TRENDS IN THE OUTSOURCING OF FINANCIAL SERVICES[1]

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Trendy v outsourcingu finančných služieb

Abstract: *Current developments and globalisation trends in the economy and finance result in increasing the level of risk that affect the internal and external environment of the enterprise. In order to remain competitive, the company must learn to identify and manage the risks that affect the prosperity and effectiveness of all of its activities. The development of the business environment has resulted in the building of business service centres. The shared services centres (SSC) seek to achieve more efficient processes and cost savings. The shared services centres are entities responsible for the execution and the handling of specific operational tasks, such as accounting, human resources, payroll, IT, legal, compliance, purchasing, and security. SSCs have developed from performing routine operational activities into intellectually demanding functions with higher demands for professional skills and experience. This paper explores benefits and risks of shared services centres as parts of corporate financial management. Benefits and risks have been studied in a concrete multinational company. The analysis focused on trade liabilities (purchases of inputs from suppliers).*

Keywords: *shared service centres, outsourcing, risk management, accounting, financial statement, accounts payable*

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Introduction

In the second half of the eighties of the last century, multinational corporations began to establish first shared service centres in Europe. The Shared Services Centre carries out specific internal processes aimed at reducing costs (such as financial services and accounting, IT support services in human resources) to support key activities of parent companies and subsidiaries or affiliations. Shared services centres have undergone their natural evolution, and gradually become an important segment, which forms an indispensable part of their parent company [1, 5]. In their early days, they were mainly devoted to finance and accounting, and performed only simple transactions, operational and routine activities without much value added [12]. But they have gradually redesigned to intellectually demanding functions with higher demands for professional skills and experience. Comprehensive activities, processes and not least so called property in the standardisation processes have been centralised in shared services centres.

Table 1

Development phases of shared services centres

Development phases	Indication	Description of the development stage
Phase 1	start-up	There are simple and mainly manually intensive processes with a low level of standardization moving into the shared centres – it is used especially by companies with a simple organizational structure.
Phase 2	growth	Shared services centre has established standardised processes; they are gradually beginning to implement control processes and tools to support customer service.
Phase 3	expansion	In addition to internal and external clients, the shared services centre, has automated business processes, established system of control processes, training and continuing education of employees; it has implemented standard enterprise IT systems and operational risk management, addressing the effectiveness of setting processes.
Phase 4 (second generation)	excellence centre	Shared services centre is already acting as a sovereign organization that generates revenue, provides highly professional, technical and strategic services for internal and external customers.

Source: Processed by PricewaterhouseCoopers methodology [9].

Globalisation is a process in which either man, trade, investment, information or market crosses the border of one state and gradually phase out the related restrictions. Modern trends in the context of globalisation are also changes in ownership transactions. Their continued growth and needs are essential for maintaining competitiveness [8]. Globalisation thus does not only increase trade in goods, products and shifting manufacturing to lower-cost countries, but also brings a dynamic development of the sector of tradable services.

Nowadays, there are already implemented purchases of inputs (materials, tools, and equipment), call centres, IT services, science and research through shared service centres. They have become centres of the second generation at the level of business partnership with parent concerns. Trading companies worldwide invest a lot of effort to increase efficiency in particular, their financial departments (such as accounting, treasury department). Transfer of processes outside their home country helps multinational corporations to increase their competitiveness, especially in cost savings and the effectiveness of each activity [13] or [6]. Among the attractive "off-shore" locations include India, Philippines, China, Costa Rica, Brazil, Mexico and others. In Europe the most attractive countries include Ireland, Poland, the Czech Republic but also Slovakia.

On the other hand, governments of the countries have started to develop a legislative pressure on multinational corporations and started to increasingly mention the question of "returning home", the so-called onshoring. The reason is that globalisation tendencies of these companies beyond one country are getting out rigorous regulation and control of the party by the state itself. On-shoring starts to be actively supported in the US and Canada through various tax and subsidy incentives because in many cases off-shoring and outsourcing have not met the expectations of multinational corporations, or their significance in terms of provided benefits and work efficiency in the last ten years have changed [4].

1 Outsourcing Services in Slovakia

The first shared services centres of multinational corporations in Slovakia were established fifteen years ago, when these multinational corporations started to move their "back-office" activities of their Western headquarters to Eastern Europe. They are mainly subsidiaries of multinational corporations, whose pressure on profitability and the need to increase the efficiency of processes have led to centralisation of their activities to locations outside their headquarters and production base. Investors choose Slovakia especially for low wage costs, educated, flexible and language equipped workforce with good work habits, the location and level of infrastructure development, and not least for the stable political environment.

In Slovakia, there are already own operational centres, as transnational corporations such as IBM, Dell, Hewlett-Packard, Accenture, Lenovo, AT&T, NESS and others. There are two categories of business service providers: shared services centres and business process outsourcing, where some processes are fully committed to third parties (specialized supplier). Business Service Centre Forum brings together companies that operate Shared Services Centres in Slovakia or provide external services (outsourcing). Most of these shared service centres are located mainly in Bratislava and Košice.

According to the analysis [3] in Slovakia, there are in most cases shared advanced centres that provide value-added services and provide complex processes for their plants operating in the wider regional or global space. The most common functions according to the survey [9], have been the services in the finance and human resources that have been concentrated within shared services centres. In 2014, Business Service Centre Forum conducted research services, which examined what services were most often provided by the centres, in particular, Financial Services and Accounting (89%), IT services (68%), customer service (63%), human resources (52%), sale and orders processing (47%), purchase (42%) and others (10%).

In Slovakia, there are mostly shared services centres in the third development phase of "expansion" with a high ambition to move into the fourth phase of "excellence". At this phase, shared services centres should ensure the provision of services with the highest added value. The centres currently provide their clients with increasingly sophisticated services and therefore demands on staff working in the centres are growing, not only for their language skills, but also soft skills such as communication, teamwork and presentation. As technology evolves, several activities are automated, thereby reducing the share of manual work and also in the activities carried out in the shared services centres. A number of activities are carried out routinely and regularly; therefore, they are part of the so-called computerized accounting. All events in the company are ultimately reflected in the accounting operations and transactions. Reality captured in the accounting transactions are subsequently recognised in the financial statements that the company presents itself mainly in the external environment (i.e. user).

In today's globalised world, quality information provided at the time, is becoming the most important source for sound decision making and strategic direction of the company. Bookkeeping is an important part of the information system and quality information is currently the largest source of wealth. The role of accounting is not only to provide the information that a transaction has been conducted, alternatively, what was its impact on the financial position and economic results of the company but also prepare the information that enables company management to take decisions for the future, and at the same time re-assess the efficiency with which those decisions have been implemented. So that accounting can meet all the requirements that are placed on it, it is necessary to properly set "debug" the accounting information system and adapt to the needs of a particular company, so that these data meet the required quality characteristics (to be understandable, relevant, reliable, comparable, and provided in time). Accounting thus provides various types of outputs in the form of numerical reports, analysis and reporting for both internal and external needs, for a wide range of users and serve different purposes. Truthfulness of the information forms the basis of financial accounting. The effect of globalisation is a deepening of international economic relations and the growing need for comparability of economic information in the form of financial statements [7].

The financial statement as a major quantifiable output from the accounts of the company is an important source of information to establish economic situation and financial health, in order to ensure its future growth. The financial statements are the basis for financial analysis, which aim to provide owners (investors) and management with relevant information for strategic planning, decision making and financial management. Requirements of investors focus on the risks associated with their current or future investment in the company and the return on the investments. Investors expect from financial statements their quality standards, i.e. it contains significant, reliable and complete information that is useful for their decision making and thereby gives a true and fair view of the company. Management responsibility is to ensure the fulfilment of this objective, financial statements, fulfilment of basic assumptions valid in accounting and compliance with generally accepted accounting principles [11]. In our opinion, there are three basic elements that affect the quality of information presented in the financial statements, namely people (labour), tools (ensuring the automation and enterprise software) and processes (i.e. changes that should reduce variability or automate and modernise each operation).

In the course of automating the processes, which stand for routine operations in the form of accounting operations, individual routine operations are programmed, and thus are performed with a minimum human intervention (for instance, by an accountant or biller).

Through shared services centres many companies have standardised accounting and financial processes in single operational indicators, data, reports on the interpretation of results, uniform chart of accounts, a unified set of systems for accounting, in order to process huge amounts of data and provide relevant information and subsequently also present them in the financial statements of the company.

2 Advantages and Disadvantages of Outsourcing

Shared services centres provide their activities mostly founding of the parent company and other entities within the organisational structure of multinational corporations. These services are usually provided across regions such as Europe, Middle East and Africa, Asia, Pacific, and the regions of North and Latin America. The very structure and organization of services and processes depends on the needs of the parent company and the market demand in the country. For example, there is an international trading company XY, which actually operates in ten countries around the world. In each of them, it has its branch, which among other things also employs people in charge of accounting. Some branches are so small that they only employ a part-time accountant, which may cause considerable problems with substitutability of its employee. Despite the fact that the parent company is trying to establish uniform rules of accounting for all branches, each branch can be adapted to them with respect to the local (national) legislation. So, there are branches where rules are respected but also branches where the rules are complied with only in part, and vice versa, affiliates that introduce even stricter rules than the one requested by the parent company. This creates a broad spectrum of risks arising from the compliance with global versus local rules. If the parent company decides to create a shared services centre and therefore share accounting as one of the main processes, it will mean that the accounting for all branches will be centralised in one place in the selected country. This step can bring a number of benefits of the parent company but also a number of disadvantages in relation to the provision of quality information from all branches, their timeliness, accessibility, clarity, and completeness.

Shared services centres, based on the so-called SLA (Service Level Agreement), guarantee services in the required quality and scope, based on the specific needs and requirements of the parent company. On the other hand, the parent company can also meet with a number of problems especially if the SLA is not sufficiently implemented in practice. The main reason is the lack of setting core values (e.g. establishment of the order to each invoice or timely payment of invoices), the lack of defined processes (e.g. regular cleaning of the balance of advance payments), and the lack of involvement of human resources (e.g. unskilled labour for certain professions).

This increases some of the major types of business risks:

- Strategic risk (i.e. inability to respond flexibly to market requirements, the high competition in the field of business, mergers, acquisitions);
- Operational risk (e.g. the quality of service, information technology, changes in legislation, natural disasters);
- Financial risk (e.g. liquidity, profitability, credit, cost) and
- Non-compliance risk (e.g. different fiscal policy and financial legislation). The result of non-compliance risk can be a financial transaction (conducted in any country under the same rules and the same way), but without taking into account local regulatory requirements, as it is processed in standardized manner, according to the rules of the concern.

These risks affect the quality and comparability of the information presented in the financial statements. Eliminating and managing those risks is a complex process that requires high-quality and timely information, sophisticated methods and techniques, as individual risks are closely intertwined.

The advantage of shared services centres is primarily a saving of personnel costs, including job costs and necessary overhead costs. Cost-cutting is considered the most sophisticated advantage. Another advantage is that shared services centre can easier to solve the problem of representation and training of employees. Productivity of labour and specialisation of activities in shared services centres is high; also flexibility in the system and automatic setup of reporting is the usual standard. The advantage is also a uniform, enterprise-wide system platform, i.e. the same

ERP system (Enterprise Resource Planning) and optimisation of processes that can be provided with fewer employees in a predefined standard quality. Dividing the process into smaller units can achieve greater automation, timely processing and in particular the elimination of human errors. Since the entire process is centralised, shared services centre provides the same quality of services supplied to all branches without limitation of localisation. Another advantage is also easier control and setting the process. In the absence of broader responsibility for the whole process, it is possible to employ a less skilled workforce that is able to learn and serve their narrowly defined scope of work (routine) due to standardized processes and outputs.

On the other hand, the gaps of shared services centres are reduced qualification requirements for personnel as it is not necessary to master accounting and tax issues because an item is only routinely selected from a preset systems and databases using the manual of individual activities. This increases the risk of errors of assessment mainly tax and non-tax expenses for the determination of income, which may have the effect of reducing the quality of information presented in the financial statements and business tax return. Reduced qualification requirements of employees (e.g. accountant) can be negatively reflected in his inability to flexibly and competently identify and then deal with unusual situations that are found in every business. Risk fulfilment can mean significant financial losses for the parent company if the employee is not able to properly assess and deal with the situation in all mutual relations. Another disadvantage is that standardised processes have been defined primarily for the needs of multinational corporations (parent company). Standardisation itself is a narrowing of the space for flexibility and ad hoc requirements.

The absence of comprehensive knowledge and skills, due to the narrow specialisation, calls for the compensation of so called coordinators with a broader "end to end" knowledge and can successfully response for the quality of the output and the satisfaction of a global company [2]. It requires increased discipline and rigor in the supply of inputs from individual branches because inaccuracies or incomplete entries may not be properly recognised and processed and thus information presented in the financial statements of the parent company may be distorted. Finally, the numbers of processes centralised into shared services centres have the interaction with the external world, and therefore communication is necessary in a non-local language, thereby increasing the incidence of some of these commercial risks.

3 Conclusions

Current development and globalisation trends in the economy and finance have the effect of increasing the level of risk that affects the internal and external environment of the company. A degree of risk also arises in shared services centres that are particularly established by transnational corporations. If the multinational corporation decides to establish a shared services centre, and thus share accounting as one of the main processes, it must realise that this step may bring its affiliates many advantages but also many disadvantages including in relation to the provision of quality information, timeliness, accessibility, clarity and completeness. The national corporation and its subsidiaries must therefore learn to identify and manage the risks that affect the prosperity and effectiveness of all its activities. An instrument to counter this trend is the implementation of effective risk management, internal control system, and internal audit to achieve integrated management of business risks. In order for this strategy to be successful, it is necessary to build a quality information entity system, established control mechanisms using modern IT technology.

The most important benefits of outsourcing include:

- savings in staff and operating costs;
- standardisation and streamlining business processes;
- prompt implementation of changes;
- reduce the time of implementation services;
- narrow specialisation and professionalism;
- easier control of the process itself;
- more efficient use of investment costs;
- easier control of individual procedures and processes.

Analysis of the advantages and disadvantages has been carried out in a particular multinational company XY (service recipient), where the area of commitments has been investigated, namely trade payables. XY studied entity is a Swedish-Swiss multinational corporation headquartered in Zürich, Switzerland, operating mainly in robotics and the power and automation technology areas. XY is one of the largest engineering companies as well as one of the largest conglomerates in the world, and it has operations in around one-hundred countries. XY is multinational company where it is performed this liability system throughout consortium in the accounting software SAP R/3 [10], abbreviated as "SAP", which is the name of ERP system.

Table 2a

Accounts payable

Receiving, scanning, approval and posting invoices				
Type of service	Responsibilities of shared services centres (services supplier)	Date	Responsibilities of customer (services receiver)	Date
1) Purchase and receiving inputs into store	- in a standardised manner, no action is required when the need arises for consultation, the service provider is ready to cooperate	continuously	- create an application form for purchase - create an order in SAP system and send it to the supplier - bill of the material entry, goods for storage after delivery	two days

Source: Own survey.

Advantage: uniform processing across the entire group, establishment of uniform material items in the SAP system, an overview of suppliers' ability to rely on multinational suppliers for the purchase of the same items throughout the entire group and thus be able to influence (optimize) the price of inputs, simplified control of the entire process of purchasing a single setting process control, and unified reporting and process efficiency.

Disadvantage: different standards of living in the country has a local effect on the price of inputs, i.e. countries with lower living standards (Branch Office) can have lower prices, as the country selected for the group could purchase a uniform for all branches. Redefining the risk of incorrect entries in the ERP system, misclassification for the needs of local accounting and taxes (check of the factual and formal correctness of documents).

Table 2b

Type of service	Responsibilities of shared services centres (services supplier)	Date	Responsibilities of customer (services receiver)	Date
2) Receipt of invoices for the purchase of inputs	- incoming invoices for the service provider scanned and placed into SAP - service provider requires absence of invoices from suppliers of inputs	one day	- no interaction is required	-

Source: Own survey.

Advantage: unless the invoice from the vendor (delivery subject, quantity, unit price) equals orders submitted and approved in SAP system (subject to order, quantity, unit price), the invoice will be billed automatically to the order without further substantive approval, as substantive approval is already reported in SAP when the order is created. Automatically reckoning eliminates operational risk, risk of human error and accelerates the process of circulation of bills at the branch XY.

Disadvantage: invoices received from suppliers are not sent to the registered office of the branch, but the mailing address (place) where all received invoices for all branches of the group are scanned from one place into the SAP system. All invoices are archived in an electronic form outside the branch. The risk for the office is that archiving documents may not be consistent with archiving policy of the concern and in accordance with the legislation in force in the country of the branch. Further, the risk of incomplete documents (loss of invoices) increases, and this is associated with the risk of late payment by the supplier of inputs. This risk is linked with the risk of incorrect recognition of the needs of monthly accounts, paying taxes, and so on. Finally, the risk of awards increases, i.e. in relation to the correct calculation of the cost of entry.

Table 2c

Type of service	Responsibilities of shared services centres (services supplier)	Date	Responsibilities of customer (services receiver)	Date
3) Treatment of invoices for the input purchase	- automatically pair and charge invoices with purchase orders (invoice = order) - before posting send invoices without a purchase order for approval - before posting send invoices for approval (invoice is not equal to order)	two days one day after identifying an approver	- deal with exceptions - approve invoices without purchase orders - approve invoices with order (invoice is not equal to order)	five days five days

Source: Own survey.

Advantage: uniform chart of accounts, joint accounts and billing setting rules, online automatic posting invoices.

Disadvantage: Billing invoices without supporting documentation, failure to assemble documents; information on the carrying case are archived in different places, treatment of invoices without correctly identifying ancillary costs that increase cost and thus false accounting and tax assessment. Another risk is that often in practice contract conditions are subsequently changed (e.g. place of delivery, extension of the scope of delivery of the services provided, etc.) which is poorly recorded, and when automatically posting the invoice it may lead to erroneous assessment of the accounting and tax point of view of the supply of inputs. Reduced eligibility requirements for an employee (accountant) can be negatively reflected in his inability to flexibly and competently identify and then deal with unusual situations that occur in every business, and thus optimally assess the situation in all its complexity.

Table 2d

Type of service	Responsibilities of shared services centres (services supplier)	Date	Responsibilities of customer (services receiver)	Date
4) Payment processing – invoices payment	- make a list of payments - make payments	once a week	- it does not require any interaction	-

Source: Own survey.

Advantage: unified system of automatic setup of invoices payment in specific terms; elimination of operational risk and human error.

Disadvantage: Invoice payment is not in accordance with the payment terms concluded in the contract (orders), which has a negative impact on cash flow. Another risk is the failure to consider restraint already in the treatment of invoices, which is initially stipulated in the contract as it is not always indicated on the invoice (this increases the risk of transposition entry with unfinished and the purchaser position is getting more difficult to claim the goods supplied).

Table 2e

Type of service	Responsibilities of shared services centres (services supplier)	Date	Responsibilities of customer (services receiver)	Date
5) Other activities	- billing the formation of reserves and unbilled supplies and their reversals - perform reconciliation of accounts, and the book inventory - responding to inquiries - store and archive records	once a month once a year one day in a year	- continuous checking and cleaning acquisition accounts, balance of payables and prepayments	once a month according to the schedule of financial statements

Source: Own survey.

Advantage: automatic processing of single output; ensuring ongoing documentation to the financial statements.

Disadvantage: failure to identify all items on the formation of reserves; incomplete documents for the proper fulfilment of tax obligations;

recordings storage and archiving (without specifying how, where, and the length of the period).

Summary

Shared service centres have undergone their natural evolution. SSC has become an important segment of complete centralization of activities and processes and have become an indispensable part of their parent companies. Shared centres services have been reworked from operational and routine activities to intellectually demanding functions with higher demands for professional skills and experience. This paper analyzes the current situation in the centres and examines the requests of centres for qualified workforce. The aim of this study was to analyze the selected processes carried out in the SSC. This analysis was conducted in the company XY and it examined the benefits and risks of shared service centres as part of corporate financial management. Benefits and risks were studied in a concrete multinational company. The analysis focused on trade liabilities (purchases of inputs from suppliers). Individual conclusions are summarised directly below the tables describing individual processes.

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