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

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Project supported by CIMA
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

1990

1998

2007

2002
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  business adaptation
Tight control  people centred
Controllability  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.’


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

  Williamson, (1985, p. 279)
Basic-Form
Governance through interdivisional comparison

Effectiveness through market power
Central shape, local decisions.

Efficiency through market forces

Top management

Strategy, control, resource allocation

Communication of vertical information and decisions + horizontal comparisons

Knowledge seen as divisible

Operating units
Support functions

Operating units
Support functions

Operating units
Support functions

Operating units
Support functions

Operating units
Support functions

Operating units
Support functions
I-Form
Vertical Integration - TCE

Effectiveness through market power & synergy
Central shape, local decisions.

Efficiency through transfer pricing and central coordination

Communication of vertical information and decisions + horizontal comparisons

Top management

Strategy, control, resource allocation

Division 1
Division 2
Division 3

Own B/sheet – ROCE, cash control

Knowledge seen as divisible
Effectiveness of units
Enabled by distributed IT power
Ethos - close to customer, thinking local

The horizontal HO-form
Governance by market competition

Efficiency compromised.
Duplication tolerated but IT increasing productivity anyway

Moving the decision point down to the knowledge

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

Minimum middle management - Role is co-ordination & information

Local management critical

Resource allocation, investor liaison

Top Management

SBU

HO
The unitary U-form
governance through hierarchy

Effectiveness of overall firm increased through centralised control and direction.

Efficiency compromised by duplication.

'Black box' of central data processing

Knowledge processing centralised for direction and control.
Co-operation
&
Integration
The ‘Joined-up’ J-form
core v. non-core
governance by market & product

Effectiveness a given through local autonomy
Leverage buying power through ‘fleet-wide’ management
But …co-ordination costs increase

Efficiency improved
ERP driving standardisation
Sharing best practice & eliminating duplication
Outsourcing non-core

Sharing strategic knowledge across multiple decision points
The matrix MX-form

governance through consensus

Top management

Region 1

Region 2

Product 1

Product 2

Product 3

Product 4

Top management - design shaping

Middle management critical

Renewal
Integration
Entrepreneurship

Combining strategic and tactical knowledge at common decision points

HO

Creates a dynamic for monitoring and control across regions and products

Design thrust - purpose, process, people

Efficiency and effectiveness
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

Cluster of ‘like’ activities
Middle management critical

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

Shared Business Services

Consolidating common knowledge, processes and communications

Sharing and storing knowledge in standard form

Head Office

Region 1

Region 2

All levels of management empowered by common information
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).

- 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

Integrate
Co-operate
Horizontal information flows

Decentralise
Emphasis on market forces

Centralise
Direction & Control through the hierarchy

Divide
Compete
Vertical information flows

SSO feasible Region?

process
**A continuum of approaches to service activities**

<table>
<thead>
<tr>
<th>Internalisation</th>
<th>Dimensions</th>
<th>Externalisation</th>
</tr>
</thead>
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<tr>
<td>hierarchy</td>
<td>governance model</td>
<td>market (TCE)</td>
</tr>
<tr>
<td>effectiveness</td>
<td>objective</td>
<td>efficiency</td>
</tr>
<tr>
<td>external, end customer</td>
<td>focus</td>
<td>internal, process</td>
</tr>
<tr>
<td>processes &amp; behaviours</td>
<td>performances measures</td>
<td>rationalisation</td>
</tr>
<tr>
<td>variable, customised</td>
<td>task styles</td>
<td>output vs. specification</td>
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</tbody>
</table>

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\textsuperscript{rd} 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

1. Embedded activities
2. Individual specialists within teams
3. Divisional functions
4. Central functions
5. SSC (hybrid)
6. Outsourced (third party)

Governance through

- Divisional hierarchy (direct supervision)
- Corporate hierarchy (staff roles)
- Quasi-market (SLA + mutual adjustment)
- Open market (contracts)
## Continuum of service work by task style

### Task profile

<table>
<thead>
<tr>
<th>Predictability</th>
<th>Uncertainty</th>
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<tr>
<td><strong>Routine, ‘lights out’ processing</strong></td>
<td><strong>Ad hoc craft - interpretation of requirements adaptation of process customisation of outputs</strong></td>
</tr>
<tr>
<td><strong>Routine or ad hoc if outputs measurable</strong></td>
<td><strong>Semi-routine but with some judgement required</strong></td>
</tr>
<tr>
<td><strong>Routine (evolving – continual improvement of process)</strong></td>
<td><strong>Semi-routine (adapting – changing customer requirements)</strong></td>
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<tr>
<td><strong>Payroll processing</strong></td>
<td><strong>Recruitment (E.g. decision support to management, advertising design and purchase)</strong></td>
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<tr>
<td><strong>Self-service user enquiries</strong></td>
<td><strong>Recruitment (E.g. applying relocation package to individuals)</strong></td>
</tr>
<tr>
<td><strong>Telephone queries (E.g. maternity &amp; sickness issues)</strong></td>
<td><strong>Recruitment (E.g. applying relocation package to individuals)</strong></td>
</tr>
<tr>
<td><strong>Hire-to-fire admin. and system support</strong></td>
<td><strong>Setting recruitment policy with management (E.g. arbitration of relocation package disputes)</strong></td>
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Cf. Galbraith (1973)
# Continuum of service work by governance model

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<tr>
<th>Contractual - detailed</th>
<th>Formal - outline</th>
<th>De facto</th>
<th>Mutual adjustment</th>
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| Working document | Periodic |  |
|------------------|----------|  |
| Allocated per input resource | Apportioned or allocated |  |
| e.g. captive staff |  | Central overhead |

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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