The Shared Service Centre:

Change, Governance and Strategy

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Abstract
The author, based on empirical research, consulting experience and theoretical considerations, reflects on experiences of corporations with shared service centres. This article focuses on three aspects which so far have received too little attention: the proper type of change process, the governance issues with respect to shared service centres, and implications for corporate strategy.

Virtual all large firms work with one or multiple shared service centres. Various sources suggest that costs savings achieved through shared services centres range between 20% - 50%. Despite this and other benefits the concept still doesn't sit easy, neither with business management, nor with executives. This article argues that this is due to a wrong conceptual definition of shared service centre. This article explains what shared service centres really are, what its consequences are for the internal governance, change management and strategy. From this follows what the real critical success factors are for working with shared service centres.

Key words: shared services, governance, change management, corporate strategy

Definition and demarcation of shared service centres

For a definition of shared service centres I propose the following. A shared service centre is an accountable entity in the internal organization of a firm tasked to provide specialized services to operational entities (divisions, business units) on basis of a service level agreement and full charge out of costs on basis of a transfer price system. This definition aims at creating a clear distinction between the concept of shared service centres versus central staff departments and outside service firms. A shared service centre is an (engineered) cost centre, it is not a profit centre (although it has to contribute to the profit of the firm in a measurable way). What services a shared service centre delivers or not is decided, within certain corporate guidelines set by the executive board, by the managers of the business units or divisions. A shared service centre may do many things, except two. It will not perform statutory tasks nor will it develop policies. Shared service centres are operations, with defined, measurable outputs.

Type of activities most performed by shared service centres are: accounting services, HR-transactions and HR services (but not HR policy development), computer services (but not IT governance), facilities management, legal and insurance services, purchasing. Shared service centres are applied in front office activities (call centres), in mid-office activities (product development in banks) and back office activities. Shared service centres are not restricted to support-activities, also value chain activities may be provided by shared service centres. An example of this is Stater, owned by ABN-AMRO, which provides mortgage administration services and securitization services to third parties. NedCar is a car assembly facility in the Netherlands servicing both Mitsubishi and the Smart ForFour[1]. Alternative names for *shared service centres* are: *shared services*, *shared service organization*, *shared service unit, resource centre*, *competence centre*, *counting house*.

Explanation of the rise of shared service centres

Why do companies introduce shared service centres in their organizations? This concept violates the proven M-form with its vertically and functionally integrated divisions.

[1] Smart discontinued the assembly of the ForFour mid 2005.

Obviously management deciding to introduce shared service centres perceive its benefits to offset the extra costs of coordination and costs of lack of dedication of resources to specific product-market combinations. The M-form not only was a success because it was sound from an economic-operational point of view, especially the M-form resonated with ideas on human resource management: empowering people, focus on specific markets, coordination processes aligned with the market, non-interference of the Board, etc. This resonance explains the felt tension between the economic benefits of shared service centres and the strengths of the M-form. Only by understanding both the success of the M-form and why this model has lost its validity, we will be able to see shared service centres not from the perspective of the M-form (in which the shared service centre is a disturbance) but from a perspective of future organization forms.

As all organization forms, the M-form is based on a number of assumptions. With respect to the phenomenon of shared service centres three of these assumptions stand out. The first is that, judged from a corporate perspective, the costs of duplication of processes, due to aligning resources to specific market combinations, e.g. HR-transactions, accounting, logistics, IT, outweigh the balance of reduced costs due to centralizing such services and increased costs of coordination, and the opportunity costs due to lesser market and customer orientation. Second, it is assumed that the costs dynamics, that is the relation between average costs per product and the output per year has an optimum at a specific output per year that is more or less the same between the various parts of the value chain and that each business unit or division is able to achieve this optimum on basis of its own volume. Also it is assumed that this cost dynamics has the nature of a U-shape. Third, it is assumed that assets and or human resources are not alternatively deployable between processes nor products of multiple divisions, or that trying so results in undue costs.

A number of developments have changed the validity of these assumptions. The emergence of IT, especially its explosive growth in the nineties of the twentieth century, especially through applications like enterprise resource planning (ERP), management information systems (MIS), e-mail and intranets, have reduced costs of coordination in the internal organization of the firm (as well as in the external organization)(Varian, 2002). Due to process re-engineering and total quality management (TQM) many more processes, including supporting processes have been specified, including performance measurement, not only on their end-results but especially on intermediate steps, allowing these processes to be unbundled. Also, due to re-engineering and TQM, sub-processes could be identified that are generic in nature and can be applied for multiple divisions. These services and parts thereof now can be specified in contracts or service level agreements against acceptable costs of contract writing and contract policing. IT-services and on IT-technology based services like HR-transactions, accounting, sales transactions, logistics, etc. have a cost dynamics that much more resembles a L-type curve compared to the dominant U-curve in the traditional manufacturing operations. Also, by applying the concept of modularity (Baldwin & Clark, 1997: , , 2004: ; Richard N. Langlois, 1999: ; Schilling, 2000) to supporting processes in the value chain, it was discovered that cost efficiency and differentiation of services across division could be combined effectively. The latter made easier because as a result of swapping portfolio's and due to down scoping, portfolio's of corporations changed from unrelated to related in terms of technologies and products, respectively services. At the same time, market pressure, both through increased competition and through more emphasis on share holder value increased, requiring board to have a closer look at optimizing the economics of their corporations. So both market pressure and new possibilities, have lead firms, by and large in a trial-and-error process to develop and deploy the concept of shared service centres.

Performance of shared service centres

Reported direct costs savings due to deploying shared service centres differ between sources, but can be estimated to vary between 20% - 50% of the costs of services provided by shared service centres (Strikwerda, 2003).[2] For a typical MNC this may be in the order of magnitude of 1-2% of the turnover, that is, these cost savings are material. The precise mechanisms of costs savings are still not very well known. A first mechanism is reduction of duplication of processes by sharing these processes, which is especially effective in case of L-curve type of costs dynamics. In addition to this it can be assumed that cost reduction results from increased standardization of language (semantic standardization) across divisions, a higher quality of services (due to more measurement and performance management, more dedicated professional management, resulting in lesser errors) and a faster and more accurate

[2] And unpublished research conducted in the summer of 2005 by the Nolan Norton Institute.

implementation of changes in law, regulations and policies. In addition to direct and indirect cost savings other benefits can be identified. It can be argued that benefits also accrue from economies of scope or knowledge, a single piece of knowledge or experience, with respect to e.g. IT or logistics, is deployed or exploited across multiple divisions. A larger part of the operational costs of a business unit becomes flexible, allowing business management to make better decisions on costs versus value. Deploying shared service centres increases the transparency, at least for the board, not necessarily for the rest of the organization.

Also this rose has its thorns. Many business unit managers experience loss of control over their business system, apart from the fact that some feel being controlled through the shared service centres. Complaints can be heard on loss of market orientation and loss of customer responsiveness. Although cases exists in which employees in shared service centres enjoy higher job satisfaction, due to higher professionalism, being acknowledged now by their customers, other cases exist in which loss of motivation is the result of loss of identification with a specific product-market combination. Cases are known of shared service centres which had to be closed down due to unmanageable or unmanaged conflicts. Some shared service centres behave as if they need to be profit making entrepreneurs with no concern for the overall profit of the corporation. Lack of clear communication and decision making is another complaint. So it is a small wonder that against the success stories some corporations simply state: shared service centres don’t work.

The paradox of shared service centres solved

How can we understand that at the same time costs savings and other benefits of shared service centres are reported and denial of the concept beyond traditional resistance to change? The problem, as so often in such matters, is a question of concepts and perception. The phrase “shared service centre” itself actually is wrong. “Shared” refers to quasi independent business units or divisions, which, from this quasi autonomy, share a number of processes and services. By looking in this way at the phenomenon of shared service centres, implicitly the M-form with its related business models remains the frame of reference in our thinking and thus in our decisions and actions. Even more, from this perspective, shared service centres are to repair shortcomings and imperfections of the M-form and as such should be considered temporarily. As the CEO of a major MNC chemicals asked me in my first research on shared service centres: "When will things return to normal?"

However, there exists another way at looking at shared service centres. Here before I mentioned a number of developments enabling the emergence of shared service centres. Although shared service centres should not be confused with outsourcing, actually these two are appearances of the same generic development: the unbundling of the vertical and functional integrated firm, the unbundling of processes, the unbundling of products and services into more or less generic modules. It is not only that supporting processes are unbundled from the value chain, also value processes themselves are unbundled, account management, customer interfaces, etc. (Evans & Wurster, 2000: ; Hagel & Singer, 1999). The most dramatic example of this unbundling being the shift from vertical competing to horizontal competing in the computer industry (Yoffie, 1997)). One specific form of unbundling is the unbundling of customers from business units or divisions by organizing these in account management as the primary profit centre. This may sound strange, without a customer no business. The issue is that another tacit assumption underlying the M-form is that divisions do not have common customers (respectively that product-market combination are well and stable delineated), respectively no opportunities for cross selling exist. Reality is that increasingly cross-selling opportunities exist and or system integration across business units is demanded by customers. Initially firms tried to increase the corporate position with customers who are served by multi business units belonging to the same parent, by introducing customer relationship management software programs (CRM). But soon firms discovered that only accountable account management, that is that account management or a market segment is the primary profit-centre in the system of internal governance, respectively the system of management accounting and thus the planning & control cycle. Examples of accountable account management respectively market segments served by multiple business units as profit centres are to be found in the high tech industry (often in combination with co-engineering and system integration), and the financial services industry. The consequence is, a highly sensitive issue to those selected and groomed for and experienced in business unit organizations is, that the traditional business unit no longer is a profit centre, but an internal supplier to the accountable account management, or better: the *customer centric* organization (Galbraith, 2005). The two developments combined, the unbundling of the traditional business unit through shared services and the unbundling though accountable accounts management, results in what is called a platform organization (Figure 1).

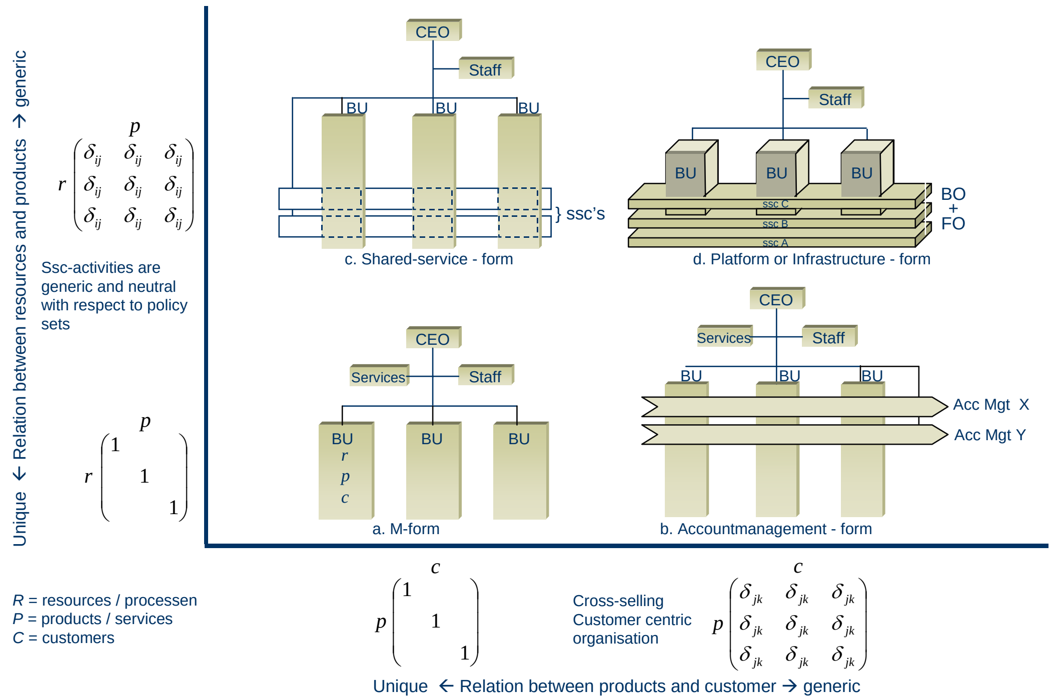

Figure 1. Shared service centres are part of a larger process of the unbundling of the vertical and functional integrated M-form.

The logical step is to redefine the accountable account management in to the business unit as emerging in Figure 5-d. Basically this business unit new style is a virtual business by resources, but it has full accountability, balance sheet, profit-and-loss statement, etc. These business units either may contain one large customer if this customer is material for the strategy of the firm, or a group of corporate customers or it may be based on market segments. ABN-AMRO is an example of a company deploying the platform organization.

From an economic point of view the described unbundling of the traditional M-form may sound logical, that logic does not address the fundamental changes implied by this unbundling in the social system of the firm: roles, identities, power relations, loyalties, communication, the informal organization, embedded routines and trust. Basically this unbundling affects the system of social and organizational capital of the corporation, and these social aspects set a boundary to the degree of unbundling, respectively the pace of unbundling (Sabel & Zeitlin, 2004). The introduction of shared service centres as one CEO of a financial services firm expressed it, implies a fundamental change in the constitution of the firm. A constitution that has proven itself successful, for which the older generation of managers has fought to get it implemented in the second wave of the business unit organization in the eighties of the twentieth century. It is much easier to explain and to argue for shared service centres on basis of economic arguments than it is possible to explain that a specific social system is meeting its boundary of growth in efficiency.

It is important to see the deployment of shared service centres in the larger perspective of unbundling of both economic and social systems, and from a future, not historic perspective. Business unit managers understandably tend to perceive the introduction of shared service centres from the perspective as depicted in Figure 5-a, whereas visionary boards perceive the introduction of shared service as a first step towards achieving organization form as depicted in Figure 5-d. When these two perspectives are not reconciled, a difficult change process and implementation process, even frustration and anger is the result.

Corporate change versus traditional change management

In the autumn of 2002 and spring 2003 about thirty five companies, in the Netherlands, including subsidiaries of MNCs, varying from large multinationals to medium sized, were interviewed on their experiences with shared service centres, planning, implementing and operations. Unsolicited, all but two companies expressed their disappointment on the change management offered by consulting firms they had hired to plan and implement their shared service centres. When a number of these consulting firms were interviewed on their view with shared service centres and were confronted with this feed back, these consulting firms, mainly IT-originated consulting firms, acknowledged they had not thought through a number of aspects of working with shared service centres, especially not the governance dimension nor had understood the need for a different approach of change management. What they actually did, was to define the planning an implementation of a shared service centre as an IT-project (indeed the operations of shared service centres thrive on IT) and had dealt with it, including change management, accordingly.

From the former section on the paradox of benefits of shared service centres versus the denial of the validity of the concept, it can be understood that the introduction of a shared service centre is anything except a traditional IT-project. As stated, it is a fundamental change in the constitution of the firm. This raises the question whether there is a difference between managing such a fundamental change in the organization of the firm and managing e.g. the changes implied by an IT-project? The answer is yes. Traditional change management as defined in the early seventies of the twentieth centuries is a management led change process aimed at all below the top of the organization. Introducing shared service centres also affects the roles and relations of the executive board and senior management itself. Introducing shared service centres is an act of corporate change. What then are the defining characteristics of corporate change? Corporate change can be seen to be comprised of seven steps: (1) awareness that the existing business model no longer is adequate, (2) defining a new business model; (3) translating the new business model in a new system for internal governance, including its internalization with key players; (4) making new appointments of managers on key positions; (5) allocation resources, setting targets for the old and new units; (6) operational implementation; (7) performance management and control (Bower, 2000).

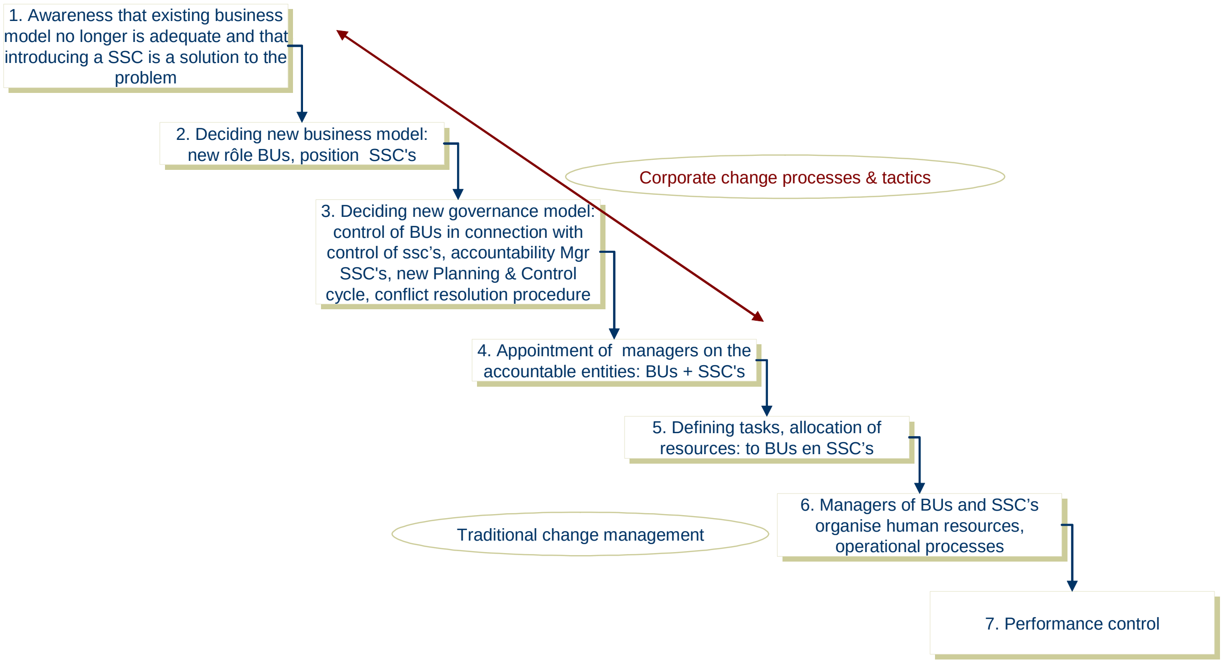

Figure 2. The seven steps of corporate change, applied to introducing shared service centres.

Corporate change not only differs in scope from traditional change management, it also acknowledges that major changes in the internal governance system need to be defined and decided, and especially understood by key players before operational implementation of e.g. shared service centres. Also, because corporate change starts with the business model, the key players will understand that not implementing the consequences of the new business model consistent and completely, jeopardizes the future of the company. By first appointing managers to redefined old units and setting targets and allocating resources, clear frames are defined within which managers and staff can concentrate on implementing new processes and get these running. The concept of corporate change acknowledges the creation of new roles and identities and acknowledges that a phase is needed in which key players, usual managers of units are provided with the opportunity to familiarize themselves with these new roles, have the opportunity to confirm each other roles through role negotiating, including key management processes of planning, coordination and decision making in order to develop a level of comfort with the new organization to be implemented. With that the approach of corporate change distances itself from the traditional approach of implementing IT-projects in which it is left to a project leader who, usually from a too low position, has to pull changes above his level.

Corporate change also acknowledges that successful change in an organization is not a matter of either changing structures (*task alignment assumption*), which changes attitudes of individuals and groups or changing the knowledge of individuals (*programmatic change assumptions*), but that both are needed (Beer, Eisenstat, & Spector, 1990: 61). Senior managers are expected to change structures where needed and therefore are to be approached in terms of necessary changes in the business model of the firm. These managers then can think through the consequences of the new business model, in terms of new tasks, accountabilities, skills, knowledge and management processes. The new structures so created will help other to redefine their view on the business, their attitudes etc. Far more important is that these manager can explain the why and how of the implementation of shared service centres and thus are able to provide leadership to the change process.

The change of the internal governance system

To understand how the introduction of shared service centres needs to be implemented in the system of internal governance, we first have to understand the salient characteristics of the internal governance system of the M-form. In the M-form the executive board governs through (Sloan, 1962/1986):

1. Setting the mission, the identity and values of the corporation;
2. Setting the business scope of each of the divisions, respectively the business units;
3. Selecting, appointing, evaluation, remuneration and dismissing the management of the divisions, respectively business units;
4. Financing the divisions, respectively the business units and other resource allocation;
5. Setting strategic and financial targets;
6. Control on performance, against targets, market developments, and operational efficiencies to be achieved
7. Setting corporate policies.

This system of internal governance for the traditional M-form contains two implicit assumptions. The first is that the divisions respectively business units are organized vertical and functional integrated, that is are self contained, they do not depend on other units or departments. The second assumption is that no substantial mutual deliveries exist between divisions or business units, at least not such that these explicitly have to be coordinated by the executive board between the units. The planning & control-cycle is simple and straight forward, it basically exist of a number of bilateral cycles between the executive board and the management of the divisions, respectively business units. So are the relations between the executive board and the management of the divisions: these are bilateral relations, in which the executive board can see and deal with the divisions as if self contained independent businesses. The parenting value as required by the capital market usually is restricted to finance, management development, research and some other supporting functions.

By projecting shared service centres on this framework it is easy to see what changes are implied for the system of internal governance. First is that in addition to setting the business scope of divisions respectively business units, the executive board now also sets the resource scope of the divisions and business units. Those resources that are not delegated by the board to the divisions respectively business units, are organized in separate entities, shared service centres, whose services are usually mandatory for the divisions and business units. Some firms in a fashionable way label their shared service centres as business units or even divisions (e.g. ING-bank's OPS-IT). Although understandable from a perspective of creating familiar identities, roles and accepted statuses, thus labelling shared service centres creates confusing that is detrimental to the performance of the organization.

Executive board have a strong tendency when it is about changing the organization to apply rule-following-decision making as opposed to rational decision making, in which value is maximized (March, 1994). In rule-following-decision making senior executives tend to maintain and to fulfil identities and to act appropriate to rules and attributed roles. Indeed all units, including shared service centres have to contribute to the performance of the corporations, preferably in a measurable way, but this does not imply a same status in the system of internal governance, respectively the accounting system.

In order to maintain the strength of the M-form, that is its focus on specific product-market segments respectively customers, it has to be made clear in the system of internal governance which units are the profit centres, and thus the primary units in target setting and resource allocation, and which are the secondary, serving and following units.

One European chemicals firm bluntly stated in a meeting on shared service centres that this concept simply doesn't work. The messenger told the audience that they had turned all their departments, including its shared service centres, into value creating units, each with a bottom line responsibility. Complete confusion in the organization turned out to be its consequence. This concept indeed doesn't work as it denies that an organization is a system with specific distinct mutual functions and roles, a hierarchy and thus a specific order in planning, setting targets and tasks. However, as described in the section on change management before, because many executive boards have such a difficulty in changing identities, roles and relationships, they err by labelling shared service centres equal to business units, profit centres, etc. An example of a shared service centre successfully turned into a profit centre is Accounting Plaza (www.accountingplaza.nl), original the counting house of Albert Heijn, the main retail chain in the Netherlands (a subsidiary of Ahold). Now it is a successful independent firm, in majority owned by its management and serving other customers as well. But note, turning a shared service centre into a profit centre, may require a corresponding change in ownership in order to maintain clarity in the organization.

From the fact that introducing shared service centres is a fundamental change in the system of internal governance, it also follows, that, in most cases, the planning & control-cycle needs to be redefined. Before elaborating on this, it needs to be explained that two types of shared service centres are to be distinguished. A first type of shared service centres, often shared service centres for accounting services, counting houses, provides a standard preset set of services, of which the costs charged to the divisions; respectively business units are a fixed percentage of turnover. In case of such shared service centres the management of divisions or business units have no discretion over either the services provided nor over the costs they are willing to spend on such services. Other examples of such shared service centres are basis IT-services, facilities management and such. In case of such simple standard services providing shared service centres the planning & control-cycle of the firm doesn't need to be adapted. Simply within the existing standard M-form the budgets of the shared service centres follow once the budgets of the divisions and business units have been set.

However, one of the objectives of shared service centres is to have managers of divisions and business units make better, more precise, allocation decisions with respect to services, including accounting and IT services in view of maximizing their overall performance (apart from achieving economies of scope, etc.). Also, innovation in services provided by shared service centres are needed to support innovations in customer value of products and services, new projects may be needed etc. Introducing this type of shared service centres creates trade offs between standardization and differentiation. Actually, a common practice is that shared service centres have two office windows, one for standard services and one for special requests, projects etc. The first provides standard services on basis of a most simple system of costs charge out, the second window is open for specific projects and wishes, but all costs incurred, including spill over costs to other business units, will be charged to the division.[3] Introducing the type of shared service centre which is about making costs for business units flexible, to create economies of scope etc., changes the optimizations function of the economic system of the firm. No longer maximizing the performance of each of the divisions automatically results in optimizing the overall

[3] Goold & Campbell (2002) make a distinction between *Core Resource Units* (the second window) and *Shared Service Units* (the first window). *Core Resource Units*, according to Goold & Campbell may contain activities varying from R&D, technology platforms, IT, manufacturing, sales, distribution and e-business. The distinction between *Core Resource Units* and *Shared Service Units* is useful and necessary. However when e.g. technology platforms and films are included in *Core Resource Units* as suggested by Goold & Campbell, and it is suggested that *Core Resource Units* have to set priorities, a complete different economic model is implied for the corporation than the M-form. The model so implied is the so called *multiplier profit model* (Slywotzky & Morrison, 1997), as e.g. found with Walt-Disney, which is typical for content exploitation and for some high-tech firms. The *multiplier profit model* is a relevant issue for a number of corporations, but beyond the scope of this article.

performance of the firm, with shared service centres the firm has to be optimized as a single business system. This can be achieved by introducing a planning & control-cycle in which a clear distinction is made between profit centres (primary planning units) and cost centres (secondary planning units). The basic scheme of this planning & control cycle (which for years already is used by MNCs to coordinate global business lines with country operations) is depicted in Figure 3.

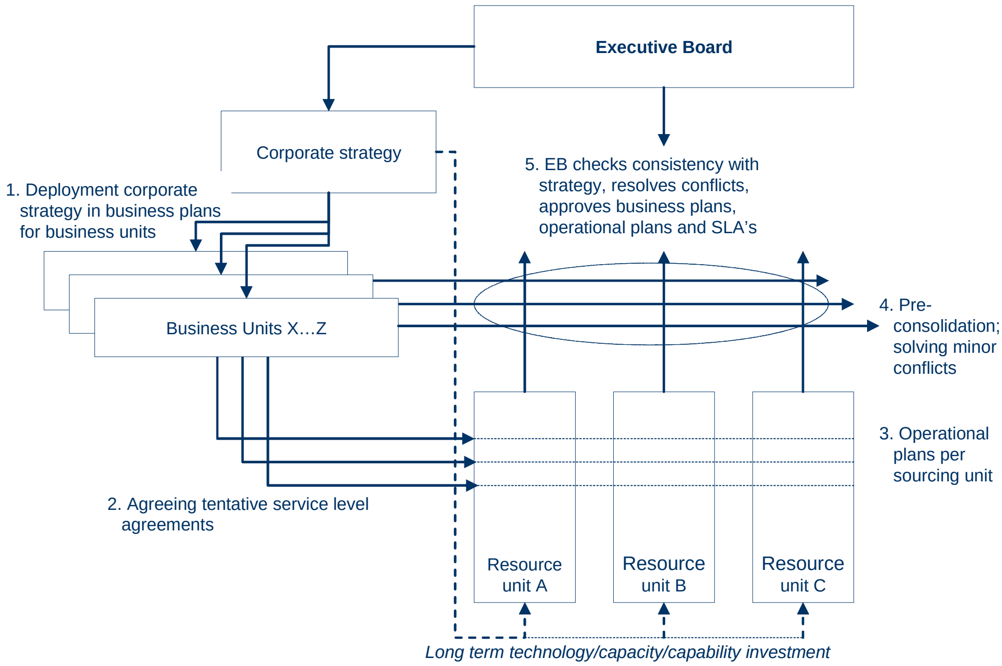

Figure 3. The planning & control cycle for working with shared service centres.

The management process depicted in Figure 3 is much more than just a planning & control-cycle. It also explains the basic scheme of communication, when tentative service level agreements are defined and by who, how conflicts are resolved, and especially the specific involvement of all managers of the units in deploying the strategy of the corporation. Also, it is a closed loop in psychological sense, leaving nobody out. Executives and managers consistently react in a strong, positive, way on the graphic displayed in figure 3. This is because they are more interested in the management *process* compared to an organization *chart*. A process description is a better help to understand the working of a (new) organization as is an organization chart. Further the diagram in Figure 3 also has proven to be an effective tool to explain and to discuss the flow of funds. The fact that in the case of working with shared service centres the executive board reduces the resource scope of the divisions respectively the business units, does not imply any change in (a) the accountability of the business unit manager, nor (b) in the budget (targets, exploitation budget) of the business unit management. The fact that IT services are provide by an IT-shared service centre to a business unit leaves unchanged the IT-budget with the budget unit. Shared service centres are funded by the business units the shared service centres serve, not by the executive board.

On basis of the notion of profit centres versus resource centres the accountabilities of each of the managers can be defined, as well their reporting lines. Attributed decision rights are defined by approved business plans and their budgets. In addition to this the board will set corporate policies, prepared by staff departments, and define reserved powers. Important is the accountability of the managers of the resource units. They are accountable, not to the managers of the business unit-managers, but to the executive board for performing the service level agreements *as approved by the executive board* within the budget set. Common practice is that business unit-managers and resource managers monitor the performance of the service level agreements at least monthly, in many cases actually daily, discuss deviances and improvements and only in case of irresolvable disagreement will submit their conflict to the executive board who then has to act promptly.

An objection often brought forward to the internal governance system as described in this section is that it brings too many and too often operational issues at the table of the executive board. That is, this objection is expressed by managers, member of staff departments, consultants and academics; I have not heard this objection from the mouth of any executive. ABB in the early nineties was an example of a MNC whose executive board was overloaded with operational issues as a result of an ill defined organization. In companies like Shell and Cargill, who operate in one form or another according to the scheme in figure 3, see to it that in the process-step of pre-consolidation most of the issues between business units and resource units are solved, and that only the main points of difference, which are material to the strategy of the corporation, are brought to the table of the executive board and the management teams, as this should be. The reason executive boards appreciate the planning & control-cycle depicted in figure 3 is that is provides them with a better transparency on the corporation as a whole. The unbundling of the vertical and functional integrated firm reduces the information asymmetry between the executive board and the management of the division, thus reducing the internal agency costs. Even more important, executive boards now get multiple voices in their management teams, those representing the market and independent from that, those representing (key) resources, allowing executive boards to make decisions better informed.

Consequences for the executive board

In getting the benefits of shared service centres, many involve themselves in all kind of details, like IT, processes, costs, service level agreements, standards, etc. with the argument that the devil is in the details. That in itself is true, but the battle with the details only can be won with good generals at the top. Good executives with respect to the issue of shared service centres are those who are able to see this issue from a perspective of grand strategy, *including the implications for their own roles*. In the case of the M-form the relation between the executive board and the management of business units often is defined as a principal-agent relationship-plus and the plus is for challenging the management of business units to perform better as when on their own. In case the executive board decides to reduce the resource scope of divisions and make a number of services provided by shared service centres mandatory, the relation between the executive board and the management of the business units changes fundamentally. In fact, in changing this resource scope, especially from a perspective as suggested in figure 1-d, the executive board assumes three roles. The first role is that of owner, on behalf of the shareholders, and with respect to civic duties. This role also is called the governance & compliance role (Goold, Pettifer, & Young, 2001). The second role is that of (corporate) entrepreneur. In this role the executive board decides on the composition of the portfolio of businesses, innovation and other investment projects, with the objective to maximize the return on the assets of the firm. This second role includes the role of guiding and challenging the business units, it is the *value adding parenting* role of the executive board (Goold, et al., 2001). In the parlance of some visionary executives, they see it as their third role to facilitate their businesses with providing them with an infrastructure (some executives even speak of creating a campus) for generic services, IT, logistics, transaction services for sales, HRM, etc. on which their businesses can thrive and which enables the business managers to concentrate on their markets and on their customers.

This third role however creates a fundamental different relation between the executive board and the managers of the business units, compared with that relation in the M-form. From a dominantly bi-lateral relation, now a trilateral relation is being created between executive boards, business unit managers and managers of shared service centres.

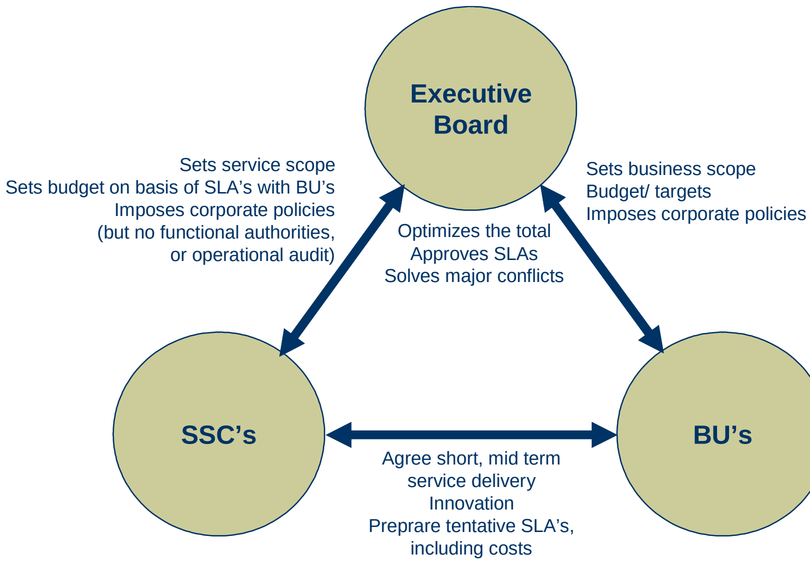

Figure 4. The new tri-lateral relation between executive board, BU-management and management of shared service centres.

It is not only, as in the M-form, that business unit managers are accountable to the executive board for performance and due stewardship on assets, in this new triangular relationship the executive board also has a responsibility towards business unit managers to perform agreed services timely, according to specifications and costs, the service level agreement between the business unit managers and the managers of the shared service centre does not imply accountability between these two, due to these services being mandatory to the business unit.

This tri-lateral relation is more delicate compared to the old relation. The power of the executive board has increased detrimental to that of the business unit manager. The executive board has to restrain itself from managing the business unit through the shared service centres. In one case of a bank the executive board failed to come to terms with one of the business units on a reduction in the differentiation of mortgages offered to the market. The executive board reduced the budget and the capabilities of the shared service centres-back office for mortgages, frustrating the business management and the trust in the shared service centres.

Alike the executive board has to refrain from using the shared service centres, especially the counting houses, to get information on business units that it should ask from the managers of those business units. It is the duty of the executive boards to hold their business unit managers accountable. Accountability is a moral relationship expressed in the act of holding the other accountable by asking that other for information and explanation and the other providing that information and explanation. Information itself is not accountability and the executive board has to keep it hands out of all those cookie jars full of information shared service centres may appear to be to the executive board, except in case of emergencies.

Shares service centres are specialized in IT, processes for HR, logistics, they are able to compare business units, etc. Thus a tendency exist to define what is best, and to impose that on business units. It is the task of the executive board to see that not the performance of shared service centres is optimized, but the performance of the company as a total. Therefore corporate policies are to be developed from the corporate perspective, not from the perspective of the shared service centre: under no circumstances shared services should be granted functional authorities. Corporate policies are to be proposed by the corporate staff departments, to be discussed in the management team and to be approved by the executive board. Vice versa, the executive board has to see that the capabilities and competencies of the shared services-as-corporate-infrastructure develop according to the long term corporate strategy. If shared service centres would act on demand of the business units only, a serious risk exists that the shared service centre is deprived of any means for investment and development. Therefore it is the duty of the executive board, from the perspective of the corporate strategy to decide in how and in what directions shared service centres should develop and innovate, hence the dotted line in figure 3 between the corporate strategy and the resource units.

From this changing relationship between executive board, business unit management and shared service centre management follow consequences for required competences and career paths for managers. These consequences should be translated into the objective and subjects of management development programs. Only slowly companies became aware of this, as a result of which there was a tendency that old roles of managers and executives were reproduced in a situation of working with shared service centres. An important aspect to pay attention to in selecting, developing and coaching managers who have to lead the business units new style, is the competence of coordination control as opposed to the competence of ownership control in the traditional M-form. Ownership control is hierarchal; coordination control is orchestrating a number of (quasi) independent actors. Ownership control is aimed at appropriating the value of a set of capabilities; coordination control is aimed at creating value from a set of capabilities (Richard N. Langlois & Robertson, 1995: 144). Also the executive board, perhaps in a lesser degree, is subject to this change from ownership control to coordination control.

Shared service centres as a strategic issue

Shared service centres may have an impact on the strategy of a corporation far beyond low costs and other ways of economizing. As explained before, shared service centres are an expression of the more fundamental unbundling process in the economy. This unbundling process however will not result in an atomization of the economy; that is firms specialized in specific processes only, leaving the integration to anonymous market mechanisms. In three ways shared service centres, especially when set up as a corporate infrastructure for businesses, providing economies of scope, may affect the corporate strategy.

The first is that by creating a firm that exists not of self contained divisions or business units but shares a number of platforms, the economic model of the corporation changes from a (financial) holding towards a single business system.

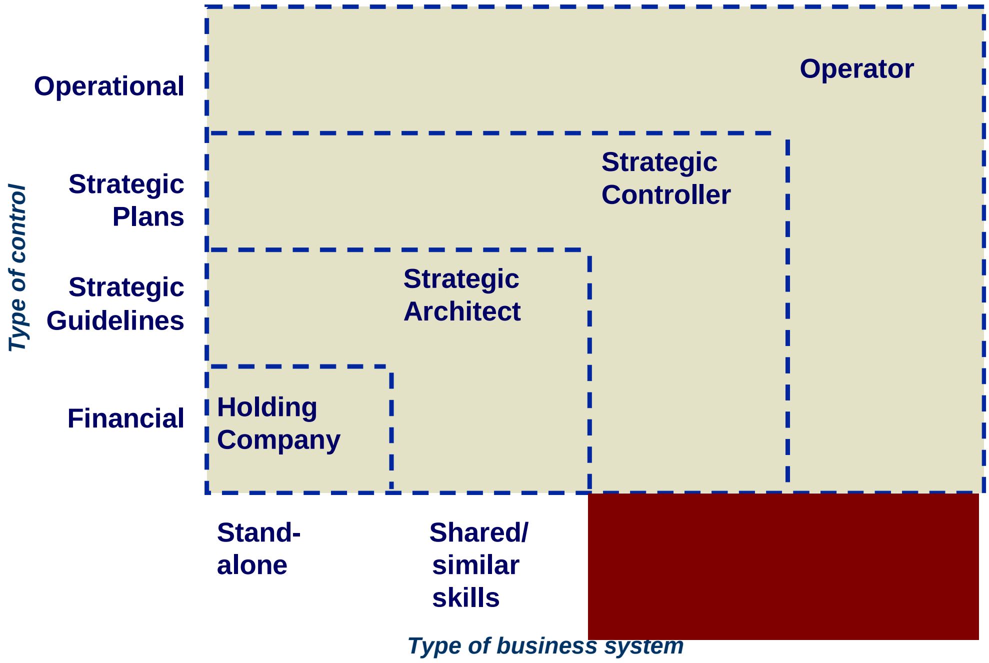

Figure 5. Introducing shared service centres implies a shift in type of business system (model original McKinsey).

The strategic question is whether introducing a set of shared service centres as an infrastructure for business unit, respectively the introduction of the platform organization will protect the corporation from hostile break ups, as e.g. pursued by private capital investors, thus increasing the going-concern value of the company, or whether such a move reduces the break-up or liquidation value of the corporation. No general answer is available to this question, those involved with a specific corporation, executive board, supervisory board, share holders will have to answer this question on a case by case basis.

The second issue is that introducing the concept of the platform organization implies that the executive board has to manage two portfolios: a portfolio of (virtual) business units and a portfolio of shared service centres. The latter may be eligible or not for outsourcing, or even it may be considered that some of these shared service centre offer their services to third parties. The main strategic advantage of these two portfolios is that it is possible to reconcile different paces of changes in markets and technologies. E.g., some years ago a European manufacturer of subsystems for lighting systems had to reconcile three different paces of market developments for its submarkets (consumer, institutional and professional), in terms of volume, distribution, price erosion, competitors, all three of them had to be served by the same departments for development, purchasing, manufacturing and sales support. Introducing the concept of the platform organization, with purchasing, development, manufacturing, logistics and sales support as the platforms, allowed this company to maximize each of these, make changes in each of the platforms and product-market to their own needs and thus creating a strategic flexibility at corporate level.

A third strategic issue is that shared service centres can be used tactically in the strategy whether to outsource or not. After an initial spur for outsourcing, this phenomenon has slowed down recently. Outsourcing corporations have taken a second look at the balance of benefits and costs with respect to outsourcing, after increasing prices, vendor lock in, switching costs, loss of innovation power and loss of negotiating power. The objective of outsourcing is not to have lower prices on those services and subassemblies outsourced to third parties. The objective of outsourcing is to increase return on (own) investments, *whilst remaining in control over the economic system of the corporation*. To which can be added: to safeguard external control with respect to the manoeuvrability of the corporation. Shared service centres are used, e.g. by Unilever, to built internal capabilities, to prune processes, to benchmark the performance of shared service centres against independent service firms, thus not only increasing negotiating power over prices, but even more to be able to write better contracts with fewer risks. Shared service centres are an intermediate step for a company to appropriate as much as possible of the benefits of standardization and modularization of processes and products compared to outsourcing non-standardized and non-modularized processes and products to third parties (Sako, 2003). Also, to maintain a portfolio of shared service centres, apart from other non-core activities allows the executive to avoid the corporation becoming too transparent for their competitors, by hiding the real sources of profit for those competitors.

Summary

Shared service centres have many benefits, and from an economic viewpoint are be undeniable. In terms of human relations they will remain a challenge for executives and management. It is tempting to concentrate on getting the details, processes, IT, standards right but in doing so only, executives and managers will miss the larger picture and thus will fail to set proper conditions for the organization to be successful with shared service centres. Lists of operational do's and don'ts can be written, see sidebar. More attention should be paid to a number of requirements at board level with respect to working with shared service centres. First, those boards which see the deployment of shared service centres as part of the ongoing process of unbundling of firms and transactions in the market are more successful in getting the benefits and an effective change process compared to those boards which see shared service centres only as a tool for efficiency. The same goes for those boards that see shared service centres as one of the new building blocs or modules of the modern firm. Board that subsequently see shared service centres also as possible pawns in the coming new power game in their industry, due to unbundling, outsourcing and networking are likely to make better strategic decisions. Boards that view shared service centres from the perspective of a new business model are more likely to adapt effectively their management development to working with shared service centres, compared to those boards that don't see the change in the business model. Accordingly such board are more likely to understand their new role and thus are more likely to be effective in leading the change process (and to survive personally).

The CEO quoted earlier in this article, on when things would get back to normal, after going through the thinking reported in this article, concluded: the old organization forms will not return, we need to concentrate on the future.

Sidebar: a number of—operataional—do's and don'ts with respect to shared services centres.

- Do specify processes in modules, in order to understand which modules can be transferred to SSC's and which not
  - Performance management needs to be at multiple points in processes
  - Issue: process specification is time consuming and prone to errors

- Interoperability (semantic standardization + IT standards) needs to be imposed on the organisation top down
  - Issue: often this is driven by the choice of a computer program instead of business requirements

- Business units need to understand what (spending on) specific services (IT, HR, etc.) contribute to their business in order to make allocation decisions
  - Issue: often not known, no attention is paid to this because the operational motive is to save costs

- SSC must first concentrate on delivering required services & quality, next to cost reductions
  - Issue: often cost reduction has priority, limiting business units in their market/customer responsiveness, thus eroding the reliability of the shared service centre

- SSC need Activity Based Costing in order to confront BU's with integral costs of their requirements
- Managers of business units not trusting the capabilities and quality of services of SSC
  - Holding back processes / duplicating processes
  - Sabotage of ssc's
  - Establish new system of internal governance and its internalization prior to implementing SSC

- Don't let managers of ssc's be overbearing on business managers and pushing services

- Don't label a SSC with a wrong or unclear label, e.g. SSC being labeled as a division, resulting in decoupled processes for target setting and resource allocation

- Don't leave the decision whether the services of a ssc are mandatory to the business to the business units or SSC.

- Don't let the decision on who decides the budget of a ssc, who decides on the scope of its services, transfer prices to the SSC and or the business units

- Don't let service level agreement being used as arms length relations, don't spend too much time on SLA's

- Avoid loss of expertise in business units on e.g. IT, which is needed to be a professional customer of the SSS

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