

SHARED SERVICES CENTERS: Theoretical Introduction and Practice in Pandemic Era (Case of Slovakia and China)

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Abstract. Since 2019, we have witnessed the global pandemic, which has affected all areas of economic life in all corners of the world. Neither Shared Services and Centers (SSCs) providing this type of services do not represent an exception and to some extent were hit by a pandemic. Shared services can be considered as a sector that constantly progresses and develops. This area is one of the few economic regions, where the pandemic has not left negative impacts and just the opposite. It has encouraged further development and progress of centers providing this kind of service. The article is an introduction to SSCs. It offers an overview of basic literature sources defining SSCs. It also includes an overview of SSCs resources according to functional management areas. The issue of SSCs is explained on the example of Slovakia. The article compares this small European country to the world leader in this area – China.

Keywords: Shared Service Centers, Slovakia, COVID-19

JEL classification: C 13, F 49, L80

1 Introduction

SSCs represent effective business processes for large as well as smaller multinational or national corporations. In theories we have a number of authors who are devoted to the issue of SSCs and the purpose of this article is to indicate the reader to this topic.

Several common features can be uniformly labeled as motives for building SSCs in CEE. Particular attention is dedicated to a small country located in Central Europe - Slovakia. The country represents a border between Western European and Eastern European countries and many foreign companies decided to build SSCs in this country. Other factors that can be labeled as country's positives for this area are also subject to examination of this article. For a better understanding of the investigated issue, the

small European country will be compared with the global leader in this area – with China.

Global Pandemic caused by Covid-19 disease largely influenced company life around the world. SSCs in China and in Slovakia are not an exception. They had to adapt their activities to changed conditions and organize them to ensure the protection of life and health of their employees.

1.1 Methodology

The scientific article aims to point out the motives for building SSCs in Slovakia and China, and to point out the effects of Covid-19 Pandemic on the functioning and activities of these centers in given countries. The article represents an introduction to the SSCs on the example of Slovakia, compares it to China as one of the world leaders in this area.

The study of theoretical resources of the literature was the basis of the compilation of the literature overview. In the literature references, only a few of the quantity of resources are dedicated. Study of theoretical resources of the literature and the analytical-synthetic method represented the basis of subsequent processing of the second part of the article, which is defined by shared services and the basic motives leading to the company to build SSCs in these countries. Based on the macroeconomic differentiation, the issue of SSCs in Slovakia was possible to compare with the situation in the research area in China. For simpler distinction and comparison of the differences, the author used the two tables and graph.

2 Introduction to the issue of SSCs (on the example of Slovakia and China)

In the case of SSCs, we can talk about a comprehensive topic that can be examined from several aspects. In this section of the article, we will present a brief overview of theoretical resources of literature. They represent the basis of subsequent investigation in various areas. Subsequently, we will demonstrate Slovakia as a country belonging to the CEE region and compare this country with a leader in SSCs – with China. Part of our examination will be comparing the impact of the Covid-19 Pandemics on the monitored countries.

2.1 Theoretical background of SSCs

There are many authors (researches and agencies) defining shared services. „Shared services is a term defining operational philosophy that includes centralization of those administrative functions of the company once carried out in separate divisions or locations.“ (Investopedia, 2021) It is therefore a service that can be shared between the individual business units of the company. Such services can be included in, for example, finance, purchase, business supply, wages, rental of premises and last but not

least information technologies. „SSCs provide international support services for their parent companies and other subsidiaries or execute specific outsourced business processes for third-parties from abroad.“ (SARIO, 2021) “The SSCs, is defined as a partly autonomous business unit that operates consolidated support activities, such as accounting and human resources (HR) and provides services to internal clients.” (Richter, Brühl, 2016) According to Schuppan T. (2019) SSCs are “special form of IT-based tasking”.

As can be seen from the previous text, many authors define SSCs and there is not just one correct definition. There are a many others different resources dedicated to SSCs. The following table shows a short overview of SSCs resources divided by functional management areas.

Table 3. SSCs sources (by functional management areas)

Functional Areas of Management	Source
Finance	GONZÁLEZ, A., SCHREIBER, B., JIMÉNEZ, M. (2019)
	ZHAO, L., JIN, S., HUANG, W. (2021)
Marketing	WATSON, J. (2016)
	BOOZ & COMPANY (2011)
Research & Development	RENKEMA, M. MEIJERINK, J., BONDAROUK, T. (2021)
	PÉREZ-MORÓN, J., MARRUGO-SALAS, L. (2021)
	JAIN, P., AGGARAWAL, R. (2019)
Human resources	ROZHWELL, A., HERBERT, I., SEAL, W. B. (2011)
	STEVENSOM, M. (2019).
	CIPD. (2021)
	ŚLUSARCZYK, B. (2017)
	MARCINIAK, R. (2013)

Source: processed by author

The resources stated above can be considered as a basis of theoretical knowledge of the issue in a global scale.

2.2 Motives for Creation of SSCs in Slovakia (comparison with China)

Development and building of SSCs in CEE countries began in the 1990s. The largest expansion in building SSCs in the region has occurred since 2004 when the European Union (EU) started to expand. Several CEE countries entered the EU and became so more attractive to foreign investors. (Marciniak, 2014) In the following section, we focus on Slovakia where more and more centers of shared services are built and improved in this area. The collected information we compare to the world leader in this area - China.

Both countries are a place where a number of foreign companies want to build their SSCs and so use the potential and benefits that the countries offer. Through Table 2. we point out differences that countries differ from macroeconomic point of view.

Table 4. Basic macroeconomic indicators of the Slovakia and China (2020)

	China	Slovakia
population	1,4 (bil.)	5,45 (mil.)
HDP per capita (in USD)	10 925,728	19 156,89
Inflation (in %)	2,42	1,92
Unemployment (in %)	5,15 (2019)	6,69
Global Finance Safety Index Score	26th place (8,06)	85th place (10,84)
Global Competitiveness Index	16th place	50th place

Source: processed by author according to data from WORLD BANK (2021); GLOBAL FINANCE (2021), IMD World Competitiveness Center (2021)

Although Slovakia and China are diametrically distinct in their size and quantities of residents, both are centers of interest of many foreign companies that want to build their SSCs. The decision of foreign investors can be influenced by the position of the country in individual indexes. More secure country according to Global Finance safety Index is China. This country is on a better position according to Global Competitiveness Index too.

In Slovakia, there is a large number of SSCs, whose countries of origin are primarily North America (28 %), Western Europe (63 %), Asia (8 %), or South America (1 %). (SARIO, 2021)

To place foreign companies or use SSCs in Slovakia leads several reasons that can be considered as the positives of that country: language skills (English 91 %, German 60 %, Russian 12 %), qualified labor force, high adaptability of the workforce, constantly growing network of infrastructure and transport (TEN-T system), the currency of the euro, political stability, high economic performance, the activity of the institutions (SARIO, Ministry of Economy of the Slovak Republic, or the Ministry of Social Affairs and Family, Forum for business services centers.

The relevant ministries and eligible agencies are actively involved in building an attractive investment environment in the country, offer incentives for building SSCs and present this activity abroad. The successful examples of specific centers of shared services established in the country. Examples of such companies are AT&T, DELL, IBM, COVESTRO, Deutsche Telekom Systems Solutions Slovakia and others. (SARIO, 2021)

For comparison, we also state the situation in connection with SSCs in China.

Over the past 5 years, more than 70 % SSCs was created from a total of 1,000 SSCs in the country. From the original intention to increase the financial efficiency of foreign companies grew gradually to digital transformations.(ACCA, 2020)

Corporations are motivated to build SSCs in China by several factors: cheap work force, population is sufficiently qualified, many Large Universities and Colleges, government incentives (encourage large but also smaller foreign corporations to place their SSCs right in China), China's State-Owned Assets Supervision and Admission

Commission of the State Council (manage many large state enterprises in order to attract new SSCs to the country), IT and communications infrastructure, proximity to existing operations. (KPMG, 2014)

The EF English capability index 2018 advises China to a low level of English language knowledge. Only 1 % of country's population is actively using English. In large cities (in the north, East and South – Beijing, Shanghai) this share is higher. Portuguese is significant which is used as official language in Macau and Spanish. Both languages were expanded in the country, especially thanks to the trade with south-american countries. People near the northern borders speak Russian. (GoEast Mandarin) Areas providing services for the northeastern Asian market require Japanese and Korean language. (AmCham Shanghai, 2016)

SSCs in Slovakia are located in several Slovak cities. The main area of interest is the capital of Bratislava (Dell, IBM, PwC, Henkel, Amazon) and the second largest city of Slovakia - Košice (Lenovo, IBM, Siemens). SSCs are also located in other cities such as Trenčín, Žilina, or Kysucké Nové Mesto. (SARIO, 2021)

In the case of China, areas such as Beijing, Shanghai, Guangzhou and Shenzhen were in the center of interest. The Chinese government seeks to improve geographic capacity and capabilities through the development of other places that are not so expensive and crowded - Dalian, Tianjin, Wuhan, Chengdu, Xi'an. "New places" of interest are trying to distinguish from each other. They implement The Single-Center Mode - each of them is specialized in a different kind of services and markets. (KPMG, IQPC)

We can conclude that while in Slovakia it is a provision of relatively equal kind of services in individual cities, in China, cities are specialized in a particular type of service. They increase their quality and try to enforce in a competitive struggle.

2.3 Impacts Covid-19 at SSCs in Slovakia and China

Global Pandemics hit all the areas of society. In this section, we will focus on SSCs based in the Slovak Republic and in China. It was necessary to pay higher attention to global mobility, including changes in travel rules or personnel policies. In most cases, it was necessary to consider a temporary stopping of the work or performing the work from home office. In the case of SSCs, it is an optimal way to solve the situation from home office. It can be said that in most of these centers, this way of work can be done almost 100 percent. (PwC, 2020)

The BSCF carried out a survey last year, which was the study of the impact of pandemics to implement activities in SSCs in Slovakia. It follows from this survey some interesting facts.

Firstly, it is important to say that up to 97 % of the state that they continue without significant restrictions or problems. The remaining 3 % of centers confirmed partial problems. The development in SSCs in Slovakia was supported mainly by the possibility of employees of these centers carrying out work from home office. In 34% of SSCs in Slovak, it performs work from home office over 90 % of the total number of employees of the company.

Changes in work organizations are expected in workplace in SSCs. Up to 41 % of member companies are planning 1-2 working days to work out in the office and 3-4

days to allow work from the house. In the case of 28 % of companies, full flexibility will be allowed according to individual needs of employees. However, 13 % of companies continue to prefer the greater part of the work to do directly in the offices. Most SSCs prefers and implements the work from home office to their business activity and their next step will reduce offices. The positive development was also noticed in the productivity indicators of SSCs, where companies recorded a partial increase and a 3 % significant increase in labor productivity. Pandemic did not significantly affect the productivity of 72 % of BSCF. However, in this context, it should be noted that there is an overlap of differences between working time and relaxation for this indicator.

Pandemic can be regarded as a stimulus, which led to the development of automation and robotization in centers. As is apparent from the above survey, 25 % of SSCs said they would plan to automatize 10 – 20 % in the next 2-3 years. In the case of 19 % of membership companies, automation and robotizations in the next years are more than 20 %. 6 % of companies aim to achieve a level of automation at less than 10 %. However, there remains 41 % of SSCs in Slovakia that did not define any specific objectives about automation and robotization.

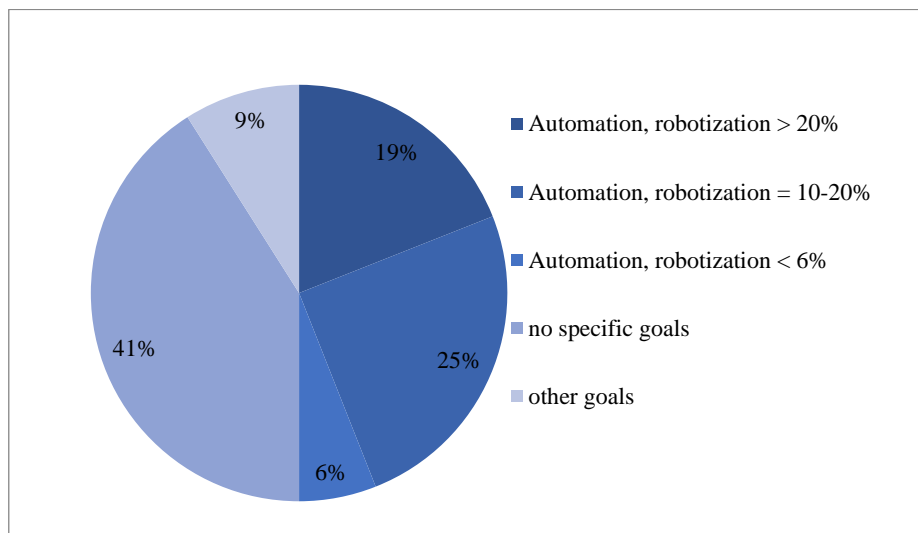


Fig. 3 Share of automation and robotization od BSCF memebers in 2020. Source: processed by author according to data from American Chamber in Slovakia, BSCF(2020)

In practice, several types of automation and robotization can be distinguished. 78% of BSCF member companies have decided to implement automation of internal processes as a main type and data reporting automation as well.

China looked at the pandemic situation from a different point of view. At the beginning of 2020 the pandemic was broke out in this country. China was the first country that faced challenges in relation to the measures against the spread of the virus. These measures also hit the SSCs. The Position of China was very challenging because the whole world watched how it will proceed.

As the first in the world introduced a large work from home office experiment and at the end of 2020 200 million people working remotely. The immediate solution that has been considered a temporary, became potentially permanent solution to the future. 67 % of respondents say remote work will be a key of operational design. There is every possibility, that we could see a rapidly increasing number of China's shared service employees working from home office in the future. (Hampton, 2021)

Despite the positive feedback from SSCs, they describe following challenges: continuity of hardware infrastructure, lack of remote work, insufficient home office space. Zhan Yuqi (Aecom's head of process excellence and transformation Greater China) defined following problems: reducing the effectiveness of communications (less face-to-face contact), or fewer people working on time-sensitive tasks. After the extraction of Pandemics 1/3 SSCs leaders foreseen a positive shift in automation and digitization of workers.. (Deloitte 2021)

In China, the flexibility of shared services will be greatly affected by corporate culture and background. There is a great proportion of businesses that are owned by the State in China. Tony Lui (director of Samung's HR SSC), predict future developments in SSCs in China in two ways:

- a) In state-owned companies and companies with a deeper East Asian culture, flexibility will be reduced as the normal situation is reviewed after the epidemic.
- b) In globalised multinational companies and local Internet companies, mobile office will become the norm and digitalisation will continue. (Hampton, 2021)

3 Conclusion

SSCs deals with the amount of authors and SSCs are defined from different points of view. The article has brought an overview of sources dealing with SSCs according to the functional areas . This is a basis of further exploring this issue. The main theme (SSCs) are further specified on the example of a particular country - Slovakia. For a better understanding of the explanatory problems, we compared this small European country with the world leader in this area - China. In examining SSCs in Slovakia and in China, we found the following differences:

- The Slovak Republic is still the largest development potential in the largest cities of the country as Bratislava and Košice, China passes through the new places because the original places of interest are already crowded;
- In Bratislava we can find centers providing various types of services (Call Centers, IT, Finance Management), but China uses SIGLE-CENTER MODE, thus a particular place / area specializes only for one type of service (for example IT);
- The majority of SSCs in Slovakia provide services for foreign companies/countries and the majority of SSCs in China provide services for the Chinese mainland;
- The most used foreign language in SSCs in Slovakia is English, in China is most used Spanish, Japanese, Korean or Russian language.

- China was the first country struck by Pandemics and all the measures it has introduced and still introduces are pilot measures that follow countries around the world. Slovakia follows this model with a certain period of time;
- China is a pioneer at work from home office and creates „New Normal“. Slovak centers these trends (but also other trends) only implemented in their strategies.

Finally, it can be concluded that although Slovakia compared to China is a small country dependent on foreign markets, we can expect great potential to grow and further develop in the SSCs area. It will be important to monitor the development of SSCs in Slovakia in the coming years and to compare this development with previous results but also other countries within the region. Further development of these centers will be contained in the following article.

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