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Shared service centres as an optimal global business model

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Summary

In global corporations, outsourcing side business services has become increasingly popular within the last 20 years. In financial management, there are many laws that global companies must follow, generating high finance and accountancy costs. Strategic management is crucial to stay competitive in the global market. A new business model that combines austerity measures with high-quality finance and accounting services is becoming popular worldwide thanks to changes in company structures. This paper aims to indicate how a certain business model impacts financial management globally and how the business structure changes as the company grows. This paper analyses trend in global business, establishing a separate legal organisation for finance and accounting purposes only, to provide these types of services for business units all over the world within a capital group.

Keywords: DSC, SSC, accountancy, finance, general ledger, global business model, outsourcing

JEL: M21, M41

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Introduction

In the corporate world, it is typical to own one central organisation and co-parent companies registered in many different countries where the business is actually done. For example, the parent enterprise is from Korea, but it sells its B2B products globally. To ease business locally, the global company registers its co-organisations in the destination countries. Interestingly, one or more co-parent financial organisations are created within the same global family, which are set up for different purposes. For instance, there might be a separate financial co-organisation, separate for production or a separate enterprise for customer service only, depending on the type of leading business that the parent company has. All the co-organisations together are structured as one global enterprise with district firms in many countries, which makes strategy management more fluent. However, it creates new challenges for the HQ's financial management to coordinate such a giant by controlling costs and expenditures. Having many co-companies globally means that the head office must have one or more DSC (District Service Centre) or SSC (Shared Service Centre) to outsource finance and accountancy because of cost management and keeping all global financial data outside of the core business area but still within the company at the same time. It sounds like an ideal business model.

This paper aims to indicate how a certain business model impacts financial management on a global level. Stakeholders, clients and governments use financial and non-financial statements to find information about the company. The information that stakeholders seek in financial statements depend on their specific needs, which is coordinated with International Financial Reporting Standards (Moeller 2015). However, to begin with, there must be a business concept that makes the company attractive on the global market.

Strategic management (a literature review)

Becoming a successful company in the long term depends on identifying potential risks for its development (Madura 2020). It is crucial for the company's management to lead the organisation using the tools and skills of strategic management based on the complexity of the decision being made. The last two decades have seen increasing interest in tools of strategic management because of (Nowak 2009):

- the globalisation of business,
- the development of global financial markets,
- fast-growing competition in the markets,

- ownership transformations of companies,
- the implementation of new technologies,
- the development of software engineering.

Strategic management is focused on long-term goals, and it is intended to engage a company's assets for years. In this concept, decision-making in a changing environment is a regular occurrence, causing structural changes within the organisation (Marchesnay 1994). One of the most important strategic areas is finance management. It influences the rest of the business and gives information to the stakeholders about the company via financial reporting (Olchowicz, Tlaczala 2015). Information plays a crucial role in strategic and financial management (Reeves, Haanaes, Sinha 2015). Having enough information about competitors and markets, and having information about cost indicators helps create an ideal business model. The model itself is one of the most popular tools in financial management (Drury 2005).

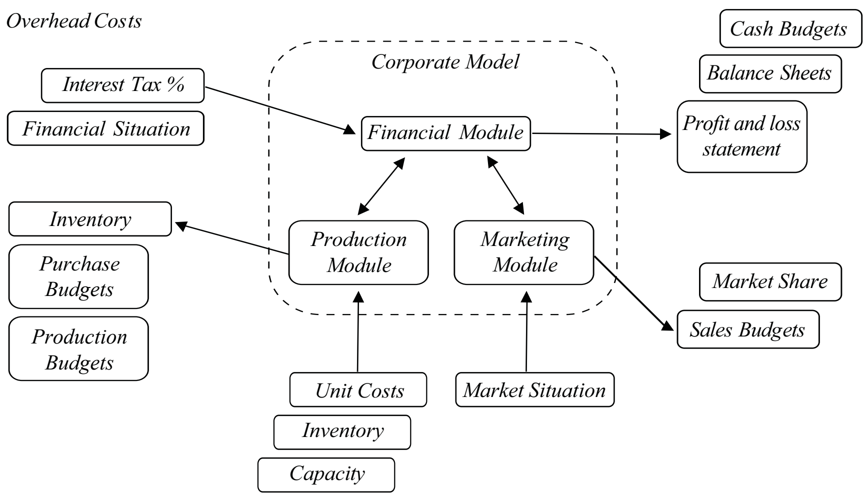
However, there is very limited influence on competitors globally. In this case, the creation of a DSC/SSC by the organisation itself creates an ideal opportunity for insight into and unlimited influence on the organisation's structure and finance. The ideal organisational structure positively impacts financial reporting, which is used to deliver information to stakeholders using a standardised concept and following the law (Conceptual Framework for Financial Reporting 2018) to prepare key financial statements, e.g., Balance Sheet (BS), Profit and Loss (P&L), and Cash Flow (CF) (Sniezek, Wiatr 2011).

Global business requires that companies following the law and local accounting and tax rules where they do business. Thus, for business purposes (either internal or external), global businesses should follow the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) (Moeller 2015). These requirements force global companies to keep triple accounting books to meet all the legal obligations, making accountancy and finance processes within the company more complicated, more time consuming, and more expensive. It also causes issues like differences in accounting ledgers (Godlewska, Folta 2018), for instance, a valuation of assets and liabilities on the first day of a fiscal year (in goodwill, according to IAS, or in buying price or production cost in local legacy accounting) (Olchowicz, Tlaczala 2015) or leasing assets vs the cost of renting (IFRS 16, 2019). These are advanced accountancy tasks, so more expensive to coordinate globally. In this case, an austerity measure policy is a much bigger issue if a company wants to be considered competitive globally. The ideal business model requires major global companies to register their co-parent company, such as their own DSC/SSC for accountancy and finance, in a foreign country, where costs are generally lower (e.g., lower employment costs and lower costs of renting offices with good infrastructure accessibility).

Business model (a literature review)

Since the 1960s, many complex business models have been developed (Mattessich 1961), which described the model using accounting ratios. The Hiller (Hiller 1963) and Hertz (Hertz 1964) models link business and corporate decision making with risk. At that time, a very complex model was planned to be implemented as the Sun Oil Company's corporate model to help solve long term management problems (Gershefski 1969). Many other models emerged during this period, such as the IBM model, which calculated balance sheets, and the Dow Chemical corporate deterministic accounting model (Naylor 1971). In the 1980s, Kivijarvi and Tuominen developed a corporate model that was very modern for the time (Figure 1).

Figure 1. Typical Structure of a Corporate Model



Source: Kivijarvi and Touminen 1987

Nowadays, global companies use more sophisticated methods due to the development of software solutions (i.e. programming languages) to create and test many forms of business or corporate models (Prescott, Filatotchev 2020).

A very different approach to business modelling is defined by the supply chain, resources, and the business design concept. Here, the business model has a wider meaning than business strategy. It could be described as a template that shows the path which the global company should follow (Amitt, Zott 2001) rather than an algorithm that calculates different scenarios depending on the situation. The business models are strictly connected with financial management or even literally the way of creating income and value for the company (Michalak 2012,

p. 134). Business models are also described in the accounting literature, where business models reflectf the law and must comply with financial regulations. Furthermore, the business model concept is used in the context of measurement and presentation in financial statements (there are different approaches to measuring and presenting information in financial reporting). The business model was first defined for the classification and measurement of assets (IFRS 9 *Financial Instruments* 2014).

International researchers cooperating under the European Financial Reporting Advisory Group (Bui and Lennard 2014) played a vital role in defining the subject of business models. They claimed that showing in financial statements what business model a company uses strongly supports communication between management and stakeholders, leading to a better understanding of how the company works and what the future profits could be. It is worth mentioning the strong link between the business model and strategic management, where the business model alters measurement and efficiency so that these methods are as up-to-date and accurate as possible to provide the right basis for decision-making (Michalak 2012). Hence cost controls and austerity measures are the right approach (if not the only one) for business modelling (Osterwalder and Pigneur 2013).

Osterwalder and Pigneur classified business models as cost structured or value structured. The idea behind cost structured business models is to focus on keeping costs as low as possible (cost control), while a value structured business model focuses on creating as much value as possible (income control). At the same time, a common approach in the literature is to define a business model as a conceptual tool for value creation. It contains the elements and linkages between those elements in which value is ultimately created for customers and clients, and the competitiveness that supports value creation for the company (Gołębiowski et al. 2008, p. 57). It may seem improbable that value-based definitions are used in global business (Bigelow, Barney 2020), where keeping costs in check is much easier to count and control from a global perspective, as in lean enterprise (minimising resources within a business process: time and costs from the bottom to the top of the company (LEI 2020).

Research methodology

The research methods which were used across two separate surveys are both experimental and quantitative (CAPI, CATI). The experimental-quantitative method was used in the first survey in the second half of 2019. In the Pomeranian voivodeship, 12 shared services centres were analysed – in Gdansk and Gdynia. All companies were selected according to the following: the SSC is a legal part of the parent company; the SSC provides financial/accounting services for the parent company. The quantitative data is taken from the annual management reports of five global companies that were active in Poland between 2016 and 2020. Experimental part research was based on personal job interviews with the DSC/SSC as a potential employer. The job candidate was an accountancy professional with experience of working in finance worldwide.

The first survey took place in the second half of 2019. Fifteen international companies in Gdansk and Gdynia (Poland) were screened through interviews for a finance-related position.

All analysed companies:

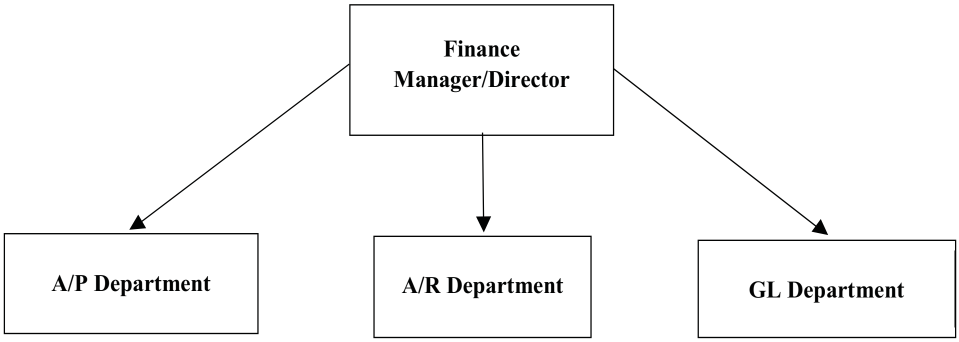
- were international companies with legal entities outside the country of first registration (at least one entity abroad), in one or two or more continents;
- had finance and accounting that took place either inside or outside of the business;
- accounting and financial management stays within the company as a separate department;
- financial management stays in the company, but accounting is outsourced;
- all finance and accounting stay in the global organisation but as a separate SSC that provides financial/accounting services for the parent company.

Analysed companies differed by balance sheet sums, numbers of organisations in group capital, number of countries and continents covered by the business. All companies declared good financial condition, and they employed approximately 51–200 employees. An analysis of these international companies shows accounting and financial services operating for different departments of the company. The company business sucess depends on whether the finance/accounting remains within the legal entity or the accounting and taxation is outsourced to a professional office or the finance and accounting is outside the global company as a separate organisation such as an SSC. If accounting remains in-house, then there is a department called ‘finance’ that provides all financial services to the company. There are some minor differences between companies, such as subdivisions created to make things easier. But in general, if finance remains in-house, all financial services remain in-house. In other international companies where there was a separate organisation for financial services, their divisions were as follows:

- Accounts payable (A/P),
- Accounts Receivable (A/R),
- General Ledger (GL).

which are distributed among the different countries/legal entities, and then the tasks related to each department are distributed among the staff within the department (Figure 2).

Figure 2. Shared Service Centre Organisation Structure



Source: own study on researcged results.

Job descriptions for the position in the DSC/SSC were in the finance area in all the above-mentioned departments. During the interviews, there were company presentations showing the DSC/SSC as part of a global enterprise, supporting financial services but creating value as it is the same company at the same time. Having a background in economics, finance and accounting, either in education or work experience, was a must for a potential candidate.

The following descriptions were found, mainly for the A/P and A/R departments (https://www.pracuj.pl 2019):

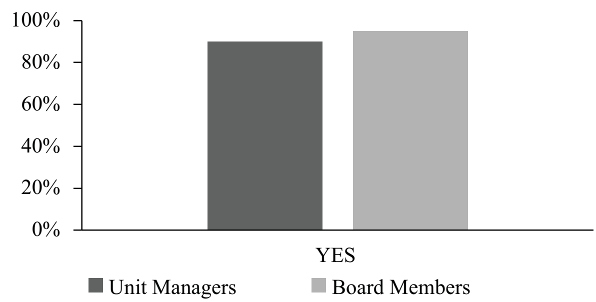
- Processing invoices accurately and in a timely manner.
- Assuring invoice compliance with tax/legal rules and accounting standards.
- Resolving standard issues regarding accounts payable processes.
- Ensuring the use of correct VAT rates and exemptions.
- Reconciling supplier statements.
- Vendor accounts reconciliation.
- Contacting internal partners from different countries to obtain required information/approvals.
- Taking an active part in keeping process documentation up to date.
- Identifying process improvement initiatives and actively taking part in the implementation.
- Supporting month-end closing activities.
- Contact customer on a weekly basis regarding delinquencies, short payments or disputed amounts.
- Assist in collecting or resolving disputed amounts.
- Monitoring customer credit limits and enforcing company credit policy.
- Set deadlines to minimise ageing of receivables to achieve key performance measures.
- Address high-level issues.

- Post-check and clear down accounts receivable accounts as applicable.
- Generate weekly reports as needed for analysis.
- Process refund requests and send out monthly statements as required.
- Credit Limit Application (preparing & monitoring).
- Sending reminders to customers.
- Scanning local invoices.
- Sending out statements, and updating reports and files using company systems

And for GL, the tasks were as follows (https://www.pracuj.pl 2019):
- Execute reports and journal posts related to General Accounting Activities.
- Perform period and year-end closing operations on a timely and accurate basis.
- Ensure proper reconciliation of reports and accounts.
- Prepare reports and documentation for internal and external purposes.
- Respond to questions from relevant entities (e.g. auditors) and other SSC departments regarding general accounting matters.
- Undertake all other work as requested.

The second survey took place in the second half of 2020. The survey was conducted among 40 survey participants (20 key managers and 20 board members) who were employed in entities considered to be affiliates of foreign global companies that operate in the Pomeranian Voivodeship . Respondents were asked whether the global company in which they work has changed its legal structure in the last five years. All surveyed board members and 90% of surveyed unit managers used the information provided in the table below (Figure 3).

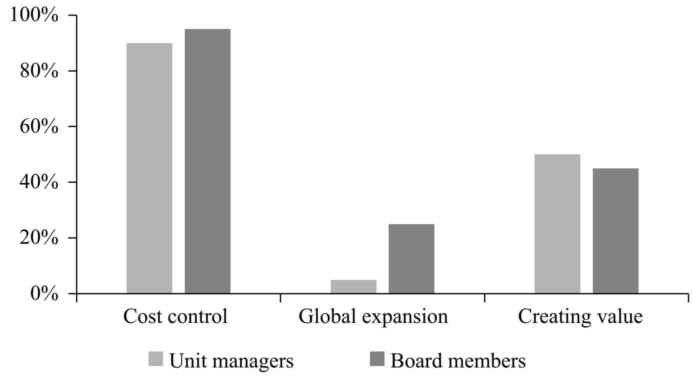
Figure 3. Has the legal structure changed in the last five years?



Source: own study based on research results.

The respondents were further asked to indicate the most frequent reasons behind the change in the organisational structure worldwide: creating company value, cost-related reasons, global expansion. Both the unit managers and board members indicated that the reason for the restructure was mainly cost. Over half of the respondents did not indicate creating value, and only a small percentage of the respondents indicated global expansion (less than 10%). The results are presented below (Figure 4).

Figure 4. The most frequent reasons for changing the legal structure



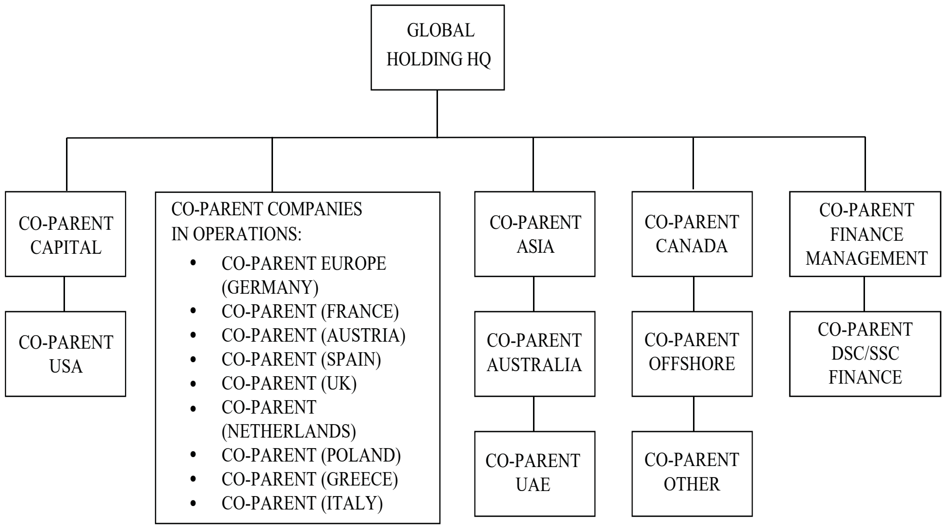
Source: own study based on research results.

Research findings

Organisation structure as a key to managing business globally

In the last 20 years, more and more global corporations have been looking for an ideal business model which would combine work efficiency with austerity measures (Doyle 2006). There is a great variety of outsourcing services where a global company could get rid of its most costly work. The outsourcing services offered by SSCs are available on many levels in operations areas such as IT, customer service, production, or those parts of the core business where a job requires repetition and efficiency from an employee. At the beginning of SSCs, the leading outsourcing model was built as a contract between two parties for a certain amount of money for a certain service to be delivered (Doyle 2006). However, this has subsequently changed. Today, it looks like more global giants are creating a co-parent company, mostly abroad, where costs of work and office space are lower (Figure 5). Services are delivered via a co-parent organisation, not only to cover basic work needs but also by hiring well-educated people, experienced in the job and who perfectly match the SSC's expectations. The services provided by the SSC affect the most crucial areas of business, such as accountancy and finance at the very top level.

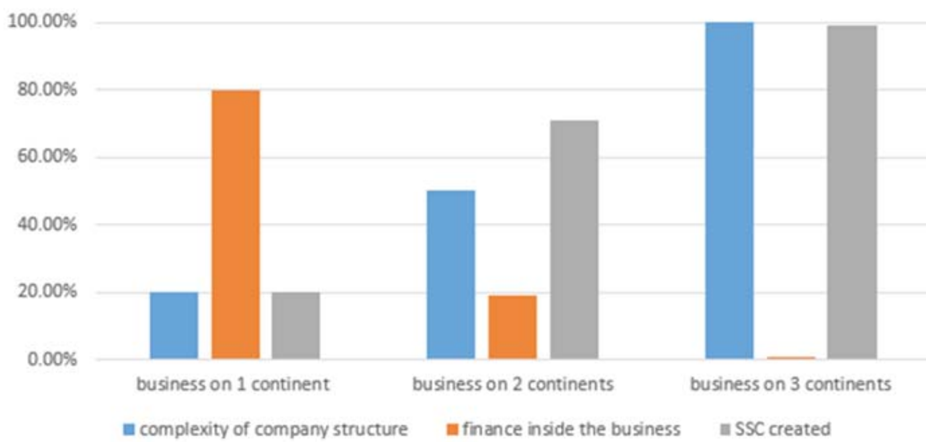
Figure 5. Complexity of the global business structure



Source: own study based on research results.

Furthermore, if the legal entities of the company keep the business on one continent, it is more likely that the financial services will stay inside the company. If the organisation spreads its business across two or more continents, getting rid of the financial services is more likely. The more global a business is, the more complex the organisational structure, so there is a significant business model difference (Figure 6).

Figure 6. Influence of company structure complexity on the business model



Source: own study based on researched results.

Establishing own SSC for finance and accountancy

By choosing a destination region for outsourcing services, global organisations combine cost-cutting with delivering the highest possible quality of services. Many world giants decided to move parts of their production to Asia or Eastern Europe, which are also famous as an outsourcing destination for IT services because of the highly-skilled, well-educated individuals who can be paid less than in Western Europe or North America. What is more, IT, like financial services, can be done remotely, even from a very different part of the world. Today, global companies register their own co-parent company in a destination country just for outsourcing services. It might be more expensive at the beginning, as opening a parent company is time-consuming and costly because of the need to:

- register the parent company according to the destination country's laws,
- find a proper transition manager to lead the service transition process, and an HR manager to manage the hiring of staff at all levels,
- find and rent offices (via property agencies) with the necessary infrastructure.

This shared services business model is initially more expensive, but it gives back many savings in the long term, which is a regular practice in financial management. Having a parent company has a unique advantage – both parties have the same aim, i.e., growing the business. What is more, both sides of the shared service contract are eager to do their best as they are part of the same global corporation. This creates a relationship as internal customers, which means that the SSC will deliver the highest possible quality and efficiency for the least amount of money for its internal, one-and-only customer (its co-parent company); it should not create any value, but match agreed costs (Marzec, Sliwa 2016).

This kind of business model gives a parent company a lot more than classic outsourcing services. Firstly, it gives total cost control, as the price between contractors is not the issue, but remaining within budget (Nowak 2009). Secondly, it gives a much greater variety of complexity in outsourcing services, and it covers the most crucial areas of operations, which are also very cost consuming, such as financial services and accounting. What is important from the management perspective is that accountancy and finance remain inside the business, makings all the data available that is needed to prepare financial statements and reports for stakeholders, with no fear of a leak (Gabrusewicz 2015). Having accountancy on board, the parent company could decide on an accountancy model which could influence some financial statement positions, such as costs qualifications (Trentowska 2018), accrued/deferred costs/income issues (Winiarska 2013) or renting/leasing issues, which have an impact on P&L and, consequently, influence financial ratios for stakeholders (Marzec, Sliwa 2016).

When running a global business, corporations have to have a similar accountancy model in the parent organisations to have comparable data for financial reporting and controlling purposes. However, there are many legal restrictions in accounting and finance, so keeping three types of financial books has become the global standard in the corporate world (Table 1).

Table 1. Accountancy principles (local, tax and IFRS)

Local Ledger	Tax Ledger	General Ledger
follows local accounting principles	follows tax principles in accounting	follows IFRS

Source: own study based on researched results.

According to the business model, books are first kept according to local accounting regulations, which might have different types of amortisations of fixed assets, for example, depending on the register country. In this Local Ledger or Sub-Ledger, all the data is booked according to local accounting regulations.

The second finance book is the Tax Ledger, where all required data is booked according to tax regulations. There are always differences between the Local Ledger and the Tax Ledger because of discrepancies in accounting and tax regulations (e.g., the rate of amortisation of fixed asset), and taxable temporary differences regularly occur in advanced accounting (Godlewska, Folta 2018). This might result in either tax accrual for future periods, because of deferred tax liability, or deferred tax assets (Winiarska 2013).

The third book, and the most important from the management board's perspective, would be the General Ledger (GL). On the one hand, it combines the previously described ledgers, but on the other, all the data booked in the GL is booked according to International Financial Reporting Standards (IRFS). Data from GL is used for Financial Reporting for stakeholder and clients globally.

Results / Conclusions

A new global business model requires registering a separate firm to deliver financial and accounting services with a cost-cutting attitude. That is why SSCs are often established overseas.

In most of the researched companies, the SSC provides financial and accounting services based on three departments: Account Payable, Account Receivable and General Ledger. The A/P and A/R departments are responsible for accurately entering data into the ERP system so that bank statements perfectly match the accounting. The GL reconciles the accounts as most of the bookings which affect the core business are in ERP systems and are done automatically with no manual input. This might cause discrepancies in thousands of automatic transactions globally; for example, foreign currency conversions for assets and liabilities need manual coordination. Some SSCs have a separate team to coordinate fixed assets only. However, it depends on what the core business of the corporation is. For example, if the firm produces engine parts and rents warehouses all over the world, it would need an inventory team to match the accounting inventory and the physical inventory. Alternatively, when a firm sells flight tickets globally, it might need an extra fixed assets team to coordinate amortisation and retiring software and equipment.

The second survey found that most global organisations are struggling in a very competitive environment on a daily basis, which makes leading a business more and more difficult. With a long-term strategy in mind, global giants reorganize their legal structure so that there are registered co-parent companies in other countries to simply make doing the business easier: improve financial management, cut costs, and keep all financial data under control with no risk of it leaking out. Evaluating the business model (from a centralised corporation with departments to several legal entities with separate operating functions) impacts the financial results and keeps stakeholders satisfied. Both research surveys (2019 and 2020) confirmed the new trend of a new business model among global companies to distinguish an organisational structure for many legal entities, especially in areas like accounting and finance, to ease management from a legal, tax and operational perspective while cutting costs at the same time.

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Streszczenie

Centra usług wspólnych jako optymalny model biznesowy dla korporacji o zasięgu globalnym

W świecie globalnych korporacji outsourcing części usług biznesowych zyskał na popularności na przestrzeni ostatnich 20 lat. W obszarze zarządzania finansami dominują ograniczenia legislacyjne, za którymi korporacje globalne bezwzględnie muszą podążać, co generuje wysokie koszty obsługi finansowo-księgowej. Wydaje się, że umiejętność zarządzania strategicznego pozwoli globalnym gigantom pozostać konkurencyjnymi pomimo rosnących regulacji, a za tym rosnących kosztów. Nowy model biznesowy jest zdeterminowany znaczącym ograniczeniem kosztów z jednej strony oraz wysoką jakością usług z zakresu finansów i księgowości z drugiej strony; co jest możliwe dzięki określonym zmianom w strukturze organizacji o globalnym zasięgu. Celem niniejszego artykułu jest wskazanie jak określony, przyjęty przez organizację model biznesowy determinuje zarządzanie korporacyjnymi finansami oraz jak powyższe wpływa na zmianę struktury organizacyjnej korporacji o zasięgu globalnym. Artykuł ten jest próbą uchwycenia nowego trendu wśród korporacji międzynarodowych, polegającego na tworzeniu prawnie odrębnych, ale powiązanych kapitałowo jednostek organizacyjnych dla celów związanych z zarządzaniem finansami i rachunkowością.

Słowa kluczowe: księgowość, finance, księga główna, globalny model biznesowy