

Vision about Hungarian Sourcing Market

© **Robert MARCINIAK**

University of Miskolc, Miskolc, Hungary
szvmarci@uni-miskolc.hu

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This research study is about the future of the Hungarian business service market, mainly in the view of the shared service model. My research is the Hungarian shared service market and the players of it. There are a lot of theories which models will be viable or not in medium or long term. I collect these theories and create my own thinking about it. In this study I also analyze the global market tendencies and the changes in the Hungarian market to conclude what will be in this market in 5 or 10 years. The methodology of this research is based on interviews. I did 14 interviews where the interviewees were market experts from different areas (consultants, researchers, executives of governmental organizations in FDI field, HR executives, managers of nonprofit organizations, etc.) who have the market view to judge the market tendencies.

Introduction

Thanks to the globalization, international companies are continuously examining the sources of services and resources required for operation. This means a constant looking for optimum place of services inside or outside of the organization. If it is outside, then finding from which country or continent should it be worth to the source. Therefore, companies start up sourcing strategies that define which sourcing model (shared service, outsourcing, offshoring, etc. or the mix of these) will be utilized. In this research paper I am dealing with the shared service model and especially in the Hungarian sourcing market.

Methodology

I did 14 interviews personally and by phone with key insiders of the Hungarian shared service market to disclose the market tendencies and the conditions for further growth. They are mostly fellows of consulting companies, HR agencies, governmental and professional associations. The interviews had structured list of questions, but it was informal in the following it.

Global trends

On the business service market, there are more global trends. These trends show well those strategic, structural solutions of these organizations that are using these sourcing models in the near and the far future. These trends have an effect on Central-Eastern Europe market and in Hungary as well. I am introducing the most important global trends shortly.

Organizational trends

One of these trends is centralization of technology and service delivery that was in the focus in the last years. The centralization does not mean that one function should be delivered from one location. Moreover the progress of technology makes it less and less necessary. But it is expected that all functions will be controlled and charged by the same principles. It is also a strong trend that offshoring, outsourcing and shared service models are under some kind of integration (Kearney, 2004).

It is another trend that service portfolio of shared service centers is widening. The service portfolios of these companies are broadening further. Today, more than half of the active centers perform more than one service activity. There is sturdy growth in using of transactional pricing. In charge of shared service functions the centers use transactional pricing instead of an FTE-based allocation. It means that service price is determined based on numbers of transactions.

In geographic perspective the successful shared service centers are changing their focus from regional service center model towards hub-and-spoke model. As it became possible the global working and service delivering, the parent companies establish their service centers on the location where it is optimal in organizationally and financially. That is the reason of more and more new greenfield investments in the area of shared services. According to the Accenture consulting firm, 20-30% of new shared service are greenfield. In the operating models, the multi-functional shared service centers are very fashionable. In this way there are two or more functions in the service centers under the same manager, delivered by the same service model and organized in the same structure. According to the Accenture research, the multi-functional model is prevailing today. The question could be arised whether a multi-function model is preferable or the one-functional centers. According to Accenture research, the company executives confirmed that the available benefits through implementation of multi-functional centers could be even greater than it was planned (London, 2008).

IT trends

The companies rely on IT support increasingly. Thanks to the continuous development of IT technologies, the international trade of information-intensive business services is expected to increase in the future. The key reason of them is that instead of industrial products, the IT provides the logistics of services. As industrial companies made their integrated products network over the last decades, so the

service companies began to organize their international networks. As the complex is the integration strategy, the more service centers provide and use these services.

The market is clearly headed in the direction of more and more of delivering everything as a service economy. This not only contributes to taking under control the capital costs of companies, but also represents a strong shift towards operating costs of the transition. There are three major trends in the market: continuously improving the price-performance ratio, a dramatic increase in recognition of customer expectations of technological options and that IT is set to be the main driver of technological progress in innovation and growth, that means a change compared to previous cost-cutting and efficiency-enhancing directions.

The emerging software solutions are associated with the development of hardware improvement as well. The spreading of IT means not only cost-cutting and similarity of operation, but newer cost in connection of operating these systems. Using of an ASP (Application Service Provider) could mitigate it. It is a contract with an external service provider. Softwares are running at this provider and it makes the licensing, updating, and maintenance. The client could enjoy the up-to-date and ready-to-use software in exchange for a service fee. Using of ASP is called on-demand software procurement or Software-as-a-service (SaaS) as well. The ASP supplies its services by softwares running on their own hardwares. With a given hardware environment and a given application, it is possible to serve not only a dedicated client, but also has the opportunity to do the same at the same time for a number of clients.

It continues to grow the number and importance of the so-called joint service providers in business processes and IT systems that are called as "service integrators". These are mostly related to corporate strategy as an outsourcing solution. The cloud-based (cloud) solutions mean another tool in the hands of the traditional service providers to reduce the lines of IT automation and monitoring. For service integrator's it is basic to have a service pack, which allows to serve both internal and external enterprise services by using IT. This extends to all business support services.

The cloud services provide a significant growth for the infrastructure outsourcing, while the outsourcing service providers are also transforming their service portfolios to fit better to the modular technology needs of cloud-based environment. In BPO contracts, the return of model is increasingly shifted to the quality of human resources, cost savings, flexibility, process development and innovation. There will be a significant growth in the KPO (Knowledge Process Outsourcing), especially in the area of business intelligence in particular.

There are more and more signs that the informatics trends of the recent years cleave off an increasingly part of the business service market. Cloud computing, IaaS (Infrastructure as a Service) and SaaS (Software as a Service) solutions are gaining ground in the near future and it will continue to pose a threat to the traditional outsourcing and shared service business of this industry. Most of the international companies are planning to run the majority of the internal IT system in cloud-based infrastructure in the coming years (Tököli, 2011).

CoE and GBS

According to Hackett Group's 2012 research, 80% of the best performing companies are preparing for the introduction of the knowledge-intensive services in their global provider organization. 70% of companies are planning to expand its portfolio of services in the service center. The 72% of companies are already using multi-

functional service centers and the rate is expected to increase in the future. The best-performing companies provide 63% of all financial activities from a service center. Similarly, 54% of companies carry out all purchasing activities from here (Hackett Group, 2012).

The future is for integrated business service providers. These are independent organizations that provide a wide range of services at a high level of accountability and end-to-end services. These service providers will also break in those pioneering new service areas, which today is still outside the scope of the centers, such as promotions management, research and planning or customer analysis. The integrated business services are getting closer to the front-office activities and so a much more diverse shared services model is created (Boulanger, 2011).

According to Accenture's 2004 survey, the shared service model is becoming less concentrated in the transaction-based processing back-office functions and the development drives towards the model of Centers of Excellence (CoE) (Sutcliff, 2004).

Over the past three to five years, significant changes occurred in the shared service organizations. By using new tools and an enhanced corporate image they transformed into a global business service provider. Their name is telling because they operate in a global environment that exploits both the available geographical and labor benefits. They serve more services that are integrated better with the business of the company. The service orientation is towards the culture and performance optimization, which is missing in the early shared service model.

Today the focus has shifted from the classical outsourcing to the business process outsourcing in this region. The shared service organizations are transformed into global business service providers (Global Business Services, GBS) with new tools and renewed design. More and more companies are moving from the operation of the traditional SSC towards becoming a global business service company. It also shows that the company sees shared service centers as a strategic factor. This way of thinking made possible the full strategic control over the all processes, the move from functional processes towards end-to-end processes and uniform representation of the business unit's management. Global business services were created as an independent legal entity in order to strengthen the corporate trend that SSC will have real service and process-oriented culture and unique company character. The price of human resource increases as the firms use primarily the nearshore location like Central and Eastern Europe (CEE) and they bring higher value-added services rather than transactional activities in nature.

The future of model

In an operating shared service center there are two ways for the future. One is more focus on business process development, like using of IT tools, platforms or the other option is trying to improve the position of the center. There are several possible paths for it (Thorniley, 2003):

- to get geographical benefits by using offshoring;
- another to outsource some functions (BPO);
- a third to seek the balance between globalism and localism, so do some activities from a local premise and other from a global offshore location;
- the fourth to create a virtual service center.

There are several thinking about the future of shared service model. According to the shared service executives, the shared service model is really just a process of preparation, even a trip that sometimes may take a decade or even longer, but the ultimate goal is almost certainly the outsourcing to an external service provider. If it is clear from the beginning, then the company could perform the reshaping of its organization consciously and illustrated the shared service concept as a business strategy. At the situation, service center managers will be not only leaders of background activities, but also new business creators in the organization. And if it was successful than it will be value-creating for the organization. Not only at the time of operation, but also at a final outsourcing. Of course, not rejecting a possible (insourcing) later.

The companies should consider the pros and cons of shared service center operation or a contract with an external service provider at every moment. If the service center lag behind against a service provider than its days are numbered. The only conceptual difference between an outsourcing provider and the internal service center is that the latter have internal customers as well, while the former must compete in the market.

Regard to the future of shared service Tamás Valkár thinks that share of outsourcing will grow, but shared service will remain inside the companies, as the parent company can exercise direct control over an organization and cannot be overcome by cost advantages (Valkár, 2013). As the use of external service seems more and more tempting alternative, it can change the activity of the service centers as well. After an outsourcing of services, such as service centers will be responsible for liaison with the outsourcing service management and continuous monitoring of the external service market (Bodnár & Vida, 2006).

According to Deloitte 2013 international SSC research, the traditional business functions, such as in the area of taxation or legal matters, are also becoming more important in the service centers as more and more companies are realizing that outsourcing of these previously taboo areas can make significant savings while the risks are also substantially reduced (Hogan et al., 2013).

SSCs handle significant amounts of data and transactions in which there is additional business opportunity. The centers are also capable to create summary, analysis of processing the same amount of data and perform a variety of trends, patterns and forecasts. It is useful for internal business assistance to their parent companies. This kind of data mining and business analytics does not require a higher value added process special resource expansion, since the data have already been available. Therefore, it is understandable, that SSCs seek every country in the excellence human labor pool – and in this view Hungary is indeed a favorable terrain, because there are a large number of available highly qualified workforces.

In the next period the number of centers serving even more continent may further increase around the world. The new SSCs will place primarily in Latin America and Central and Eastern Europe - according to a Deloitte recently published. More than one-fifth of the respondents considered Central and Eastern Europe as a location in the creation of a new center. The most attractive destination in this CEE region in this competition is Poland (Hogan et al., 2013).

Vision about Hungarian market

About the outlook of model in Hungary, the market experts are expecting stagnation or slow rise. Since there is slowing in the growth of the market, they do not expect dynamic growth, but nor declining. On the Hungarian service market the vast majority of shared service centers are in Budapest. According to key experts, however, this should be changed in the future because without it the growth will be unsustainable. If the change to non-Budapest locations was successful the current number of employees could grow by 5-10% annually, because 80% of service centers are still in the expansion phase. Although there will be companies that will relocate their centers to the East but new ones will come into their places. Since the benefits of the region and Hungary gets not only from a low-cost location, then therefore it cannot be expected that Far Eastern countries such as India or the Philippines, will entice any kind of work from here.

According to Ágnes Henter Tringer this quality exchange supports the interests of the government as well, since the latter centers are probably not so easy to leave the country. Therefore it is an important task that the state support service-specific trainings in the sector. Monika Pintér also like to see this issue. According to her, the normal development of models is that the cleaned transactional activities bring cheaper Far-Eastern countries after a while. The goal is the high-value-added services remain here and more Centers of Excellence will be created. This global trend has already examples in Hungary. While previously several service centers began its operation with lower value-added functions in this country by that time they provide more and more serious processes that require more knowledge or infrastructure. The success of those SSCs that have settled here is contributing to this step forward and primed for further expansion. The model has been collecting experience, more mature firms with higher value added services to newly installed hubs as well (Henterné, 2012; Pintér, 2012).

Attila Suhajda also believes that the model will be viable in the future, since the development of ITC is becoming cheaper to automate or even remotely supervise these activities and organizational innovation is continuously improving the effectiveness of organizations. In addition to the development of the sector is welcome to take place at the same time high-quality replacement is the added value of the services concerned. According to Gabor Vida, most of the service centers operating in Hungary are planning the expansion, but they do not plan further investments and that is also true for other SSC. Overall, approximately 10 % market growth planned for service centers in the Central and Eastern Europe, but within it the growth of companies has already presented here will be higher. The reason of expansion is that the economic and legal environment is favorable to these centers, since the personal income tax positively affected them because they do not employ labor with minimum wage but higher salary employers. The change in the Labor Code also brought them a number of positive developments and the weakening of the Hungarian currency also made profit for them since most of them are actually exporting their services (Vida, 2012; Suhajda, 2012).

Gabor Vida sees about the future development of the model that at the end of the way is not only outsourcing, but to find a healthy ratio between the shared services and outsourcing models. He also does not think that the external service providing would be a clear developmental step for the model, since the model is primarily to support back-office services. Companies make profit not from services of SSC, even if there is such a trend and several service centers can become profit center. There are some companies (such as IBM, EDS), which can provide clearly inside and out and

they are interested in the two models' collusion to make more sales or transaction volume which is published to market participants. These centers provide their services basically by market pricing, with using serious monthly settlement price and quality charging, while inward the organization there is rather a cost pricing.

Providing external services appear in those centers where parent companies already have partnered relationship with the external clients. Such as an external company supplier to the parent company for an area (for example, the parent company outsourced logistics activities) and because of outsourcing, there will be a shortfall of increased transaction capacity in the external supplier company (such as accounting), so this activity will be purchased from an outside supplier (as it was done before, so there is the capacity). Thus, a former only inside accounting center becomes an outside service provider on the market. This is also the case, as the SSCs are not looking for new customers, but the center still contracting and allocates tasks for one of their SSCs. According to Viktória Bodnár, if we see the sourcing model in a little more perspective, it can be said that the main trend is centralization of certain functions and making them more effective. This will be formed in a number of specific ways (internal spin-off, spin-off of external, shared service centers, joint venture, etc.) depends on corporate and economic environment. In this respect, it is not important which one is used by the company because it has to adapt to the wider context (Vida, 2012; Bodnár, 2012).

The organizational effectiveness can only be maintained if the companies do not let it structure slows down by adapting to a particular environment or operating rules. Because after a while the company creates reserves that cause freezes and the organization gets lazy. In this case, only a new operating model, a new organizational structure can be able to shake company, which also can also be applied to carry out some personal exchanges, new goals, or formulating perspectives for employees. No matter how well operates a company in a specific context; these changes need to be able in every 4-5 years to remain organizationally effective. Even if such a change or restructuring cause a short and a slight loss of power, it will re-compensate in the results of restructuring and efficiency improvements (Bodnár, 2012).

According to Edit Bencsik another trend taking shape that the quickly and in large quantities outsourced services to the Far East have begun to gradually relocate. To countries that are closer to Europe or Western Europe, USA. So instead of strengthening the offshore locations the nature sites will progress and in this trend Central and Eastern Europe and Hungary can profit. György Bógel sees as a general trend for the future, that a company will be able to buy, it will be bought from the market (Bencsik, 2012; Bógel, 2012).

Summary

As a result of interviews the future of shared service market will be viable. It means not only stagnation, but further growth as well. The market has become more sophisticated, and shared service centers have to adapt to it. It can cause changes in the structure and role of the service centers. The tasks they perform will be increasingly complex, and organizations are becoming more and more globalized and appear the pursuit of innovation. In Hungary the model will have a good location in the near future because Hungary has a good position close to the West. So it is important to highlight that as a productive activity is relatively easy to transfer to another country, moving a high added value service is not so easy. So it is very

important for Hungary to maintain and improve its economic regulation to attract the newer investments in this business service sector.

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