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How global business services
can transform your business




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Building a better
working world

“The concept of shared services is proven but has come of age now. A logical next step is the global business services model of tomorrow which is multifunctional, fully integrated, end-to-end process oriented and has the power to support the transformation of your business. The journey to this point has been lengthy, and many organizations still have some way to go. However, the direction of travel is clear.”

Christian Mertin, Shared Services Network Leader for Europe, Middle East, India and Africa (EMEA), EY



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Executive summary

Our thanks go to the many experts and executives who gave their time and insights for this report. We owe a particularly large debt of gratitude to the numerous shared service leaders, including the following, for their advice and experience (listed alphabetically by organization name):

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Delivering tomorrow's companies today

The best companies know that the recipe for success in business contains many crucial ingredients. They include attributes that are very visible to customers, such as superior products and services. But, just as crucial is a structure that allows them to thrive. To perform at their best, companies need to create a framework that leaves customer-facing parts of the business free to concentrate on delivering quality and value to the marketplace. But what do these structures look like? And how will they evolve in order to support and enhance the businesses they serve?

These are the questions this report sets out to answer. It is clear that businesses with vision and imagination have moved beyond tentative steps to improve operational efficiency. They continue to use outsourcers, for example, but as just one piece of the jigsaw. They recognize too that their businesses need more than rigorous attention to cost. This remains vital, of course, but added value, strategic input and analytics are also required.

Building an organization of this type necessitates a new way of thinking. Many high-performing companies have abandoned structures that are defined by narrow business functions such as finance or IT. Instead, they choose to focus on delivering standardized, end-to-end processes. They are building multifunctional global business services operations that can transform the way their business works.

Companies must follow this lead if they are not to be left behind. In an environment where the global recovery from financial crisis and recession continues to be slow, no business can afford to pass up the opportunity to boost performance. After all, exciting new technology makes it far easier for rivals to press ahead.

Global businesses service organizations make it possible for the rest of the company to concentrate all its energy on successful and sustainable growth. As such, they are perhaps the vital new ingredient in the recipe for growth.

A close-up photograph of a beehive frame. The frame is made of wooden slats and contains several honeycomb cells. Many bees are visible, some on the wooden slats and others on the honeycomb. The background is blurred, showing more of the beehive structure.

Shared services and
outsourcing: the next step

Businesses began to use shared service centers and outsourcing to improve back-office efficiency by use more than two decades ago. Finance led the way, followed by IT. The intention was to move routine, transactional work to specialists who were dedicated to processing it more efficiently at lower cost. This left the business free to be more volatile and focus on its customers. Shared service centers were the in-house solution, while outsourcing firms provided an external option.

Over the last 20 years, both shared services and outsourcing have become more sophisticated. Other parts of the business, from HR to procurement, have followed finance's lead. Businesses have explored offshoring, scouring the globe for the optimal location and the best providers. They have experimented with hybrid models using both shared services and outsourcing. And they have taken advantage of steadily improving technology, such as enterprise resource planning (ERP) systems.

The results have been impressive, with organizations routinely able to capture improved performance at lower cost from their support functions. Now, however, businesses are ready for the next stage of this evolution. Many organizations have begun to implement a multifunctional approach to shared services.

"This relates to the handling of all non-core activities of a company, which are more support in character, and which are not a differentiator for the client in adding value for external clients or delivering the product itself," explains EY Shared Services Network Leader Christian Mertin. Typically, this will be achieved through the creation of a single, unified global business services unit capable of managing end-to-end processes.

The models for this vary enormously – by degree of integration, by geographical location, by single versus multiple centers, by captive provider versus outsourcing (or a mix of the two) and by governance arrangements – but all share the same core drivers. Cost savings remains a key objective, but now the target is also to achieve benefits such as scale, process efficiencies, standardization, additional value, career opportunities for employees, talent sharing, innovation, the integration of mergers and acquisitions (M&A) and better use of time for the retained business.

It is no coincidence that the world's top performing companies are visible and stand out precisely because they have achieved many of these benefits. Since the onset of the financial crisis, EY has regularly

surveyed C-suite executives, board directors and senior managers in large organizations to find out how they run their businesses. This Growing Beyond¹ research identifies what it is that high performers are doing differently, so that other business can learn from them.

The research shows that four factors underpin competitive success in today's global economy: customer reach, operational agility, cost competitiveness and stakeholder confidence. And the move to a multifunctional approach to shared services supports each of these drivers:

- ▶ **Customer reach**
High performers are more outward looking and focused on the market and growth. Multifunctional shared service operations can support that focus directly, through added-value applications such as analytics, and indirectly by freeing up time for the retained business to spend on strategic matters.
- ▶ **Operational agility**
High performers respond smartly to change but, more importantly, respond speedily. Multifunctional shared service units are key to optimization and delivering that agility.
- ▶ **Cost competitiveness**
High performers understand what drives cost and what drives value, and how to optimize them. Multifunctional shared services staff are now focused on both.
- ▶ **Stakeholder confidence**
High performers protect performance by engaging more with stakeholders and unleashing their talent. The integration of functions such as HR into multifunctional shared services can accelerate this engagement.

So, in today's increasingly competitive marketplace with increased velocity, there are key strategic reasons to move into a new phase in the use of shared service centers and outsourcing.

1 EY report *Growing Beyond – How high performers are accelerating ahead*, 2012

“Companies are at different stages of this evolution,” says Paul Wood, Advisory Partner and specialist in shared services and outsourcing at EY. “It is a journey, but the final vision and concept has been programmed by a confluence of several key factors, which means now is the moment for the next step.”

These developments require a series of actions:

▶ **Use a crisis to drive change**

“Sometimes, you need a burning platform to drive these kinds of business transformation projects,” says Wood. “We are recovering very slowly from a global recession and market volatility is much higher. If markets are falling, clients and customers are more demanding and want to pay lower prices. This puts more pressure on margins. We need to be more efficient, focus on adding value and get the transaction processing into a well-organized, globally consistent, shared services center.”

▶ **Make flexibility your friend**

Continuing economic volatility means that businesses must get used to growing and contracting much more rapidly than in the past, both organically and through divestments, mergers and acquisitions. “Multifunctional shared services give you this much-needed flexibility to be able to scale up and down,” EY’s Christian Mertin says. “Take manufacturers, for example, whose sales went down 30% in 2008 and who are now moving aggressively into new markets. This happens very quickly, and with a single global business services unit, you scale your organization up and down much more quickly.”

▶ **Tap technology**

“New technology, such as the cloud and wireless data, is a pretty strong incentive for doing shared services and to think about transforming the organization of a company,” notes outsourcing specialist Bertrand Quélin, Professor of Strategy at HEC Paris. “IT is really driving this consolidation, because the whole world is thinking about how to do cloud,” adds Uwe Mueller, EMEA Advisory Leader for the IT Function at EY. “Cloud computing has so many facets that link into the finance area, but also IT, the supply chain business and almost every other function too. It also allows a more integrated and innovative view on processes and services. In the past, a linear value chain of IT systems and processes was common. Nowadays, processes and services are increasingly complex. IT systems do not only provide services to users, but also to other systems with a high degree of specialization of each node. When thinking outside the box, the opportunities are endless for all functional areas. In the context of global shared services, IT has two different meanings. On the one hand, it is the enabling technology for global business services centers. On the other, it is a function of an organization, often arranged in a center or a (potential) set of services provided by a global business services unit.”

“You shake up the whole company and that is healthy, as long as you manage the process well. You lose momentum again when the new shared services organization is becoming a silo for itself.”

Joachim Jaeckle, Corporate Senior Vice President of Financial Operations, Henkel



Easier to do business with

A case study on Philips

The Dutch electronics company Philips employs more than 120,000 staff across three sectors – consumer lifestyle, healthcare and lighting – in more than 100 countries around the world. It began transforming its finance operations in 2011 after studies showed that despite a strong internal reputation, its processes were too complex, poorly standardised and overly expensive.

Simone Noordegraaf, the head of Philips Finance Operations, says the company's divisional structure had for too long fostered a perception that finance activities couldn't be more streamlined. "We always lived with the perception that the sector's activities didn't have much to do with each other," she says. "But when we had a look at our processes, we established that more than 85% of everything we do in finance is sector independent."

The three-year project will transform the operational structure of Philips' finance function. The company plans to bring as much transactional work as possible into its business process outsourcing provider Infosys and foresees a more limited role for the captive shared services unit, FinOps, focusing on managing the relationship with Infosys and front office activities. At the same time, financial planning and analysis work, along with

judgement-based controlling activities have been centralized in sector-based centers of expertise, and finance has introduced a much clearer focus on business partnering.

The process will conclude in 2014, but is currently envisioned to be followed by a move towards a global business services approach, where Philips has just begun making steps focused on end-to-end processes that transcend existing shared services. "We are moving more in the direction of really understanding the value of well-designed end-to-end processes," adds Ms Noordegraaf. "The other language that you will hear us use a lot is that we want to be easier to do business with."

Philips believes governance and alignment are crucial issues. "I would mention two things I think are going to be critical," Ms Noordegraaf says. "We are developing enterprise information management, centralizing both our master data and all the performance management services that you need to have in place for governance to work. In addition, I would say that involving your business leadership in governance could really lead to a flywheel effect where you are speeding up the identification of services that could be considered as shared services."



Perfect 10: the
transformative impact of
global business services

The companies that have begun to embrace the multifunctional shared services model are already reaping the rewards. The evolution of this model is characterized by **10 factors** that serve to define the best shared services and outsourcing:

1
They colonize the company

2
They achieve more than the sum of their parts

3
They aim for the high ground

4
They are flexibly located

5
They offer services any time, any place, anywhere

6
Their leaders take charge

7
They measure performance

8
They empower their people

9
They innovate

10
They can work in emerging markets

1 Colonizing the company

Business services are expanding in scope. "This experiment began seven or eight years ago," says EY's Paul Wood. "The big outsourcing providers who had started off in the IT world moved into finance, and then other functions began to follow. Today, any process that can be automated is a process that can go into a shared services center."

Business services are those that are received or experienced by most people in a company. They include finance, procurement, IT and HR.

But the list is becoming longer all the time – and moving beyond what would once have been considered back office. Engineering companies are, for example, looking at a shared services model for functions such as research and development. Take Bosch, for example, which has moved much of its development work to one central unit. And, in retail, Tesco has more than 6,000 staff in a shared services unit in India working on everything from technology to store redesigns.² At other companies, creative services such as presentations and marketing materials are routinely conducted by shared services.

Another important example is sales, according to Steven Gleed, EY's EMEIA Advisory Leader for the Customer Function. "It is increasingly recognized that sales has become more of a science than an art," he says. "And there are methods and process standards of excellence which, when applied to sales,

offer a whole bunch of opportunities for sales support functions to run more efficiently and effectively in processing centers."

That includes everything from training sales staff to customer relationship management, as well as finance-related tasks. The pharmaceuticals sector, for instance, is now routinely servicing incentive payment processes through off-shore shared service centers.

Many companies that expand the scope of business services, but at the same time want to stay close to their markets and improve supply chain performance, are creating regional supply chain hubs. In these hubs, they combine local execution with regional and global management. This approach also offers greater control over managing responsibility for profit and loss, as well as for individual country strategies. In addition, it improves the responsiveness and expertise at the regional supply chain level. A regional management function can also deliver significant cost savings through internal shared services such as marketing, finance and human resources support to individual markets.

In the end, says Christian Mertin, companies have to ask themselves: for whose benefit is a business activity being conducted? "Is it client facing?" he asks. "If it's not client facing and you can find it at half the price somewhere else, then why not do so? You don't need it in the business, you only need access to the skills."

² Tesco website, <http://www.tescohsc.com/media/index.html>, accessed 10 January 2013

Moving up the value chain

A case study on Henkel

Henkel, the global company with leading positions in consumer and industrial businesses employs around 47,000 staff. Its mature, multifunctional approach to shared services is the responsibility of Joachim Jaeckle, the firm's Corporate Senior Vice President of Financial Operations.

The global shared services unit works with finance, HR, IT and procurement, as well as the company's individual business units. Processes span more routine tasks which Mr Jaeckle believes all add additional value. But they also include market research, customer services, supply chain activities and a range of other, higher-value, work.

To serve those functions, Henkel runs three captive centers – in Bratislava, Slovakia; Manila in the Philippines; and Mexico City. In addition, there is a fourth outsourced center in India. This center handles the most mature processes, where the only language required is English. Jaeckle notes: "Cooperation with an outsourcing partner is helping us to professionalize our own centers. Experiences made have been very good so far."

The captive centers, meanwhile, have been used to handle more complex tasks, in areas such as R&D, safety, data and chemical regulation. Jaeckle says this move up the value chain has made shared services an increasingly attractive part of the business for career-minded employees.

"High-potential people are asking to work in this very dynamic environment," he says. "They see that this is the future. First of all, the concept will not go away, and second, many interesting things are in future only done in the shared service centers."

Jaeckle believes the drive toward multifunctional shared services needs to be ongoing and permanent, in order to reap the biggest rewards. "One of the benefits that is difficult to quantify is that we take out certain process pieces and then put them together in a different way elsewhere," he says. "You shake up the whole company and that is healthy, as long as you manage the process well. You lose momentum again when the new shared services organization is becoming a silo for itself."

2 Achieving more than the sum of their parts

Global business services units – often very large organizations relative to the companies they serve – deliver further economies of scale and process improvements and, therefore, a much higher degree of harmonization across the organization. By bringing previously separate shared services together under one governance roof (or a small number of roofs), know-how in each silo is leveraged and shared. The repetition of tasks and processes can be eliminated, while stand-alone expertise can be maintained where necessary and optimized across the globe.

"You've got all these separate functions doing their own things. But why do something in one bungalow for finance in one part of town, and then have HR in another building across town, or the world, when there's economies of scale to be achieved from putting it all in one place?" asks Wood. "You get skill sets that build up over time. You get standardized processes because the business is suddenly able to demand that finance, procurement and HR all do work in the same ways. You get bigger cost savings, you get economies of scale you wouldn't get by having three or four separate functions doing their own thing."

This approach also promotes end-to-end processing, in which as many steps of a particular process as possible are automated and pre-determined. The classic examples of these are to be found in finance.

They include "procure to pay," in which every stage of the supply chain, from purchase order through to payment, is managed automatically; "order to cash," the business process for receiving and processing customer sales; and "record to report" in accounting. But many more examples are being developed by multifunctional shared service centers.

At Vodafone, for instance, the global business services unit is working on a more efficient way for the company's 150 million users to return their mobile phone handsets. "In the UK alone, if you want to return your handset there are more than 18 different ways of rescinding the contract that you are in and giving the handset back," says Sudhir Nagaraj, CEO of Vodafone India Services. "We are looking at how to cut that down to say five or six, with one call that is routed and answered at one destination."

None of which is to say that staff with expertise in particular functions are going to disappear. "I think what we are seeing is more collaboration rather than more consolidation," says EY's Steven Gleed. "I think the secret is the way that different functional areas collaborate to solve particular problems. That doesn't mean, for example, rolling your sales support functions together with your finance functions."

3 Aiming for the high ground

Shared service operations have traditionally focused solely on the transactional activities of the organization, where processes can be repeated and automated. But if a global business services operation is to deliver more than one-off cost savings, it must do more. In many cases, this is now happening. For example, shared service centers are taking responsibility for work such as strategic analysis, management reporting and creative services.

“Leading companies are looking at all their functions and all their key processes, and evaluating what needs to be done to support the business in the future” says Mala Garg, GSS-CBS Leader at EY. “The question is how each process can best be performed –and by whom.” Ms. Garg is responsible for driving the strategy and implementation of EY’s Core Business Services (back office functions) captive shared services operation. She adds: “We are constantly evaluating how our shared service centers can bring more value, drive efficiencies in global functions, and help our client service people reduce administrative burden and focus on supporting market growth and revenue.”

At India’s Reliance Industries, for example, Piyush Gupta, Senior Executive Vice President, Head of Shared Services, is pioneering a move into business analytics. “We’ve hired seven to eight PhDs with real expertise in big data in order to do this work,” says Gupta. One consequence of initiatives taken is that many of Reliance’s shared service employees work far more effectively with the business than in the past. “The big play is to really be tied to the hip through the process so that you are co-correcting as you go along and keeping the business goals in sight,” he argues.

Many groups are centralizing local reporting activities, such as financial statements, VAT and tax returns, sometimes through a co-sourcing partnership with an international accounting firm. Bringing these “last mile” elements into the multifunctional shared services remit gives global business services a true end-to-end responsibility in the space of record-to-report, and unlocks a true business partnering focus for locally retained finance decision takers.

Companies that have addressed record-to-report opportunities within their business service transformations are reaping the benefits, even though transforming the model presents many challenges. Companies are reducing the number of experienced finance and tax resources available in-country. Yet, local authorities are becoming more focused on increasing revenues through enhanced enforcement. Leading companies are using a mix of internal and external resources to address this tension. They recognize that, by having the right core skills internally, along with standardized processes and information, they can take maximum advantage by using external providers that operate globally.

This process also requires a focus on cost reduction that is subtler, even if it produces larger savings. For example, Paul Fry, Senior Vice President for Core Business Services Finance at pharmaceutical multinational GlaxoSmithKline, says: “I wouldn’t say we’ve come up with loads of incredible cross-functional savings opportunities that we haven’t spotted before, but on trade payables we’ve seen real improvement in working capital.”

4 They are flexibly located

The move to multifunctional shared services does not spell the end of outsourcing. For many companies, there may be a number of processes within the new division's remit that are better run by third-party providers – especially after they have been run internally for some time, and the rate of internal optimization slows.

As business services transformation continues to move up the value chain, it's likely that more and more transactional work will be outsourced. In extremis, the entirety of global business services could be outsourced, either to a single provider or to outsourcing consortia, comprising several providers with expertise in different disciplines.

There are certainly some strong arguments for continuing to consider outsourcing. "In an outsourced environment, what you get is assurance and a guarantee that the business outcome being committed will be realized," says Sandy Khanna, Vice President for EMEA at IBM Global Process Services. "So, if I say I am going to save you 40% of your finance costs, or get you tens of millions of dollars worth of savings because I can buy stuff more cost effectively through better channels, or if I commit to the fact I'm going to save you US\$100m in your working capital, I will guarantee you that outcome. However, holding a captive shared services provider to account so specifically is not so easy," says Khanna.

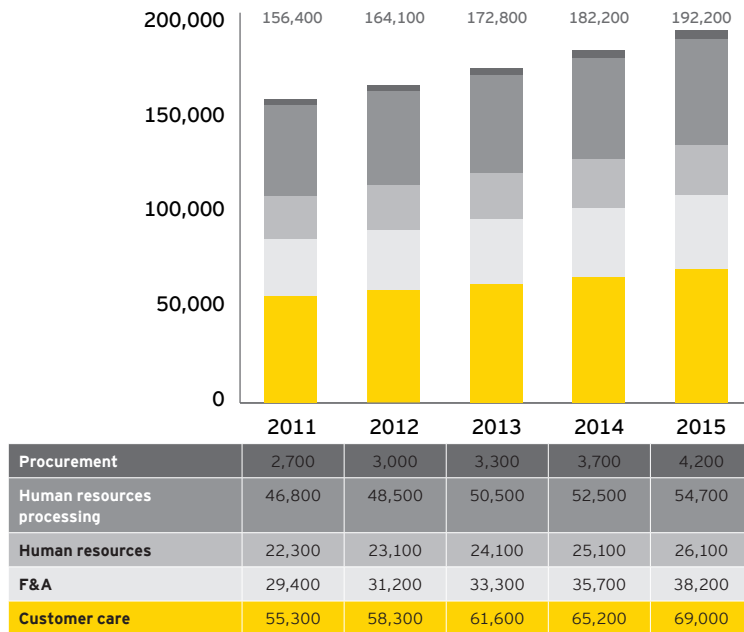
"When we talk about multifunction, you need to realize that not everything has to come together with one provider," says Shantanu Ghosh, Senior Vice President at Genpact. "We are the largest finance and accounting service provider in the world by a long way, but 95% of our finance and accounting clients get some of their IT done by someone else."

Christian Mertin says the challenge is not only to pick the right suppliers, captive or outsourced, for processes, but also to control them. "You may do some parts yourself and you may outsource a couple of processes, but the question is also how you coordinate this. Both models and even hybrid combinations work, it's only dependent on the fit with your specific organization." One option is for the functions to do all their own contracting – both with outsourcers and with their in-house multifunctional shared services. But this may not capture the potential standardization benefits that are available if everything goes through the latter.

"We are working together to achieve the performance we need, rather than having customers in the business."

Piyush Gupta, Senior Executive Vice President,
Head of Shared Services, Reliance Industries

Chart 1: BPO services revenues by business functions (US\$B)



Source: IDC, Worldwide and US Business Process Outsourcing Services 2012-2016 forecast, 2012

Dialing up new benefits

A case study on Vodafone

British mobile telecoms operator Vodafone began experimenting with shared services in 2007, launching a center in Hungary to work with finance and accounting. That center became multifunctional when it began working on the implementation of a new SAP system. In early 2010, Vodafone launched a fully fledged shared service operation in Pune, India.

“In the last 24 to 30 months, it has gathered momentum,” says Sudhir Nagaraj, Chief Executive Officer of Vodafone India Services. Having been set up to service finance, accounting and technology, the Indian center also began looking at customer contact work. It has since begun working with HR too.

In total, the shared services unit at Vodafone employs around 8,000 staff. That number is expected to rise to 11,500-12,000 within two years, with two-thirds of staff in India and one-third between Hungary and Egypt.

“It’s a two-pronged strategy,” Nagaraj adds. “We are insourcing quite a bit of the work that we do with large consultants so we build our own domain expertise, especially in IT, and we save money on consultants’ fees. We are also trying to see other areas where shared services has not been thought about, in order to try to build a complete value chain.”

The insourcing is a deliberate policy, with Vodafone now believing that it has sufficient scale in its own right to enjoy many of the benefits that outsourcing would traditionally be expected to deliver. “If you have that scale, you are more cost effective, you build and retain your own intellectual property, and you are in a position to really build the standardization and simplification of the entire end-to-end process,” says Nagaraj.

5 Services any time, any place, anywhere

Moving all shared services into one multifunctional business unit is forcing businesses to rethink where this work is done. At the extreme, it is possible that this unit could operate in one location, processing requests from business units around the world. In practice, the need to manage time zones and language differences,

so that everyone in the business has access to shared services whenever they are needed, is likely to require several locations, albeit with aligned processes and working practices. "Anywhere" could also mean "in the cloud," as a service or collection of services delivered by specialized providers.

At EY itself, which has been building its own multifunctional shared services operation since 2010, the approach is to operate out of centers in India, China Argentina and Poland. This "hub and spoke" model is an increasingly common way to manage a global business services operation. India and China function as the main hubs of the unit, through which work flows, with Argentina and Poland as spokes that are attached to these hubs.

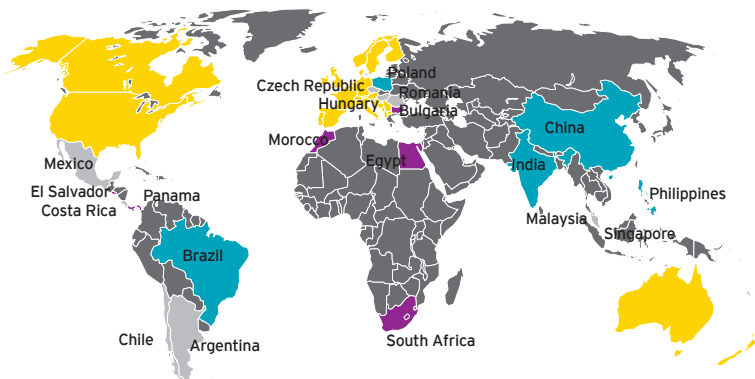
Deepak Swaroop, who, as EY's Delivery Head of Global Shared Services, has responsibility for these centers, explains: "The purpose of the spokes is to have language competency which may not be available in India and China, and to have time-zone coverage for those processes that are time critical from a time-zone perspective."

A separate but related issue is that, in the future, the locations that companies and outsourcing providers choose for these centers may change as competition for the work increases. "India remains very prominent and hosts many companies because its workforce has good language skills and excellent IT knowledge," says Bertrand Quélin of HEC Paris. But, he says, other Asian countries, including China and the Philippines, are emerging. "And competition is also coming from Eastern Europe, in countries such as Ukraine and the Czech Republic." Moreover, in India in particular, there is a growing trend towards "second-tier" cities that specialize in the most basic parts of the process chain.

Chart 2: Market activity heatmap

Number of centers

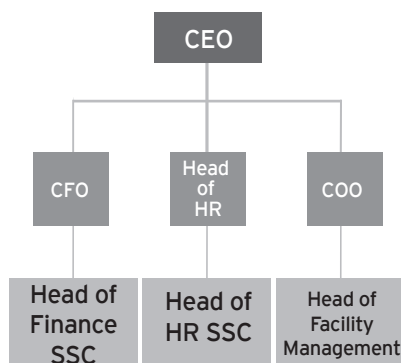
- No major activity (0-5 centers)
- Mature location (>50 centers)
- Nascent location (5-15 centers)
- Source geographies
- Emerging location (15-50 centers)



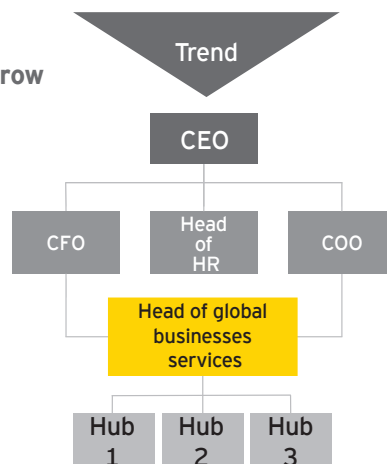
Source: Everest Group Market Vista Maturity Heatmap

Chart 3: Governance shift

Today



Tomorrow



Source: EY research

6 Taking charge

As shared service centers take on more work, particularly of higher value, lines of control are becoming progressively more important. “One of the key aspects when the CEO or CFO expect to reach global coverage is who will own the leadership,” says Quélin.

In many cases, there has already been a crucial shift. A traditional shared services center would have reported to the head of the function it served. In multifunctional shared services, the trend is increasingly for the head of global services to report to the CFO or the COO – or even the CEO. Another possibility is a specific governance board. The functions buy in work from global services, but the unit owns the process, maintains its own profit and loss account, and reports directly to the C-suite, just as customer-facing business units would.

This approach has strategic benefits because a single leadership team has more chance of delivering standardization and integration. It also offers operational advantages, reducing the likelihood

of disputes over territory and budgets between different parts of the business and individual shared service centers, as well as providing clear lines of accountability.

One good example of the new governance model is the global business services unit at Reliance Industries, which is structured around vertical business strands such as export services. The leaders in each case report to Piyush Gupta as the Head of Shared Services. In turn, he reports directly to a member of Reliance’s 14-strong executive council. “This structure is important,” Gupta argues. “The corporation realizes that this work is not their core competency and that if they can give it away to shared services, they can focus on what’s better for the company – that understanding and support comes directly from the chairman, his office and the board.”

Arming outsourcers for success

A case study on GlaxoSmithKline (GSK)

The 2008 appointment of a new chief executive at GSK was the trigger for the beginning of the pharmaceuticals giant’s ongoing drive into multifunctional shared services.

It led to the creation of a core business services (CBS) unit in February 2011 that incorporated five functions: the company’s entire IT and real estate units, plus 50% of procurement, 45% of finance and 10%–20% of HR.

Paul Fry, GSK’s Senior Vice President for Finance Services within CBS, says the company, which has almost 100,000 staff worldwide, had some shared service initiatives prior to this, but not with clear reporting lines through one unit. “Nor was there any co-location going on, or any cross-functional co-location,” he says.

GSK has just opened its first multifunctional shared services center in Kuala Lumpur, by bringing finance staff into a location previously used only for IT. It plans to have a second center in London up and running by March 2013. A further center will follow in North America.

Fry says the company has deliberately chosen to have a center operating in the UK because it is a British company that wants to be seen supporting the local economy. Similarly, the US is a crucial market. “I think that low-cost countries give you that sort of step-down in cost immediately, but over time you lose that with wage inflation.”

“Core Business Services will continue to use outsourcing contracts, as individual functions did before the launch of the unit,” Fry adds. “Of 10,000 shared services staff, about half are employed by outsourcing partners.”

“We are quite happy to outsource activities that are standard, repeatable and don’t have a language or time zone component to them,” he says. “If they require a high degree of contextual knowledge, they are not stable and do require language or a time zone, we will do it ourselves.”

This approach, Fry argues, produces the best results for both current service provision and the future development of shared services. “We really try to give an outsourcer only something with which they can be successful. We believe that the captive option gives an opportunity to grow the scope of shared services and move up the value chain.”

7 Measuring performance

Since multifunctional shared services commit to delivering more, they must also provide performance measurement tools that will produce evidence that they are living up to their promises. Not least this is because other functions will be reluctant to move work into shared services without evidence of good results.

The traditional tests of performance by shared service providers, whether captive or outsourced, remain important, says Vodafone's Nagaraj. "What we try to do is to create key performance indicators with the business partners based on what they have been doing," he explains. "We very clearly tell them that within 90 days of going live and another 90 days of stabilization, we will be bettering what the service level agreements have promised."

However, in addition to metrics that are already recognized as standard tests – such as cost per transaction, speed of delivery, availability and response rate – a global business services unit that

claims to be offering improvements further up the value chain must be able to demonstrate that too.

Graeme Butterworth, EY's leader of the EMEIA Outsourcing Center of Excellence adds: "There's a second group of tests that are all about outcomes." These might include customer service measures such as customer satisfaction or issues solved during the first contact with the customer. "In procurement, it might be to reduce the overall spending on indirect procurement, or spending made through primary supplier contracts. In HR, it could be about employee satisfaction, or simply the number of people getting the pay that was expected."

The challenge for multifunctional shared service providers and retained businesses alike will be to develop more of these outcome tests, often in areas where results will be qualitative rather than quantitative. How much innovation is being generated? Is corporate alignment being achieved? What has the business been able to achieve that it would not otherwise have managed?

8 Empowering people

The shared services model has sometimes been associated with low staff morale and high rates of attrition, both during the move to the alternate operating system and thereafter. But multifunctional shared service models are offering employees who work within such units and those who continue in the retained business a much more compelling career path.

As a global business services unit takes on more and more work, including processes that go well beyond the automated transactional tasks, it becomes the key enabling division behind much of what the organization does. Employees who aspire to fill leadership positions within the company increasingly get the best possible understanding of what makes things tick from a spell in shared services. "It's going to be challenging in the future to become a CFO or be part of the C-suite if you don't understand the concept of business services," argues Mertin.

Joachim Jaeckle, the Corporate Senior Vice President of Financial Operations at German conglomerate Henkel, says this is one reason why global business services has become an area in which his company's high flyers actively want to work. "We are now in a phase where high potential people are coming and asking to work in this very dynamic environment of business services," he says. "At the same time, it's a very lively place because there are so many projects and so much change, and that is so interesting and attractive for people."

A multifunction shared services operation offers its workforce many more opportunities. For example, people can work across functions and across the globe, or move from one functional area to another. They can also become more involved in high-value work. At more senior levels, the growing importance of global shared services brings a new level of profile within the organization and more clearly defined career progression routes. Organizations have begun to recognize this and respond accordingly – with greater internal labor mobility, for example, or the use of talent programs. All executives may be expected to complete assignments in global business services.

As for the retained business, EY's Paul Wood argues that its leaders will now be freed up for more fulfilling work. "If you get rid of all the transactional work, it forces the functions to really step up their game, to be real business partners," he says. "It's a hackneyed term, but it is now a reality. The old HR director, say, who used to have an army of people to manage, no longer has to do that. He or she had better start adding a bit more value to the business, and be a little bit more strategic."

It is possible that some members of the retained business will not want to meet that challenge, or be able to. But organizations with multifunctional shared services have already begun setting such staff new challenges and objectives, while working hard to prevent people from slipping back into old work patterns.

Local journey, global impact

A case study on Metro

Germany's Metro is the world's fifth largest retailer. With operations in Europe, Asia and Africa, it employs more than 280,000 staff. Its development has come from a mix of organic growth and acquisitions, which has traditionally meant a great deal of decentralization. Plus, says Dr. Oliver Wolff, Head of Shared Services at Metro, "retail is a local business – everywhere."

From a shared services perspective, that has focused minds, he explains, "the idea is to keep back-end functions as central as possible, and whatever is relevant for the customer we keep local."

Metro's journey toward multifunction shared services began three years ago, with operational accounting functions moving into three captive centers in Germany, Poland and India. Each location has its own operational management team reporting to

Wolff, and the idea is to add more functions over time. Financial reporting is the next step.

"I would identify three targets for this process: transparency, governance and efficiency – and all are equally important," says Wolff. "We appreciate the savings achieved, but these objectives are crucial too. [This includes] getting proprietary information from the local companies to group level, and establishing trust and good controls."

At Metro, the process was begun by the chief executive's office, with senior management still driving integration on a daily basis. However, Wolff nevertheless has to overcome resistance to change. He explains: "We emphasize that this is not about taking away people's decision-making responsibilities, but taking away workload so that they can enhance their relevance for the company."

9 Innovation: just another service

Multifunctional shared service operations recognize that innovation is one of their most important tasks. Many of the longer-term gains achievable from this model will come from innovations realized only once processes and functions have moved into the shared services unit. And, without these innovations, it will not be possible to build on the quick (but one-off) wins achieved in the short term.

"The key thing about innovation is that it has to be managed as a process, because if it's left to just happen, it won't happen," argues Butterworth. Some businesses are achieving this by building expectations of innovation-led improvements into service level agreements with their global business services teams. Others have created large internal optimization and innovation teams within their captive shared services units.

At Procter & Gamble, for example, it is compulsory for each shared services center employee to attend a basic training session on the company's process management improvement methodology, which was developed internally, and to dedicate a certain time to process improvements. Every employee spends a day each month working on improvement initiatives, and the quality of this work is an important part of their annual appraisal. The global business services team measures the number of ideas coming out of its

shared service centers, as well as from its outsourcing partners. It looks at what proportion of these ideas get through different stages in the life cycle and the number of innovations that are ultimately deployed.³

This is an issue that companies must consider very carefully as they move to multifunctional shared services, argues IBM's Khanna, and is a powerful argument for working with outsourcers. "Does the company have the intellectual bandwidth or indeed the intellectual ability to invest in technologies?" he asks. "Ongoing investment is needed to keep this thing buzzing – from a people perspective, from a technology perspective, from an infrastructure perspective and so on."

³ P&G website: http://www.pg.com/en_US/downloads/company/PG_GBS_Factsheet.pdf, accessed 10 January 2012 and <https://www.iaop.org/Download/Download.aspx?ID=1920>, accessed 10 January 2013

10 Making models work in emerging markets

Globalized companies with extensive operations in emerging markets might previously have been tempted to leave those businesses out of the shared services equation. After all, if a business's move to shared services, on a captive or outsourced basis, is all about leveraging labor cost savings through an offshoring process, why would it meddle with operations in markets where labor is already cheap? In some circumstances, moving work out of an emerging markets-based business into a shared services operation elsewhere might even raise costs."

The crucial point, argues EY's Paul Wood, is that multifunctional shared services are intended to deliver much more than cost savings. Such benefits may not even be the over-riding priority of such a shift – as EY's Growing Beyond research demonstrates, high performers prioritize customer reach, operational agility and stakeholder confidence alongside cost competitiveness. "This is all about what criteria you are using to drive these needs," says Wood. "Is it cost reduction, is it standardization, is it deployment of new technology, is it data quality and integrity? The solution will be different depending on the answers to those different questions."

There may be circumstances in which global companies leave certain emerging market operations out of the scope of the move to shared services; for example, if the lower costs are more valuable than the benefits achievable from including them. Where emerging market businesses are included, companies must decide who is responsible for meeting their rising costs. "You've got to decide whether to force

that region to eat the cost, or whether the global organization should pay," adds Wood.

Nevertheless, emerging markets remain up for grabs for global business services. For one thing, says EY's Christian Mertin, cost is unlikely to be the prime consideration in an emerging market business. "If you have growth in the business of, say, 15%, 20% or 30%, it is difficult to convince the client that they have to save cost. It's more a question of what support organization will best support growth."

In any case, cost is not straightforward, argues Mala Garg. "In the emerging markets in particular, it is tough to gain much in terms of traditional labor arbitrage-based cost benefits. Instead, we have to focus on the benefits that will come with standardization, process improvements, technology based efficiencies and so on," she says.

"We will also focus on how transactional processes can be better done under the auspices of common shared service protocols to drive more pervasive value. For example, by putting in new technologies to support global systems (like ERP and HR support systems). Emerging markets may actually gain by leveraging more streamlined processes in the shared service centers that will reduce their transactional processing times. Their professionals can then focus on doing higher value work that requires proximity to the customer or local knowledge. In other words, they will benefit from a shared service, even though a one-to-one labor arbitrage value proposition might not be there."

Ahead of the game

A case study on Reliance Industries

Indian industrial conglomerate Reliance has a multifunctional shared services division that already works across finance, human resources, IT, procurement and contracting and a range of other corporate services.

"Our goal is to have a shared service that really caters to all the functions and all the businesses in the corporation," says Piyush Gupta, Senior Executive Vice President, Head of Shared Services at Reliance.

Reliance has consistently expected work of a transactional nature to be done by shared services. But it is now moving up the value chain, particularly in business analytics, where a team is working out how to produce predictive and prescriptive work for the rest of the company.

"That's far ahead of the game of transaction," says Gupta. "And we're doing procurement work, too." Although moving this higher-value work into the shared services operation requires a high level of trust from other parts of the business, Gupta says there is, in some senses, less pressure on such work. "This isn't about cost arbitrage, which is where most of the global corporations try to do shared services," he explains. "The idea is to have a scalable platform ready for the growth that the company is expecting and already experiencing."

The shared services unit is also benefiting from the tangible results it has already produced – and not simply in terms of cost. Its most recent net promoter score audit – which shows the number of users of a service who are positive about it minus the number who are negative – was 82%, up from 25% 18 months ago.

“Innovation has to be managed as a process. If it is left to just happen, it will not happen.”

Graeme Butterworth, Outsourcing Center of Excellence Leader for Europe, Middle East, India and Africa (EMEIA), EY





Making it happen

The move toward global multifunctional shared services is a process of evolution rather than revolution for most organizations. This is not to say that companies cannot move quickly where there is ambition and desire to do so, or that all organizations pause at the same staging points along the way. It is, however, possible to illustrate those staging points. Companies on this path have, broadly speaking, reached one of four distinct stages, each with a different level of integration. Each level is a step in the journey of business services and not all companies start or end on the same level.

Level 1: The standard approach

Stand alone functional shared services center



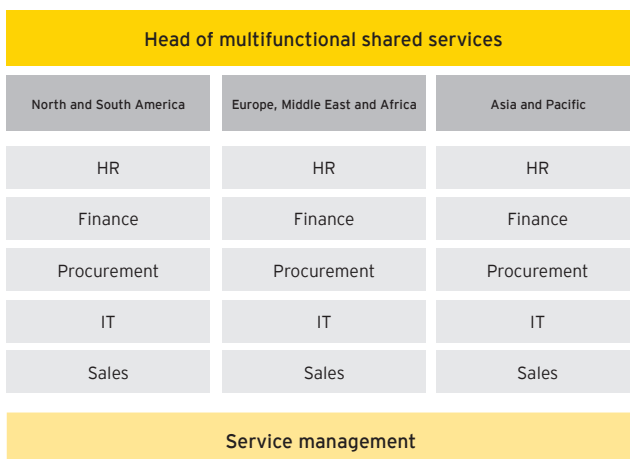
In this model, companies have established separate units to provide shared services to individual functions. These units have relatively little contact with each other, and the leaders of each typically report to their respective executives at the C-level. Any cross-functional decisions would be taken at this level, rather than by the shared service units themselves.

Even within these distinct shared service units, further demarcation may exist between teams serving different elements of the function, particularly where the units operate from multiple locations.

Integration of processes that might be managed on a cross-functional basis is difficult in this structure.

Level 2: Going multifunctional

Multifunctional regional shared services center

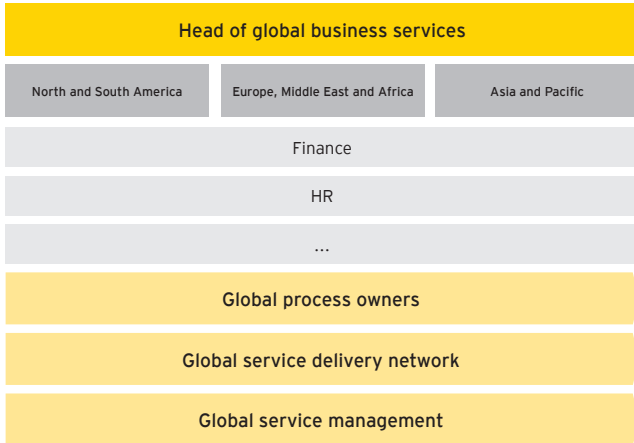


In this model, companies have begun to integrate their shared service units, but on a regional basis. Shared service units combining two or more functions exist in several locations around the world. The head of each of these units reports to a head of shared services, who is responsible for performance monitoring and service management across all the regions.

The regional units are able to drive greater integration of the functions within them, leveraging infrastructure, technology and location. However, even within the units, functions still have a tendency to operating individually, with integration focused on specifically identified pain points or support work.

Level 3: Globalization

Global business services

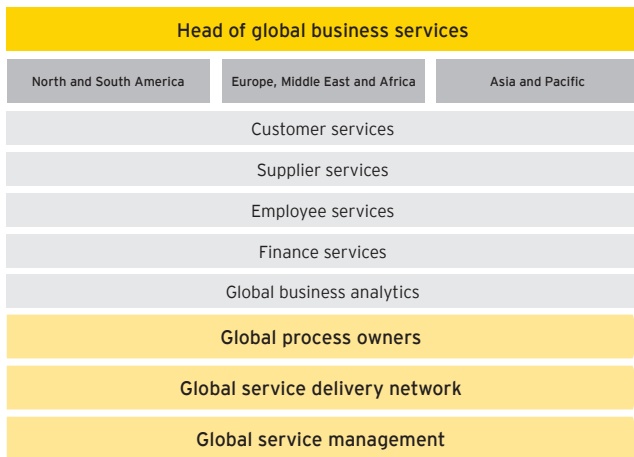


In this model, two or more shared service functions are aligned across all regions on a global level under a single head of global business services. The global business services unit offers a unified face to internal customers and operates with a global service delivery network, working through processes on a global basis. All functions operate under a single service management framework.

A global business services unit will often be set up with regional centers in order to work with business units in different time zones or language areas. A hub and spoke approach is common for these centers.

Level 4: Advanced multifunctional

End-to-end global business services



This model represents, from today's perspective, the end point for the evolution of global multifunctional shared services. So far at least, very few companies have reached this level of integration.

The model shares many of the characteristics of level 3 integration, with a single global shared services organization operating through regional and global centers. However, the unit is no longer organized on the basis of the functions it serves, concentrating instead on service products. This enables full integration with enterprise processes and complete end-to-end process integration throughout the company.

The organization is headed by a single head of global business services, who reports into the C-suite, or may be a member of it.

Oiling the wheels of the business

A case study on Shell

Royal Dutch Shell has around 90,000 staff and is active in every sector of the oil and gas industry. It has operations on every continent in the world. The company now operates six multifunction shared services centers – in Cape Town, Chennai, Glasgow, Krakow, Kuala Lumpur and Manila. They provide the business with centralized finance, HR, IT and other services.

“The centers are governed by the principle of functional reporting, with finance reporting into finance, HR reporting into HR and so on,” explains Erik van der Steen, Global Finance Manager at Shell Downstream Services International. Nevertheless, the centers are focused on end-to-end processes that may often be cross-functional. “In Krakow, for example, we have five different functions working within the center, and we’ve developed common architectures to support that.”

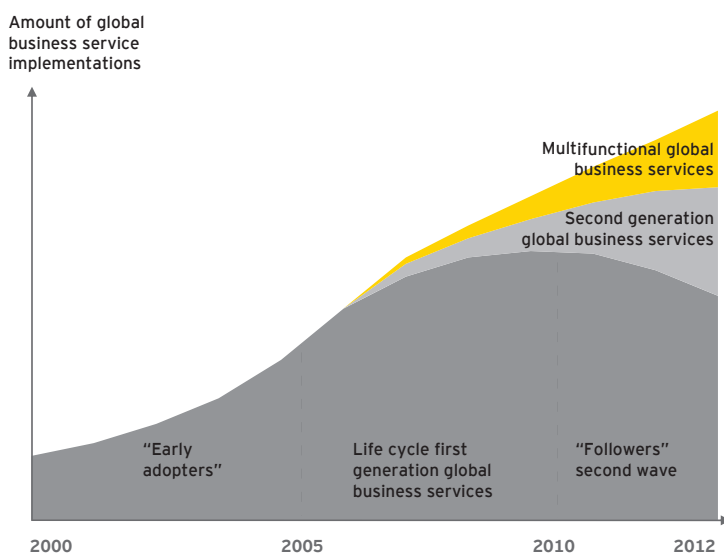
Shell has also chosen to move more than simply transactional work into its business services operation. “Compared with many other companies, we are a more advanced shared services organization, doing much more high-end work,” Mr. van der Steen adds. “We do everything from supply chain management to credit management to HR services that have direct contact with our staff everywhere.”

The move to this operating model is relatively recent, with the switch to the shared services organization in its current form only having begun in 2009, although the Shell shared service centers were effectively established in early 2000. “This has been a transformation in which 5,000 people migrated in finance alone over three years,” Mr. van der Steen explains. “We expect that some further expansion of the scope will continue, but most of the transformation has now been completed.”

To some extent, deviating from other multinational companies, Shell has chosen not to use outsourcing at all. “Our strategy is 100% captive,” Mr. van der Steen adds. “We feel these functions are crucial enablers of business success. It’s not about, say, just punching in an invoice, but ensuring that our processes are organized in such a way that we get maximum value for our money. Having the in-house knowledge enables us to perfect these processes.”

The relationship with the business is also different. “We don’t have any service level agreements between our shared services centers and the business,” Mr. van der Steen explains. “Although we do lots of measurement, we ultimately take the view that we’re working together to achieve the performance we need, rather than having customers in the business.”

Chart 4: Life cycle global business services



Source: EY research

The EY global business services maturity check

How mature is the setup of your organization? Our shared services center maturity check is a simple and convenient way to benchmark the progress made by your business against similar organizations. The process uses a questionnaire based on six building blocks, and continues with a face-to-face interview and more detailed data gathering. We’ll evaluate your strengths and weaknesses in a detailed maturity report.

“With the shared services maturity check, we guide you through a structured analysis of your current organizational setup,” says Martin Weis, the Senior Manager leading EY’s global business services method development team. “You can benchmark your organization toward other leading practice organizations that are part of our shared services center leaders club.”



Getting round
the roadblocks

It is unlikely that any company will move directly from having no experience of shared services at all to a multifunctional approach, so most businesses will be accustomed to dealing with the change that such shifts necessitate. Nevertheless, as businesses continue to transform themselves, there will be more challenges to confront. Similar challenges faced businesses that set up individual shared service organizations, but they are now more intricate and complex. Many of them underline the need for strong governance and good monitoring of performance.

Taking people with you

Effective and locally executed change management is crucial in business services transformation. Executives and their teams around the world are often very hostile to the idea of ceding territory to global business services. That hostility may be personal – if executives fear loss of status and power – or based on genuine nervousness about the business case for multifunctional shared services. Linguistic and cultural differences between different parts of the company can also hinder cooperation.

Most companies that have implemented multifunctional shared services say they would not have been able to do so without support from the chief executive and his most senior colleagues. This may help overcome internal opposition, but even where hostility is muted, low-level resistance to change can be destructive.

Unless staff are persuaded to buy into the project and see the scope for new value-added positions in future, transition is difficult. And, after the transition, those staff who have moved to shared services need to be encouraged to think differently – to look for synergies with new colleagues and for new opportunities.

Where lay-offs need to occur, change management and legal support must be professional, effective and timely. Employees are entitled to information; the employment laws and consultation periods of every affected country need to be respected; and financial compensation packages need to take local rules into account. Outplacement support and stay-on bonus schemes, besides meeting the desired results, should respect local labor laws.

“I think in every company it’s the same. Nobody loves shared services,” says the shared services leader at one large business. “Each area that has their own responsibility wants to keep it and to stay independent. So if you come to them to talk about shared services, you do not have so many friends at the beginning.”

To break down this resistance, at whatever level of the company, the global business services unit has to work hard at communication – to convince the rest of the business that it is performing well where change has already been implemented.

“We invest heavily in change management,” says Henkel’s Joachim Jaeckle. “We publish a great deal on shared services in all our internal media channels and we have a very active dialogue with the whole company. For example, we use ambassadors. We have identified around 200 people globally who act as multipliers for the concept. Most of them are middle managers who are convinced of the value of the project.”

Managing expectations

The move to multifunctional shared services will not always be straightforward. It is not always possible to follow business plans to the letter. Achieving standardization, especially in the harmonization of ERP and legacy IT applications, sometimes proves harder than expected. Technology does not always deliver what it promises in the beginning.

It is also important not to set expectation levels too high. Even in a multifunctional shared services environment, there will still be a need to do some work locally or within the retained business locations. Those organizations that do not accept this will be disappointed or, worse, unable to cope.

“There can sometimes be an overstatement of shared services’ benefits – and an underestimate or dishonesty about the amount of reprocessing that happens closer to the business,” argues Paul Wood.

Business needs change over time too, Wood points out, which can be difficult to cope with through rigid service level agreements. IT is a good example, he says. “For a time, the IT infrastructure network was static, but then it flipped into something that is much more dynamic. With cloud computing and mobile, we have people walking around their businesses with tablets and smart phones who want to access material in a remote way, and not carry a laptop or have a mainframe terminal that’s wired into a network.”

The gains of flexible governance

“Where there are difficulties, it is almost always possible to trace them back to governance problems,” argues EY’s Graeme Butterworth. “Joint governance needs to be setup from day 1 to manage these arrangements.” Not making that mistake is therefore crucial, whether the contract to provide shared services to a business is with a captive provider or an outsourcing company. EY’s *Growing Beyond* research has highlighted how high performers consistently focus on stakeholder engagement.

Companies today are subject to much greater scrutiny than ever before, yet the environment in which they operate has never been more complex. So it is crucial for organizations to tell their performance story effectively and consistently to the investment community, regulators, commentators and customers.

Equally, organizations must engage internal stakeholders. The *Growing Beyond* research showed that one of the biggest drivers of differential performance is the way in which companies develop

and deploy talent. For example, 40% of high performers have been increasing their talent in key markets. High performers are 43% more likely to be achieving flexibility through devolving decision-making, and 30% more likely to be seeking to improve their workforce skills as a result.

“In a classic case of what goes wrong, the deal was probably relatively fixed, certainly not flexible enough, and had ill-defined expectations of what each side was expected to deliver,” says Butterworth. “And now, downstream, the world has changed, but the contract concept can’t because there’s so many fixed elements within it.”

The challenge, then, is to incorporate flexibility into a governance arrangement in which lines of accountability and responsibility are absolutely clear, and performance can be benchmarked according to agreed criteria.

Local journey, global impact

A case study on Takeda Pharmaceuticals International GmbH

Takeda, Asia’s largest pharmaceuticals business, bought the Zurich-based company Nycomed in 2011 to extend its reach in Europe and emerging markets. It has since begun implementing its multifunctional approach to shared services across the newly formed company.


“In 2010, I was working out of Nycomed’s corporate headquarters in Zurich and it was then that we kicked off the shared services project,” says Geir Myklebust, who is now Senior Finance Director at Takeda. “It was a project focused on administration processes, primarily in finance, HR, IT and procurement. The scope was to transform the back-office functions from a local setup into a regional and centralized shared services center structure.”

Having begun the project in January 2010, Nycomed had

completed the integration of functions in 25 countries by June 2011, just months before the completion of its takeover by Takeda. The model proved so attractive to Takeda that Myklebust was asked to undertake a similar process in the new business. It was a crucial part of realizing the synergies that the deal had promised.

“One of the attractions about the multifunctional shared services approach is that it is flexible and scalable. This is important when companies are growing, particularly through M&A,” he says. “We stress tested that concept in a very swift time and it’s worked very well.”

Takeda was able to achieve its target to integrate shared services in Europe within a year of the Nycomed deal’s completion.




“It’s about ensuring our processes are organized in such a way that we get maximum value for our money.”

Erik van der Steen, Global Finance Manager, Shell Downstream Services International

Making the transition work

Companies will confront problems in different ways, but those that follow some basic rules in implementing a multifunctional approach will find the transition more straightforward and effective.

- ▶ **Make sure the scope really is multifunctional**
Companies that continue to focus on individual functions will miss out on many of the benefits that global business services can deliver.
- ▶ **Concentrate on process**
By looking at end-to-end processes rather than types of transaction, companies break down barriers between functions.
- ▶ **Own the technology**
Global business services organizations work best when they take control of their IT architecture, rather than buying it in.
- ▶ **Be open-minded about delivery**
Some services will be delivered better by an outsourcing firm, while others are best sourced from captives. The key is not to be dogmatic about either approach.
- ▶ **Run the organization as a business**
Global business services is a business within a business – it needs to treat the rest of the organization as clients.
- ▶ **Focus on consistency**
Where services are delivered in different ways – in different parts of the world, for example – the organization misses out on standardization benefits.
- ▶ **Prioritize business intelligence**
Global business services units that operate centers of excellence and provide high-quality business analytics will be valued and accepted by the rest of the organization.
- ▶ **Sell the value proposition**
A global business service organization must constantly explain its value to its clients, just as any other business would.

The image features two glass jars filled with honey, resting on a wooden surface. The jar on the left is larger and has a gold-colored lid, with a faint embossed logo on its side. The jar on the right is smaller and also has a gold-colored lid. The honey is a rich, golden color. The background is dark and out of focus, suggesting an indoor setting with natural light. A thin yellow horizontal line is positioned above the text.

Driving sustainable
and measurable
results: why EY's
Advisory services?

What we do

EY uses its sector-focused approach and global delivery capabilities to help our clients to transform business performance, manage risk and sustain improvement.

Our global structure, including our SSC practitioners' network of over 800 subject matter experts, enables us to operate seamlessly with our clients and across our own organization in over 140 countries. Our Advisory capabilities are forged by our heritage in Assurance, Tax and Transactions, and enriched with our people to inject sector-specific knowledge.

- ▶ With various benefit forecasting and management tools, we are able to monitor development and outcome – starting from the global business services strategy refinement to the point of implementation.
- ▶ EY's change management approach will be a focus area from day one of such a project. It closely aligns communication and change elements to project evolution and the issues that may arise for stakeholders. For each project phase, road-tested tools and methods are in place, which enable change. We recommend deploying our EY "Advanced Solution Center" toward the end of the design phase, to achieve strong stakeholder alignment on the target operating model and gain additional momentum for change.
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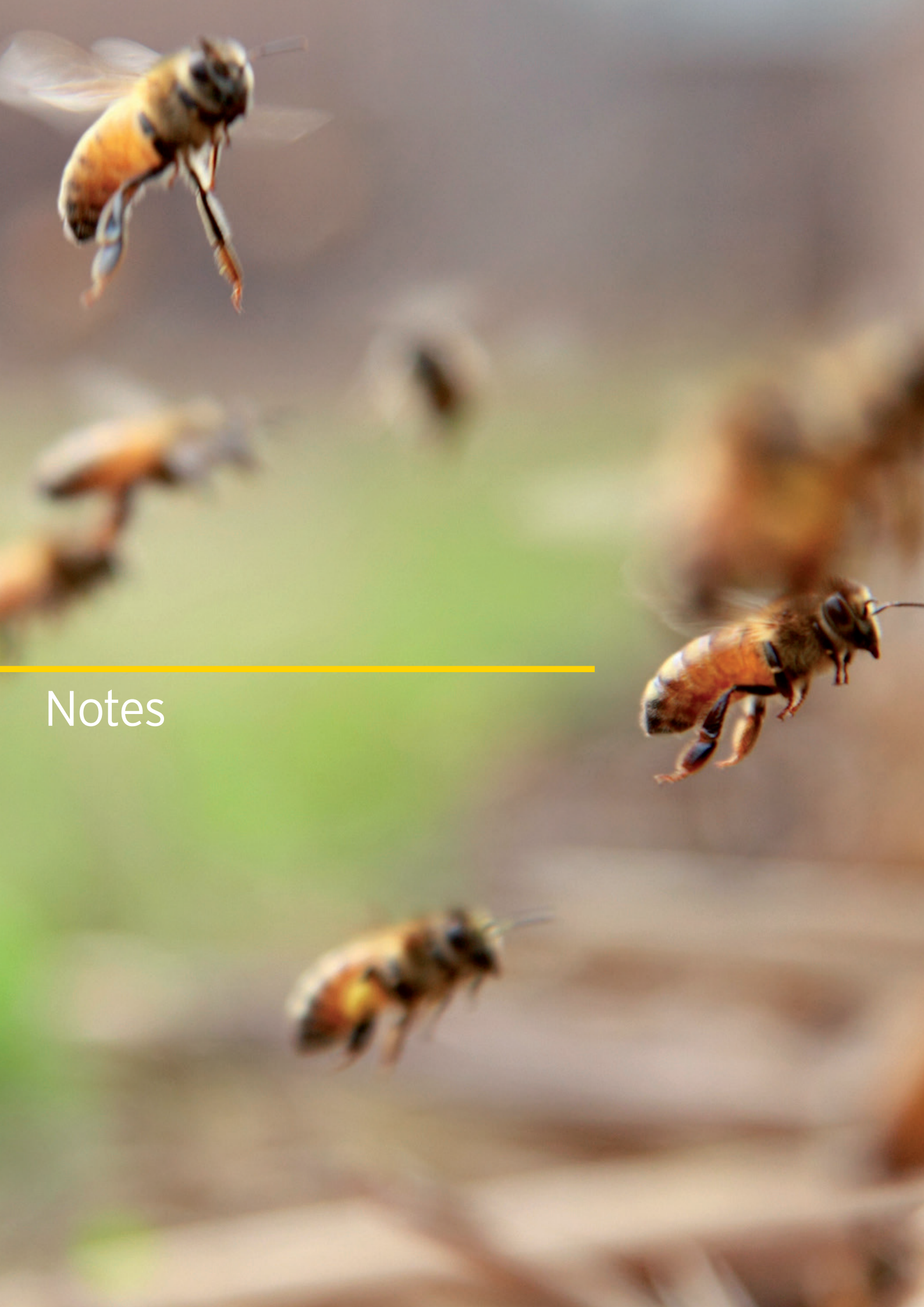
What we offer

- ▶ **A highly integrated business, a highly integrated Advisory practice**
We operate as a single business across all our geographical areas, which improves our decision-making and speed of execution.
- ▶ **Highly experienced shared service experts**
We attract and retain top talent across industries in a structure that enables us to mobilize our people quickly – and allocate them to projects in the right place, at the right time.
- ▶ **One global methodology**
We have a highly integrated modular methodology so that wherever we work, we deliver consistently.

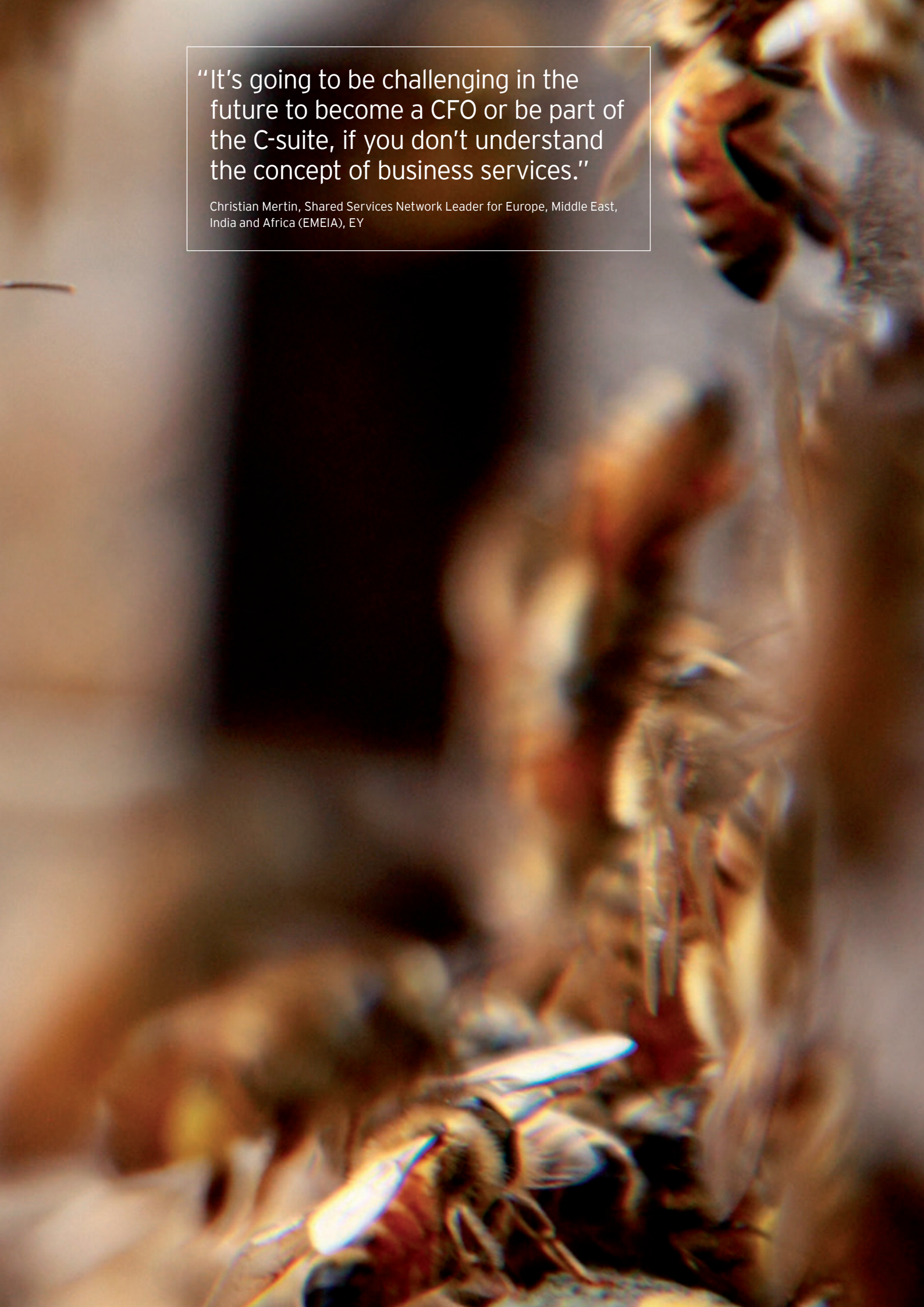
The EY Shared Service Center Leaders Club

Founded in 2007, our Shared Services Center Leaders Club connects global peers and specialists who work in this area. It's a place where leaders can discuss the challenges and issues that they all face and share knowledge with peers beyond company boundaries. We hold regular get-togethers, where discussion often focuses on how to solve common operational

problems. The club's members are representatives of organizations with a proven record of successful shared services implementation. These professionals work for many of the world's leading companies and come from industries including automotive, chemicals, consumer goods, pharmaceuticals and transportation.



Notes



“It’s going to be challenging in the future to become a CFO or be part of the C-suite, if you don’t understand the concept of business services.”

Christian Mertin, Shared Services Network Leader for Europe, Middle East, India and Africa (EMEA), EY

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