Financial processes outsourcing in pharmaceutical companies: Case Studies in the European Union

Externalización de procesos financieros en compañías farmacéuticas: Estudio de casos en la Unión Europea

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ABSTRACT

In last decades, companies have faced more competitive markets in which business margins were reduced. In response to this effect, multiple companies since the early 1980s, began to review the structure of their administrative and financial costs with the eagerness to find possible models that contribute to the reduction of management costs, while improving the quality of service. Outsourcing models emerged, mainly in those support or transactional areas that have the least impact on the relationship with customers, such as finance, human resources, purchasing and information systems. The present study tries to deepen the analysis of the outsourcing models applied in pharmaceutical industry companies in relation to a group of companies considered as "reference in outsourcing", within the scope of the European Union (EU). From the analysis carried out, it can be inferred that the pharmaceutical companies move towards advanced models of outsourcing. Likewise, a clear general trend is identified towards the development of Business Process Outsourcing models instead of Shared Service Centers.

Keywords: Financial processes outsourcing, shared service centers (SSC), business process outsourcing (BPO), financial centers of excellence (CoE), pharmaceutical industry, outsourcing within European Union

JEL Classification: L23, L24; L65; 052.

RESUMEN

En las últimas décadas las compañías se han enfrentado a mercados más competitivos, en los que los márgenes de los negocios se reducen. Como respuesta a ello, múltiples organizaciones, desde principios de los años 1980s, empezaron a revisar la estructura de sus costes administrativos y financieros con el afán de poder encontrar posibles modelos que contribuyeran a la reducción de los costes de gestión, a la vez que mejorar la calidad del servicio. A partir de aquí, surgieron los modelos de externalización, principalmente en aquellas áreas de soporte o transaccionales que tienen un menor impacto en la relación con los clientes, como podrían ser finanzas, recursos humanos, compras y sistemas de información. El presente estudio trata de profundizar en el análisis de los modelos de externalización aplicados en compañías de la industria farmacéutica en relación con un grupo de empresas consideradas como “referencia en la externalización”, en el ámbito de la Unión Europea (UE). Del análisis realizado se puede inferir que las empresas farmacéuticas avanzan hacía modelos avanzados de externalización. Asimismo, se identifica una clara tendencia generalizada hacía el uso de modelos de *Business Process Outsourcing* en detrimento de los *Shared Service Centers.*

Palabras clave: Subcontratación procesos financieros, centros de servicios compartidos (SSC), centros de subcontratación de procesos de negocio (BPO), centros de excelencia financiera (CoE), industria farmacéutica, subcontratación en la Unión Europea

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1. INTRODUCTION

From the 1980s onwards, companies in many sectors worldwide are experiencing a general reduction in their profits, mainly as a consequence of a reduction in operating margins. This reduction in operating margins, in many sectors, is determined by greater competition, which it has been translates into price erosions. Some studies have shown that a high percentage of the support activities carried out in an organization do not generate any value for the business (Schulman, et al., 1999: 3-39).

Therefore, there is an opportunity to concentrate all those activities in other organizations/business units where they could manage them in an efficient way. Faced with this situation, companies have reacted and reviewed within their structural expenses, those that could be subject to revision and adjustment without major apparent impacts for corporation customers, in order to increase the added value for companies (Schulman et al., 1999: 3-39). As Gospel and Sako (2010: 1367-1396) point out, organizations are in a situation of permanent search for practices to become more efficient in their processes and as a consequence reducing their operational costs. Janssen and Joha (2006: 102-115), stablished that this process to some extent is also applicable for public ownership organizations.

This process was accentuated with the multinational organizations development, that emerge as the dominant force in the business world and whose main imperative was to increase production volumes to achieve economies of scale. Since the early 1980s, strong global competition forces these organizations to focus on the searching for more efficient production systems (Herbert and Seal, 2014: 83-97; Kranzbühler et al., 2019: 308-327; Clark et al., 2020: 1-40) to be able to compete with cheaper products and services. This also forces them to improve their processes in order to increase their management performance. As a consequence of this movement, practices that seek organizational efficiency such as: business process reengineering, rightsizing, value chain analysis and outsourcing were developed (Otley, 1994: 289-299). From the previous list of tools, the most developed practice was outsourcing (both in manufacturing and in-service management) that got higher impact both in organizations and people and it the research core field of this study.

Outsourcing identifies non-core activities including the activities related to processes not directly identified as key by the company (Porter, 1989: 51-69). Processes such as cleaning, surveillance, payroll, purchasing, accounting transactional processes, information systems, and others (Smith et al., 2005: 415-441) are the processes that could be identified as the greatest opportunity to reduce operating expenses. This is how the outsourcing initiatives of the support functions arise. Stefancic (2004: 11-13), identifies four main reasons why process outsourcing was carried out by companies: i) cost reduction, ii) quality increase, iii) focus on key business competencies; and iv) relocation of current employees. However, authors like Hamel and Prahalad (1990: 79-91) insisted on the need to identify those common and manageable competences from the point of the economy of scale and standardization, and from that, to build an adequate and logical organizational structure, without attending to short trends or generalized practices applied in some corporations, without strategic focus. In this way these authors recommended first to study company key competences, before carrying out generalized outsourcing processes only with the intention of reducing structural costs.

Outsourcing in service processes, basically information systems and financial processes, were quickly implemented. This lead to the creation of Shared Service Centers (SSCs) that provided to the outsourced company the advantage of maintaining a high control of the outsourced activities, and at the same time managed them in a supposedly professional manner, getting above higher efficient operations as far as those service centers are transformed into “factories of non-core” processes (Teece et al., 1997: 509-533). Companies like Ford introduced financial outsourcing practices in the early 1980s (Keuper & Lueg, 2015: 192-194). Something similar happened in other companies, such as Eastman Kodak. In 1994 this company decided to consolidate financial processes under the same roof in Europe, locating its shared services center in Rotterdam (Thuermer, 2006: 1). Outsourcing growth had been fast, and as a whole in Europe outsourcing business has been growing at a rate of double digit per year, estimating that the value of outsourcing of financial processes represented an annual value of more than 2,000 million euros (Monterrey-Meana, 2013: 4-12).

2. OUTSOURCING IN CORPORATIONS

At the end of the eighteenth century, Adam Smith (1776: 241) warned about the accumulation of operating procedures as consequences of industrialization. Its division of work processes led to a centralization and specialization of the workforce. Frederick Taylor (1914: 266-269) carried out investigations of the industrial aspects on the separation of execution and planning within a company, what it was called “scientific management”. Their basic principles were: i) it is necessary to disaggregate the work process from the worker skills, ii) management should describe exactly how tasks should be accomplished by the workers, iii) management should describe how quickly tasks should be accomplished, and iv) money should be used as a motivational factor. This control approach delimited a clear line between managers and employees, assuming that "managers think" and "workers execute".

Therefore, “Taylorism” implies a low trust between the employee and the employer, in which all the activities must be measured and controlled by the employer. Direct control is necessary to ensure that the workforce is converted into performed work. Another characteristic attributed to Taylorism is the search for a high level of automation. Along these lines, Henry Ford applied Taylor´s theory into the Ford Motor Company, creating a trained and organized workforce around worker task´s standardization and production flow lines (Raff and Summers, 1987: 57- 86; Vlaskovits, 2011: 1-6). Henry Ford applied these procedures to make cheaper and better-quality cars. Some theoretical elements of Taylor paradigm are still applied in many companies, being outsourcing a way for processes standardization when adapted to the company needs.

2.1 Outsourcing definition

According to Lacity and Hirschheim (1995: 5-60), outsourcing could be considered as the decision that an organization makes to contract or sell some of its assets and / or activities to a third organization. This third-party organization will take over the management and provision of services that those assets provide, receiving an economic compensation during a period determined by the services provided themselves. For Schaaf (2004: 2-15) outsourcing is a term that represents a legal or permanent transfer of some activities, which were previously carried out within the company but are now managed outside.

Beaumont and Sohal (2004: 688-700) indicate that outsourcing could be defined, as a job that was previously carried out within the organization and has been transferred to another independent company. The provider may be completely independent from the outsourcing organization or a subsidiary of this company. According to Beaumont and Sohal, this definition would be valid for existing companies, however, it would also be a possible for newly created companies.

Another definition following to Stefancic (2004: 11-13), states that outsourcing requires the use of resources outside the organization that performs the outsourced tasks. Dolgui and Proth (2013: 23-24) define outsourcing as the contractual exclusion of some activities that will never be carried out again within the company, therefore, a company decides that another company should provide the service. Other authors, such as Smogavec and Peljhan (2017: 203-245) referred to outsourcing when a company obtains products or services that are exclusively adapted by third parties to the company's own processes. Therefore, these authors are including in the definition some degree of adaptation of the outsourced product / service.

2.2 Alternative outsourcing models

Once outsourcing decision is taken, it is necessary to choose between the different outsourcing models that could be found and described in the literature. From the vast literature it could be point out some remarkable different visions and structural models:

Table 1. Different proposed models.

Author/s	Models proposed
Bergeron (2003: 2-27)	-Decentralized -Centralized -Outsourcing -Shared services
Bangemann (2005: 7-19;145-192)	-Shared services -Joint venture -Outsourcing
Keuper & Lueg (2015:119-129)	-Centralized services -Outsourcing services -Collaborative services -Decentralized services

Source: Adapted by the authors

As a consequence of the literature revision, that tries to generate different conceptual proposals such as those previously highlighted, it is possible to identify as the main relevant models: i) an outsourcing model with third-party, which in general is recognized in the literature as Business Process Outsourcing (BPO) and ii) another alternative model, based on shared services unit creation, is known as Shared Services Center (SSC). Some relevant definitions and visions of both concepts (shared services centers, SSC and business process outsourcing, BPO) are described below:

Table 2: Main SSC visions

Autor/es	**Definición**
Schulman, Donniel et al. (1999: 3-26)	These authors consider that it is the concentration of the outsourced company's resources carrying out similar activities, typically distributed among the entire organization, in order to serve multiple internal partners at a lower cost and with a higher level of services. And always with the common objective of improving the customer service and enhance the value of the corporation.
Bangemann (2005: 7-19)	This author presents a fairly extensive definition, and focused on the world of finance, indicating that a definition of shared services can be based on the reason why they are established, which can be summarized as: “an element of the company's strategy, an organizational restructuring, a best practices route, a reengineering exercise process, a technological optimization process, and a change of mentality”.
Keuper & Lueg (2015: 75-80)	These authors consider that SSC are a modern, effective and efficient way for multinational companies to organize and optimize their administrative structures throughout the organization.

Source: Adapted by the authors

On the other hand, some remarkable academic definitions of the BPO model can be summarized in the following table 3:

Table 3: Main BPO visions

McCormack & Johnson (2001: 36-40)	These authors consider BPO as the level in which an organization pays attention to its relevant business processes, in such a way that can help to eliminate operating costs, promote relationships with customers by improving the satisfaction of customer needs. Always reaching different degrees of implementation".
Stauss & Jedra (2008: 20-34)	According to these authors, BPO is the complete relocation of business processes to an external provider. Outsourcing is focused on cost reduction, with BPO the expectation is to create value by transforming a company that transfers certain processes to an external provider.

Source: Adapted by the authors

Based on the previous literature views about the SSC and BPO outsourcing models, it would be possible to establish some high-level main differences between both models:

- **BPO,** outsourcing agreement is completely managed by an external company, which is fully responsible for providing the committed services, based on stablished specifications, normally included in the so call Service Level Agreement (SLA). This SLA establishes the responsibilities, objectives and supplier compensation manner, likewise include key business indicators (Key Performance Indicator (KPI)), in order to assess and measure if service level and customer satisfaction fulfil the agreement.

- **SSC**, unlike the BPO models the control of the processes and activities continues within the company. Usually companies that apply SSC model stablish a new business unit, with the aim of providing services to the rest of the group business units / companies.

Based on the opinion of Janssen and Joha (2006: 102-115) it is evident that there is no single model valid for all circumstances and every companies, depending on the motivations and objectives of each one. According to Bergeron (2003: 179-209), both models implementation offers savings and advantages, but the time horizon is different. In the long term the savings will be evident in the SSC model, while in the short term they will be more evident in the BPO model. This aspect can lead companies to prioritize BPO vs SSC. The SSC model provides companies with a higher level of flexibility in implementation, as well as lower maintenance costs, while the BPO model offers substantial savings in implementation times, as well as the possibility of benefiting from the use of the latest available technology provided by the supplier. Finally, reviewing the drawbacks of both models, as Bergeron (2003: 179-209) points out, the SSC model is intensive in the use of external consultants, especially in relation to information technology. On the other hand, the BPO model will require that the client company should allocate additional resources, in order to monitor the degree of progress and achievement of project implementation which could generate additional costs not initially included in the initial plan.

2.3 Financial processes outsourcing

As Bangemann (2005: 1-5) points out, CFOs look like a kind of "superhero", who must answer multiple dilemmas and internal questions within the organization. How can the CFO improve overall financial perception while reducing the financial function cost by implementing an outsourcing model at the same time? Is outsourcing a solution? .Along the same line, Schulman et al. (1999: 1-65) suggest that CFOs should move resources from simple transaction management and processing to the so-call "business partnering" (Schulman et al., 1999: 1-65); Venkatraman , 2015: 47-53), therefore CFOs are challenged to become strategic actors in the companies and at the same time ensure that they generate significant savings, through the transfer of transactional operations to outsourcing models that show advantages in the area of financial transactions, maintaining a low cost with a high level of service quality.

According to the report published by Cap Gemini (2012: 1-32), organizations should consider the 80/20 rule to define what activities should be outsourced, always looking for repetitive, transactional activities that represent 80% of the work load, suggesting to use the following matrix to decided what financial processes should be transferred, taking into account four critical factors:

Table 4: Segmentation matrix for financial processes to be outsourced

Complexity – activities with high complexity are less likely to be outsourced.	**Connection with the business** – activities with high connection with the business are less likely to be outsourced.
Critical mass – high volume activities are more likely to be sourced considering the efficiencies and economy scale that can generated.	**Local impact** – activities with high local impact (regulation, language, etc.). They are less likely to be outsourced.

Source: Adapted by the authors. Based on Cap Gemini (2012: 1-32)

Based on the indicated factors indicated by the aforementioned study carried out by Cap Gemini (2012: 1-32) and Keuper and Lueg (2015: 298-306), the authors of this research have proposed a financial processes classification model, as well as a possible first assignment of activities that could be transferred to a specific outsourcing model and those activities that would be advisable to maintain internally. It is important to note that within the same process there may be shared activities or activities that are completely retained. There are multiple options (see table 5) to identify the outsourceable and non-outsourceable activities:

Table 5. Proposal of financial activities susceptible to be transferred to a SSC setting

Financial processes	% transferred to SSC	Financial activities under SSC model	Financial activities not under SSC model
Accounts payable	100%	-Invoice reception -Invoice scan -Invoice check -Payments -Queries	
Accounts receivable	20%	-Payment collection -Cash application -Invoices under dispute	-Credit policy set-up -Customer claims and complaints
Treasury	30%	-Bank account management -Bank reconciliation	-Treasury policies set-up
Fixed assets	20%	-Sub-ledger booking -Depreciation booking	-Physical inventory count -Stick the stickers
General accounting	30%	-Journal entry booking -Preparation of all general reserves -Perform all the reconciliations	-Calculation of all the specific reserves -Perform all business reviews -Communication with all tax authorities
Financial reporting to the group	50%	-Financial reports generation	-Business partnering

Source: Author´s elaboration based on Cap Gemini (2012)

Along the same line, Bergeron (2003: 1-28) has theorized about transactional and non-strategic activities, ensuring that they are the most suitable to be managed through an outsourcing model. As Cap Gemini (2012: 1-32) stablished in their study that financial activities related to accounts payable and others similar transactional activities can be easily transferable to an SSC model, when meeting the criteria of low complexity, relatively little relation to the business, high volume of transactions and relatively small local impact.

3. OBJETIVE AND STUDY METHODOLOGY

Clements et al. (2005: 87-90), indicated that 87% of the companies that had carried out a financial outsourcing process had increased control over the company's results, especially in the planning area, which is quite relevant since it goes further of the typical expected results with outsourcing (e.g. cost reduction and service level increase). Academic studies have tried to identify some benefits from the application of the different models to carry out company outsourcing, closely linked to the level of responsibility of the service provider and the criticality of the activities (Sanders, Locke, Moore, & Autry, 2007: 3-15). As it has been previously pointed out could be summarized that there are two main alternatives paradigms: shared services ("in-source") models like SSC and outsourcing ("out-source") models like BPO (Bergeron, 2003: 1-29).

The main objective of this study is to deep into the understanding of to what extent outsourcing of financial processes were applied on companies operating in the European Union (EU), with special focus both in companies with large outsourcing experience (so called in this study "reference companies") and a group of pharmaceutical companies, due to the fact that this practice is being heavily applied on pharma companies during this decade on their financial processes. Another second objective of the research is to try to understand if pharmaceutical companies are evolving with different outsourcing models in comparison with the called reference group.

The study analysed alternative outsourcing models and the authors have tried to identify potential threads, opportunities and benefits for pharma´s companies when they decide to go into an externalization model.

The study has focused on a sample of six multinationals companies operating within EU area, distinguishing between: 1) A "reference companies group" with highly extensive experience into outsourcing financial processes, such as Philips, Henkel and Siemens and ii) pharmaceutical and healthcare companies, as: Novartis, Pfizer and Johnson & Johnson that show certain specific level of financial outsourcing practices during last decade.

The hypothesis to be confirmed, is how the evolution in the outsourcing model in the companies included in the reference group can be extrapolated to the pharmaceutical group, considering that all of them are multinational companies operating worldwide and most of them headquartered in the EU. In order to do so, a research is done to understand the particularities of each sector and more specifically the financial departments in each of the selected companies.

The choice of companies has been based on the availability and accessibility of the information published by companies themselves and other secondary data sources. Also, the selection has been done based on the nationality of the company with the aim to have a bias towards EU companies (4 out of 6 companies included in the sample are based in EU).

Given the nature of the topic to be investigated, it was decided to carry out case studies, a method that according Eisenhardt (1989: 532-550) is suitable for topics that have to do with strategic business management decisions. Yin (1994: 283-290) advises using the case study where the boundaries between the context and the phenomenon to be observed are not evident.

4. FINANCIAL PROCESSES IN EU COMPANIES: OUTSOURCING PRACTICES ANALYSIS

4.1 Analysis of financial outsourcing practices in the reference sample group

According to Keuper and Lueg (2015: 342-344), in the last decade companies have extensively incorporated SSC and / or BPO models into their financial processes. Initially, companies began with the incipient outsourcing carried out in the 1980s in the manufacturing area, and later they outsourced administrative and financial services, initially looking for geographical locations where wage costs were lower and later prioritizing service level as well. In the 1990s, 40% of Standard & Poors, 500 companies partially managed their financial processes through the use of SSCs. That figure according to a study published by Dressler (2007: 19-21) would rise to more than 80%. In order to understand what happens (current situation and future trends) in the pharmaceutical industry companies regarding financial processes outsourcing, it is convenient to carry out an analysis of certain cases which could be considered as a reference in financial processes outsourcing.

Philips

Philips is a Dutch multinational company, founded in 1891 when Gerard Philips created a company in Eindhoven, the Netherlands, to manufacture incandescent lamps and other electrical like products. According to internal sources, it is "currently a leading company in innovation applied to the needs of its customers and consumers", in the areas of health care, lighting and consumer Lifestyle. Currently employs more than 70,000 people in all three sectors, in more than one hundred countries worldwide. Based on the 2019 annual report, sales amounted to more than 19,490 million euros, representing an increase of 5% compared to 2018, with a margin of 47% and generating a net profit of 1,175 million euros (Philips, 2020).

Regarding the management of outsourcing processes in the financial area, according to the information published by Infosys (2011: 1-7), Philips in the period 2002-2007 established three main SSCs worldwide to manage their finance and administration operations located in Poland, India and Thailand, with the aim of obtaining cost advantages, derived from the lower labour cost in these countries. During this period, Philips achieved the objectives initially set in terms of reducing costs, standardizing financial processes and increasing automation levels. Although, after this initial SSCs implementation period the company recognized that it had not been able to obtain additional cost reductions, managed to advance in the process automation programs or able to build a career plan for the employees of the different SSCs in order to improve their motivation (Infosys, 2011: 1-7). Considering this situation, Philips explored the possibility of transferring SSCs ownership. Considering this way as the best option to obtain the expected benefits. The idea would be to move the SSCs to a new BPO model, in which financial processes were fully operated by a third-party comprehensive provider.

The company identified the following main benefits to carry out this movement:

- Obtain greater cost efficiencies than in the SSC model, using a cost per transaction criteria. According to Clements et al. (2005: 24-33) it would be one of the first stages in the relationship with a BPO provider from a pricing point of view.
- Create a higher standardization and automation level at financial processes.
- Improve the customer service levels on the financial function.
- Generate a career plan for employees located in the SSCs, which was limited to the Philips organization itself.

Despite being a complex change, in which more than 1,400 employees worldwide were involved, the new service provider was able to generate the following benefits with the transformation (Infosys, 2011: 1-7):

- Increased automation through the experience of the new provider (Infosys, 2011: 1-7). Philips managed to implement new solutions in this area.
- Higher standardization levels reached in the three SSCs, through the use of a business partner. Philips and Infosys managed to raise the standardization levels of the processes
- New financial processes were implemented, mainly in the controlling area.

In summary, through the first implementation of SSC model and subsequent conversion to BPO, Philips has been able to obtain the initially stablished strategic benefits in financial processes outsourcing, being a clear example of how the company has evolved in this regard (Bangemann, 2005: 186-192). Author's points out that for Philips SSCs was the first step to outsourcing, and then move to more advanced models such as BPO.

Henkel

Henkel is a German company established more than 140 years ago, focused mainly on three businesses i) adhesive products, being the world's leading provider of adhesives with end customer applications for end consumers and industrial users, ii) household cleaning products, as the historical business unit of the company. This business unit includes a range of products related to detergents, softeners or performance enhancers for washing machines. Likewise, it includes products related to dishwashing, as well as all kinds of general household cleaning products, and iii) beauty products, including within this business unit all products related to hair care, as well as skin care and oral hygiene. Overall, the company sold 20,114 million euros and obtained a profit of 2,353 million euros in 2019. The company is organized in the three described main business units, which generally have responsibility for several countries, being an organization focused on products rather than geographic areas (Henkel, 2020).

According to Barjaktarović et al. (2017: 18-24), Henkel experiences in an outsourcing model started through the creation of an SSC in 1999, whose objective was to reduce costs in the administrative area. It also sought to be able to have greater transparency in the company's results due to the fragmentation in multiple business units and geographies, which generally had little incentive to jointly manage the resources of the financial processes. Due to the high activity of acquisitions and mergers, the company decided to implement a SSC model that would help in the integration of the different acquired companies (Bangemann, 2005: 12-15). Based on Barjaktarović et al. (2017: 18-24), Henkel manages their administrative services and "back office management" processes, using a worldwide SSC model as a right way to guarantee high service delivery at processes are not close to their customers. Also, Henkel decided to stablish a BPO model in certain locations. Bratislava, Mexico and Bangalore were decided as main outsourcing locations being main areas for financial processes outsourcing (accounting, controlling, purchasing, order processing and credit management). According to this study authors, Henkel outsourcing integration process was a success due to factors such as:

- Company culture
- Employee involvement in decision-making
- Support and involvement of the company management in the outsourcing
- High level of service achieved, as well as high quality on process management

In general, the outsourcing implementation at Henkel is considered a successful case study due to the initial start-up without operations disruption and the continuous process improvement. The decrease in administrative and financial costs achieved was above 20%, which means - as a percentage of sales - a reduction around 1.5% in cost of sales (Barjaktarović et al., 2017: 18-24).

Siemens

Siemens is a German multinational company with over 170 years of history, and worldwide presence. The main business areas are related to power generation, transmission and electricity distribution, as well as areas related to health and medical devices. Siemens has around 377,000 employees in virtually every country in the world, including factories, warehouses and commercial offices in many of these countries. In 2019, Siemens sales turnover was 83,000 million euros with a net profit of 6,100 million euros. The company's business vision is to generate value in the long term, by accelerating growth, as well as through a less complex organizational structure (Siemens, 2020). This idea of complexity reduction is also reflected in the area of finance as indicated by Keuper and Lueg (2015: 75-80). And this is one of key reasons that explained that Siemens has implemented a SSC in Europe, located in the Czech Republic, where they are managing financial back office processes for the whole Siemens European business.

This transition to an SSC model was managed during 2010-2012 period, with the aim of harmonizing financial processes and systems. The number of SSC employees is around 200 people. Among the processes included, the main one is related to financial accounting, including accounts payable, accounts receivable, reconciliations between group companies, master data, cash management and bank accounts, fixed assets and general ledger accounting. The main complexities in the implementation was related to the integration of the different information systems of each country (not previously standardized), as well as the different languages to support local European activities.

Within Siemens, another step considered for some European countries is the localization of the SSC outside the European Union, mainly due to the language of the countries to serve (i.e.: United Kingdom and Ireland) as this extra movement could generate superior savings. In these cases, the preferred location would be India. For the rest of the countries the outsourcing service was organized from the Czech Republic. The main SSC structure challenge is to be able to properly coordinate both centers, in such a way that there is standardization of processes, avoiding different ways of financial process management per center. The main reason for the Siemens success on the application of this dual center model, resides in the effective cooperation between all the agents involved, as well as an open communication in case of potential problems.

4.2 Analysis of the financial outsourcing practices in the pharmaceutical sample

According to some published research (Aranha and Wheelwright, 2007: 58-62; Dalal, 2010: 28-32; Nowacki, 2008: 20-24) the main reasons that have led pharmaceutical companies to seek efficiencies by their processes outsourcing are: i) providing greater capacity for business growth, ii) dedicating resources to other business processes closer to the customers, and iii) improving efficiently cost structures. On the other hand, and taking a step further, authors such as Clements et al. (2005: 52-57), citing Accenture practices, suggest that pharmaceutical companies are starting to use outsourcing not only as a way to reduce costs but as a source of strategic competitiveness generation. Therefore, these authors not only point out the reduction of costs as one of the reasons at this industry to carry out outsourcing, also adding that there is a component of strategic benefits generation. Which is very much aligned with the situation that pharma industry has experienced in recent years such as consequence of the aggressive generic products competition. In the opinion of Pharmaceutical Technology Europe (2009: 9-9), although initially pharmaceutical companies were applied somewhat delayed in financial processes outsourcing, they have shown a clear interest in the externalization area, and that has push them to advance fast during last few years. Currently pharma companies are managing to be: i) efficient in outsourcing strategies, ii) able to evaluate the possibility of improving processes, and excel the value of innovation, and iii) seek for higher levels of satisfaction in outsourcing processes. According to these authors, it seems that pharmaceutical companies are moving from completely in-house decentralized models managed within own company (without any level of standardization) to new outsourcing models that are very much focused on mass standardization, as it has been done by other sectors in last twenty years (Clements et al., 2005: 52-57). Once the main reasons for outsourcing have been described, it seems appropriate to carry out a case study within the industry, focusing on the financial process, so that potential differences can be glimpsed with the case analysis of multinationals from other sectors.

Novartis
Novartis is a Swiss company that was created as a result of the merger of Ciba-Geigy and Sandoz, in the mid-1990s. The history of Novartis dates back to the manufacture of dyes by Ciba in 1859, and Sandoz, a chemistry company founded in Basel in 1886. The main Novartis business strategy is the manufacture and development of innovative medicines with the objective of addressing the unmet needs of patients. As the company indicates, "from its beginnings in the production of dyes for synthetic fabrics, the companies that ended up becoming Novartis diversified themselves producing chemical products, and, finally, pharmaceuticals." Novartis recorded sales of almost 46,264 million Swiss francs in 2019, obtaining a profit of 12,074 million Swiss francs (Novartis, 2020). Regarding the implementation of the SSCs, as published by PMLiVE (2015: 1-1).

In 2007, the company conducted a BPO for limited financial activities with Genpact (Nowacki, 2008: 20-24). As FiercePharma (PMLiVE, 2015: 1-1) points out, this organization is focused on providing support in the financial and reporting areas, building management, purchasing, payroll and personnel management, in a way that allows employees focus on those activities that are more customer-oriented. The expectation was to generate annual savings of more than 400 million dollars. Globally, NBS manages shared service centers in India, the Czech Republic, Malaysia, Mexico and Ireland, with more than 3,500 employees worldwide (Datta, 2015: 1-1).

Through the implementation of this organization, one year later, Novartis reported savings of 1.6 billion euros, mainly from activities carried out in the purchasing area, where expenses were managed more efficiently both on products and services, which means a saving of 7% on the total purchasing value. (PMLiVE, 2015: 1-1)

Pfizer
Pfizer is an American pharmaceutical multinational, founded in 1849 in Brooklyn, New York, based on manufacturing of citric acid as one of its main products from its foundation (Paavola, 2018: 1-1). Sales in 2019 amounted $ 51.75 billion, while profits were more than $ 16.73 billion (Pfizer, 2020). It is currently the largest pharmaceutical company in the world, second in the healthcare sector after Johnson & Johnson, if the three businesses (pharmaceutical, medical equipment and consumer) are included (Paavola, 2018: 1-1).

In 2012, Pfizer decided to establish global financial centers that could support transactional financial activities to the group affiliated companies worldwide, therefore, Pfizer decided to adopt an SSC model, focusing on centers located in Asia Pacific, America Latin, Eastern Europe and Africa. The objective, similar to other analysed companies, should allow local organization to be able to better support the local business, as well as to improve risk and compliance control (Scanlon, 2014: 17-17). As an example, one of these centers was located in the Czech Republic, establishing a so call “Global Financial Services” (GFS) organization, which should provide standardization in financial processes within the areas of accounts payable, accounts receivable, treasury or general ledger accounting (Pfizer, 2016). In this Czech Republic center, more than 170 people work with more than 20 nationalities.

For Pfizer, GFS as a key player for outsourcing financial processes should be aligned with the expectations of all stakeholders, as well as to define the change management, communication and organizational design of the future outsourcing organization. In general, in the implementation process planning, they define a team in charge of the implementation in each of their markets, considering the different regulations and local and statutory requirements. (Scanlon, 2014: 17-17). Likewise, Pfizer uses external consultants who help to prepare the implementation plan for each market, as well as helping in the definition phase of regulatory and legal requirements. Always keeping in mind that the final objective is the standardization in processes outsourcing, while allowing an increase in quality and control systems (Scanlon, 2014: 17-17).

Johnson & Johnson

It is a multinational American company based in the state of New Jersey (USA), founded more than 130 years ago, specifically in 1886 by the brothers Robert Wood Johnson, James Wood Johnson and Edward Mead Johnson. The company operates in the healthcare sector in three clearly differentiated businesses: i) consumer products, including non-prescription pharmaceutical drugs, ii) hospital-based medical products, and iii) pharmaceutical products. Originally, the first products that were manufactured by the company were related to consumer products, such as bandages. Although during the Second World War, products for hospitals, such as sutures, began to be sold. The pharmaceutical sector was developed in the 1950s, through the integration of various pharmaceutical companies, both in the USA and in Europe. Johnson & Johnson Company is present in more than 57 countries and the products are sold in more than 175 countries worldwide, with more than 130,000 employees. Sales in fiscal year 2019 amounted $ 82,059 million, with the following breakdown by sector (Johnson & Johnson, 2020): i) consumer products, including non-prescription pharmaceutical drugs (17%), ii) hospital-based medical products (32%) and iii) pharmaceutical products (51%).

Regarding the outsourcing of financial processes not considered as key by the company, following the articles published on the website Innovation Enterprise Channels (2019: 1-1) and by Adler (2018: 1-1), starting in 2013 Johnson & Johnson decided to carry out a global review of the different outsourcing models existing in the company, developing a project called Enterprise Standards and Productivity (ESP). The objective was to obtain savings in certain company support departments, such as: i) finance, ii) human resources, and iii) information systems and iv) purchasing. Focusing the analysis on the finance processes, it was decided to establish three financial units:

- Business Unit Finance (BUF), their main responsibility is to carry out "finance business partnering", therefore, this group has a clear strategic component compared to the other groups, being responsible for defining the business indicators, monitoring results and action plans. Geographically they must be close to the business units, therefore, this group is located in all countries.

- Center of Excellence (CoE) - its main responsibility is to support the BUF organization, from two different angles:

    - Business monitoring support, through analysis and reports that allow BUF to be able to act as a "business partner", without the need to design, maintain and update business reports.
    - Support in the budget development, in the sense that they become the operational arm of the budget cycles of BUF.

  Therefore, it is evident that close collaboration between BUF and CoE is key to the correct monitoring of the business. As pointed out by Ulrich (1995: 12-12) there are multiple arguments in favour of CoE to be geographically located in the same place

- Shared Services Centers (SSC), is the last pillar in the financial area, the main responsibility of this group is to carry out all the transactional activities, basically those included in accounting. In the case of Johnson & Johnson, the main SSC serving Europe is based in Prague (Czech Republic), in addition to the teams based in this location, in most European countries there is also a small group of accountants who work in coordination with the BUF team.

In summary, in the outsourcing area, although Johnson & Johnson has done a lot of progress with respect to other companies (especially through the use of the three-tier model), on all occasions it has decided to outsource through the use of CoE or SSC. Until now Johnson and Johnson has not applied BPO models, which in other industries and companies have been fully used. Previous Johnson & Johnson global experiences in the use of BPO models did not get the expected and required savings or service quality level (Hoffelder, 2012: 1-1).

5. DISCUSSION AND CONCLUSIONS

Based on the available information from the case studies sample, it can be inferred that regardless of the type of company, financial process efficiencies could be generated by implementing an SSC model. The main efficiencies could be obtained in:

- Generating a higher level of agility within the organization, being able to faster and ager adaptation to changes.
- Create a higher level of standardization and automation into financial processes.
- Improve financial processes service level
- Generate a career plan for employees working in the SSCs.

Being able to compare two groups of companies, one based on pharmaceutical companies and the other one based on companies, from other sectors, that have in common to be to some extent "reference companies in outsourcing". It has been carried out both an analysis of practices in the entire sample (six relevant multinational companies), and also to compare practices between pharma group and reference group in order to stablish differences and communalities that could be a base to infer outsourcing trends in pharma´s companies.

One of the first issues to point out is that while pharmaceutical companies basically apply SSC models (this means that financial processes are managed internally), it can be observed that there has been an evolution towards BPO models. In general, the companies included in the reference group, started with outsourcing practices based on SSC models and then moved to BPO. A clear example of this evolution was Philips, who initially established an in-house SSC, and later, due mainly to reasons linked to cost reduction, decided to transfer their financial processes to a BPO model, managed by the service provider Infosys. Indeed, there is a clear difference between the companies included in the reference sample and the group of pharmaceutical companies analysed, not only in the outsourcing model used, but also in the scope of the financial processes included in the processes, clearly companies belonging to the reference group have gone much "further" than the pharmaceutical companies. The authors consider that the companies in the reference group have been forced to look for alternative models that allow them to reduce transactional administrative and financial costs further, while, in the pharmaceutical sector companies have not yet decide for an additional step, which other sectors have already taken some years ago probably due to significant margin deterioration.

When comparing both samples it is necessary to make a relevant process qualification, since in general potentially all transactional processes are subject to outsourcing like it has been observed at all the companies included in the analysis, although it does not seem to be clear, that all kind of financial processes may be subject to outsourcing (Bangemann, 2005: 125-128). Financial process activities linked to business partnering, as a strategic role that builds relationships between finance and business strategy (including those processes in charge business supporting), does not seems to be subject to outsourcing in any company or sector. This is applicable in the analysed financial processes, both in the reference group and in the pharmaceutical companies analysed. It is possible to carry out a strategic analysis of the different activities in the financial processes, identifying those that companies wish to keep internally and those that prefer to outsource, using a model similar to the one suggested by Bangemann, (2005: 26-30). In the table 6, authors suggest a model that tries to collect this differentiation and segmentation into financial processes:

Table 6. Implementation proposal model for outsourcing financial processes.

	Common	**Unique**
Critical for the Company strategy	Risk control (eg budgeting, planning, treasury management.)	Business support activities (eg business performance monitoring, new business development)
Non-critical for Company strategy	Transactional processes (i.e. general accounting, accounts payable, accounts receivable)	

Source: Author´s elaboration. Based on Bangemann (2005: 26-30)

Non-critical and commons activities have been outsourced in all analysed companies, which seems very reasonable to safeguard the security and strategy of organization that decides to outsource. While for those processes that could be considered as "more critical", either common or unique, outsourcing it debatable and in this study authors opinion not advisable. Some companies, such as Johnson & Johnson, have also chosen to implement CoE models, as explained by Hackett (2015). Johnson & Johnson´s CoE is defined as certain teams with specialized knowledge and experience who work together with local teams to develop and implement financial processes best practices. CoE can provide directions highlights to the rest of the organization applicable on tangible and measurable business services. It could be suggested that there is a new trend, that suggests that certain strategic processes for companies could be developed with the use of CoE model, in close collaboration with the local "business partnering" organization. CoE model provides support to annual budgeting planning and execution, in the sense that it become an operational arm in the budget cycles supporting local financial teams.

Indeed, there are differences between the practices of the pharmaceutical industry and those observed at the reference group companies, such as Philips where outsourcing model has evolved to a BPO model. Therefore, we can suggest that in the pharmaceutical sector there is still room for improvement and development in outsourcing. Considering what Keuper & Lueg (2015: 322-324) suggested as different stages of an SSC model, after the analysis carried out of in pharma companies, we can infer that: i) companies in the pharmaceutical sector are still in an embryonic/growth phase regarding financial processes outsourcing, ii) in which activities such as accounting cycle or cost centre management has not yet been fully implemented in the SSCs. In the sample of pharmaceutical companies, outsourcing processes have been applied to common and non-critical financial processes. In general, all the basic transactional processes have been outsourced, very much in line with the theoretical framework outlined, although, based on the data available it has not been possible to draw detailed conclusions from each of the outsourced financial processes, like general accounting, taxes, treasury...etc. Based on the cases studied, the reference sample and the group of pharmaceutical companies, it could be emphasized that each company is in different outsourcing phase, and even each company is in a different outsourcing situation. The companies in the reference sample are in a more mature phase, which implies the need to evaluate other models than those currently implemented by the pharmaceutical companies, even addressing to include new financial processes related to "business controlling" in the SSCs, such as in the case by Henkel.

Based on the comparative analysis, it seems clear that it is completely necessary for companies in the pharmaceutical sector to evolve to more complex and advanced outsourcing models. Pharmaceutical companies have only carried out implementations of outsourcing financial processes in those where there is a clear and quick benefit, such as, for example travel expenses or accounts payable management, the great challenge of pharma sector will be to implement within outsourcing models, more complex financial processes.

As summary, main trends observed on the pharma sector companies are: i) movement towards BPO-type models in all standardized financial activities in the reference sample, ii) creation of new Centers of Excellence (CoE) organizations, which could help local areas of business partnering, understanding as such the financial process that are closely related to the business management and strategy, and iii) could also be inferred from the comparative analysis that the BPO model is not being used in the pharmaceutical industry yet. Considering the evolution identified in other sectors, it would be advisable to expect it adoption into pharma outsourcing models in the coming years.

As pointed out by Aranha and Wheelwright, (2007: 58-62); Dalal, (2010: 28-32); Nowacki, (2008: 20-24), the pharmaceutical industry is aiming to increase their level and quantity of efficiencies in the general administration expenses, as consequence of the increase of the competition in the market. Considering that fact, the adoption of BPO-type models frame timing, could depend on when the efficiencies achievable with current SSC model would have been completely accomplished. Therefore, there is a potential extrapolation effect from the reference group to the pharmaceutical group, because of the items described above.

In the opinion of this study authors, there are ample possibilities to go further on financial processes outsourcing within pharma companies, both towards BPO and CoE models extensive adoption. Also, potential further financial outsourcing in the areas of automation/ standardization and financial processes automation could be expected in the coming years.

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