Detailing the new landscape for global business services

To ensure the long-term success of shared-services programs, leaders must develop new digital capabilities and account for a changing geopolitical environment.

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To those companies still trying to determine whether the global business services (GBS) model still matters, the evidence favoring the model is compelling.[1] Consider the insurance company that reduced its incidence of claims fraud by 15 percent, in part because of the data-analytics program and streamlined processes provided by its GBS unit. The unit's process expertise helped the company reduce by 30 percent the cost to serve associated with an existing product. This reduction made it possible for the company to offer the product to a broader customer base.

The insurer is among the nearly 80 percent of global companies in the Fortune 500 deploying some form of a GBS model, according to published studies. GBS units manage a range of functions, from basic tasks like processing invoices and answering customers' inquiries online to more-complicated tasks like underwriting commercial loans and managing budgeting and planning initiatives. They are typically configured as centralized units within a company, although third-party providers may also provide some of the services. Companies that use them seek to support business operations more efficiently while also developing next-generation leaders. Our conversations with executives suggest that nearly one-third of operations leaders in companies have been part of a GBS unit at some point in their careers.

The benefits associated with the GBS model are clear. When it comes to actually deploying the model, however, companies face several potentially disruptive forces. For one, digital tools and technologies as well as agile test-and-learn management approaches could dramatically affect the way GBS units are organized and the daily work they perform.[2] Because some back-office tasks can now be automated, for instance, GBS units might want to focus on higher-level business-support tasks and might need fewer people to accomplish them.

Just as disruptive, GBS leaders are facing a new geopolitical environment that might restrict their opportunities and change the way they configure their service networks. Control measures being explored by governments worldwide could affect GBS teams' ability to hire the required talent and establish service centers in low-cost locations— potentially affecting the quality and scope of the services they can provide.

How exactly should GBS units' service-provision and governance methods change to incorporate these trends? Our work with GBS organizations across a range of industries points to several actions, such as the following, that these units can take to adapt successfully to the changing environment:

- Reimagine the scope and culture of GBS units.

- Incubate the company's digital capabilities and talent within GBS units.

- Manage disparate GBS units as a network across the organization.

- Build strong relationships with external providers to augment GBS units' capabilities.

- Pursue a "three in one" organization for GBS units (using various elements of traditional, transformative, and disruptive operating models).

Some of these steps might seem obvious for addressing technological and geopolitical disruptions, others less so. We believe that these actions, when taken together, can help GBS units establish for themselves a new organizational operating model that can withstand current and future disruptions. Indeed, the GBS units that can successfully adapt to emerging macro forces might be able to work more efficiently, attract more and

better talent, and react to market changes more quickly than competitors can.

Understanding the disruptions

GBS leaders and business stakeholders face many potential disruptions to the business status quo. Among them are digital technologies, the geopolitical landscape, service-provision and governance methods, and sourcing trends. All these factors have the potential to affect the way companies build and manage their service networks.

Digital technologies

Many companies are experimenting with automation and analytics programs, and they are beginning to gain insights from the deep troves of data at their disposal. Advances in these technologies have led some to reconsider the need for GBS—why go through the arduous exercise of building a centralized unit to perform services that can be automated? For some business and IT leaders, automation increasingly makes sense because the cost of deploying automation technologies has come down significantly, and performance—particularly for comparable transactional tasks—can be dramatically enhanced (Exhibit 1). Missing from the argument, however, is the fact that automation is best deployed from and managed within a GBS environment. GBS units are designed to impose discipline in operations, measure and manage internal performance, and implement standard processes to ensure that they can successfully deliver on service requests.
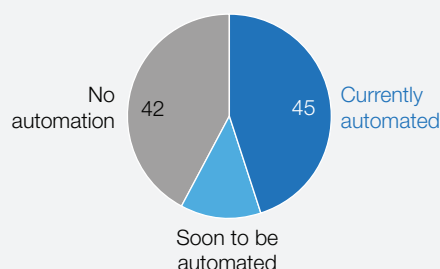
Anticipating this opportunity, some companies' GBS units have started to invest in strengthening their digital capabilities. The GBS unit at one technology-services company, for instance, has built and manages a cognitive bot that lets business users enter free-text queries and create financial reports on demand. The bot uses natural-language processing to assess a user's query, pushes it to the business-intelligence system to access the appropriate data, and delivers the report to the user by email. Each step happens seamlessly, in real time. Under a traditional GBS model, the same query would take 24 hours to process and be costly to fulfill.
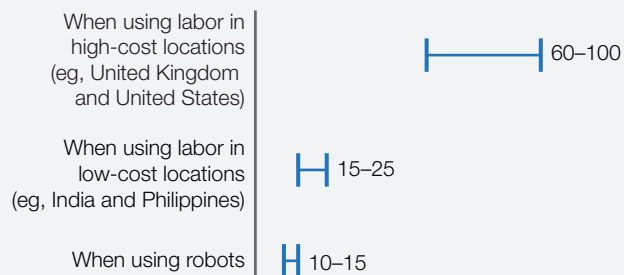
The geopolitical landscape

Recent changes in the geopolitical environment might affect the operating model of the typical

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Exhibit 1 **A strong business case for automation of general and administrative tasks is emerging.**

Automation potential,
% of general and administrative tasks that could be automated

No automation 42

Currently automated 45

Soon to be automated

Cost per task, $ thousand

When using labor in high-cost locations (eg, United Kingdom and United States) — 60–100

When using labor in low-cost locations (eg, India and Philippines) — 15–25

When using robots — 10–15

GBS organization. For instance, the United States is seeking stricter visa norms, which could affect the mobility of workers from outside the country. Legislative and regulatory changes in other countries have raised uncertainty among global businesses, prompting them to delay their pursuit of large-scale, multiyear GBS transformation programs. Instead, these businesses may prioritize digitization and automation projects within the business units themselves. In this way, they could streamline operations while avoiding potential issues with labor mobility. Moreover, companies might move operations closer to home markets rather than engage far-flung service groups—a potentially costly proposition for those companies whose GBS units make heavy use of low-cost labor locations.

Service provision and governance

Many GBS units still use a service-factory approach that shifts high-volume, repetitive tasks to GBS teams in lower-cost locations. This old-school method can thwart innovation if teams use particular methods for providing services, charging services back to the business, and measuring end-user satisfaction simply because they have always done so. Without realizing it, GBS units can find themselves failing to meet stakeholders' expectations: day-to-day tasks might get done, but the overall end user experience might end up being less than satisfactory.

GBS leaders will need to emphasize quick customer service, as most digital players now do. They will need to explore alternatives to the factory approach, such as deploying skill-driven centers of excellence to provide services with greater speed. GBS teams could be organized according to area of expertise rather than location or function. Under this approach, talent profiles would need to change; skills such as design thinking and advanced analytics would become critical, and GBS units would need to be sited where such pools of talent

exist, not necessarily in the lowest-cost labor locations. A good example of this method comes from a financial-services company that is using its GBS organization in Bangalore as an incubator for digital capabilities. More than 500 employees with a range of digital skill sets are co-located in Bangalore. From that outpost, they closely coordinate with the company's other digital hubs in Europe and North America to incubate and pilot automation projects.
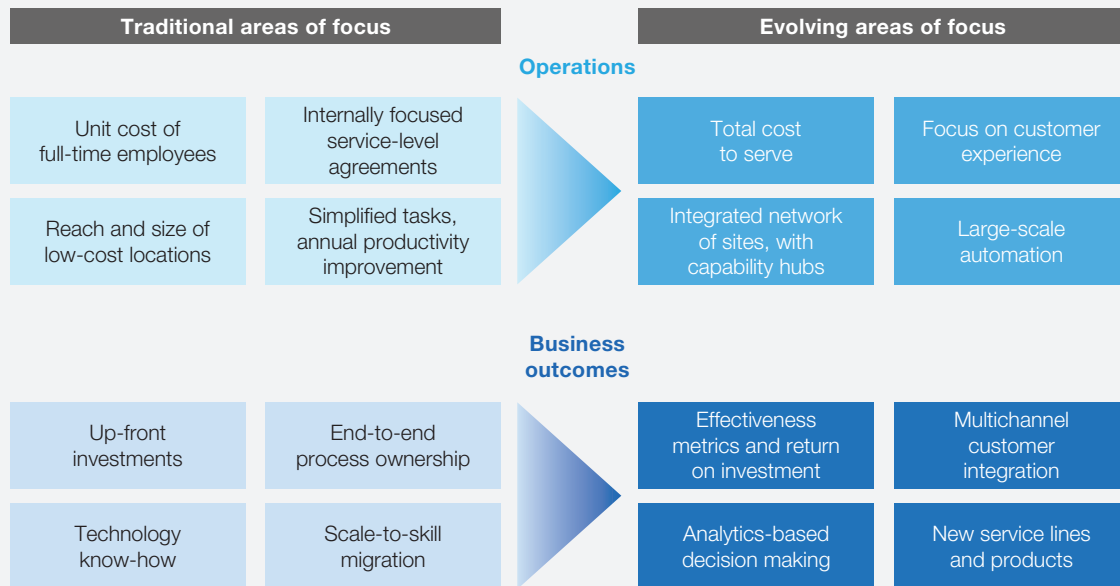
Sourcing

The question of whether to keep certain GBS tasks in house versus outsourcing them to an external service provider has typically been answered based on whether the tasks in question are core to the business or not. Noncore tasks traditionally would be given to external service providers, with modified expectations about turnaround times and capabilities. However, the provider landscape is changing. Companies now have a wider range of capabilities and commercial arrangements to choose from. Within the finance function, for instance, third-party providers go beyond helping process invoices by helping with financial-budgeting and financial-reporting activities (traditional in-house tasks). Additionally, third-party providers are adopting more aggressive commercial strategies designed to own outcomes rather than simply provide resources. Thus, companies are being forced to rethink their sourcing strategies and the impact of sourcing on their GBS programs.

Addressing the disruptions

To weather these disruptions, leaders of GBS organizations need to look beyond traditional operating models and ways of working. They must focus not only on the usual internal process metrics but also on users' needs and the world beyond GBS walls (Exhibit 2). Specifically, we believe they need to follow five core principles to build successful service-delivery networks.

Exhibit 2 **Global business services teams must focus less on internal metrics and more on business outcomes.**

Shifting areas of focus for global business services teams

Traditional areas of focus		Evolving areas of focus	
Operations			
Unit cost of full-time employees	Internally focused service-level agreements	Total cost to serve	Focus on customer experience
Reach and size of low-cost locations	Simplified tasks, annual productivity improvement	Integrated network of sites, with capability hubs	Large-scale automation
Business outcomes			
Up-front investments	End-to-end process ownership	Effectiveness metrics and return on investment	Multichannel customer integration
Technology know-how	Scale-to-skill migration	Analytics-based decision making	New service lines and products

Reimagine the scope and culture of GBS units

In the face of the digitization and geopolitical changes, GBS leaders will need to be clear about how their teams can continue to add value to the business. They must not only help accelerate the digitization journey for the parent organization but also identify the unique capabilities they can offer in this quest—capabilities that require deep judgment and expertise and cannot be easily automated. A new definition of scope might be necessary. The GBS unit at a European bank, for example, set out to transform more than 100 customer journeys in 18 months. The unit held deep expertise about the product domains and technologies required to support the various elements of the standard customer experience, such as account creation,

online payments, and trade settlements. Because of this expertise, the GBS unit could collaborate directly with the product teams to explore digital initiatives that would simplify processes. The result was a significant increase in customer-satisfaction scores as well as increased productivity.

To achieve a new, broader set of objectives, GBS units might also need to alter their service cultures by pivoting from a long-held back-office orientation to a customer orientation. To do this, GBS and business-unit leaders must commit to change. That commitment means assertively communicating new objectives for GBS and aggressively investing in talent, whether hiring for new skill sets or developing existing capabilities. The GBS unit at a

consumer-goods company successfully managed these hurdles. For a long time, its focus had been on managing internal service-level agreements with the business units. The metric for success of the GBS team in the finance function, for instance, had been the timeliness and accuracy of receivable processing. But this metric often had no material impact on the business. A more important figure would be the number and value of receivables outstanding with customers. Armed with this feedback, the GBS unit transformed the accounts-receivable process across all business units, looking externally and incorporating business outcomes. It hired finance specialists and analytics experts to derive more insights, such as outstanding value per customer and propensity to delay payments, from customer data. The team rolled out changes over a six-month period, and the result was improved recoveries and more efficient use of working capital.

Incubate the company's digital capabilities and talent

GBS units should take the lead on developing digital capabilities (such as design thinking and agile processes) and talent for the company. Leaders and managers within GBS units own or interact daily with a range of the company's products, processes, and supporting technologies. They handle much of the core data that business executives need to make critical business decisions, and they constantly encounter much of the company's workforce. Therefore, these personnel are in a unique position to help the company experiment with new capabilities, facilitate the spread of best practices, and accelerate digital transformations. The GBS organization at a European bank, for instance, serves as the test bed for digital initiatives that are then rolled out more broadly across the company. It has launched and managed several pilot projects, including building a data-analytics program to help prevent fraud and designing automated self-service features to improve customers' transactions with

the bank. Senior stakeholders in the bank tacitly sponsor this incubator approach.

Of course, incubating digital capabilities for their companies will require GBS units to find or develop employees with next-generation skills—such as advanced-analytics expertise or user-experience design. GBS units can invest in training programs that bring existing employees up to speed on emerging tools and approaches and, hopefully, incentivize people—in particular, middle managers—to stay with the company longer. Our research indicates that the capability and stability of a GBS unit's middle managers strongly correlate to customer satisfaction.[3] That is why the GBS unit at a global financial-services company is offering its middle managers training on two tracks: a deeper dive into functional and product-development expertise and hands-on instruction in digital skills. Both are critical for creating value in a changing business environment.

Manage disparate GBS units as a network across the organization

Given geopolitical limitations—such as where teams can be sited and where talent comes from—and changes in sourcing and service provision, GBS units must actively break down functional and operational silos to coordinate service requests successfully across multiple global sites and with third-party service providers. The GBS unit at one consumer-goods company, for instance, received responsibility for coordinating the demand and supply for the organization's IT projects across all locations, an assignment that included working with external service providers. This group now handles resource allocation for the range of IT projects that various business units are pursuing and monitors the performance of each project. The task means frequently communicating with multiple stakeholders—business heads, IT leaders, and GBS units in other parts of the company. By integrating

GBS units from across the organization, senior leaders have more visibility into the skill pool and the company can complete IT projects faster. Of course, shifting to this approach requires clear definition of roles and responsibilities as well as rigorous coordination of processes across sites and business units.

Build strong relationships with external providers to augment GBS units' capabilities

Networks and ecosystems are driving today's digital initiatives. To provide comprehensive support services, GBS units cannot rely solely on in-house expertise. They must also reach out to specialists outside the organization. Indeed, strong relationships with ecosystem partners are no longer just nice to have but a requirement. For instance, the GBS team at a financial-services company regularly hosts a forum for technology start-ups so it can solicit new ideas for transforming operations. The team has collaborated with these start-ups to pilot innovative technologies, such as using the machine-learning-based tool from one start-up to analyze customer feedback and understand root causes of customer dissatisfaction.

Pursue a three-in-one organization for GBS units

The disruptions we have outlined will inevitably compel GBS units to update their operating models. But which model is the right one: traditional, transformative, or disruptive? In fact, some GBS units might need a combination of all three to get things done. We have seen GBS organizations use a traditional model to deliver business-as-usual services; a transformative model to implement change programs, such as improvements to the customer experience; and a disruptive model to

encourage out-of-the-box thinking and foster an entrepreneurial culture. The GBS unit at one retail company has convened a few highly skilled, cross-functional teams with digital expertise to focus solely on change initiatives. These teams are ring-fenced from the rest of the GBS unit and are encouraged to experiment—with new forms of customer on-boarding, for instance, or data-driven methods for improving employee retention.

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GBS units are facing strong headwinds from digital disruption, a changing geopolitical landscape, and a new emphasis on different sourcing strategies and methods for providing services. To thrive in this environment, GBS leaders and their teams will need to shift their focus outward, toward the value they can provide by ensuring that end-customers' requirements are fulfilled. They must partner more closely with business-unit leaders and ecosystem partners. Those that do so will be well positioned to improve customer transactions and work more efficiently. ■

[1] Matthias Daub, Andreas Ess, Jonathan Silver, and Samir Singh, "Does the global business services model still matter?," July 2017, McKinsey.com.

[2] Puneet Chandok, Hiren Chheda, and Alexander Edlich, "How shared-services organizations can prepare for a digital future," February 2016, McKinsey.com.

[3] Based on McKinsey's benchmarking of 110 GBS centers across industries between 2014 and 2017.

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