business services governance team's organization design. This standard is based on the following fundamental principles:

- Governance organizations must focus on aligning internal stakeholder strategies with the best global business services solution.
- Governance organizations must provision solutions, not stand-alone labor or technology services.
- Governance organizations must purposely manage a broad portfolio of services to ensure the services are flexible and scalable.
- Governance organizations must be centrally coordinated.
- Governance organizations must have influence over all of the organization's global business services activities, applying consistent governance and rigor across all processes.
- Governance organizations must manage results meticulously, with a performance-focused and continuous improvement culture.

To effectively achieve their objectives, governance teams must perform the functions detailed in Exhibit 8.

### Exhibit 8: Key functions of global business services governance teams

<p><b>Strategy and Relationship Management</b></p> <ul style="list-style-type: none"> <li>• Aligning Corporate Strategy with Global Business Services Strategy</li> <li>• Aligning Service Provider Strategies with Corporate Objectives</li> <li>• Organizational Change Management</li> <li>• Refining Global Sourcing Strategies Based on Changes</li> <li>• Business and User Relationship Management</li> </ul>	<p><b>Sourcing</b></p> <ul style="list-style-type: none"> <li>• Requirements Definition</li> <li>• Service Provider Selection</li> <li>• Contract Negotiation</li> <li>• Contract Management</li> <li>• Invoice Review and Approval</li> </ul>
<p><b>Implementation and Transition</b></p> <ul style="list-style-type: none"> <li>• Transition Project Management</li> <li>• Retained Organization Design</li> <li>• M&amp;A Integration and Divestiture Management</li> </ul>	<p><b>Operational Effectiveness</b></p> <ul style="list-style-type: none"> <li>• Day-to-Day Process Management</li> <li>• Service Level Management</li> <li>• Communication and Training</li> <li>• Issue Management and Root Cause Analysis</li> <li>• Program and Risk Management</li> </ul>

The two primary challenges for most governance organizations are: 1) developing sophisticated, mature governance processes; and 2) aligning organization models optimally to achieve their objectives while vesting the governance organization with sufficient decision-making authority.

Most organizations have some form of governance and vendor management, even if it is informal. It may reside in chief of staff, strategy, procurement, operations, project management or IT organizations – or possibly all of the above! With so many stakeholders managing a global business services strategy, it is not surprising that most organizations suffer from misalignment. The result is that many governance processes are never fully developed to achieve the greatest corporate outcomes. To be successful, each of the governance processes needs defined roles and responsibilities, tools and templates, and must be measured.

Because execution of businesses processes by service providers is often intertwined with business owner operations (e.g., a customer service vendor delivering calls for the customer service leader’s operations), their goals must be aligned and the internal operations owner must play an important role in day-to-day management of business processes. However, many governance processes require cross-functional strategic decision-making. Therefore, governance organizations should not be order takers for their internal stakeholders. Rather, they need to actively drive the discussion of alignment of initiatives to strategic objectives, enforce contractual requirements, proactively manage change and drive performance management. To do this, they must have the authority to act and drive collaborative discussion within the organization.

## How to Structure a Governance Organization for Global Business Services

One critical decision is the organization design of the governance team. To be cross-functionally influential and strategic in order to drive execution of corporate strategies, the governance organization must be at a much more senior level than is traditional for management of tactical outsourcing relationships.

Enterprises establishing a governance team must vet a variety of options in order to facilitate cross-functional collaboration. The final decision concerns the level of decentralization or centralization of the governance process ownership. Exhibit 9 plots common key responsibilities of governance organizations and business process owners.

**Exhibit 9: Key global business services responsibilities in different organization models**

	Decentralized			Centralized			Center-Led		
	Perform	Approve	Consulted	Perform	Approve	Consulted	Perform	Approve	Consulted
Develop Global Business Services Strategy	B	B	C	C	C	B	C	C	B
Assess Global Business Services Alternatives	B	B	C	C	C	B	C	C	B
Design Shared Services	B	B	C	C	C	B	C	C	B
Select and Contract with Service Providers	B	B	C	C	C	B	C	B	B
Transition to Shared Services	B	B	C	B	C	C	B	B	C
Transition to Service Providers	B	B	C	B	C	C	B	B	C
Operate Shared Services	B	B	C	B	C	C	B	B	C
Govern Shared Services	B	B	C	C	C	B	C	C	B
Govern Service Providers	B	B	C	C	C	B	C	C	B

C	Centralized Team
B	Business Process Owner

In a decentralized model, a governance team takes a lighter touch approach, and facilitates development of a global business services strategy through a loose confederation of decentralized pseudo-governance and vendor management teams. Each process stakeholder develops strategies and reviews them with the governance team, which ensures all strategies get the appropriate amount of visibility by other stakeholders. The governance team may develop a common framework for all aspects of governance, but business process owners actually perform all recommendations, decisions and governance. This form of organization design vests great flexibility and decision-making with business process owners, and encourages communication and discussion of strategies among a broader audience. However, decentralized ownership often results in misaligned objectives and lost opportunity, both in strategy formation and execution. Leading practices, even when communicated, may not be heeded.

In a centralized model, the governance team develops the organization’s global business services strategy based on stakeholder feedback – although the governance team makes the final decisions. Transitions are project managed by the governance team, but heavily staffed by business process owners. Following transition, the governance organization takes responsibility for performance management, reporting and contract changes. The governance organization also defines the framework for day-to-day vendor management, but the business process owners who take responsibility for vendor performance apply and manage it. The strong control exerted in a centralized model creates more predictable outcomes and better alignment/cohesion among different functional process owners’ efforts. However, some enterprises prefer business process owners take a more significant role in defining and managing their own strategies. Centralized organizations have higher-skilled talent and clearer career progressions.

In a center-led model, the governance team develops the global business services strategy, and each business process owner is required to use standard frameworks to define and implement each area’s strategy. The governance team has greater formal capability to require more collaboration among functional areas, and it retains ultimate governance responsibility following transition, which it also project manages. However, day-to-day management remains the business process owners’ responsibility. This model is efficient and effective, embedding high levels of accountability with the business process owners and more focus on business strategy alignment than the decentralized model. However, distributed decision-making around selection of service providers can drive less than optimum outcomes.

The second set of decisions is on the functional processes of the governance organization. Regardless of the model selected, the team still needs to perform certain core processes:



- Performance Management – Managing performance to SLAs, driving root cause analysis and identifying process improvements.
- Sourcing and Negotiation – Establishing selection criteria, selecting service providers and negotiating contracts and statements of work.
- Reporting and Compliance – Tracking and communicating key performance indicators to stakeholders and completing compliance requirements.
- Transition Management – Authoring work breakdown structure, establishing transition timelines and project managing during transition and stabilization.
- Demand Management – Identifying sourcing opportunities within the organization and managing changing volumes, requirements and systems.
- Process Strategy and Transformation – Identification of leading practices and benchmarks required to align global business services strategies to corporate objectives.
- Program/Portfolio Management – Tracking progress toward achievement of global business services strategies and contributions to enterprise objectives.
- Risk Management – Business continuity planning and monitoring service provider stability.

## HfS Takeaways: Key Drivers for Successful Global Business Services Execution

Establishing a global business services strategy can accelerate achievement of enterprise strategic objectives. Regardless of an organization's industry, specific strategic objectives, the variety of reporting structures or alignment of functional responsibilities, the transformation must remain the critical focus of executives. The key factors that will ultimately determine their success and that of a global business strategy are:

- ❖ **Corporate strategy drives global business strategies.** Focus global business strategies on enterprise strategies. Keep a tight rein on change orders, ancillary decisions and stakeholder alignment.
- ❖ **Marketplaces change and global business strategies must be adapted.** Despite the best efforts to anticipate needs for scalability, extensibility and flexibility, global business strategies must constantly adapt to marketplace demands on an organization. No matter the momentum of current strategies or the effort required to realign global business strategies, executives must refocus global business strategies to optimize their enterprise objectives.
- ❖ **Innovation requires investment in developing ideas and implementing solutions.** While most organizations are dissatisfied with the amount of innovation they receive from service providers, the truth is most organizations under-invest their resources and efforts to innovate. They will get and derive benefits from innovation if they invest in it.
- ❖ **Create a culture of open problem solving, root cause analysis, and leading practice sharing.** Implementation and operation of a global business services strategy will come with their share of issues. Reward open, early disclosure of problems before they become significant. Focus teams on root cause analysis and sharing best practices. Despite how dissimilar two processes may be, the teams managing them can learn a great deal 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. Failed efforts by overly ambitious teams that bite off more than they can successfully execute are a common occurrence. Develop a two to three year plan to achieve objectives.
- ❖ **Governance requires professional, experienced staffing and careful attention to career development.** The governance team drives execution of global business strategies. Acquiring the right mix of strategic thinking, operational focus and relationship management skills is critical to success. Moreover, retaining this staff requires clear career development opportunities and opening new paths to qualified staff.

- ❖ **Get prescriptive with vendor management activities.** Poor quality vendor management activities led by business process owners mar many global services strategies. Governance organizations are not ivory towers. They must ensure business units are managing service providers consistently and reliably by deploying and monitoring common processes.
- ❖ **The right people and culture matter.** It requires a strong background to drive collaboration among diverse internal stakeholders. Assigning the right people to lead global business services strategy development makes a significant difference. Change doesn't end within the leadership team because employees must increasingly rely on their counterparts at different companies to devise new strategies, resolve problems, and work collaboratively.

## About the Authors

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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

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Tony holds an MA in Communication Management from the University of Southern California's Annenberg School for Communication and a BA in Organizational Communication (Magna Cum Laude) from Pepperdine University. He is a Certified Professional in Supply Management (CPSM) from the Institute of Supply Management (ISM).

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Before joining PwC, Charles was the ITO service line leader for an outsourcing advisory firm. He provided both ITO and Business Process Outsourcing (BPO) advisory services to clients. He was responsible for establishing an ITO and BPO practice in Asia and established that firm's global Business Process Transformation and Management practice. Charles has lectured and published around the world on shared services and outsourcing subjects. He has a BS in Mathematics from Virginia Tech and Masters and Doctorate degrees from the University of Virginia.

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## About HfS Research

HfS Research ([www.HfSResearch.com](http://www.HfSResearch.com)) is the foremost research analyst firm and social 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 industry.

With 55,000 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 [Horses for Sources](#) 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, [The BPO and Offshoring Best Practices Forum](#), is thriving with over 13,200 industry professionals sharing views and information daily. You can access information about HfS at [HfSResearch.com](http://HfSResearch.com) and on Twitter at [www.twitter.com/horses4sources](http://www.twitter.com/horses4sources).

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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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