THE SHARED SERVICE CENTRE (SSC) – A NEW BUSINESS CONCEPT

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Abstract: *In this paper I am going to write about shared service centres. It is a big challenge for all types of companies anywhere in the world to "survive" in our globalized and accelerated world. Their primary objective is to stay competitive, keep or even enlarge their market share while keeping their costs at minimum level. Nowadays they can only be competitive if they "reinvent" themselves: use new forms of business, form alliances to cut costs and enlarge their customer base. In our world everything changes so fast that for companies it is really essential to be flexible and adapt to new challenges. It has also become typical that these corporations cross borders and operate on a multinational level. In order to do that successfully they need flexible workforce: people who have intercultural competences and can help their corporations achieve their aim of profit maximizing. In the late 1990s a new organizational change approach appeared the shared service concept. Since that it has become popular in many parts of the world as it has a number of advantages: cost reduction, deploying new technology and a customer- oriented way of conducting business. Many researchers agree that the performance of companies can improve using the shared service format because they can concentrate on their core business within the company. A shared service centre can perform various functions in the company: finance, human resources (HR), legal, and information technology (IT), communications and public relations. This business model also has some drawbacks: there can be high transition costs when establishing a shared service centre and sometimes it is difficult to determine the accountabilities and the priorities within the shared service centres. Shared service centres need well-educated and well- motivated global workforce and it is a real challenge to find these people and keep them in the long run. It is true that technological advances are very important but so are the people.*

Keywords: *shared service centre; organizational change; strategic alliances; outsourcing; intercultural competences.*

JEL classification: *L22; M12; M14.*

1. The Definition of the "shared service" model

The model was launched in the USA at the beginning of the 80's when the NASA created similar centralised organizations. Later private firms took over the model expecting that functions will be cheaper but this was not always necessarily the case. They realized that: "…within the company the profit-making is not the first goal for shared service centres on the contrary with outsourcing providers and in some multinational companies the level of several internal services are world-class and have the volume enough as well." (Marciniák, 2013: 218) In the case of a shared service centre the performance management is a key issue.
Performance measurement has to prove that cost-saving and efficiency are achieved and they need continuous justification for the existence. "It is very hard to

be objective at measuring when a service centre performs well, but the aim is clear, do services quicker, better and more effective. It is a harder question how to plan, measure, report and communicate them." (Marciniák, 2013: 219)
"More than 75% of Fortune 500 companies have established models of shared services with the aim of gaining superior performance by cost savings and service enhancements." (Richter and Brühl, 2017: 1)
In 1999 L. I. Forst wrote in an article about the shared- internal services approach. In this article he wrote: "The basis for shared internal services (SIS) is that common business practices can be successfully applied by a staff unit- which is entirely focused on delivering needed services at the highest value and at the lowest cost to internal customers. This creates accountability within the company, which is more effective than having multiple points of responsibility and varied management practices." (Forst, 1999: 58)
Schulman et al. (1999: 9) came up with another definition for shared services as: "bundling of supporting processes and non-strategic activities" into an independent organisation which then runs these activities as its core business.
In 2001 Goold, Pettifer and Young wrote an article about the corporate centre transformation. They wrote about shared services that: "Shared services are activities carried out centrally on behalf of the divisions or business units of a company. The services may be standard, process-driven transactional activities, such as payroll or payments processing, or they may be more complex, professionally- driven expert services, such as applications software development or business intelligence. The divisions or businesses, which would have to carry out or buy in the services themselves if they were not provided by the centre, normally have some control over the work done." (Goold, Pettifer and Young, 2001: 88)
About the management they wrote that independent units provide the shared services, independently from other functional or departmental activities, and often run by a general manager. "The strong definition implies something very different from a traditional corporate centre service function, with a much more dedicated, customer-responsive and performance-driven approach." (Goold, Pettifer and Young, 2001: 88)
Bergeron (2002: 1) wrote in his book that: "In the current global economic environment, which is characterized by downsizing, mergers, acquisitions, and uncertainty, managers are grasping for ways to simultaneously improve the bottom line while increasing competitiveness."
He also wrote that the most outstanding alternative model is the shared services model, which is a "hybridization" of the traditional business models. According to his definition: "Shared service is a collaborative strategy in which a subset of existing business functions are concentrated into a new, semi- autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in the open market." (Bergeron, 2002: 3)
The main aim of this model is to optimize resources: people, time and capital within the organization. A new business unit is created by the parent corporation to provide various types of services, which can include back office work and other business activities. This is advantageous for the parent organization because of its location and expertise. This new business unit is semi- autonomous, which means that it is linked to the parent organization. However, the executives of these units have a certain degree of independence in decision making, for example in hiring. As for the

market structure of the shared service business units we can say that they compete in the open market similarly to most other companies.
Gottfredson et al. (2005: 132) wrote in their article that as globalization changes the basis of competition, sourcing is becoming a strategic opportunity, critical functions like engineering, manufacturing, and marketing are moved outside.
The shared service model always operates within a Shared Service Centre (SSC).
M. Janssen in 2005 wrote about the main function of SSC: “By unbundling and centralizing activities, the basic premise for a SSC seems to be that services provided by one local department can be provided to others with relatively few efforts. With centralization and decentralization respectively we denote the (de)centralization of the broad spectrum of information systems resources including human resources, computing hardware, applications, storage and network services, web hosting, application hosting and information resources.” (Janssen, 2005: 247)
Janssen and Joha (2006: 104) wrote in their article that: “The popularity of SSCs seems to originate from a combination of advantages, including efficiency gains and an increase in service levels without giving up the control of the organizational and technical arrangements and expertise.”
Ulbrich (2006) gave the following definition for SSCs: “shared services gather a selection of common and well-defined services to provide these services to an organization’s units, acting independently. This is somewhat similar to outsourcing, where the provider of such services is contracted. Usually, an independent third party without direct connection to the outsourcing organization takes over support processes. The shared service alternative, however, is built on the idea of taking advantage of the existing knowledge of an organization and its culture. Therefore, services are located within the corporation, often in independent business unit.” (Ulbrich, 2006: 197) He also wrote in this article that the concept originated in the USA and spread to the other parts of the world in some years.
In 2007 an article appeared about the governance for shared service organizations in the public service written by G. Grant, S. McKnight, A. Uruthirapathy and A. Brown. The governance structure describes the levels of committees, their roles, accountabilities and responsibilities. There are different structures to manage shared services organizations. In their research they examined models from Canada, Australia, the UK, US. In general, the governance structures were similar but they found differences in the number of layers. They found two recommended structures: a governing board and a shared services implementation office (Grant et al. 2007: 525).
On the operational levels, they wrote about three structures: a Shared Services Implementation Board, a Shared Services Organization Governing Board, and a Shared Services Organization Governing Board. They also studied the literature about the governance elements and considerations and they found some common points in it: the head should be an experienced person who managed a similar organization before and the objective of this organization is to provide their clients with better service (Grant et al. 2007: 526).
“The main difference between the private sector and public sector implementations of shared services organizations is the inclusion of external or third party provided services to achieve cost efficiency.” (Grant et al. 2007: 528)
When establishing the SSC, it is suggested to set up the office in a new physical location. Other important areas for consideration are language or service rights. As for the organizational culture the authors suggest that: “As the organizational culture

changes during the maturing process of the SSO, leadership styles of the varying boards may be revisited as the type of leader necessary to champion change may differ from that of the steady state organization. As such, methods such as codifying rotating board members or fixed tenure lengths may be tools that help in this regard." (Grant et al. 2007: 531) In the initial phase of the establishment they need to transfer skilled people from the existing organizations. The transition to a fully operating shared service organization can be lengthy. The time phases that describe activities during transition to a shared service organization are listed below (Grant et al. 2007: 532-533):

6–18 months: SSO created, Strong emphasis is set on communication to clients.
18–36 months: Relocation and system changes.
Roles and responsibilities are defined.
36–72 months: Integrated risk management, automation, SSO is self- funded.

According to Oshri, Kotlarsky and Willcocks (2011: 27) the shared service centre is: "An operational approach of centralizing administrative and business processes that were once carried out in separate divisions or locations- for example finance, procurement, human resources, and IT."
In 2011 McIvor, McCracken and McHugh wrote an article about the outsourced shared services arrangements in the public sector. They said that shared services centres can reduce costs through process standardisation, and economies of scale. A shared services centre can to provide better service levels to users in the organisation. In their research they used a case study approach.
On the basis of their findings they draw some important lessons for managers creating outsourced shared services arrangements (McIvor, McCracken and McHugh, 2011: 457-459): employ a structured project management approach, engage with vendors to develop potential sourcing options, leverage external expertise during contracting, build relationships with key internal stakeholders, plan and implement a process improvement strategy, employ relational and formal contracting as complements, plan and implement a change management strategy.
"The research findings have the highlighted the importance of strong governance to drive standardisation and performance improvement, and relationship building both internally with the staff affected by the changes and externally with vendors. It is important to build relationships with staff at both senior and lower levels that are impacted by the changes." (McIvor, McCracken and McHugh, 2011: 459)
Rothwell et al. (2011) conducted research in order to examine the shared service centres from a professional employability's point of view. They defined the SSC (Figure 1) as follows: "the shared service centre model (SSC), in which professional support functions such as finance, HR, purchasing, IT and legal services, previously located within business units or head office are aggregated into a new central unit, reporting outside of the divisional line hierarchy. This encourages the SSC to operate in quasi-market manner that is positioned as a hybrid governance model between line management control and the open market. The primary driver is to reduce costs through scale benefits and what is called wage/location arbitrage. Other motivations might include service improvement, access to better expertise, economies of scale, and leveraging competitive advantage through information and communications technology." (Rothwell et al. 2011: 241)

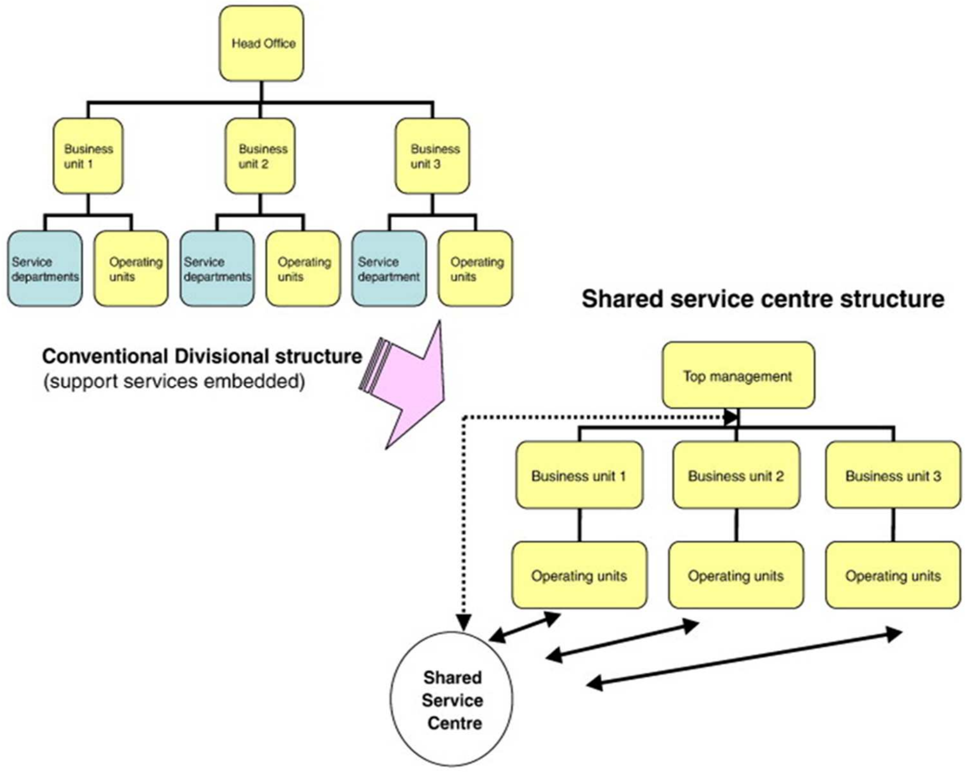

Figure 1: Moving to a shared service model
Source: Rothwell et al. 2011: 241

In their study they used the term “Martini workers” to describe the flexible mode of employment that a SSC can mean (Figure 2). They used this phrase after the Martini advertising slogan of the 1970's: ‘any time, any place, anywhere’. One of the conclusions of their research was that: “the SSC model can provide for economies of scale and scope, together with arbitrage opportunities in respect of labour and infrastructure costs, that is wherever the physical location of work is not critical. In practice, this often means the substitution of relatively expensive workers in developed countries by lower waged workers in developing countries. (…) this geographical flexibility also frees organizations from the constraints of time zones.” (Rothwell et al. 2011: 243)
Workers employed by a SSC can have both positive and negative implications. For some workers the greater choice and freedom is perceived favourably, while others may perceive them as a greater sense of competition for employment. For individual professionals in developed countries the sense of security of employment has become ill-founded with the appearance of SSCs: “The off-shoring of a significant volume of professional work could further reduce career opportunities in developed countries and mean workers taking lower pay, working longer hours to compete, or even having no job at all. Professional workers may now have to compete individually and collectively across time and space to remain employed.” (Rothwell et al. 2011: 250)

Some workers may have to continuously renegotiate their employment relationship from a zero base, and the ability to keep the job may become more pressing, and the workers in SSCs present a serious threat to the professionals in first-world countries.
In their article the authors suggest that: “there is a significant need for a more sophisticated conception of sustainable professional employment and professional careers to encompass flexible, global 21st century developments.” (Rothwell et al. 2011: 251)

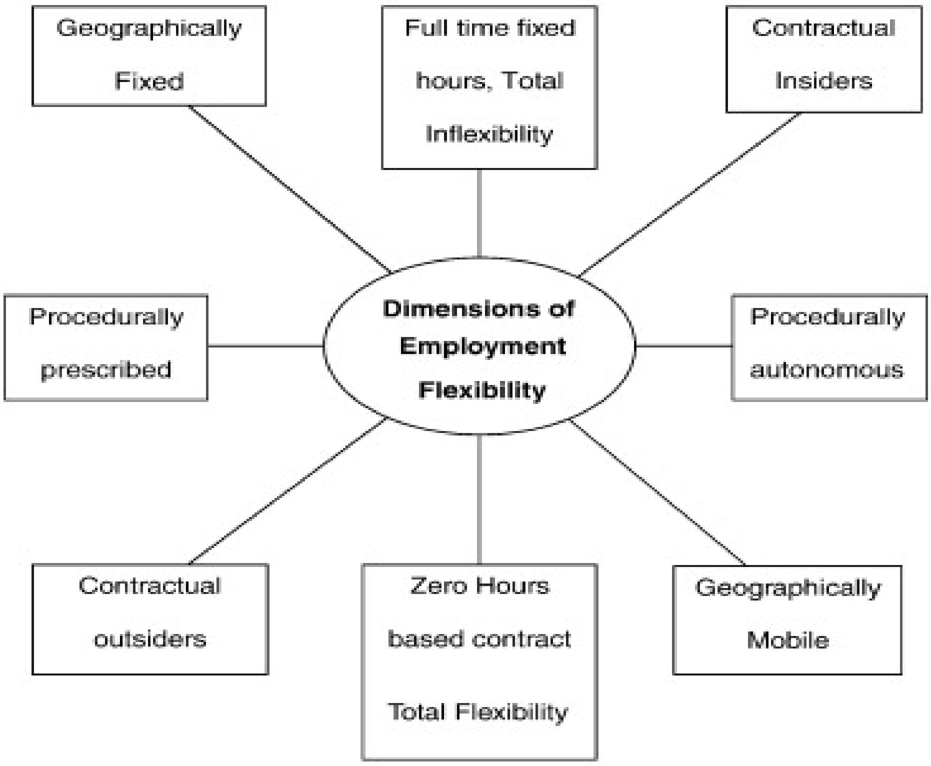

Figure 2: The Martini workers, dimensions of employment flexibility
Source: Rothwell et al. 2011: 243

Leastwise, Bene and Salamon (2016) underline the importance of investing in internal CSR (Corporate Social Responsibility) activities at retention the talented, successful employees.
I. P. Herbert and W. B. Seal in 2012 in an article noted some implications about shared service organizations for management accounting (Figure 3). “By concentrating service activities in a specialist business unit located at a carefully chosen site, possibly offshore, it has been claimed that the SSO can substantially reduce the cost of support service provision.” (Herbert and Seal, 2012: 83)

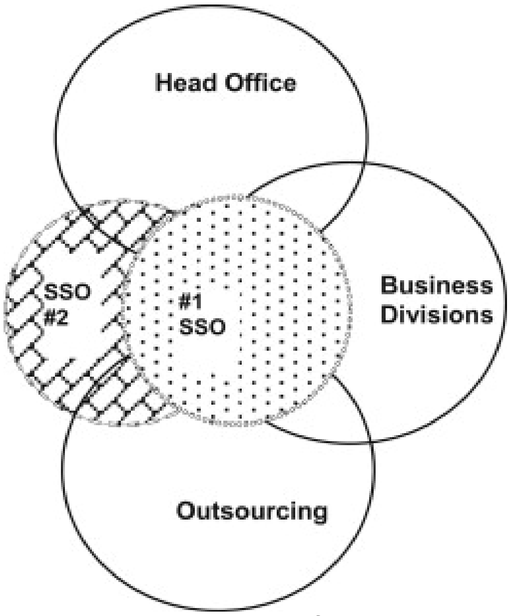

Figure 3: The SSO as a hybrid organisational form
Source: Herbert and Seal, 2012: 94

In 2014 Knol, Janssen and Sol in their research provided a systematic overview of challenges that organisations can encounter when developing shared services arrangements. Their paper provides an explanation of the four theoretical perspectives including corresponding SSC development challenges derived from the literature review and the case studies. They identified the following SSC challenges from literature: a power struggle in acquiring and maintaining resources maximise efficiency by minimising transaction/production costs, long-term survival, and knowledge integration. They also gave an overview of the four perspectives in organisational theory (Knol et al. 2014: 94):

- Resource dependence: Maximise power by acquiring and maintaining resources;
- Efficiency: Maximise efficiency in internal and external transactions;
- Population: Long-term survival in organisational environment;
- Knowledge: Knowledge integration for the production of goods/services.

"Based on RDT (resource dependency theory) a struggle for resources and resistance from individual organisation units can be expected due to a loss of power when establishing SSCs. With the establishment of a SSC individual organisation units operating within the domain are forced to share resources. Consequently they cannot acquire and maintain resources individually, thereby diminishing their ability to maximise their power and minimise the power of others. The SSC establishment distorts the power maximisation efforts of the individual organisation units which can be a significant cause for resistance." (Knol et al. 2014: 95)

The authors suggest that efficiency perspective is derived from economics and accordingly there are many theories and costing approaches related to this perspective. First they mention the *transaction cost theory* of Williamson (1981), which suggests that organisations aim to minimise their transaction costs as well as production costs, which forms the basis for sourcing decisions. Secondly they mention the *agency theory* of Eisenhardt (1989). They wrote that agency theory focuses on contractual arrangements between agents (the SSC) and principals (individual organisation units in the SSC domain). “Based on the efficiency perspective a number of SSC development challenges related to maximising efficiency by minimising transaction and production costs can be expected.” (Knol et al. 2014: 95)

They explained the population perspective as one that is rooted in biology and views organisations as populations aiming for long-term survival.

The knowledge perspective relates to *knowledge management* and sharing of best and worst practices in organisations: “The main focus of the knowledge-perspective is on the production of goods and services in organisations through coordination of integrated knowledge. Hence, organisational success in the knowledge perspective is defined as optimal coordination of knowledge integration for the production of goods and services.” (Knol et al. 2014: 97)

2. The Benefits of a Shared Service Model

By creating a shared service centre companies would like to improve efficiency, competitiveness and customer satisfaction. A shared service centre can eliminate redundant activities by consolidating them into a shared operation.

Bergeron (2002: 6-7) wrote that the model has numerous benefits, which are: reduced costs (meaning cost- effective products and services), improved service (meaning better services to internal customers), fewer distractions from core competency activities (meaning that the parent company can focus on its core competencies as the back office activities are moved from it), a potential for creating an externally focused profit centre, increased efficiencies: from the perspective of the shared business unit, decreased personnel requirements (meaning that fewer employees are needed), improved economies of scale (meaning that the concentration of business activities allows for increased economies of scale).

Ulbrich (2006: 197-198) collected the common goals of shared services on the basis of the relevant literature: cost reduction by economies of scale, an accumulation of intellectual and capital assets, standardization process and easier access to cutting-edge technologies.

In 2010 Maatman, Bondarouk and Looise conducted a research on the capabilities and value creation of HRM shared service models. ”Selected HRM activities are concentrated, or bundled, into a new semi-autonomous business unit that performs HRM activities for the business by providing services that are shared by various organisational entities and matched to different end user groups. Common examples of such shared services are the use of a call centre to support employees, line managers and decentralised HRM staff, and a centre for the processing of HRM-related transactions in an information system.” (Maatman et al. 2010: 327)

In their article Maatman et al. 2010: 329) the authors distinguished four categories of motives for establishing an HR SSM: strategic and organisational motives, technical motives, political motives, and economic motives.

They gave the definition for HR Shared Service Model as: “a collection of HRM Shared Services whose characteristics are determined by the customers, and provided within an intra-organisational HRM arrangement to a specific set of end-

users by a (semi-) autonomous business unit on the basis of agreed conditions." (Maatman et al. 2010: 337)
Marciniák (2013: 217) wrote an article about measuring service satisfaction in Shared Service Organizations: "Each organization needs a good performance measurement system but in a shared service organization it is vital issue. This organization has to fulfil the demand of internal customers and sometimes external customers and convince the executives about the success of existence. If it is not successful and could not compete in quality and price with the outsourcing service providers then executives will look for a better solution."
Companies want to rationalize their operational costs by moving some of their services over the country's border thus creating a shared service organization.
Originally the main aim of such organizations was cost-cutting but now there are many other drivers (Marciniák, 2013: 218): improved services and reduced costs; standardized services and processes; diminished administration costs; supporting corporate strategy; grouping similar tasks and demolishing redundant processes; favouring progress; facilitating introduction of new technologies; improving working capital.
The need for providers to define requirements with their customers created the Service Level Agreement (SLA). This is a written agreement for both outsourcing and shared service model and instrument of coordination and operational control between the parties.
It should cover different areas (Marciniák, 2013: 220): the client's expectation, the supplier's supply or delivery, the quality standard, the client's obligations, what happens in case of failures, a description of the services to be provided, skills that the supplier must possess, pricing and charges for services provided, method, service standards, including deadlines, timescales.
He wrote that he had found four keys to successfully maintaining true customer satisfaction over the course of a long-term Shared Services contract (Marciniák, 2013: 221):

- a Service Level Agreement (SLA) is not just a legal agreement to provide service that is signed and forgotten;
- dedication to Marketing & Awareness;
- be there for the Customer/Take Ownership;
- commit to the Continuous Improvement Cycle.

"The aim of transferring supported functions to shared service centres is the parent company could operate effectively and efficiently. But company could check fulfilment of this aim only if continuously monitors the performance of concerned processes. Effective performance measurement is based on client satisfaction that is one of the success factors in shared service centres." (Marciniák, 2013: 223)
In their research in 2014 Risse and Loitz examined whether moving tax compliance processes from head office to a shared service centre can relieve the burden for a tax department. In their article they wrote that: "The tasks and processes performed in an SSC can only be a useful measure, if the following are taken as given in such an organisation, for example economies of scale, increased service standardisation or highly repetitive processes as a service. The value added to a process is based on cost savings, which have to be considered in the general conditions, such as the avoidance of tax penalties and interest on arrears, the lowest possible tax rate and the greatest efficiency of the processes. The analysis of organisational form must highlight the characteristics and include necessary success factors of the individual

tax processes based on the approach of an internal expense centre combined with an SSC." (Risse and Loitz, 2014: 42)
Buus (2015) presented a paper in which he suggested a formula that assures that shared service centre costs are charged fairly and provide incentive for the shared services centre counterparts to optimize timing and size of their requirements towards shared services centre and minimize the total cost of handling them.
He wrote about the SSC's cost classification: "SSC incurs generally two types of costs, which have to be reimbursed by its clients. Since peaks and bottoms of SSC capacity utilization emerge, and the sufficient capacity has to be maintained in order to prevent from larger losses by e.g. production disruption or customer dissatisfaction, the existence of SSC's capacity to handle its customers' requirements generates costs. Alongside, the other costs are generated by the utilization of the created capacity." (Buus, 2015: 345) He also wrote that there are some practical issues that SSC needs to address: the information system, which provides the necessary information is very important, just as the ability of SSC to communicate the inflow or outflow schedule with its counterparts. If customers of SSC have available information about the schedule of deliveries from the SSC and to the SSC they can optimize their delivery requirements accordingly.

3. In conclusion

In the past few decades globalization has affected our lives in many ways and one of them is definitely the global economy and through this the business world. Companies need to come up with new ideas continuously in order to stay competitive. As there have been unimaginable technical advances recently which have helped corporations to overcome geographical distances and cultural differences to cut their costs and improve the efficiency in most areas.
Companies have had to adapt to the new challenges so new forms of businesses have appeared and one of them was the shared service model. With the advent of this new model companies could focus on their core activities and outsource their other activities to shared service centres. As we can see from the relevant literature this model has a lot of advantages but we have to admit that it has some drawbacks as well. But if people involved have the intercultural competences to tackle the problems it can be really advantageous.

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