

# Shared business services and the evolution of the multi-divisional corporation



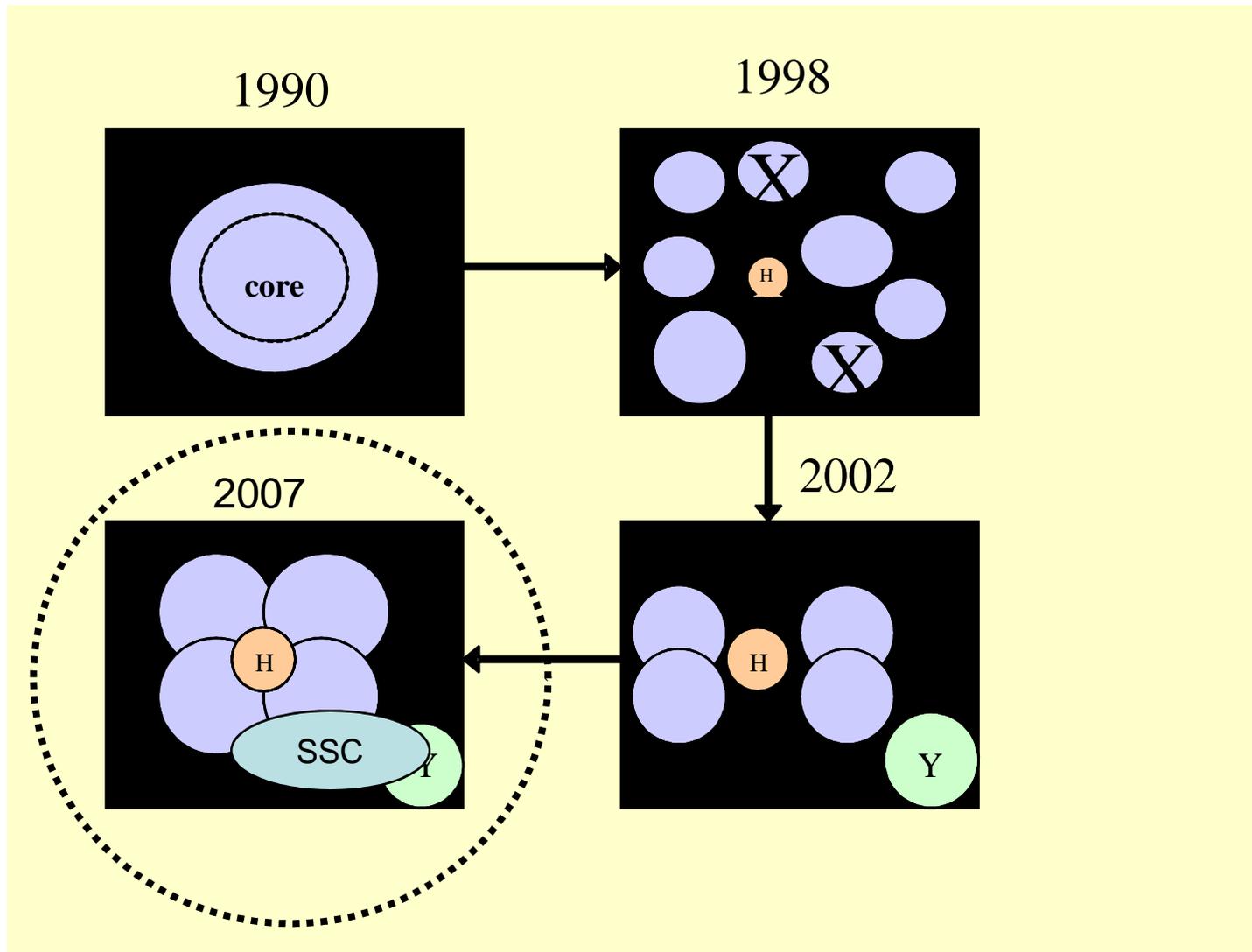
Ian Herbert

Professor Will Seal

# Outline

- Background to the SSC project
- Implications for organisational design
- Development of the MDF
- The nature and form of the SSC
- Case 'Bankco' – 'horses for courses' & international  
issues
- Discussion
- Tentative conclusions
- Questions

# Case 1 – A process of business transformation



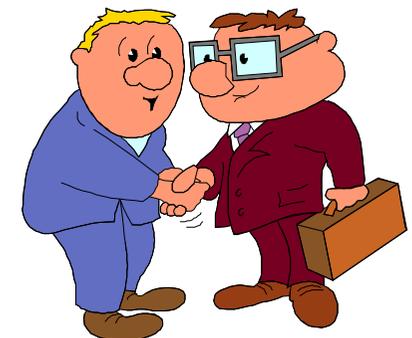
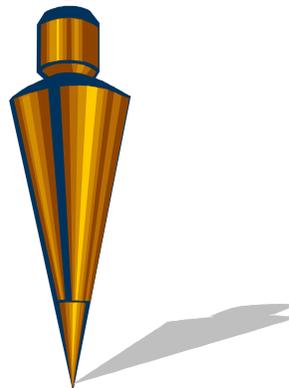
# The problem set - finding the balance

## traditional style

- centralised
- bureaucratic
- structured
- = efficiency & control

## empowered

- devolved
- participative
- fluid
- = effectiveness & flexibility



# In pursuit of the 'Golden Mean' (dynamic mean)

traditional style

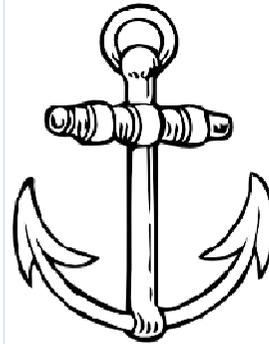
empowered



Budgetary control

Tight control

Controllability



business adaptation

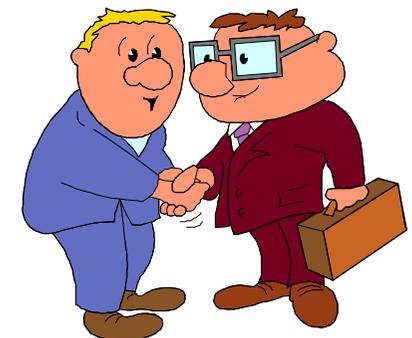
people centred

shared responsibilities

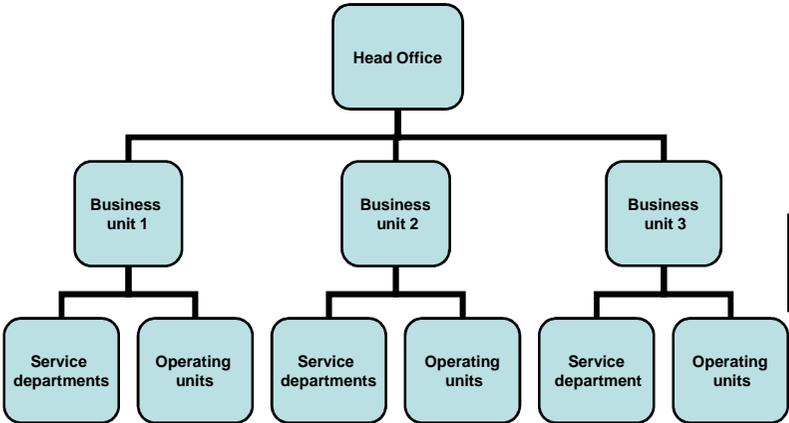
Frow, Marginson and Ogden (2005)

Simultaneous loose-tight properties?  
Peters and Waterman

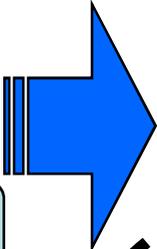
Levers of Control Simons (1995)



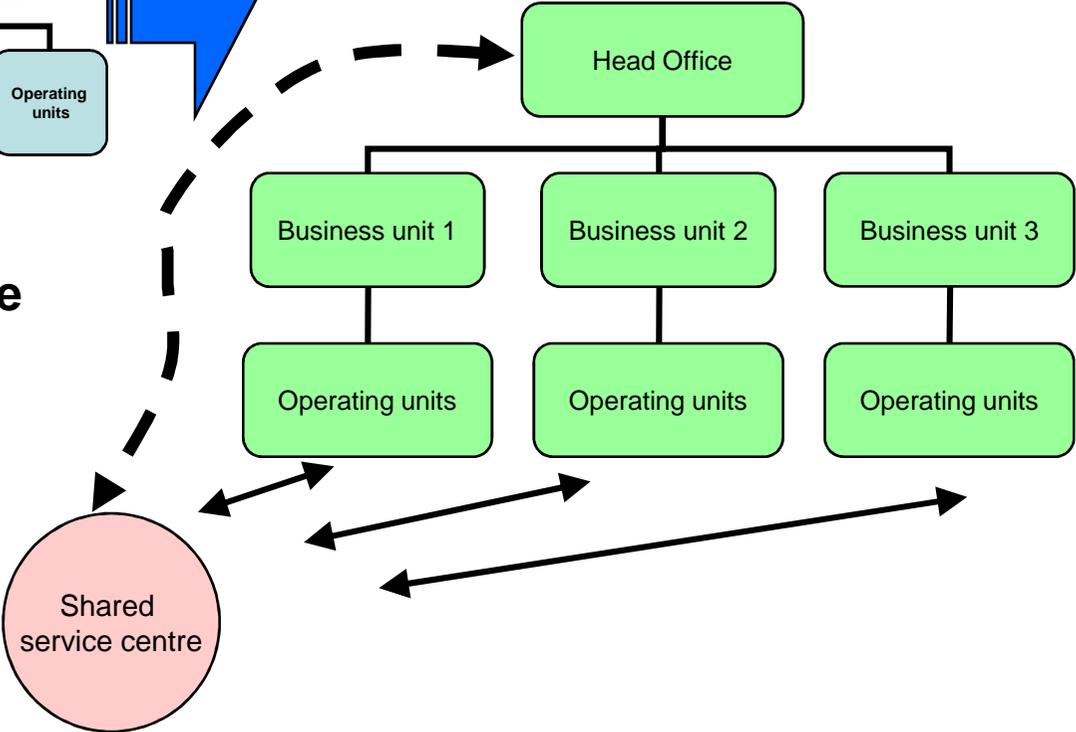
# Moving to a Shared Service Centre Model



**Conventional Divisional structure**  
(support services embedded)



## Shared service centre structure



# Business transformation and SSC - early thoughts

- Headline imperative is cost reduction through rationalisation & efficiency
- SSCs part of a continuum of approaches to organising service work
- Strategy and change process was successful but very slow and considered
- Longer term implications for professional work
- SSC might have a role in the definition of the firm
- Part of the evolution of the MDF

# Evolution of the MDF

- Reconfigures the simplistic Unitary form – based on functions.
- ‘.... an innovative response to the problems of co-ordination and control.’

Hoskinson, Hill and Kim, (1993, p. 296) quoting Chandler (1962)

- ‘.. The most significant organizational innovation of the twentieth century.’

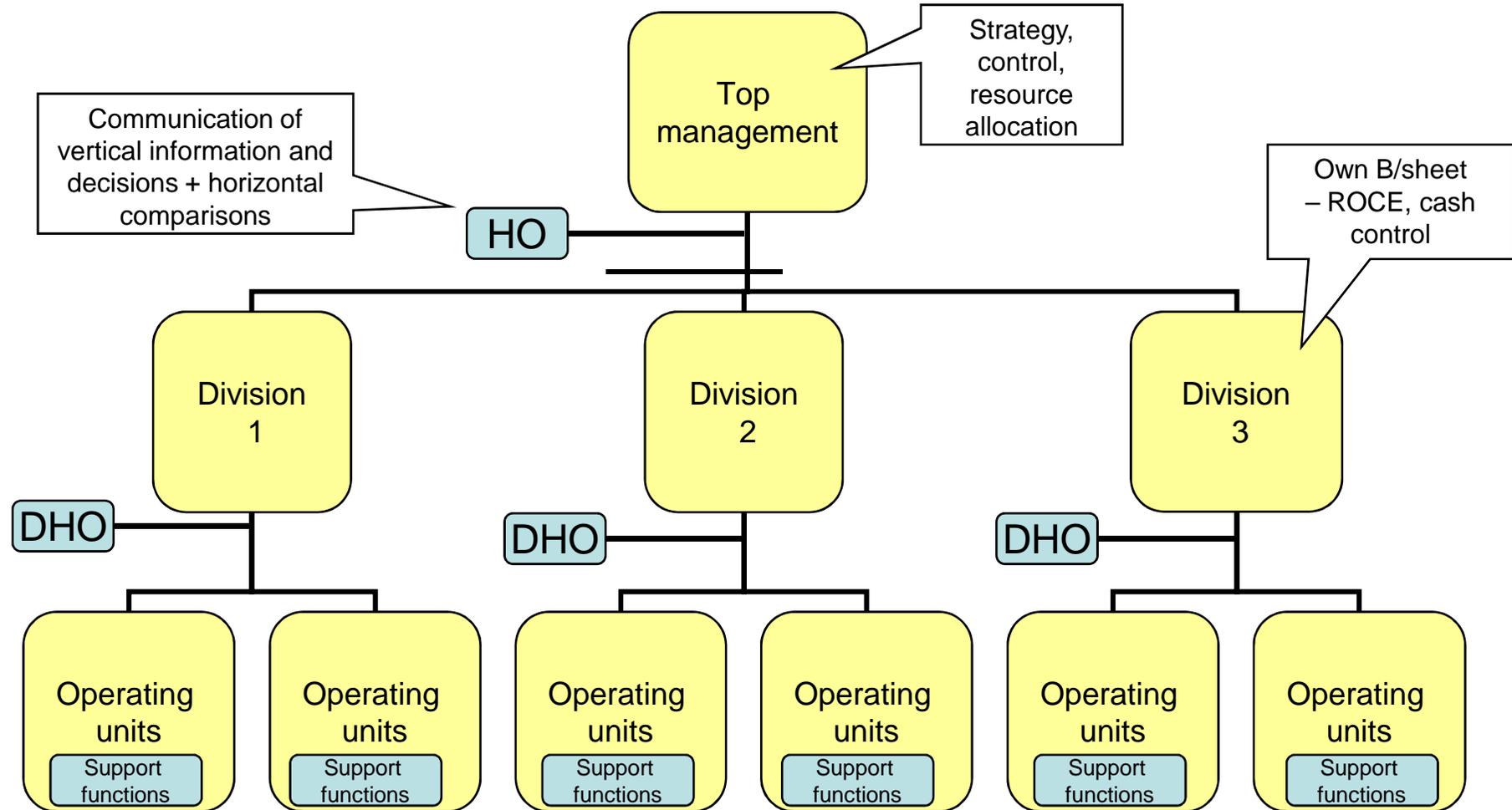
Williamson, (1985, p. 279)

**Effectiveness through market power**

Central shape, local decisions.

# Basic-Form Governance through interdivisional comparison

**Efficiency through market forces**



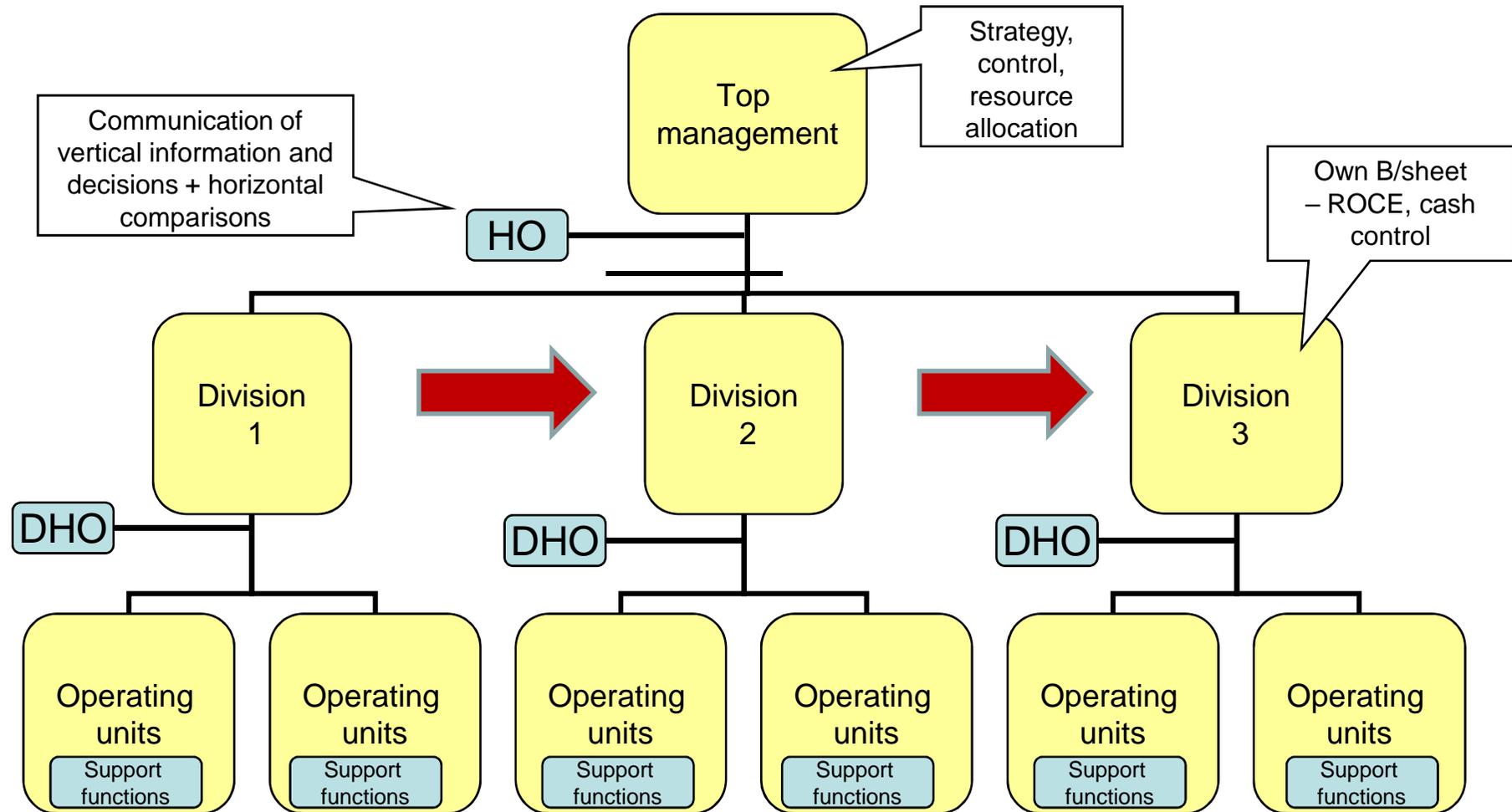
**Knowledge seen as divisible**

**Effectiveness through market power & synergy**

Central shape, local decisions.

# I-Form Vertical Integration - TCE

**Efficiency through transfer pricing and central coordination**



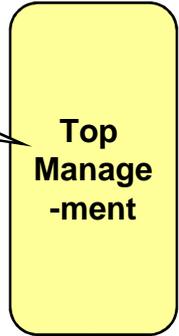
**Knowledge seen as divisible**

# The horizontal HO-form governance by market competition

**Effectiveness of units**  
Enabled by distributed IT power  
Ethos - close to customer, thinking local

**Efficiency compromised.**  
Duplication tolerated but IT increasing productivity anyway

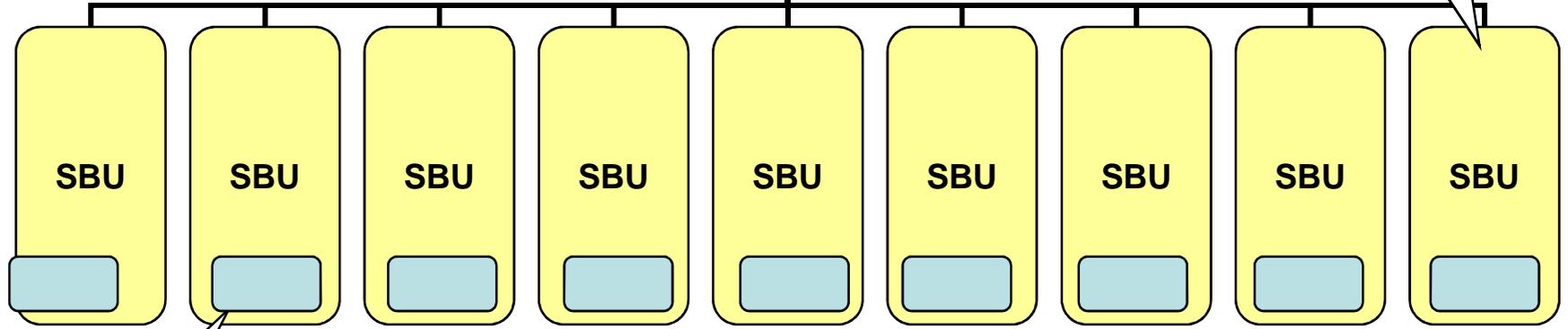
Resource allocation, investor liaison



Minimum middle management - Role is co-ordination & information



Self-contained, market facing. Own B/sheet - ROCE, cash control



**Local management critical**

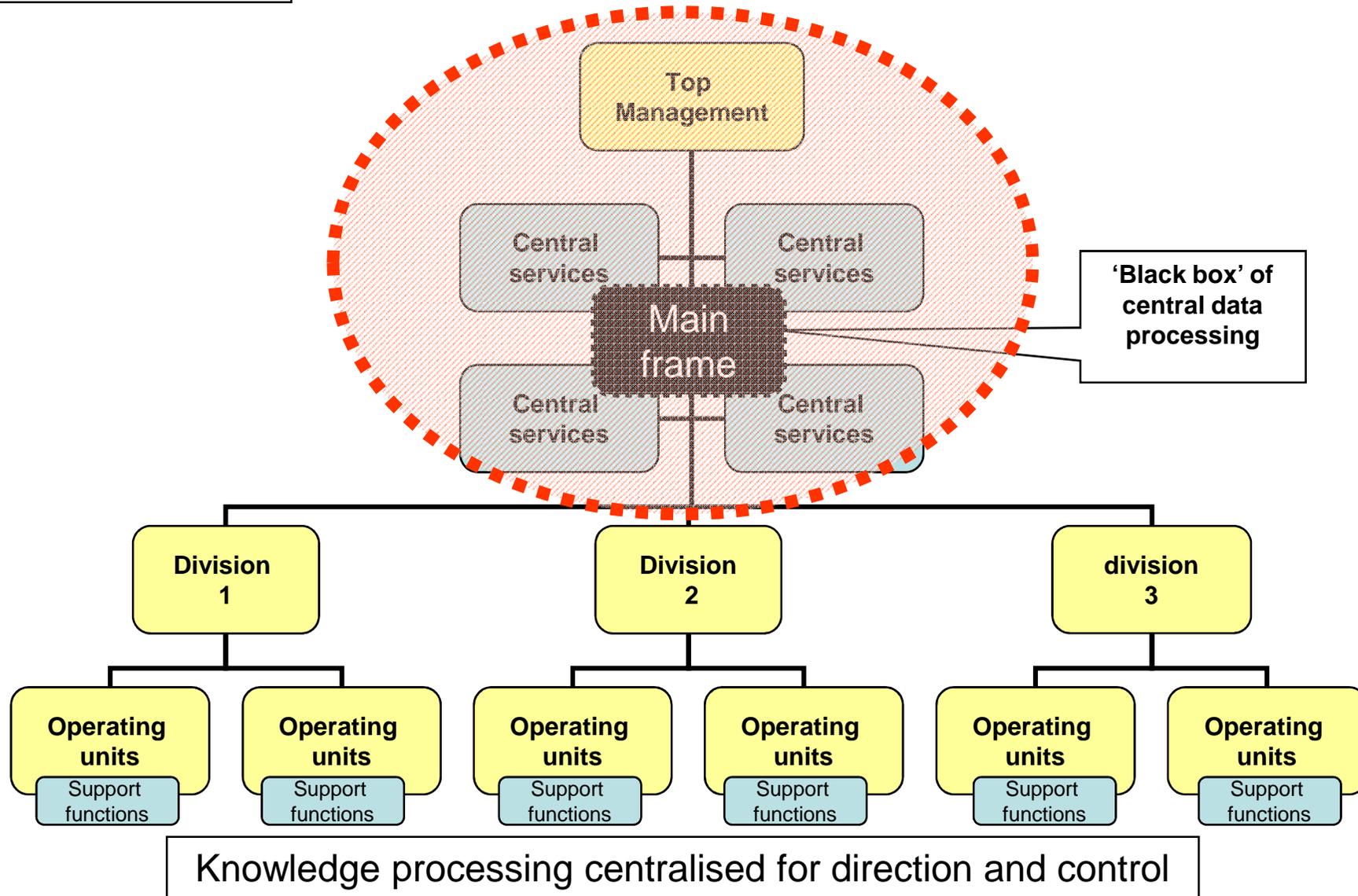
Moving the decision point down to the knowledge

Effectiveness of overall firm increased through centralised control and direction

# The unitary U-form

governance through hierarchy

Efficiency compromised by duplication.



Knowledge processing centralised for direction and control

Co-operation

&

Integration

**Effectiveness a given through local autonomy**

Leverage buying power through 'fleet-wide' management

But ...co-ordination costs increase

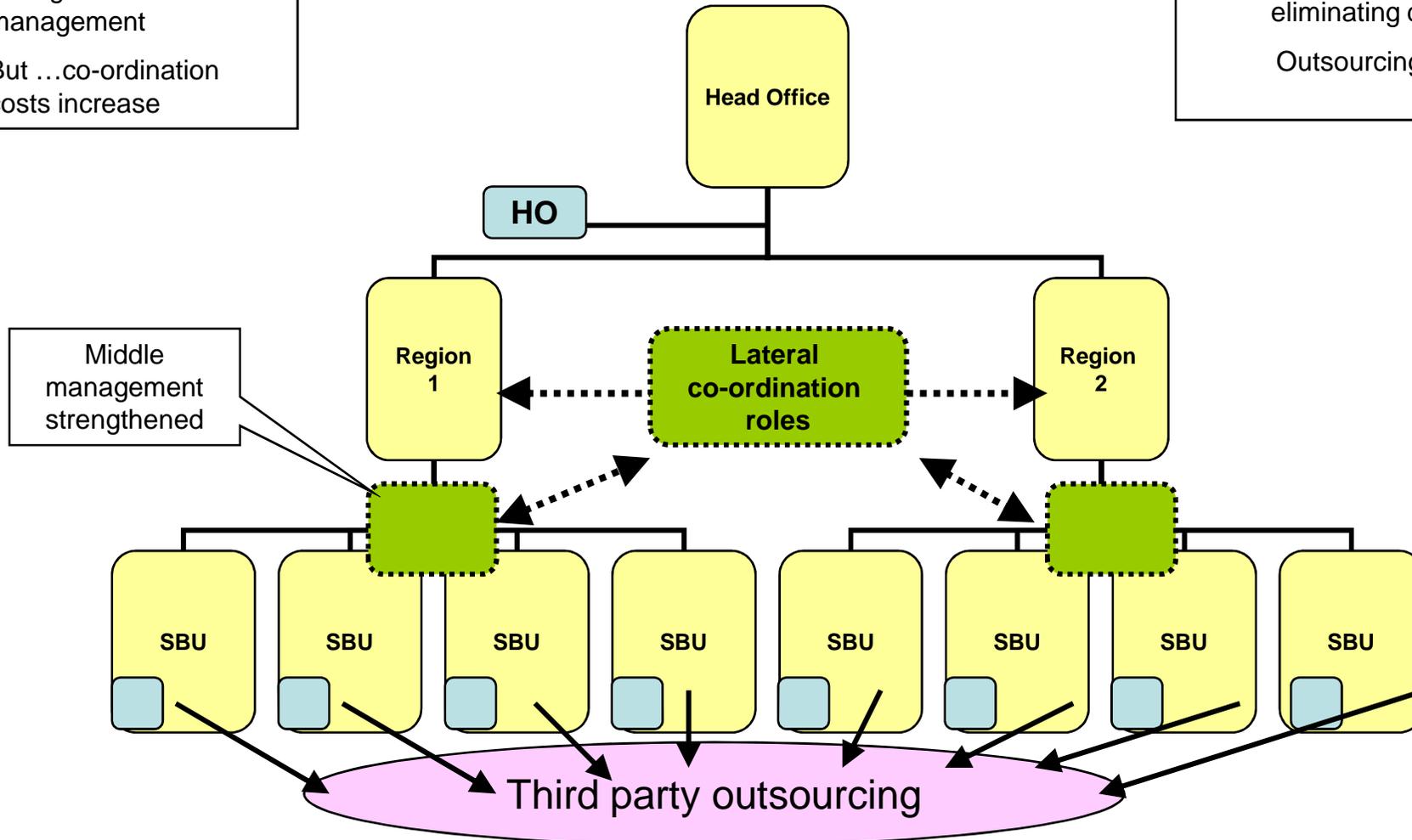
**The 'Joined-up' J-form**  
core v. non-core  
governance by market & product

**Efficiency improved**

ERP driving standisation

Sharing best practice & eliminating duplication

Outsourcing non-core



Middle management strengthened

Sharing strategic knowledge across multiple decision points

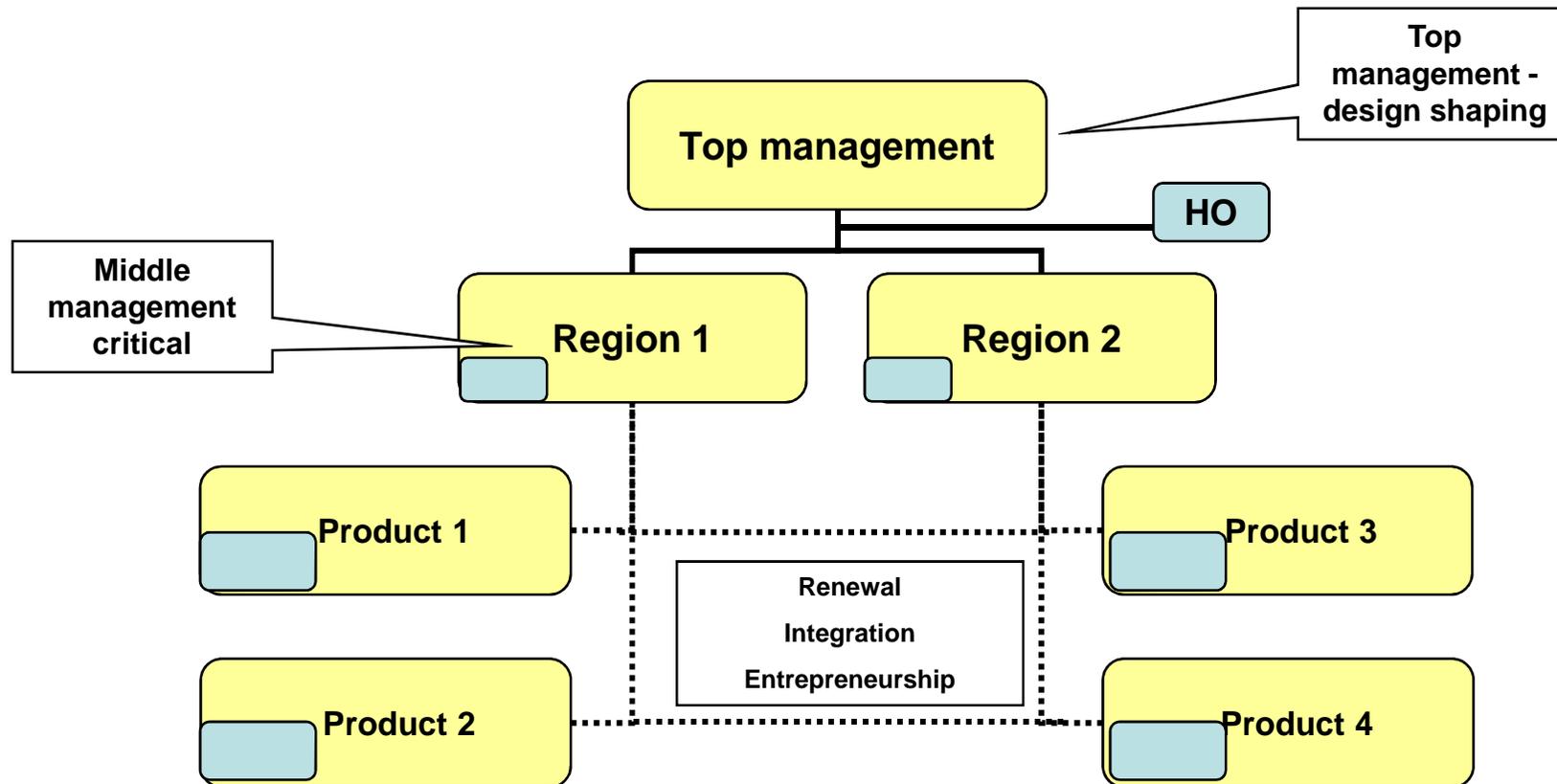
**Creates a dynamic for monitoring and control across regions and products**

Design thrust - purpose, process, people

**Efficiency and effectiveness**

# The matrix MX-form

governance through consensus

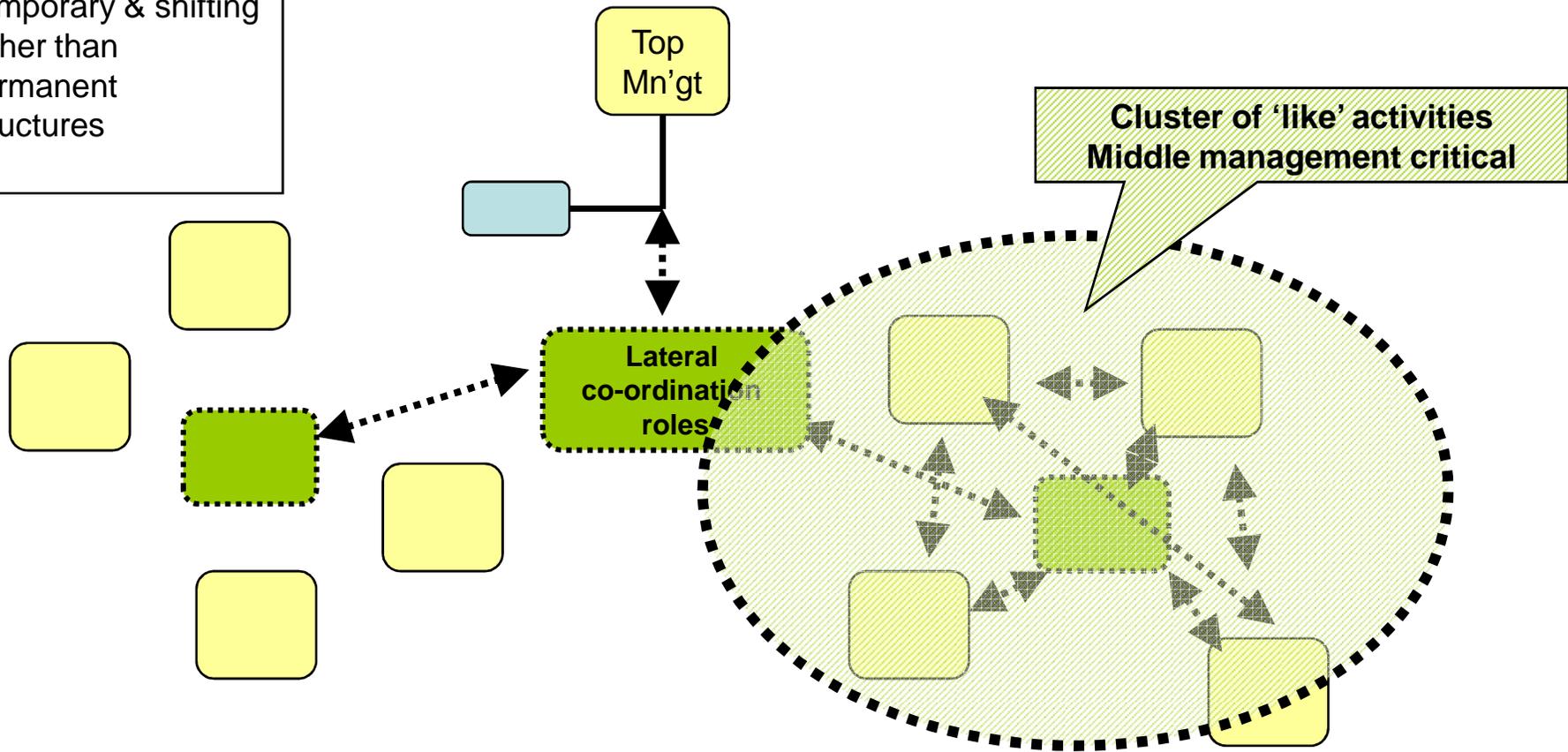


Combining strategic and tactical knowledge at common decision points

# The new N-form, governance through shared beliefs

**Effectiveness through close to customer / problem**  
Lateral relationships through tacit personal knowledge  
Temporary & shifting rather than permanent structures

**Efficiencies at micro level**  
Assimilating external explicit knowledge  
Sharing best practice



Emphasis on tacit knowledge and use by situated agents

# SSC Nature & Form

# The SSC Model

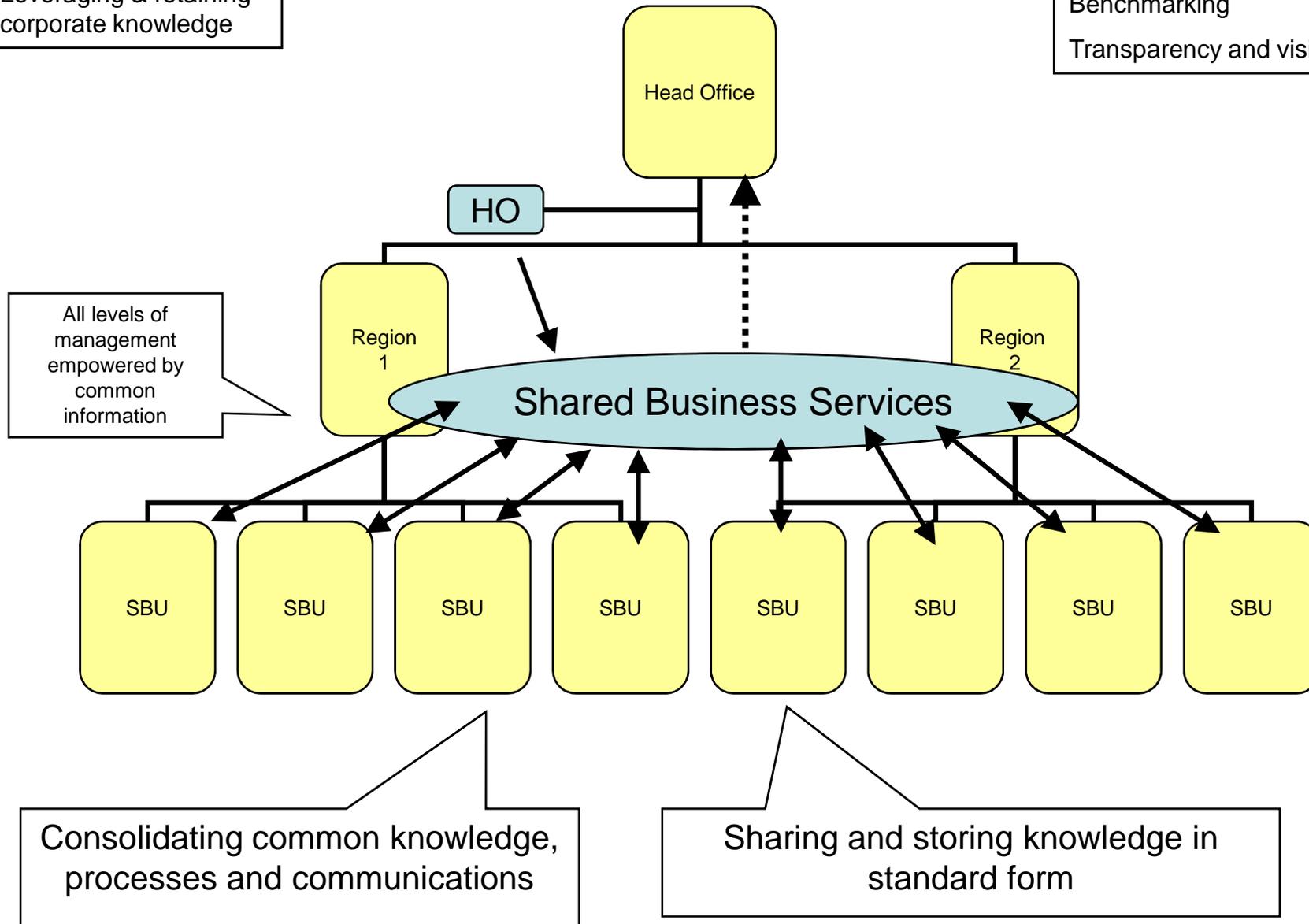
governance through quasi-market relationships within hierarchical control

## Effectiveness through

Enterprise architecture  
Leveraging & retaining corporate knowledge

## Efficiency and relevance

Process re-engineering  
Cut duplication  
Benchmarking  
Transparency and visibility



## Schulman et al. (1999)

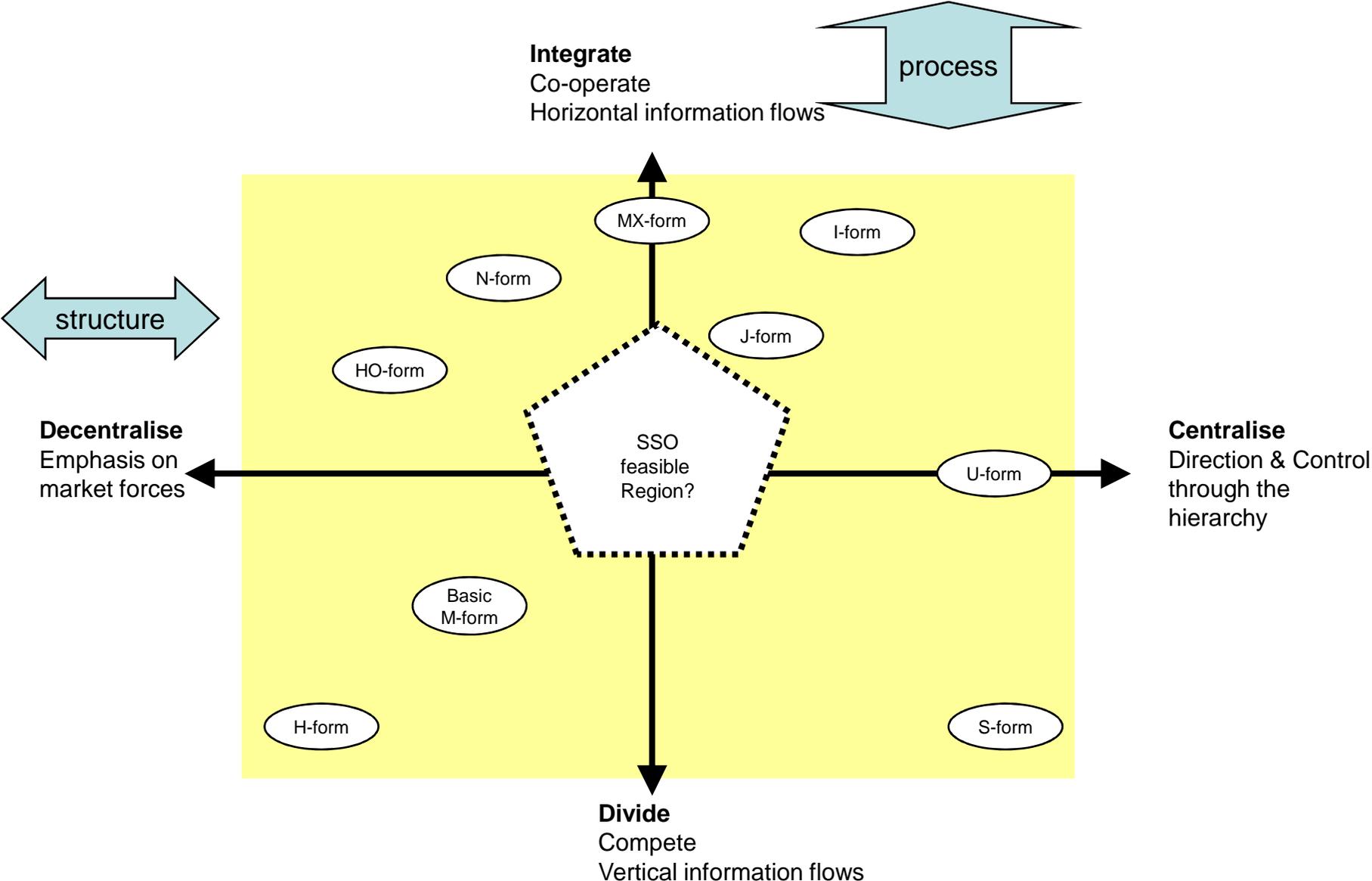
- The concentration of company resources performing like activities, typically spread across the organization, in order to service multiple internal parties at lower cost and with higher service levels, with the common goal of delighting external customers and enhancing corporate value. (p. 9).

# Bergeron, (2003)

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

SSC - Feasible set?

# Organisational design options



# A continuum of approaches to service activities

Internalisation

Dimensions

Externalisation

hierarchy

**governance model**

market (TCE)

effectiveness

**objective**

efficiency

external, end customer

**focus**

internal, process  
rationalisation

processes & behaviours

**performances measures**

output vs. specification

variable, customised

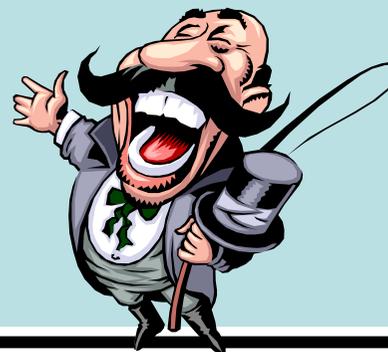
**task styles**

routine, mass

Emerging & changing,  
markets.

Premium on innovation  
responsiveness

**HOW THE JOB IS DONE**



Stable, mature, markets,  
highly competitive.  
Premium on volume & price.  
***HOW CHEAP THE JOB IS  
DONE***



# Case 5 - Bankco

Moving up the value chain

International issues

Hybrid sourcing

# Method

- Part of a wider project involving 12 cases
- Visits to SSC in mid-European country
- Visits to divisional customer in London

# Context

- Large international bank (commercial & retail)
- Large SSC in India (OFSC - mainly transactions)
- Fledgling SSC in E. Europe (NSC -mainly specialist)
- Global operations – motives cost arbitrage (labour and facilities)
- Cautious development of SSC – resources pushed out in front demand
- SSC pitching for business
- Multiple sourcing
- Near front-office & craft tasks

# Full-Time Staff Equivalents

- 5 in India
- 5 in Poland
- 5 in London
- 3-4 freelance
- 5-6 at 3<sup>rd</sup> party company
  
- And he knows everyone!
- Quality, language flexibility, education, cost important

# What is the overall approach?

- *'We've ended up using the OFSC in Asia for more process orientated work; higher volume/higher headcount work. Whereas, we favoured Mid-Europe, for some of the more complex, client facing, work, it's drifting that way, but it's more of a drift than a conscious decision to go that way.*

*Horses for courses, whatever works best.'*

## How do you cope with sourcing legal work?

- *'The guys in Asia are all graduates, around 30-40% have got MBAs. Even though we're talking process work, it is actually complex process work. We struggled to get this message over.'*

*When we originally recruited we had to emphasise: don't look at this as a traditional BPO – it's not yet legal process outsourcing – we're kind of in between.*

# What control measures are there?

- *‘Some things are daily processes which have to be done that day. We get KPI’s back, but we introduced what is called a quality survey, basically about the softer skills - initially monthly and then every three months.....*

*It includes those things that you can’t measure by stats.*

*It was introduced because we got fed up with people pushing us about asking for stats, when it’s actually about how you deal with work, how you deal with the clients, how you deal with queries, how quickly you react, how proactive you are – all those kinds of things that you can’t measure’.*

# How do costs get recharged?

- *'The SSCs costs get split globally, between Europe, the US and rest of the world.'*

*You could spend a lot of time trying to measure things by looking at actual work loads but you'd end up with the same figures pretty much. And you can't actually measure some of it anyway.*

*Say, you've got one client document to do in London, and one in the US; the first might take you three days to get signed, whilst the other three weeks and you could have chased that client ten times or twenty times. How do you measure that in terms of hours? So we have a fairly simple split.'*

# The role of SLAs in governance?

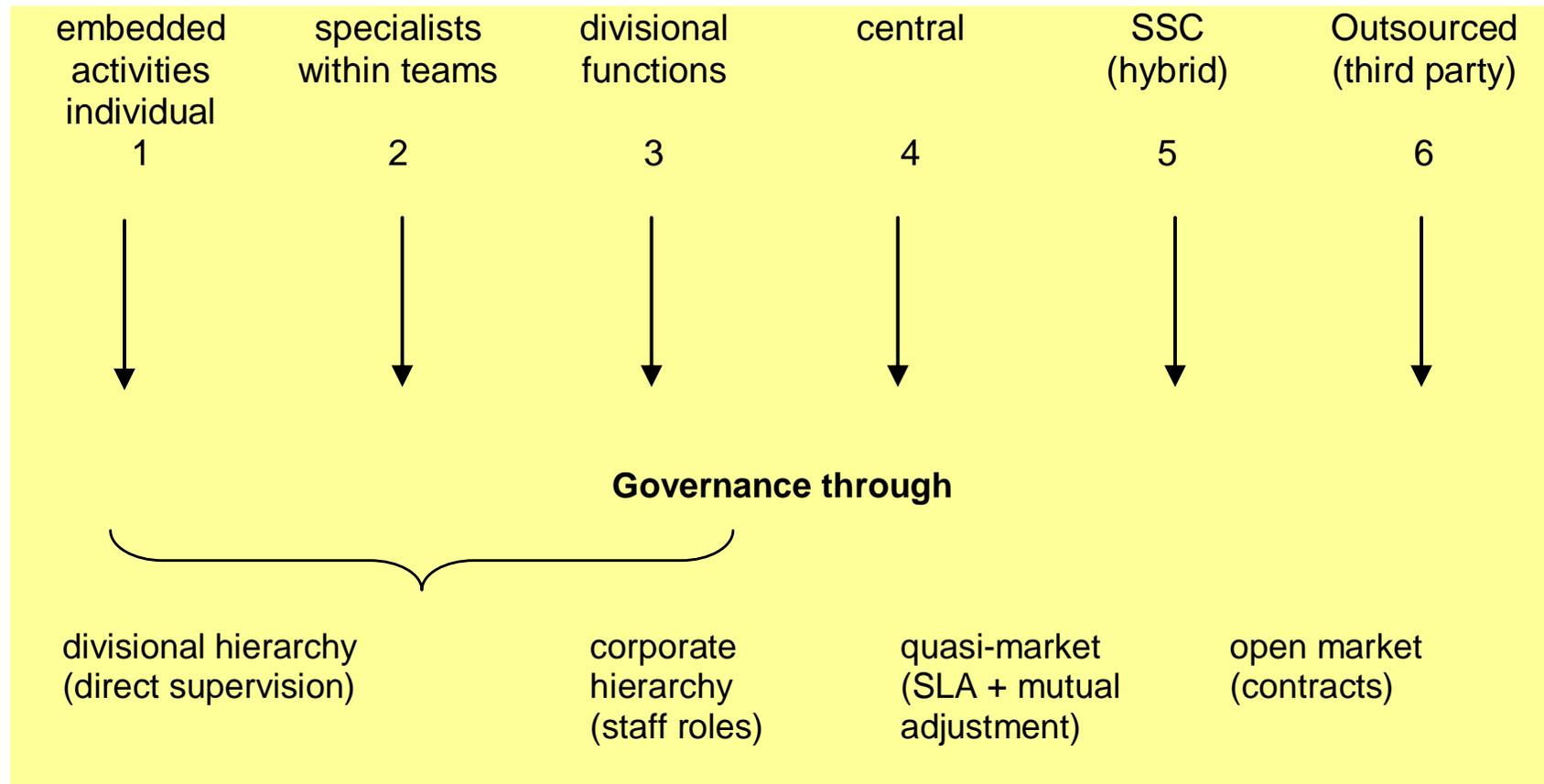
- *'If I have to resort to it [SLA] during the year it means that the service has already failed, and we cannot afford that to happen'.*
- *Significant level of trust involved in making things work*
- *Importance of good personal relationships with the SSCs.*
- *SLA is viewed more as a periodic touchstone than a working document and this is particularly interesting given that this is a director of legal services talking.*

# Discussion

- Bankco has moved towards a market model
- But as Perrow (1990) notes  
  
‘..the dichotomy can be a false one!’
- Riding many horses!
- Ready for a strategic push???

# Continuum of service work by location

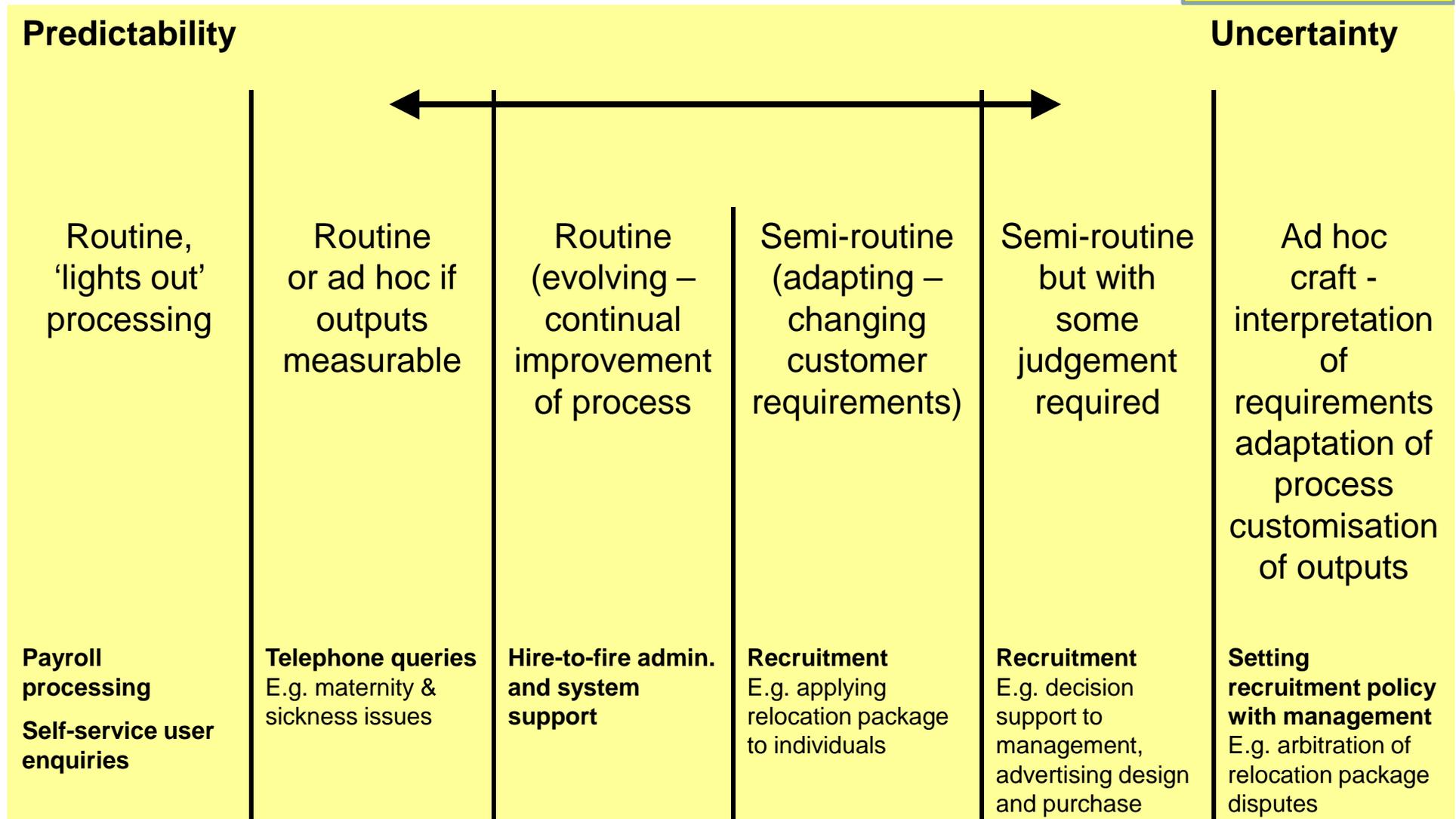
Task profile



# Continuum of service work by task style

Cf. Galbraith (1973)

## Task profile



# Continuum of service work by governance model

<u>Contractual - detailed</u>		<u>Formal - outline</u>		<u>De facto</u>	<u>Mutual adjustment</u>
		<u>Working document</u>	<u>Periodic</u>		
Control tool – penalties for sub-par performance (BPO)	Contract for monitoring cost and performance (BPO)	Setting a desired but flexible service level around system ‘hard points’. Professional codes.	Planning and resource allocation tool (budget driven). Professional codes.	Driven by detailed process. Maybe IT standardised (ERP) or external ‘hard points’ (accounting deadlines). Professional codes.	Collegial, Functional, professional codes.
allocated - activity (transaction or output unit)		Allocated per input resource e.g. captive staff	Apportioned or allocated	Apportioned - broad resource input	Central overhead

# Post script Dec 2009

- Selling OSC – ‘renting back services’
- Remaining discretion moved towards NSC
- Divisions still have some discretion BUT...
- All purchasing decisions to be routed through central (global) purchasing facility.
- Now strong rather than loose dichotomy.

# Strong Market – Strong Hierarchy!

- Was hedging their bets
- Now a two horse race
- Central authority is now regulating the essential dichotomy of the MDF

**End**

# Summary - SSCs

- Can reconfigure space and time.
- Are simple in nature but complex in form.
- Issues around optimising efficiency v. effectiveness.
- Can be business supporting and/or business controlling.
- Could be the neo-bureaucracy.
- Or, could create space for rethinking organisational rationale.
- Hold implications for the professional territory and roles of MAs
- Hold implications for careers of individual MAs
- A top management rather than professional project (e.g. public sector and Gershon (2004))

# Research agenda?

- Describing the form and nature (practice v. theory) differences with outsourcing
- SSCs as a new organisational form
- SSCs and the theory of the firm – competencies and capabilities.
- Knowledge management (tacit to explicit) and enterprise architecture
  
- Change processes – top management as the ‘Corporate Actor’.
- The narrative of voices.
- ERP and SSC – of chickens and eggs.
  
- The changing roles of management accounting – opportunities & threats.
- The deinstitutionalisation of Management Accounting (commodification, benchmarking, threats to professional territory.
- Employability of management accountants