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Analysis of Shared Services Models: Governance, Controllership and Taxation in Focus

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Abstract: This theoretical discussion intends to reinforce some of the main aspects of Service Sharing, discussing the model and integration of the Governance, Controllership and Taxation areas, and how they relate to meet organizational, market and regulatory demands. Tax Planning means thinking about tax savings and tax recovery. However, other inherent objectives deserve special attention, such as risk reduction and tax management, all aimed at making the business entity more competitive in the market. There is a lot of confusion and oscillation in Brazilian jurisprudence on issues related to taxes. From the rescue of concepts and applications of mapping and modeling of processes and the convergence between governance and control areas, it was possible to identify challenges of a tax nature and also of operational planning for the sharing of transactional services. The meeting of people, process and technology moved global trends and promoted competitive advantage for important companies. The Brazilian examples of Vale's Global Tax and Petrobras' Financial Operations Center increase the discussion and connect fundamental aspects addressed by organizations and the literature revisited. Controllership or new controllership emerged as a possible solution to contemporary challenges. It was noticed that companies adopt different shared practices according to their strategies and business models. This is the first work of the project to analyze the shared services model from the perspective of governance, controllership and taxation. The scientific contribution lies in broadening the understanding of the service-sharing phenomenon and in strengthening the relationship between what is discussed in academia and what happens in the economy.

Key words: shared services model, governance, controllership, taxation
JEL codes: J, J1, K2, M, M1, M4

1. Introduction

Business process management is considered essential for operational modernization and implementation of best governance and internal controls practices. Scientific Management, in the late 19th and early 20th centuries, was based on the assumption that behavior at work could be engineered, designed according to the principles of rationality and efficiency.

The main thinker of this revolution was Frederick Winslow Taylor (Davenport, 1994), who evolved the

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industry with the study of “times and movements” and the mechanistic way of organizing processes. Taylor is considered, by several theorists, the precursor of this area, proposing, therefore, the use of a scientific method for business administration, focusing on operational efficiency and effectiveness, still in the Industrial Economy model.

Discovering innovative ways to improve business processes is a recognized path to organizational agility and competitive advantage. Company leaders are looking for new models of productive restructuring and contributions to the value of the business. However, they are constantly faced with the difficulty of practically and continuously managing the basic life cycle of a process — planning, execution, control and results.

The corporate governance movement has brought to important economic agents new structures, entities and business management practices aimed at stakeholders. It is worth mentioning demands of an organizational, marketing and regulatory nature. At this point and for the purposes of this analysis, corporate and fiscal aspects will guide the discussions.

The Controllership or New Controllership — in Brazil — indicates the inclusion of executive processes from the Accounting, Inspection, Tax and People Department areas in the shared structure, with or without executive processes from the Financial area. In some cases, Controllership and Finance walk separately, with well-defined roles, deliverables and relationships; in certain models, considering the business strategy and the available resources, one can absorb the other, under the tutelage or command of a superior hierarchical entity.

Tax planning is a great challenge for a Brazil with a Federal Union, 26 States of the Federation, Federal District and more than 5,500 municipalities. It is a large state, confusing legislation and many inspection bodies. The scenario became even more difficult with mergers and acquisitions, creating groups or corporations operating in various segments of the economy with specific legislation. In addition to tax obligations, many companies began to operate in the so-called “grey areas” and take the discussions to the courts.

The best solution was to follow the global trend of shared service models, which provide the integration of strategies, processes and people, facilitating operation control and reducing transaction costs and corporate tax risks. It cannot be denied that thinking about Tax Planning means thinking about tax savings and their recovery. However, other inherent objectives deserve special attention, such as risk reduction and tax management, all obviously aiming for the business entity to obtain more competitiveness in the market.

2. Methods

The present work was developed through a bibliometric survey on Shared Services Centers and Corporate Governance. In addition, organizational models and trends were observed, with emphasis on controllership and taxation. To this end, it involved a review of topics considered relevant, such as mapping and modeling of business processes, and focused on determining the main business approaches in the sharing of transactional services of global operations.

Examples of Brazilian companies increased analysis and pointed out ways for the proposed discussions. As for the research objectives, conceptual, exploratory and explanatory characteristics are presented. This is the first work of the project to analyze the shared services model from the perspective of governance, controllership and taxation. Future research will focus on strategy and implementation; and public governance.

As in the Social Sciences, economic and business phenomena are constituted, founded and transformed from multiple determinations that are essential to them. Such determinations are constitutive of the phenomenon itself, are part of it, are determined or compose other relationships. Knowledge is not produced, therefore, from a simple reflection of the phenomenon, but must reveal, in the phenomenon, what constitutes it and which is, in principle, obscure; the method of producing this knowledge presupposes, therefore, that the phenomenon is discovered as it really is behind the appearance, and more, what even determines that it appears the way it appears, promoting important discussions (Andery et al., 2014).

3. Process Mapping and Modeling

Davenport (2000) defines a process as a series of activities ordered by time and space, with a beginning, a very well defined set of inputs and outputs and a purpose. For Werkema (1995), process is a set of causes or factors that aim to produce a certain effect. It also highlights that a company can be seen as a large process, composed of many other smaller processes or activities and tasks, which are also composed of even smaller processes, activities or tasks, and so on. This hierarchical property of processes is very important, as it allows control of each constituent process separately. It is a consensus among several authors that Process Modeling is a set of activities in chronological order that demonstrate the relationships between processes, people, and information and that allows improving processes, reducing costs and processing failures, thus increasing the results of this process. by eliminating tasks and simplifying your activities.

The pressure of a corporate world that seeks performance and business value through the concentration and optimization of transactional processes has placed the shared model in the strategy of important companies. Currently, since the 2010s, strategic processes are components of the planning and implementation of service centers. The need to increase operational efficiency due to productivity demands adaptability and flexibility through the management model and the use of emerging technologies. This model has received the adhesion of several companies or economic groups due to the possibility of obtaining a competitive advantage through value creation.

According to Melão and Pidd (2000), it is difficult to develop efficient approaches to process mapping and modeling without a process definition within the organization. Most of the literature simply adapts or quotes the definitions put forward by reengineering pioneers. One way to understand business processes is to consider multiple perspectives, flows, and integrated systems, based on sets of assumptions. For Hammer and Champy (1994), the business process can be defined as a set of activities with one or more types of input, which generates an output of value for the customer. Thus, the delivery of products to the customer can be considered the value created by the process.

Accounting and Law are longtime partners in the evolution of civilization. To talk about tax planning it is necessary to know the constitutional principles, as well as the accounting principles. Understanding and correct application of Brazilian legislation is a challenge for companies with complex operations. According to Fabretti (2009), accounting is the science that studies, records and controls the heritage and the changes that administrative acts and facts operate in it. At the end of each fiscal year (Brazil), it demonstrates the result obtained and the financial and economic situation of the entity.

Tax accounting is quite new and its approach is directly linked to the study of taxes and tax legislation. Fabretti (2009) refers to the objective of applying in practice the concepts, principles and basic rules of accounting and tax legislation, simultaneously and adequately. For this, it is necessary to use specific technologies between systems and support tools. The needs for planning and integration of services prevail, which, in the current models, are possible in the areas of Controllership and Taxation guided by the best governance practices. In the design phase of the shared services center implementation project, business processes are considered candidates for sharing. They must be mapped from end to end, observing flow, time, phases, technologies (platforms), applied controls, resources and results. The decision is strategic and responsible for the company's corporate governance model.

4. Governance, Controllership and Taxation

Discussions about governance returned in the 1990s after global frauds by accounting and auditing firms were detected. Despite the theme being predominantly addressed by the areas of Economics and Administration, the literature suggests genesis in the great navigations and in the first joint-stock companies.

Many institutes operating in public or private administration have emerged to discuss and propose rules of business conduct based on specific pillars. In Brazil, the Brazilian Institute of Corporate Governance (2022) advocates transparency, equity, Accountability and corporate responsibility. Likewise, it reports corporate governance as an international trend, which arrived in Brazil as a way for companies and other organizations to be managed and monitored in a transparent manner. This corporate dynamic encompasses aspects such as the relationship between partners, the board of directors, the board of directors, supervisory and control bodies and other interested parties.

Silveira (2015) presents the global pillars of governance: (i) transparency and integrity of information; (ii) voluntary information and accountability for decisions taken; (iii) performance evaluation, fair compensation and meritocracy; (iv) independent balances in the decision-making process; (v) sustainability and long-term vision in conducting the business; (vi) respect for formalities, controls and independent supervision; (vii) ethical tone and behavior of leaders; (viii) cooperation between employees and promotion of the collective interest of the organization; (ix) equity and promotion of the effective participation of all shareholders; and (x) internal diversity, fair treatment of stakeholders and absence of discriminatory policies.

Governance recommendations signal capital expectations and organizational needs for corporate responses. In this research, the aspirations point to compliance practices and internal controls (governance), controllership as an important entity to control corporate obligations and information to support decision-making (strategic) and taxation as the most sensitive component in the Brazilian reality (tax planning). The combination of the three areas in terms of operation (functioning correctly) and productivity can mean reaching the competitive advantage of the shared model itself.

The areas discussed in this section have distinct process elements that form a value system. This function must converge with the company’s strategy and each component controlled and evaluated by delivery and results. These are the performance indicators that act from standardization to the execution of each process or drivers, maintaining a constant feedback channel for information and corrections in real time. The use of emerging platforms and technologies ensure all functioning within a framework of shared services.

The configuration of the Controllership area was adjusted to meet new demands of a managerial, marketing and regulatory nature. Professionals working in shared controllership services developed new integrated skills for internal customers and other stakeholders, who demanded complete and reliable information in real time. In Brazil, Vale Group opted for the centralization of all accounting and tax execution processes, choosing those that represented the greatest corporate risk and organized by country or region of production operation, whether iron ore or fertilizers. Thus, a model called Global Tax was born, studied and parameterized for similar operations around the world. A Brazilian technology that has reached quality parameters, certainly due to the complex tax legislation in Brazil.

Magalhães (2013) observes the attributes, benefits and elements of centralization and decentralization and their relationships with efficiency: grouping resources, leveraging technology and creating economies of scale. In fact, a shared services environment goes beyond notions of efficiency and effectiveness to one of value. These are fundamental factors that contribute to maintaining the model and shared investment in areas that work together, such as Controllership and Taxation. The structuring and allocation of resources of the former is planned according to the global strategy of the latter, which is also adjusted by national legislation.

The Petrobras Group, the largest tax payer in Brazil, for example, decided to centralize its financial operations in 2008. According to Castro (2013), the Strategic Plan included the highlighted tax factor, due to the lack of alignment of the 175 management and control operations that the company had across the country. At the Financial Operations Center, it emerged with the mission of integrating the areas of Finance, Accounting and Tax. The issue of taxes at Petrobras is so complex that there is an entire floor at the company's headquarters, today, a shared services center, to work on the computerization of processes through the implementation of ERP of the German market leader, which, in this case, needs support and audit systems to meet regulatory demands in the form of supplementary tax obligations.

Castro (2013) argues that the tax governance model should be thought of from the very model, structure and practices of corporate governance, with extensive mapping and modeling of all the processes involved, highlighting the transactional ones, aligned with the management of taxes, considering all parts, taxes and costs. All of this working on a technological platform that supports the volume and complexity of the tax enforcement activity of a large economic agent, such as Petrobras.

In this case, the Information Technology area maintains a duplicated layer of transaction data - inbound and outbound movements - for use by fiscal support tools. More recently, a tax framework was implemented to meet demand also in a centralized way, with refusals to mine, analyze or audit files for transmission to the government. The company’s world-class service-sharing strategy highlighted the current initiative of the Public Digital Bookkeeping System with a high degree of priority in its tax obligations.

Return to the issue of tax planning. For Latorraca (2000, p. 37),

> It is customary to call Tax Planning the business activity that, developing in a strictly preventive manner, projects administrative acts and facts with the objective of informing the tax burden in each of the available legal options. The object of tax planning is ultimately tax savings. By comparing the various legal options, the administrator obviously seeks to guide his steps in order to avoid, whenever possible, the most costly procedure from a tax point of view.

Indeed, in Brazil, given the scenario of legal uncertainty introduced by the Higher Courts, which have been, in the short term, oscillating the understanding of tax matters, risk reduction and tax management gain significant importance in Tax Planning. With this oscillation of precedents, therefore, the economy with taxes and the recovery of these started to be in a plan following the reduction of risks and management of taxes. Naturally, in Brazil, tax aspects are a priority in the implementation of shared services. As presented in this discussion, the legislation raises transaction costs and concerns about unknown corporate risks. Legal uncertainty favors large investments in controlling structures with the best technologies available on the market, which still need parameterization according to company size and economic segments.

5. Results

This theoretical discussion intends to reinforce some of the main aspects of Service Sharing, discussing the model and integration of the Governance, Controllership and Taxation areas, and how they relate to meet organizational, market and regulatory demands. Tax Planning means thinking about tax savings and tax recovery. The Brazilian examples of Vale's Global Tax and Petrobras' Financial Operations Center increase the discussion and connect fundamental aspects addressed by organizations and the literature revisited.

The shared services philosophy is based on the objective of adding value to the business, seeking to reduce costs and increase compliance and control, in addition to strategic growth through the creation of new governance and management responsibilities, with a focus on services and support, freeing other units, transferring transactional processes to the Center's main activities, concentrating resources that perform the same transactional activity.

A company guided by process management understands the organization in a systemic way, meeting the needs and expectations of all interested parties, but mainly the internal customer, considering the entire global or national economic group. It is understood that the implementation of corporate governance, in meeting the demands between organization and people, market and capital, regulation and other stakeholders, contributes to the planning of shared operations of controllership and taxation.

Shared services bring together human capital, processes and technology in a physical or digital structure (platforms) that are capable of optimizing and aligning processes within a business philosophy committed to continuity and growth in a transparent way, prioritizing internal controls and corporate risk management. Still, there are factors of responsibility and sustainability.

Tax legislation becomes increasingly extensive and complex due to changes and creation of new laws and decrees at all times, a factor of business legal uncertainty. With this, companies need plans to have their specific goals inherent to them, establishing better ways to achieve them. There is a lot of confusion and oscillation in Brazilian jurisprudence on issues related to taxes.

In addition, Brazil has a vast amount of taxes, including several taxes, contributions and fees, not to mention that each tax, depending on the grant of competence granted by the Brazilian Federal Constitution, can be charged by the Federal Union, 26 States of the Federation, Federal District and more than 5,500 municipalities. The amount of existing taxes in Brazil is very high. Finally, Brazilian tax legislation promotes business confusion, especially when it comes to income tax and taxes subject to a non-cumulative calculation and collection regime. Therefore, understand the strong need to adopt a model of shared management accounting and tax services, aiming at risk reduction and tax management. The research brought tax accounting, a new area of tax studies and applied legislation, reinforcing the use of technology.

This is the first work of the project to analyze the shared services model from the perspective of governance, controllership and taxation. Future research will focus on strategy and implementation; and public governance. The scientific contribution lies in expanding the understanding of the service sharing phenomenon and in strengthening the relationship between what is discussed in academia and what happens in the economy.

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