Do global business services and shared services still fit the needs of the business?

Adapting to the new reality

May 18, 2020

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May 18, 2020

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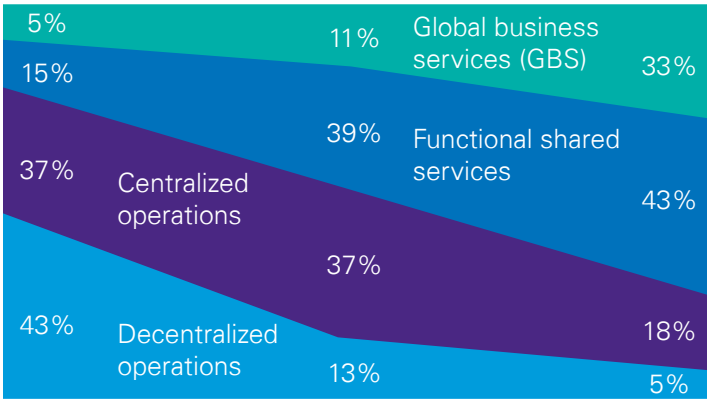
Shared services and GBS are growing, but...

Almost every analyst survey shows that over 80% of large enterprises have adopted some form of functional shared services, centralized operations, or multifunctional global business services (GBS) organization and governance model for their back office and select middle office (and even a few front office) processes.

While there are notable and highly publicized instances where companies have abandoned models such as GBS, the trend toward more shared services and GBS continues as shown:

Figure 1: Expected Operating Model for Delivery Business Services



Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing" Surveys (2019)

But business leaders remain concerned around whether their business services organization and governance models will continue to be the right ones, particularly as companies grapple with the new reality coming out of COVID-19.

Some is the natural tug and pull between business unit leaders clamoring for self-sufficiency and function and business services leaders seeking efficiency and effectiveness through scale. Past successes are often easily forgotten and business unit leaders often revert to a "what have you done for me lately?" mantra after the low-hanging cost-saving fruit has been picked. It is easy to fall into a pendulum swing between decentralized and centralized services. This can be particularly acute if you have new leadership that is not aligned to the original intent of the model and did not see the original benefits first hand.

The traditional mechanisms of service management and governance and process innovation for a shared services organization to avert these pendulum swings still hold. Any GBS or shared services organization must make sure they adhere to these foundational capabilities.

But something more fundamental is taking hold that is forcing leaders to re-examine their business services organization and governance models as they move from 20th to 21st century business models and adapt to the new workplace requirements emerging from COVID-19.

The new reality

The majority of companies thrived during the 20th century by:

- Developing quality products and services through robust R&D capabilities
- Creating a strong brand to promote those products and services
- Building efficient operating models that sold and moved products and services into the hands of end customers.

The equity value of the corporation was derived from physical/tangible assets and brand reputation bolstered by scale through vertically integrated, or at least highly coordinated, internal structures.

But then came the digital age of the 21st century, and with it, a shifting of value drivers:

- Data, not physical assets, provide differentiation and a new framework for decision-making
- Customers buy more based on their personal experience or the experience communicated to them from their social network vs. brand, product and service design
- Agility created through "as a service" based technology, process, workforce, and provider platforms has taken paramount importance vs. pure standardization and hierarchy.

If that wasn't enough, along came COVID-19, which has accelerated the 21st century trends. Alternative future of work environments, connecting with customers in different ways, automation, and building agility into your operating model to meet the differing needs of regions recovering from COVID-19 all take on enhanced emphasis.

The implications for business services are that their organization and governance models need to flex to meet the changing value drivers of the 21st century enterprise. The model of the 20th century business services organization was to:

- Place as many transactional processes as possible into low-cost captive or outsourced centers around the world
- Standardize transactional processes and underlying technology as much as possible
- Tightly manage performance through benchmarks and service level agreements
- Run shared services like a well-run transaction factory.

The model of the 21st century business services organization shifts the emphasis to:

- Deploy automation and alternative work environments to create less reliance of labor in traditional service centers
- Create a more agile and personalized service experience
- Unlock the value of data
- Build enterprise centers of expertise often deployed in a virtual work environment
- Use platforms to create agility and scale
- Rely on a network of partners and a contingent workforce to access new capabilities
- Integrate the front, middle, and back office to deliver business outcomes
- Run business services as a set of integrated capabilities with individuals collaborating across business units, functions, and multifunctional services organizations.

This means that enterprises must take a more comprehensive look at their portfolio of business services across functions and the business units served. They must:

- Understand how the corporation creates value in the 21st century
- Define changes in the value proposition of business services that aligns with the corporate value proposition
- Refine the portfolio of business services to meet the new value proposition
- Align the organization and governance model of each service to optimize value.

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If business services organizations weren't already on the 21st century bandwagon before, they will be compelled to act now. Certainly they will be asked to reduce costs to recover from the COVID-19. But simply extending their "transaction factory" model to more processes in the same manner appears an outdated strategy. They will need to relook their operating model for traditional services. There will also be increasing demand for new, often expertise-based enterprise capabilities. If COVID-19 showed us one thing, it is that GBS and shared services organizations are often untapped resources to improve the overall performance of the company beyond the individual services these organizations provide.

Response to COVID-19 has heightened the expectations with a particular focus on:

— Boundaryless service delivery in the cloud and virtual

— Higher value services with a premium on data modeling, intelligent automation, risk management, and overall business performance improvement

— Reshaped flexible, plug and play support structures

— Automation and integration

Expectations placed on business services are changing dramatically

88% Enterprise leaders expect business services to take a lead role in **integrating knowledge and data** in managing end use customer interactions

62% Expect business services to be the **platform of services** (e.g., process delivery, data and analytics, service delivery) that are delivered in an integrated way

77% Want business services governance to extend across the entire value chain from **front office to back office services**

65% Expect business services to take a lead role in integrating and coordinating **intelligent automation efforts**

Source: HfS Research supported by KPMG, "State of Operations and Outsourcing" 2019

Sample: 365 Global 2000 Enterprise Leaders

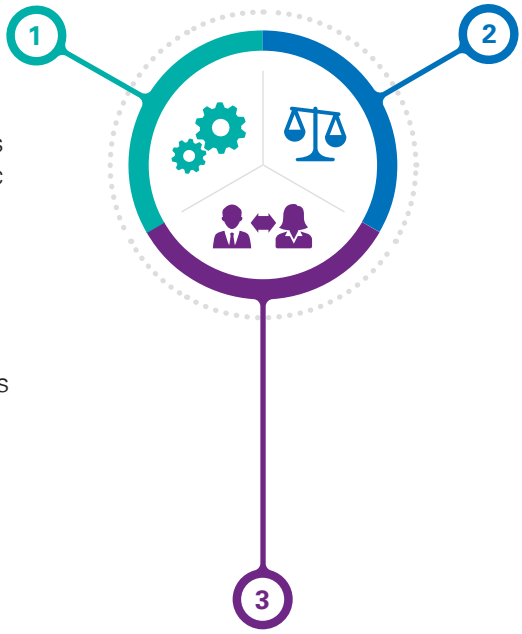
Adding value with new capabilities

In line with the shifting value propositions of their corporations, we observe a rebalancing of the value objectives of business services organizations. While reducing service cost will always be a focus for business services, it is not the sole objective anymore. Operational excellence and impact to the overall enterprise (including enterprise cost and cash flow improvement) are as important. The next-generation services delivery organization should equally consider the quality of their customer experience.

Figure 2: Value Objectives for Business Services

Cost transformation:
Cost transformation isn't a myth, but it is no less a quest. It's about having a new and different vision of the business strategy and how costs really align to achieve those strategic objectives.

Benefits to the enterprise:
- Goals aligned to the business strategy and priorities
- Nimble service delivery model adapted to business requirements and rising expectations
- Improve bottom-line results
- Gain a competitive edge



Performance:
Being results-oriented increases the likelihood that the services delivery organization will remain focused on achieving the performance levels that are important to the enterprise. Increasing its effectiveness in key capability areas can drive significant value to the business.

Benefits to the enterprise:
- Increased efficiency and effectiveness
- Working capital improvement and revenue growth
- Predictive insight and improved decision support
- Customer and employee loyalty
- Visibility of areas for further improvement

Service user experience:
While shared services users might not be customers in the traditional sense, providing them with a superior experience can yield significant benefits for the business.

Benefits to the enterprise:
- Improved self-service due to automation
- Higher employee satisfaction; increased productivity
- Engagement and retention
- Strong brand
- Lower cost

Across this spectrum of objectives, business services organizations are building a new set of services well beyond traditional transactional services. Many of these services require orchestration to optimize business outcomes. The most advanced business services organizations are deploying these new capabilities not just for their own operations, but as a service across the enterprise. The role of individuals as architects that effectively integrate across capabilities and units within and outside business services organizations is becoming paramount.

Among the most common new capabilities which business services organizations are building include:

— **Process optimization:** Optimizes business processes from design through performance monitoring using new digital tools such as process mining, enterprise business management (EBM) and cloud-based platforms that augment traditional tools like continuous improvement and process re-engineering. As an example of that potential, one GBS organization created a business optimization service to the business with over 30 process improvement projects underway.

— **Enterprise service management:** Provides a consistent, streamlined experience from request to receipt of services. Spans design, delivery, and management of all business services across the breadth of the enterprise utilizing advanced service management and orchestration digital tools. For example, a large managed health care organization is implementing an enterprise service management platform enabled process centered on employee "moments that matter" across Corporate Services, Facilities, Finance, Human Resources, Procurement, and Supply Chain.

— **User experience management:** Creates a personalized experience for users of business services using techniques and tools such as design thinking and journey mapping. A broad based health and consumer products company has created a service user experience center of excellence in their GBS organization. One of their early areas of focus was on improving the user experience of the procurement contracting process to increase the use of negotiated sourcing agreements.

— **Intelligent automation:** Assesses, develops, and governs the use of a range of intelligent automation tools from robotic process automation to artificial intelligence. A large consumer markets company set up an enterprise intelligent automation center of excellence within their GBS organization helping to manage and deploy over 400 automations.

— **Data and analytics:** Turns information into insights through data management, analytics, and reporting. As an example of a business services investment, one technology company progressively built out a data and analytics capability within their GBS organization that became a core competency of the enterprise with over 700 people providing modeling, research, and reporting services across Marketing, Finance, Supply Chain, IT, and enterprise risk and audit functions.

— **Acquisition and divestiture transformation:** Drives post-acquisition transformation synergies beyond the initial transition stand-up; conversely eliminates stranded costs in the case of a divestiture. One GBS organization cites that they achieve integration savings 25% faster because of having this service.

— **Transformation management:** Aligns project and program management to corporate strategy, enterprise governance, portfolio, program and project management best practices, mentoring, tools, and transformation of processes. One industrial conglomerate has embedded their enterprise transformation office into their GBS organization to provide an integrated set of capabilities to drive large projects.

— **Extended process:** Improves the end-to-end business outcome of a process by incorporating more elements—often cross-functionally—of a process rather than solely transactional components. Examples include product lifecycle management (e.g., business outcome of accelerating product to market), onboarding as a service (e.g., business outcome of improving the employee onboarding experience and retention), and source-to-settle (e.g., business outcome of creating the "perfect purchase" that optimizes spend). As an example of an end-to-end process, one global pharmaceutical company has established services within their GBS organization that supports multi-dimensions of a product life cycle from creative services to operational and regulatory support.

Choosing the right model

As companies move away from providing labor intensive "vanilla" transaction processes in their business services organization to a broader array of capabilities, they are finding they need to mix and match their organization and governance model to each service. While there may be a preponderance of like services within a business services organization and hence a most common model, it is rare for today's 21st century business services organization to have only one model. For instance, some services may require a model that favors tighter functional control and direction while others may favor a more integrated cross-functional model. And depending on the nature of the business services there may be more than one single enterprise business services organization.

We see five primary organization and governance models for business services in the marketplace and one yet full-proven but possibly transcending overall operating model.

Five most common models

- **Decentralized processes:** Business services are managed and governed by individual business units
- **Centralized corporate services:** Business services are provided by a consolidated organization with no explicit service governance and management between the centralized organization and the business units that use the services (e.g., enterprise compliance services such as Legal).
- **Functional shared services:** Business services are managed and governed within individual functional organizations with service governance and management between the functional shared services organization and the business units that use the services (e.g., Accounts Payable within a Finance shared services organization).
- **Aggregated enterprise business services:** Business services are combined across multiple functions in a common enterprise/global business services organization (e.g., Employee Data Management provided by a multifunctional GBS organization to obtain management and infrastructure synergies). Day to day delivery of services is managed by the enterprise/global business services organization (sometimes as light as acting as a common infrastructure landlord across multiple functional services). Processes are typically segregated by function within the organization. Service management and governance and process ownership is maintained by the function for their respective functional processes.
- **Integrated enterprise business services:** Business services and enterprise capabilities are combined in a common business services organization and managed on an end-to-end business outcome focused basis (e.g., Order-to-Cash as part of a GBS organization). The common business services organization has primary accountability for delivery, services management, and process ownership with some decision rights maintained by business units and functions.

Transcendent Networked Model

We see a new networked model emerging that transcends the current models. Unlike the current common models, this one is organization "light". Under this model, no single organization owns each element of a process or capability. Rather there is distributed ownership. Depending on the service, one organization, serves as the coordinator across activities performed by multiple units including themselves. For example, consider data and analytics as a service. An EBS/GBS organization may provide certain services such as core data management or initial analysis, but other functional or business units may own other elements such as final analysis. Or consider the possibility of today's online shopping experience with suggestions on products a buyer may be interested in purchasing applied to business services. Rather than business services being performed reactively based on user

demand or schedule triggers, what if business services were automatically "pushed" to users in a predictive manner? From a governance perspective, a company may require cross functional and business unit representation choreographed by a centralized business services hub. This is why we describe the networked model as transcendent because the core hub could be any one of the other models operated with less emphasis on delivery and more on orchestration. Many would call this the ultimate "boundaryless" organization.

This networked model may best fit the COVID-19 recovery needs of enterprises. Individual business units and regions will need the ability to provide innovative recovery responses tailored to their particular circumstances. Yet they also benefit from strong coordinated central guidance. This more federated model allows for the scale and speed needed to adapt.

Today's technologies allow companies to automate many of the core process activities, embed data management into the automation, and orchestrate work across disparate organizations that enable an effective networked model. The networked model emphasizes data, technology, and service management over organization structure to fulfill service needs.

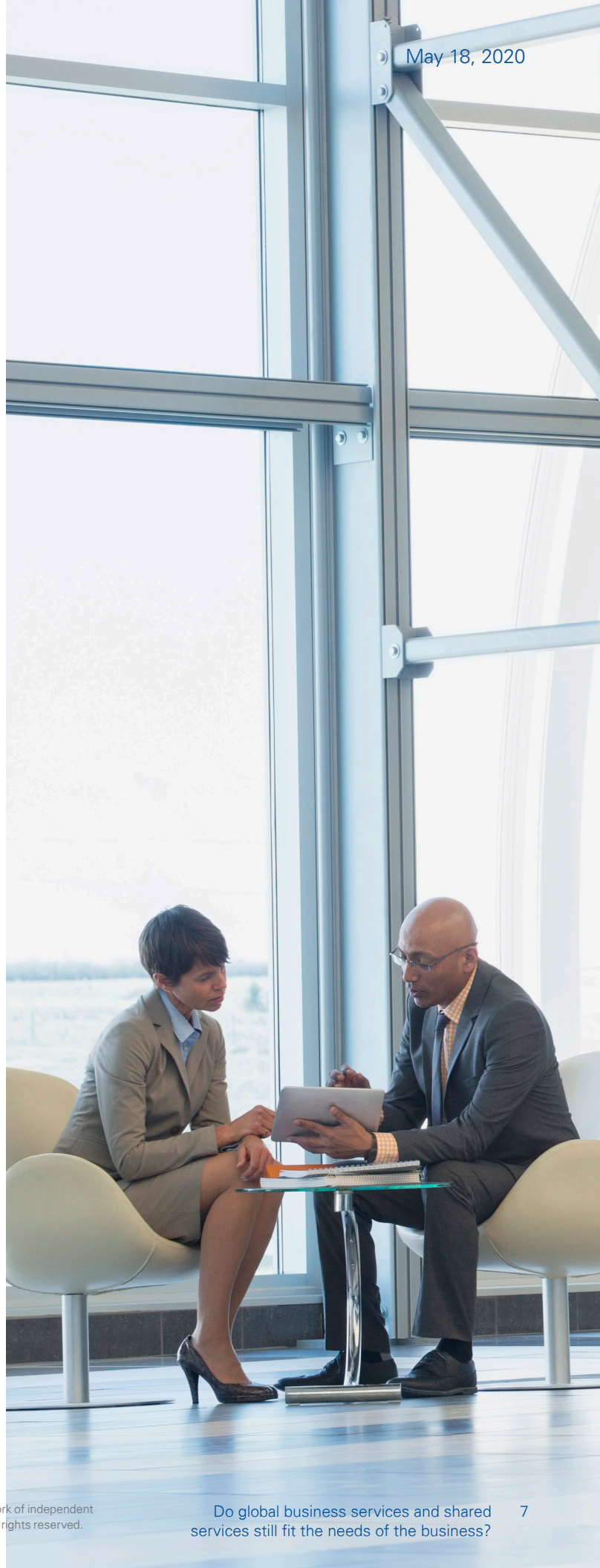
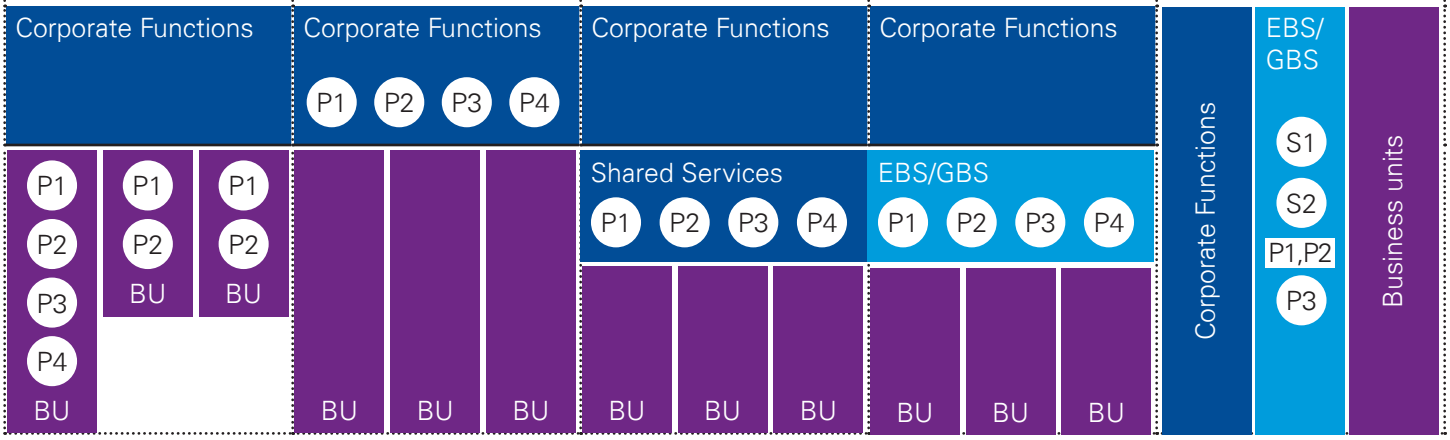


Figure 3: Business Services Organization and Governance Models

Five Most Common Models

Decentralized Processes	Centralized Corporate Services	Functional Shared Services	Aggregated Enterprise Business Services	Integrated Enterprise Business Services
Processes within functions performed by BUs on their own behalf or in a host/ guest relationship with policy and control guidance from corporate	Process and outcomes consolidated and owned by functions; no formal service management and governance between functions and business units	Business services are managed and governed within individual functional shared services organizations with service governance and management between the shared services organization and the business units	Multi-functional enterprise/global business services (EBS/GBS) entity that delivers services under direct policy/ control/ process/ service management guidance of functions	Multi-functional (function agnostic) operating unit on par with functions/ BUs providing output based solutions and services based on policy and service requirements from functions and business units



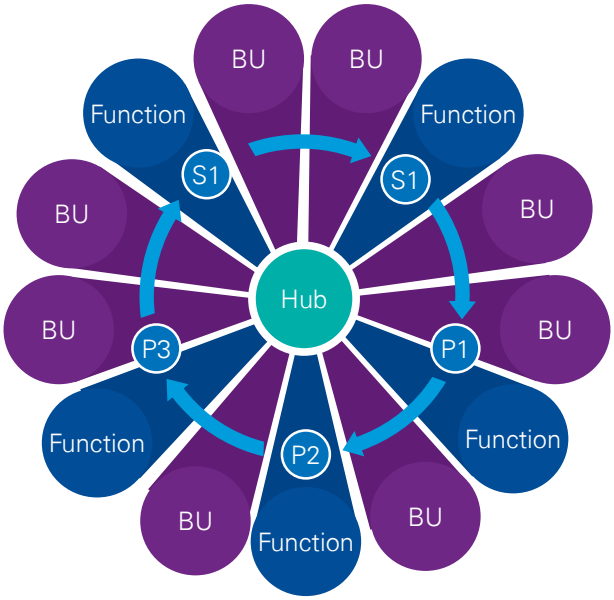
Transcendent Model

Networked Business Services

Central hub organization enabled by automation orchestrates a distributed set of process delivery activities across functions, business units, and the hub organization

Keys

(P1)	Functional Business Services Process 1, 2, etc. (e.g., Accounts Payable)
[P1, P2, P3]	End-to-end business processes (e.g., Order to Cash)
(S1)	Function independent business solutions or capabilities (e.g., Data & Analytics)



While Figure 1 indicates there is a general movement away from the first two models, there are situations that dictate that any of the models may be most appropriate.

When considering which model is most appropriate for which service and/or business unit served consider the following:

- Nature of the business unit served in relationship to the overall enterprise strategy
- Value contribution of the business service
- Maturity of the organization accountable for the delivery of the business service
- Business conditions.

Nature of the business unit served

Consider the strategy for the business unit being served. For example, if a business unit is planned to be spun out of the corporation, it is more likely that you will want to adopt a decentralized model for processes provided to that unit to allow for easy valuation and separation. Similarly, we have seen situations (although somewhat rare) where the overall business model of the enterprise is to have business units fully compete with one another. Again, a decentralized model would be more appropriate for these situations.

On the other extreme, think of an organization with a highly integrated business model with either little deviation between business units or tight upstream and downstream linkages. In this case, a more appropriate model for tightly integrated services would be integrated enterprise business services. You want to have alignment between your overall company strategy and business model and the organization and governance model of business services.

Today's focus on speed and agility poses an interesting question for business services leaders. Traditional wisdom is that if a business unit relied heavily on agility to remain competitive then it was better to place the business services supporting that unit in a decentralized model. But today's digital solutions upend the traditional approaches. Tools such as cloud-based applications with 80% embedded leading practices and service management allow a company to standardize on a core set of data and processes and flex where it is necessary to be nimble. Therefore, functional shared services and either aggregated, integrated, or networked business services models can also provide speed and agility along with other benefits such as scale economies. Consider intelligent automation as a service. Certain components of the service are better standardized and managed centrally such as configuration change control, but others, such as ideation of automation ideas, are better distributed.

Value contribution of the business service

Consider how an individual business service adds value to the corporation. If the primary value contribution of a business service is governance and control then a centralized corporate services model is most appropriate. An example of this would be Internal Audit whereby an individual business unit has little influence over the demand for such a service and value is derived from consistently applied processes and control expertise.

A more nuanced set of services to evaluate are transactional services such as accounts payable, payroll, or cash applications. These derive value predominantly by performing them at the lowest costs against defined service and control standards. Hence, the natural inclination is to provide them in a functional shared services model or possibly as part of an aggregated enterprise business services model if there are value synergies, such as common infrastructure, across these services. Not surprisingly these were the basis for traditional shared services and GBS organizations.

But, today's leaders are looking right and left of individual functional transaction processes to see whether there are end-to-end solutions that have an impact on overall business performance. Pulling from the user experience management playbook, companies are increasingly looking for "moments that matter" for a service user with greater value derived from improved service experience and business outcomes.

For example, by combining accounts payable with sourcing, contracting, and purchasing operations, the value equation shifts from lowest cost at defined service and quality standards to a business outcome of lower effective spend through an optimized source-to-settle process. Similar examples exist for order-to-cash to improve customer loyalty and hence revenue and cash flow, and employee onboarding across HR, IT, and Real Estate and Facilities Management processes to improve employee loyalty and retention. The most appropriate model for these end-to-end services is integrated enterprise business services or possibly networked business services, if the process requires more distribution of activities across different units.

Another set of business services are function agnostic. Most of the new services mentioned in the section above (e.g., Data and Analytics as a service, Intelligent Automation as a service, Process Optimization as a service) fall into this category. Value for these services is derived from expertise that can be deployed across functions and units. Recognize that these services often require tight collaboration with functions and business units. This means that while core enterprise services may be performed by an a hub business services organization (e.g., first level analysis), other parts of the process may be decentralized to a business unit (e.g., planning from analysis) or centralized as part of corporate services (e.g., maintain data definitions). Therefore the emerging networked business services model tends to be most appropriate for these services utilizing digital technologies to support the coordination of activities across the various units.

The following figure showing the primary benefits and risks of each model can help you select the right model for each service.

Figure 4: Primary Value Propositions and Disadvantages of Business Services Organization and Governance Models

Decentralized Processes	Centralized Corporate Services	Functional Shared Services	Aggregated Enterprise Business Services	Integrated Enterprise Business Services	Networked Business Services
Primary Value Proposition/Benefit					
— Customization/ responsiveness — Adaptability to structural separations/ divestitures	— Functional governance and control — Functional specialty expertise	— Functional scale economies — Services — Functional domain knowledge — Functional business outcomes	— Multi-functional scale economies — Service — Functional domain knowledge — Functional business outcomes	— Cross-functional business outcomes — Cross-functional expertise — Connectivity — User experience — Multi-functional scale economies — Service	— Scale with agility — Connected enterprise — Cross functional and business unit outcomes
Primary Disadvantage/Risk					
— Cost	— Service	— End-to-end efficiencies and business outcomes	— Complex governance and management structure	— Disconnection from business and functions	— Complexity/ integration — Diffuse accountability

Maturity of the business services organization

The right model for a particular service may simply be defined by the maturity of the business services organization in its capabilities. This is particularly true in deciding between functional shared services, aggregated enterprise business services, integrated enterprise business services, and networked business services. If the business service organization has yet to develop core competencies in areas such as end-to-end process ownership and service management, it is difficult for a function to fully relinquish control to an enterprise business services organization. This is, in fact, why the aggregated enterprise business services model is so prevalent. Absent the proper automation and orchestration tools, it is difficult to sustain a networked business services model. It is often necessary and appropriate to adopt one model as an interim step to another model while the organizational capabilities mature.

Business conditions

Business conditions also play a role in choosing the right organization and governance model. For example, we had a client in a distressed financial situation. Rapid cost reduction and cash flow preservation were critical for survival. Benefits from end-to-end business outcome-oriented solutions and cross-functional capabilities, while laudable in the long-term, take time and investment to realize. This client chose a more narrow set of functional services to optimize on an enterprise basis using a combination of the centralized corporate services and functional shared services models.

Post-COVID this may very well be the situation a number of companies face if they have not already optimized their functional processes for scale and efficiency. On the other hand if they have already built a core business services capability this may be the time to apply their expertise to solving the cost and cash flow needs of the broader enterprise through an integrated enterprise or networked business services model.

Excellence in many forms

Looking back on the original question of what is the right business services organization and governance model for the 21st century enterprise: Is it GBS in various forms itself? Functional shared services networked? Corporate centralized services? Decentralized services? The multiple demands of the 21st century enterprise will demand a mix of models often running simultaneously.

This also means that excellence can exist for each model—one model in and of itself does not define excellence. The following figure highlights key competencies required for each model to achieve excellence.

Figure 5: Key Competencies for Business Services Organization and Governance Models

	Decentralized Processes	Centralized Corporate Services	Functional Shared Services	Aggregated Enterprise Business Services	Integrated Enterprise Business Services	Network Business Services
Operations Delivery Management						
Talent Management						
Service Management						
User Experience Management						
Process and Data Technology Optimization						
Policy and Control Management						
Functional/Topical Domain Expertise						
Orchestration						

 Low requirement  High requirement

May 18, 2020

Pivot or pushed aside

Those business services organizations that will thrive will adjust their value contribution and operating models in line with the changing value propositions of their companies. Simply following the historical "tried and true" model of running a transaction factory runs the risk that the business services organization will be starved of investment. More importantly it leaves off the table the ability of the business services organization to not just support, but to directly contribute to driving value for the corporation in new ways demanded for the 21st century enterprise.

Lead from the front, not the back!

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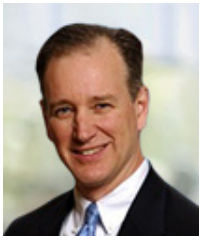

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