ROLE OF NEW IT SOLUTIONS IN THE FUTURE OF SHARED SERVICE MODEL

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Abstract: As enterprise services rely on IT solutions on increasingly way, there are more and more signs recently that point to the fact that newer IT trends cut out a growing proportion of the service market. The research is concerned with the business service sector and mainly with the shared service model. It is analyzed how the new IT trends (as a service, cloud computing, etc.) influence business services and what is the future of the shared service centers using these technologies. The research is based mainly on literature review but the Author made ten interviews with Hungarian business service market experts to get answers about the market practice.

Keywords: Shared services, Cloud computing, Software as a service, Automation

1. Introduction

Today companies are continuously examining the sources of services and resources required for operation. This means a constant looking for optimum place of services inside or outside of the organization.

If it is outside then finding from which country or continent should it be worth to the source. Therefore companies start up sourcing strategies that define, which sourcing model (shared service, outsourcing, off-shoring, etc. or the mix of these) will be utilized.

Generally sourcing means a process when an organization identifies the sources required to deliver product or service. There is a lot of sourcing models but what is exactly sourcing. Sourcing is an act when an organization is contracted or delegated to

an external or internal entity that could be physically located anywhere on the globe. This definition includes a various sourcing models for example: outsourcing, off-shoring, shared service model, rural sourcing, crowd-sourcing, cloud services, etc. [1]. Almost every bigger companies are concerned with sourcing activities. Nowadays the strategic sourcing became global sourcing, so the question is not to decide between sourcing from inside or from outside, but from which country or continent.

Big companies attempt to rationalize operational costs by standardization and deliver services over the country's borders as well. Depending on the expected assets at the end of the process, either a captive center is created or an outsourcing provider will get the delivery. The key lies in the reorganization of the processes. If the function moves to an offshore location then this will mean further cost reduction. Shared Service Organizations (SSO) could be a good tool for these aims. There are more definitions about shared services. One of the most well-known accrued from Schulmann. He thought that shared service is a concentration of company resources in order to deliver services to internal clients at lower cost and high service level [2].

There are more organization forms of shared services but they are operating mostly in shared service center that is an organizational unit with the aim to re-manage certain services - that delivered for a broad scale of organizational units - in a specific service center [3].

The shared service center model evolved in the 80's and now it is in the focus of interesting of corporate and public sector. Today 80% of the biggest two thousand companies in the world use the shared service center model to bolster back-office activities [4].

Introducing of a shared service model could have strategic and operational reasons as well. Strategic reason could be for example the optimization of technology investment or ensuring flexibility for changing strategic business model. Operational reasons could be for example improvement of service quality and lead-time, decreasing the costs of significant operational processes [4].

The available cost-benefits because of managed services in the shared service center is different from industries and business areas. Companies could perceive the biggest savings at those services that have a great transactional volume. This could contribute to reach the benefits of economies of scale [5].

There are a lot of drivers for establishing of shared services but the most important are the followings:

- improved services;
- reduced costs;
- standardized services and processes;
- diminished administration costs;
- supporting corporate strategy;
- grouping similar tasks and demolishing redundant processes;
- favoring progress;
- facilitating introduction of new technologies;
- improving working capital.

Operating shared service centers with transfer pricing create near-market situation inside of a company that could ensure efficiency of shared service center and compel quality service delivery. After all SSC bears comparison with external service providers and service level agreements that mutually elaborated with customers should adjust to prices and performance of external providers. Delivered service depends on volume is uniform for each organizational unit and it is a huge step for smaller organizational units.

Another benefit of these organizational solutions is that cooperation between service centers and customers influence the whole company. It creates such management framework that contributes to better operation of the company with increasing organizational transparency, taking aim and demands precise and measuring performance.

Redaction of support activities discharges the divisions and makes it possible to concentrate its core competences and strategic initiatives. Besides it, establishing of shared service centers enhance growing capability of companies because in case of entrance into a new area there are supporting structures and processes and it is not necessary to rebuild that has a strategic advantage.

2. IT trends

According to experts the service market has clearly started to become everything ‘as a service’ deliver economy. This not only contributes companies to keep their cost of capital under control but it also represents a powerful shift towards the transition of operational costs. There could be detected three essential trends on the market: continuously improving price-performance ratio, dramatic increase in customer expectations by recognition of technological opportunities, and the development of IT technology has been the main driving force for innovation and growth which is a change to the previous cost-cutting and efficiency-enhancing direction in that regard [6].

The progress is not independent from the market rationality. The service prices depend on theoretical service models. It could be unambiguously that in a classical outsourcing model service provider endeavors to hold service prices at low levels but actually provides only those services that original owner company elaborated. So in classical outsourcing cheaper services are not guaranteed. In the shared services model the service provider has to plan its delivery system with more customers that could be much cheaper for the clients. Over the shared service model only one step is cloud computing and Software as a Service (SaaS) that has a meter rate in service accounting [6].

There is a more and more point to the fact that IT trends in recent times are carving out continuously increasing part from service market. IT solutions like the cloud computing, Infrastructure as a Service (IaaS) or SaaS will continue to spread in the near future and could cause a threat for traditional outsourcing and shared service industries. Most of the international companies are planning to run the prevailing part of their IT systems on cloud infrastructure in the next years [7].

One of the major trends in business service delivery is SaaS. The Internet has served as an enabler for new service delivery models, which deliver both the underlying

infrastructure, including updates and maintenance under service level agreements. In SaaS there is never any transfer of personnel to the service provider. While the SaaS model is essentially a variation on the pricing models of licensing of software for a limited duration, it also serves as an outsourcing model because the service provider owns its own proprietary software and aggregates other service providers (licensors providing plug-in applications) onto its platform. The aggregation of other technology providers thus shifts from enterprise customer to service provider the control over innovation and improvements to the underlying service delivery infrastructure.

Another important IT solution in global service delivery is cloud computing means delivery of computer processing services via the network, mostly on the Internet. It is a new form of traditional IT infrastructure outsourcing with a limited, commoditized scope (volumes of server processing and storage capacity) and with no right of the enterprise customer to change anything other than such volumes. Cloud computing 'steals the thunder' from IT infrastructure outsourcing by removing a large chunk of services from the scope of what an IT infrastructure service provider would have otherwise delivered (e.g., tape backup, disaster recovery, testing and restoration).

Next IT trend is automation aided by IT software. It has high significance in a shared service organization where a lot of transactional services are managed. It has a clear reason. The companies could not reduce their costs by outsourcing or re-centralizing services unless they have an automated platform that improves services. Service automation solutions have the potential to reduce service costs by up to 30% that could influence about 10% of the company's profit [8].

There is a growing number and importance of those service providers - so called 'service integrator,' - that provide business processes and IT systems together. These providers mostly relate to the corporate strategy as an outsourcing solution. Cloud computing solutions mean a new tool in the hands of traditional providers to decrease service lines, IT automation and monitoring. It is crucial for service integrators that dispose a service package that allows serving both internal and external corporate services by IT. This extends all services supported business processes [7].

3. Strategic demand toward IT progress

The global crisis is strongly influencing the corporate strategies within the sourcing strategy. In the last years there was a break in signing new sourcing contracts because companies waited for the end of recession. It did not come till now so companies have to make those improvements that were remitted in the recent years. But it is sure that companies will carefully with investments till they do not see the prosperity.

Inside the companies it is a basic expectation for the IT that continuously support the progress of business activities. It means that those companies that are operating in international environment should become more international. Those companies that are operating in a geographically limited environment, if they want more business in a progress-less environment, then they should become more competitive. That is the only way. Because of it there is a constant pressure on the corporate IT to elaborate more and more projects helping business progress, or to introduce new applications, to improve the performance of IT systems while there is no more money for IT, maybe fewer [9].

Meanwhile company managers recognized that companies could decrease the costs of non-strategic IT operation - within the infrastructure and applications - that could reach the 60-75% of IT budget. This cost-cut is essential for companies if they want to invest money in new innovations. With new technologies it is realistic that the non-strategic IT cost could be decreased by 20-25% [9].

To reach this aim it is very important to create corporate sourcing strategies. But obviously the companies fully realize this in vain because there are very few companies that have real sourcing strategy. It is weird because only few months need to elaborate a formal sourcing strategy. There is also a lot of help with it on the market.

Based on the interviews a model was created that shows what kind of role the IT trends play in global sourcing activity (see Fig. 1).

Fig. 1. IT trends in global sourcing, source: own edited

Unfortunately the issue of creating an IT sourcing strategy comes up mostly when companies want to solve a problem with it. But it is basic that by an outsourcing or offshoring contract, which is generally 5-10 years long, or by a shared service center that need significant investment; companies could not treat operational problems. It is also problematic that most of the companies are too exaggerating with the possibilities of internal resources or create too many tactical relations to serve the company well [9].

If a company recognizes the need and create a good sourcing strategy then it can analyze and compare their IT services and its costs to the competitors. This could be a decision point to choose among the outsourcing, shared service strategies and in-house diversified solutions. If the company sign an outsourcing contract or establish a shared service center it is sure that need of a Service Level Agreement (SLA) but elaborating on it could take one another year. Many times, the company does not have so more time. If a company decides to sign an outsourcing contract then it is not necessary to have an SLA immediately. It can agree with service provider in determining temporary service levels based on market averages until both partner agree with 'final' SLA. This solution could help to span over this term. But there is another

service trend option that can also help companies. IT services are in more and more standardized form and service provider could decide about the services and SLA levels. In this situation company could choose from a list which services and how would like to utilize.

The Industrialized Low-Cost IT Services (ILCS) could bring new approaches into the life of IT organizations. In outsourcing or shared service model the service provider operates IT systems that are configured by clients but in the case of standardized IT services the service provider determines the details of the service and migrate the already-operating IT services into it. If a company wants to renew its hardware serve ERP software but not buy a new one, rather pay for it as a service. It helps to spare the investments and could reach low-level service prices.

Nowadays there are more than 500 large companies that manage their ERP systems like this so there is a significant base. There are a lot of service providers on the market as well for example HP, T-Systems, Cap Gemini, Fujitsu, HTL, S&T or IBM [5].

In Hungarian large companies the global crisis made the situation worse than in international companies that constraint to focus on strategic sourcing activities. One of the greatest IT industries is telecommunication. In the Hungarian Telco industry there are a lot of extra taxes that made wrong financial results in the last years. These companies tried to balance this decrease of profit with out-looking from classic business activities that help to decrease cost drastically and saving and strengthening flexibility.

So these companies have to change its IT approach. They have to become IT service providers and this needs own IT infrastructure and strategic sourcing thinking. In Telco companies there are adverse processes as well. There are in-sourcing of IT services in Telco companies because they want to manage it in-house mostly in a shared service center. That can help to become a service provider in that service field for external partners as well.

The banks operating in Hungary are also over a significant cost-cutting process. They negotiated their service agreement again and analyzed the possibilities of new IT services to re-manage in different sourcing theory.

In the international sourcing trends the two most frequent IT trends are cloud sourcing and crowd-sourcing. The cloud sourcing means the IT service uses as a service, the crowd-sourcing means independent and geographically far groups that work on the same problem together.

According to experts [9] most of the Hungarian companies are still far from both IT models (cloud sourcing and crowd-sourcing). Cloud sourcing are still viewed in Hungary as a technology (cloud computing) and it is used as a service only rarely. There are three categories of cloud services: the Software as a service (SaaS), the Platform as a service (PaaS) and the Infrastructure as a service (IaaS). The SaaS gives clients access to applications that run on the provider's infrastructure. In this business model providers are responsible for managing these applications and the basic infrastructure, while clients set up the configuration that they require. Platform as a service (PaaS) makes available platforms on which clients and their subcontractors can build and run their applications. Infrastructure as a service (IaaS) involves providing virtual, standardized computing, network and storage capacity.

Nowadays not only the sales or HR activities get benefits from cloud solutions but there is the chance for other business fields to reach them. Business Process as a Service

(BPaaS) solutions could help in it. Head of corporate finance can unlock the benefits of the cloud for the finance function for example. BPaaS could offer opportunities for businesses of all sizes to obtain mature solutions without heavy upfront investment. BPaaS solutions for finance and order-to-cash processes provide industry-leading practices delivered through the cloud. Small businesses attain the same software, technology, and service support for a fraction of the cost of enterprise solutions. Large enterprises can standardize global operations or advance into new markets rapidly, efficiently, and with easy integration of IT policies for compliance, etc.

In some companies there are crowdsourcing model. In this model external experts are employed, recruited in Internet, to solve a specific part of a complex problem. There is a very broad scale of services, from typewriting of forms, survey by phone call, data-mining, data cleaning, etc. These employees do not need corporate trainings, office spaced, working infrastructure, cafeteria and many times have better knowledge than the corporate staff. The work is run by online platforms, with flexible working-hours. Crowdsourcing makes it possible to accomplish those assignments that have great volume and need human intelligence. The cost-benefit of crowdsourcing could be about 60-70% comparing with traditional outsourcing or shared services. On specific fields like software development crowdsourcing is absolute competitive with other sourcing solutions but it is also true that crowdsourcing is not appropriate for all corporate and not for all functions.

The introducing of crowd-sourcing models is typical of Hungarian affiliates of multinational companies where the centralized IT services are used by the other affiliates.

In Hungarian shared service centers the automation is a general method to decrease the contribution of human resource because it is more expensive and difficult to employ people to execute a task than make it solve with an automated process.

In Hungary there was a change of paradigm in service providers. They had to reach significant effectiveness improvement because of decreasing service prices. Because the outsourcing will not be able to help this aim, service providers have to think of that model that based on new technologies and help to reach effectiveness improvement from year to year. This improvement could compensate the effect of further decreasing of service prices.

4. Conclusion

In these days there are more useful IT solutions that help companies in service delivery. Those companies that would like to be successful should exploit the benefits of different IT solutions. These solutions could not only ensure newer cost-cutting results but enhance the quality of services.

There is an evolution in shared service delivery. In the last year there are two drivers on this service market: moving towards involving higher value-added service and vertical specification. Previously the primary aim of establishing a shared service center was cost-cutting but its judgment was changed significantly. They are considered as a strategic business unit whose aim is to reach service and operational excellence. Parallel with it the operational area of service centers was broadened as well. Nowadays they

embrace more complex and higher knowledge-demand processes that are closer to the traditional business activities of the company. This means shared service centers nowadays need skills that move towards process controllers than process administrators and transaction processes. As processes are automated, more functionality will come into shared services, data management, help desks and self-service applications. Not only the financial and accounting services are moving online but all of services that could be automated in high level.

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