

GLOBAL BUSINESS SERVICES

Taking  
Business  
Support  
Functions  
to the Next  
Level

ISG



## INTRODUCTION



**We believe there are plenty of opportunities remaining with respect to shared services along with some terrific opportunities for an emerging concept called "global business services" to drive significant improvement and manage all service delivery model alternatives.**

As economic pressures continue to abound, many corporations are looking within their organizations to determine how to improve operations and reduce costs. Cost constraints, efficiency gains and productivity measures are commonly sought to achieve this objective. It is no surprise that development of or improvement in an enterprise's service delivery model is desired. Many companies have developed some aspect of shared services, and many more have embraced the outsourcing service delivery model as one lever to drive economic improvement. However, we believe there are plenty of opportunities remaining with respect to shared services in general along with some terrific opportunities for an emerging concept called "global business services" to drive significant improvement and manage all service delivery model alternatives.



## WHAT DO WE MEAN BY “SHARED SERVICES?”

A successful shared services model typically incorporates these concepts:

1. Focused company resources.
2. Process ownership as a key characteristic.
3. Critical values of partnering, teamwork and adding value.
4. Effective leverage of tools and technology.
5. Accountability by specialists with service focus (internal and external) governance principles.
6. Center of excellence and a company asset for developing talent.
7. Results that emphasize efficiently meeting customer requirements.
8. Focal point for company best practices.

Many organizations struggle in their quest to set up a successful shared services organization. Often, the strategy begins with a consolidation of facilities and resources. While this is a necessary step in the early phase of a plan, a mere consolidation without a long-term strategy for a service delivery model will not be sufficient.

Some corporations have a vision that standardization of processes is the solution. Again, this may be a component of your strategy but cannot stand alone. Another common pitfall is a view that shared services should handle only transaction processing at a lower cost. Transaction-based processes do deliver a high percentage of the economies-of-scale benefits from shared services, but there are also economies of focus (management skills) benefits that can be leveraged beyond transaction-based processes. There is also a perception that business units may lose control and influence in “giving up” some non-core functions. The “shared” in shared services is meant to reflect the sharing of goals and accountabilities between business units and the shared services organization, so there should be no loss of control. Done properly, establishing a true shared services organization will overcome these common mistakes and misconceptions.

## THE GLOBALIZATION OF SHARED SERVICES

Shared services organizations began appearing in the corporate landscape of the United States in the late 1980s and have been expanding on a global basis ever since. Today, many large corporations have shared services organizations in most of the regions of the world in which they do business, including several captive shared service centers in low-cost



“destination” countries such as India and China. However, we draw a distinction between having a global presence of shared service centers and an emerging trend we call “global business services (GBS).” How is global business services different from having shared services around the world?

### WHAT DO WE MEAN BY “GLOBAL BUSINESS SERVICES?”

There are as many definitions of the term “global business services” as there are companies; however, most of these definitions go well beyond simply having shared services operations around the world. We like to broaden the definition as follows:

**“Global business services:”** An integrated compilation of service offerings for any (multiple) support functions within a company. This compilation of service offerings is global in nature with respect to both delivery centers and customers. The provider of the individual services can be either internal or external but must be managed centrally by the global business services organization. The service offerings themselves are harmonized and end-to-end in nature.”

GBS characteristics typically consist of:

1. Standard (“80/15/5 rule”) processes around the globe<sup>1</sup>.
2. One global organization.
3. Global process ownership.
4. Integrated application suite(s) across the enterprise.
5. Virtual centers of expertise to build and disseminate subject-matter expertise and toolsets.
6. Practices that result in the organization being run like a standalone business.
7. Ability to move work from one location to another for business continuity or to simply take advantage of competitive differentials (responsive and nimble).
8. Organizational construct that is product- or capability-centric, not customer-centric.

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<sup>1</sup>The 80/15/5 rule is a derivation of the Pareto Principle that refers to this rule of thumb: 80 percent of a process can be standardized on a global basis; 15 percent of a process can and should be standardized on a regional basis; and 5 percent can and should be standardized on a country or local level.



Global business services organizations literally manage and control most, if not all, of a corporation's general and administrative functions. The organization is managed as if it were a standalone business from the parent organization. In many cases, in fact, the GBS unit is a separate legal entity. The skills required to manage a single-function global network of service delivery centers are effectively leveraged across multiple functional areas — regardless of the service delivery model employed. In most cases, it is a mix of service delivery models, from captive offshore delivery centers to domestic (traditional) shared services centers to outsourced delivery models. The latest trend is to establish “hybrids,” whereby shared services is fully integrated with an outsourcing model for a specific function or even a specific process.

## GLOBAL BUSINESS SERVICES VALUE DRIVERS

Although traditional shared services deliver value in many ways, the most visible ways involve capturing cost savings through economies of scale, simplification and standardization. Global business services, on the other hand, are designed to capture additional value through:

- 1. Economies of scale:** Savings driven by leverage/size of organization.
- 2. Economies of scope:** Savings driven by leveraging management and expertise across multiple service offerings.
- 3. Simplification:** Savings driven by removing (often unneeded) steps from a process.
- 4. Standardization:** Savings from having one standard method or process.
- 5. Visibility:** Value derived from having visibility across an enterprise (e.g., human resources knowing how many engineers there are in the company and where they are located).
- 6. Access to talent:** Value derived from the ability to harness the best talent pools in the world.
- 7. Labor arbitrage:** Savings from lower-cost resources in different locations throughout the world.
- 8. Skill arbitrage:** Value derived from access to higher-skilled labor (implied at lower costs/economically feasible costs).
- 9. Pure arbitrage:** Value derived from the ability to shift work from one location to another to take advantage of shifts in the factors of production.



## TYPICAL GBS SCOPE BY FUNCTION AND INDUSTRY

As mentioned above, most GBS organizations tend to manage several general and administrative functions for their parent company. Following is a table indicating the scope for six GBS organizations that have arguably advanced the concept the furthest:

Function	CPG - 1	Telecom	Equip Mfg.	Auto	Mfg.	Energy	CPG - 2
F&A	✓	✓	✓	✓	✓	✓	✓
HR	✓	✓	✓	✓	✓	✓	✓
IT Infrastructure	✓	✓	✓	✓	✓	✓	✓
IT ADM	✓	✓	✓	✓	✓	✓	✓
Procurement	✓	✓	✓	✓		✓	✓
Customer Relations	✓	✓		✓	✓		✓
CRE	✓	✓		✓			
Fleet		✓					
Legal			✓				
Parts Management			✓	✓			
Supply Chain			✓	✓			
Network (core)		✓				✓	
R&D		✓					

## MANAGING GBS AS A BUSINESS

Certain factors play a role in the success of any business. Here are the key characteristics to running global business services as a business and achieving success:

- 1. Leadership:** Establish support from chief financial officer, chief executive officer and business units (a requirement for success).
- 2. Urgency:** Develop a sense of urgency in the implementation.
- 3. Costs:** Define base costs accurately to enable measurement of success.
- 4. Resources:** Utilize your best demonstrated practices and personnel for input and implementation; budget for and commit internal and external resources from the start.
- 5. Location:** Ensure easier transition by using a "greenfield" site (new location).
- 6. Leverage:** Employ internal leading practices and benchmarks before considering "world class" solutions.
- 7. Implementation:** Phase migrations and scope expansion; learn from your experiences.



- 8. **Measurement:** Incorporate performance measurements into service level agreements.
- 9. **Communication:** Over-communicate; have change management plans that start from the first day.

**DIFFERENCES BETWEEN GLOBAL BUSINESS SERVICES AND GLOBAL SHARED SERVICES**

	<b>GBS</b>	<b>GSS</b>
<b>Functional Scope</b>	End-to-end process perspective; multiple general and administrative functions	Transactional components of processes; usually one or two functional areas
<b>Leadership Focus</b>	Run like a business; can be separate legal entity; focused on delivering business value (upstream/downstream of responsibility)	Efficiency first, then effectiveness; usually does not have a third goal
<b>Employment Opportunities</b>	Many career opportunities within GBS; acts as a talent pool for organization at large; stepping-stone for management talent	Career paths have limitations due to size; cross-unit limitations
<b>Service Delivery Models (SDM)</b>	Manages multiple SDMs and optimizes portfolio	Typically a single SDM (captive shared services)

**UNIQUE BENEFITS OF GLOBAL BUSINESS SERVICES**

When operated like a business, GBS is typically world class with respect to cost and service levels as well as competitive with the external marketplace. This model allows leveraging of limited management resources with strong skill-sets across all general and administrative functions within the enterprise. A well-executed governance organization is positioned to manage multiple service delivery models across the corporation. A successful GBS organization enriches the enterprise with a deep talent pool. From an operational perspective, GBS facilitates standardization and process improvement through end-to-end process ownership. It is an excellent partner in facilitating the integration of acquired entities.

## ABOUT ISG

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