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Remodeling Indirect Procurement in a Global Organization

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In the case organization, a need to improve the process efficiency was felt by the leadership of the organization. During the current state analysis, it was discovered that indirect procurement functions of the case organization were decentralized globally and caused process inefficiency. The objective of this thesis was to generate proposals for remodeling the indirect procurement in the case organization to improve process efficiency.

This thesis utilized qualitative research methods to collect all the relevant data. The thesis started with evaluating the current state of indirect procurement in the case organization. The theoretical framework focused on the topics related to indirect procurement, which was followed by developing a proposal for remodeling the current indirect procurement practices.

To arrive at the proposal, data collection and data analysis was done by adopting inductive approach. Indirect procurement experts at the case organization were interviewed to gain insight of the current situation with indirect procurement. Thematic analysis of the data pointed to the development options for tackling indirect procurement challenges in the case organization. The outcome of this thesis is the proposal for remodeling the indirect procurement, which the case organization can adopt.

This thesis proposed three options for remodeling the indirect procurement for the case organization, which is a global organization. The organization accepted one of the presented proposals, which is the hybrid mode of operation, formed by combining selectively the outsourcing and shared services center models. The interviews with the leadership also confirmed their willingness to consider adopting other proposals for remodeling the indirect procurement possibly in the future.

Keywords	Indirect procurement, procurement categories, spend volumes, efficiency, sustainability, business confidentiality

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Ranjit Narayanan
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Contents

1 Introduction

Procurement was earlier often considered to be a modest function whose importance is somewhere 'between the subjects of production and logistics', where employees in departments would negotiate prices, monitor delivery times and terms, as well as 'supervise and execute material ordering' without any consideration of wider strategic importance (Weigel & Ruecker 2017, 1).

Changing conditions of increased global competition, shorter and more market-responsive product cycles, rapidly changing technology as well as the need to swiftly respond to price pressures and customer expectations have forced businesses to reconceptualize their internal and external supply chains as highly strategical and important (Lysins & Farington 2020, 13; Weigel & Ruecker 2017, 1). Modern global companies spend a significant amount of their turnover on procuring materials and supplies (Lysons & Farington 2020, 22). Furthermore, global sourcing with all concomitant challenges of having the ability to leverage correct information at the right time, and mitigating business secret risks and ensuring dependability while generating cost-benefits via low-cost locations and process integration is fast becoming a standard feature of global organizations. Therefore, it is obvious that the role of procurement evolves with time (Baily et al., 2015, 7).

Procurement has now come to be recognized, both in organizations and in academic literature, as having steadily adopted a different mindset. This mindset change is evident e.g., in seeing supplier relationships evolving from cost-monitoring 'policeman' adversarial stance to a cooperative way of working with chosen suppliers (Klein et al., 2021, 6), and integrating new features e.g., lifecycle costing, strategic sourcing and supplier design involvement. All these have increased procurement's prominence as a strategic function (Lysons & Farington, 2020, 12). Currently, utilizing procurement skills through effective and agile processes, which are guided by requirements of operational resilience, dependability, and strategic sourcing, is seen as vital for creating critical value, and even for securing competitive edge for organizations. This contrasts with practices of simply procuring ordered goods and services at designated prices.

This new and enhanced role of procurement in generating smart cost savings, ensuring resilience of operations, and improving the profitability of the whole enterprise is clearly

more evident in large global organizations functioning in various fields, across multiple time-zones and countries (Schutz et al., 2020, 17; Pereira, 2014, 7).

However, many organizations still do not include indirect spend categories when using strategic sourcing methods. Instead, indirect spend is viewed as a collection of one-time purchases or is sourced with no additional work beyond examining the price responses from suppliers. It is challenging to collect accurate spend data and market data, as indirect spend typically has low per-item costs, non-essential products, or services. Organizations can stop treating indirect spend in this manner, with the advent of strategic sourcing, which also offers spend visibility, objective decision-making, and a sourcing management tool to ensure effective use of the sourcing team's time and resources.

In this situation, three critical questions arise: Should organizations spend time and effort in periodically reassessing their procurement model? How does the organization gather data to arrive at the correct evaluation of their procurement model? Is this information and analysis sufficiently aware of the organization's strategy?

Academic knowledge about Indirect Procurement is still limited and fragmented in comparison to direct procurement (Delke, Schiele & Bucholz, 2023, 3; Israel & Curkovic 2020, 775). Therefore, the literature review aims to discover cutting-edge research and knowledge about Indirect Procurement that will help generate concrete proposals for remodeling the case organization's Indirect Procurement.

However, the main goal of the thesis is not to propose any new theories, but to improve the procurement performance and practices in a global company. Proposals for the remodeling of the case organization's procurement functions have been generated by utilizing existing academic literature, research data, and interview results and analysis.

1.1 Case Organization

The procurement functions in the case organization are divided and managed by separate teams, as Direct Procurement and Indirect Procurement. This study covers the evaluations of Indirect Procurement, which is divided into 7 Categories: Telecom, IT, Travel, Marketing, Facility Management, Professional Services and HR.

The purpose of this research is to evaluate the current way of operations, and design solutions to improve the operational efficiency of the procurement functions within Indirect Procurement of the case organization.

The case organization, a company headquartered in Finland, which manufactures and services power equipment in the energy and marine markets, was founded in 1834 with the establishment of a sawmill in the county of Karelia, Finland. The sawmill got renamed in 1907. In 1935, the headquarters of the company moved from Karelia to Helsinki, Finland. The first diesel engine saw the light of day in Turku in November 1942 under license agreement with a German company. In 1954, the company decided to design its own diesel engine. For the first time in the company's history, the company started a Diesel engine designed by its own engineers in 1959.

The company is very experienced and resourceful in delivering marine and energy projects around the world with about 160 locations in more than 80 countries. While delivering projects as per national safety requirements and local legislations of the countries, the company is conscious of its social responsibility towards a sustainable future. The company applies the most stringent processes in the world to ensure the highest safety of humans and the environment. The case organization carefully selects its suppliers who are competent in meeting all the requirements of the project.

As per the latest estimate, the company employed more than 18000 employees. The business turnover is more than 4 billion Euros generated through the sale of equipment and services to customers in the Marine and Energy industries.

1.2 Business Challenge and Outcome

The case organization is a global organization with operations in more than 80 countries. Until 2010, the procurement functions were delivered by regional teams in various countries across the globe. In 2010, to increase the operational and process-efficiency, the company's management decided to centralize the procurement team working for the Information Management category. A dedicated team was setup in Mumbai, India, which started to support the Indirect Procurement functions for around 10 countries from January 2011 onwards. At that time, customized Software for Purchase Order creation was not deployed in the company. Purchase Orders were issued using MS Excel. In 2012,

more countries were included in this operation and more tools such as SAP was introduced. From 2013 onwards, the global procurement functions of the Information Management category were transferred to the centralized delivery Center (Shared Services Center) in Mumbai, India. From 2014 onwards, the country volumes of transactions at the Shared Services Center increased.

In 2022, the management of case organization then felt that Indirect Procurement model had to be remodeled to match the organization's effectiveness standards and targets. The purpose of remodeling Indirect Procurement in the case organization is to improve operational and process-efficiency. This is to be achieved by transferring the functions of Strategic Purchasers, located in various countries around the world, who are generating Purchase Orders from a procurement tool and issuing Purchase Orders, to a Shared Services Center which is already functioning in a low-cost country, India.

Currently, the Shared Services Center in India continues to issue Purchase Orders for Telecom and IT categories for the entire global operation of the case organization. From the interviews it transpired that loss of efficiency occurs when designated sourcing responsible persons are spending more time and effort on procurement related administrative tasks instead of delivering the actual sourcing functions. During scheduled interviews for this case-study and participation in various meetings with the Indirect Procurement team members, it has been observed that the Indirect Procurement Managers, Sourcing Managers and Strategic Purchasers are spending time on non-sourcing functions. The time spent on such activities need to be utilized more effectively, so that they can use the time more efficiently and create value by sourcing for suppliers of higher quality and capability, negotiating better terms and prices for supply with suppliers, Frame Agreements and Contract governance.

During the data collection, while interviewing the employees of the case organization working for the Indirect Procurement department as well in the Shared Services Center, it became clear that there is a great opportunity for remodeling the Indirect Procurement and create synergies by utilizing the services of the existing Shared Services Center of the case organization in Mumbai, India. Furthermore, it also became evident through detailed discussions with the Vice President in charge of the Indirect Procurement of the case organization, operative purchasers, and category managers of the Indirect Procurement that the Shared Services Center is already successfully delivering the Indirect Pro-

curement functions for Telecom and IT Procurement Categories of the case organization. From the above it further transpired that moving away from a decentralized mode of Indirect Procurement operation to a more centralized mode of operation would be beneficial for the case organization.

If the Indirect Procurement functions are transferred into a centralized mode of procurement operation within the existing Shared Services Center in Mumbai, India, technology enhancement would become inevitable to meet the volume increase of transactions. If the investment in technology is excessive for the case organization, it may adopt option two by outsourcing the Indirect Procurement functions to a reputable low-cost and technologically efficient provider of Indirect Procurement outsourcing services.

Business-critical information and pricing confidentiality have huge impact on business challenges and outcome for the case organization. Considering business confidentiality, while availing the operational efficiency benefits of outsourcing, it was necessary to develop a third option. This third option is a Hybrid Mode of operation where the majority of the Indirect Procurement operations are contracted to an outsourcing partner, and highly confidential business critical transactions are handled by the in-house Shared Services Center in Mumbai, India.

The three options available for remodeling the Indirect Procurement are set out below:

Option 1) Shared Services Center Model: Consolidate all purchasing functions into the already existing Shared Services Center in Mumbai, India. Automate the process to handle large volumes encompassing all the global Indirect Procurement categories of the case organization.

Option 2) Outsourcing Model: If automation is not cost competitive, outsource all purchasing functions of all categories to an established outsourcing partner.

Option 3) Hybrid Model: When faced with challenges in outsourcing, e.g., loss of control over delivery risks; of business confidentiality, and other strategic reasons, adopt a hybrid model, wherein majority of the repetitive functions could be outsourced, while critical ones remain within the already existing Shared Services Center handled by the case organization’s own team in Mumbai, India, who can also be utilized for supervising the outsourcing partner.

The outcome of this thesis is a proposal, which compares from a business compatibility viewpoint, all the three proposed options, and finally recommends the most appropriate proposal for remodeling the Indirect Procurement of the case organization.

1.3 Research Questions

The research problem of the thesis was that the Indirect Procurement functions of the case organization were decentralized and conducted from various regional offices around the world rather than being fully processed through the existing Shared Services Center in Mumbai, India. Thus, the main research question is formulated as follows:

Research Question 1: What is the main challenge with the current way of functioning of Indirect Procurement?

This question allows the researcher to investigate the case organization's way of working, and understand fully the scope and method of functioning of the Indirect Procurement department.

Research Question 2: Why does this challenge in Indirect Procurement exist and what causes it?

During the research in the case organization, certain challenges in Indirect Procurement, e.g., loss of efficiency, cost implications, were identified. The aim of this question is to investigate, in detail, these challenges in Indirect Procurement and evaluate and understand the reasons behind the existence of these challenges in the Indirect Procurement.

Research Question 3: How should the three possible options of Indirect Procurement be analyzed and compared?

The aim of this question is to analyze thematically the benefits and shortcomings of each proposed option so that the case organization is aware of these thematic aspects when choosing and adopting the option most business compatible for them.

Research Question 4: How do the three options available compare?

This question aims to compare one option with another proposed option and the method of comparing entails mapping the features of each proposed option against the needs and requirements of the case organization, so that the recommended proposal can be chosen by the case organization, keeping in mind which proposal is the most productive and the most viable for the case organization.

Research Question 5: Which of the three options of Indirect Procurement would optimally suit the case organization's global procurement requirements?

The above research questions will help the researcher with identifying and proposing, with suitable justification, the most appropriate option for Remodeling the Indirect Procurement.

2 Research Methodology

2.1 Research Design

The research design utilized in this Thesis consists of eight stages and is presented in Figure 1 below, which illustrates the research design and the outcome for each stage.

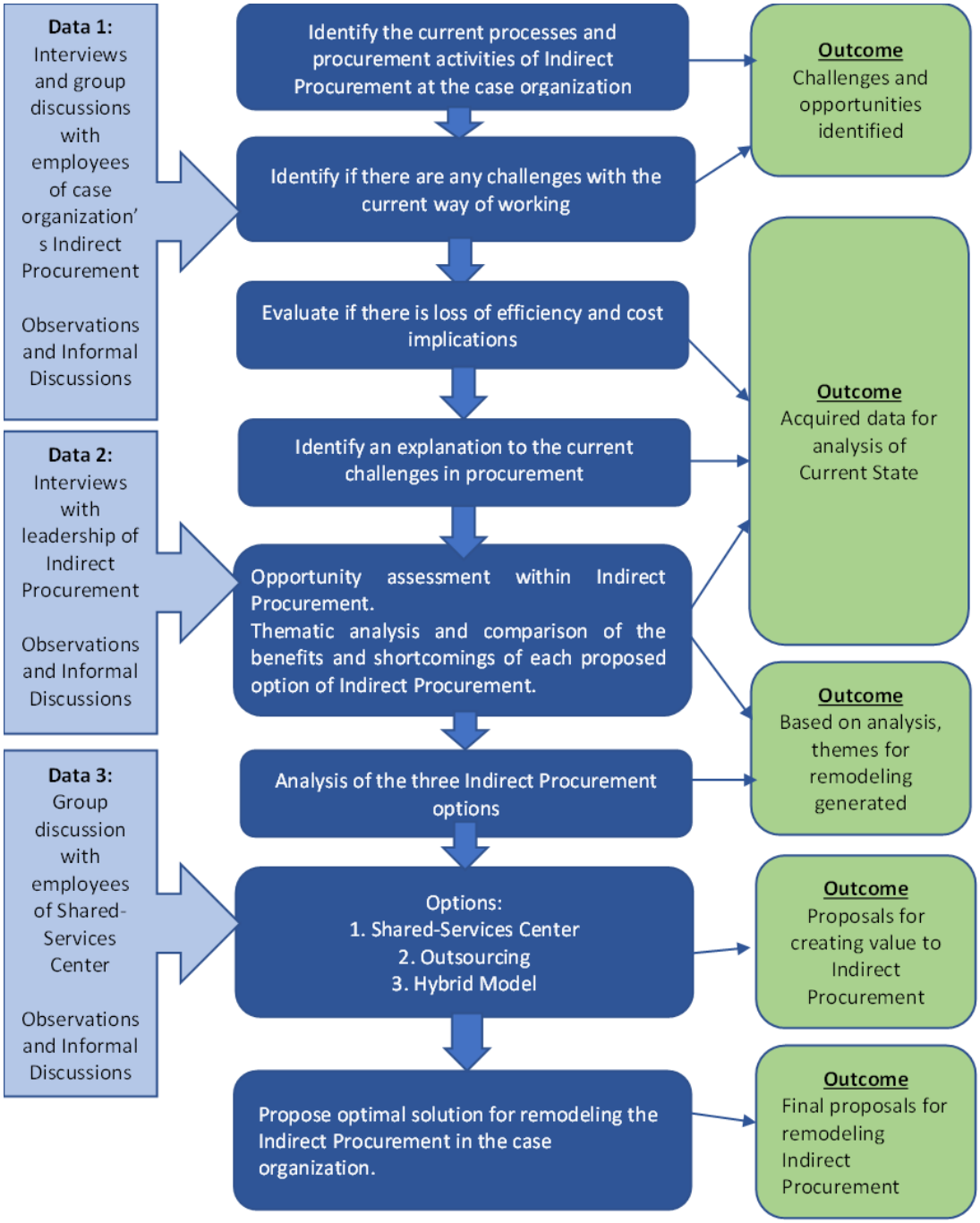

Figure 1: Research Design

For this study, it was necessary to first evaluate and understand the current processes applied in the Indirect Procurement division. This phase of evaluation and understanding started with observations and discussions, scheduled semi-structured interviews and informal discussions. Field notes were made during these interviews and during informal discussions. In meetings where the researcher was present as an employee of the case organization, it was not always possible to make written notes. In these cases, mental notes were made by the researcher, which were recalled from memory and added to the written notes immediately after the interviews. The interviews were booked in advance and the purpose of the interviews was always clearly and unambiguously notified to the interviewee. After this, the interviewee gave verbal consent for the interview. The scheduled duration of the interviews was usually an hour long.

2.2 Data collection

This thesis utilized both qualitative and quantitative data collection methods in three data collection rounds. Data was collected from the interviews and group discussions with employees of the case organization's Indirect Procurement, interviews with leadership of Indirect Procurement of the case organization, and group discussions with employees of the Shared Services Center in Mumbai, India.

As stated in Table 3, the researcher met with 22 Indirect Procurement team members. Some of the face-to-face meetings were in the case organization's office in Helsinki during June 2022, July 2022, October 2022, December 2022, and January 2023. Those employees who are not working in the Helsinki office, were met with on video conference calls during December 2022, January 2023, and February 2023. During these meetings and discussions, the researcher's focus was on understanding what and how the Indirect Procurement process is currently applied in the case organization. It is necessary to understand what is being done and how many categories are serviced from the Shared Services Center. The criteria for exploring this understanding are workload, the business of procurement categories and spend volume.

It was important to formulate the criteria for understanding the current process by asking questions. How much is the workload or volume of transactions currently performed at the Shared Services Center? Which are the categories not serviced from the Shared Services Center? Into how many categories is Indirect Procurement divided? Which are those categories? Meeting the team members, generated knowledge and understanding

of Indirect Procurement in the case organization. The Opportunity Assessment is based on one-to-one discussions with stakeholders and spend data analysis. The Indirect Procurement spend data analysis gave the researcher the information related to the spend during a year. It also provided information about the category wise spend pattern during a year and during the last 3 years. This information was valuable for knowing the spend volume of which category was growing and which was not growing

2.2.1 Data 1 Interviews and group discussions

Data was collected from the semi-structured interviews of employees of the case organization's Indirect Procurement department in different locations globally. The data collection was done over Microsoft Teams. Information gathered explained various categories of Indirect Procurement and their spend values.

In the group discussions with employees of the case organization's Shared Services Center in Mumbai, India, knowledge was gained about the types of challenges experienced at the Shared Services Center due to the variances of time zones (see section 3.3) as they service the internal customers globally. Knowledge was also gained about the value of transactions conducted at the Shared Services Center, the number of purchase orders issued per year per category (see Table 2), and the organizational structure (shown in section 3.1) of the Shared Services Center in Mumbai, India.

As part of this research, sourcing, and Indirect Procurement experts at the case organization were interviewed to gain insight of the past situation and the current situation in order to evaluate the benefits, risks and shortcomings of implementation of Shared Services Center. The interviewees were informed about the scope and purpose of this research in advance of the scheduled interview, so that they could prepare themselves. The interviewees were given in advance either a list of topics or questions to be discussed. This way it helped to get more accurate information as the interviewee had the time to plan and organize their answers.

The researcher conducted all the interviews personally and clearly explained to every interviewee the purpose of each interview, and especially how the data and results were to be utilized, maintained during and after the analysis, and how confidentiality was to be protected. Each interview began only after the interviewee verbally consented to being interviewed. In the case of the interviews over Microsoft Teams, the acceptance of the Teams invitation was deemed as their verbal consent.

The below Table 1 shows the research questions and the questions used in the interviews.

Questions	Research Question	Interview Question
1. What is the main challenge with the current way of functioning of Indirect Procurement?	Yes	Yes
2. Why does this challenge in Indirect Procurement exist and what causes it?	Yes	Yes
3. How should the three possible options of Indirect Procurement be analyzed and compared?	Yes	Yes
4. How do the three proposed options compare?	Yes	Yes
5. Which of the three options of Indirect Procurement would optimally suit the case organization's global procurement requirements?	Yes	Yes

Table 1: Research Questions

2.2.2 Data 2 Interview with Leadership

Data was collected from semi-structured face-to-face interviews with the leadership of Indirect Procurement of the case organization. These interviews produced detailed knowledge about the following topics: overview of organizational structure of the case organization, Indirect Procurement team structure, the role of the Vice-President of Indirect Procurement, company-level Indirect Procurement spend volume, and various categories of Indirect Procurement. A clear understanding of the challenges with the current way of functioning in Indirect Procurement and their causes was also gained during this interview.

The leadership gave an executive overview of the existence and functioning of the Shared Services Center in Mumbai, India. From these interviews, the researcher was able to discover a possibility of development of the Shared Services Center in Mumbai, India to the next level.

Data related to the spend volumes of all the categories of the Indirect Procurement was also gathered from the reporting system of the case organization and is presented in section 3.4.

Spend data was collected from the case organization and for each category the spend per category was analyzed. More than 20 Indirect Procurement team members were interviewed face to face as well as through online meetings over Microsoft Teams, to build knowledge and understanding of Indirect Procurement in the case organization. The interviewees were selected based on their job profiles, roles and responsibility in the organization, and their location where they are working from. Being an employee at the case organization, the researcher was able to access and reach all of them very easily. Basically, the researcher had unrestricted access to the interviewees, as they are colleagues too. Opportunity Assessment are based on one-to-one discussions with stakeholders and spend data analysis.

2.2.3 Data 3 Group discussion with Shared Services Center employees

Data related to the total number of transactions handled by the Shared Services Center in Mumbai, India per year was obtained from the group discussions with employees of the Shared Services Center in Mumbai, India.

Category of Indirect Procurement	**Number of Purchase Orders (transactions per year)**
Telecom	7300
IT	6700
Total	**14000**

Table 2: Purchase Orders handled by the Shared Services Center in India.

A comprehensive understanding of the history and evolution, current operations along with the costs, and organizational structure (shown in section 3.1) of the Shared Services Center in Mumbai, India was gained from the group discussions on Microsoft Teams with the employees of the Shared Services Center in Mumbai, India.

The below given Table 3 shows the record of interviews conducted for this research. It shows the dates on which the interviews were conducted, and the topics covered during

the interview are also listed. There is also an indication in the below Table 3 whether the interview was face to face or online meetings through Microsoft Teams.

Personal semi-structured interviews were conducted, and the main topics covered included Organization Structure, Indirect Procurement Structure, Spend Volumes, Indirect Procurement Categories, Challenges with the current way of functioning, Shared Services Center in Mumbai, India, and its current costs.

The results of the interviews are in Appendix 2. The analysis of the interviews can be found in Chapter 5.

A group discussion with the team members of the case organization's Shared Services Center in Mumbai, India, was scheduled to openly discuss and seek answers from the team members, who were able to freely choose and decide to answer. They were informed in advance that they can choose not to answer if they don't wish to answer the researcher's interview questions. This team currently maintains the supplier base data and issues purchase orders for Indirect Procurement of IT Category. This team reports to the Operative Purchasing Manager. Therefore, discussing with them clearly helped in understanding the current way of operations at this Shared Services Center. Video link was shared in advance and during the discussion it was possible to actively observe the participants. Sometimes, the participants were hesitant for open discussion, as they were conscious of being heard by other team members and therefore, the researcher felt some of them refrained from answering on certain questions, even though the researcher received the answers from senior colleagues or the Manager. Overall, the researcher could collect a lot of information related to the current way of working at the Shared Services Center in Mumbai, India.

The results of the group discussions are in Appendix 4.

Date	Day	Duration	Persons	Role of Participants	Mode of Data Collection	Topic Description	Documented As
07-Jun-2022	Tue	1 Hour	1	Vice President - Indirect Procurement	Face to Face	1. Overview of Organisational structure 2. Role of VP - Indirect Procurement 2. Procurement Structure 3. IP Spend Volume 4. Procurement Categories	Field Notes
10-Jun-2022	Fri	1 Hour	1	Sourcing Specialist - ICT	Face to Face	Current process within IP	Field Notes
25-Jul-2022	Mon	2 Hours		Vice President - Indirect Procurement	Face to Face	Challenges with current way of functioning	Field Notes
03-Oct-2022	Mon	1 Hour		Vice President - Indirect Procurement	Face to Face	Shared Services Centre in Mumbai	Field Notes
13-Dec-2022	Tue	1 Hour		Vice President - Indirect Procurement	Face to Face	Existence and Causes of challenges in IP	Field Notes
21-Dec-2022	Wed	2 Hours	9	(1) Purchasing Manager, (2) Operational Purchaser, (3) Solution Expert, (4) Operational Purchaser, (5) Senior Operational Purchaser, (6) Solution Expert, (7) Senior Operational Purchaser, (8) Operational Purchaser and (9) Operational Purchaser	Teams Meeting	1. Shared Services Centre in Mumbai 2. Current operations 3. Organisational Structure	Field Notes
04-Jan-2023	Wed	1 Hour		Purchasing Manager	Teams Meeting	1. History of SSC 2. Current cost of operations 3. Scope for increasing the volume of procurement transactions in SSC in Mumbai	Field Notes
12-Jan-2023	Thu	1 Hour	1	Global Category Manager - HR	Face to Face	1. Functioning of IP 2. Categories 3. IP Spend volumes	Field Notes
12-Jan-2023	Thu	1 Hour	1	Sourcing Manager - ICT	Face to Face	Power BI Spend Reports	Field Notes
16-Jan-2023	Mon	1 Hour	1	Global Category Manager - Professional Services	Teams Meeting	1. Challenges in the way of functioning of IP 2. Causes of challenges in IP 2. How to manage Categories 3. IP Spend volumes	Field Notes
16-Jan-2023	Mon	1 Hour		Global Category Manager - HR	Face to Face	Causes of challenges in Indirect Procurement	Field Notes
17-Jan-2023	Tue	1 Hour		Vice President - Indirect Procurement	Face to Face	1. Total Outsourcing of procurement functions 2. Increasing the volume of transactions in SSC in Mumbai 3. Hybrid mode of operations, outsource procurement transactions and retain SSC in Mumbai to support the outsourcing partner	Field Notes
18-Jan-2023	Wed	1 Hour	1	Operative Purchasing Manager	Teams Meeting	1. Current costs of SSC in Mumbai 2. Current costs of purchasing team in IP.	Field Notes
19-Jan-2023	Thu	1 Hour	1	Senior Analyst	Face to Face	IP Spend Overview reports	Field Notes
20-Jan-2023	Fri	1 Hour	1	IP Strategic Purchaser	Teams Meeting	IP Spend and Savings possibilities	Field Notes
20-Jan-2023	Fri	1 Hour	1	Indirect Purchasing Manager	Teams Meeting	IP Spend and Savings possibilities	Field Notes
27-Jan-2023	Fri	1 Hour	1	IP Strategic Purchaser	Teams Meeting	IP Spend and Savings possibilities	Field Notes
27-Jan-2023	Fri	1 Hour	1	IP Strategic Purchaser	Teams Meeting	IP Spend and Savings possibilities	Field Notes
27-Jan-2023	Fri	1 Hour	1	Senior Strategic Purchaser	Teams Meeting	IP Spend and Savings possibilities	Field Notes
30-Jan-2023	Mon	1 Hour		IP Strategic Purchaser	Teams Meeting	Savings Oportunity assessment	Field Notes
09-Feb-2023	Thu	1 Hour	1	Indirect Purchasing Manager	Teams Meeting	Savings Oportunity assessment	Field Notes
			22				

Table 3: Record of Interviews for Data collection

Observations and informal discussions, which were an integral part of the data collection was a continuous effort running throughout the data collection process and are described in the next sections 2.2.4 and 2.2.5.

2.2.4 Observations

During observations, the active participant observation method was applied. This was mainly listening to the group discussions during meetings that the researcher was invited to participate in as an external employee. With the advantage of being a worker at the case organization, where the researcher would regularly receive invitations for meetings with stakeholders, team members and suppliers, the researcher could converse with the other participants of these meetings. Participation at such meetings gave a splendid opportunity to listen to the discussions and form patterns in own mind about the nature and current operation of the business within Indirect Procurement at the case organization. It also gave deep insights useful for this research and the researcher was also able to make notes for further references.

The results of the observations are in Appendix 3.

2.2.5 Informal discussion

Although it may sound impractical, the researcher's experience is that during informal discussions in the office of the case organization, the researcher was able to understand and draw comparisons between information collected earlier and the informal discussions. During informal discussions, although relevant questions were asked, the researcher was not able to make written notes, but made mental notes. But such informal discussions were followed by a session, where the researcher sat recollecting from memory, portion of the informal discussion and writing notes. Certain points were forgotten and not correctly reproduced from memory and written. Therefore, the researcher decided to schedule interviews to seek clarification on such points.

The results of the informal discussions are in Appendix 5 and the analysis is given below.

Due to their high frequency in informal discussions, spend report, Indirect Procurement savings possibilities, Indirect Procurement procedures are examples of keywords that the researcher designated as signposts to look for divergences in opinions during the informal discussions. This was a systematic way of discovering and identifying any such

possible divergences of opinion. Discussions of spend value of certain categories in Indirect Procurement gave an indication of the magnitude of money spent on procurement of such categories. Similarly, discussions on Indirect Procurement savings possibilities gave an insight into the possibility of saving a significant amount of money by remodeling Indirect Procurement, which is the aim of this thesis.

3 Current State Analysis of Indirect Procurement

The information presented in the current state analysis is based on spend data collected from the case organization and I studied the spend per category of Indirect Procurement of the case organization.

3.1 Centralized Procurement Team

The case organization being a company with global operations in about 160 locations in more than 80 countries, have different teams in regions around the world, for various operations and functions including procurement functions. In the year 2010, management decided to setup a centralized procurement team to achieve operational efficiency and synergy. The Competence Center of Information Management was set up in India to handle the procurement function of Information Technology tools and services. In the year 2011, the competence center started its operations from their offices in Mumbai. To minimize risks, the Indirect Procurement functions of business of only 10 countries were assigned to the Mumbai based Shared Services Center. During those early stages, Purchase Orders were generated manually using MS Excel.

After the completion of successful trials during the year 2011, from the beginning of the year 2012, support services for Indirect Procurement functions of business in more countries were transferred to the Mumbai based Shared Services Center. With this development, more tools were brought into use to introduce automation to enhance efficiency. The same year, the team started using SAP (an off-the-shelf software tool) for processing the Indirect Procurement transactions and Purchase Order issuance.

During this period, from early 2011 to November 2022, the delivery Center of IT sourcing remained under the control of CIO (Chief Information Officer) organization. The team in Mumbai, India consisted of 2 Strategic Purchasers and 6 Operative Purchasers, led by a Purchase Manager. The cost of the current team of nine members working in the Shared Services Center in Mumbai, India is 960 000 Indian Rupees per month (11 520 000 Indian Rupees per year), which corresponds to 128 000 Euros per year.

The Strategic Purchasers are responsible for negotiating the prices, contract terms and conditions with the suppliers. Whereas Operative Purchasers are responsible for placing the orders based on business demands and issuance of Purchase Orders.

During the year 2013, global operations of Information Management Category procurement functions were transferred to the Shared Services Center in Mumbai, India. Along with Information Management, due to product similarity such as electronic equipment and accessories, Telecom Category was also included. And in 2014, volumes of transactions per country increased, with an average of 14000 Purchase Orders issued per year.

Information Management (IM) purchasing is part of Information and Communications Technology (ICT) sourcing and is responsible for operative procurement tasks such as:

- Ordering of IT Hardware, Software, Mobile Device, and IT Consultancy.
- Support in supplier onboarding and existing supplier update
- Personal Computer (PC) asset management
- PC Catalog management.

3.2 Background of remodeling of Indirect Procurement

To improve procurement efficiency, such as centralized issuance of purchase orders and data base management, in the year 2022, the management decided to bring in reorganization of Indirect Procurement functions within the case organization. The Operative Purchasers of IT and Telecom categories were moved from CIO organization to Indirect Procurement organization.

The Indirect Procurement handles the procurement of (non-billable) non-revenue generating purchases, of which the procured products or services are consumed within the case organization and is headed by a Vice President - Indirect Procurement. For ease of costing, managing, and monitoring the spend, Indirect Procurement volumes are organized using the Global Category Management concept. Category Management is a concept whereby groups of similar products and services are organized under categories

to leverage purchasing volumes and to ensure a consistent demand on quality, delivery reliability, lead time and cost within the case organization globally. The Indirect Procurement functions are divided into various Categories, and each Category is headed by a Global Category Manager. The Global Category Manager is responsible for negotiating Frame Agreements with leading strategic and global suppliers.

Reliability and sustainability are the most important criteria for evaluating the continued success of the Shared Services Center that will be an integral part of the remodeling of the Indirect Procurement for the case organization.

3.3 Indirect Procurement Categories

Indirect Procurement in the case organization is divided into 7 Categories, and those Categories are further divided into sub-categories.

The Categories are as follows:

1. Telecom
2. IT
3. Travel & Meetings
4. Marketing & Communications
5. Facility Management & Services
6. Professional Services
7. HR & Personnel Services

Currently, the Shared Services Center in Mumbai, India handles only 2 Categories, and those are Telecom and IT, with an average of 14000 Purchase Orders issued per year. By centralizing the functions of supplier base management and purchase order issuance in Mumbai, the case organization was able to enhance the efficiency of its purchasing activities. Also, Mumbai in India being a low-cost country in terms of labor costs in comparison to some of the other locations outside India, the case organization was able to

justify the creation and establishment of Shared Services Center in Mumbai, India (detailed in section 3.1). This Shared Services Center is also known within the case organization as IDC – Information Management Delivery Center.

The Centralized Accounts Payable team operates from a Shared Services Center in Finland. By centralizing the Accounts Payable team, the case organization was able to create synergy and process invoice payments to suppliers of the case organization, all over the world from one location.

If a concentrated effort is made, the operative purchasing functions related to the remaining 5 Categories could also be moved to the Shared Services Center in Mumbai. To make this possible, the organization needs to release Indirect Procurement employees who are in various countries and hire minimum required personnel at the Shared Services Center in Mumbai, India at a lower cost. Some of these employees have knowledge about the local market conditions and are familiar with the behaviors of suppliers of their countries or regions. This may pose a challenge to the team in the Shared Services Center in Mumbai until they learn and familiarize themselves with the procurement operations of the countries in all the regions.

In the case organization, the Direct Procurement which includes the purchase of machinery, raw materials, any product or service for resale (Billable to the customers) is not centralized. Moreover, Direct Procurement is under the responsibility of a separate division. Therefore, in this case study, the focus is only on purchases related to Indirect Procurement.

To relocate the functions of remaining 5 categories to the Shared Services Center in Mumbai to create synergy, additional resources need to be hired to be able to handle the increasing volumes of transactions in Mumbai, India. Years ago, when the idea of centralization was initially promoted, it was a learning process. But now having established the Shared Services Center in Mumbai, India, there is the necessary knowledge, skills, and experience within the case organization. The current team are very customer focused professionals and are willing to handle all kinds of operative procurement tasks. They are dealing directly with all the teams globally. Therefore, it would be easy to hire more resources and relocate the operative purchasing functions of more Categories to the Shared Services Center in Mumbai, India.

There are advantages and disadvantages of the Shared Services Center being in Mumbai in India. Easy availability of suitably skilled labor and relevant technology is counted as an advantage. In some cases, the time differences across various time zones are disadvantageous for Mumbai in India as a location. To manage the challenge of working with different time zones efficiently, the Service Level Agreements with business functions, granting a time period of 48 hours for actioning the requests from the Business Lines is established.

The recent survey conducted in the year 2022 internally by the case organization, indicated a significant improvement of 68% success rate in delivering the Indirect Procurement functions, whereas it was 50% in the previous years. Success rate showing a growth, justifies that business transformation within Indirect Procurement will likely be successful.

3.4 Indirect Procurement Spend Volumes

The total Indirect Procurement Spend is 639 million Euros.

Categories	**Spend Euro (m)**
Telecom	11
IT (IM)	103
Travel & Meetings	26
Marketing & Communications	12
Facility Management & services	155
Professional Services	264
HR & Personnel Services	68
Total Million Euros	**639**

Table 4: Indirect Procurement Spend Volumes

The above Table 4 shows the spend per Category for one year. In terms of spend volume, the Shared Services Center in Mumbai is handling the procurement related functions for a spend volume of 114 million Euros (Telecom 11 million Euros plus Information Management 103 million Euros).

From the above Table 4 it is apparent that for the remaining 5 Categories has a spend volume of 525 million Euros. The Indirect Procurement functions of these categories are handled “decentralized” around the world.

A Global Category Manager is responsible for Marketing & Communications Category with a spend volume of 12 million Euros. HR & Personnel Services Category, with a spend volume of 68 million Euros is headed by another Category Manager. Both the categories are supported by a team of 9 regional strategic purchasers, out of which 2 are based in Finland.

However, most of the sourcing and procurement is led by non-Indirect Procurement stakeholders across multiple business units, with the purchasing team reacting to the decisions made by the stakeholders. This has led to a disaggregated approach to spend and a long tail of suppliers contributing to very small spend volumes around the world with very little focus on cost efficiency. If the sourcing and procurement is done by members of the Indirect Procurement team prior to engaging new suppliers, they would try to use existing suppliers and consolidate the business instead of creating a long tail of small suppliers.

Travel & Meetings Category is handled by one Global Category Manager. For a spend volume of 26 million Euros, the Global Category Manager is supported by 4 regional strategic purchasers.

Facility Management Category is handled by one Global Category Manager. The spend volume is 155 million Euros and the Global Category Manager is supported by 7 regional strategic purchasers.

The largest share of the spend volume, 264 million Euros belongs to Professional Services Category and this category is headed by one Global Category Manager and supported by 8 regional strategic purchasers.

3.5 Key findings from the current state analysis.

During the first meeting with the case organization's leadership, the Vice President in charge of Indirect Procurement, an overview of the case organization's company structure and his role as Vice President of Indirect Procurement was acquired (see Data 1, section 2.2.1). In answer to the question "*Would you kindly give an overview of your organization's procurement structure?*", the Vice President gave an overview where procurement in the case organization is divided into direct procurement and Indirect Procurement. The head of Indirect Procurement reports directly to the Chief Financial Officer of the case organization. The Vice President further explained in detail the structure of Indirect Procurement department in the case organization. In answer to the question, "*What is the indirect spend volume in the last financial year?*", he stated that in the case organization, the total Indirect Procurement Spend was 639 million Euros during the last financial year. The two next questions that arose were: "*How is Indirect Procurement divided into categories?*" and "*What is the spend volume of each of the categories of Indirect Procurement in millions of Euros?*" He explained that Indirect Procurement is divided into the following categories:

- Telecom (11m€)
- IT (IM) (103m€)
- Travel & Meetings (26m€)
- Marketing & Communications (12m€)
- Facility Management & Services (155m€)
- Professional Services (264m€)
- HR & Personnel Services (68m€)

The next interviewee, a Sourcing Specialist located in Helsinki, Finland, who was interviewed after three days, was asked "*What is the current process of procurement within Indirect Procurement department?*" The Sourcing Specialist explained in detail the process of procurement by describing how the procurement is initiated by the requester from

the business lines, and how the Indirect Procurement team then selects the supplier, negotiates terms and conditions, including price, and how the order is placed using an off-the-shelf procurement tool that has been customized to meet the requirements of the case organization. When a business line requires a product or service, the requester communicates with the Indirect Procurement responsible person about their requirements. The operative purchaser, belonging to the same region as the requester, keeping in mind the organization's procurement policy, acts to fulfil the requirements of the requester by contacting the supplier, negotiating the terms and conditions, and placing the purchase order using the case organization's procurement tool (see Data 1, section 2.2.1).

After acquiring detailed knowledge of the Indirect Procurement processes as explained above, a follow-up interview was scheduled with the Vice President to seek more clarification on the current state of Indirect Procurement, and especially the challenges involved (see Data 1, section 2.2.1). In response to the question: "*What are the challenges currently existing in the Indirect Procurement?*", from his answer, it was possible to infer and deduce the core challenges of Indirect Procurement in the case organization, which are: Operative purchasers delivering their roles, from multiple locations to support the requirements of the case organization do not sufficiently achieve the case organization's strategic sourcing goals. They may not fully comply with the organization's procurement policy as well as not meeting the case organization's efficiency objectives.

After having diagnosed the above problems, an appointment was booked with the Vice-President to enquire about any already existing modes of procurement other than the one described above (see Data 2, section 2.2.2). He was asked: "*Are there any functioning Shared Services Centres in your organization?*" In answer to this question, he described the existing Shared Services Center in Mumbai, India. This Shared Services Center in Mumbai, India processes the global operative purchasing functions for the IT and Telecom categories.

After learning about the existing Shared Services Center in Mumbai, India, it was necessary to investigate the current operations, and organizational structure of the Shared Services Center in Mumbai, India (see Data 3, section 2.2.3). So, a group discussion with the team working in the Shared Services Center in Mumbai, India was booked. In answer to the question: "*Can you please briefly describe the mode of operation of the Shared Services Center in Mumbai?*", they explained that the Shared Services Center in

Mumbai is handling the procurement related functions for a spend volume of 114 million Euros (Telecom 11 million Euros plus Information Management 103 million Euros).

For the remaining 5 Categories with spend volume of 525 million Euros, the procurement functions are handled “decentralized” around the world.

At this stage it was necessary to interview the Purchasing Manager heading the Shared Services Center in Mumbai, India independently and in-depth (see Data 3, section 2.2.3). He was asked: “*Could you please explain the history of the Shared Services Center in Mumbai, India?*” To this he briefly narrated how the Shared Services Center came into existence 10 years ago. The next question aimed at understanding the scope and capability for increasing the volume of procurement transactions in the existing Shared Services Center in Mumbai. Next, he was asked the following question: “*What is the scope for scaling up the volumes of Indirect Procurement transactions in the existing Shared Services Center in Mumbai, India?*” To this question he explained that the Shared Services Center in Mumbai is currently functioning efficiently for delivering the procurement functions of Telecom and IT categories. He further stated that it is easily possible and manageable to scale-up the global procurement functions of other categories of Indirect Procurement by increasing the local headcount and technology enhancement. The Shared Services Center being in Mumbai, India, it is cost-effective to obtain lower-cost and suitably skilled resources from the local market. This observation was instrumental in generating the option number one of this thesis’s three proposals for remodeling Indirect Procurement in the case organization.

To validate the data collected and insights gained in the above interviews, a few more interviews with some of the Category Managers located in Finland and Operative Purchasers located in other countries were conducted (for details of Data 1, see chapter 2.2.1).

The data from all these interviews (section 2.2.1, 2.2.2 and 2.2.3) fully matched, validated and substantiated the key findings presented above.

3.6 Key themes emerging from the current state analysis

Key themes that are evident from the above interviews (presented in section 2.2, with their descriptions and the implications of these findings are presented in the below Table 5:

Themes	Description of the theme	Implications of the finding
Indirect spend volume	Indirect spend volume, with volume split of each Indirect Procurement category is reported in Euros per annum.	Relative magnitude of the spend volume of each category is clear. This magnitude of the spend volume justified the business case for remodeling.
Categories of Indirect Procurement	All the categories into which Indirect Procurement is divided was identified.	Which category is currently being handled by Shared Services Center in Mumbai, India was identified.
Spend volumes of each category	Euro value of the spend volume per annum.	From this value we could figure out which categories have the largest spend volume. This information helps in identifying categories of strategic importance to the case organization.
Challenges of Indirect Procurement	Three of the key challenges faced by Indirect Procurement personnel are: meeting the requirements of strategic sourcing, procurement policy, and operational efficiency	The difficulty of meeting the requirements of strategic sourcing, procurement policy, and operational efficiency in a decentralized mode of operation highlights the need for remodeling the Indirect Procurement.
Scalability of existing Shared Services Center	Existing Shared Services Center can be scaled-up to include procurement functions of other categories of Indirect Procurement.	Remodeling of Indirect Procurement is beneficial and possible by scaling up the operations of the existing Shared Services Center in Mumbai, India.

Table 5: Key themes and implications arising out of the current state analysis

As seen from Table 5 above, five themes from the data collection regarding current state analysis of Indirect Procurement in the case organization, along with their descriptions as well as the implications have given us the necessary guidance for remodeling the Indirect Procurement in the case organization.

From the above themes, it is evident that the implications, especially those concerning the difficulty of meeting requirements within the current way of working, and possible scalability of the existing Shared Services Center of the case organization are central to

the development of the proposal for remodeling the Indirect Procurement in the case organization.

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4 Literature Review

This section describes the current knowledge of Indirect Procurement, types of remodeling, e.g., Outsourcing, Shared Services Center and Hybrid Models being deployed in organizations, with the relevant benefits as well as key challenges associated therewith.

4.1 What are the types of remodeling of Indirect Procurement?

Outsourcing the procurement function to an established and reputable business process outsourcing company or creation of inhouse Shared Services Center or a hybrid mode of operation, which is a combination of both partial outsourcing and partial inhouse Shared Services Center are possible types of remodeling of Indirect Procurement.

Outsourcing: The contracting out of non-core activities or processes is Outsourcing. It does not mean that those activities are not important (Baily et al 2015, 146). The challenge is in identifying correctly what is core activity and what is non-core activity (Baily et al 2015, 146; Boguslauskas & Kvedaraviciene 2009, 75). According to Boguslauskas & Kvedaraviciene (2009, 75) it is important to identify correctly which non-core activity or process can be outsourced, and companies must realize that some of the activities and processes should never be outsourced because of business criticality.

This thesis is about using a Shared Services Center for consolidating procurement related administrative functions. Before going into the details of Shared Services Center it is necessary also to understand some types of outsourcing.

4.2 Types of Outsourcing

There are various types of outsourcing. Some of the outsourcing models suitable for Indirect Procurement are described in the following sub-sections of this chapter.

4.2.1 Outsourcing to save costs

Non-core activities or processes in a company can be outsourced to an external service provider with the sole intention of generating cost savings. However, if the company's existing operating model is very efficient and effective, then the desired cost savings will not be achieved (Baily et al 2015, 147). Therefore, if the objective of outsourcing is to

generate cost savings, then the offers for outsourcing must be evaluated prior to awarding the contract and must be evaluated on a continuous basis to track and mitigate financial losses during the life of the contract.

4.2.2 Outsourcing non-core-functions to focus on core business

In some cases, outsourcing of non-core functions are done, so that the company is able to focus full attention on their core business activity. The external supplier of services or products may have better capability and has larger or appropriate capacity. Outsourcing can make resources available for core activities of the company (Baily et al 2015, 148).

Some companies lose a lot of time, energy, and money by doing non-core activities in-house. If these non-core functions are not of high business confidential in nature, then it goes very well for the company to outsource such repetitive non-core functions to a third-party service provider. This will allow the company to focus all their time and resources on more core-functions which have higher value addition for the company (Baily et al 2015, 146).

4.2.3 Process Outsourcing

Process outsourcing is done by most companies without a well-defined outsourcing process and they often justify their decision to outsource based on head count reduction and short-time cost saving instead of managing risks, adding values and continuous improvement. The companies must thoroughly evaluate and understand what business they are in and what are non-core activities for them, and which of these non-core activities entail low risk in terms of outsourcing (Baily et al 2015, 152).

A company should not outsource a broken process, because the outsourcing partner will not be able to fix the already broken process (Melchior 2008, 122 & Thite 2008, 8-9). Therefore, it is necessary to streamline the process prior to outsourcing.

4.2.4 Utilizing Organization's Own Shared Services Center

Companies with businesses spread around the world have created Shared Services Center in one of their offices located in a low-cost country to generate synergies for economies of scale (Baily et al 2015, 148). In the Shared Services Center model, revenue and reporting as well as primary management control are in the hands of business

unit. The Business Unit agrees to provide goods and services as per terms agreed on by contractual agreements against payment. Employees of Shared Services Center are rewarded based on customer satisfaction. Creation of Shared Services Center enables lowering of head count in the parent organization while increasing efficiencies (Bergeron 2003, 18).

4.3 Challenges of outsourcing

It is important to assess the suppliers in the market and choose the right supplier for the identified non-core activity to be outsourced to ensure superior level of service and continuous improvement. If the selected supplier is not competent, then there could be the risk of disruption in service delivery, resulting in cost escalation as well as other business consequences. Thus, it is crucial to ensure effective supplier's contract management and continuous monitoring of supplier's performance and measure them against pre-defined Key Performance Indicators. While doing this, a very collaborative partnership approach must be taken to realize the benefits of outsourcing (Baily et al 2015, 153).

A survey conducted by Dun and Bradstreet of 1000 companies reported that a quarter of the surveyed companies have terminated their contracts with the outsourcing partner before the end of the contract duration. Among those companies, 50 per cent of the companies have renegotiated their contracts with their outsourcing partner, resulting in almost 25 per cent of them losing their outsourcing contract (Baily et al 2015, 151).

This survey by Dun and Bradstreet has revealed that if the expectation from the outsourcing partner is clearly defined at the beginning of the contract, it would be easy to focus on the results of the performance of the outsourced deliverables and would not result in losing the contract (Baily et al 2015, 151).

The global average savings on outsourcing is about 15 per cent. A small team must be retained with technical and commercial skills to maintain the contractual relationship with the outsourcing partner and to monitor the delivery performance of the outsourcing partner during the validity of the contract (Baily et al 2015, 155).

4.4 Why outsourcing contracts fail?

Outsourcing contracts fail due to lack of open communication and a clear understanding between the buyer and the seller. The buyers and sellers must clearly agree what the supplier will deliver and the time frame for delivery must be met. Both parties must agree on measurable Key Performance Indicators and discussions must continue through regular monthly review meetings. Such a relationship will help in the supplier gaining understanding of what the buyer needs, and the buyer can also benefit by understanding how outsourcing works (Baily et al 2015, 156). On the other hand, the outsourcing has a lack of control over the seller's product or services. In the outsourcing model, the vendor handles the revenue, reporting and other management functions, and has the disadvantage of largely depending on the vendor (Bergeron 2003, 18).

If a company wants to concentrate on its core business, then Indirect Procurement activity can very well be outsourced. Especially, if the frame contracts have been signed and there is no need to engage into price negotiations on a daily basis, and only operative purchasing tasks such as issuing Purchase Orders, receiving the delivery, and making payment of invoices are to be handled, it is better to outsource this function (Baily et al 2015, 157 & 158).

Melchior (2008, 122 & Thite 2008, 8-9) pointed out that a company should not outsource a broken business process. Some companies outsource thinking that the outsourcer will fix the broken business process. If the company cannot fix the problem internally, it will be much more difficult for the outsourcer to fix it.

4.5 What are Shared Services Centers?

Corporate decentralization became apparent towards the end of the 20th century. According to (El-Jawhari et al 2021, 6), Headquarters, which used to be the Center of Power and influence with large number of employees, were dismantled by large organizations, and vital services were assigned to newly established Shared Services Centers (SSC). An organization can identify certain processes handled at the headquarters and all the business units, and transfer them to an entity in a low-cost country or location. This entity can deliver support services on market-like principles, by combining and consolidating services under one entity (Aguirre et al 2015, 102 & 103).

Bergeron (2003, 3), defines Shared Services as “Shared Services is a collaborative strategy in which a subset of existing business functions is concentrated into a new, semi-autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in the open market”.

According to Bergeron (2003, 2), Shared Services is the most prominent of all the alternative business models. There is constant market pressure on companies and their managers to increase their competitiveness. Managers explore alternative business models outside of their traditional company models such as centralized, decentralized, outsourced, and insourced models.

4.6 How Shared Services Center evolved?

Besides financial reasons, companies have improved performance and efficiency as key targets for establishing Shared Services Centers. They have transformed the routine operational tasks to independent Shared Services Centers from more than one similarly operating department or subsidiary, which operates and competes its services with external service providers. Modern technological advancements have shifted the strategic focus of Shared Services Centers into Digital Enterprises which can process large volumes of data and deliver results with very high efficiency (El-Jawhari et al 2021, 7).

4.7 Why establish Shared Services Center instead of outsourcing?

According to (El-Jawhari et al 2021, 7), large organizations with global operations in several countries benefit from merging support functions, which are non-core business functions such as Human Resources, Finance, IT, Procurement and After Sales Services into a specialized unit. Current analysis shows that sales managers and sourcing managers on an average spend 30% to 40% of their time on routine back-office functions which can be executed by Shared Services Centers.

Many authors (e.g., Afflerbach, 2020, 18; Bergeron 2003, 6; Richter & Brühl., 2017, 1) argue that Shared Services Centers can benefit every type of business with large scale global operations. For the parent organization, Shared Services Center can help in reducing the costs, so that the organization can provide cost effective products and ser-

vices to its customers. The business units are the internal customers of the Shared Services Centers and therefore better services will be delivered to them with a customer-oriented focus. The business units will be able to stay more focused on its core business activity while all the non-core functions will be handled by Shared Services Center. Such a Shared Services Center can also function as an autonomous entity serving other paying external customers too.

Some scholars (Bergeron, 2003, 20-23, 223; Di Petta & Ferraz, 2019, 106-107; El-Jawhari et al 2021, 7) alert organizations to seriously consider the resistance to change that are caused by the adoption of Shared Services Center. (El-Jawhari et al 2021, 7) argues that finance and procurement managers are not willing to implement Shared Services because of a fear of losing the control over their operations. They are also hesitating because then they may lose contact with their suppliers and other business stakeholders. Business operations, which require close communications with suppliers may use it as an excuse for not establishing Shared Services Centers.

(El-Jawhari et al 2021, 8) recommends that procurement function in multi-national companies with its standardized and rules based, repetitive processes, is a strong case for implementing Shared Services. Data analysis tasks, Purchase Order issuance and tracking are activities which can be transferred and delivered from a Shared Services Center. This will enable Sourcing and Procurement professionals to devote more time and energy on more important activities such as new development projects, managing supplier relationships etc.

All business units, internal customers can specify their requirements for the service from the Shared Services Center. The services provided by the Shared Services Center can be monitored using measurable Key Performance Indicators. It functions and delivers services to the internal customers in the same manner as an outside vendor and must be competitive on prices and service levels (Aguirre et al 2015, 103).

4.8 Location of Shared Services Center

Important question to be answered is to find the most suitable location for establishing a Shared Services Center. According to Melchior (2008, 6) following are the most important eight criteria:

1. Quality of workforce
2. Cost of workforce
3. Cost of real estate
4. Convenience of travel from current locations
5. Local taxes
6. Government assistance or grants
7. Probability of natural disasters or emergencies
8. Time zone relative to the other business units

While establishing a Shared Services Center, it is important to consider the quality (e.g., right skilled) of the workforce in a location. The cultural aspects of the workforce of a certain location plays an important role in the success of the Shared Services Center. According to Melchior (2008, 14), among the above variables, the quality of workforce (e.g., right skilled) is the most important criteria to be fulfilled. Melchior affirmed this criterion with his statement “You are only as good as those you are surrounded by”.

4.9 What are the benefits of Shared Services Center?

Companies have reaped huge savings by implementing Shared Services Center (Bergeron, 2003, 15; Melchior, 2008, 128). An organization’s long-term success can only be achieved by controlling all costs, which is a key consideration for all business organizations. However, excellent results with a negligible disruption to operations can be achieved only by choosing the right means (El-Jawhari et al 2021, 2). Not only cost saving benefits, but organizations have also experienced the chance to focus on the core business activities of the business units such as R&D, manufacturing and sales of their products and services. They do not have to worry about activities such as invoices processing and payments or payrolling head counts or Purchase Order issuances. They can focus on new products development, customers, and markets etc. (Aguirre et al 2015, 105).

Scholars (Bergeron, 2003, 185; Richter & Brühl, 2017, 1) show that some of the Fortune 500 companies that have implemented Shared Services initiatives, report annual savings in the range of 20 to 30 per cent, and even 50 per cent. However, these percentages vary from one implementation to the other, as a function of the number of employees that can be downsized, and the economic environment.

(Bergeron 2003, 4) reveals that a Shared Services Center can manage any business function if it is managed by a robust team with clearly defined performance targets. A Shared Services Center typically manages repetitive non-strategic and non-core business functions of the parent organization.

Melchior (2008, 121) emphasized that primarily chasing cheap labor is not the right decision. If you chase cheap labor, then the business is dependent on the labor staying cheaper all the time. Instead of cost of labor, implementing automation and elimination of transactions or process would serve better.

4.10 Challenges of Shared Services Center

Scholars have identified various challenges of Shared Services Centers (Knol et al., 2014, 91-103; Richter & Brühl, 2017, 4-5) such as process-related, technical, managerial and organizational challenges. (El-Jawhari et al 2021, 4) explained that organizations must develop a well-rounded cost optimization program. Instead of focusing on easy to implement cost reduction exercise such as head count reduction, the organization must evaluate the root causes by studying the nature and structure of costs. According to Aguirre et al (2015, 105) many of the business units, which lose control over the operations have called Shared Services Center as “centralization with a smile” and they argue that cost savings is achieved at the cost of quality. Shared Services is a blend of centralization and decentralization. In a centralized organization, the headquarters controls the operations by issuing standard operating procedures and policies. Whereas in a decentralized Shared Services organizations, the operations are controlled by the decision makers of individual business units and the Shared Services must agree on the cost, quality and service delivery with the business units like any external services provider.

Aguirre et al (2015, 106) revealed that the business units have the option to use other services providers if they are not happy with the services provided by the organization’s Shared Services. Usually, there is a moratorium of 1 or 2 years before outsourcing to external services providers, this is to give sufficient time for the Shared Services Center to establish the operations and come up to speed. Business units can outsource only when they get the approval from higher management and usually the top decision makers do not easily grant approvals to prevent the dilution of economies of scale.

Melchior (2008, 127) pointed out that it costs money to start a new Shared Services Center and hire new staff to run the business operations. In the initial phase, there will not be many transactions to process and therefore, the cost per transaction will be high. There is a risk that the business units who are using the Shared Services Center will start to compare the cost of operations with other companies or outsourcers. Then, if the business units are not happy with the quality of services rendered, they will argue that the processing can be done more efficiently and cheaper by another company or outsourcer.

Here comes the role of communications. Melchior (2008, 134) explains the importance of communications between the Shared Services Center and the business units. The internal customers must be kept regularly informed by sending them the progress report about the Shared Services Center. Through these reports, they should be informed about the value they are getting in return for paying the money to Shared Services Center. This way, the business units will try to understand and support the Shared Services Center.

Often support functions are physically located at the corporate headquarters of the company. Whereas the Shared Services Centers are physically located closer to the business units (internal customers) to allow better coordination, service delivery, exchange of information and joint problem solving (Aguirre et al 2015, 107).

Services like Data Centers and networks which have standard services and levels, and those which are automated and scale-sensitive can be located centrally and managed globally. But services which have regional requirements and have low cost or skilled area specific labor issues are managed at the regional level (Aguirre et al 2015, 108).

Another important issue pointed out by Melchior (2008, 207), is getting caught in the middle of vendors, suppliers and the business units and every other internal customer using or depending on the Shared Services Center. Sometimes all of them will present as though they are not happy with the work being delivered by the Shared Services Center and it may seem like a constant battle. Vendors complain when their payments are delayed, and business units complain when the charges are allocated to them, and they may even say that the charges are too high. This creates more pressure on the employees of the Shared Services Center to perform more by working harder, faster, and more efficiently. When any positive changes are initiated by the Shared Services Center, there will be strong resistance from Business Units to support and implement the initiative.

We have seen above the challenges of Shared Services Center, now we move on to the benefits of Shared Services Centers, which far outweigh the challenges.

4.11 Examples of benefits of Shared Services Center

There is already substantial research evidence that Shared Services Centers generate significant economic and other benefits to the organization (Bondarouk et al., 2014, 48; Richter & Brühl, 2017, 1-2).

One company created a Shared Services Center by consolidating all functions such as IT, HR, Finance and Procurement and reduced costs by 30 per cent. However, these benefits come with a cost (Aguirre et al 2015, 109). Some “global organizations, have reported costs savings from 20% to 50%. Siemens, Reuters, DHL, and Royal Bank of Scotland have reported success stories of sharing administrative functions.” (Richter & Brühl, 2017, 1).

However, benefits are not automatic as they come with certain conditions. It is important to determine clearly, which services can be shared based on capabilities such as transaction based, expertise based and strategy based (Aguirre et al 2015, 110). Develop a service level agreement, including the quantity, costs and time frame for service delivery clearly specifying the requirements and parameters. Service level agreements help providers to focus on what is important to the internal customer and help in creating an understanding between the customers and providers to jointly develop and understand the expectations clearly (Aguirre et al 2015, 111).

The leaders and staff to man the Shared Services Center must be chosen carefully. The leaders must have been experienced senior entrepreneurial line managers who are good at implementing a market oriented Shared Services organization and staff be the best to deliver expertise-based services and must have the ability to interact with the business units and they are customer focused and have selling skills (Aguirre et al 2015, 112).

Leaders of a transaction-based Shared Services Center can learn new behaviors and already possess skills to manage large number of staff. They can motivate people and are able to make improvements in quality of service and are focused on cost reduction (Aguirre et al 2015, 113).

A Shared Services Center must be benchmarked against outside vendors who provide similar services, and a predefined performance criteria are required to establish a working relationship with Shared Services Center and the Business Units. Previously, service performance was measured only when the services were bought from outside vendors. Performance of services rendered by Shared Services Centers must be measured with Key Performance Indicators to understand the generated cost savings and quality of service (Aguirre et al 2015, 113).

The creation and successful implementation of Shared Services Center involves a large investment and cultural transformation. The company and the senior management should be very committed to all the changes that will happen because of implementation of the Shared Services Center. There will a lot of resistance from the business units to make the change as they may not want to lose their direct control and authority as well as they may be concerned about the service quality and responsiveness of the personnel at the Shared Services Center (Aguirre et al 2015, 118).

According to Aguirre et al (2015, 119), Shared Services Center not only brings efficiency to the operations of the company, but it will also save costs. For example, Deutsche Bank, after implementing Shared Services Center for HR function, was able to significantly reduce head count by 15 per cent and costs by 20 per cent.

Bergeron (2003, 9) emphasis the need for senior management to have clear understanding of the potential importance of Shared Services to their organization. At the very outset, they should evaluate and understand what is wrong with the current model of operating their business. The business units must evaluate the value of Shared Services for them, by identifying the existing problem areas and then create ways of measuring improvements in their business operations.

Bergeron (2003, 18 and 19) explained the advantages and disadvantages of the Shared Services model. Ability to lower head count in the parent organization and increasing the operational efficiencies are some of the advantages of the Shared Services. High start-up costs equivalent to starting a new business and duplication of administrative and managerial workload, and organizational culture changes for employees in the business unit are some of the disadvantages.

Ability to achieve economies of scale by merging operational tasks from business units which are poorly coordinated, is one of the attractions of the Shared Services model. This kind of merger creates redundant staff which results into downsizing, reassigning new tasks or transferred to different management team which may need such resources (Bergeron 2003, 20).

The process of setting up a Shared Services Center cannot happen overnight. Time range for transferring internal tasks and activities from Business Units to Shared Services Centers depends on the size of the business units and the organization. Smaller business takes about a year while larger organizations with multiple business units and locations can take up to even two to five years for implementation of Shared Services operations. More than the availability of resources or technology, the pace of culture change acts as the limitation (Bergeron 2003, 22).

The fear of change among the people involved due to disruption to their accustomed way of life can cause productivity to suffer. To mitigate this situation, the management must communicate plans and proactively manage the expectations of the employees. Management directives, individual responsibilities and reporting lines change when Shared Services Center is implemented. Therefore, organizations must deliver improved communications using every possible means such as emails, office memos, newsletters, town hall meetings, business reports from senior management and most importantly testimonials from employees in other companies where Shared Services Center was successfully implemented (Bergeron 2003, 22).

Training of employees plays a very important role in the successful transformation. Instead of transferring employees under a new management and work environment without adequate training, the organization must provide extended additional training to ensure that the transformation does not become a disaster (Bergeron 2003, 67).

Parent organization can also use Shared Services model to handle strategic services that is specialized and more difficult to replace with services of a third party, such as Market Intelligence, Marketing, Sales Support, Customer Support and Technology (Bergeron 2003, 82).

It is possible to increase the quality of service and make cost savings by using Shared Services model. In data intensive services, to make those things possible, it is also important to bring in Information Technology. Senior management of the organization must be familiar with the kind of technologies available and their applicability to Shared Services Model, so that the unit can operate at lower cost or greater efficiency (Bergeron 2003, 147).

We have now seen the benefits of Shared Services Centers and it is now important to explore the advantages of Shared Services Center over outside vendors.

4.12 Advantages of Shared Services Center over outside vendors

Shared Services Centers have a lot of advantages over outside vendors, if located near the parent corporation, as it provides easy access to the parent organization's senior management for advice and networking. An investment in people, processes and technology are needed for implementing a Shared Services Center. The internal processes usually have hidden costs, therefore comparing the costs and Return on Investment of a Shared Services Center can be challenging or misleading (Bergeron 2003, 184 & 185).

Whichever may be the process applied, the economics of the shared business unit boils down to return on investment figure for Shared Services Center, parent organization and outside investors, if any. In terms of earnings returned on a capital investment, Return on Investment is the tool used, which is calculated as: ROI = Return / Capital Invested. Return is the profit or income or gain. A return or profit of 20 to 30 per cent of the amount of capital invested can be expected from the successful implementation of Shared Services Center (Bergeron, 2003, 185; Richter & Brühl, 2016, 1). People, processes, technologies and infrastructure in shared services implementation are major investments. (Bergeron 2003, 199).

While moving the unit along the growth curve toward maturity, the challenge is to operate within the boundaries to maximize Return on Investment. A well-defined service agreement between the Shared Services Center and Parent organization is needed to maximize the odds of success. The success or failure of a Shared Services Center is in the hands of senior management, which is responsible for successfully steering the unit forward (Bergeron 2003, 211).

Now that we have explored the advantages of Shared Services Center over outside vendors, we shall move on to the risks of Shared Services Centers.

4.13 Risks of Shared Services Center

Bergeron (2003, 216) argues that the costliest risks associated with Shared Services model is the disruption of service. The risk of disruption of service can be avoided by running the legacy system in parallel with the new Shared Services system. The cost of maintaining both the overlapping operations is an inexpensive insurance.

Global competitive pressure to boost the operating efficiency is very stiff in today's business organizations with constantly changing demands. Successful organizations are under pressure to balance between accomplishing competitive advantage by focusing on customer satisfaction and adapting to the changing needs while using the economies of scale. One solution for this business environment is the implementation of Shared Services for the service delivery of back-office functions such as IT, HR or Finance. In the past couple of years, Shared Services have gained relevance in both private as well as public sector with around 85% of Fortune 100 companies having established Shared Services Centers to consolidate processes within the company, to provide a service-oriented focus on internal customers and to bring in cost reduction (Afflerbach 2020, 17).

One company created a Shared Services Center by consolidating all functions such as IT, HR, Finance and Procurement and reduced costs by 30 per cent. However, these benefits come with a cost (Aguirre et al 2015, 109).

But soon there was dissatisfaction among the business units as all the services were too standardized and could not meet the requirements of the service levels. Even the trainings were too standardized and Business Units started to look for services that would cater to their specific needs from external service providers and soon the Shared Services Center was dismantled (Aguirre et al 2015, 109; Richter & Brühl, 2017, 1).

We have seen above the risks associated with Shared Services Centers, and this brings us to the crucial phenomenon of resistance to process change that organizations implementing Shared Services Centers will have to deal with successfully before reaping the significant benefits of Shared Services Centers.

4.14 Resistance to process changes

Employee resistance to the creation of a Shared Services Center may be experienced due to organizational cultural shifts. Cultural shift is commonly noticed among the employees when they are moved into a Shared Services Center from being an expert or specialist player in the main business unit to a second-class citizen, now working for employees of the main business unit.

While some of these employees may present simple foot dragging, others may even cause acts of sabotage. Therefore, such transformation projects must be carefully monitored, and if needed such employees may be replaced with those employees who are willing to accept the change and appreciate the Business Unit's need to implement changes so that the company may become more competitive (Bergeron 2003, 20; El-Jawhari et al., 2021, 22-23).

An organization that has successfully dealt with internal resistance to process changes in order to fully reap the significant benefits of Shared Services Center, must carefully consider the big picture and how the strategic importance of purchasing impacts the results of the organization.

4.15 Strategic Importance of Purchasing

Costs will be on top of the mind when one considers the factors contributing to the increasing importance of purchasing. Buying is the only corporate function that has a significant impact on costs and ultimately on company results. There is a direct impact of purchasing on the operating performance of the company and the return on investment (ROI) (Weigel & Ruecker 2017, 5). While remodeling Indirect Procurement by establishing Shared Services Center for purchasing, fundamental principles must be kept in mind to ensure that the strategic considerations will be successfully implemented. According to Weigel & Ruecker (2017, 10), the purchasing methodologies must be adaptable and checked against changing economic situations regularly and adjusted accordingly. Strategic purchasing is heavily reliant on management support and agreement. Only with this support will Strategic Purchasing be able to plan, implement, and oversee both the scope of its strategy and the actions that flow from it over the long term. The framework for strategic considerations is made up of the business strategy, internal requirements, and external opportunities of the business environment (Weigel & Ruecker 2017, 26).

The organization's supply is under the control of the purchasing department. Its duty is to guarantee the availability of supply including goods, infrastructure, resources, and services. The traditional goal of purchasing is to acquire the proper goods in the proper quantities and of proper quality at the proper times and locations, all while taking economic considerations into account. Integrated and long-term planning is required for purchasing activities. Global procurement markets must be formed, and suppliers must be trained to become strategic partners. This trend frequently results in the split of staff within Purchasing into functional groups for operational and strategic expertise. While the ordinary processing of order processes is the responsibility of operational purchasing, the strategic buyer creates the long-term framework conditions in accordance with the organization's business plan.

Now having understood the importance of strategic procurement for the organization, it is time to explore the Hybrid Model of Procurement.

4.16 Hybrid Model of Indirect Procurement

Improving and making the organization's processes more efficient are the central aims that outsourcing and Shared Services have in common. Therefore, attempts to combine the benefits of these two models of procurement would logically evolve into a Hybrid Model (Baskaran, 2016, 674; Marciniak, 2012, 227).

An organization deploying a hybrid model of Indirect Procurement outsources it's non-core, lower value-added and usually standardized, repetitive and predictable tasks that are easy to measure to reputable outsourcing providers usually operating in lower-cost locations (Marciniak, 2012, 1-2). At the same time, higher value-added and business-confidential functions related to the organization's core business that are highly prone to risks of data security and business-confidentiality are handled by the organization's existing Shared Services Center (Baskaran, 2016, 674; Marciniak, 2012, 6).

The Hybrid Model of Indirect Procurement allows the organization to combine the efficiency benefits of scale and convenience of outsourcing with strategic benefits of utilizing the organization's own existing Shared Services Center for doing strategic higher value-added and business-confidential tasks (Baskaran, 2016, 674; Marciniak, 2012, 6).

4.17 Learnings from the Literature Review for remodeling Indirect Procurement

Different characteristics of Indirect Procurement displayed by existing models of Indirect Procurement found in the academic literature were used for the purpose of preparing adaptable proposals for remodeling the Indirect Procurement. The options of three models of Indirect Procurement that are proposed in this thesis were influenced by the different ideas, critiques and analyses found in the academic literature (Jackson et al., 2016, 32; Lysons et al., 2020, 63-67). Three elements of Indirect Procurement that were central to developing a framework for generating proposals for remodeling Indirect Procurement were: Process-efficiency, Reliability & Sustainability and Business Confidentiality.

How this element of process-efficiency in Indirect Procurement links to the case organization's business challenges and outcome is explained in section 1.2., wherein the need for improving the operational and process-efficiency are discussed. As already seen in section 3.2, reliability and sustainability are the most important criteria for evaluating the continued success of the Shared Services Center of the case organization. The role of Business Confidentiality is narrated in section 1.2., wherein the impact of business-critical information and pricing confidentiality on business challenges and outcome for the case organization are discussed.

The elements and their relationship to the framework are presented in figure 2 below.

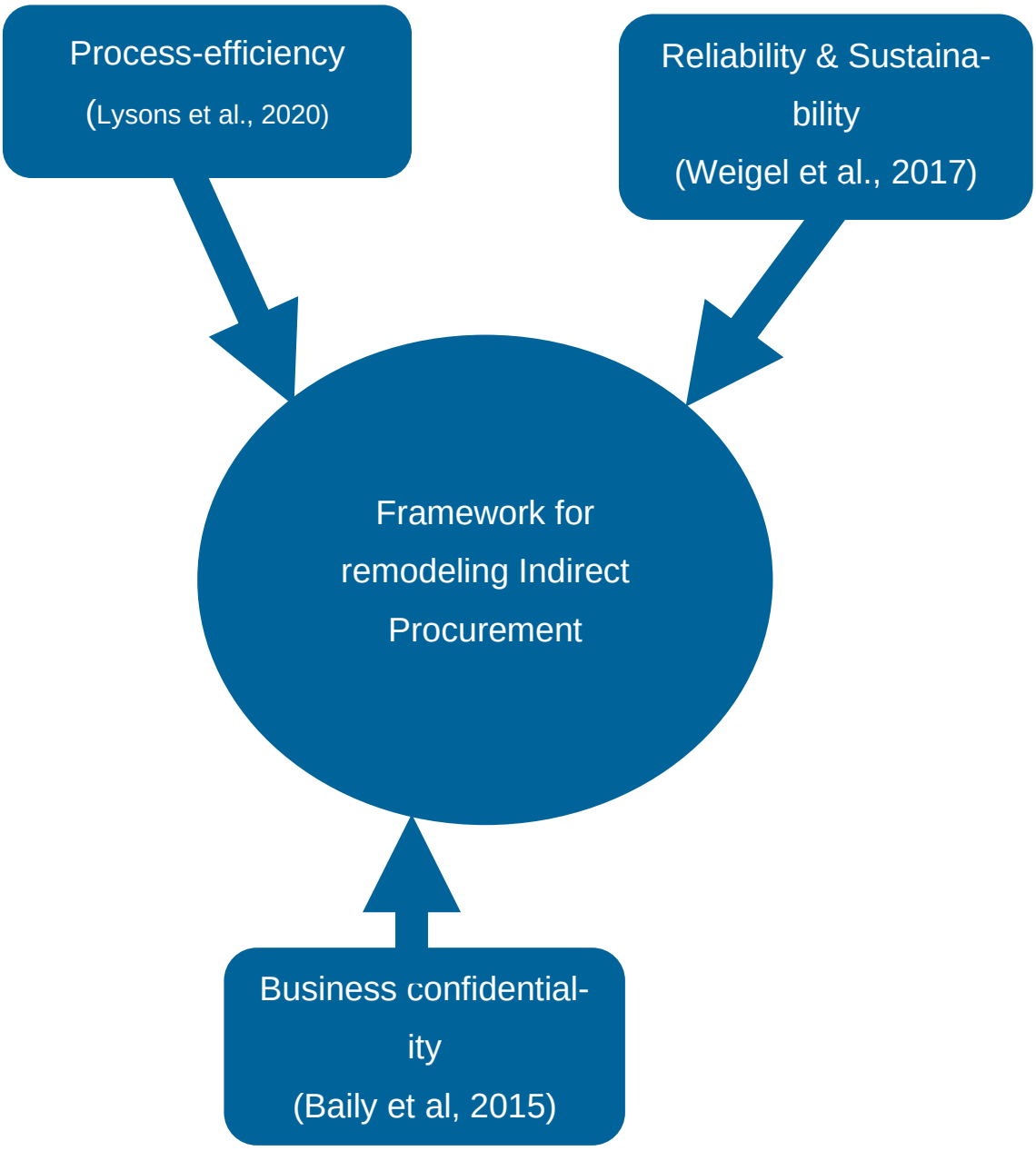

Figure 2: Framework for remodeling Indirect Procurement

Process-efficiency

This element of process-efficiency evaluates how different Indirect Procurement models suit the needs and requirements of the drivers mentioned below.

The academic literature (Lysons et al. 2020, 16-17) shows the drivers that affect process-efficiency in existing procurement models:

1. The challenge to manage escalating costs in purchasing goods and services
2. Driving out inefficiencies in processes
3. The increasing trend to outsource services
4. The recognition that procurement is a significant contributor to overall corporate efficiency
5. The positive impact of global sourcing e.g., reliability
6. The enhanced use of information technology and e-procurement
7. Maintaining a healthy balance of influence with suppliers

How process-efficiency links to the case organization's business challenges and outcome is explained in section 1.2.

Reliability & Sustainability

The second element in the framework for remodeling Indirect Procurement is reliability and sustainability (Weigel et al., 2017, 59; Baily et al., 2015, 19, 302). As already seen in section 3.2, reliability and sustainability are the most important criteria for evaluating the continued success of the Shared Services Center. This element of reliability and sustainability focuses on evaluating the risks to an organization's ability to survive and maintain desired efficiency against market condition fluctuations. This analysis gives the strengths and weaknesses of each model to mitigate these risks and maintain desired efficiency. The dimensions that these elements evaluate are sources of supply reliability,

product/service conformance and consistency, availability of product or service, sustainable delivery reliability and whether the quality of the product or service suits its designated role.

Business Confidentiality

The third element in the framework for remodeling Indirect Procurement is business confidentiality. This can be clearly seen in section 1.2., where business challenge and outcome of the case organization are discussed. This element of business confidentiality focuses on evaluating the risks to an organization's ability to maintain the secrecy of the business-critical information while reaping the benefits of outsourcing. The need to keep the purchasing prices confidential is of utmost importance in Indirect Procurement, especially in global procurement (Sanchez-Graells, 2019, 20).

There is another reason for keeping Indirect Procurement prices confidential. Sensitive price information can be utilized in purchase price indexes and bench-marking tools, as well as for setting baseline prices and even for evaluating the generation of savings. Information about these Indirect Procurement prices are regularly monitored and deployed by different transnational and national Competition and Markets Authorities (Sanchez-Graells, 2019, 20) and their leaking out in public could be detrimental to the organization's strategic interests (Keith et al., 2016, 135, 295). This aspect of keeping such issues confidential, both during and after the contract period, are usually covered by explicit terms in contracts, especially when prospective Indirect Procurement partners may also be involved in supplying related or even the same items as those under procurement to competitors of the organization (Baily et al., 2015, p. 555; Lysons et al., 2020, p.375).

The analysis of these themes regarding their relevance for Outsourcing, Shared Services Center and Hybrid Model when remodeling the Indirect Procurement of the case organization are presented in section 5.1.

The next section discusses the analysis of the data collected during the research.

5 Analysis

This section presents the key findings and analysis of the collected data. The analysis of the study results is divided into five parts:

- the main challenge with the current way of functioning of Indirect Procurement
- the reasons for the existence of the challenges in Indirect Procurement
- the method for analysis and comparison of the three proposals for remodeling the Indirect Procurement of the case organization
- comparison of the three proposed options
- selecting the option of Indirect Procurement that would optimally suit the case organization's global procurement requirements

5.1 Key findings of the collected data

The first key finding of the data collection through semi-structured interviews and group discussions is that a possibility and scope for remodeling the Indirect Procurement of the case organization exists as a potential, but it was not clearly thought out, or clearly formulated before this thesis. The discussions with the operational team members of the Shared Services Center showed that there is room for enhancement of the existing Shared Services Center and accommodate the procurement transactions of all categories of Indirect Procurement along with Telecom and IT categories, which are already existing in the Shared Services Center.

The second key finding of the data collection is that if the capacity of the existing Shared Services Center is enhanced by adding more categories other than the existing Telecom and IT categories, then there will be a need to increase the headcount of suitably skilled professionals. Further, the technological capabilities also need to be augmented e.g., through installation of advanced software to handle the massive increase in transaction volume.

5.2 Analysis of the elements of Indirect Procurement

From the learnings from the literature review (section 4.17) emerged three elements of Indirect Procurement, which are Process-efficiency, Reliability & Sustainability and Business Confidentially. The centrality of these elements of Indirect Procurement for deciding between Outsourcing, Shared Services and Hybrid Model for remodeling the Indirect Procurement in the case organization were corroborated and enriched during the interview with leadership, as well as during the group discussions with the employees of the Shared Services Centers of the case organization.

The Table 6 below shows how different aspects of the three elements presented above compare to Outsourcing versus Shared Services versus Hybrid. This detailed analysis of different aspects of the three elements highlights the merits and shortcomings of each element for evaluating the value of each model of Indirect Procurement. High impact means that an aspect has a strong influence on the option of Outsourcing or Shared Services or Hybrid Model. Similarly, medium impact means that the aspect has a moderate influence on the options. Low, then means that an aspect has a minimal influence on the options. When selecting the merits of each option regarding suitability for selection when considering the remodeling of the Indirect Procurement of the case organization, the aim should be to have the largest number of high-impact scores because of the analysis. The analysis of prevalence of High-impact scores show that Hybrid Model has a score of 11, compared to Shared Services with a score of 9 and Outsourcing with a score of 5. This establishes Hybrid Model as the optimal choice for the remodeling of the Indirect Procurement of the case organization.

	Outsourcing	Shared Services	Hybrid
Process-efficiency	Medium impact	Medium impact	High impact
• The challenge to manage escalating costs in purchasing goods and services	High impact	Medium impact	Low impact
• Driving out inefficiencies in processes	Low impact	Medium impact	High impact
• Increasing trend to outsource services	High impact	Low impact	Medium impact
• Recognition that procurement is a significant contributor to overall corporate efficiency	High impact	High impact	High impact
• Positive impact of global sourcing e.g., reliability	Medium impact	High impact	High impact
• Enhanced use of information technology and e-procurement	High impact	High impact	High impact

• Maintaining a healthy balance of influence with suppliers	Low impact	Medium impact	High impact
Reliability & Sustainability	Low impact	Medium impact	High impact
• Sources of supply reliability	Low impact	Medium impact	High impact
• Product/service conformance and consistency	Low impact	Medium impact	High impact
• Availability of product or service	High impact	Medium impact	High impact
• Sustainable delivery reliability	Low impact	High impact	Medium impact
• Whether the quality of the product or service suits its designated role.	High impact	High impact	High impact
Business confidentiality	Low impact	High impact	Medium impact
• Purchasing price confidentiality	Low impact	High impact	Medium impact

• Secrecy of business-critical information	Low impact	High impact	Medium impact
• Protecting the organization's strategic interests	Low impact	High impact	Medium impact

Table 6: Elements of Indirect Procurement for developing a framework for remodeling.

The findings from the literature review and corroboration during the interview with leadership, as well as during the group discussions with the employees of the Shared Services Center of the case organization provided ample knowledge to support this research for creating proposals for remodeling the Indirect Procurement of the case organization.

The next section will lead to the building up of the proposal for remodeling the Indirect Procurement in the case organization.

6 Results and Proposal

Let us now analyze and discuss the answers to the research questions:

Research Question 1: What is the main challenge with the current way of functioning of Indirect Procurement?

Answer: According to the data collection made during this research, the main challenge with the current way of functioning of Indirect Procurement in the case organization is that the procurement functions of the case organization being decentralized, the employees engaged in Indirect Procurement are not functioning with uniform processes and this leads to inefficiency.

Research Question 2: Why does this challenge in Indirect Procurement exist and what causes it?

Answer: During the data collection process of this thesis, interview sessions with leadership and group discussion with the employees of the Shared Services Center in Mumbai, India (see section 2.2.1), it became evident that methods and guidelines necessary for implementing uniform Indirect Procurement practices had not yet been fully implemented (see section 3.5).

Research Question 3: How should the three possible options of Indirect Procurement be analyzed and compared?

Answer: According to the data collection made during the research, the criteria for analyzing and comparing the three possible options of Indirect Procurement, i.e., process efficiency, reliability and sustainability, and business confidentiality, emerged during the data collection process, interview sessions with leadership (see section 2.2.2), and group discussion (see section 2.2.3), with the employees of the Shared Services Center in Mumbai, India.

The method of analyzing the information acquired during data collection entails considering, for each option, the need for investment in technology and human resources to suit the desired scale of operations, business confidentiality and trade secret risks in-

volved in outsourcing, while achieving benefits of scale and efficiency through outsourcing of selected Indirect Procurement functions in the already existing Shared Services Center in Mumbai, India (see section 1.2).

Research Question 4: How do the three options available compare?

Answer: The data collection made during this research, especially the interview sessions with leadership was the main opportunity for analyzing the pros and cons of each of the three options of Indirect Procurement in the case organization. This was further strengthened by insights from the discussion of scope enhancement of the existing Shared Services Center in Mumbai, India. Due to the enhanced scale of operations, deployment of automation tools may become necessary. The organization incurring high costs for back-office functions in a high-cost country, can achieve cost-efficiency by engaging the services of the organization's own shared services in a low-cost country.

Considering the option one, Shared Services Center, when the case organization attempts to implement the automation, cost outlay will increase. This may trigger withdrawal of sponsorship by the executive board. Then the model becomes untenable. This leads us to option two, which is Outsourcing. However, outsourcing everything to external parties increases the case organization's risks regarding maintenance of business confidentiality and trade secrets. As maintenance of business confidentiality and trade secrets are critical for the case organization, those transactions need to be maintained in-house. This leaves option three, which is a Hybrid Model of retaining the existing Shared Services Center in Mumbai, India and outsourcing most of the selected procurement related transactions (see section 1.2).

Research Question 5: Which of three options of Indirect Procurement would optimally suit the case organization's global procurement requirements?

Answer: The data collection made during this research, especially the interview sessions with leadership was the trigger for Option 3, a Hybrid Model, is the most viable option for the case organization. When considering the option 1, the Shared Services Center, as the scale of the operations is enhanced, automation tools may need to be deployed. If the case organization attempts to implement the automation, it cannot avoid increases in cost outlay. The unavoidable consequence of this would be the withdrawal of sponsorship by the executive board. This makes option 1 less ideal for the case organization.

This leads us to a consideration of option two. Outsourcing everything to external parties increases the case organization's risks regarding maintenance of business confidentiality and trade secrets. As maintenance of business confidentiality (see section 1.2) and trade secrets are critical for the case organization, and thus those transactions need to be maintained in-house. Thus option 2 is also less than ideal for the case organization.

This leaves option three, which is a Hybrid Model of retaining the existing Shares Services Center in Mumbai, India and outsourcing most of the selected procurement related transactions (as explained in section 1.2).

6.1 Proposal for remodeling the Indirect Procurement

This section delineates the proposal for remodeling the Indirect Procurement in the case organization.

There are three possible options for Indirect Procurement in the case organization:

Option 1. Use the available capabilities in the Shared Services Center in Mumbai, India and transfer the procurement functions for all Indirect Procurement categories from all other countries to Mumbai, India.

The cost of suitably skilled human resource is cheaper in India compared to other countries. Additional technology and human resource investments may be required. To handle large volumes of transactions, automation of the process is necessary.

Option 2. If there are huge costs for automation required by the Shared Services Center, in Mumbai, India, then the next best option is to transfer all the Indirect Procurement functions to a reputed outsourcing partner, who has the required resources and technology.

Option 3. Due to business reasons, some of the strategic Indirect Procurement functions cannot be outsourced. Therefore, the recommendation is to apply a Hybrid Option solution which is to outsource most of the repetitive functions to a reputed and reliable outsourcing partner. A team in Mumbai, India may be retained to run the Shared Services Center for catering to the requirements of such strategic procurement functions, which cannot be or should not be outsourced.

Considering full adoption of option 1, to handle large volumes of transactions, automation of the process is necessary; further, additional technology and human resource investments may be required. Adopting option 1 in its entirety is therefore not recommended. However, since the cost of suitably skilled resources is relatively cheaper in India compared to other countries, the cost-advantage compared to other locations is realized in the partial adoption of the Shared Services Center in Mumbai, India as a part of option 3, the Hybrid Model.

If there are huge costs for automation in option 1, then the next best option is to transfer all the procurement functions to a reputed outsourcing partner, who has the resources and technology. However, business-confidential transaction cannot be outsourced to a third-party service provider.

A Hybrid Model solution is the most apt for the case organization as this will ensure that the repetitive and non-business-confidential procurement functions are outsourced to a reputed and dependable outsourcing partner. At the same time by retaining a team to run the Shared Services Center in Mumbai, India, they can supervise the outsourcing partner and handle strategic procurement functions, which cannot be outsourced to a third party.

Carefully considering the case organization's requirements for achieving ease and efficiency of scale through outsourcing selected functions, necessitates outsourcing selected functions to a reputed outsourcing partner who are already deploying the required technology and know-how. This must be done while maintaining control over business-confidentiality risks by using the Shared Services Center in Mumbai, India for processing selected Indirect Procurement transactions, which are confidential in nature.

Therefore, the best option for the case organization would be to go for a third dimension, which is Option 3, the Hybrid Model. This model reaps the benefits of both the Shared Service Center and Outsourcing models, without being vulnerable to the risks associated with either of the other two proposals.

7 Validation of the proposal

This section presents the validation of the proposal for remodeling the Indirect Procurement of the case organization.

The suitability of the proposed option 3, the Hybrid Model, was made by comparing it with options 1 & 2. The fact that the case organization has accepted this comparison of all the proposed options and has accepted the third option, validates this proposal for remodeling the Indirect Procurement of the case organization. Further, the Hybrid Model was compared with the findings from the literature review and found support. Finally, validation was obtained by discussing all three proposals, especially the recommended option 3, the Hybrid Model, with the leadership of the case organization.

8 Conclusions

The objective of this thesis was firstly to identify the challenges in the Indirect Procurement of the case organization, and secondly to propose options for mitigating the challenges by remodeling the Indirect Procurement in the case organization.

An earnest effort was made to deep dive into the case organization's functions by interacting with the persons responsible for various roles and functions in the Indirect Procurement as well as the leadership of the case organization. A detailed and systematic study was conducted to evaluate and identify the challenges. Upon evaluation and analysis of the challenges, the researcher was able to generate three proposals for remodeling the Indirect Procurement of the case organization, which are presented below.

There are three proposals for Indirect Procurement in the case organization:

Using the available capabilities in the Shared Services Center in Mumbai, India and transferring the procurement functions for all Indirect Procurement categories from all other countries to Mumbai, India is option 1. In India, the cost of suitably skilled human resource being cheaper compared to other countries is an advantage. However, to reap this benefit, additional technology and human resource investments are needed. Further, automation of the process would be necessary to handle large volumes of transactions.

Now, if the costs for automation required by the Shared Services Center in Mumbai, India, are large, the next best option would be to transfer all the Indirect Procurement functions to a reputed outsourcing partner. Another justification for this decision is that established outsourcing partners would normally have the required resources and technology to deliver the desired outcomes for huge transaction volumes.

Another challenge emerges at this point. Some of the strategic Indirect Procurement functions cannot be outsourced because of business confidentiality reasons. To address this issue, a Hybrid Option solution, which is to outsource most of the repetitive functions to a reputed and reliable outsourcing partner is recommended in tandem with utilizing the already existing Shared Services Center in Mumbai, India that would be retained to handle the strategic procurement functions, which cannot be or should not be outsourced.

The outcome of this thesis provides the case organization with a clear and viable option for remodeling their Indirect Procurement. This thesis provides a good model for anyone desirous of studying remodeling of Indirect Procurement in global organizations.

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Appendix 1. Interview Questions

1. *Would you kindly give an overview of your organization's procurement structure?*
2. *What is the indirect spend volume in the last financial year?*
3. *How is Indirect Procurement divided into categories?*
4. *What is the spend volume of each of the categories in Indirect Procurement in millions of Euros?*
5. *What is the current process of procurement within Indirect Procurement department?*
6. *What are the challenges currently existing in the Indirect Procurement*?
7. *Are there any functioning Shared Services Centers in your organization?*
8. *Can you please briefly describe the mode of operation of the Shared Services Center in Mumbai?*
9. Could you please explain the history of the Shared Services Center in Mumbai, India?
10. *What is the scope for scaling up the volumes of procurement transactions in the existing Shared Services Center in Mumbai, India?*

Appendix 2. Field Notes for Interview Questions

- Procurement is divided into Direct and Indirect Procurement
- Indirect Procurement is headed by a Vice President
- Indirect Procurement consists of 153 persons
- Indirect Procurement spend value is more than 600 million Euros per year
- Indirect Procurement is divided into Telecom, IT, HR, Professional Services, Travel & Meetings, Marketing and Facility Management
- Spend per Category is in Table 4
- The current process is very decentralized, and the operative purchasers of Indirect Procurement are delivering the procurement functions from various regional offices around the world.
- In this kind of decentralized operation, sometimes consistency in the process is missed.
- The case organization has an existing Shared Services Center in Mumbai, India,
- Shared Services Center functions independently supporting the procurement functions for Telecom and IT categories.
- Shared Services Center in Mumbai, India more than ten years ago when the IT procurement was under the management of Chief Information Officer
- It is quite easily possible to scale up the volume of the procurement transactions by marginally increasing the headcount and technology enhancement.

Appendix 3. Observations during meetings

- Efficiency is challenged in the decentralized mode of Indirect Procurement operations in the case organization. ‘Challenged’ meaning what the researcher observed is that the operative purchasers in different regions are following different processes, which is having an impact on efficiency and standardization.

- Employees are reporting to different reporting lines. This means that the regional procurement employees are under the direct influence of regional business management, though they are direct reports under Indirect Procurement.

- There are 153 employees engaged in Indirect Procurement in the case organization.

- The indirect spend is more than 600 million Euros

- The Shared Services Center is staffed by nine employees in Mumbai, India.

- The Shared Services Center is handling two categories of Indirect Procurement: Telecom and IT.
-

Appendix 4. Result of Group Discussion

- The output of this group discussion with the Shared Services Center in Mumbai, India was that it gave the impression that it was possible to enhance the capacity of the Shared Services Center in Mumbai and add more categories by marginally increasing the headcount and technological capabilities.

- From this discussion we got that there are already nine employees working in the Shared Services Center in Mumbai.

- Shared Services Center in Mumbai is handling the procurement function for two Indirect Procurement categories, which are Telecom and IT.

- The total spend value per annum is around 100 million Euros

- The Shared Services Center in Mumbai was created when the Indirect Procurement of IT category was being managed by the Chief Information Officer.

Appendix 5. Results of Informal Discussions

- The output of this informal discussion with individuals and groups involved in the Indirect Procurement of the case organization reiterated the observations during the meetings the researcher attended, and the insights gained by interviewing the employees involved in Indirect Procurement.

- When the researcher heard something of value, the researcher immediately made mental notes and later on transferred that information onto the thesis document.

- Nothing contradicting the researcher's observations during the meetings and the knowledge gained through the interviews of the employees in the Indirect Procurement surfaced during the informal discussions. This absence of any contradicting elements leads strong support to veracity and accuracy of insights and knowledge gained during the meetings and the knowledge gained through the interviews of the employees in the Indirect Procurement.

Appendix 6. List of Figures

Appendix 7. List of Tables