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## Modern Shared Service Centers as an Alternative to Traditional Settlements of International Transactions: A Case Study

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Submitted 17/11/21, 1st revision 02/12/21, 2nd revision 20/12/21, accepted 15/01/22

Magdalena Brojakowska-Trzaska<sup>1</sup>, Marcin Sobieraj<sup>2</sup>

**Abstract:**

**Purpose:** The aim of the article is to analyze the functioning of the shared service center in terms of support of international transaction settlement services. Additionally, their activities are compared to currently used, selected settlement instruments and their usefulness as an alternative to traditionally used instruments in the future is assessed.

**Design/Methodology/Approach:** The essence, functions and objectives of shared service centres are analysed. Using a case study, examples of settlement of international transactions in shared services centres are presented.

**Findings:** Common elements are observed in the issue of settlement of international transactions by shared service centers with other settlement instruments (mainly bank payment obligation), acting as a system for verifying the correctness of data. Also visible is the dependence of payment on the fulfillment of a specific performance (unless otherwise specified in the case of SSCs) and the circulation of paper documents, with an indication of the spread of electronic document transfer (SSCs and BPOs).

**Practical implications:** These elements may indicate that there are reasons to conclude that shared services centers may play an alternative role to documentary collection, documentary credit, as well as bank payment obligation, and in the future their role and scope of tasks may strengthen and expand.

**Originality/value:** The presented considerations constitute an original scientific article, presenting the results of original research. The research was conducted in the form of a case study, so the authors analysed specific cases concerning the functioning of shared services centres in the settlement of international transactions, which made it possible to draw conclusions about shared services centres as an alternative to traditional settlements of international transactions.

**Keywords:** Shared services centers (SCO), international transactions, documentary collection, documentary credit, bank payment obligation (BPO), importer, exporter.

**Paper type:** Case study.

**Acknowledgment:** The project is financed within the framework of the program of the Minister of Science and Higher Education under the name "Regional Excellence Initiative" in the years 2019 - 2022; project number 001/RID/2018/19; the amount of financing PLN 10,684,000.00.

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<sup>1</sup>University of Szczecin, Faculty of Economics, Finance and Management, Institute of Economics and Finance, Szczecin, Poland, [magdalena.brojakowska-trzaska@usz.edu.pl](mailto:magdalena.brojakowska-trzaska@usz.edu.pl);

<sup>2</sup>The same as in 1,

## 1. Introduction

Currently, the dynamic development of organizations and their management models, allows you to notice the formation of relatively new units of support for modern cooperation. The literature points to the evolution of the concept of outsourcing (Cusmano, 2010), until its advanced form in the 90s of the twentieth century, where the first *shared services centers* (SSC) began to appear. It is pointed out that the centers are an element of support for the processes performed, allowing to increase their quality and ensure a higher level of control. SSCs support a wide variety of business sectors, and among them is the area of international trade settlement, where transactions are made between importers and exporters.

The aim of the article is to analyze the functioning of the shared service center in terms of support of international transaction settlement services. Additionally, their activities are compared to currently used, selected settlement instruments and their usefulness as an alternative to traditionally used instruments in the future is assessed.

The research hypothesis assumes that by their nature and focus on a relatively narrow area, shared service centers are likely to be considered as an alternative solution to the currently used instruments for the settlement of intercompany transactions.

## 2. The Essence, Function and Purpose of Shared Service Centers

The concept of creating support units, boils down to the division of services and locating them in a single branch, instead of being the processes of many units within the same capital group (Golnik and Golnik, 2017). Currently in Poland there is a process of creating new shared services centers in the largest cities (Winnicka-Wejs and Klich, 2011), i.e., Warsaw, Krakow, Wroclaw, Poznan and Szczecin. Shared service centers are organizationally separate units, usually responsible for certain services to other units of the multi-branch company. The services provided include mainly auxiliary activities (Michlak, 2012) accounting services, human resources management, payroll, IT services, as well as handling orders and purchases.

The main purpose of creating these units is to achieve greater specialization and optimization of processes. Moreover, it is pointed out that the separation and transfer of processes to another location is called *offshoring* (Golnik and Golnik, 2017), where the main advantage is the lower cost of investment by choosing developing countries. Further process placement strategies, characterizing the idea of creating new units of support of the country, are referred to as (Walkowiak-Markiewicz and Romanowski, 2015):

- *nearshoring*, i.e., locating processes in a geographically and culturally close country,

- *onshore outsourcing*, where the process is located in a separate unit in the same country,
- *insourcing*, which is equated with delegating the execution of tasks to another, specialized unit within the same organization.

It is also indicated that the group of other benefits resulting from the transfer of processes to its unit identifies an increase in the quality of services provided and control and speed of decision-making.

### **3. Overview of Export Hedging Instruments against the Background of Shared Service Centers' Activity**

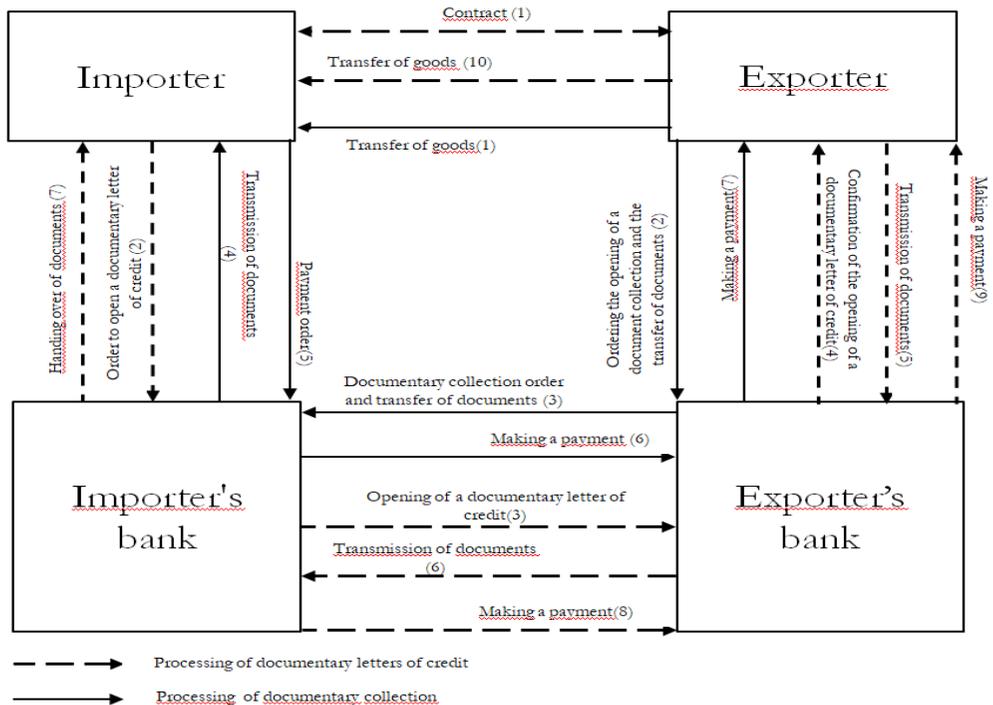
As it was shown, the basic areas generating tasks and processes of shared service centers include, among others, accounting. The department established to handle the processes closely cooperates with foreign units and their contractors. Nowadays, however, it is noticed that the role of accounting departments of shared services centers does not only boil down to taking care of the correctness of tasks performed from the perspective of accounting. Additional tasks also include monitoring the flow of receivables and liabilities (Bielan and Sobieraj, 2018), identifying undesirable behavior of related parties and deviations in cash flows.

Similar importance of the center becomes noticeable in the area of foreign transaction settlement. Their role and nature of settlement can be an alternative instrument to the currently used settlement instruments. This assumption determines the need to compare the features of the settlement of transactions by a service center with selected, currently functioning settlement instruments. For the purpose of comparison, the functioning of documentary collection, documentary letter of credit and bank payment obligation were analyzed. Figure 1 shows the operation of a documentary letter of credit versus a documentary collection.

The demonstrated course of the letter of credit and documentary collection indicates the involvement of banks as intermediaries in the settlement of transactions and arranging payments. Both forms belong to the conditional forms of transactions, which indicates that payment for the goods may take place only after the requirements specified in the contract have been met. A documentary letter of credit is an irrevocable commitment of the beneficiary's bank to (Szpojanowski, 2017) settle the payment specified in the contract upon presentation of the required documents. A documentary collection, on the other hand, is defined as the collection of a specified receivable from an importer In (Olkiewicz, 2010) exchange for the delivery of required documents to the bank.

The indicated criterion of conditionality (which requires meeting a specific requirement, i.e. presentation of documents) may indicate the similarity of letters of credit and documentary collection. However, the scheme presented in Figure 1 allows for noticing significant differences.

Figure 1. The course of collection and documentary letter of credit

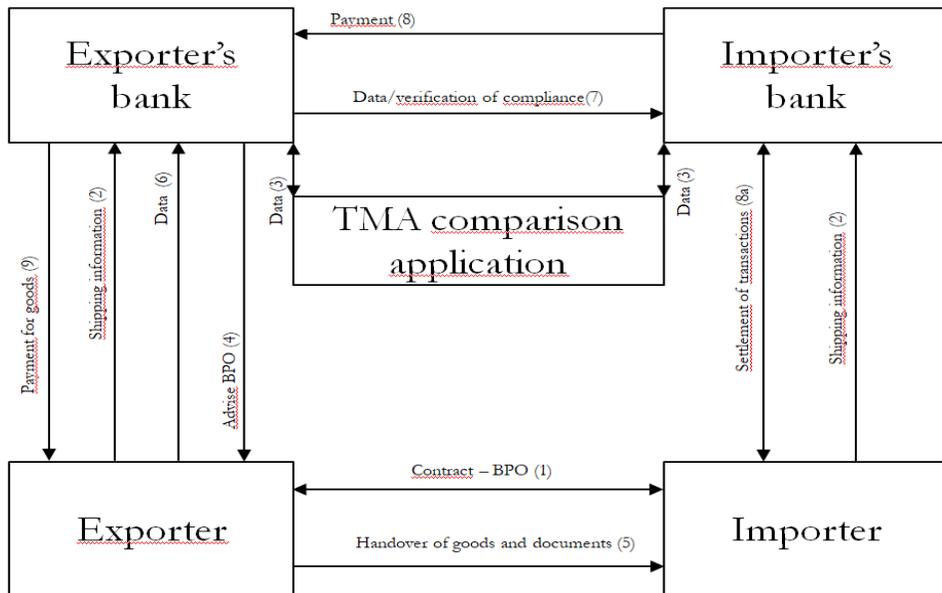


Source: Own elaboration based on Budzyński W., *Eksport w przedsiębiorstwie*, Poltext, Warsaw 2016, p. 175-178.

In the case of documentary collection, the initiator of this form of settlement is the exporter who, when sending the goods, initiates the opening of a collection in the bank along with the delivery of the required documents. These, in turn, go to the importer's bank, which makes them available to the buyer for evaluation, awaiting payment to the exporter. In the case of a documentary letter of credit, it is the importer who initiates it, however, as follows from the adopted definition, payment and verification of correctness of documents lie with the obliged bank.

The primary purpose of these instruments is to properly settle the transaction and minimize risk, however, it is pointed out that the documentary letter of credit is characterized by a higher level of complexity and costs, therefore it is recommended to use it in cooperation with a business partner with whom the other party to the transaction is not connected by long-term cooperation and a high level of trust.

An alternative instrument that enables the verification of compliance of shipped goods with the order is the bank payment obligation (PBO). Similarly as in the case of the documentary letter of credit, it is the bank's obligation to settle the payment due upon fulfillment of conditions specified in the contract. The scheme of settlement with its application is shown in Figure 2.

**Figure 2.** The flow of settlement using BPO (bank payment obligation)

**Source:** Marciniak-Neider D., *New form of international settlements - bank payment obligation*, *Acta Universitatis Lodzianis Folia Oeconomica* 6(317), 2015, p. 92.

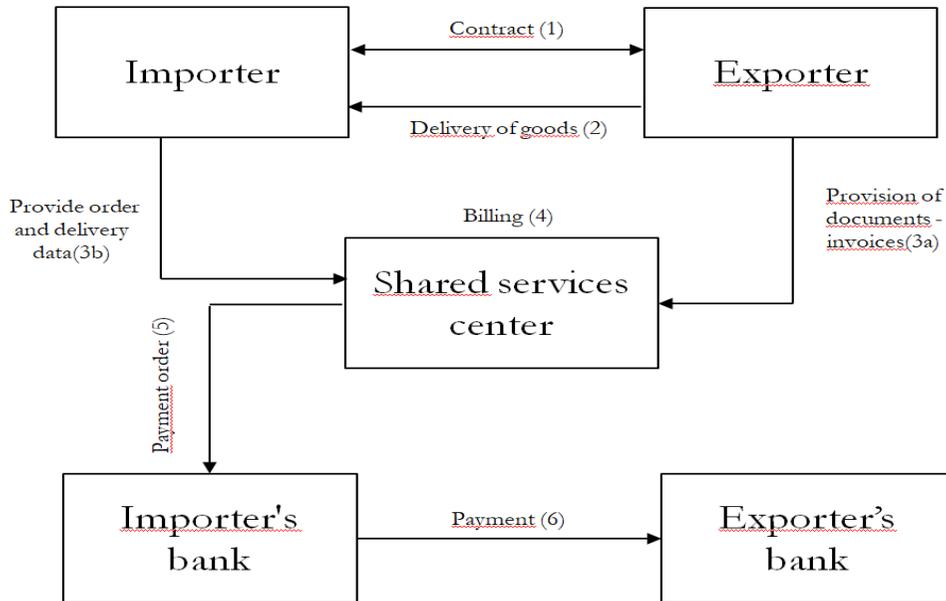
The basic and characteristic feature, noticeable in BPO settlement, is the method of delivery of the required documents, which is done electronically. Unlike traditional settlement instruments (collection/accreditation), this way of delivering documents can significantly reduce the time of their verification by banks.

Once a contract is concluded between an exporter and an importer, the contract data and details of the goods ordered are sent to the banks. The information received is transferred from the platform that performs the comparison and settlement. In the following stages, the exporter sends the goods with the documents (in paper form) to the importer, at the same time providing the necessary data from the transaction to the bank in electronic form. The received data go to the clearing platform to verify their accuracy with the arrangements in the contract. After approval of their compliance, the payment is transferred to the exporter's bank. Similar features of settlement using a bank payment obligation become noticeable for shared service centers. The flow diagram of the transaction is shown in Figure 3.

Similar to documentary collection/accreditation and bank payment obligation, the settlement process is initiated by a contract between the exporter and importer. On the basis of the contract, the exporter sends goods to the buyer and at the same time provides documents (usually invoices) electronically or in paper form to a shared services center. The shared service center (which is a unit within the importer's capital group) receives access to data relating to ordered goods and the status of

delivery. After a positive verification, a settlement is made and payment is ordered to the importer's bank, from where the funds are directed to the exporter's bank.

**Figure 3.** The course of a settlement involving a shared service center



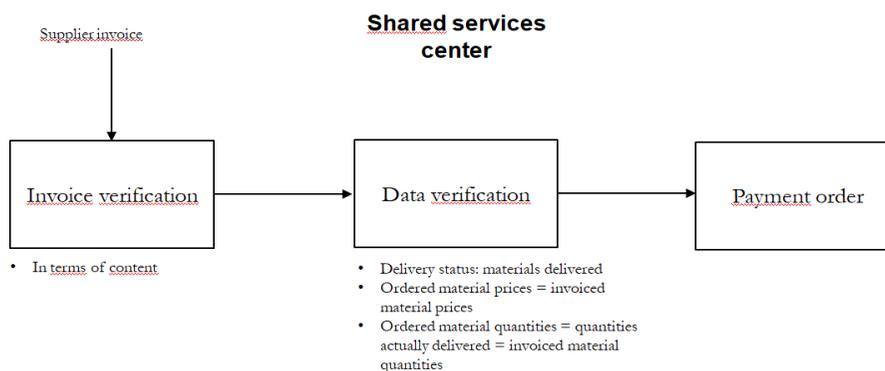
*Source:* Own elaboration.

The instruments presented are characterized by a common objective, which is to minimize the risk resulting from the purchase of goods from a foreign contractor. The indicated possibilities of settlement by means of BPO and in the shared services center include the process of verifying the correctness of data and their compliance with the actual state of affairs. This fact generates the need to analyze the settlement process and indicate potential threats/difficulties in the course of this process.

#### 4. Examples of Settlement of International Transactions in Shared Services Centers - Case Study

As indicated, based on the positive verification in the shared services centers, the transaction is settled and the recommendation for payment is forwarded to the importer's bank. The indicated route is a variant when there are no differences between the data and information provided by both the escort and the importer at the center.

After the contract is concluded, the supplier should send the ordered materials to the importer's warehouse and the invoice to the shared service center. A diagram showing the process of proper billing is shown in Figure 4.

**Figure 4.** The process of proper transaction settlement in a shared service center

*Source:* Own elaboration.

The process is initiated when an invoice is received from the exporter. A team established for this purpose is required to verify and compare it with the data on the order and verify the status of the delivery (as a rule, it is assumed that payment should be ordered after delivery, unless otherwise specified). The data for verification and comparison is made available by the unit through the system used.

In the case (according to the situation shown in Figure 4) when the system data indicates that the delivery of materials is completed, the next point of verification follows - assessment of differences in the price of materials ordered and invoiced. The next step, in turn, is to verify the differences in the quantities of materials the actually ordered and invoiced ones. If there are no differences between the order and the invoice, the document is booked and a payment order is sent to the importer's bank in accordance with the due date of the payment to the exporter.

In practice, differences between the system data and the data in the documents received from the exporter are a common occurrence, which hinders the process of verification, settlement and payment to the exporter. Tables 1-3 and Figure 5 present and characterize the process of verification of deviations and procedures of their settlement from the perspective of different cases.

**Table 1. Case study I:** Example of verification of price differences (no quantity differences) with an acceptable maximum deviation of 10%.

| Case I - acceptable price deviation sample = 10% |                  |             |                  |                          |     |
|--|------------------|-------------|------------------|--------------------------|-----|
| Data from the invoice received                   |                  | Order price |                  | Difference in unit price |     |
| Material   | Unit price (EUR) | Material    | Unit price (EUR) | in EUR                   | w % |
| Material A                                       | 10               | Material A  | 8,7              | 1,3                      | 13  |
| Material B                                       | 20               | Material B  | 19               | 1,0                      | 5   |

|            |    |            |    |     |    |
|------------|----|------------|----|-----|----|
| Material C | 30 | Material C | 27 | 3,0 | 10 |
| Material C | 40 | Material C | 34 | 6,0 | 15 |

*Source: Own elaboration.*

The case presented in Table 1 shows how to verify the price deviations (assuming that the quantities of delivered materials are consistent). In the group of supplied materials, the unit price differences are in the range of EUR 1.3 - 6.0, where, in percentage terms, the deviations take the values of 5-15%. By assumption, the importing unit is willing to accept a certain percentage threshold of negative price deviations. Assuming an acceptable 10% deviation threshold, price differences would be accepted for material C and B, and the transaction settled. For the remaining materials (A and D), the company would have had to implement an additional verification procedure because the acceptable price threshold was exceeded by 3 p.p. and 5 p.p., respectively.

**Table 2. Case study II: Example of verification of quantity differences (no price differences)**

| <b>Case II - acceptable sample quantity deviation = 10%</b> |                        |                                    |                        |                               |            |
|---|------------------------|------------------------------------|------------------------|-------------------------------|------------|
| <b>Data from the invoice received</b>                       |                        | <b>Quantity actually delivered</b> |                        | <b>Difference in quantity</b> |            |
| <b>Material</b>   | <b>Quantity (pcs.)</b> | <b>Material</b>                    | <b>Quantity (pcs.)</b> | <b>in pcs.</b>                | <b>w %</b> |
| Material A  | 500                    | Material A                         | 450                    | - 50                          | 10,00      |
| Material B  | 320                    | Material B                         | 300                    | - 20                          | 6,25       |
| Material C  | 300                    | Material C                         | 250                    | - 50                          | 16,66      |
| Material D  | 1 000                  | Material C                         | 990                    | - 10                          | 1,00       |

Source: own elaboration.

Another case illustrates how to verify quantity differences, assuming that the prices of materials are consistent. It should be noted that, as in the case of prices, importing entities are willing to accept some shortages of delivered materials, which may result, inter alia, from damage or loss during delivery or generally accepted company policy.

The presented case (assuming the acceptability of 10% shortages) shows that for materials A, B, C, D differences are in the range of 10 - 50 pieces, which in percentage terms allows you to notice the range of 1.00 - 16.66%. The assumptions made indicate that the differences for materials A, B, D would be accepted, while the settlement of material C would require additional verification procedures.

**Table 3. Case study III: Example of verification of quantity-price differences**

| <b>Case III - acceptable value deviation threshold (unit price x quantity) = 10%</b> |                              |   |                              |                                      |            |
|--|------------------------------|---|------------------------------|--------------------------------------|------------|
| <b>Data from the invoice received</b>  |                              | <b>Quantity delivered x order price</b> |                              | <b>Difference - price x quantity</b> |            |
| <b>Material</b>  | <b>Unit price x quantity</b> | <b>Material</b>                         | <b>Unit price x quantity</b> | <b>in EUR</b>                        | <b>w %</b> |
| Material A   | 10 x 500 = 5 000             | Material A                              | 8,7 x 450 = 3 915            | 1 085                                | 21,70      |

|            |                  |            |                   |       |       |
|------------|------------------|------------|-------------------|-------|-------|
| Material B | 20 x 320 = 6 400 | Material B | 19 x 300 = 5 700  | 700   | 10,93 |
| Material C | 30 x 300 = 9 000 | Material C | 27 x 250 = 6 750  | 2 250 | 25,00 |
| Material C | 40x1000 = 40 000 | Material C | 34 x 990 = 33 660 | 6 340 | 15,85 |

*Source: Own elaboration.*

The cases shown in Tables 1 and 2 illustrate the verification from the level of price or quantity of delivered materials, however, this is the criterion adopted when only one type of variance exists. Table 3, on the other hand, shows a verification method that is a combination of the data from Tables 1 and 2, i.e., a combination of price and quantity deviations.

Assuming simultaneous differences in price and quantity of materials, comparing the value of the entire transaction (unit price multiplied by the quantity of materials), we can see that each of them (A, B, C, D) exceeds the assumed threshold of acceptability (10.93-21.70%) and would require an additional verification procedure. The obtained values in Table 3 allow to note that in the case of the presence of differences (price and quantity) in the delivered materials, the approach to verification only from the perspective of quantity or price could be insufficient for a complete evaluation of the deviation. Assuming the simultaneous presence of differences in price and quantity, the demonstrated cases are summarized in Table 4.

**Table 4. Summary of the case studies: Summary of approaches to the acceptability of the deviation threshold for simultaneous price and quantity differences**

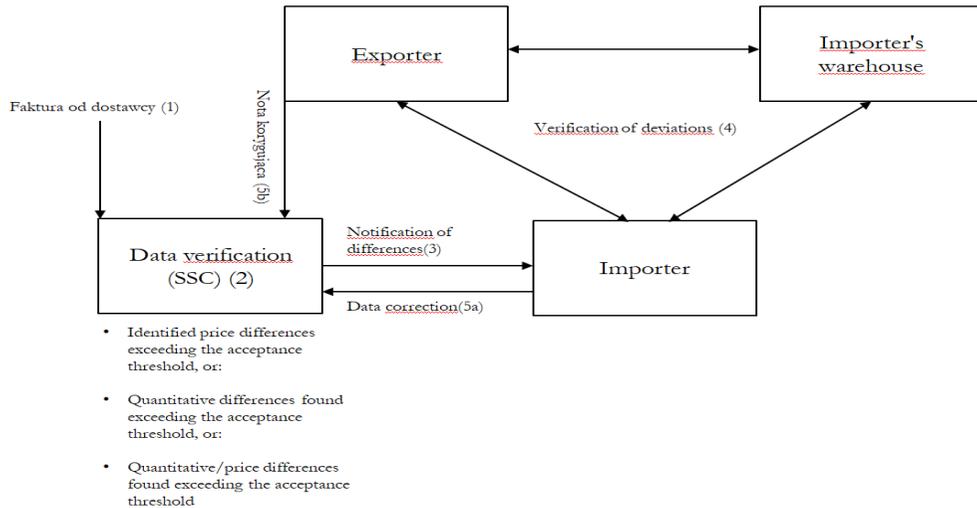
| Material | Case I - pricing approach |            | Case II - quantitative approach |            | Case III - quantitative-price approach |            |
|----------|---------------------------|------------|---------------------------------|------------|--|------------|
|          | Difference                | Acceptance | Difference                      | Acceptance | Difference                             | Acceptance |
| A        | 13,00%                    | Not        | 10,00%                          | Yes        | 21,70%                                 | Not        |
| B        | 5,00%                     | Yes        | 6,25%                           | Yes        | 10,93%                                 | Not        |
| C        | 10,00%                    | Yes        | 16,66%                          | Not        | 25,00%                                 | Not        |
| C        | 15,00%                    | Not        | 1,00%                           | Yes        | 15,85%                                 | Not        |

*Source: Own elaboration.*

The juxtaposition of different approaches to the acceptance of price differences, quantity differences, and their combinations shows that, depending on the criterion adopted, transactions can be accepted with differences above an acceptable threshold and settled (e.g., Material A, Case I: no acceptance versus Case II: acceptance).

Based on the data in Table 4, it is conjectured that in the case of simultaneous price differences and quantity, contrast the value of the entire transaction (unit price x quantity) with the acceptable deviation threshold. Applying the price or quantity verification approach alone in such a case may generate distorted data comparison results, bypassing the additional verification process to identify reasons for differences (shown in Figure 5).

**Figure 5.** Flow of the verification procedure of the identified deviations



**Source:** Own elaboration.

The process of additional data verification involves the shared services center reporting identified deviations in order for them to be verified by the importer from the perspective of compliance with the contract. For this purpose, the exporter and the importer's warehouse are mobilized in order to verify contractual arrangements and the quantities of materials actually received/delivered. Once verified, two scenarios can occur:

- a) the verification process reveals inaccurate system data on the part of the importer, resulting in data correction and reporting to the shared services center (5a)
- b) communication between importer and exporter shows a shortage of supply or an incorrect price on the part of the exporter, resulting in the provision of a transaction adjustment note to the shared service center (5b)

It is worth emphasizing the fact that, as a rule, the shared service center does not play the role of verification of arrangements in the contract, as well as settlement of accepted goods in the warehouse. After the reported deviations, the verification of the correctness of the order and delivered goods is carried out from foreign units, and the SSC plays a supporting role and provides the required information when necessary.

## 5. Conclusion

These considerations allow us to notice common elements in the settlement of international transactions by shared service centers with other settlement instruments (mainly bank payment obligation), acting as a system for verifying the accuracy of

data. The juxtaposition of the features of currently used instruments with the functions of shared services centers, allows us to notice common elements, such as the involvement of banks in the settlement of transactions. What is more, the criterion of making the payment conditional on the fulfilment of a specific service (unless in the case of SSCs it was decided otherwise) and the turnover of paper documents, with an indication of the spread of electronic document transfer (SSCs and BPOs) are noted.

These elements may indicate that there are reasons to conclude that shared service centers can play an alternative role to collection, documentary credit, and bank payment obligation, and in the future their role and scope of tasks may strengthen and expand.

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