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Original Article

How Technology Benefits the Use of Shared Service Models in Business

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Abstract *- Oracle Enterprise Resource Planning (Oracle Cloud ERP) allows businesses to adopt shared service models to manage essential business operations such as finances, supply chain, human resources, information technology, and legal. The progressive adoption of Oracle cloud ERP by multinational corporations in the past decade demonstrates its effectiveness in increasing value and opportunities for gradual or exponential growth. Building on prior research, this article offers a systematic approach. It provides innovative leaders with strategies to optimize value-addition, adopt best implementation practices for using Oracle cloud ERP system, and handle business processes efficiently and effectively. The purpose of this study is to present managerial solutions that create cost reduction in overall operations. Therefore, it focuses primarily on implementing shared service models using the Oracle cloud EPR system to improve the financial services for an organization significantly.*

Keywords *- Integrated and centralized financial operations, financial solutions, Shared Service centre, Oracle cloud ERP systems, innovative entrepreneurship, cost reduction.*

1. Introduction

Shared services are a business model used to leverage resources across an organization to lower the overall costs of services provided to customers. The best practices used by multinational organizations include establishing a separate business unit in the system for each agency in charge of providing vital services for profit-related centres for an organization, such as business units for treasury functions (cash collections, suppliers payment & cash reconciliation) under finance operation. The shared service model is not new in the market. Still, the adoption of cloud ERP advancement made the shared service model very effective and efficient for commercial and private sector organizations. For a few decades, the shared service model has fulfilled goals for the industry bringing impressive results, quality, better customer services and cost-saving somewhere 35-60%. This shift in the model is remarkable because, until the 1990s, corporations followed a decentralized model that required that profit centres pay for vital services. The key to shared service is sharing services within a company strategically located in a country; manpower wages, benefits and the country's income tax structures are minimal. The shared service model is an independent operation generally processing the back-office services such as processing the claims, data management, supplier's payment, customer's payment and many more functions delivering the values to the company. According to the survey conducted by Deloitte in 2021, Finance, HR and IT are the top three functions performed by shared service business units across the industry and continue to grow every year.

Moreover, shared services are highly cost-efficient, and since they centralize back-office operations that multiple divisions of the same company use, they also eliminate redundancy. To keep costs low, some companies use a chargeback system that bills their divisions that use these services on a per-use, per-quarter, or per-year basis. Other companies absorb the cost of shared services as part of the continuing cost of running their business.

A shared services delivery model aims to allow each business division to focus its limited resources on activities that support that division's business goals. Technology has often been the driver of shared services within an organization because purchasing, maintaining, and training employees to use these services can be expensive. For example, in the 1920s, an Underwood typewriter cost $100, and typists were highly trained employees.

However, instead of having each business division in the company hire its typists, management soon understood that creating a centralized department for typists was more cost-efficient; that is how typing pools were born. Today's equivalent of yesterday's typing pool is a shared service center (SSC). This study demonstrates how technology can further improve the effectiveness of SSCs in promoting and sustaining growth in new businesses.

2. Overview of shared service centre

2.1. Structure of Shared Services

The entire and multileveled finance operations of an organization which typically include billing, credit management, cash collection, supplier invoices processing, treasury, and data management, can be structured using various managerial modalities. Some common examples include: –

- Cost centre or profit centre
- A centralized or decentralised structure
- Shared service centers

Finance operations can be managed at a cost or a profit centre. Most corporations not primarily involved in global finance, trade, and risk management rely on cost centres because they are regarded as a support function that is not expected to earn a profit for the company directly. One downside of this structure is that management may focus on the cost rather than the value this supports system provides, making it more difficult to create an adequate budget and hire staff.

Companies with multiple legal entities geographically dispersed sales offices (e.g., a multinational company), and limited personnel may centralize their finance functions at their headquarters. A centralized finance team offers advantages such as stronger control, economies of scale, and lower aggregate operating costs. These advantages can be even greater for multinationals since they may receive significant tax reductions and incentives based on location. However, one important drawback of a centralized treasury is that it reduces the autonomy of local subsidiaries.

Decentralized finance team structures may be used by companies with autonomous subsidiaries or multiple operational entities (e.g., manufacturing, distribution, marketing, sales, and finance). This decentralized structure allows local subsidiary personnel to gain familiarity with local business and banking practices and regulations and gain intimate knowledge of the languages, customs, and cultures of the countries where the company is located. In a decentralized structure, field personnel are responsible for some of the daily treasury functions, but there is often a duplication of effort and resources across units. Decentralized or international offices may also experience a heavier burden regarding compliance due to control issues such as company culture, level of employee experience, and time management constraints. Need for further coordination.

Conversely, a shared services center (SSC) is a department or operation within a multi-unit organization that supplies multiple business units with specialized services. When the services are consolidated in an SSC, the funding and management are shared across the enterprise. The resulting SSC becomes an internal service provider, acting as another vendor or supplier to the various operating units that use its services. In some companies, the daily treasury transactional activity is managed by an SSC. SSC model is typically used to:

- Reduce the costs of multiple or duplicate operations
- Standardize processes
- Improve the quality and timeliness of services
- Increase strategic flexibility
- Strengthen internal controls

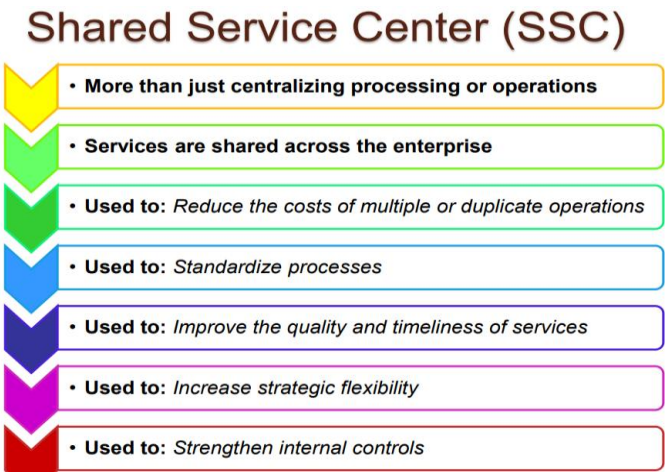

Fig. 1 shows these central functions of SSCs and their managerial advantages

2.2. Technology-assisted models: Oracle Cloud ERP system

Oracle release (R12) and latest release cloud ERP systems are designed to standardize and simplify ERP business operations and automation capabilities, avoiding data entry errors and rework. Oracle advancement in database technology, a single database instance is used to store information for a multinational company with in-build data security set at user, business units, ledger, legal entities level and instance level. A user can process the data in the application and run the reports based on the data security access set in the application. The in-built dashboards and seeded analytics capabilities provide accurate and real-time information to management and executives. Oracle Cloud ERP system well supports the SSC model in the following ways-

2.2.1. Using the data security

This approach allows for the definition/assign the right security to SSC personnel to process transactions on behalf of other business units of a company. Using the data access layer, SSC personnel can perform different functions for a company and comply the country-specific statutory requirements. Example – A supplier invoice raised in a business unit must be paid using the legal entity bank account in the same business unit.

2.2.2. Service provider model

It expands the capability of the earlier model, where you can define the service provider business for many client business units or profit centers. The service provider model performs procurement activities and supplier and customer payments. Example - Supplier invoices for different business units can be paid from the service provider business in the Oracle cloud ERP system. This approach has a lot more benefits for a company, as outlined below

- Consolidate variations in processes and reduce the number of control points
- Provides the efficient reporting capabilities to fulfil the local and IFRS requirements
- Automate self-service capabilities that save administration costs for a company
- Global processes and real-time data availability improves managerial reporting and analysis
- Standard business practices, consistency across the enterprise and compliance with company objectives

2.3. Oracle Cloud ERP system capabilities support SSC Model

Oracle Cloud ERP enterprise structure setup is very crucial. The key objective for any business is to use the system that meets the statutory need, management needs, external reporting (SEC & SOX) and perform all business functions in the ERP system. The enterprise structure is affected by the following factors

- Nature of Business
- Location of the operation
- Corporate & statutory ledger accounting structure & policies
- Business unit required for autonomy
- Functions used in business units & centralization of shared service.

Oracle Cloud ERP - Enterprise Structure
Enterprise
Division
Primary Ledger
Legal Entities
Business Units
Distribution Centers
Inventory organization
Sub-Inventory Organizations
Legislative Data Structure (LGD)

Fig. 2 shows the Oracle cloud ERP enterprise structure.

Another important aspect and foundation of the ERP system are setting up an effective accounting structure that supports statutory, management and IFRS requirements. Many ERP projects have failed because of incorrect or poor foundation design, such as enterprise and accounting structures. Changing any attribute in the ERP foundation setup costs heavy to a company or sometimes incorrect reporting panelized by external sources such as SEC and Sarbanes-Oxley Act of 2002. Accounting structure is a key component of the finance area defined in General Ledger. It requires thoughtful consideration for an enterprise that operates globally and meets country-specific legal reporting, management reporting and global consolidation through an efficient roll-up to a single global view of company performance. A chart of accounts is a combination of different segments representing the accounting structure that stores the accounts balances in the ledger. Segment needs to be labelled and assigned specific functionalities to each of the segments outlined below

- Balancing – Balancing values or a combination of balancing values ensures that the journals are balanced in the ledger. Oracle allows three balancing labels, but the primary label is mandatory, typically associated with the company dimension of a business organization. The other two segment labels (second and third) are optional but useful and provide greater insight into the operation's critical fiscal dimensions in planning, monitoring, and measuring financial performance. The system allows generating the financial statements (Balance sheet, Income statements, Cash Statements) at the second and third balancing segment level.
- Cost Centers – A cost centre is a function of the organization; it generally facilitates the grouping natural accounts by functional cost types. Cost Center is optional in the chart of accounts, but it is mandatory to use the functional procurement areas for business intelligence reporting and transactional approval routing in Oracle. Also, it is mandatory for accounting fixed assets transactions such as depreciation and additions.
- Natural Accounts – It is a mandatory segment of the chart of accounts. It classifies the balances by account types such as Assets, Liability, Revenue, Expense, and owner’s equity used to construct the financial statements for a company
- Intercompany – It is an optional segment but mandatory to use when multiple departments provide services or purchase products to/from other company functions. It helps generates intercompany transactions for a company. Having Intercompany segments helps greatly in a shared services model because the shared service cost centers provide service to other company functions.

3. Shared Service Use cases

The key use cases for the shared service under the finance functional area outlines below. Oracle Cloud ERP Fulfils these business requirements without adding any PaaS (custom) solution.

- Centralize the supplier payments from the pool bank account on behalf of all business units or cost centers for a company (Procure to Pay)
- Centralize the cash collections from customers in the pool bank account on behalf of all business units or profit centers for a company (Order to Cash)
- Centralize processing the bank statements and cash reconciliations (Cash Management)
- Centralize master data management (Customers, Suppliers and Product data hub)

Use case#1 details, a company based in the United States of America has multiple legal entities (example provided below three legal entities US LE-1, US LE-2, US LE-3, three business units US BU-1, US BU-2, US BU-3 and one ledger in USD currency) for different operations or line of business. Key functions are performed as below

- Business Unit US BU-1 has requisitioning, procurement, payable invoices, and payable payment function
- Supplier's data management is centralized in business units (US BU-1), and supplier site association is in US BU 1 & US BU2
- Each legal entity has a requisitioning business unit
- Purchasing document (PO) track the requisitioning BU, procurement BU, payable invoicing BU (called billing BU), and legal entity (called sold to a legal entity)
- For the supplier site, a requisition raised by US BU-2 will result in invoices owned by US LE-2 processed in US BU-2 and paid by US BU-1 from the legal entity US LE-1's bank account
- Similarly, for the supplier site, a requisition raised by US BU-3 will result in invoices owned by legal entity US LE-3 which are processed by US BU -2 and paid from legal entity US LE-1's bank account

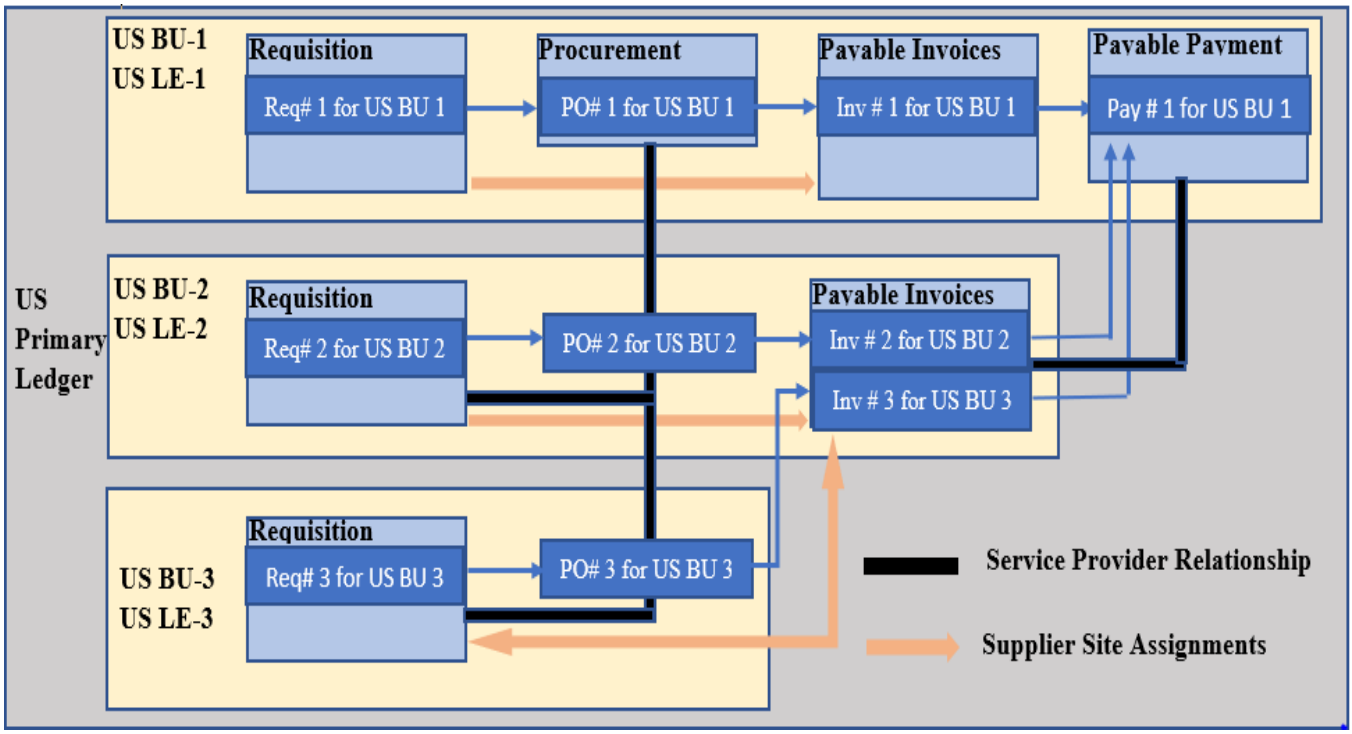

Fig. 3 shows the transactions flow

Here is the key configuration required to meet the use case –

- BU-1 provides supplier payment services on behalf of US BU-2 and US BU-3. Hence there is a need to define the relationship using the managed service provider relationship navigation path for the supplier payment function. Oracle ERP does not allow multiple service providers for supplier payment function for US BU-2 & US BU-3
- Exclude the payment functions from US BU-2 and US BU-3 as supplier payment will be made by US BU-1
- The payable invoice function needs to stay with US BU1 & US BU 2; the payable invoice function needs to be removed from US BU 3.
- Bank accounts must be configured as pool accounts with proper cash and cash clearing accounts.
- Define the payment process profile, including all business unit's invoices as selection criteria.

End results - At the time of payment, the system will pick the invoices for all business units' due payments and

record a single payment number in the business unit (US BU-1). At the time of accounting payment, the system debits the liability and credits the cash bank accounts also, adds intercompany accounting lines for other balancing segments (US BU-2 & US BU-3) and balance the journal entries in the ledger. Bank statements from the bank must be loaded into a cash management module in US BU-1 that will be reconciled for all incoming payments in the cash management system automatically based on matching rules.

Table 1. Important Notes

Oracle Products	Functions	Notes
Procurement	Procurement	A standalone procurement business unit can be created; it does not need to be linked to a ledger or legal entity definition
Procurement	Requisition	Purchase orders received must be received in requisitioning BU
Financials	Payable Invoices	If project accounting is used, then purchase invoices and project accounting must share a common business unit
Financials	Payable payment	The service provider model must relate both payable invoices and payment business units

Use case#2 details the same entity structure for a company with multiple legal entities (example provided below three US LEs, three US BUs and one ledger in USD currency) for different operations or lines of business. Key functions are performed as below –

- Customer data management is centralized in business units (US BU-1) or at a global level
- Each legal entity has a selling business unit
- Each selling business unit books the sale order and has its inventory org or centralized data warehouse.
- Once the orders are shipped, receivables invoices are booked to the respective business units (US BU-1, US BU-2, & US BU-3)
- Business units US BU-1 process the customer's payment on behalf of US BU-2 & US BU-3 into the legal entity LE-1's bank account.

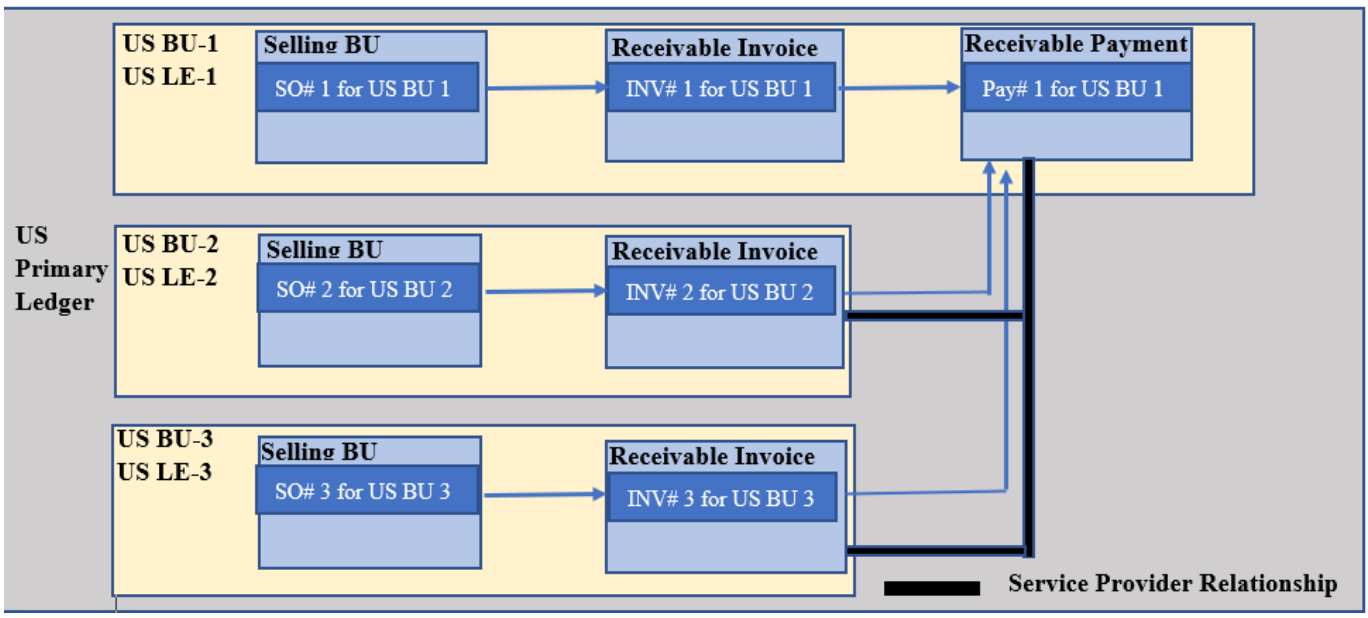

Fig. 4 shows the transactions flow

Here is the key configuration required to meet the use case –

- BU-1 provides the customer payment services on behalf of BU-2 and BU-3, so the relationship needs to be defined using the managed service provider relationship navigation path for the customer payment function. Oracle ERP does not allow multiple service providers for the customer payment function for BU-2 & BU-3
- Exclude the customer payment function from BU-2 & BU-3
- Bank accounts must be configured as pool accounts with proper cash and cash clearing accounts.
- Define the cash receipts class and methods in business unit BU-1

End results - At the time of cash receipts application, the system allows to pick and apply the customer's invoices for all business units. Cash receipt is stored in US BU-1; at the time of accounting payment entries, the system debit the cash account and credits the receivable accounts for respective business units; it also will add intercompany accounting lines for other balancing segments (US BU-2- & US BU-3) and balance the journal entries in a ledger. Bank statements from the bank must be loaded into a cash management module in BU-1 that will be reconciled automatically for all incoming payments in the cash management system based on matching rules. Important note: supplier and customer payments must be in a single business unit.

4. Shared Service Implementation Approach

The adoption of cloud base ERP system with in-built shared service capabilities offers the full potential to a company; The following implementation steps deliver superior value addition to a company:

- Define the clear scope of the SSC
- Define the clear governance, roles and responsibilities, service level agreement, business risks and controls
- Establish the process performance measures
- Establish communication protocols, change management and continuous improvement plan
- Perform analysis of the current processes, streamline the business process to avoid redundancy
- Consolidate the legacy applications to a common platform and global application
- Build an experienced team (technology and business expert) to derive projects objectives and execution plan
- Build a solution that is scalable and flexible enough to accommodate company growth.
- Consider technology advantages like automation of business processes, self-services, and artificial intelligence that can predict the data point and provide real-time data for analysis and management reporting.

5. Conclusion

Oracle Cloud ERP technology solution provides a superior experience in HR, Finance, Procurement, Customer Relationship Management, Enterprise Performance Management, Business Intelligence, and all other potential candidates qualify for the shared service model. Increasingly, Oracle's solutions and technologies are being used by many corporate and federal government customers in shared-service centers. Continuous improvement in shared services supports through Oracle's superior architecture and centralized business functions, streamlined processing that promotes automation and self-service, and simultaneous compliance with global and local reporting requirements that provide greater enterprise-wide visibility and fulfil the industry leader goals.

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