

Today's shared services operating models: The engine behind enterprise transformation

Leveraging the power of globally integrated business services



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Today's global marketplace

A slow global economic recovery presents ongoing challenges to businesses of almost every size in virtually every industry. Companies must find ways to spend less and achieve more with fewer resources. Within this global arena, competition is arising from every corner of the world—but so are opportunities. Today's market leaders are recognizing that to succeed in this new business environment, they must rethink their existing operational models to better support their strategic direction. Now they are looking to an operating model that helps create an organization that can seamlessly connect, interact and respond to customers, consumers, suppliers and resources worldwide. By doing so, the enterprise is able to take advantage of innovation and globalization and drive integration and value across the business now and into the future.

Today's market leaders understand the need to create an integrated organization that can seamlessly connect and interact with as well as respond to customers, consumers, suppliers and resources worldwide.

Aspiring to change their operating models is one thing, but achieving this level of transformation is another matter. It requires an end-to-end integration that is possible only with repeatable processes, optimized assets, insightful analysis, skilled resources and integrated operations—all occurring on a global basis. In addition, transformation requires strong support from leadership, collaborative governance and common technology. Insights from the 2010 IBM global chief financial officer (CFO) study confirm that many organizations do not have the expertise, technology and innovation in place to achieve rapid end-to-end enterprise transformation.¹ The study highlights the importance of leveraging service delivery models that combine internal shared services with outsourcing (referred to in the market as “hybrid models”).

Companies executing these hybrid models are centrally managing their processes using an end-to-end approach and successfully accelerating the path of transformation. This approach can result in a more integrated organization that is able to not only help drive rapid cost savings but also increase agility and business growth. This improved cash flow can fund the cost of transformation while driving ongoing innovation and sustainable performance improvements that can translate into lasting shareholder value for the entire business.

This white paper describes a new model that involves the creation of a single hybrid business unit consisting of internal shared services and external providers of business services. The

paper discusses the benefits of this model and provides insight into key considerations organizations should address when embarking on this path.

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The BPO shared-services evolution

As information technology, outsourcing providers and the business process outsourcing (BPO) industry itself have greatly matured over the past decade, shared-services models have been undergoing their own parallel evolution, as shown in Figure 1. In the early 1990s, “shared services” was a unique operating model in which an internal shared-services organization was set up within the company’s primary operations region. This service center was primarily focused on driving cost reduction. Its policy, practice and adoption decisions were determined on a business unit or regional basis, with process scope separated into “core” and “non-core” processes. Functionally led and governed, this model lacked standard enterprise-wide processes and operated with fragmented technologies and service silos.

In the late 1990s, companies began to horizontally integrate their back-office functions by aligning functional activities, headcount and budgets under one worldwide functional leader (for example, the CFO, the chief human resources officer or the

chief procurement officer). At the same time, off-shore capabilities began to offer new reduced-cost sourcing options. As a result, regional centers emerged, with cross-national processes located off shore to drive cost reduction and take advantage of a new group of skilled professionals. Simultaneously, this model saw greater investment in leading enterprise resource planning (ERP) systems but was still largely functionally led and siloed.

Today’s next-generation or “integrated” shared services model aggregates transactional and common activities across functions into a stand-alone globally integrated business services (GIBS) unit. This means creating an entirely new joint “hybrid” organization (encompassing internal and external provider shared services scope) led by a newly created C-level executive. This model—designed to take service delivery to the next level—embraces innovation, end-to-end integration and a truly global perspective. Regardless of where a company is in its evolution or whether it is large, small or somewhere in between, a global perspective is critical to success in the 21st century because it enables a stronger growth strategy at a pace that is right for that particular business. The GIBS model sets the stage to optimize business processes and better leverage business insights that enable enhanced decision making—helping to make the entire business smarter and more resilient.

Today’s next-generation shared services model is designed to aggregate transactional and common activities into a consolidated, stand-alone globally integrated business services (GIBS) unit.

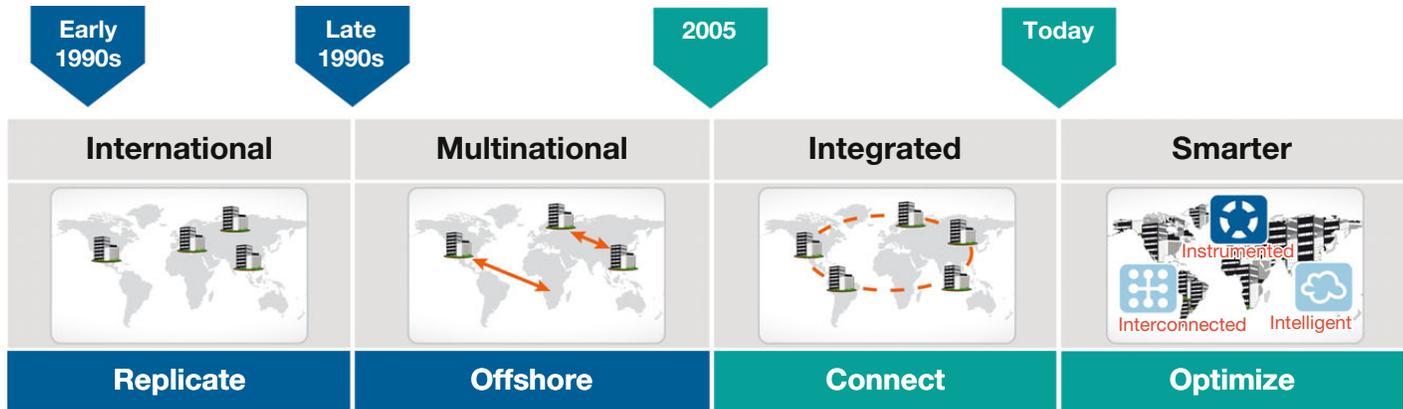


Figure 1: Globally integrated business services enable the evolution toward smarter organizational models that are more instrumented, interconnected and intelligent.

Moving toward globally integrated business services

In a world that continues to accelerate the pace of change in most industries, flexibility becomes a competitive differentiator. As a result, many companies are seeking to reach the next level, one that transcends cost benefits to encompass agility, flexibility and the ability to anticipate and quickly respond to trends, patterns and behaviors. This innovative business services model allows a shared-services organization to focus on what it does best—providing a more integrated, efficient and streamlined customer experience while empowering business units to focus on what they do best—growing the business.

According to a 2011 executive summary report from the Corporate Executive Board titled “Is integrated business services the end state? Meeting of multifunctional shared services leaders,” executives from a wide variety of large enterprises and industries stated that their shared services path was initially driven by the search for cost savings. However, 75 percent of

companies cited greater agility in responding to business changes and growth as the main driver toward multifunctional integration. Interestingly, more than 63 percent also cited increased process standardization and integration and improved quality and consistency of service as compelling factors.²

This underscores that the move to a multifunctional shared services (or GIBS model) will never be driven by cost reduction alone. Instead it will be more focused on the value that this model can bring to the business over the long term, including:

- Increased responsiveness to new markets, new customers and acquisitions
- Improved service delivery
- Extension of innovation across cross-functional and global services
- Better use of technology and skills across functions
- Improved cross-functional data integration and visibility
- Improved business insight to enable better decision making³

The differences in shared services operating models are highlighted in the following table.

	Business Unit or Regional SSC	Global Functional SSC	Global Integrated Business Services (GIBS) SSC
Guiding principles			
Structure	Business unit or region controls transactional activities, headcount, budget	Global functional leader controls transactional activities, headcount, budget	Single GIBS leader owns cross-functional transactional, common activities, headcount and budget
Governance	Local governance, with each function operated separately by business unit or region Required to show value and sell services to units; CEO encourages use in most cases	Regional governance, with multiple governance organizations across each global function operated separately Mandatory usage of global functional shared services required by Global Functional Leader	Global governance, with single standalone organization, across back office functions operated globally on an end-to-end basis Mandatory usage of GIBS required by CEO Strategy, policy setting, and decision support activities retained by worldwide functional leader
Challenges	Fragmented, inefficient	Bureaucracy rules each silo	Requires top-down executive sponsorship
ROI objective	Cost reduction	Cost reduction and service standards	Cost reduction, process optimization, sustainable value creation
Location	Regional	Global with regional hubs by function	Global with regional hubs with cross-functional center leverage
Metrics	Cost reduction; cost to serve	Cost and productivity metrics	End-to-end process optimization; service excellence

Table 1: Shared services centers: Which is the right model for you?

As companies with mature shared-services organizations analyze the next stage of evolution, they are changing the way they assess scope for multifunctional shared service models. In the past, assessment of “core” compared to “non-core” processes determined whether activities should migrate to shared services operating models. Today, this decision-making process has changed, and the assessment involves which activities are “common” versus those that are “unique” across all back-office functions, including finance and administration, human resources, procurement, information technology, information management, facilities management and travel. As a result, these

companies are seeing new opportunities to consolidate transactional and common activities into a GIBS model. The GIBS model is a global, centralized organization built on the principles of global process ownership, highly trained global resources, consolidated technologies, end-to-end process optimization, embedded analytics and global integration. While GIBS focuses on back-office processes, a similar philosophy is also applied to front-office support services such as sales and customer-facing services that are integrating channels to enable a single view of the customer.

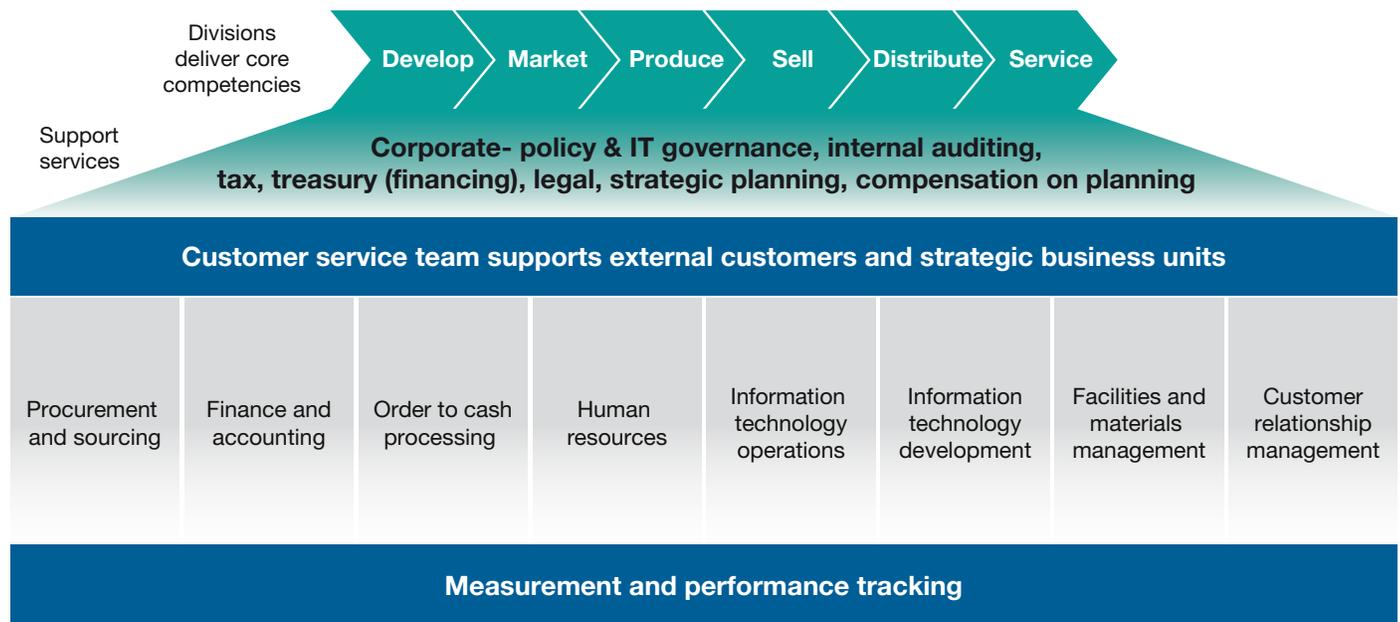


Figure 2: GIBS leverages mature outsourcing capabilities to align with internal shared-services strategies to help deliver virtually all functional areas and activities.

A GIBS model is a global, centralized organization built on the principles of consolidated technologies, embedded analytics, end-to-end process optimization, global process ownership and global integration.

The goal of this type of shared services organization (SSO) is to operate under a unified, joint and capability-centric organizational model that manages all shared services processes end to end, including both outsourced and internally retained processes. With the maturity of outsourcing continuing to grow, a hybrid model is now the preferred model that can help companies accelerate their path of transformation.

Common technology and standardized processes and methodology enable work in a GIBS model to easily shift to wherever it can be performed most efficiently. The GIBS organization also acts as a conduit to continually build and share subject matter expertise and innovation across the business. By leveraging this integrated model with primary focus on process innovation, continuous improvement and radical simplification, the business is able to go beyond short-term cost savings to drive sustainable value and help differentiate their enterprise. The principles endorsed and enabled by the GIBS model, as shown below, can build a more robust foundation in the transformation journey toward building a globally integrated back office.

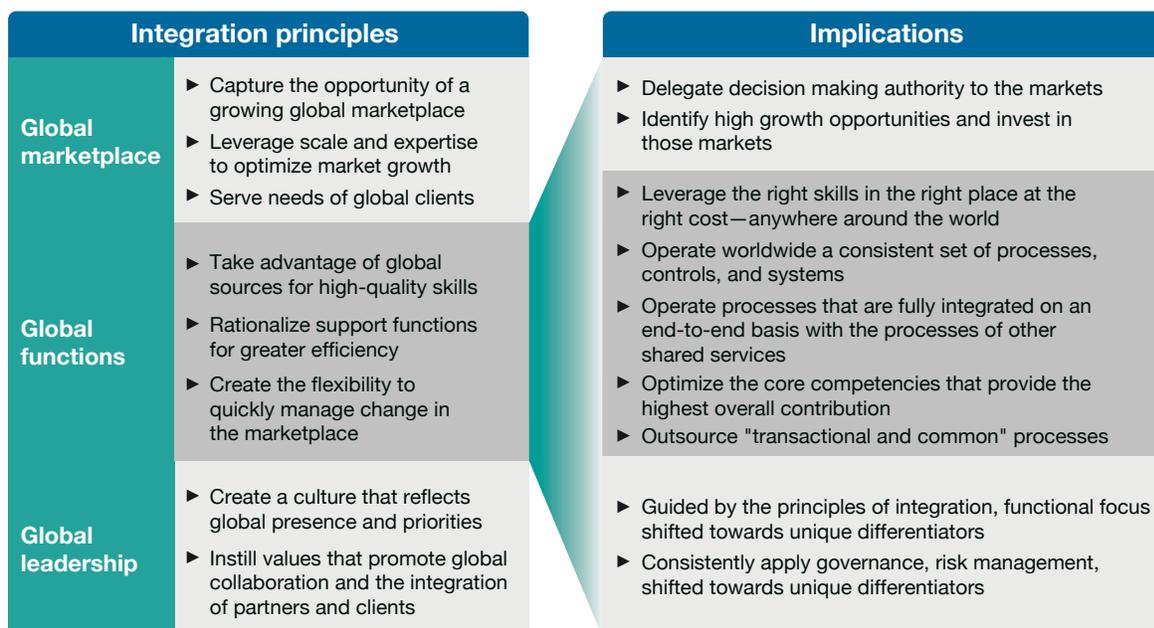


Figure 3: Shared services can play a pivotal role in helping companies integrate their business processes.

The engine of today's globally integrated back office: GIBS

GIBS can provide an operating model designed to accelerate back-office transformation while enabling each function to strengthen its business partner roles. Specifically, the GIBS model enables the extraction of transactional and common back-office processes from the day-to-day realm of each function, helping to increase availability of retained functional teams to allow them work on key differentiators and value-focused initiatives. This includes management of strategic business activities (such as functional strategy, policy setting, enterprise risk management and decision support) that can contribute to growth and improved overall business performance. This segmentation of functional activities allows for developing specialized management systems, integrated analytics, talent development and organizational capabilities that can better manage and excel in each area.

With a culture of continuous improvement and radical simplification embedded across GIBS, leverage of common activities is shared to best support all end-to-end processes. This approach encompasses horizontal processes but also extends to other complex, industry-specific processes that are common and rules based. As a result, the process optimization activities can help improve and support the organization's change efforts with greater consistency.

A GIBS organization focuses on three types of activities:

1. Large, self-contained, transactional-intensive activities that are common across the organization (such as accounts payable, cash application, fixed assets, employee time and attendance and employee data management)
2. Common activities currently performed in multiple shared services (such as purchase order processing, collections, reconciliations, learning administration, compensation program administration and technical and product support)
3. Activities that are linked either upstream or downstream to large transactional activities or are inherently cross-functional for horizontal integration (such as global process ownership, transition, change management, Lean and continuous improvement)

The GIBS model aligns execution under a single leader who has full accountability and responsibility for its processes and typically reports to the chief executive officer (CEO). This structure creates opportunity to optimize integration decisions and fund prioritization across back-office functional areas.

Figure 4 shows an example of a large consumer packaged goods (CPG) company that created a GIBS shared services model under the direction of a single executive leader, called a chief enterprise support officer, who acts as the focal point for service delivery for all back-office shared services and outsourcing activities. A new team was created under Enterprise Support Services to focus on common activities that support all functional teams, called Service Development and Control. The foundation of Enterprise Support helps to enable end-to-end process execution. The current design shown below depicts the first phase of the strategy, which will continue to evolve as the company migrates toward end-to-end execution of its key back-office processes.

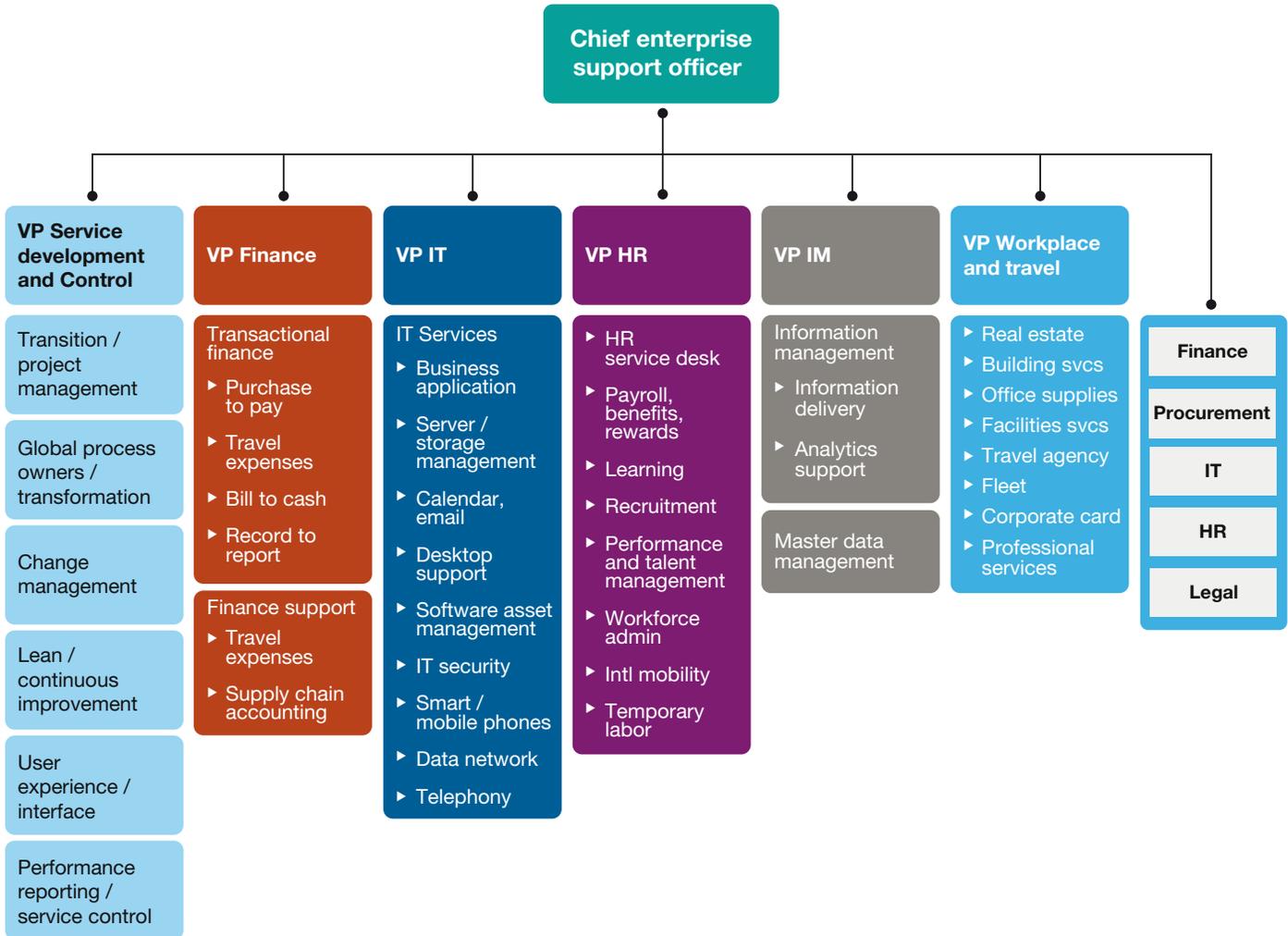


Figure 4: A global CPG company set up a GIBS model and aligned execution under a single global leader with full accountability and responsibility for its processes.

Five things to consider when starting the journey towards global integrated business services

1. **Think expansive in terms of scope.** Develop and communicate a strategy that encompasses all support activities.
2. **Do not limit financial analyses to shared services only.** The business case calculations are complicated. Integrated process design may require additional cost in the shared-services organization and result in profit improvements in the business unit.
3. **Get quick wins and establish credibility** in easier areas such as Travel Expense Management, Employee Onboarding or Help Desk Services before trying to go larger. End-to-end integrated process design is challenging.
4. **Design GIBS products and services with your customers in mind**, which is the internal business unit, not the functional head.
5. **Develop performance measures** for the end-to-end integrated business services; actively work in formal and formal channels for communicating total shared-services value.⁴

GIBS benefits

The GIBS model presents an opportunity to deliver significant measurable benefits from BPO, including operational savings and enterprise business benefits based on three primary drivers:

Cross-functional consolidation allows for:

- Common activities to be grouped together and performed from on-shore, near-shore or off-shore locations to create economies of scale
- An established global footprint that can provide flexibility and scalability to more quickly leverage benefits of groups of skilled professionals around the globe

- A more cohesive, process-led organization that can provide more consistent management, deep domain knowledge and sharing of best practices across the business, leveraging experienced, highly educated staff enabled by extensive training programs and a breadth of expertise

Process optimization drives a management system and culture that has an unwavering focus on industrialized processes, similar to a factory-floor model:

- An integrated framework enables instrumentation to measure and manage activity-level daily performance captured at the source and to analyze it against standards and benchmark targets.
- A GIBS model leverages strong process and industry expertise and innovative technologies and analytics to help simplify and standardize processes, identify gaps to proven best-practice process models, more quickly strengthen controls and design tactical road maps to help improve performance.
- A robust analytics framework enables more intelligent, insightful business decisions and dynamic benchmarking capabilities.

Horizontal integration is realized by end-to-end process harmonization of cross-functional activities managed internally or outsourced:

- Reducing handoffs and touchpoints, enhancing work continuity and reducing work overlap enables process simplification, which can improve both efficiency and effectiveness
- Roles are aligned to the process instead of functional scope, exploiting opportunities to integrate roles with high adjacencies (that is, transition, Lean and continuous improvement), helping to reduce the total number of roles
- Horizontal integration and simplified processes can reduce the risk of implementing new technology initiatives and can streamline new customers and acquisitions

Getting started

In their discussions with enterprise executives, the Corporate Executive Board discovered that the process of deciding which functions to include and exclude in the multifunctional organization varied. For some organizations, it was highly strategic. For others, the process was driven by more tactical or qualitative factors, such as leadership experience and capabilities; more advanced, shared services maturity in one function compared with another; and in some cases, political drivers.

Deciding who should lead the organization was another key consideration dependent upon leadership experience, capabilities, functional backgrounds and CEO trust. Beyond any plans to add scope, most executives agreed it made sense to focus on a deeper integration within their existing shared services organizations versus expanding to new scope. The group consensus: *It is better to extract more costs out and integrate existing functional shared services offerings than to pursue new functions.* This makes vast economic sense, considering the political capital and change management required to import more functions into the shared services organization.⁵ Most important, CEO support is critical to the adoption of a GIBS operating model to go beyond cost savings to get sustainable, total service value from their outsourcing initiatives.

The top five accelerators of globally integrated business services (GIBS)

1. Worldwide ownership of functions (prerequisite to GIBS)
 2. Global process ownership of end-to-end processes
 3. Centralized operations
 4. Shared services process maturity
 5. Common and standard processes
-

Let's continue the conversation

Forward-thinking companies understand the need to go beyond process optimization and ask how their operating model can help support their growth agendas. An integrated shared services BPO model, which combines common and transactional activities occurring across back-office functions into a single Global Integrated Business Services (GIBS) organization, is available today. By delivering end-to-end process execution standardized across the globe, these leading companies are on a reliable path that elevates performance to the next level—and keeps it there.

Whether large or small, with operations around the world or in just one country, we are here to help your business chart its unique path and fully explore the opportunities, advantages and sustainable performance benefits presented by a mature outsourcing industry, innovation, growth, globalization and global integration.

Did you know

Process consolidation, optimization and end-to-end integration, on average, enable the following enterprise business outcomes:

- Working capital improvements from 15 to 25 percent
- Procurement sourcing and compliance savings of 3 to 7 percent

Functional cost improvements up to:

- 30 to 60 percent from baseline (calculated as annualized run-rate savings)
 - 55 percent from globalization scale and expertise
 - 45 percent from standardization and automation

Other enterprise business benefits:

- Improved risk, controls and compliance
 - Data, access, quality and integrity
 - Cost avoidance
 - Governance-driven predictability
 - Accelerating change readiness
 - Better business agility⁶
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For more information

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¹ “The new value integrator. Insights from the global chief financial officer study: Exploring alternative delivery models for stronger financial performance.” IBM. June 2010.

² Corporate Executive Board’s Shared Services Roundtable executive summary report (short form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, February 2011, [p4].

² Corporate Executive Board’s Shared Services Roundtable executive summary report (long form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, Arlington, VA: Corporate Executive Board, February 2011.

³ Corporate Executive Board’s Shared Services Roundtable executive summary report (short form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, February 2011, [p4].

³ Corporate Executive Board’s Shared Services Roundtable executive summary report (long form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, Arlington, VA: Corporate Executive Board, February 2011.

⁴ Corporate Executive Board’s Shared Services Roundtable executive summary report (short form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, February 2011, [p8].

⁴ Corporate Executive Board’s Shared Services Roundtable executive summary report (long form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, Arlington, VA: Corporate Executive Board, February 2011.

⁵ Corporate Executive Board’s Shared Services Roundtable executive summary report (short form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, February 2011, [pp 6, 7].

⁵ Corporate Executive Board’s Shared Services Roundtable executive summary report (long form): “Is Integrated Business Services the End State?” Meeting of Multifunctional Shared Services Leader, Arlington, VA: Corporate Executive Board, February 2011.

⁶ IBM has delivered these kinds of results across a wide range of clients.



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