



SIM 2015 / 13th International Symposium in Management

Specific Models for Romanian Companies - Finance Shared Services

Ioan Petrișor, Diana Cozmiuc*

West University of Timișoara, Blvd. Vasile Parvan, Timișoara 300223, Romania

Abstract

Shared services are a type of intra-corporate activity for support functions such as information technology, finance, purchasing, marketing. Out of these functions, the finance shared services are singled out in this paper. The activities pertaining to the finance department are analyzed according to The Association of Chartered Certified Accountants ACCA professional standard. Some of these activities are highly suitable to be managed as iterative back-office processes, such as the receivables account and the payables account. We propose several finance shared services business models which we have found evidence of in Romania. Finance shared services may be managed as pools of diversified activities, as simple iterative processes (such as invoices), as end to end accounting processes, or as inclusive solutions which involve other functional areas such as credit management and purchasing. Evidence of Romanian companies providing such services has been collected using Internet resources such as job advertising sites, company web sites and the media. In Romania, there are a variety of shared service and business process outsourcing providers, such as Continental Automotive, Hella, Oracle, British American Shared Services, Hewlett Packard, Bosch, Accenture, Genpact. The purpose of this paper is to exemplify the benefits brought by one type of shared service and its value proposition potential. This article is part of a research on value based management, in which the particular case of intra-corporate business value pattern is analyzed for production, research and development, and overheads (shared services). Intra-corporate business is managed using the transfer price which is different from the market price, and this is one reason why we call this business model "specific". The other reason is that Romania as a location offers the very advantages shared service providers seek.

© 2016 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management

* Diana Claudia Cozmiuc. Tel.: +4-0744-395698.

E-mail address: diana.cozmiuc.record@gmail.com

Keywords: shared services; business process outsourcing; accounts receivable; accounts payable; modular solutions

Shared services are a type of intra-corporate activity for support functions such as information technology, finance, purchasing, marketing. The logic and value proposition of shared services has been analyzed in a separate article (Cozmiuc, Petrișor 2015). According to this paper, shared services are usually iterative standardized activities managed via transfer price, but may also be complex functional support managed via allocations. In the former case, shared services are clearly defined activities and the object of the works of consultancy firms, such as Pricewaterhouse Coopers, KPMG, Ernst and Young, Deloitte, Accenture, Mc Kinsey; the object of the works of professional accounting bodies such as The Institute of Management Accountants IMA, The Chartered Institute of Management Accountants CiMA and The Association of Chartered Certified Accountants ACCA; the object of excellence standards in service provision such as The Hackett Group standards. The advice of consultancy firms, the works of accounting standard bodies and the excellence targets are worked into this analysis. Standardized shared services may offer quality, efficiency, accountability, flexibility, scale. Within this paper, we propose several models for finance shared services which we exemplify in Romanian companies. These examples are common place and may be used on a high scale. The goal is to analyze the benefits of the shared services value proposition.

Business models for finance shared services

The finance function is highly suitable for a shared service approach. Typically, a finance department comprises accounting services such as accounts receivable, accounts payable, fixed assets, journal entries; management reporting; plant controlling; project controlling; business controlling; management (The Association of Chartered Certified Accountants ACCA 2015). The activities in the finance function are either simple and iterative or complex and knowledge intensive. Activities such as the management of accounts receivable and accounts payable are the common place of shared services. The finance function offers the possibility for more complex remote activities, such as the end to end accounting and cross functional support from the sales or purchasing organization.

Romanian companies have grasped the opportunity of finance shared services. Companies such as Continental Automotive, Hella, Oracle Romania, British American Tobacco, Hewlett Packard, Bosch, Genpact, Accenture provide a variety of finance shared services and business process outsourcing. Continental Automotive Romania has a department for controlling services out of which most are shared services; it bundles management reporting and analysis, sales administration, investment and business analysis, accounts receivable. At Hella, there is a similar finance center which pools management reports out of SAP, investment management, IFRS auditing, invoice management, miscellaneous reports. Oracle has a full department for credit management, that is accounts receivable and all cash collection processes. At British American Tobacco, shared services are a standalone company unit, called British American Shared Services which is responsible for the whole of Europe; these services consist in procure to pay, global treasury operations, order to cash, audit, global intercompany, finance service desk. Hewlett Packard renders a variety of services, related to cash collection, financial analysis, all with foreign language expectations. Bosch is also diversified and offers SAP support for the finance function, invoice handling, management accounting, internal controls, and uses the German language to do so. Genpact is a business process outsourcing company that offers book keeping services for accounts receivable, accounts payable, general ledger with several languages. Accenture provides simple and complex accounting and controlling services, such as management reporting with several languages, accounting analysis with several languages.

Models for shared service provision in Finance are offered in the works of consultancy firms, such as Pricewaterhouse Coopers, KPMG, Ernst and Young, Deloitte, Accenture, Mc Kinsey, in the works of professional accounting bodies such as The Institute of Management Accountants IMA, The Chartered Institute of Management Accountants CiMA and The Association of Chartered Certified Accountants ACCA and are the object of excellence standards in service provision such as The Hackett Group standards. These tend to be specific and precise. They frequently refer to the receivables account, the payables account, end to end accounting and sometimes to cross functional solutions. In this article, we match the guidelines for shared services with professional standards for the finance function such as those provided by The Association of Chartered Accountants ACCA and examples of shared services at Romanian companies. The result is intended as a clear definition of finance shared services and an outline of the benefits they bring.

Shared services may be provided for the following activities (Institute of Management Accountants, 2000):

1. managing the receivables account - book keeping (invoicing), credit management, factoring;
2. managing the payables account - book keeping (invoicing), payment terms, buying
3. full accounting for customers
4. pools for knowledge intensive services

1. Accounts receivable are typical business for shared services. Managing accounts receivable is literally managing the corresponding account, which according to The Association of Chartered Accountants ACCA tends to look like this:

Trade receivables account

Balance b/f (opening trade receivables)	
Sales	Cash
Cash - dishonoured cheques	Discounts allowed
	Sales returns
	Bad debt expense
	Credit notes
	Trade payables ledger contra
	Balance c/f (closing trade receivables)

Fig.1. The trade receivables account according to ACCA

Managing the trade receivable account involves several departments. Obviously the accounting department handles the booking part (invoices). The reporting of accounts receivables involves several steps and documents: customer order, sales order, goods despatch note, sales invoice. Sales volume and price will be decided by the sales organizations, which is likely to be located close to the customer. Accounting for the documents before and related to accounts receivable, however, is suitable business for a shared service unit. This can be organized via SAP. The collection of cash, granting of discounts and the handling of bad debt expense is credit management business. The accounts receivable shared service unit may handle the book keeping of the invoice alone. It may do so for a large number of invoices, as this business has great potential for size. This is the way accounts receivable are managed at Continental Automotive, Hella, Genpact.

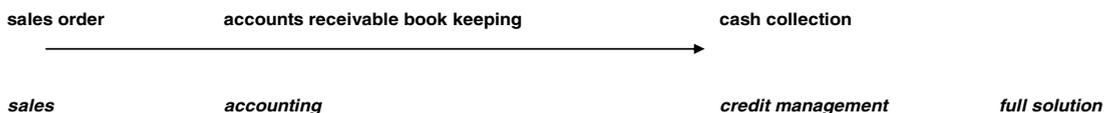


Fig. 2. Functional responsibility for the receivables account

The shared service provider may however manage the cash collection process as well and then perform the role of credit management. The shared service departments at Oracle and Hewlett Packard perform these duties. The

customer will still retain ownership of the accounts receivable. At the extreme, the shared service unit can buy the accounts receivable in exchange for a fee, and manage the collection process as a standalone unit, a "factor" that is. Banks generally provide this type of service, but internal factoring organizations have been known to exist (for example at Siemens, they are mandatory for worldwide units).

Providing shared services for accounts receivable management involves several functional areas and degrees of responsibility. As far as this type of shared service business is concerned, size and standardization are advantages. The goal of the shared service unit is to grow competent in managing accounts receivable. There are professional guidelines for credit management, such as those set by The Institute of Credit Management in the United Kingdom and the Hackett Group standards. Accounts receivable management processes involve zero uncertainty and are subject to procedures. If these procedures are world class, the unit will provide best quality shared services. Organizing the management of the receivables account in a dedicated location generates efficiency, in the form of economies of learning, process improvement, elimination of idle time, the potential for low personnel cost. The content of these activities is managed via a Service Level Agreement (Cozmiuc; Petrisor 2015) and is therefore controllable by the customer and accountable by the seller. The volume of services provided is, however, free and therefore the customer has the flexibility to buy as many services as needed rather than bear fixed costs. This allows the customer to focus on core activities. In practice we have found several ways to manage accounts receivable shared services: as disparate processes (for example, Continental Automotive, Hella); as standardized processes with high scale (for example, Genpact); as full cross functional solutions (Oracle, Hewlett Packard, British American Services, factoring organizations). Only the latter two benefit from efficiency in organization. Because topics related to accounts receivable cover several functional areas, as far as shared services are concerned, it brings advantages to organize these activities as a module and provide a full solution to the customer. It will create similar activity based costing efficiency and learning effects in the sales and cash collection organization. Organizations such as Genpact employ business operations professionals who optimize the processes involved by the business. At Genpact, accounts receivable management processes are managed in the customer language. Shared services have the potential to be organized in a single unit for the whole corporation or for a region, which means they have the potential to become a high scale activity. Romania provides the benefits sought by shared services customers on the long term and therefore may be the object of further research as a suitable location for shared services.

2. Managing the accounts payable involves similar processes. The documents preceding the purchase invoice are purchase requisition, purchase order, goods received note, and can be managed as a shared service. The buyers in the purchasing departments will be responsible for these. They will also be responsible for the payment, outstanding days payables and offering discounts. The payables account is structured similarly to the receivables account, which means that shared service providers can manage invoices or a module comprised of invoices and cash payment.

Trade payables account

	Balance b/f
Cash	Purchases
Discounts received	
Purchase returns	
Trade receivables ledger contra	
Balance c/f	

Fig. 3. The trade payables account according to ACCA

At British American Shared Services Europe, "procure to pay" services handle the processes related to accounts payable. Accounts payable management may involve simple accounting processes, as is the case at Continental Automotive, Hella, Genpact. These may be charged a fee for each invoice to the customer other subsidiary of the

corporation. There may be several shared service providers within the corporation. Alternatively the shared service unit will provide for the region, as do British American Services Europe, or for the corporation.

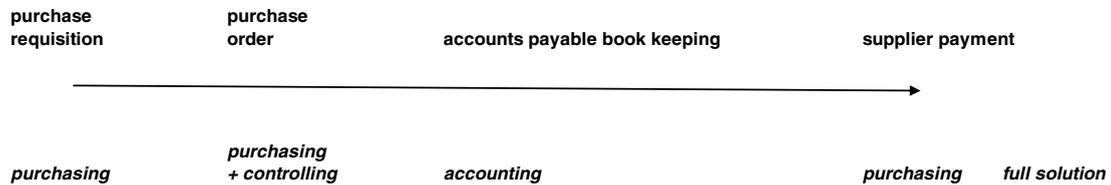


Fig. 4. Functional responsibility for the payables account

End to end solutions are recommended by Accenture (3013) as the latest trend in shared services.

3. Accounting shared services will cover more activities, such as fixed assets, journal entries, internal controls, SAP management. Companies such as Bosch and Genpact offer a variety of accounting activities. At Genpact, there will be a customer structure set in place to manage customer demand and a business operations excellence structure to make sure all processes are at best quality standard.

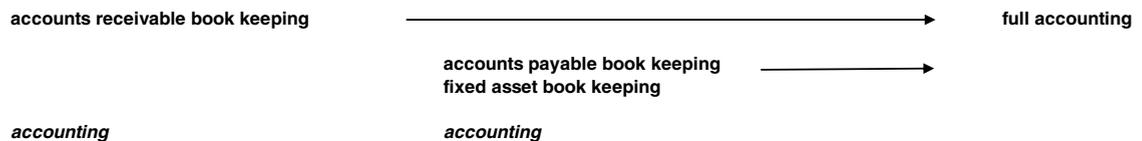


Fig. 5. Full accounting responsibility

Full accounting may be split into iterative activities managed via transfer price and knowledge intensive activities managed via allocations. The benefits brought by accounts receivable and accounts payable are consistent with iterative activities and may be brought by iterative activities in full accounting. Knowledge intensive activities have a different logic; they may be bundled with the purpose of knowledge creation and combating silo thinking. This is however outside the common place of shared services. According to KPMG (2013) convergence among functions in shared services is the next step for this type of activity.

4. Shared services are usually standard processes aiming for excellence. Whereas accounting and account management topics are within the common place scope of these activities, so are more knowledge intensive topics such as management reporting and analysis. The globalization of accounting databases such as SAP and SAP BW has made it possible for remote activities to be conducted. Companies among which Continental Automotive, Hella, TRW, Hewlett Packard, Accenture offer a variety of controlling services. At Continental Automotive, various corporate subsidiaries are provided management reporting and analysis; the same goes for Hella, Hewlett Packard, Accenture. At TRW and Hella, the central corporate department is supplied services that belong to that department but are located in Romania. These activities are highly knowledge intensive. At TRW, they involve high financial analysis skills. At Hella, they involve strong auditing knowledge according to IFRS standards. Both Continental Automotive and Hella are highly diversified and include in addition to the previously mentioned activities sales administration and reporting, logistics reporting, investment controlling, project controlling, business controlling. Diversification only allows for the low personnel cost advantage, whereas seeking high scale standard activities creates best class processes and modularity.

Management highlight

Shared services are concrete and well defined. Since the 1990s, shared service centers have been organized around the world. According to the English Institute of Chartered Accountants, more than 30% of U.S. Fortune 500 companies have implemented a shared-service center, and are reporting cost savings in their general accounting

functions of up to 46%. Managing shared service units is subject to standards as per consultancy firms' advice (Pricewaterhouse Coopers, KPMG, Ernst and Young, Deloitte, Accenture, Mc Kinsey), professional accountancy bodies' advice (The Institute of Management Accountants IMA, The Chartered Institute of Management Accountants CiMA and with The Association of Chartered Certified Accountants ACCA) and the object of excellence standards in service provision (such as The Hackett Group standards and The Institute of Credit Management more specifically). Shared service units are by definition standards, and the meaning of the word standard is "something used as a measure, norm, or model in comparative evaluations" and "a level of quality or attainment". It is logically obvious that shared service management benefits from the upfront definition of service standards, and all shared services guidelines, whether belonging to consultancy firms, accountancy bodies or excellence standards stress on this (Deloitte 2011). This justifies our approach to shared services using business models - we presume the service provided is as good as the standard it uses (deliberate or emerging). We have therefore compounded this article using the cited guidelines.

Shared services are specific business models for several reasons. One that justifies this article is the different logic of transfer price or allocations to that of market price and shareholder profit (Cozmiuc; Petrișor 2015). The higher the market price, the higher the value created by the organization; the lower the transfer price, the higher the value created by the organization. Profit is a duty to shareholders for the whole corporation but for its branch, it is a mark-up on costs defined mainly for tax purposes. The main value driver for shared services is minimizing transfer price. This article is part of a research on value based management that analyzes the particularities of intra-corporate activity. This is what makes shared services "specific". By definition, shared services are the relocation of services found elsewhere in the corporation in several places (Strikwerda, J., 2008; Cozmiuc, Petrișor 2015). The advantages they bring pertain to their location: quality, efficiency (economies of learning, process improvement, elimination of idle time, the potential for low personnel cost), flexibility and stability in offering all these. We deduced these advantages from the shared service model and found similar arguments in the works of PriceWaterhouse Coopers (2008). When these activities are placed in a single location they bring economies of scale and create the premises for a shift from basic activities to complex and knowledge intensive activities. With scale, knowledge intensive activities such as accounting management, information technology, and database management add value when placed in a single location for a large number of customers. This is a further step in shared service management scarcely explored yet to date. We have found related advice in the works of Ernst and Young (2014). Romania has the potential to offer all these benefits, but a study about the Romanian market for shared services is beyond the scope of this article.

Based on Internet sources such as job advertising, company web sites and newspapers, we have found evidence about both basic and knowledge intensive activities already conducted in Romania. The knowledge required to manage shared services ranges from scarce to extensive. Managing the book-keeping of accounts requires little knowledge, and most jobs advertised by Genpact show for this. Language skills are however welcome. Managing the whole accounting does, however, require a qualified certified professional by international standards, as do companies such as Genpact, Bosch, Accenture. Management reporting also requires qualified professionals in areas such as management reporting and controlling, project controlling, business controlling, investment controlling, as is the case for miscellaneous activities at Continental Automotive, Hella. Financial and business analysis is also supplied by Hewlett Packard and Accenture. Businesses which standardize processes use operations management skills and customer management skills; for example Genpact, Accenture, British American Shared Services. Managing full solutions requires excellent knowledge for several functions such as accounting, sales, credit management, purchasing, as do the services provided by British American Shared Services. Shared service units in Romania would benefit from knowledge about shared service practices across the globe, the guidelines and standards we cited (Pricewaterhouse Coopers, KPMG, Ernst and Young, Deloitte, Accenture, Mc Kinsey, The Institute of Management Accountants IMA, The Chartered Institute of Management Accountants CiMA, The Association of Chartered Certified Accountants ACCA, The Hackett Group standards, The Institute of Credit Management) and qualifications in accounting, credit management and purchasing for finance related topics. We recommend a market study for Romania as a location for shared services that includes the skills needed to provide these services and a strategy on corporate and national level.

Conclusions

Companies can choose to pool a variety of activities, as Continental Automotive and Hella do. They can choose

to standardize processes and services, as do Genpact and Accenture. They can opt to be proficient in accounting, as do Genpact and Accenture. They can take on a different strategy and include all functional areas, delivering the customer a full solution. British American Shared Services provide customers solutions such as procure to pay, order to cash. Shared services may refer to parts of corporate functions such as global treasury operations at British American Tobacco. The strategy of diversification involves no advantage but Romania as a low cost location. Selling standardized processes such as accounts receivable booking is a strategy that brings additional advantages, such as best class processes, the potential for a high scale activity, flexibility to the customer which pays for the invoice not employee. Providing modular solutions to the customer also creates best class processes, a knowledge intensive activity, the potential for high scale, and a coherent organization structure that serves the purpose rather than the organizational function.

References:

- ACCA The Association of Chartered Certified Accountants - "Finance transformation: experts insights on shared services and outsourcing", The Association of Chartered Certified Accountants 2012
- Accenture - "CFOs benefit from shared services shake-up", CFO Publishing Corporation 2013
- Cozmiuc, D; Petrișor, I. - "Specific Business Models for Romanian Companies - Shared Services", paper presented at the 13th International Symposium in Management, October 2015
- CiMA The Chartered Institute of Management Accountants - "Centralized, decentralized and shared services", www.cimaglobal.com accessed on November 2015
- Copeland, T. E.; Koller, T. M.; Murrin, J. - "Valuation: Measuring and Managing the Value of Companies", John Wiley & Sons, 1994
- Deloitte - "Shared Services Handbook", Deloitte MCS Limited 2011
- Ernst and Young- "The new case for shared services", EY 2014
- Garvin, David A.; Levesque, Lynne - "The Multiunit Enterprise", Harvard Business Review June 2008
- Ghia, Ankr - "Capturing value through IT consolidation and shared services", Mc Kinsey & Company 2011
- The Hackett Group - "Global business services expertise", The Hackett Group 2015
- Janssen, M.; Joha, A. - "Motives for establishing shared service centers in public administrations", International Journal of Information Management, 2006
- The Institute of Management Accountants IMA - "Implementing shared service centers", Statements on Management Accounting 2000
- Kaplan Publishing - "ACCA F2 Management Accounting", Kaplan Publishing 2015
- Kaplan Publishing - "ACCA F5 Performance Measurement", Kaplan Publishing 2015
- Kaplan Publishing - "CIMA P1 Management Accounting", Kaplan Publishing 2015
- Kaplan Publishing - "CIMA P2 Advanced Management Accounting", Kaplan Publishing 2015
- KPMG - "Shared Service and Outsourcing Institute", www.kpmg-institutes.com
- KPMG - "Next generation convergence demands next generation shared services", KPMG 2013
- PriceWaterhouseCoopers - "How to design a shared service center that works", PriceWaterhouseCoopers 2008
- Stewart, G. B. - "The Quest for Value", Harper Collins 1991
- Strikwerda, J. - "The Emergence of the Multidimensional Organization", Amsterdam Business School 2008
- www.bestjobs.ro
- www.kpmg-institutes.com
- www.oracle.com, accessed on November 2015
- www.sap.com, accessed on November 2015
- www.sharedserviceslink.com, accessed on November 2015
- www.ssonetwork.com

Romanian companies have grasped the opportunity of finance shared services. Companies such as Continental Automotive, Hella, Oracle Romania, British American Tobacco, Hewlett Packard, Bosch, Genpact, Accenture provide a variety of finance shared services and business process outsourcing. Shared services are specific business models for several reasons. One that justifies this article is the different logic of transfer price or allocations to that of market price and shareholder profit (Cozmiuc; PetriÅor 2015). The higher the market price, the higher the value created by the organization; the lower the transfer price, the higher the value created by the organization. Brand Finance's recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole. 5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates. 6 Apply the royalty rate to the forecast revenues to derive brand revenues. 7 Brand revenues are discounted post tax to a net present value which equals the brand value. Valuation Modelling. Model the impact of behaviour on core financial performance and isolating the value of the brand contribution. How We Help to Maximise Value. Flatworld Solutions' Financial Modeling Services can help businesses take accurate decisions and forecasts. Our professional and expert financial modeling services start at only \$14/hour. Contact us now! A US-based client contacted us to outsource Financial modeling services. They specifically wanted current and historical financial models on free cash flow (FCF), depreciation, balance sheets and earnings before interest, taxes, and more for investor relations (IR). The client was very satisfied with the models that were delivered within a week. Read more.