BASICS OF MARKET-LIKE OPERATION IN THE BUSINESS SERVICES

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SUMMARY

The basic element of business service provider model is the competition in the daily operation of service centres. This competition is natural factor on the business service market, e.g. each outsourcing service providers need to compete continuously with other providers for acquiring new and retaining the current customers considering of price, quality and other different factors of service compliances. If the outsourcing provider company underperforms in these indicators during the partnership and there is a rigorous and consistent service legal agreement between the two partners then the provider could even lose the client. This means a clear market-based operation that after a time becoming the part of corporate culture and intercorporating the thinking about the daily business. If the service recipient is satisfied with the partnership then the provider could improve the quality of service and decrease the operational cost to be more efficient and competitive on the market.
This paper explores the different elements of market-based operation that is fundamental in the various business service providing. The research explains the differences of its significance in the business models focusing on the different motivations, competencies and relations.

INTRODUCTION

In the last decades the business services are reported as the fastest growing area of the European economy. For this reason, in addition to the Lisbon Strategy in 2003, the European Commission adopted a strategy for the development of the services that is intended to analyse the performance of European companies by the business competitiveness of services and their contribution. This document not only contained an analysis, but also a strategy for European economic policy to the development of business services. The business services is a generic term that covers a wide range of services, but mostly inter-company (business-to-business, B2B) transactions. These intermediary services include software development, labour hire and various counselling through a translator, or even bookkeeping activities.

"Business services is a set of service activities that – through their use as intermediary inputs – affect the quality and efficiency of the production activities, by complementing or substituting the in-house service functions."(Rubalcaba & Kox, 2007, p. 3)

The business services aspart of the production services are within the business-related services. It consists two broad groups of service activities, on the one hand the operational business services, which provide a relatively standardized services and the knowledge-intensive business services, which are generally customer-specific services with relatively high knowledge content. Thosefeature of business services that it can be provided in-house as well, could distinguish them from those other business-related services, which can only be obtained only from other external service provider (e.g. energy, banking, insurance, and telecommunications).(Rubalcaba & Kox, 2007)

In the business services sector the most important two operating models of global sourcing are the outsourcing and the shared services. Of course they have many definitions in the literature but to introduce two favourite of them that could be seen below.

"The outsourcing is essentially nothing more than the transfer of activities previously performed within the company outside contractors."(Hinek, 2009, p. 11)

"Shared services is a collaborative strategy in which a subset of existing business functions are concentrated into a new, semiautonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in the open market."(Bergeron, 2003, p. 3)

Because of the lots of similarities in the goals and the tools used in both model, many expertsin the literature think that the shared service concept is only one subtype of outsourcing. Because of this there are many confusingterms in the literature like"SSC outsourcing" (Thorniley, 2003), "captive outsourcing"(Futó & Klein, 2007)or "internal outsourcing"(McLemore, 1997)(Góber, 2004)which cover the shared services solution.

But it is important to emphasize that there are more fundamental differences between outsourcing and shared service models. The simplest way to illustrate the most important difference that all the (narrow and extended) definitions of outsourcing state that "outsourcing"means transferring a former internal function to an external (not the same) organization. Thus, in the relation of logical interpretation of sourcing models, the "outsourcing" means crossing the organizational boundaries. In the contrast of it, all the (narrow and extended) definition of shared services emphasizes that here is no transfer of function, but rather a reorganization, that meansthe concerned function remains within the organizational boundaries in some way. This "some way" is realized in many ways but typically in an internal service centre. Terbócs (2007) definitional approach could help to understand what a shared service centre is:

"... from the service recipient not fully independent business unit that providing services for more organizational departments." (Terbócs, 2007, p. 17)

This definition enables to integratea variety of different shared service solutionsof the business practiceinto a theoretical framework. From the outsourcing the main distinctive feature of the shared service centre is that it is not totally independent of the parent organization.

Establishing a shared service centre is only one option for optimization of service functions. There are another options like optimization of business processes and the reengineering. To decide which processes need to optimize it is worth to analyse business processes in the viewpoint of volume, strategic importance and process costs. It is not necessary to optimize those services that the company can deliver in-house cheaper than external providers. But if services are less important strategically company could consider to buy some part of services from external providers. However if the cost of service providing outweighs the level of market competition then the process must be optimized. In the strategically key processes the classical optimization methods should be used because its cooperation with the core activities the organizational consolidation is not beneficial and outsourcing could not mean as an option. If the processes are less important strategically optimized it is used to optimize in the form of consolidation but a company has to decide which location is better for service functions, the corporate centre or a shared service centre that operates as a separate organizational unit. In this situation the outsourcing can emerge as a real alternative. (Marciniak, 2013)

If we analyse what is the most important distinguishing point between the simple centralization and the shared service solution than we could say this is the market-based relationship in the service provision. Since the shared service model also means an internal service delivery but there is market-based relationships between the service centre and the service recipient organization or department. This relationship is fundamental to the entire shared service model, as it determines what level of benefits will be achieved through the model, is there any incentives that promote the further development of organizational efficiency to a higher service level or how independent could be the service centreas a division in the whole organization, or what kind of operational difficultiescould the centre overcome in the everyday operation.

THEORETICAL BACKGROUND

Transaction cost theory

The issue of competition within the organization leads back to Coase, who in his transaction costs theory (Coase, 1937) made distinction between market and hierarchy as two endpoints on the coordination scenes of organization and the hybrid solutions between the endpoints.

It is important to emphasize that the two solutions are not so far apart. Some researcher (Kapás, 2003)has recognized that the hierarchy (company) and the market is also very similar to each other and, indeed, they are interpreted on the basis of each other. That means the market and the company is not just an alternative to other, but complement each other as well. The subject, location, time, institutional contexts and social relations of the transaction determined which coordination mechanisms are able to effectively coordinate the relevant transaction. Both the market and the company as well as hybrid solutions can be effective in transactions in certain institutional environment, but there is no guarantee that an effective institution ever created. (Kapás, 2003)

A service centre affiliated to the classical organizational hierarchy is monopoly in service delivery and does not need to endeavour to improve the quality of service and reduce the cost of it. In this case the service centre could become too comfortable and take the things for granted and it reduces the operational efficiency. In order to dislodge the service centre from this convenient situation the management of the parent organization needs to break the monopoly and have to compete it taking interest in more economical operation. Indeed in order to increase the efficiency of the hierarchy it should be replaced or more precisely be combined with a market or market-based solution.

Resource dependency theory

The resource dependency theory is sometimes classified as one of contingency theories, but the interpretation of environment is different from other contingency theories, because here the environment means those organizations which the organization has exchange links and cooperation with. The organizations are interested in maximizing their resources and ensure their continuous supply, avoid the uncertainties and to minimize dependence on others. According to Pfeffer and Salancik the resource dependency can be regarded as important input and output for organizations, where it is essential which organizations control them because the resources are such company-specific and operational factors of production, which can be purchased on the markets as well. The resource dependence theory interprets the organizational ability as well as a routine or a set of routines, where it is relevant, how the organization performs a simple or more complex activity. (Gelei & Schubert, 2006)(Szolár, 2009) Among the co-operating organizations the relationship-specific investments have key roles, which is classified by Bensaou on basis of the buyer and supplier relative importance to each other and distinguished four basic connection types (Király, 2011):

- market exchanges: no party will invest in specific projects in the form of relationship (the partners retain their independence);
- captive-buyer company: the buyer invests unilaterally in lay-specific assets (the supplier is dominant);
- captive-supplier company: the supplier invests unilaterally in the relationship (the buyer is dominant);
- strategic partnership: both cooperating party has high relationship-specific investment (mutual dependence).

In practice, all four connection types exist but due to the mutual benefit and satisfaction of the partnership efforts (win-win relationship) in long-term only the market exchange relations and strategic partnership could survive.

In the case of shared service centres the dependency is special because the previously decentralized organizational functions will be centralized be the centre of the service provider, the company dependent on, however, the dependence on two-way and reciprocal, because by default the service centre, the company owns, so its existence-operation funding resources to the level of care depends on the parent company. The company's dependence on the extent of the service centre is much smaller than in the case of a service is outsourced to external providers. (Marciniak, 2014)

RESEARCH QUESTION, METHODOLOGY AND LIMITATION

The shared service centre is essentially market participants at a certain extent. But it is an interesting question, what kind of parts consists this market-based relationship between the provider and the recipient of the service which parts departments and how it is working. The results of the research literature examined in an interview series. It was also tried to reveal what other factors play a role in the market-based operation. All of these factors have collected in a simple market-based operation model. The relevance of the collected factors were examinedin a questionnaire and successfully validated in the Hungarian market but these market results are not part of this research study.

MARKET-BASED OPERATION IN THE SHARED SERVICE MODEL

In the operational excellence of a service centre both the external (e.g. tax system, etc.) and the internal (e.g. performance management, etc.) factors play important roles. Since the external environmental factors for a service centres operating on a particular location are enablers, at least as long as the centremoves to another location, and it has very little influence but the internal factors are the keys. The internal factors are shapedby the parent company itself or the service centre. Therefore, this research study focuses only on this latter issue.
Generally the market-like relationship in the shared service model results a market-based operation. According to our researches it has more basics. These basics are illustrated on the following figure.

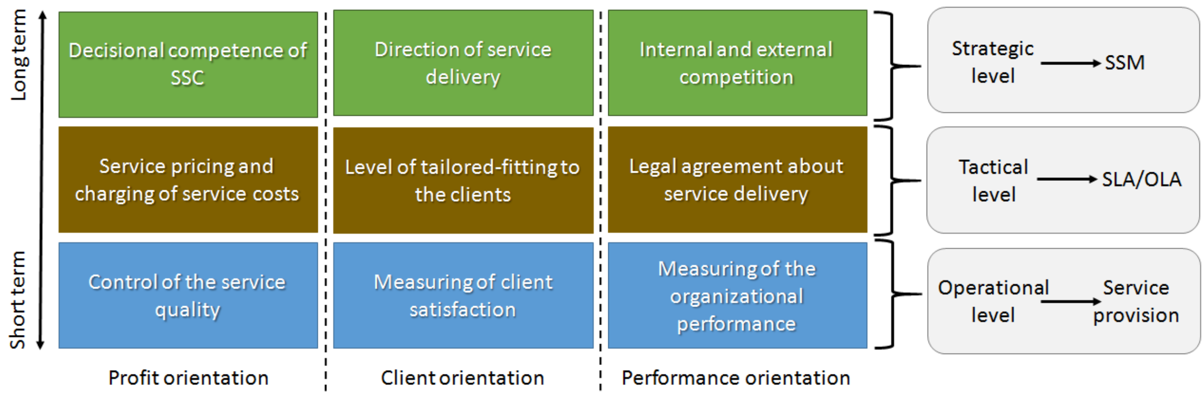

Figure 1. Market-based operation model in shared services
Source: own work

The market-based operation has three levels that range in time dimension from short term till long term. The first level is the operational that concerns with the daily issues of service provision. Control of the service quality is vital for the long relationship and help to remain the operational excellence. Measuring the client satisfaction is important to know in time how and what need to change about the service delivery. Measuring organizational performance is a key issue in the shared service model as well. The managers of service centres need to focus their efforts in two directions. First, they need to change the dashboards they use to more effectively communicate their value to their internal customers and prompt conversations that progress beyond money saving ideas to processes that improve business results. Secondly the parent organization require the continuously looking for newer cost savings and efficiently-oriented arrangements. These efforts need exact points of reference that is impossible without measuring organizational performance.

The second level is tactical that is usually controlled by a legal agreement. It could be service level agreement (SLA) or an operational level agreement (OLA). Nowadays there are some shared services organization where is no legal agreement between the peers but they are only few and more and more centre realized the importance of it. In the daily operation it is very important how the service pricing and the charging of the service cost elaborate and function. And it is also not irrelevant what level client-centric the services delivered from the service centre.

The third level is the strategic that is related to the shared service management (SSM). It consists of the decisional competence of the service centre that means what kind of decisions the service centre could decide independently. Very important is the direction of the service delivery. There are service centres which deliver only to internal organizational departments but there others which deliver not only internally but externally as well. There could be two different competition in the shared service model. The internal competition means that there are more service centre in the parent organization and these centres are competing with each other to win the delivery of a certain service. The external competition means a continuously measuring between the market players. It is not only about the price but about the quality as well.

In the following partssome important parts of this model will be analysed.

PARTS OF MARKET-BASE OPERATION MODEL

Direction of service delivery

One of the key questions about the market-based operation is the direction of service provision. The centreprovides the service only inward or outward as well. In general terms, the greater proportion have the external customers, the more market-based is the operation. An external client will use a particular service only that if the service compared to other services available in the market is competitive in price and quality. This in turn induce the service centre competition, which has a positive effect on the quality of the service. In addition, if a service centrecan provide only inward, it is not sure that it has a real picture about the price and quality of service.

Service pricing and charging of service costs

Among the service recipients it is frequent the frustration and dissatisfaction. The primary interest of the recipients is the good service levels and the low price. The successful shared service centers are constantly improving service levels and fairly impose a fee for their service.

In order to maintain the efficiency of services and trying to keep the number of transactions proportional to their cost structure. As the volume increases, new resources and costs are incurred. In a fair and equitable system the cost of internal support services is directly charged in proportion of the services they used. However, this cost-chargeback often operatein an oversimplified cost model. In this case, the cost of the service organization are overly aggregated to feedback accurately the relative use of each resource users. As a result, some users still support others. (Marciniak, 2014)

The pricing and charging of services are also important issues. The most important questions are the following: what kind of charging system is in use, how price of service provided is calculated. The type of pricing determines the type of service centre responsibility. The more profit-oriented is the pricing, the more market-based is the operation.

Competition of service centres

The competition meanswhat is the parent company's practice about using of services from internal or external ways. It is an opportunity or not for the recipient departments to choose between an internal provider andan external market company if both option exists. The more open is the regulation, the more the market-based is the operation.(Marciniak, 2014)

Decisional competence

In the case of shared service centers' decisional competence, two interrelated and important question arises at this time:

- who conclude a contract with the organizational units;
- who and how determine the transfer price.

The former issue concerns to opt for internal or external service suppliers, ifthere is an appropriate external suppliers in the market and the department have a choice to choose and it is not mandatory to use the internal service center. On the second question determines whether the corporatecentreor the service centredecide about the internal transfer price and with what methodology andwith what profit content. (Marciniak, 2014)

The decision-making competence factor means that the practice of shared service centres may be different regarding to the decision-making powers of service centres. These decisionsare concerning with service operational issues (e.g.customers, pricing, service portfolio, etc.) and these decisions are taken at different level in the organizational hierarchy. The widening of decision-making competence will increase the operational independence and means a transition to a market-based operation.

Measuring organizational performance

In relation to establishing and managing ofa sharedservice centrethe measuring and evaluating of the centreperformance is a key issue. Selection of the appropriatemethod forevaluationensures that theorganizationconsciouslyanalyse theirefficiency related to the services bythe sharedservicedepartments. However,it is very difficultto measureobjectivelywhena service centreperforms well. Of course thegoalis clear:provide services faster, better andmore efficiently.However,how this provision will beplan, measuredand reportand how ithas beencommunicatedit is amore difficult question.

If aservice centredoes not examinetheir performancecontinuouslyanddo not benchmarkitwith others, it will not be able toooperate market-based.In this context,it is also a questionwhether the service centrebenchmarks withonlyan internal or externalorganizations.Thelevel of tailored-fitting to the clientsis also importantbecauseit shows how aservice centrecouldserveunique needsofserviceability. The broaderis the customer base, the higher is theratio ofthe externalclients, the highermay be thelevel of tailored-fitting to the clients and it meansa moremarket-basedoperation.(Liddel, 2009)Those sharedservice centresfollow thebestpracticeswhich measure theirperformancewith theBalanced Scorecard(BSC)model. In particularthose who pay attention tothe customers,evaluate whichservices are able to create value, howsave operationalcosts andwhat are the resultsof the internalproductivity.

Measuring of client satisfaction

Not only the shared service organization need to measure its own performance but it is useful if the centre gets external feedbacks as well. The main stakeholders are the customer so it is useful to measure their satisfaction about the service provided. If this is not done in the centre, the centre will not be aware of the demands about services and will not be able to grow properly and move towards a profit centre.

Service Quality

The guaranteed service level should be accountable and should result a strong improvement in service quality. The requirement should include guarantee for business continuity, a proactive monitoring and event management as well.(Mártonffy, 2011)

Legal Agreement about service provision

The legal framework formarket-based operation based on a service legal agreement (SLA). This agreement regulatesallmatters relating tothe quality and quantityofservices, it represents the basic of accountsand disputes as well. The more accurateand more wide-spreadthe service centreuses theseservice contractswith (internaland external)customers,the morethemarket-based will be theoperation. (Marciniak, 2014)

In the literature,the SLAactuallymeans two things: ameasuringsystem model and atype of contract. The first is aperformancebenchmark,which ismonitoredforall users ofthe service. The secondisan internalcontractis concludedbetweentheprovider and theservice recipient.

Some of thesharedservice centrescalled it as SLA, but usuallythe internalcustomersdo not use anSLA, but anOLA(Operational Level Agreement)contract.The differenceis that the SLAis acontractand not toooften thatthe internalclientsenter intosuch a thing, but it is morefrequent toensure an internal agreement (OLA)to ensure theoperation.

Consideringthe purpose andstructureof the two agreementsare very similar.The three mainfactors oftime, moneyand quality.The receivers want services quickly,cheaply andat very goodquality,but thecentreswant themexpensive andless rapidly. It is aconflict of interestthat iscontinuallyshaped bythese agreementsandpartnership during the cooperation. (Marciniak, 2014)

The service level agreement is a written agreement for operational control and coordination between the partiesin both the outsourcing and shared service model. During the negotiations the demands and requirements of both parties will be clear which will be the basis for future cooperation. The point is that the service level will be agreed by both parties. So in this case the agreement is a document which regulates cooperation between the parties to the expected level of service through the accomplishment till its inspection.(Gast, 2010)

Aservice level agreementis always apart ofalargeragreement orcontractthat defines thetype ofservice provided, the value, the terms and the conditions. Typically itdetailsthe terms of servicequality. For example, theresponse time, the availability, the speed, etc. There are threemainelements:a detailed descriptionof the services, theservicesexecution andmonitoring ofstandardsandindicators ofthe pricingregulations.

CONCLUSIONS

The research succeeded to reveal all of those factors which are important to operational excellence in business services but mostly in providing shared services. These factors could be integrated in a management framework where the factors could be grouped by different dimensions. This research will continue to measure all of these factors on the market players.

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