Delivering tomorrow’s companies today
How global business services can transform your business

The COO perspective
The COO perspective — at a glance

Your time is precious. In order to get you the insights you need, as quickly as possible, we designed The COO perspective – a series of short executive briefing papers that provide a quick overview of the main findings of recent EY reports, with a particular emphasis on the relevance for you.

The role of the COO is hugely diverse, changing markedly from one company to another and across varying industries. Accordingly, in compiling The COO perspective, we’ve sought to highlight insights of relevance to one or more of the six fundamental components of the COO role, as illustrated by our wheel model that we believe encompasses the full extent and potential of the COO role.

What is Delivering tomorrow’s companies today about?

In a sentence: High-performing companies are adopting new multifunctional shared service structures that supply the whole organization in a globally consistent way, rather than narrow business functions.

COOs know that a business needs the right framework in order to thrive. No company can hope to provide consistently top-quality products and services or to stay ahead of its competitors, unless it has structures in place to ensure customer-facing divisions can focus exclusively on doing exactly that.

In-house shared service centers and third-party outsourcing were developed with this objective in mind. But high-performing companies are now taking these concepts to the next stage, with the development of a single, unified global business services organization that is capable of managing end-to-end processes across different business functions.

These aim to add value and also optimize costs. They seek to deliver scale and scalability, process efficiencies, create standardization, innovation, career development opportunities for employees and better integration of M&A, and to leave the retained business free to use its time more productively. They may operate entirely as a captive, in-house organization, or outsource work to third parties. The overarching ambition is to enable the rest of the business to concentrate all its energies on producing sustainable growth.

For COOs, this is a huge challenge and opportunity, at both a personal and corporate level. Along with CFOs, they are the obvious candidates to drive this shift and to manage it on an ongoing basis.
How to ensure global business services deliver transformation: six key principles

1. Governance is crucial

Good governance is the key to getting a global business services organization right, but how should the reporting lines work? COOs, as the company’s senior executives for operational matters, certainly have a strong claim to lead here, but they are likely to find themselves in competition with CFOs for the role, particularly when the core driver is cost driven.

Whoever takes charge, careful consideration on the governance structure will be crucial. Clear, strong leadership will be necessary for delivering standardization and integration, while also reducing the scope for disputes over territory and budget, and providing clear lines of accountability. One common model is for a head of global services to oversee the organization, reporting into a C-suite executive such as the COO. The different functions buy in work from the new organization, which owns the process and maintains its own profit-and-loss account.

2. No area of operations is off-limits

Shared services and outsourcing have traditionally focused on IT and finance, but a global business services unit is also likely to go further, including procurement, HR, sales, marketing and legal, as well as parts of research and development. Moreover, the nature of the work is wider too, with value-added tasks such as strategic analysis or management reporting, along with transactional tasks.

COOs will play a key role in determining what sort of work might be shifted to a global business services organization. Eventually, the goal may be to move any task that is not customer-facing into such a unit. In the short term, the COO’s role will be to ensure the business looks at all its processes and evaluates what will be needed to support the company in future – and how best these are performed.

3. Scale delivers enhanced benefits

Global business services units deliver new economies of scale and process improvements, as well as greater harmonization across the organization. By bringing previously separate shared services together under a global single-governance roof, know-how in each silo is leveraged. Repetition of tasks and processes can be eliminated, while stand-alone expertise can be maintained where needed.
COOs already recognize that end-to-end processing, in which all the steps in a particular task are identified and automated, can produce valuable efficiencies and service improvements. Examples include “procure to pay” in supply chain management and “record to report” in accounting. As such, COOs are well placed to identify new opportunities for end-to-end processing – and, therefore, to help global business services units deliver on their promise.

4. Outsourcing isn’t finished

A global business services organization does not have to do everything in-house. For many companies, some processes may be better run by third-party providers, with transactional work, in particular, more likely to be outsourced as such services seek to move up the value chain.

The nature of the business’s relationship with outsourcers is, however, likely to shift. COOs have a clear role to play in managing this relationship, especially if they are ultimately responsible for global business services. COOs are also well placed to identify which work to retain in-house and which to outsource to maximize potential.

5. Location, location, location

As companies move all their shared services into a single multifunctional business unit, they may need to rethink where the work is done. One option is to operate from a single location, but this may not be appropriate for global organizations working across several languages or time zones. Equally, operating from too many locations will undermine the potential for standardization and economies of scale.

A “hub and spoke” approach is increasingly common, with businesses designating a handful of larger centers as hubs for their multifunction units, with all work flowing through one of them. Smaller centers, the spokes in this structure, may then be used to do some of this work, particularly where delivering language competency is an issue or to ensure constant time zone coverage.

For COOs advising or building global business services organizations, the challenge will be to find the optimal locational structure, balancing the need for breadth of coverage with the desirability of standardization. Part of the consideration will be the competencies available in different geographies. While India remains a popular location for captive shared services and outsourcing alike, other countries and regions, notably Philippines, China and Eastern Europe, are increasingly competitive too.
6. Performance must be measured

Global business services organizations must 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, will remain important – examples might include cost per transaction, speed of delivery, availability and response rates – but an organization that claims to be offering improvements further up the value chain must be able to demonstrate that, too. Outcome metrics on everything from employee satisfaction to measures of innovation will be crucial.

For the COO, the responsibility here will depend on the relationship with the global business organization. Those who head up such units will need to ensure they are providing robust KPI data to other stakeholders and working with the business to drive performance higher. Those who do not are likely to take at least some of the responsibility for holding these organizations to account.
Making it happen

These six key principles are not the only issues with which COOs must grapple – the shift to multifunctional shared services is a major change management initiative, and one that will require careful people management before and after the move. How to embed innovation is another question, and many companies will also need to consider what to do with their emerging market operations where costs at least are likely to already be low.

COOs must also engage with the challenge of execution. The move toward global business services is a process of evolution rather than revolution for most organizations, though this is not to say it is not possible to move more quickly. Recognizing progress made and evaluating how to advance from there is a constant challenge. But COOs evolving toward a multifunctional approach have, broadly speaking, reached one of four distinct levels:

▶ **The standard approach:** Companies have separate units to provide shared services to individual functions. These units have little contact with each other, and report to their respective executives at the C-level.

▶ **Going multifunctional:** Companies have begun to integrate shared service units, but on a regional basis. Units combining two or more functions exist in several locations and they report to a head of shared services.

▶ **Globalization:** Two or more shared service functions are aligned across all regions on a global level under a single head of global business services. The unit offers a unified face to internal customers.

▶ **Advanced multifunctional:** The company’s global business service unit is no longer organized on the basis of the functions it serves, concentrating instead on service products.
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.”
The COO’s global business services checklist

☐ Is your company already operating shared service centers and outsourcing arrangements?

☐ How is the return on investment from these arrangements measured? Is this return starting to diminish?

☐ In what areas of the company is the shared services model already operating?

☐ Are there plans to expand the scope of the model globally consistent?

☐ Are any shared services or outsourcing arrangements provided by the same entity to more than one business function?

☐ How are shared service providers held accountable by the business?

☐ Do these providers, external or internal, report to the functions they service, or in another way?

☐ What performance measurement metrics are in place to evaluate service provision?

☐ Has the business begun to look at the business case for a move toward multifunction shared services?

☐ Is the COO’s office sufficiently engaged in this process?

☐ What responsibility does the COO currently have for shared service and outsourcing arrangements?

☐ Who is currently responsible for driving development of these arrangements?

☐ Is there a vision for how shared services might be provided in, say, five years’ time?

Further reading

- Driving improved supply chain results, EY, 2011.

For a copy of the full report, please visit ey.com/gbs.
Alignment to the COO agenda

*Delivering tomorrow’s companies today* has a strong relevance for the COO’s role. The yellow wedges highlight those areas that are influenced most strongly.

For more on these insights, please go to ey.com/coo, email coo@ey.com or contact your local EY representative.
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