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SSCs IN CEE:

CHALLENGES AND PERSPECTIVES

Shared service centers (SSCs) play a crucial role in helping parent companies stay competitive. They provide faster, more professional services at lower costs to parent companies, their branches, and external clients. The Slovak Republic is well-positioned to attract foreign investors interested in setting up SSCs, although this potential remains underexplored.

This article summarizes research conducted by the author at the University of Economics in Bratislava in collaboration with AmCham Slovakia, the Business Service Center Forum (BSCF), and several Slovak SSCs.

MOTIVES FOR ESTABLISHING SHARED SERVICE CENTERS IN CEE

The initial motivations for investors setting up SSCs in Central and Eastern Europe (CEE) included a skilled workforce, favorable geographic location, time zone alignment, cultural similarities with Western Europe, multilingual capabilities, and a favorable tax environment. Initially, cheap labor and low operational costs were key factors. However, the focus has since shifted to the region's pool of highly skilled professionals, reflecting the increasing importance of talent quality in the success of SSCs in the CEE.

In all the business centers studied, workforce availability was identified as the main reason for establishing and maintaining centers in the CEE region. This factor is tied to two variables:

- Labor costs
- Workforce qualifications

While the original draw of cheap labor has diminished due to rising costs, companies are not relocating their SSCs to cheaper labor markets. The workforce in CEE is sufficiently skilled to handle the increasingly complex and specialized tasks required by these centers. Additionally, SSCs are compensating for labor shortages by recruiting workers from third countries or more distant regions within the country. The rise of telework, which accelerated during the COVID-19 pandemic, has allowed SSCs to employ workers from more remote areas.

> **Further complicating matters are the complex and lengthy processes involved in hiring workers from third countries and the need for clearer regulations on remote work.**

CURRENT CHALLENGES

Labor-related issues remain among the most discussed problems. The persistent labor shortage in CEE (except Poland) stems from demographic trends and the emigration of workers to other countries. Another major issue is the inadequate skills of the available workforce, largely due to outdated education systems in CEE countries. Many recent graduates from universities and vocational schools are not adequately prepared to work in SSCs and require comprehensive on-the-job training. Similar training is provided to secondary school graduates. Further complicating matters are the complex and lengthy processes involved in hiring workers from third countries and the need for clearer regulations on remote work.

Although labor costs are rising, parent companies are not moving their SSCs to other regions. These centers remain integral to the parent company's strategy, providing more valuable services and often becoming sources of expertise or innovation, particularly in automation and robotics.

Since the COVID-19 pandemic, there has been a noticeable decline in employees' participation in activities outside their core roles, such as corporate social responsibility initiatives, charitable activities, and mentoring. Despite these issues, productivity remains high.

Other challenges include high tax burdens, a lack of transparency in administrative processes, sudden changes in legislation, excessive administrative requirements, underdeveloped infrastructure, and a lack of interest from government institutions in supporting the SSC sector in CEE countries.

FUTURE DEVELOPMENT PROSPECTS

Centers in the CEE face competition from countries such as India and other Asian nations, where labor costs are lower. To remain competitive, SSCs in CEE are looking for ways to enhance their effectiveness. Our research found that nearly all SSCs surveyed in CEE have implemented some form of artificial intelligence (AI), with some centers working to integrate AI into all areas where it's feasible. While many are using widely available AI solutions, others are developing specialized AI tailored to the specific needs of their centers.

> **AI can handle repetitive tasks quickly and accurately, freeing up employees to focus on more complex tasks and improving their qualifications.**

The primary goal of SSCs is to improve the efficiency of the services they offer. AI performs routine tasks, such as financial transactions and reporting, faster and more cost-effectively than human workers. This not only saves money but also streamlines business processes. AI can handle repetitive tasks quickly and accurately, freeing up employees to focus on more complex tasks and improving their qualifications. This approach can help alleviate the shortage of skilled workers—a challenge faced by many SSCs in the region.

In some Slovak SSCs and others across the CEE region, AI is being used to reduce the number of employees assigned to simple tasks while enabling those workers to take on more advanced responsibilities. This model, which leverages automation and upskilling, offers a promising solution to the region's labor shortages.

Looking ahead, SSCs are continuing to focus on enhancing efficiency. AI, automation, and robotics are seen as key to staying competitive. By adopting these technologies to eliminate routine tasks, SSCs are also training employees to handle more valuable, complex work, positioning themselves for future success in a rapidly evolving global business environment.

Dagmar Váleková, an ex-intern at AmCham Slovakia, successfully defended the first dissertation in Slovakia on the impacts of the SSC sector on the Slovak economy in June 2024.