# Outsourcing of business processes as a globalization trend

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***Abstract:*** *Shared Service Center (SSC) and Business Process Outsourcing (BPO) are the result of the globalization of economic activities within a company and are often a by-product of business services to separate all operational types of tasks from the company headquarters, which must focus on a leadership and management role companies. Shared Service Centers are the entity responsible for performing and processing specific operational tasks such as accounting, human resources, payroll, IT, legal, compliance, purchasing and security. As shared service centers are often cost centers, they are also quite cost sensitive in terms of headcount, labor costs and site selection criteria. Centers of shared services arise for various reasons, for example: to reduce costs of decentralization, to increase the quality and professionalism of business support processes, to increase cost flexibility for support services, to create a higher degree of strategic flexibility.*

*The aim of this contribution is to present the dynamically developing segment of shared service centers and business process outsourcing in Slovakia. SSCs and BPOs provide international support services for their parent companies and other subsidiaries or perform specific external business processes for third parties from abroad. The paper focuses on the benefits and risks of shared services and outsourcing of economic processes. It analyzes the development of business centers in Slovakia as well as global development trends affected by COVID-19 pandemic.*

***Keywords:*** *globalization, cooperation, Shared Services Centers, outsourcing*

*JEL codes: G32, M21, M41*

## 1 Introduction

Globalization is a process in which whether 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 globalization are also changes in ownership transactions. Their continued growth and needs are essential for maintaining competitiveness (Ondrušová, Parajka, 2014). Globalization 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 (Hanousek, Kočenda, Shamshur, 2014). In the second half of the eighties of last century multinational corporations began to establish first shared services centers in Europe. Shared Services Center 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 affiliates. Shared services centers have undergone their natural evolution, and gradually become an important segment, which forms an indispensable part of their parent company (Balog, 2016). In its early days they were mainly devoted to finance and accounting, and performed only simple transactions, operational and routine activities without much value added (Tumpach, Baštincová, 2014). But they have gradually redesigned to intellectually demanding functions with higher demands for professional skills and experience.

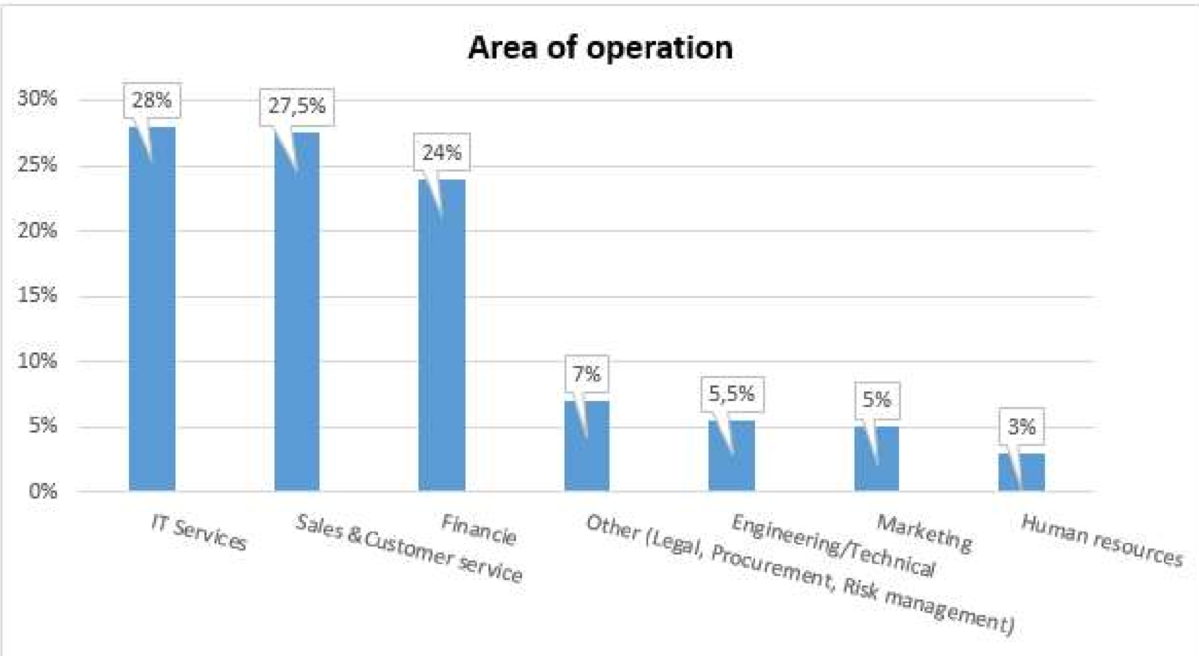
Comprehensive activities, processes and not least so called property in the standardization processes have been centralized in shared services centers.

Over the past two decades, Slovakia has experienced a dynamic growth of Business Service Center (BSC) sector networks. More than 68 BSCs have already been established in Slovakia, and more than 39,000 employees work in Slovak BSCs. The percentage of foreigners working in Slovak BSC is 11%. The services provided are advanced customer operations, financial and IT services with a market share of 80 %. The average age of Slovak BSC employees is 35 years. The increase in the number of employees in the Slovak BSC sector in 2020 was 5.5 %.

Availability of talented personnel is one of the key elements of success of SSC and BPO. Recruitment agency surveys show that investors in Slovakia can benefit from a qualified, multilingual and highly adaptable workforce combined with competitive labor prices. Slovak universities pursue the goal: Skills for success from the university to the workplace. The result is the first fully accredited Business Forum of Service Centers (BSCF) course for students of the Faculty of Business Management at The University of Economics focused on soft skills such as time management, teamwork, communication skills, conflict resolution and many others. Another goal is dual education. As a pioneer in this field, since the academic year 2013/2014, Deutsche Telekom Systems Solutions Slovakia implements ICT dual education initiative, where 70% of the program is dedicated to practical training. Many SSC & BPOs have developed individual cooperation platforms with educational institutions at all levels.

Thanks to the availability of qualified labor force and its performance, BSCs in Slovakia are evolving towards centers with higher added–value with greater emphasis on quality of their services. On top of that, more and more BSCs are moving up their value chain by creating Centers of Excellence with specialized positions. 41% of the Slovak BSCs declared further centralization process and 12% of them are planning to transfer some of their basic functions to other territories in order to take over operations with higher added value.

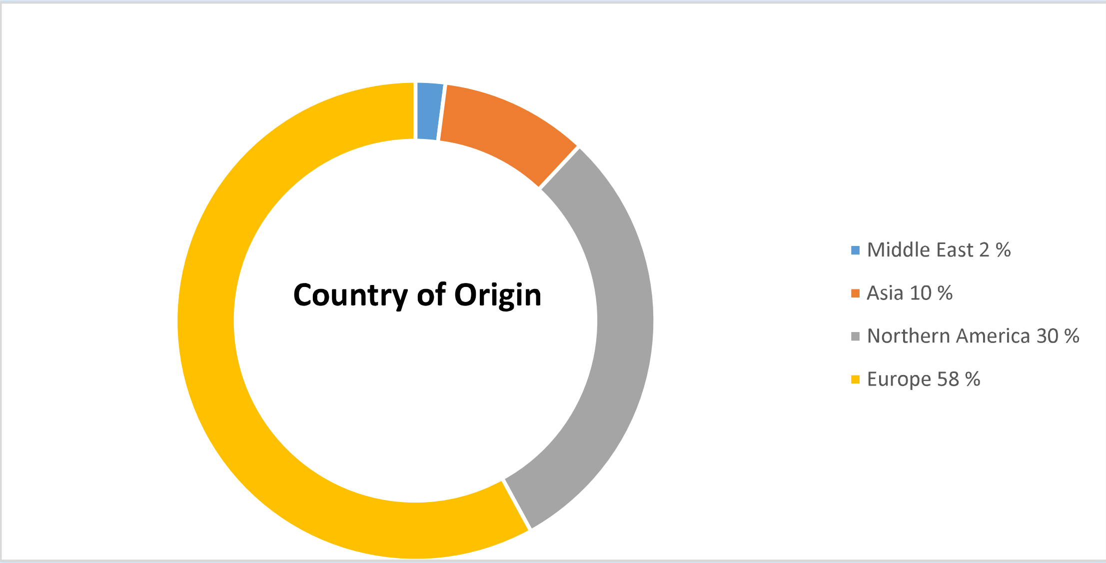
**Graf 1** Areas of economic activities and business processes of the centers




Source: Business Service Center Forum. (2021)

The Slovak SSC and BPOs landscape is dominated by large companies originating from the US and Western Europe. BSCs are expanding their business activities and move beyond the function of mere support centers. Increasing number of centers provides more complex and higher added-value activities. There are several SSC and BPO companies with employees exceeding 1000 FTE. The majority of centers in Slovakia employ up to 200 FTE.

**Graf 2** Structure of countries of origin operating in Slovakia




Source: Business Service Center Forum. (2021)

The Slovak SSC and BPO environment is dominated by large companies from the USA and Western Europe. BSCs expand their business activities and go beyond the function of only support centers. A growing number of centers provide more complex activities with higher added value. There are several SSC and BPO companies with employees exceeding 1000 FTE. Most centers in Slovakia employ up to 200 FTE.

Among the largest employers are the following companies:

• AT&T Global Network Services Slovakia, Bratislava. AT&T has been operating in Slovakia since 1999 in two cities (Bratislava and Košice) and has four centers with more than 3,000 employees that provide communication services and solutions for multinational customers. AT&T has been operating in Slovakia for more than 10 years, providing a wide range of customer support and network engineering for businesses throughout the EMEA (Europe, Middle East and Africa) region, as well as in other parts of the world.

• Another company is DELL Bratislava, which came to Slovakia with the aim of reducing costs while maintaining the quality of services. Dell was founded in Bratislava in 2003 to support European operations with the intention of building a Global Support Center with 1,800 employees supporting various functions around the world.

• IBM International Services Center operates in Bratislava and Kosice. Through business process services, IBM implements, for example, CIO services, digital sales, finance and accounting, sales support and others that require educated employees with perfect knowledge of foreign languages and IT. IBM has become an international service center that has grown to 5,000 employees over the past 12 years.

• Deutsche Telekom Systems Solutions Slovakia, Kosice has been on the Slovak market for 10 years. The company employs around 3,600 highly qualified employees in IT operations and business process outsourcing.

• Covestro Bratislava has been on the Slovak SSC market since 2019 and employs more than 230 highly qualified and skilled employees. Starting with insourcing accounting services for the Covestro group, to the successful transition and satisfaction of complex services provided to various companies in Slovakia. Covestro Slovakia offers various accounting positions (from accounts payable to general accounting) and positions in the field of transactional procurement.

• Adient Bratislava is a car manufacturer. Adient has a unique representation in Slovakia, which is a combination of production plants, a business and technical center operating in 8 different locations (from Bratislava to Bardejov). The company employs around 4,000 employees who provide comprehensive services from the initial design of the sofa, through its production, delivery to its final invoicing and reporting.

The Slovak labor market, which was affected by the COVID-19 pandemic, lost many jobs during 2021. Three American corporations also started mass layoffs, as a result of which several hundred employees lost their jobs in Slovakia.

The American multinational company Johnson Controls with headquarters in Ireland, which has been operating in Slovakia for more than 20 years, canceled more than 500 jobs that it moved outside of Slovakia. Among the departments that Johnson Controls abolished in Slovakia was also the corporate services department, which included financial services and accounting.

The technological giant AT&T Global Network Services Slovakia, operating in the field of providing telecommunications services, canceled more than 400 jobs out of a total of approximately 3,000 jobs. The reason was the redundancy of workers due to the transfer of these activities abroad.

The American company IBM, which operates in the field of information technology, has also started laying off employees in Slovakia. In total, IBM had to cancel more than 10,000 jobs in Europe, while the redundancies also affected the center of shared services in Bratislava.

This segment of the economy is highly affected by volatility in the event that the parent company finds more suitable conditions for its business. The parent company can at any time move this segment to another country where labor is cheaper, which gradually became a reality during the COVID-19 pandemic. Investors' decision-making thus directly affects the opening of new client centers or the cancellation of existing jobs, which has a direct impact on the Slovak labor market. Currently, the situation has stabilized, further developments will depend on the pandemic situation at the end of 2022.

## 2 Methodology and Data

The methodology used was the analysis of sources and data on outsourcing and the development of services of shared centers in Slovakia performing economic activities and business processes. Information and data were collected and evaluated during their periods of activity in Slovakia. The findings were synthesized to then be used to examine the data of the current situation marked by the COVID-19 pandemic. Subsequently, the largest companies providing shared services on the Slovak SSC market were investigated and the benefits and risks arising from the provision of these services were identified. Subsequently, the method of deduction and synthesis was used in formulating conclusions and our findings.

## 3 Results and Discussion

Globalization poses challenges for multinational corporations in terms of capital investment, financial reporting and management. Establishing a business in a new country requires significant initial capital (Mucha, Páleš, Sakálová, 2016). It can also be difficult to find and retain managers with the necessary skills to add value to the company and function effectively within the local culture. Multinational corporations also face the challenge of contending with different laws in different countries. Forms of financial reporting can be different. Sometimes they have to completely contend with different types of legal and banking systems (Tumpach, 2016) and (Parajka, 2015). Difficulty navigating these systems can lead to obstacles in expanding into new countries and serious consequences for taking the wrong steps.

Globalization affects businesses in different ways:

• Increasing competition. Businesses that compete in the global market will naturally face competition from companies around the world. Consumers are demanding ever better and cheaper products, and with a global array of companies to choose from, only those that evolve to deliver what consumers want and need will thrive. This increased competition means that companies must keep up with the latest developments and remain assertive in the global market to survive.

• Opening up of larger and more diverse markets. Those companies that open up to the global market will naturally find a much larger market in which to sell their services. The ability to discover and satisfy niche markets around the world is one of the challenges of globalization.

• The increased flow of trade, capital, information and people has created the four pillars of global connectivity that are a hallmark of the success of the globalization of economic activities.

• Technology sharing: In order for countries to cooperate globally, they must share similar technology and technology infrastructure. The need for shared technology means that technological progress is rapidly making its way around the world.

• Sharing knowledge and discoveries. There is a need for a centralized knowledge base for cooperating countries to work in a global environment, leading to rapid knowledge transfer.

• Support for a diversified workforce. Global companies attract employees from all over the world. They are likely to draw managers from countries where they are represented and employ workers in countries where labor is relatively affordable. Learning to manage a culturally diverse staff can be both a benefit and a challenge for a multinational corporation.

Shared services centers provide their activities mostly founding so called parent company and other entities within the organizational structure of multinational corporations. The very structure and organization of services and processes depends on the needs of the parent company and the market demand in the country. Despite the fact that the parent company is trying to establish uniform rules of accounting and finance for all branches, each branch can be adapted to them with respect to the local (national) legislation (Hladká, Mokošová, Molín, 2017). So, there are branches where rules are respected but also branches where the rules complied only in part, and vice versa affiliates that you introduce even stricter rules than the one requested by the parent company (Greaver, 1999). This creates a broad spectrum of risks arising from compliance with global versus local rules. If the parent company decides to create a shared services center and therefore share accounting as one of the main processes, it will mean that the accounting for all branches will be centralized in one place in the selected country (Blahušiaková, 2017). 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 (Kubaščíková, Tumpach, Juhászová, Turebekova, Saparbayeva, 2019).

Shared services centers, based on the so called SLA (Service Level Agreement), guarantee services in the required quality, scope, based on the specific needs and requirements of the parent company (Dvořáček, Tyll, 2010) . 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 labor 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 centers is primarily a saving of personnel costs, including job costs and necessary overhead costs. Cutting costs is considered the most sophisticated advantage. Another advantage is that shared services center is easier to solve the problem of representation and training of employees. Productivity of labor and specialization of activities in shared services centers is high; also flexibility in the system and automatic setup of reporting is the usual standard. The advantage is also uniform, enterprise-wide system platform i.e. the same ERP system (Enterprise Resource Planning) and optimization 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 centralized, shared services center provides the same quality of services supplied to all branches without limitation of localization. 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, as the gaps of shared services centers, we can identify reduced qualification requirements for personnel as it is not necessary to master accounting and tax issues because they only routinely select an item from a preset systems and databases using 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 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 fulfillment 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 standardized processes have been defined primarily for the needs of multinational corporations (parent company). Standardization itself is a narrowing of the space for flexibility and ad hoc requirements. The absence of comprehensive knowledge and skills, due to the narrow specialization, 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. (Bódi, 2014). From individual branches it requires increased discipline and rigor in the supply of inputs because inaccuracies or incomplete entries may not be properly recognized and processed and thus information presented in the financial statements of the parent company may be distorted. Finally, the numbers of processes centralized into shared services centers have the interaction with the external world, and therefore communication is necessary in a nonlocal language, thereby increasing the incidence of some of these commercial risks.

## Conclusions

Shared services are the result of globalization of economic activities within the company and are and often a spin-off of the corporate services to separate all operational type of tasks from the corporate headquarters, which has to focus on a leadership and corporate governance type of role. This system of profiling and centralization of activities has its benefits as well as risks, which need to be examined in more detail within the individual processes in order to be able to set up systems and processes as efficiently as possible with the effective elimination of significant risks. Similarly, digitization brings several benefits to both the multinational corporation and its shared services center. Digitization allows:

- Fast and secure access to documents from anywhere, anytime,
- Gain control over the intellectual property of the enterprise,
- Streamlining work in the form of cost savings, input savings (paper, printers, archiving boxes, etc.),
- Saving time and reducing the burden on the environment by producing waste,
- Effective protection of personal data as well as confidential business data,
- Streamlining business processes and thus the overall business performance, etc.

A risk is a part of any activity, i.e. outsourcing, it cannot be removed and therefore it is necessary to work with it. In particular, the duration of the partnership period, contractual conditions, insufficient control of processes and activities, poor service levels and staff qualifications are particularly significant. Both, the parent company, BPO and SSC work with people (employees), and their morale and ethical conduct can greatly influence the performance of the business itself and the built brand and good name of the company. However, the company is also exposed to the potential loss of key knowledge and skills, the risk of leakage and misuse of information, and, last but not least, the loss of efficiency in the event of an incorrect cost-benefit analysis of outsourcing. This leads to the conclusion that each multinational corporation or small business must always consider all the benefits but also carry the risks arising from the transfer of business activities to the provider.

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