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Selection of appropriate location for shared service unit

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ABSTRACT

This article provides an overview of shared service entities that are located in different region of the today's world. First of all, it points globalization as a main reason for creation of shared services and describes how these entities evolved during over last 20 years. Based on industry knowledge, author gives examples of various regions and explain their attributes in relation to modern business service sector, dividing them into region categories. Then, current trends in location of this type of business have been presented. It includes possibility of cost limitations by entering new management solutions (standardization of process) or robot process automatization (automatization of process). To emphasize a difference between chosen locations, the maintenance cost of shared service center in chosen location has been highlighted. For the cost comparison author has chosen only few regions, to show cost irregularities for the same type of service. Through this examples author is able to show the areas that are the most competitive in modern business service sector in current world.

***Keywords*:** globalization, shared service industry, process, cost association

1. INTRODUCTION

There is certain number of factors that have direct impact on modern organization works globally, that includes: omnipotent globalization, development of research, fourth industrial revolution (included robotics automations), wealth of society or country integrations (e.g. European Union). [Zillner, Enders, Seitz, Suffa, Lesch, 2012, p. 66] From the mentioned factors, undoubtedly the widest influence to global economy has globalization. It affects the global competition and shapes demand and supply of current products and services. Furthermore, it influences the external and internal company environment, challenges every decisions that have been made. [Obloj, 2007, p. 208-209] In the early 80's of last century, due to above factors the new concept of corporate strategy had occurred – shared service center (SSC). [Aguirre, Couto, Disher, Neilson, 1990, p. 2] This approach assumes reorganization of whole organization and adjust to new reality. On the infant stages there was no research on how it exactly influences the company cost, and only the biggest player on the market could afford these experiment. [Hammer, Champy, 1994, p. 145-147] However, very soon turned out, that it is a right strategy to implement for companies that want to compete globally. It helps to reduce administrative cost and in the same time delivers higher service quality, that give companies a fresh look from different perspective. One of the strategy that is related to SSC was business processes outsourcing that had been presented by Prahalad and Hamel in the early 90s of last century. The researchers showed that, processes do not have any physical attachment to one place, so they could be moved to any other location giving added value to the enterprise. [Prahdal and Hamel, 1990, s. 80]

The idea of SSC is to reorganize the whole company and separate key process to another entity. One of the strategy that is related to SSC is business process reengineering that for the first time had been presented by Prahalad and Hamel in the 90s of last century. Their research on the USA corporations showed that the processes are not physically attached to one place, so they could be moved to any other location what gives added value to the enterprise. [Prahdal and Hamel, 1990, s. 80]

The aim of this article is to present the idea of shared service industry and issue of selection appropriate location for this type of business. The Author gives the example of various regions dividing them based on: readiness for foreign investors, volume localization and development. The short description of their advantages is provided. These analysis present a map of global business service sector. This researches based on newest sector studies, prepared by consulting company specializing in this area. Moreover, some of the details and comments are based on the author's practice knowledge. In the end author uses a cost model presented before by Associate Business Service Leader (ABSL) organization to compere cost occurring in different locations. Choice of research location was not accidental, as the purpose of this exercise was to present difference in the cost of the same service in various regions.

2. SHARED SERVICE LOCATION

In common understanding, shared service center is a separated unit that supports organization with delivering internally basis processes. To maximize the efficiency and the quality, processes are implemented independently and they are separated from each other what created added value for organization as a whole. [Slusarczyk, Golnik 2015, p. 195]

Each company has its own arguments for the implementation of a service centre to its organisational structure. However, the final decisions concerning this type of service and their localisation need to be supported by an in-depth understanding of all questions and the analysis of well-balanced costs with the advantages of the implementation of such a solution. [Jennings, Pavukova, Appleton, Smizanska, 2014, p. 9] There are two dimensions which determine the proper way of implementing a service centre to the organisational structure of a capital groups – outer and inner ones. [Frackowiak, 2008, p.16] The former is dictated by all the factors which influence the shape of a given unit or sector. The inner dimension, on the other hand, is connected with the development of a given unit's potential "from the inside" through making a decision about new service possibilities in accordance with the strategy of a capital group. [Gupta 2013, p. 13-17]

The outer dimension can be divided into three groups: geographic, business, and financial. Each of them should be investigated as a separate issue. This means that a matrix of localisations is created and only those which cover all three areas are taken into consideration. This approach is expected to choose an optimal place in order to reduce the risk and maximise the advantages in a longer perspective. [Murphy, Knight 2009, p. 2-3] The figure 1 presents the dimensions together with the components that describe them.

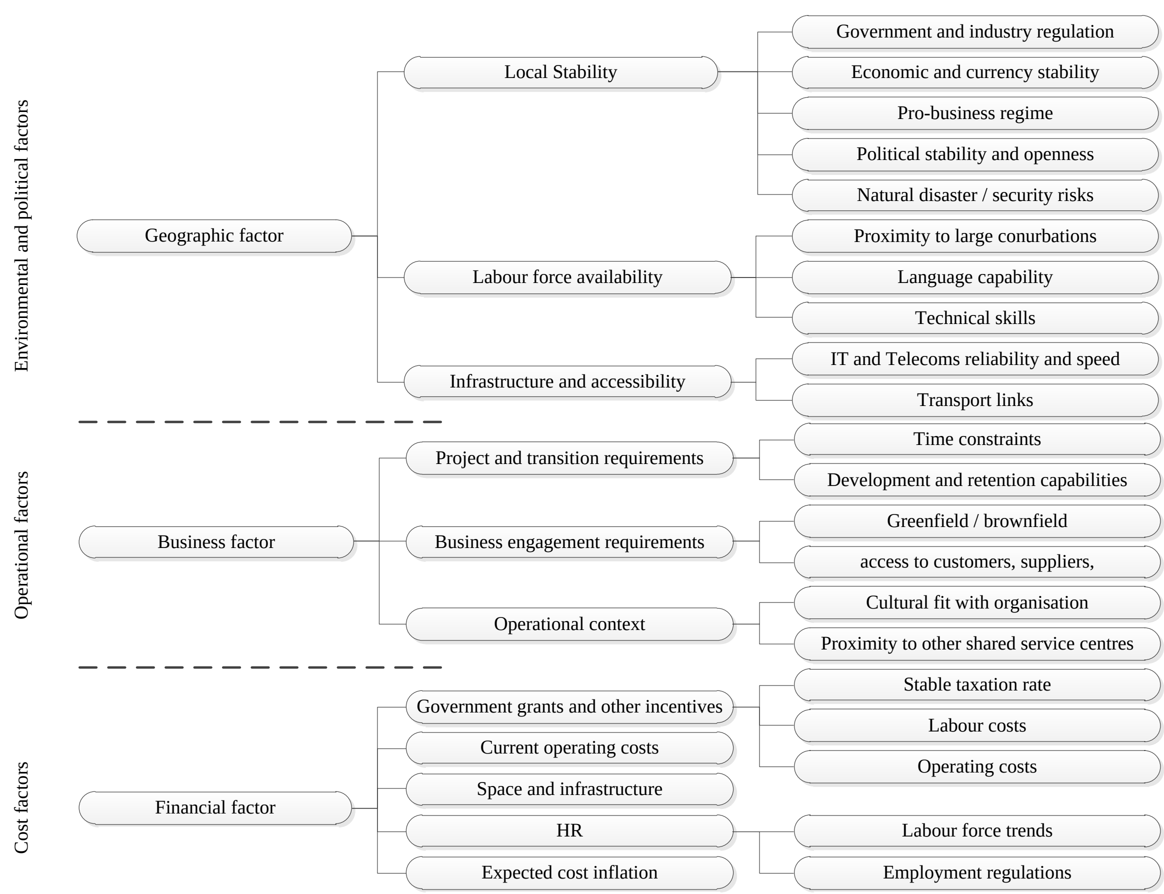

Figure 1. Affection groups in the outer surroundings
Source: Murphy, Knight 2009, p. 2

The inner factors, in turn, are related to the possibility to create added value (connected with: money, work, supplies, equipment, etc.) for the organisation through the division of processes. A chain of values created by Michael Porter at the end of 1980s is used for the analysis. Technical and organisational capabilities and market projects, which assume action sequences, are subject to the analysis. [Hill, 2011, p. 402-405] This method enables understanding of the whole collection of relations between the organisation's supplies system and the level of its dominance on the global market. The value in an organisation is related to financial resources, total income reached in a given period of time, position in relation to the competition, and quality factors (eg. booking quality, mistakes in invoices, the value of trademarks, etc.). When the processes are generated, they are analysed with regard to: the use of supplies (eg. how much FTE, what system, what time of the process delivery, etc.), costs generation (what the cost centres are), their influence on the organisation's work (whether this is a main or a support process), and whether and how the process is controlled. These factors are also taken into account when the localisation is chosen – whether appropriate supplies for the process delivery exist, whether there will be a change in the power of influence on the whole organisation, whether the costs will be restricted, and what the process control after its division will look like. [Swientozielskyj, 2015, s. 49-60]

Each world localisation has its advantages and disadvantages. It is the investor's expectations and needs that determine the choice of localisation. Table 1 presents chosen localisations and the description of their subject features.

Table 1. Modern business service sector locations and their descriptions

LOCALISATIONS	KEY FEATURES	LOCALISATION TYPES
Poland	Polish market offers a wide array of the employees skills with highly competitive prices in comparison with Western Europe. Language skills in the delivered processes are a great merit – according to the latest research there are over 40 of them. Poland is close to other European countries and the USA by means of culture and knowledge.	Dedicated localisation
Brasil	Brasil offers a big number of employees with good IT skills on the market. Its localisation close to the USA gives it a communicative advantage.	Dedicated localisation
Canada	Canada is one of the dedicated localisations for the USA and a competition for South America. Its culture is close to the North American one and there is a relatively small risk of investment location.	Dedicated localisation
Costarica	Costarica develops, being a localisation that offers very good infrastructure and bilingual specialists – English and Spanish ones. Nowadays it is one of the most frequently chosen places among American investors.	Dedicated localisation
Germany	Germany offers very well-educated human resources with technical skills and fluent foreign languages.	Dedicated localisation
Mexico	It is the closest localisation dedicated for the USA which offers IT skills and bilingual service – English and Spanish.	Dedicated localisation
The Philipines	Well-educated employees with a strong cultural attitude to USA companies service. The localisation has good infrastructure and a big amount of human capital.	Dedicated localisation

Great Britain	Local enterprises service, mainly connected with outsourcing services for outer clients. Well-educated employees and excellent infrastructure.	Dedicated localisation
The USA	The USA offer an access to a big number of employees with differentiated levels of education and skills. This is a place where part of employees are very well-educated, particularly in directions connected with management, economics, and law. However, there is also a big number of specialists without higher education.	Dedicated localisation
India	The original localisation for service centres, it is well culturally adjusted to both European countries and the USA. Very good management and expert knowledge reached on the basis of experience give the possibility to gain a scale effect.	Volume localisation
China	A market which is mature in terms of business services, with great support from the governing party. The governors' experience is being practised on various global markets.	Volume localisation
Bulgaria	Bulgaria is the cheapest localisation in the Middle-Eastern Europe in terms of the employees' salaries. It specialises mainly in IT services.	Developing localisation
The Republic of Chile	A competitive market for localisations which deliver processes in Spanish. It is characterised by good office infrastructure and stable economy.	Developing localisation
Columbia	Columbia is entering a business service market and offers low costs related to employees' salaries and office rental. On the other hand, there are many talented and motivated employees.	Developing localisation
The Republic of South Africa	This localisation ensures perfect linguistic compatibility for the countries located in the African continent. There is a stable legal system and perfect office infrastructure. It is the only outsourcing localisation in Africa.	Developing localisation
Indonesia	Very low employees and office infrastructure costs. There are many employees on the market.	Developing localisation
Sri Lanka	The localisation is characterised by high work quality, high employees efficiency, and salaries are very competitive.	Developing localisation

Source: Own studies

There is a kind of a catalogue of locations dedicated for modern business service sector in the world. Each of them offers different solutions and is dedicated for various investment needs. Author divided it into three categories: [Swientozielskyj, 2015, s. 14]

1. Dedicated localizations – they are fully adjusted to cooperation with foreign investors who want to develop their service centers. They offer very well-trained specialists with higher education and culture which is close to the matrix localization. They are not the cheapest localizations but offer the standard used for enhancing processes;
2. Developing localizations – their main feature is low costs of both the delivery of chosen processes and investment maintenance. Typical infrastructure will be of lower standard than in the dedicated localizations and human resources will be less trained.

3. Volume localizations – offer a big number of well-educated employees in different specializations. The costs are usually low since there is a wide range of economic zones which offer special entrance conditions. Productivity is very high and work is delivered 24/7. The only problems may be related to the quality of the delivered processes and very differentiated organizational culture.

The choice of the final place is a long and complicated process which is connected with another assessment of the enterprise from the inside and determining the processes which could be allocated to the outside. It also requires the knowledge of outer factors which may have a significant influence on the quality of the delivered processes, and they, in turn, on the future shape of the whole enterprise. The most repetitive values driven location are: low cost locations and special economic zone, vest pool of skilled people, good and the newest office infrastructure, low training cost, etc. Each location has a certain number of advantages and disadvantages. It can observed, for example in developing locations, that the cost reduction is the significant driver, but infrastructure can be poorer or workforce could be less educated. That is why organization which decided to implement shared service model has to weigh up disadvantages against the cost saving.

3. COST ASSOCIATED WITH SHARED SERVICE

Shared service entities are practical solution to the longstanding need of controlling cost in competitive environment. This is a global strategy that initially was pointed to significantly reduce administration cost within capital group. However, very soon it has been proved that it is just a first level of added value this structure brings to the organization. This cost reduction mainly is related to employee expenses and their wages. This is a main reason for moving processes to lower cost location, and it depends on choice of the region. Company can reduce administrational cost from 20% to even up to 70%. It gives unique opportunity to limit company cost and in the same time not losing quality of process. Most of the global companies, grow throughout margin and acquisition, buying a smaller company to enter the new market or sector. As research shows it is the quickest strategy to penetrate and to become a leader in particular area. [Steens 2011, s. 16] Although it is the fastest way to succeed, this solution has a lot of disadvantages. One that usually remains unresolved, is a different systems, approaches and management model. Despite that new entity is included into capital group, still working as a separate unit, without common strategy. It is very difficult to standardize processes that are spread in different part of the world, without understanding theirs operating specifics. By implementing the SSC, processes are located in one place, what greatly facilitates the work of their creation. This is the way of correcting all process qualities in the same time by using management tools (lean, constant improvement methodology, etc.), what contributes to administration cost reduction by another 20%-30%. The last category, that especially in recent times has been implemented to service center, is robot process automatization (RPA). The phenomenon of process automation in transnational corporations is not new. However, it is commonly associated with heavy industry or factories, where we deal with a physical robot as an integral part of a production line which does process operations during product complementation on its own. Those robots widely replace a human at operations which are harmful for health or out of human physical skills reach. In services, RPA concerns software which can be directed to perform specific tasks. This application replicates human operations on the basis of the user's interface and computer system being used. Automation involves many different segments: task robots, intelligent robots, natural language conversion or artificial intelligence. The most frequently used robots in services are those which fulfill the tasks of a given process. New technology gives an unique opportunity to replace repetitive activities by software that is able to deliver the same task for 24/7. In the same time, people can be relocated to task that gives added value to customer. It is estimated, that automatization can also reduce cost by 20%-30%. [Steens 2011, p. 16] Figure 2 presents the reduction in administrative costs along with introduction of particular solutions.

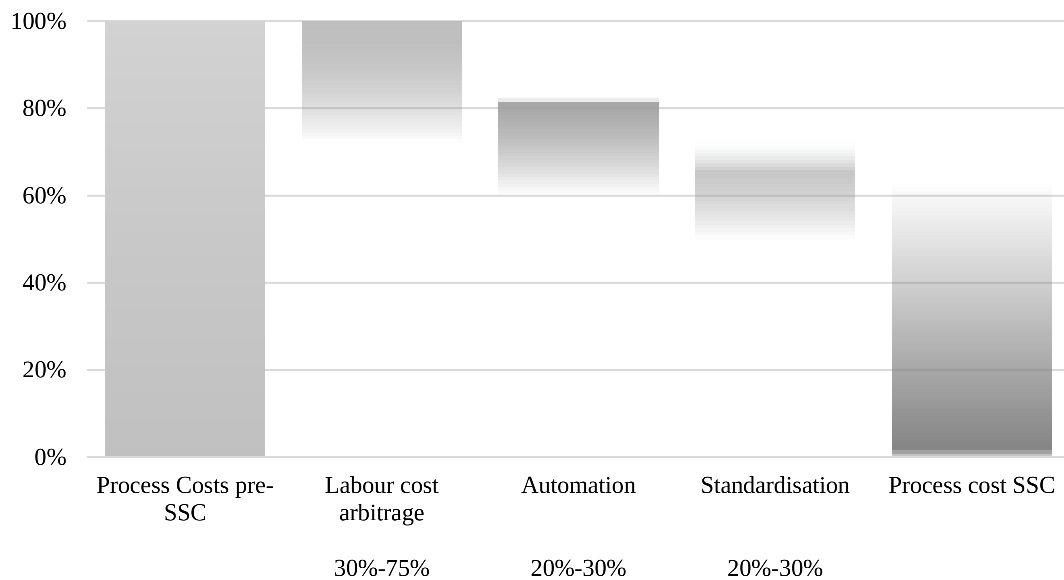

Figure 2. Cost reduction by implementing shared service
Source: Own studies based on: Steens 2011, p. 16

As it has been proved, relocating processes to low cost location can significantly reduce administration cost within capital group. Nevertheless, costs of shared services itself always occur and most preferable depends on chosen location. The percentage cost distribution inside a SSC will always look very similar. Figure 3 presents the brake down between the most significant cost centers.

Because of shared service industry which is strictly related to given services, the value of the project is associated with labor pool. According to different sources it takes from 65%-75% of organization costs and is related to salaries and other non-wages benefits (private health care, sport activities and etc.). Around 12% of all cost is absorbed by rent of office space. It is very rare that company decides to build their own office. Rather they choose long-term rental area, which is adapted to the sector of modern business services. Then, 10% of cost is spent on administrative overhead, and mostly is related to administration function (HR, Finance, Service Delivery, IT). It is important to distinguish types of processes. The original administrative processes, that are moved to SSC, become operational. Apart from that, each SSC needs its own enabling function to maintain the service center. The last category that can be separated as one category is related to IT, and takes around 7% of SSC cost. [Górecki, Jamioł, Jasińska, Karpiński, Klecha, Micek, Polkowski 2014, s. 29] All shared service industries base on hardware and software, which are necessary to deliver daily task. Technology enable to deliver service process from any place on earth, only if there is a constant access to network and current supply. IT support provides necessary action to guaranty that this connection will be always available.

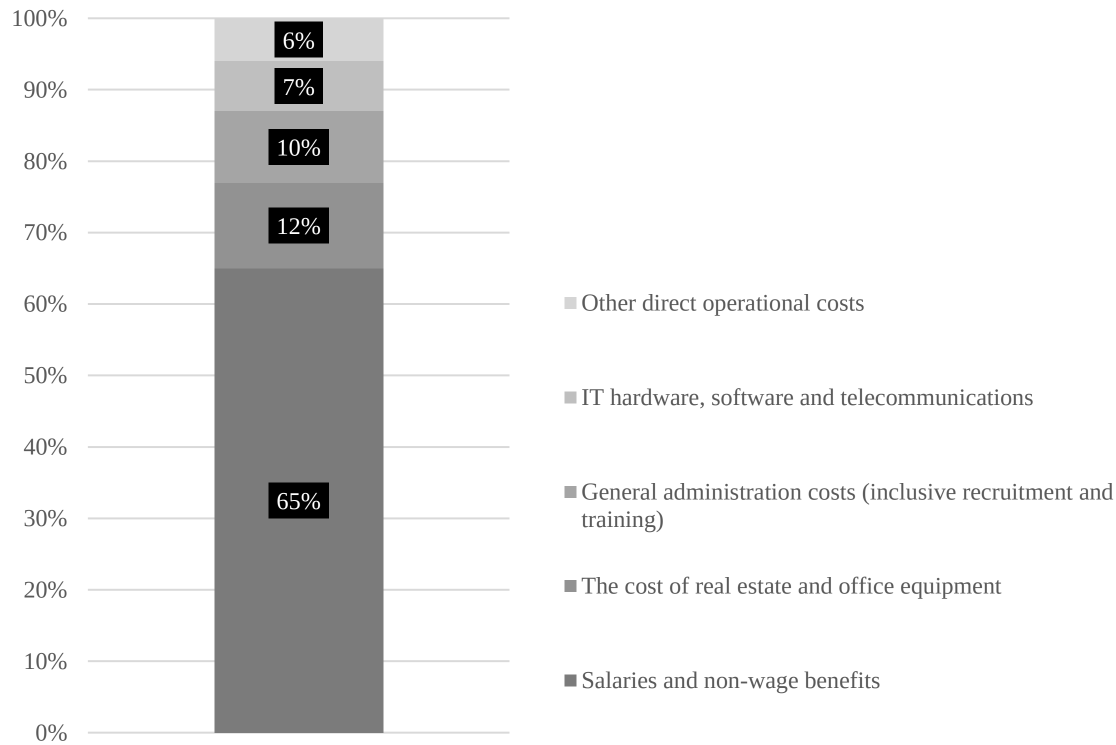

Figure 3. Maintenance cost of shared service entity
Source: Own studies based on: Górecki, Jamioł, Jasińska, Karpiński, Klecha, Micek, Polkowski 2014, s. 29

Table 2. Country divided into particular area

Dedicated localisation	Developing localisation	Volume localisation
Eastern Europe, USA, Poland	Czech Republic, Hungary, Bulgaria, Romania	India
Eastern Europe and USA are locations designated to nearshoring. Most of companies seek opportunities out of the main cities, to save on the operating cost. Poland is one of the most preferred locations for SSC investment in the world. According to the Global Report Tholons of 2016, studied trends of SSC, there are three cities in Poland that year after year	Popular location within the CEE. Each country has unique inside skills and has been chosen for various reasons. Czech Republic is a small country and the workforce is limited but very well educated in several fields. Hungary is similar to Poland but unfortunately there are less universities and people educated in appropriate field of studies. What is more, the infrastructure is poorer and real	India is one of the cheapest locations for shared services investment. The good service adjusted to any cultures is guaranteed. As it was initial location, the workforce have appropriate working experience with foreigners. Also there is a lot of young people who get their first job abroad what gives them unique market skills.

increase their position (Krakow 9th place, Warsaw 25th place, Wroclaw (58th place) [Tholon 2016, p. 2-6]	estate is developing. Bulgaria and Romania are the cheapest locations in CEE, and investments are made only in their capital cities. Infrastructure is poorer than in other countries but they are specialized in IT and people are educated in this area. Also, they have easy access (geographically and cartulary) to Middle East but they are much safer than mentioned region.	
Average yearly cost: 105 kUSD	**Average yearly cost: 62 kUSD**	**Average yearly cost: 27 kUSD**

Source: Own studies

Below examinations present yearly average cost of Shared Services Entity per one FTE (full time employee) in chosen area. To show the real impact of cost limitation, the following regions have been chosen: Western Europe Countries, United States of America, India, Romania, Bulgaria, Hungary, Poland and Czech Republic. This distension can be divided into three areas, that has been presented in the table 2. Below is presented the assignment to appropriate category which is subjective and could be changed in terms of examination of different region features.

Figure 4 presents average yearly cost of shares services divided into different categories. The rates may vary from current one as original cost of particular region has been presented in different currency without division into presented category. Furthermore, the cost of particular area is based on years 2015-2017. The current rate does not influence cost relation between mentioned regions.

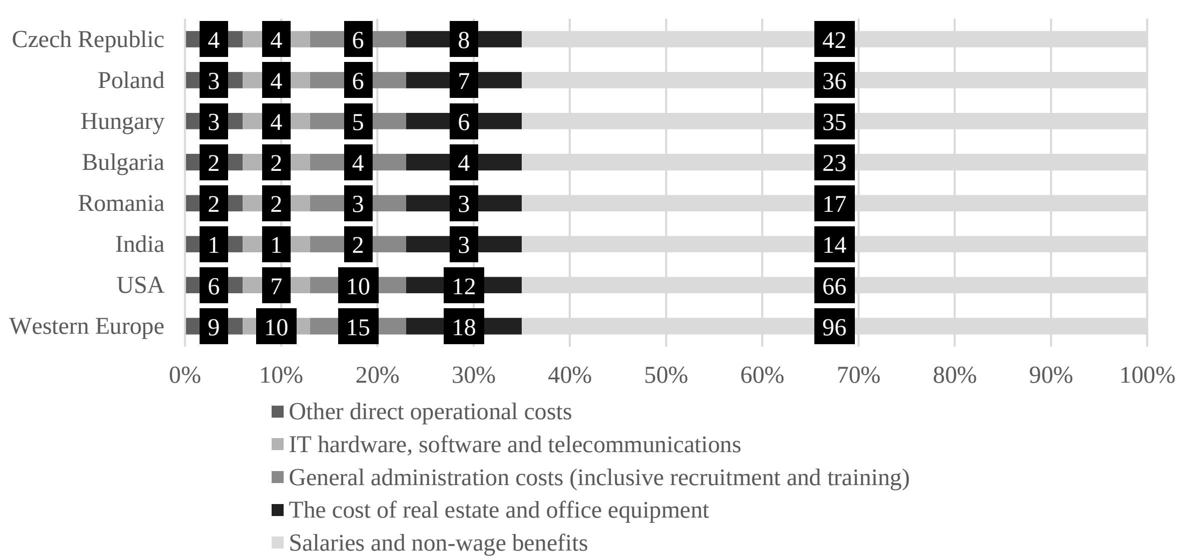

Figure 4. Average of yearly cost of Shared Services Entity per one FTE (KUSD)
Source: Own studies

We can observe that, there is a significant difference between India and Western Europe or US. In total, the cost difference amounted to 122 KUSD in case of European countries and 73 KUSD in case of US, that is vest saving for companies which have located their businesses in India. Of course there are advantages and disadvantages of this solution, and the location depends on internal strategy. Moreover, similar differences appear when Western Europe or USA is compered to CEE. It will not be as drastically various as in case of India but there is enough savings to consider investing in this region.

On the other hand, comparing service rate within countries located in CEE, substantial differences could be as well distinguished. Currently, Poland is the most often chosen as a preferred location for shared service centers. [Ślusarczyk, Kot 2012a p. 135] Costs oscillate around 65 KUSD per year and are much lower than in WE or US and even from countries like Hungary and Czech Republic (different respectively: 13 KUSA and 15 KUSA. Romania and Bulgaria remain at the same cost level (average 45 KUSD). Compering this to Poland, there is a difference that is amounted to 20 KUSD what makes this countries the cheapest in ECC. The gap does not seem to be that large if we take into consideration attributes that these location offer. [Górecki, Gurszyńska, Karpiesiuk, Polkowsk 2016, p. 7-12] [Ślusarczyk, Kot 2012a p. 44-47] Bulgaria and Romania are associated with IT skills and European Hab for Middle East. Poland, however has a highly skilled people who have unique language skills and close approach to the North and West culture.

4. CONCLUSIONS

So far, there is no better and complex solution to reduce cost and increase quality than shared service center. There are many locations that guarantee is assumption. Cost of particular location is certainly one of the most important factor but not the only one. Targeted location is adjusted to company needs, and will depend on: skilled workforce, appropriate language, volume, closeness of parent companies, etc. Besides, volume location (related to people and processes) like Asian countries, there is a place in Europe where costs are much lower than in other developed locations, but offered service gives sense of security. As it is shown by recent reports the greatest location for discussed entity becomes Central and Eastern Europe. As it was shown in this research, depending on the CEE country, cost can be 45%-70% below this in Western Europe (eg. France, Germany or UK). Service provided from CEE region (European Time Zone) gives additional communication advantages as it is only 7 hours ahead from East Cost of United State and 10 hours ahead from India. As a center of CEE, author distinguished Poland that in the recent time becomes the most preferred location by international investors due to following advantages: economic stability, strategical location in the middle of Europe, very well educated labor, lower working and infrastructure costs, excellent communicational solution, good life conditions and governance attitude.

Unfortunately, author notices also some disadvantages that can limit appearance of SSC globally. First of all, the labor cost has been increasing, together with acquaint more and more international investment. As this is main factor that has been reducing, it could induce global companies to withdraw investment to cheaper location in the near future. This will certainly affect the quality of the services offered. Another factor is related to technology and introducing RPA. It gives an opportunity to optimize process without human factor. So, the service center will not be needed anymore, as processes optimization will take place directly in original entities.

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