

Four Powerful Trends that are Reshaping Shared Services Modernization

Abstract

Shared services help organizations boost efficiencies and reduce costs. However, the global business services (GBS) model currently prevailing isn't as streamlined as it could be. In comparison, integrated business services (IBS), an evolution of the GBS model, earns a superior advantage when it comes to serving different business functions, and is reshaping shared services as a core business unit.

This paper identifies four key trends that are driving such modernization by explaining how the IBS model allows organizations to break functional silos, accelerate globalization with unified governance, employ new-age technology tools, and discusses how a global network of delivery hubs can make the most of its strategic benefits.

Shared services is maturing

Large businesses are increasingly using shared services models to support a range of functions. As shared services mature and modernize into a new generation of integrated business services (IBS), evolving business models are creating more value for enterprises. With simultaneous growth in revenue, reduced operating expenditure, and streamlined management, shared services modernization will radically alter the corporate world.

Four trends are driving shared services' modernization as businesses shift their attention to operating models, process workflows, and talent development. These trends are Integration, Governance, Digital, and Geography and Sourcing.

1. Breaking the Functional Silos for Better Integration

An integrated business services model is key to deliver high value services on an enterprise-wide basis in a consistent and cost-competitive manner. While the global business services (GBS) model has helped organizations scale up, it is the breaking of functional silos that generates real value for the organization. CEOs who use IBS models experience less internal complexity in their businesses.

Today, IBS is designed from the outside in and is fully focused on improving customer outcomes. To achieve operational efficiency savings, GBS integrates end-to-end processes including procure-to-pay, order-to-cash, and record-to-report. Top performing GBSs enjoy non-labor cost savings.

Most of these processes are being integrated with governing metrics and data analytics to monitor performance. This optimizes processes, and allows IBS to deliver ongoing improvements and value to organizations.

Finance is the most mature shared service function that is provided through an integrated, centralized global model. Finance as an integrated service is transparent and enables CFOs to view working capital throughout the system. While this data enables strategic management decisions, an end-to-end finance service also eases transactional activities throughout the business. The standardized nature of GBS models not only reduces costs, but also streamlines any future M&A activity or divestitures.

The shared infrastructure of an integrated end-to-end service benefits the supply chain management (SCM) function's increasing requirement for segmentation strategies. Efficient integration can harmonize service level differentiation based on delivery model, procurement strategy, product strategy, stocking strategy, and other metrics. Focus on optimization software, visualization software, and RFID strategies generate better performances for service owners. IBS improves the flexibility and resilience of SCM and drives integration with the finance function, as majority SCM leaders would like to see.

2. Accelerating Globalization with Unified Governance

As business functions become more and more integrated, organizations progress towards developing governance models that may ease the move to IBS. Businesses prefer governance through global shared services because it improves proximity of businesses, reduces dependence on time zones, and increases scale of operations. This helps the company to build expertise, achieve economies of scale, standardize processes, and focus on the core business.

Governance dictates both the strategic and operational aspects of a business. Strategic governance addresses scope, service, investment, and price while operational governance covers daily items related to processes, technology, and people. Figure 1 outlines the governance structures under GBS and IBS models.

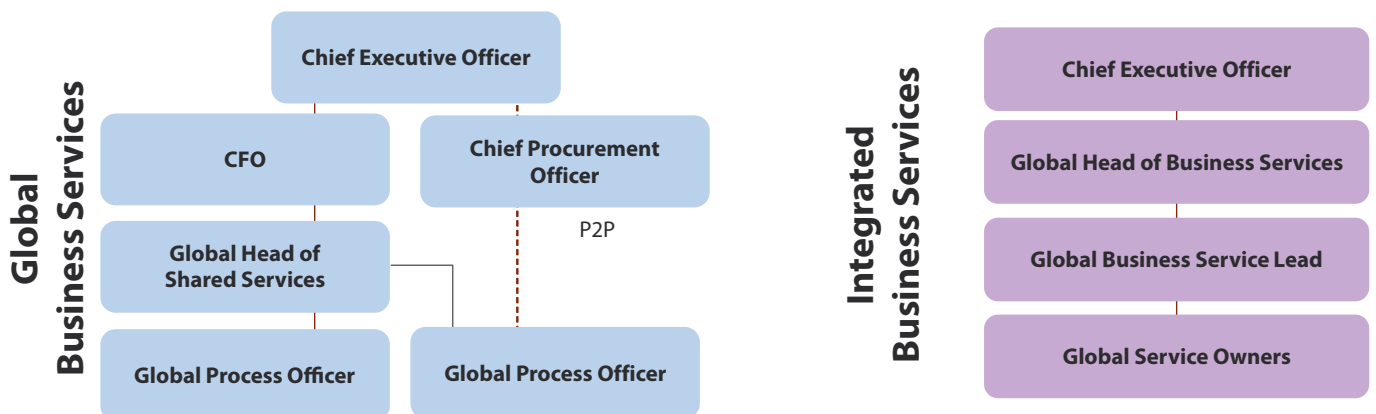


Figure 1: Methods of Governance under GBS and IBS Business Models

Despite proximity between the two methods, the GBS governance structure maintains individual chains of command for each service while IBS governance merges ownership of integrated services under one Global Head of Business Services to fully harness operational efficiencies and organizational unity.

A large number of shared services centers, set up and managed as autonomous business units, are outsourcing to GBS organizations. IBS can be easily adopted in cases where shared service centers are operating efficiently. Many use the global process service level agreements and a single enterprise resource planning system throughout.

3. Transforming to Digitization

Digital technologies are transforming all business functions from SCM and finance to HR, customer experience, and more. While Robotic Process Automation (RPA) reduces costs by automating individual processes, cloud-based IT environments enable end-to-end integration of operations. Those integrated processes provide data to analytics, and analytics drive better decision-making, more efficient operations, and increased enterprise performance through high-value business insights. Artificial intelligence (AI) tools help manage customer experience and control vendor management to create improved and efficient service.

Digital transformation is essential in the journey to next generation shared services. It will marry operations and technology to create innovative, seamless service lines on a global scale. Shared services organizations are already building digital capabilities across automation, social media, and advanced analytics. Large data lakes are harnessed to drive KPIs and operational reviews. Advanced analytics provide insights on customers and products, and aid business planning. With shared services bolstering their social media skills with training programs, responsiveness and rapport with customers will improve.

4. Building a Global Network of Delivery Hubs

As businesses evolve, the way in which they interact with the world will change. Decreasing geographic barriers are encouraging global networks of operations. Concerns over regulations, time zones, and languages are overcome by competitive cost structures offered by increasing globalization. Business leaders are increasingly leveraging economies of scale, labor arbitrage, and improving global

standards in their sourcing decisions. Increasingly, the majority of the top-performing global shared services centers are regional centers with global management oversight.

Often, when establishing a new shared services centre (SSC), a strategic choice is made to balance cost optimization against proximity. Key considerations typically include regulatory or political challenges in the destination country, the likelihood of a natural disaster, and the economic and currency stability. Well-tried destinations for SSCs, such as India, China, Poland, and Brazil, are being increasingly complemented by the emerging destinations of Vietnam, South Africa, and Latin American Countries.

Hybrid model operations, combining captive operations with true outsourcing vendors, are emerging as the most successful way of optimizing the geographical and process benefits of SSCs. Companies adopting hybrid sourcing models have realized savings in operating costs. Finance and accounting, and HR processes, followed by procurement and IT, are the most preferred areas of sourcing. And in the future, finance and accounting and HR processes will be ready for hybrid sourcing.

Delivery organizations worldwide remain captive shared service operators. A major current trend is towards multi-tower sourcing i.e. outsourcing different functions to different providers in an attempt to maximise efficiencies and cost savings. A changing resource mix is a critical element of transition to the IBS model. Most mature GBS businesses maintain maximum in-house (captive) resources as opposed to outsourced resources. The increasingly integrated structure of developing GBS models, driven by digitisation and RPA, will reduce headcount considerably. With significant cost savings from captive centres, the changing resource mix will affect third-party outsourcing SSCs the most. Figure 2 (next page) depicts headcount reduction and benefits arising therefrom.

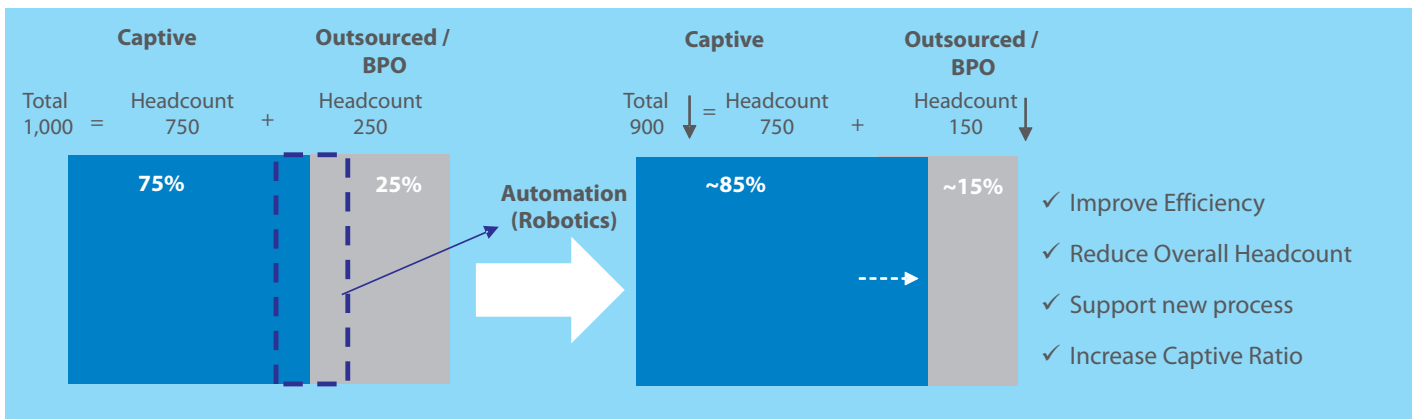


Figure 2: Anticipated Change in Resource Mix in SSCs

Capitalize on the Four Trends and Turbocharge Your Growth

Integration, governance, digital, and geography and sourcing trends are powering the future of shared services. Successful navigation of these forces will recalibrate your businesses to improve the experience of your internal stakeholders. New business models will help you respond efficiently to finance, M&A, and future divestiture needs. Evolve your shared services strategy to increase your responsiveness to growth and take advantage of future business models.

About The Author

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