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OUTSOURCING VS. SHARED SERVICES MODEL

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Summary: Outsourcing is one of the most popular phenomenon in today's global economy. It can be defined as handing over some processes or services to an external company. In contrast shared services model is based on providing certain service by one part of the organization to the other parts, most commonly used in case of HR or IT services, but also payroll, accounting and others. The goal of this article is to describe briefly these two phenomena, showcase the examples from the international business environment and in the end compare these processes. Shared services model is mostly focused on optimizing: people, capital, time and other corporate resources. Shared services sector is developing rapidly in Poland thanks to highly-skilled workforce, good infrastructure and competitive labor costs. South-east Asia remains top outsourcing destination in the world, Cracow is ranked on 8th place among top outsourcing destinations in the world. The main research method used for this article is literature study.

Keywords: outsourcing, shared services model, shared services center (SSC).

Streszczenie: Outsourcing to jeden z najpopularniejszych fenomenów występujących dzisiaj w gospodarce światowej. Może być rozumiany jako przekazanie wybranych procesów lub usług zewnętrznej firmie. Natomiast model usług wspólnych polega na świadczeniu usług przez jedną część organizacji dla innej jej części, używany w przypadku IT, payrollu czy też księgowości. Celem tego artykułu jest krótkie przedstawienie obu zjawisk i porównanie oraz pokazanie przykładów ze środowiska międzynarodowego. Model usług wspólnych skupia się na optymalizacji: pracowników, kapitału, czasu i zasobów firmy. Sektor usług wspólnych w Polsce rozwija się bardzo dynamicznie dzięki wykwalifikowanym pracownikom, dobrej infrastrukturze i konkurencyjnych kosztach. Azja Południowo-Wschodnia pozostaje liderem jeśli chodzi o outsourcing na świecie. Główną metodą badawczą użytą na potrzeby artykułu są studia literaturowe.

Słowa kluczowe: outsourcing, model usług wspólnych, centrum usług wspólnych.

1. Introduction

Today's fast changing business environment challenges the companies to adapt its business model accordingly to survive on the more and more competitive market.

They reengineer their business models and strategy to fulfill new customers' needs better, but it is worth mentioning that there is no strategy that will fit all the businesses. Outsourcing model is for example used by production companies, which are convinced that outside a vendor can deliver products and services faster and cheaper. However, it should be kept in mind that not only production processes are outsourced nowadays, but the market of business process outsourcing is also growing every year.

On the other hand there are firms that are centralizing some functions to one department that has a monopoly over chosen services. Additionally firms prefer a decentralized business model that allows them to be more flexible to meet new market demands. Shared services model allows the company to use people, capital, time and other company's resources in most optimal way [Bergeron 2003].

2. Outsourcing as business strategy

In the most developed economies a trend towards outsourcing has increased in recent years and is still rising [Barrar, Gervais (eds.) 2006]. There are plenty of definitions that describe outsourcing, one of them is Lei and Hitt's definition: "[...] the reliance on external sources for manufacturing components and value-adding activities" [Lei, Hitt 1995]. This definition is rather narrow on the one hand, because it takes into consideration manufacturing companies and omits outsourcing of services, but on the other any purchasing activity can be described as outsourcing according to it, so the true complexity of this phenomenon is not captured here.

Gilley and Rasheed had seen outsourcing as a fundamental strategic decision to reject internationalization of an activity. This decision can result in two ways:

- substitution of market transaction for internal activities – the company stops performing an activity on its own and transfers it an outside firm,
- abstention – the company decides not to perform certain activity even though it possesses all resources that are needed to do it [Gilley, Rasheed 2000].

Outsourcing can be simply defined as "[...] the transfer of an internal service function to an outside vendor" [Khosrowpour (ed.) 1992]. The traditional form of outsourcing is moving an activity from the company to the outside supplier. The transformational form of outsourcing can be a trigger of business change in the company, because it allows the firm to focus on the core competencies and gives it the tools to transform business processes [Benaud, Bordeianu 1998].

Other definition that captures the idea of outsourcing really well is the one proposed by Rothery and Robertson in 1995: "Outsourcing really means finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services. [It means that you] use the knowledge, experience and creativity of new suppliers which you did not use previously" [Rothery, Roberston 1995]. This definition underlines the fact that outsourcing can be utilised as a way to change the entire business model using the knowledge and experience of others.

2.1. Motives of outsourcing

The main motive of outsourcing is decreasing the costs. This can be done for example by reducing staff or short-term costs [Barrar, Gervais (eds.) 2006]. A good example here is Unilever Group that decided to outsource the development of ERP system to external party, which resulted in annual savings equal to 700 million EUR [Infinet-O Endless Opportunities]. Unilever's example shows that in case when the company does not possess experts in-house it is better to look for labor resources outside and find specialists who will have the needed capabilities.

Next motive is gaining competitive edge and going ahead of the competition [Benaud, Bordeianu 1998]. Here Procter & Gamble can be used as an example. In 2005 they decided to outsource the R&D activities, which helped to develop over 400 new products and save millions of dollars. Thanks to this the company has increased its flexibility to rapid changes in markets needs and increased its responsiveness to customer needs [Infinet-O Endless Opportunities].

Opportunity for diversification arises when some firms want to keep part of their processes inside the company, but decide to outsource others. This is done because a company wants to supplement its business strategy with outside experts or new geographic locations [Sitel Corporation 2014]. Moreover, the lack of in-house expertise can be a reason for outsourcing, because often this is a cheaper and faster way to achieve the expected results [Benaud, Bordeianu 1998]. For example executives of Acer analyzed company's strengths and weaknesses and decided to outsource the fields that company had not mastered, such as manufacturing. Thanks to this decision Acer increased sales and gained market shares [Infinet-O Endless Opportunities].

Another motive is increased flexibility needed to respond to market changes connected with for example technological changes. Outsourcing helps to create better customers' responsiveness and decrease risks. However, it does not actually happen in all cases. In 2012 because of failed software update the clients of Royal Bank of Scotland were unable to check their bank accounts balances or withdraw funds. The bank was unable to conduct all the transactions. There were no details about IT vendor responsible for this update included, but it was made clear that there was a need of back-up plan for such a situation [Garland 2015].



Fig. 1. Evolution of outsourcing

Source: own elaboration based on [<https://pbs.twimg.com/media/BgyZMMGIEAAceWF.jpg>; <https://image.slidesharecdn.com/thehumancloud-finaldraft-130314113446-phpapp02/95/the-human-cloud-evolution-opportunities-7-638.jpg?cb=1363261078>].

The changing motives in outsourcing resulted in changes in the process itself. At the beginning only the manufacturing processes were outsourced. Later when the cost aspect started to become evident, the most important outsourcing as the main business strategy was implemented. The next step was outsourcing of business processes in the 1990s and later on functional specialization. The last phase that has been continuing till now is multisourcing (Figure 1).

2.2. Upcoming trends in outsourcing

Outsourcing environment is changing rapidly, but there are several trends that can be observed this year:

- Industry insecurity – this is caused by new US administration that impacts trade agreements, regulations, taxes, immigration policy and in fact the whole outsourcing industry which relies on free flow of labor forces. According to Rebecca Eisner, partner in Mayer Brown’s Technology Transactions, “It will be one of a handful of times that outsourcing will be affected by the political climate” [Overby 2016]. The uncertainty of the industry in Europe is caused by Brexit and its effect on the markets. Firms start to assess and audit already existing contracts to renegotiate them in case of currency, changes in law and the overall deal costs. According to predictions new contracts need to be more flexible to allow for example move locations or insource [Overby 2016].
- Major concern – information and data security – holistic approach towards enterprise security needs to be created to mitigate the risk; advanced security automation and security analytics solutions are needed. Vendors should cooperate with regulators, politicians and businesses in search for new solutions [Outsourcing Insight].
- Cost reduction thanks to intelligent automation – automation and commending more and more parts of processes or the whole processes are the future also in case of outsourcing, they will change the shape of outsourcing structures, induce greater savings and to some degree can affect the prices on the market. A result of this will be staff downsizing.
- Cloud should be more effective – using cloud on daily basis is normal nowadays, now customers demand more from cloud services, the transformation of cloud business model to adapt it to new expectations of entrepreneurs will be needed [Overby 2016].
- Call center extinction – the call centers in the form that is known currently will soon become the past, they will be replaced by self-service tools, virtual agents and chat bots. New tech-enabled contact centers will arise that will handle larger volume of customers with smaller staff, because virtual agents can serve several customers in the same time [Overby 2016].
- Testing of Risk Management Strategies – clients started to visit the outsourcing sites to check the work environment, investigate what potential disasters might

happen, find early disaster recovery method and create a strategy, which will protect business continuity. Some companies require from the providers to test the scenario of pulling of the plug and checking if the provider is able to re-route the work to other service centers [Outsourcing Insight].

The outsourcing market is changing. There are several trends that have appeared and influenced the shape of the market in its current form. They will probably continue doing this in the next years, but also new trends connected with new technologies will appear. The market of IT and business process services sector has already consolidated through mergers and acquisitions, which probably will continue and allow only the strongest and most competitive players, who offer the most comprehensive solutions, to survive.

2.3. Poland as a destination for outsourcing

Poland is a great destination for outsourcing mainly because of its location in Central Europe and international airports, which offer direct connections with major European and US cities. The annual growth rate of outsourcing industry in Poland is 20.0%. The destination is attractive to investors, who are looking for economic stability and good market conditions for doing business. Also the relatively low costs of workforce is a crucial factor. What is more, Special Economic Zones offer investors for example exempt from corporate income tax. Financial support, which is a mix of domestic and EU funds, is offered to R&D sector. Thanks to highly skilled professionals and pool of good educated graduates with strong communication skills, the country will remain attractive in the upcoming years [Outsourcing in Poland].

3. Shared services model

First shared services centers (SSCs) appeared in the mid-1980s in the USA, and since that time many organizations have appreciated them because of strategic value that they can possess as well as cost reduction, better control and focusing on services [Deloitte 2011]. According to Brian Bergeron “Shared services are a collaborative strategy in which a subset of existing business functions is concentrated into a new, semiautonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in open market” [Bergeron 2003]. This definition is a comprehensive one that covers all aspects of what shared service center is and what its main goals are.

In the early 1990s the concept of SSC was adopted in Europe by such companies as Whirlpool, and then the concept was expanded to South America and Asia [Deloitte 2011]. In the late 1990s companies started horizontal integration of their back office function [IBM 2011]. Many world well-known companies from various branches like Shell or Pfizer have proved that global shared services structure is achievable.

ble and delivers the organization not only financial, but also operational benefits. Later on more attention was paid to maintaining high level of services, improvements that can be done and optimization referring to existing processes [Deloitte 2011].

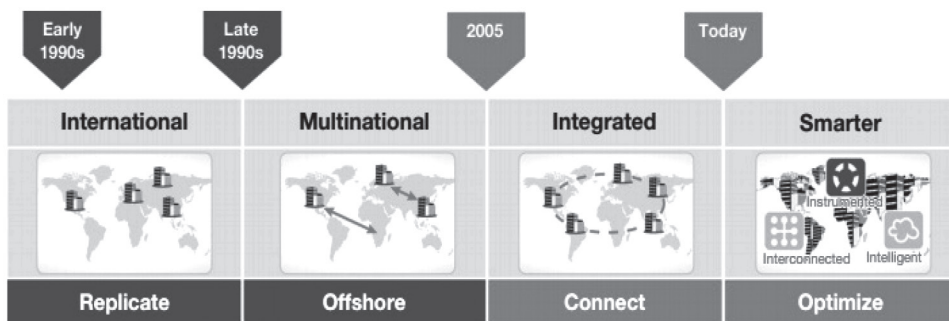


Fig. 2. Globally integrated business services phases aiming at smart organization model

Source: [IBM 2011, p. 4].

Today an integrated model of shared services can be observed (the third phase in Figure 1). It combines transactional and common activities across functions into one integrated globally business services unit. Its main principles are: global perspective, innovation and end-to-end integration. In such a model all efforts are focused on creating a smart organization that is based on business processes optimization and better business insight that will make decision making easier and business more resilient (last phase in Figure 2) [IBM 2011].

3.1. Shared Services Center sector in Poland

Many global corporations decide to create a shared services center. For them it is a way of cost savings, and to do so even more, they decide to locate such a center in Central and East European countries. Poland is getting more attention from the investors mainly thanks to human resources capital and variety of available locations for SSC [KMPG 2009]. According to the KPMG report, Poland is attractive for foreign investors, because of:

- location and good connections with the rest of Europe,
- economic stability and fast economic growth rate,
- rather stable currency,
- quite good infrastructure including airports and railway network,
- large amount of office spaces with new under construction for really competitive price,
- availability of young and highly-qualified human resources,
- low labor costs,

- various incentives for investors, such as tax exemptions, cash grants and others [KPMG 2009].

In recent years Poland became the leader in the region in terms of employment in business services. In the whole Central and East European region there is around 330 000 people employed in this sector and nearly half of them (150 000) in Poland. The annual growth rate for the sector in Poland is 15.0% and the number should grow to 200 000 employees soon. One of the most important factors are competitive labor costs in comparison with West Europe, but also a combination of technical expertise or education with knowledge of foreign languages. Another factor is plenty of existing office space in major cities (total amount – 8.3 million square meters) with more than 1.3 million square meters under construction. Next factor is highly skilled human capital and the amount of approximately 500 000 graduates every year [Michael Page 2016].

There are already almost 950 shared services centers operating in Poland; 73 companies from Fortune Global 500 have service business operations here [ABSL 2016]. What is more cities try to attract new investors. Warsaw and Cracow are leaders, but there are 7 locations with easy airport access that soon should be discovered by investors, e.g. Katowice. Employers are attracting the most talented people to the sector with good salary and other benefits provided. Moreover salaries in SSC are expected to rise about 5.0% annually. The sector is also changing, first SSCs in Poland was specialized in specific elements of business processes (most in simple tasks), but now there is a trend toward involvement in the whole end-to-end process [Michael Page 2016].

Thanks to its location and good connection with the rest of Europe, Wrocław is one of the most popular destinations among new SSC investors in Poland. There are nearly 35 000 people employed in the business services sector, and additionally finance, HR and information technology are key business processes located in Wrocław. There are 111 business services centers here, among them BNY Mellon, Google, Hewlett Packard Enterprise and many others. Moreover, new ones are opening every year; this year, for example, 3M.

The sector is diversified here, but is strongly technically focused. There is a co-operation between business, local government and universities, which is an attracting factor for new investors. Office market is developing rapidly and plenty of new office space will be delivered within next 18-24 months [ABSL 2016].

4. Conclusions

Outsourcing, as well as shared services model, is used because of cost savings that can be achieved thanks to them. Both of the models can be used strategically to create a competitive edge and in long term strengthen the position of the company on the market. Shared services model is mostly focused on optimizing people, capital, time and other corporate resources.

Outsourcing is used to tap into global talent pool especially in emerging market as well as seize new local market opportunities to establish market presence before a competitor does so. Also gaining market share is crucial and this can be done thanks to new products, so R&D activities are also outsourced. However, there is a risk connected with outsourcing of insourcing that might be very difficult and expensive to perform. Outsourcing can be treated as a part of business development plan, which used effectively can help to create an efficient business [Intetics].

Asia-Pacific remains the region that is most popular among outsourcing destinations, as 6 out of top 10 outsourcing destinations are located there (Table 1). The index takes into consideration such factors as: talent and skills, costs, infrastructure, digitalization and innovation and others. India is a leader in the country ranking, as it specializes in technology and business process management with high number of start-ups and leading destination for digital skills and solutions for multinational corporations [Tholons 2017].

Table 1. Top Outsourcing Destinations in 2017

Rank 2017	Rank 2016	City	Country
1	1	Bangalore	India
2	3	Mumbai	India
3	4	Delhi	India
4	2	Manila	Philippines
5	6	Hyderabad	India
6	27	Sao Paulo	Brazil
7	10	Dublin	Ireland
8	9	Cracow	Poland
9	5	Chennai	India
10	33	Buenos Aires	Argentina

Source: own elaboration based on [Tholons 2017].

Bangalore has remained the leader of the rank for the last years. It is a hub for IT jobs and because of that is called “Silicon Valley” of India. Most international companies, such as, for example. Hewlett Packard Enterprise, IBM and others are present there [Tholons 2017].

Poland has a strong position on the global outsourcing market and is a leader in Europe. According to Ernst & Young’s 2016 Top 10 most attractive European destinations for FDI, the country is a leader in outsourcing software development in Europe. When it comes to IT, outsourcing the country is not the least expensive, but the quality of the offered services is superior. The major global Information and Communications Technology players have their R&D centers located in Poland. There is also well-developed IT infrastructure in Warsaw, Wroclaw, Cracow and Lodz. The

number of professionals hired in IT sector is expected to rise thanks to the pool of young well-educated talented graduates. Poland is expected to maintain the position of a global player as a favorable IT outsourcing location [Outsourcing in Poland].

Shared services sector is developing in the whole Central and Eastern Europe including Poland, which thanks to competitive labor costs, location and membership in the European Union is one of the most attractive locations in the region. What is more, the sector has been changing over the past years. First only some elements of the processes were performed and now the end-to-end processes are being performed here. Cracow is the most popular outsourcing destination in Poland and it is gaining popularity every year. The total number of SSCs located there is 138. Its popularity is connected with an availability of talents and qualified multilingual professionals, but it is also challenging because of high competition for skills [ABSL 2016]. Other popular destinations in Poland are Warsaw and Wroclaw that possess rather diversified market with the focus on finance. New destinations are also gaining popularity and might be discovered by investors soon.

Outsourcing and shared services model are a bit similar when it comes to goals or motives of performing them, but they should be treated as two separate phenomena that can complement each other. When a company uses them wisely, it will be able to create a comprehensive development strategy, gain competitive edge over competitors and decrease costs in the same time. Before the firm decides to outsource or create shared services center, it should assess which tasks can be performed in SSC, but it should be kept in mind what costs will be generated if the processes come back to the previous destination.

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