ResearchLEAP

Journal of International Business Research and Marketing
Volume 5, Issue 5, 2020
journal homepage: www.researchleap.com

Specific Business Models for Romanian Companies – Shared Services

[1]Ioan Petrişor, [2]Diana Cozmiuc
[1,2]*West University of Timişoara, Timişoara, Romania*

DOI: *10.18775/jibrm.1849-8558.2020.21.3001*
URL: *http://dx.doi.org/10.18775/jibrm.1849-8558.2020.21.3001*

Keywords:
Shared service centres, Business model, Deployment, Personnel cost , Shared service units, Romania

ABSTRACT

Shared service centres have emerged since the 1990s and refer to a variety of functions: information technology, SAP support, accounting, payroll, management reporting, purchasing, call centres, helplines, market surveys via phone or the internet. Shared service units can be organized in several forms but are in each case, a particular value pattern distinct from the standard market price/ shareholder profit pattern. The purpose of this article is to analyze value patterns, and this article is part of broader research on value-based management. Shared service units can be organized according to the organizational design of the matrix organization, or according to the multidimensional organization. Shared service units may be charged via a transfer price system to the receiving corporate-related company. These are iterative activities, organized according to the activity-based costing logic. Alternatively, shared services can refer to more complex functions that provide service to corporate functions. They can be organized according to the multidimensional organization logic as allocations to the operating units. The value proposition of shared service units differs from market price and profit-driven financial statements. Shared service units require low personnel cost and stability, both of which indicate to Romania as a favourable location. These are the two arguments in favour of shared services as a specific model for Romanian companies, a country in which we find evidence shared services have been set up in the past ten years as parts of corporations.

1. Introduction

The goal of this research is to analyze value patterns that are different from market-driven financial statements. Wider research on value-based management includes analysis of intra-corporate activity. It aims to describe value patterns that are specific for intra-corporate activity, be it production, research and development, or support functions. For this article, the support functions, which are managed as shared services, have been singled out. The basic business model is that shareholders on capital markets provide capital to the firm, which the firm invests in equipment used to manufacture the products the firm sells to consumer markets. The firm is paid a sales price which after deducting expenses leads to profit. Profit is either reinvested or redistributed to shareholders. This is how shareholders obtain a return on their capital. Shared service units work in a different way. In place of shareholders or private owners, shared service is owned by the corporation. In place of consumer markets, they have the corporate customer and the corporation as a whole. Their logic is profoundly different from that of the whole corporation, and the purpose of this article is to describe the specific reasoning of shared service units and their specific value pattern. Evidence shows that shared service providers exist in Romania. Romania has the advantage of low personnel cost and stability, which is why "the specific business model" is used together with "Romanian companies". This evidence about shared service providers comes from the media, mainly websites such as "Best jobs", company websites and online newspapers. For the purpose of investigating value-based management patterns, this evidence is only used to exemplify the specific business model. A study on outsourcing would take the same issue further.

This research begins with defining and providing an overview of shared services. It continues with an analysis of the characteristics, drivers and value patterns of two types of shared services: iterative activities managed as a transfer price and complex activities managed as allocations. This part is theoretical and consistent with the advice provided by consultancy firms such as Pricewaterhouse Coopers, KPMG, Ernst and Young, Deloitte,Accenture, Mc Kinsey, consistent with the works of accounting bodies such as The Institute of Management Accountants IMA, The Chartered Institute of Management Accountants CiMA and with The Association of Chartered Certified Accountants ACCA, and with the shared services excellence standard offered by The Hackett Group. It also takes into account value-based management and the particular value proposition shared services have compared to the standard market price/ shareholder profit model. Evidence is provided about shared services in Romania and their activity is briefly analyzed.

2. The Definition of Shared Services

Shared services are the provision of a service by one part of the organization or group where that service was previously found in more than one part of the organization or group (Strikwerda, J., 2008). The shared service centre pools the same type of service formerly located within other corporate subsidiaries or corporate functions. Within this article, shared services have been described according to their value proposition and management accounting (The Institute of Management Accountants IMA; The Institute of Certified Management Accountants CiMA; The Association of Chartered Certified Accountants ACCA). The shared service centre is responsible and accountable for the services rendered. The customer department "buys" this service from the internal service provider and measures the performance of the delivery based on specific terms (key performance indicators, cost per unit, time spent, quality etc.). The customer department may be a subsidiary located anywhere in the world or the corresponding corporate function. The logic behind shared services divides processes into two types: front office and back office. Front office processes involve decision making, high competence and various tasks. Back office processes include managing tasks that are non-core to the activity of the departments and can be organized in separate units. These activities will be the business of the shared service centre (Ernst and Young, 2014). Generally, shared services cover information technology, SAP support, accounting, payroll, management reporting, purchasing, call centres, helplines, market surveys via phone or the internet. The shared service centre sells these services to the internal corporate customer. A service level agreement is signed by both parties (IMA, 2000; Mc Kinsey, 2011). This service level agreement describes the services to be transferred to the shared service unit, and key performance indicators for measuring these services, such as quality, time, and the payment for each order.

Shared services may be managed according to transfer price, according to allocations or both. Shared services consist of a variety of activities which may be organized according to two criteria. They may be iterative processes sold to internal corporate customers via transfer price rules. This corresponds to one business model for shared services, and the value-based management of shared services will depend on the key performance indicators of their performance. In a second business model, shared services may be a branch of central services, in which case the customer is the corporate function and the processes are managed via allocations. While the trend towards shared services and the multidimensional organization grows, the activities executed as shared services shift from iterative activities to complex functional support (Accenture, 2013). Furthermore, shared services may be organized as modules, comprising a total solution for the customer which involves several functions. Units are called shared services if they are part of the customer organization. If the same type of business is conducted by an external party, the term business process outsourcing is used instead.

3. Overview

In 1960, Alfred Chandler wrote that "structure follows strategy" and has since then been refuted by studies arguing the opposite, that strategy follows structure. For the purpose of this article, the latter postulate has been adopted, in the sense that organizing shared services as either iterative tasks such as invoicing or complex departments such as SAP management determines the rules by which they are to be managed and key success factors. It follows that shared services are organized either according to transfer price rules or as allocations, according to mainstream management accounting literature. Management accounting rules define the business model. Transfer price is used based on the budgeted cost per invoice, per call, per helpdesk ticket and the actual number of invoices, calls, helpdesk tickets. In order to be charged the same fee per unit, it is only logical that these activities are standardized and the work performed is identical each time. On the other hand, allocations work for complex shared service units such as category purchasing, SAP management, intellectual property management, and compliance helpdesks. These units involve high specific knowledge and are by no means suitable for standardization. The strategy for each type of shared service unit has been inferred from the management accounting model and induced from real-life examples.

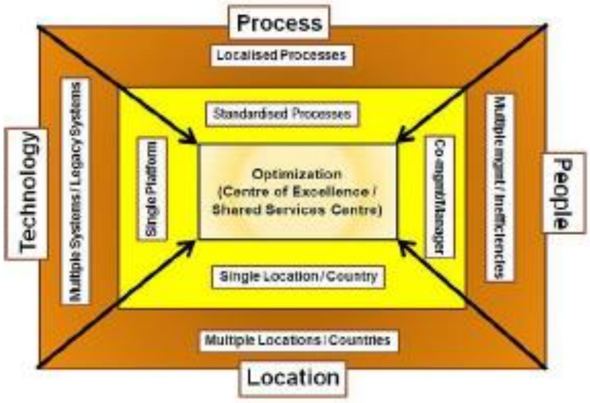

Figure 1: Shared services management overview

The shared services overview is listed in Figure 1 above, as per the Certified Institute of Management Accountants guidelines (2015). It is noteworthy that this refers to standardized shared services pertaining to the logic of increasing efficiency. There are excellence standards in shared service providers such as The Hackett standards. Process definition and standardization are key to shared services that enable technological solutions provided by the likes of Oracle and SAP. Studies conducted by KPMG (2013) shows that the benefits of shared services go beyond efficiency, as they release the buying company from the burden of performing these tasks in house and allow it to focus on more value-adding tasks.

4. Shared Services Managed as the Transfer Price

Shared services may be iterative activities sold to other corporate subsidiaries. These activities will be managed according to the activity-based costing logic. According to CIMA (The Certified Institute of Management Accountants), activity-based costing ABC is an approach to costing and monitoring of activities which involves tracing resource consumption and costing final outputs. Resources are assigned to activities, and activities to cost objects based on consumption estimates. The latter utilize cost drivers to attach activity costs to outputs. ABC has been used to support strategic decisions such as pricing, outsourcing, identification, and measurement of process improvement initiatives. Shared services may work as a pool of similar activities. Therefore, a standard cost will be assigned to the activity that is the basis for charging the customer:

- information technology service centres may charge a standard fee for each troubleshooting
- the same goes for SAP support service centres
- accounting service centres may charge a fee for each invoice
- payroll services will charge a fee for each person whose personnel cost is processed
- management reporting centres may charge a fee for the monthly activity of the person in charge of management reporting
- purchasing service centres may charge based on the monthly activity of buyers or the monthly activity of commodity managers
- call centres may charge a fee for each call
- the same logic works for helplines and market surveys via phone or the internet.

The fee for each activity provides income for the shared service centre and cost for the department or division which uses this service. The fee will be managed according to transfer price rules. The objective of the shared service unit is proficiency in these activities and low cost. Shared service activity will essentially consist of performing the same or similar types of activities several times. It is likely that these activities are subject to procedures determining how the activity should be performed. The shared service centre is the owner of these services and sells them to the internal corporate customer subsidiary. A service level agreement is signed by both parties. This service level agreement describes the services to be transferred to the shared service unit, the key performance indicators that measure these services, such as quality, time, and the payment for each order.

Table 1: Service level agreements for transfer pricing

KPI	Service provider	
	Budget	Actual
Income for one head	as per service level agreement	as per service level agreement
Number of heads	as budgeted	as actual
Total income	the product of the above	the product of the above
Costs	as budgeted	as actual
Profit	as the residual value of the above	as the residual value of the above

This article is part of broader research regarding value-based management. The basic value proposition in a market economy is the market price, out of which profit is a residual value after deducting expenses. Profit is distributed to shareholders and is to be maximized. Intra-corporate activities such as intra-corporate production, intra-corporate research and development, intra-corporate shared services work differently. Their price is not the market price, but the transfer price or the allocation. For shared services, the transfer price is usually calculated using the cost-plus approach.

The value proposition for a shared service unit managed via transfer price follows the cost-plus approach. A service level agreement comprises the transfer price, which is calculated by dividing income to the number of units to be sold (for example, the price per invoice is obtained by dividing income to the number of invoices). Income is computed as the sum between total agreed cost and a percentage mark-up on this cost which is equivalent to profit. This mark-up on cost is irrelevant to the organization as a whole, but it should be low for the interests of the intercorporate buyer. This mark-up on cost is subject to tax pressure at both the seller and buyer location. This mark-up is agreed upon during the service level agreement phase. In actual, each activity will be paid the service level agreed price, and profit will be deducted after costs. The value drivers that interest the shared service providing company are controllable costs, which leads to cost standardization. The profit is the mark-up on these costs. It is irrelevant for the corporation, to be minimized according to the interest of the buyer, to be maximized according to the interest of the local tax authorities and to be constant as a percentage on worldwide basis according to corporate tax. This creates a very different profit incentive from that of capital markets or private owners. Similarly, the transfer price is strongly different from market price as it is driven by cost and mark-up rather than customer needs.

The shared service value proposition can be easily used to infer rules about their management (PriceWaterhouseCoopers 2008). Shared services are to reach excellence in a well-defined service while minimizing the cost for each service unit. Shared service provision should be standardized according to an excellence model such as The Hackett Group standards. Their transfer price should be minimized (ACCA The Association of Chartered Certified Accountants, 2012), and one way to do this is to locate shared services in a low personnel cost location. These are the recognized benefits of shared service units (Deloitte, 2011).

Shared services managed as allocations. The most recent literature on organizational design covers the passage from the traditional bidimensional matrix organization to a multidimensional organization (Garvin, David A.; Levesque, Lynne 2008). The multifaceted organization is defined by Strikwenda (2008) as "an organization whose performance, that is turnover and profitability, is simultaneously reported on at least two dimensions (e.g. region, product, accounts) at multiple levels of the organization, as part of the usual cycle of the management reporting in the organization and if for each of these dimensions a manager is held accountable for the turnover, market share, profitability with commensurate decision rights who is held accountable for this performance and judged by this performance, within the frequency of the standard management cycle". The traditional matrix organization is made up of two dimensions, the divisions and the functional areas. Research shows that since about the 1990s, the "M form" appears to dissolve in the complexity of entities: account management, shared service centres, cross-division projects. Goold and Campbell recognize eight different unit roles: parent, business unit, sub-business, overlay unit, project unit, core resource unit, shared service unit, function. Managers need these multiple unit roles to create synergies and leverage and adapt the organization to the market. One of the reasons for the emergence of the multidimensional organization is an organization form efficiency. These units tend to be highly specialized in their purpose: corporate account management needs top-class marketing skills, whereas shared service units need proficiency in back-office processes. Out of these units, shared services have been selected for the purpose of this article.

Table 2: The organizational structure of the multidimensional organization

Type of unit	Type of responsibility	Main accountabilities
Parent	obligatory and value added parenting	corporate bottom line
Business unit	market focused	bottom line
Sub business unit	market focused	bottom line
Overlay unit	corporate customer focused	customer profitability
Project unit	project focused	project delivery and profitability
Core resource unit	resource focused	resource development and utilization
Shared service unit	service focused	service-cost effectiveness
Function	functional	functional effectiveness and contribution

Shared services are argued as consistent with the emergence of the multidimensional organization. The multidimensional organization has a different management accounting system from that of the multidivisional organization.

Table 3: Matrix and multidimensional organizations

Table 3 Matrix and multidimensional organizations

Matrix organization	Multidimensional organization
products and regions are profit centers	customer is profit center
transaction data is owned by regions	transaction data is owned by corporate headquarters
transfer pricing between dimensions	no transfer pricing between dimensions
based on economic model of unit organization	based on economic model of exploiting intangible assets in an integrated firm

Matrix organization - multidimensional organization products and regions are profit centres customer is profit centre transaction data owned by regions transaction data owned by corporate headquarters transfer pricing between dimensions no transfer pricing between dimensions based on an economic model of unit organization based on an economic model of exploiting intangible assets in an integrated firm. There are hybrid corporations which are structured into divisions and regions and use traditional transfer price accounting, and yet have key account managers, corporate functions, shared service units. These latter units are allocated to the divisions based on allocation keys or transfer price. This hybrid form of organization combines the M-form or matrix organization with the multidimensional organization. This hybrid form of organization uses transfer price to manage the sale of products or delivery of services between units. For example, products are sold from a production location to a sales location using some form of the transfer price. Worldwide project activities are also managed according to transfer price and hourly rate calculation. Profit centres are organized according to both product and region. Corporate functions, key account management, multidivisional projects are allocated to products and regions based on allocation keys decided by the corporation. These allocations are clear, so that product region managers are not held accountable for them. Shared services may be managed according to transfer price logic or according to allocations logic or both. The multidimensional organization also involves a multifaceted strategy, which means that the dimensions have their strategy which consists of a break-up between market competence and efficiency competence

Table 4: Service level agreements for allocations

KPI	Service provider	
	Budget	Actual
Income for the whole department	carefully defined	according to budget
Costs		as actual
Profit	as the residual value of the above	as the residual value of the above
Hardclose		once per year, works the difference between budget and actual activity

The shared service centre may group both kinds of activities, iterative activities charged as a fee to the customer and more general activities paid for by a central corporate function.

The specific value proposition of allocations is similar to that of the transfer price. During budget, the total costs for shared service units are computed and allocated to operating units via allocation keys such as percentage on sales. In actual, the shared services units receive these allocated amounts as income from the corporation. Once per year, a hard-close is performed to manage any excess costs. Profit on allocations follows the same incentive pattern as that for transfer price: it is irrelevant for the corporation, to be minimized according to the interest of the buyer, to be maximized according to the interest of the local tax authorities and to be constant on a worldwide basis according to corporate tax. Allocations pay for the activity of the whole department, not for the activity performed per unit of service, which is how they are different from the transfer price. The cost estimates drive shared service provider value, not profit, and there is no market price.

5. Shared Service Units Located in Romania

Romania is highly suitable for shared service centres or business process outsourcing, and a large number of companies have grasped this opportunity. Romania provides both low personnel cost and stability (this is an assumption in the article). Simple or complex activities cover all functional areas. For example, Continental Automotive Romania hosts a finance service centre that provides services based on transfer price to other corporate subsidiaries. These activities are complex and variable.

Continental Automotive Romania provides information technology IT maintenance services to the corporate department. More recently, it provides SAP support to the corporate functions responsible. Continental Automotive Romania also sells translation services. Similarly, Hella Romania sells controlling services. Alcatel Lucent provides network maintenance services to other corporate customers. Oracle Romania sells credit management services to other corporate customers. British American

Tobacco sells a variety of shared services - accounting services, such as accounts receivable, accounts payable, journal, fixed assets; human resources; procurement to pay; order to cash; global treasury operations. Amoma provides customer care. Hewlett Packard Romania employs more than 3000 specialists who provide shared services in the area of finance, logistics and administration. Kromberg and Schubert pool human resources services. So do Flextronics. Deutsche Telekom Business Services similarly provide human resources services. Stefanini provides IT helpdesk services. Bosch Romania provides complex, technology-driven services in several Romanian towns; these services include SAP support. TRW hosts a finance department that works for the corporate finance department. Vodafone Shared Services handles customer calls. Dell Services provides technical support. The shared service unit may perform this function as a part of the corporation or may be a separate legal entity altogether.

There are companies whose business is providing shared services to corporations. Unlike internal shared service units, these companies will aim at a profit and value-based management that is consistent with economic value added. Essentially their activity will be the same as that of corporate shared service, only they are a standalone company and aim for profit. They will have a "normal" value proposition. For example, Accenture has offices in Romania in Bucharest and Timisoara and offers a variety of services: customer service, human resources administrative, contract, accounting, controlling, legal advisory, security consulting for corporate customers as part of a worldwide network. Attos Romania provides complex information technology services. Genpact Romania sells a variety of functional activities managed as iterative activities to various customers. These are finance activities such as accounts receivable, accounts payable and other accounting functions; purchasing activities; information technology hardware, software support activities; operations such as payroll; translation services. This is essentially business process outsourcing. Toluna Romania has offices in most large Romanian towns and conducts social voting market surveys using the local labour force as survey programmer, community manager, web developer, data processor, translations specialist. Payout sells payroll services. BUW Romania handles call centres. The Competence Call Center company will provide the services its name promises to provide. Teleperformance Hellas manages customer calls. Wipro bundles a variety of outsourced services: finance and accounting, procurement, marketing, legal, human resources, technological support, customer and analytics. Windsoft offers technical support. These companies have been traced using job advertising web sites, such as "best jobs", that provide information about the content of jobs and the corresponding department. Also, data has been sourced from job fairs, company websites, the press. Collecting data for this article has involved a great variety of Internet sources. We induce that the great part of these shared service units located in Romania provides iterative services focusing on standardization and best cost.

6. Conclusions

The value proposition of shared service units is different from that of market-driven financial statements. This holds true for both iterative processes managed via transfer price or functional support managed via allocations. The strategy for shared services is to focus on the activities they perform and bring them to excellence. These activities are well defined and share characteristics which have been analyzed in this article. There are companies in Romania which show evidence of using shared services, as well as business process outsourcing. Romania as a location provides on the long term all the advantages that shared service providers and business process outsourcing providers seek.

References

- ACCA The Association of Chartered Certified Accountants - "Finance transformation: experts insights on shared services and outsourcing", The Association of Chartered Certified Accountants 2012
- Accenture - "CFOs benefit from shared services shake-up", CFO Publishing Corporation 2013
- CiMA The Chartered Institute of Management Accountants - "Centralized, decentralized and shared services", www.cimaglobal.com accessed on November 2015
- Copeland, T. E.; Koller, T. M.; Murrin, J. - "Valuation: Measuring and Managing the Value of Companies", John Wiley & Sons, 1994
- Deloitte - "Shared Services Handbook", Deloitte MCS Limited 2011
- Ernst and Young- "The new case for shared services", EY 2014
- Garvin, David A.; Levesque, Lynne - "The Multiunit Enterprise", Harvard Business Review June 2008
- Ghia, Ankr - "Capturing value through IT consolidation and shared services", Mc Kinsey & Company 2011
- The Hackett Group - "Global business services expertise", The Hackett Group 2015
- Janssen, M.; Joha, A. - "Motives for Establishing Shared Service Centers in Public Administrations", International Journal of Information Management, 2006
- The Institute of Management Accountants IMA - "Implementing shared service centers", Statements on Management Accounting 2000
- Kaplan Publishing - "ACCA F2 Management Accounting", Kaplan Publishing 2015

- Kaplan Publishing - "ACCA F5 Performance Measurement", Kaplan Publishing 2015
- Kaplan Publishing - "CIMA P1 Management Accounting", Kaplan Publishing 2015
- Kaplan Publishing - "CIMA P2 Advanced Management Accounting", Kaplan Publishing 2015
- KPMG - "Shared Service and Outsourcing Institute", www.kpmg-institutes.com
- KPMG - "Next generation convergence demands next generation shared services", KPMG 2013
- PriceWaterhouseCoopers - "How to design a shared service center that works", PriceWaterhouseCoopers 2008
- Stewart, G. B. - "The Quest for Value", Harper Collins 1991
- Strikwerda, J. - "The Emergence of the Multidimensional Organization", Amsterdam Business School 2008 CrossRef
- www.oracle.com, accessed on November 2015
- www.sap.com, accessed on November 2015
- www.sharedserviceslink.com, accessed on November 2015