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Specific Business Models for Romanian Companies - Shared Services

Ioan Petrişor, Diana Cozmiuc*

West University of Timişoara, Blvd. Vasile Parvan, Timişoara 300223

Abstract

Shared service centers have emerged since the 1990s and refer to a variety of functions: information technology, SAP support, accounting, payroll, management reporting, purchasing, call centers, help lines, 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 a wider 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, and 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 favorable location. These are the two arguments in favor 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.

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Keywords: management accounting; transfer price; allocations; shared services; business process outsourcing

* Diana Claudia Cozmiuc. Tel.: +4-0744-395698.
E-mail address: diana.cozmiuc.record@gmail.com

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The goal of this research is to analyze value patterns that are different from market driven financial statements. A wider research on value based management includes analyzes about intra-corporate activity, and aims to describe value patterns that are specific for intra-corporate activity, be it production, research and development, or support functions. For the purpose of 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, which manufactures 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 units have the corporation as owner. In place of consumer markets, they have the corporate customer and the corporation as a whole. Their logic is highly different from that of the whole corporation, and the purpose of this article is to describe the specific logic of shared service units and their specific value pattern. Evidence shows shared service providers exist in Romania. Romania as location 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 evidencing value based management patterns, this evidence is only used to exemplify the specific business model. A study on outsourcing would take the same issue to a further step.

This research begins with defining shared services and providing an overview about them. 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.

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 center 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 center 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 involve 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 center (Ernst and Young, 2014). Generally, shared services cover information technology, SAP support, accounting, payroll, management reporting, purchasing, call centers, help lines, market surveys via phone or the internet. The shared service center 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, the key performance indicators that measure these services, such as quality, time, and the payment for each order.

Shared services may be managed according to transfer price or according to allocations or both. Shared services may consist in 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