



How can Global Business Services drive value across continents?

Findings from research in Global Business Services operations



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The better the world works.

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards.

Building a better
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Foreword



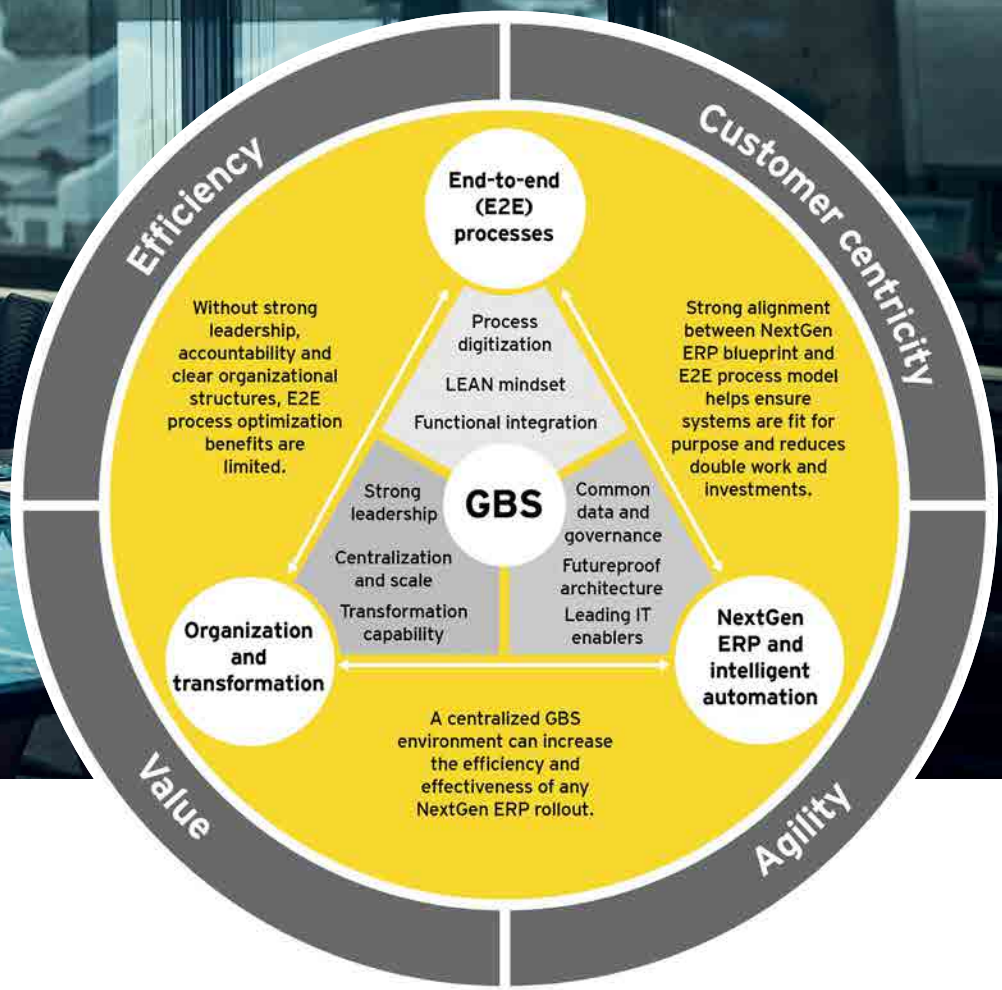
“The power of EY new GBS concept is to create a silo-free operating model, capturing the benefits of end-to-end processes. Such Global Business Service model can act as a platform for driving cross-functional E2E process harmonization, organizational transformation as well as guide the IT landscape evolution – GBS being the engine for the organization-wide digital transformation.”

Christian Mertin
EY Global GBS Solution Leader

GBS is the evolution of implementing cross-functional shared services and business process outsourcing (BPO) – both focused on process efficiency improvement and cost reduction through lower rates of labor in low-cost offshore locations. Now is a great opportunity to look back at the evolution of global business services and shared services, in order to shape the future.

Today Global Business Services face a paradigm change, moving further up the value chain and focusing on creating customer-centric, digitalized process flows across functions and geographies. Flexible operating models are steered globally and independently of traditional business units.

Innovation is in the DNA of modern GBS, and emerging technology managed by GBS can support exceptional performance across the organization. At the same time, GBS units remain lean, cost competitive and efficient – as they have always been.



GBS can play a vital role in navigating the Transformative Age to:


- ▶ Reach a value-driven, yet cost-efficient back office
- ▶ Identify an agile operating platform
- ▶ Drive digitalization
- ▶ Enable a superior customer journey.

Moreover, GBS can be a catalyst for transformation and become a platform for building E2E processes and realizing full potential of NextGen ERP.

- ▶ Without strong leadership, accountability and clear organizational structures E2E process optimization benefits are limited: with Global Process Owners, GBS can provide this required strong leadership and oversight.

- ▶ Strong alignment between NextGen ERP blueprint and E2E process model helps ensure systems are fit for purpose and reduces double work/investments. GBS is very close to technology, potentially being a company's technology ecosystem manager in the near future.
- ▶ A centralized GBS environment can increase efficiency and effectiveness of the NextGen ERP roll-out.

We thus see a GBS in the best position to adopt opportunities of the Digital Age as an IT-enabled business transformation. Understanding business requirements, dependency management and integrated transformation planning are key areas of success – and GBS is the best unit to provide and help manage these topics.

A portrait of Prof. Dr. Dirk Klimkeit, a middle-aged man with short brown hair and glasses, smiling warmly. He is wearing a dark suit jacket, a white dress shirt, and a red tie with a small white square pattern. The background is a solid red color.

The study has been done by
Prof. Dr. Dirk Klimkeit

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How Companies are Implementing the Global Business Services (GBS) Target Operating Model

Good Practices Identified in an Exploratory Study in Asia and Europe

Prof. Dr. Dirk Klimkeit, Center of Service Management Studies, Baden-Wuerttemberg Cooperative State University Stuttgart

Since the 1990s many companies have introduced shared service centers (SSCs) in order to concentrate large parts of certain internal service functions like HR, accounting and finance or IT in a few locations that provide services centrally across a larger number of business units. This is to achieve benefits such as economies of scope, learning curve effects and process improvements. Multinational enterprises are in addition achieving location economies by locating their SSCs in lower cost locations, often one or two each in the Americas, Europe and Asia Pacific. Often, though, there is little connection between the various SSCs of a company. Frequently, the functions of the company manage their centers or teams in the SSCs independently of each other. Therefore, since the early part of this decade advisory organizations like EY are recommending that companies with a range of SSCs implement the Global Business Services Target Operating Model (GBS TOM), which implies a much closer integration of all SSCs of a company worldwide into one joint shared services organization. Indeed, as a survey of SSON has recently shown, 41% of companies in their study have implemented the GBS TOM¹. So now is a good time to take a closer look at how companies that have implemented the GBS TOM at least partially are actually implementing it in practice and what good practices can be identified from their experience. This article reports on select findings of an exploratory qualitative study that was conducted between March and July 2018 in five SSCs of four select companies in various industries in Asia and Europe. It will first outline key elements of the GBS TOM and then report select findings of the study.

The Global Business Services Target Operating Model

The GBS TOM stipulates that companies create crossfunctional “multi-tower” SSCs rather than to have separate centers for each function. Going beyond pure co-location, this would imply significant collaboration between functions, especially along end-to-end (E2E) processes such as procure-to-pay (P2P) or order-to-cash (O2C) that involve several functions such as procurement and accounting or sales, contracting and accounting. Geographically, all of the SSCs of the company should also be integrated into one joint shared services organization with one cross-functional GBS leader. Organizationally, the GBS organization would typically be characterized by a global hub for English-language services that can be provided centrally, regional hubs that cater to local language, legislation and time zone and exhibit local knowledge and finally decentralized retained organizations (RO) in the business units. The latter would comprise processes that have not (yet) been moved into a SSC. Together, the SSCs of the GBS organization form an interdependent service delivery network that is governed by a joint service management framework, comprising especially consistent service levels and key performance indicators (KPIs). According to the GBS TOM, standardization of processes and intensive collaboration and knowledge sharing would take place among this network of SSCs across the world. Eventually, these elements would put the GBS organization into a position where, far from being the traditional low-cost part of the firm, it can become a transformation engine of the company, driving change and especially the digital transformation in the firm^{2,3}.

¹ SSON: State of the Shared Services and Outsourcing Industry Report – 2018.

² EY: Global Business Services. Enabling global market operations. Survey Results 2015.

³ EY: Delivering tomorrow's companies today. How global business services can transform your business.



Findings of the Study

Cross-functional Centers

Companies in the study did indeed create cross-functional SSCs to varying degrees, some with a narrower, some with a broader scope of functions included. While also the degree of integration and collaboration varies, all conduct efforts to integrate across functions. Generally, however, in all companies in the study, the main driving force is still the function. This comes as no surprise given the legacy of many shared service organizations set up by each function and the continuing importance of functional expertise required in shared services. Given the remaining functional reporting lines, in practice a GBS organization typically adds a second cross-functional reporting line to the GBS leader, often running via the head of location, resulting in some shape or form of a matrix organization, as one interviewee clearly pointed out:

“Today, many GBS people have a dual reporting line structure. There is the GBS head and the head of function in finance, IT, HR or whatever. [...] It would always result in a matrix somehow.”

GBS Leader

In this matrix, typically a distinction is made between disciplinary reporting lines to the location head and functional reporting lines to the respective head of function. One company however, deliberately de-emphasizes the role of the head of location to achieve a strong global integration via strong reporting lines to the global functional leaders.

Regarding the internal cross-functional organization of E2E processes within a SSC location, various approaches were found. There is no one size fits all approach. Companies found different ways of slicing and dicing their teams that suited them most, whether by geography, functional specialization or various combinations of both. In a noteworthy case, one company indeed realized cross-functional E2E process teams in the center, where for example in P2P, procurement specialists and accountants form joint P2P teams, each focused on a geography. These teams sit physically together in the office, greatly facilitating the required frequent collaboration between procurement operations and accounts payable:

“[...] they are sitting very closely together so they know if someone receives an invoice and the person sees, 'Okay. It doesn't match with the purchase order' then they kind of have a direct link to the person who is adjusting purchase orders and they have then a short way to communicate with each other.”

Location Head

So regarding the question whether people of different functions serving cross-functional E2E processes should actually be folded into one team or just be coordinated closely, this example shows that it is a feasible option to integrate cross-functional E2E people into one team and that there are benefits from doing so. Besides, the study

has shown that flexibility regarding how to organize teams in a cross-functional SSC is beneficial. For example, in one company procurement operations is set up by categories to benefit from specialization, while in case of issues with a country, employees with requisite language skills get involved, also outside of their assigned category, to enhance communication in problem resolution. In one company, in O2C, support for one business unit is provided by one team across sub-regions as it is quite standardized, while support for another business unit that requires more local language skills is divided into sub-regional teams:

“ [...] who has capacity, where does it fit, maybe the best from a knowledge perspective or [...] maybe [...] somebody who speaks the language. And then we assign it to the team, and that's what basically every process is doing, that's why the team setups are always very much specific to the concrete needs. [...] From an operation day-to-day and daily business perspective, I think [this is] very good, because you're not in a fixed system that you have to fit in, but rather [...] you can adjust to the needs you have.”

Team Leader

Globally-integrated GBS Organization

Achieving one global GBS organization across functions and locations is not an easy task and among the companies in the study, functions remain strong. So GBS integration requires political will at top management level, as most organizations have a legacy of regional and/or functional shared services organizations where regions/functions need to relinquish control in favour of GBS leadership:

“ Who is responsible? It's actually the CEO, as it is cross-functional.”

GBS Leader

In one company, the fact that the CFO was also the CIO facilitated the GBS integration across functions. However, in another company, a temporary duality of CFO and HR director didn't have that same effect, so the HR shared services organization remained separate. So while such a duality can facilitate integration, it will not necessarily have that effect if leadership sees other reasons for not integrating a function into the GBS organization. The personal or professional background of top management leaders also plays a role. So for example, in one company, the new CFO previously was the transformation leader of the company, which inspired him to drive the integration of the Finance and IT shared services organizations. In

another company, integration was facilitated by having a GBS Leader who is at the same time the leader of the global process organization. Sometimes, companies need to move step by step in their GBS integration. So in one company, the Finance shared services leader was appointed as the GBS Leader, however not fully replacing the shared services leaders of the other functions, but playing rather a kind of spokesperson role for the GBS management team:

“ He is representing a community which is coming together on a quarterly basis and talking about the [global shared services organization] development. But this is not yet..., I would say this is a circle of people looking for the potentials.”

Location Head

Three-tier structure

Consistent with the GBS TOM, companies in the study have between 3 and 9 regional hubs to accommodate time zone, language and local knowledge. However, the situation regarding having one or a small number of global hubs, where for certain processes English-language service is provided in a centralized manner, was found to be quite diverse. It was not clear that one of the companies' SSCs would necessarily qualify as a global hub with the others being spokes in the sense of the GBS TOM. Rather, the study found that besides the centers with a regional remit, some of the companies in the study have several specialized centers of expertise for each a specific process such as cash collection, payment, fixed asset accounting or treasury. These benefit from economies of scope and learning curve effects and come into play each time an E2E process requires for example payment. However, the trade-off between the mentioned economies of scope and learning and the potential drawbacks of creating interfaces as E2E processes are no longer conducted entirely in a regional SSC has to be considered.

Regarding the third element of the three-tier structure, the RO, it was found that it is possible to largely eliminate it in some functions at least. One company moved the entire accounting functions of the country business units into the GBS organization. Instead it created a new organization of “Local Chief Accountants”. These are the guardians of local needs in accounting and report not to the local business unit, but to the global head of this organization. Since the Local Chief Accountants are not retained from a previous local organization, but have been set up together with the GBS organization, there is no scepticism of the GBS organization among them that can sometimes be found in ROs that had to surrender

headcount when the GBS organization was set up. So their collaboration with SSC staff is smooth:

“So, with Local Chief Accountants [collaboration] is much easier because [...] basically the role of Chief Accountant role is actually created from this whole transformation. So, they are part of the transformation, so they know that they come with a new purpose. They come with a new role and not so much...yes, they have to focus on local topics, but they are part of also a bigger global organisation.”

Team Leader

End-to-End Process Orientation

While companies in the study are consistently organized by classic E2E processes such as P2P, Record-to-Report (R2R) or O2C, processes are not always conducted entirely within the GBS organization, but often involve the RO. The study has shown, however, that the GBS TOM can facilitate better collaboration across E2E processes spanning GBS and the RO. This is as the strategic orientation of the GBS TOM towards E2E processes encourages people involved in a process in the GBS organization to keep in mind those parts of a process that are outside of GBS and to ensure smooth collaboration across the GBS-RO divide. Without this mindset you might find yourself in a situation where:

“[...] as a shared service organization you may think ‘this is the entire process’ and forget perhaps that there are other players involved as well that need to be considered.”

GBS Leader

However, while this mindset provides a potential for smooth collaboration between GBS and RO, it is not sufficient on its own. Rather, further mechanisms need to be used to make smooth collaboration a reality. They can include - as good practices identified in the study have shown - active stakeholder management, face-to-face meetings between RO and GBS members, joint improvement projects and mobility of staff across the GBS-RO divide.

In situations where specialized global centers have been created for tasks such as payment or cash collection as outlined above, E2E processes may involve several locations in the GBS organization as an E2E process is no longer conducted entirely within one SSC anymore.

The GBS TOM stipulates having global process owners that define and continuously improve a process to be conducted consistently across the globe. The study has shown how the process owner can drive standardization of processes and also in some cases deal with requests for local exceptions to the process. The GBS TOM leaves it open as to where the process owner is located organizationally, that is whether within the GBS organization or outside of it. The study found arguments in favour of both options. Especially when E2E processes are not conducted entirely in the GBS organization, but also involve the retained organization, it can be helpful to have an instance that is located neutrally “above” and straddling GBS and RO (see Fig. 1). When the process owner is outside of GBS, he or she may – as one GBS leader pointed out – become a sparring partner for the GBS organization:

“The process owner then can become a sparring partner, [challenging the GBS organization in] how things can be done differently. Yourself, you always think you are super-great in everything. In this situation you can expect him to also critically look at it and say ‘okay, can’t we do this differently?’ – look through a different pair of glasses.”

GBS Leader

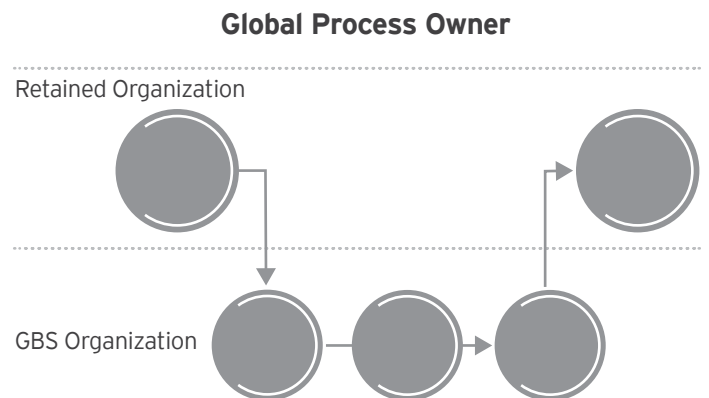


Fig. 1 Activity split between GBS and retained organization, process owner outside of GBS

However, it can be a challenge that a global process owner outside of the GBS organization can be quite remote and removed from the day-to-day operations that are to a large extent or entirely managed in GBS. This may lead to process definitions that may be difficult to implement from the perspective of those who are working in them day-to-day. So especially when a process is conducted entirely in the GBS organization, there is a strong case for having process ownership also in the same organization that conducts the process - the GBS organization (see Fig. 2). So, in one company in the study, the GBS leader is at the same time the leader of the process organization that contains the global process owners. Otherwise, if process ownership is outside of GBS, it is important to ensure that the process owner is in regular close connection to the people conducting the operations day-to-day and is responsive to their suggestions and feedback:

In one company in the study, the GBS leader and the process organization leader report to the same person, so while being in a separate organization, process owners are organizationally not far away either.

Retained Organization



Fig. 2 Process entirely within GBS organization, process owner inside of GBS

“[...] of course this always goes into alignment with the delivery organisation as in the end, we need to be able to execute it or to operationalise it. [...] So, for me it's usually how we do the process or how we make it possible to run it in the shared services, [...]. Of course, if we can't or won't do it, we have a say in this play.”

SSC Location Head



As an interesting addition to this discussion, in two companies in the study, processes are defined in several layers, including in particular a global and a regional/SSC layer. While the global layer determines the process handbook, the SSC layer defines the detailed work instructions for employees in the center, based on the global process handbook. This enables a “transnational” solution to the perennial tension between global standardization and local adaptation of processes as the SSCs, while following global processes, have a certain level of freedom in how to implement them via the detailed work instructions.

Global Service Delivery Network and Service Management Framework

The study has shown that a global service delivery network and service management framework can be a reality. In three of the four firms studied, intensive international collaboration takes place between regional SSCs, some of which is taking place in the context of actual service delivery. This is epitomized especially by the operation of a 24/5 support as one company is providing, where urgent service requests that come in after operating hours of a SSC are picked up by staff in another SSC in the sequence of time zones. To enable this, processes need to be standardized between locations. In one company, processes were standardized from the start as their shared services organization was set up with help from a management consultant. In other firms, various activities were undertaken to drive standardization. For example, one company seconded people between locations to help progress standardization of processes. Global KPIs as part of a global service management framework were found to facilitate benchmarking between locations, which in turn allows identifying best practices of the well-performing SSC locations that can be shared across the network:

“ And of course, we compare with [location]: ‘how come you are doing so much better here? Please teach me!’ [...] It’s metrics or KPI’s, so we learn from each other.”

Team Leader

As collaboration across locations is the subject of another article reporting on this study, it will not be elaborated further in this article.

The Shared Services Organization Driving the Transformation of the Company

The study has shown that GBS integration can indeed have implications for the company as a whole. To start with, it has implications for the RO. As activities are streamlined along E2E processes, changes, and the respective change management, are also required in the RO, as one team leader outlined:

“ [...] we move the processes from whichever country, [...] that means there will be changes [...] in the country. Yeah, so there's some kind of restructuring there [...]. Yeah, so the challenge, one of the challenges we have is when there's the restructuring happen in this country, [...] maybe they are not [...] so clear about the whole end-to-end process. So sometimes they throw a lot of inquiries to us.”

Team Leader



This applies particularly when the RO is still involved in E2E processes. Also processes in the RO need to be streamlined:

“ I have [...] to ensure that the local processes are optimized as much as possible [...] also ensuring the interface with the shared service center is efficient. [...] The first process doesn't start in the shared service center. There will be many activities in the local before it reaches the shared service center. So we have to take care, to make sure that it is efficient. ”

Functional Leader in the RO

As due to GBS integration across functions and locations the shared services organization is becoming much bigger and conducts a significant part of the processes in the company, it becomes a key player and also gains a stronger standing in the firm as a whole, as several statements show nicely:



“ When you are small and you are kind of only in Asia-Pacific, it's quite hard sometimes if you want to have a big project running. But with other counterparts joining forces together you have a bigger voice. ”

Team Leader

“ I personally feel that there is a lot more management focus. ”

Functional Leader, Retained Organization

“ I think it brings a lot of benefits on the political level, like we have one boss, we have one head of shared services [...], so there's a clear strategy of the whole shared services [...]. That is not three heads of the three locations maybe arguing [...] about certain things, but it is one person who [...] shows the way, or also who can- Of course it's different if you have 1,500 people or just 500 people under you, if you need to argue against the board member for example. I think he has much more leverage out of that. ”

Team Leader

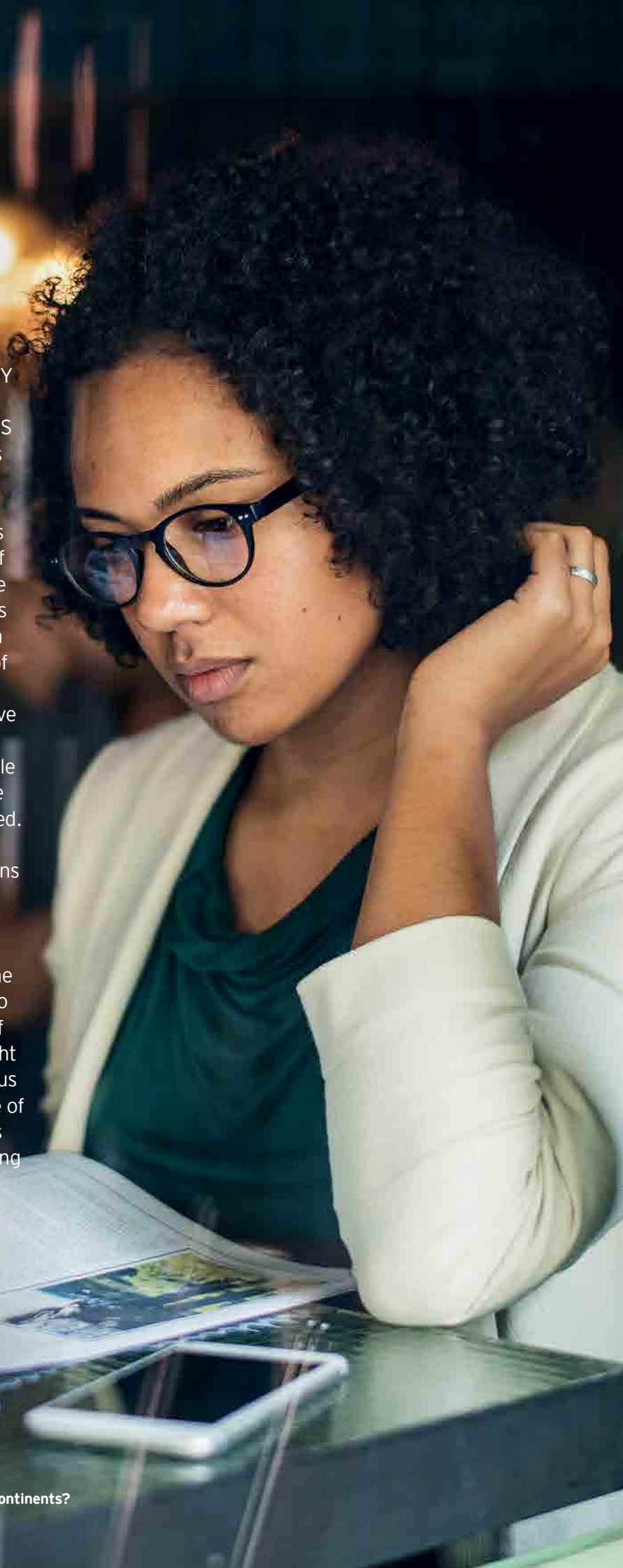
So due to GBS integration, the shared service organization can now play a more active role in the company. It can use this new leverage in order to drive change in the organization as whole, also drawing on their specific skills and roles. In one company, for example, in the context of GBS integration, the GBS organization was able to drive the integration of the finance functions of the divisions of the company into one corporate-level, cross-divisional finance function, now split into business finance and operational finance, with the latter being conducted in the GBS organization. In another company, the shared services organization found that since the GBS integration it can play a more active role in the organization rather than just to take orders from the functions as in the past:

“ But now being in this global family all of sudden we see that, okay, we are actually an organization on our own. I'm not only an extension of my function now, I'm also an organization of my own. I can have my unique strategy. ”

Team Leader

Conclusion

The study found that the elements of the GBS TOM that are suggested by advisory firms like EY can indeed – in varying degrees and forms – be found in practice by companies pursuing the GBS model. Each company implements the elements in a way that suits its strategy and business imperatives; there is no one size that would fit all. Companies in the study are at varying points on a journey toward a deeper implementation of the GBS TOM. Especially, two dimensions can be identified that highlight the different trajectories companies are pursuing – functional integration as well as global integration. While the sample of four companies is small, it indicates a tendency that those shared service organizations that have a broad functional scope and integration of the functions tend to be less globally integrated while those with a strong global integration tend to be functionally more focused and/or less integrated. Given the legacy of many shared services organization as regional standalone organizations and/or functional standalone organizations, it may be not easy to achieve both strong global integration and broad functional scope with a high level of integration between functions at the same time. While the long-term aim according to the GBS TOM would be to achieve a high level of integration on both dimensions, companies might pursue trajectories that at one point in time focus in their next integration efforts primarily on one of the two dimensions based on strategic priorities and business imperatives (see Fig. 3, representing an ideal-typical simplification).



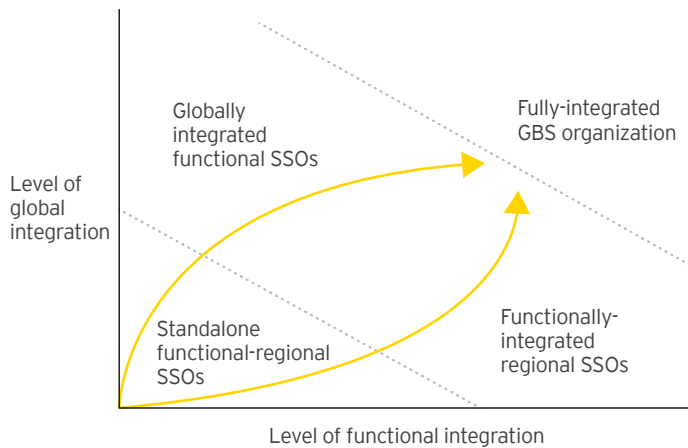


Fig. 3 Ideal-typical trajectories towards a fully-integrated GBS organization

As the last section has shown, it is well worth aiming for a fully-integrated GBS organization as it allows the GBS organization to achieve a strong standing in the company and become a central contributor towards the transformation of the company, much beyond just being the low-cost part of the firm that conducts processes or tasks that the functions are glad to let go.

The study was made possible by kind support from EY (Ernst & Young GmbH).



Practical Recommendations Based on Identified Good Practices

- ▶ Consider creating cross-functional end-to-end process teams in the SSCs.
- ▶ Maintain flexibility in how to organize teams in cross-functional SSCs.
- ▶ When moving functions (almost) entirely into the GBS organization, consider replacing a traditional retained organization with a newly created organization taking care of local requirements to facilitate smooth collaboration.
- ▶ When GBS conducts an entire process, consider having also the process owner within the GBS organization; when a process is split between GBS and the retained organization, weigh the pros and cons of having the process owner outside of GBS; if the process owner is outside of GBS, ensure close connection to people in GBS actually conducting most of the day-to-day operations.
- ▶ Consider a combination of a globally-defined process handbook and work instructions defined in each SSC to enable globally-standardized processes with some level of local adaptation to meet local requirements and conditions.
- ▶ Don't forget that GBS integration also entails changes in the retained organization.
- ▶ When aiming for a fully-integrated GBS organization, prioritize your next steps along the dimensions of global integration and functional integration at each point in time.



Methodology of the Study

Since the GBS TOM has not been investigated by academic research before, an explorative-qualitative research design was chosen. This allowed studying in depth how the selected companies implement the GBS TOM, what benefits and challenges they encountered in practice and what best practices can be drawn from their experience. Companies were chosen that have implemented the GBS TOM at least partially, that have SSCs in select key locations in Asia and Europe and that allowed interviewing also a representative of the retained organization. In one company, two locations – one in Europe, one in Asia – were studied to investigate international collaboration between SSC locations in an exemplary manner.

- ▶ 31 semi-structured interviews of 1 hour each with Location Heads and Team Leaders in SSCs, GBS Leaders and functional leaders of retained organizations
- ▶ 5 shared service centers of 4 companies in various industries in Asia and Europe
- ▶ Transcription and coding of recorded interviews
- ▶ Observations in the SSCs at the occasion of guided floor walks and evaluation of company documents



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EYG no. 012462-18Gbl

BMC Agency

GA 1009350

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