Creating a Shared Services Centre in Accounting & Finance for the Sawridge Group of Companies

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Abstract

The Sawridge group of companies was founded in 1972. The group currently operates five full service hotels and several other retail and real estate businesses in Alberta, Canada. Sawridge's five year strategic plan charts a course of aggressive growth in the hospitality sector. This may be by acquisition of properties or by creating amalgamations and or mergers with existing industry partners.

The current organization structure of the group is functional with the hospitality division organized geographically. As common in the hospitality industry with full service hotels, the Accounting and Finance function is also managed geographically. However, Sawridge is facing challenges in this function with the rapid growth in the company. The lack of standard policies and procedures, issues with internal controls, lack of trained professionals in this specialized area are some of the current issues. These have also been highlighted by the auditors in during annual audits. As a result the company has decided to centralize the Finance and Accounting function at its head office in Edmonton, Alberta.

The purpose of the project was to research the organizational structures and designs available, how a centralized structure would benefit Sawridge and how this change can be best implemented within the organization.

Research suggests that there are many advantages to be derived from a centralized structure or in other words creating a "shared service centre". These advantages are directly linked to what Sawridge hopes to achieve i.e. standardize policies and procedures, obtain access to finance professionals, assist in future expansion and also save costs by downsizing accounting departments in the different locations.

This initiative will bring change to the organization. It is important that this change is managed in a very effective way, to ensure its success. Kotter's 8-step change model sets out a very systematic way of leading change in an organization. It is recommended that Sawridge adopt this method to ensure that the change is implemented effectively and is retained. This model also looks at creating a culture where employees see change as a necessity in going forward. With globalization and today's dynamic environment, change is an essential part of organizational development.

The findings are considered significant as they reflect actual situations with both advantages and challenges faced in centralization.

Table of Contents

Introduction

Organizational structure is the formal and informal framework of policies and rules, within which an organization arranges its lines of authority and communications, and allocates rights and duties. Organizational structure determines the manner and extent to which roles, power, and responsibilities are delegated, controlled, and coordinated, and how information flows between levels of management. This structure depends entirely on the organization's objectives and the strategy chosen to achieve them.

The Sawridge Group of Companies was founded by the Sawridge Cree Indian Band of Slave Lake, Alberta. The first enterprise was the construction of a hotel at Sawridge Band's ancestral home, Slave Lake, in 1972. Ten years later, a parcel of land was acquired from Parks Canada and the tradition continued with the construction of a second hotel in Jasper National Park. The Sawridge Group of Companies now consists of various real estate holdings, retail and service businesses and additional 3 hotels, namely Fort McMurray, Peace River and Edmonton.

With 35 years of success in the Hospitality sector, Sawridge has gained valuable industry experience and has developed a strong team of management and supervisory personnel. With a total of 800 guest rooms, each property is complemented by a conference center, a choice in food and beverage facilities, lounge and fitness facilities. The group employs an average of 750 individuals depending on the season.

Corporately, the company is diverse with operating businesses in the hospitality, real estate, retail and service sectors. Sawridge's five year strategic plan charts a course of aggressive growth in the hospitality sector. This growth will be Brand driven in proven markets preferably in a joint venture with industry partners.

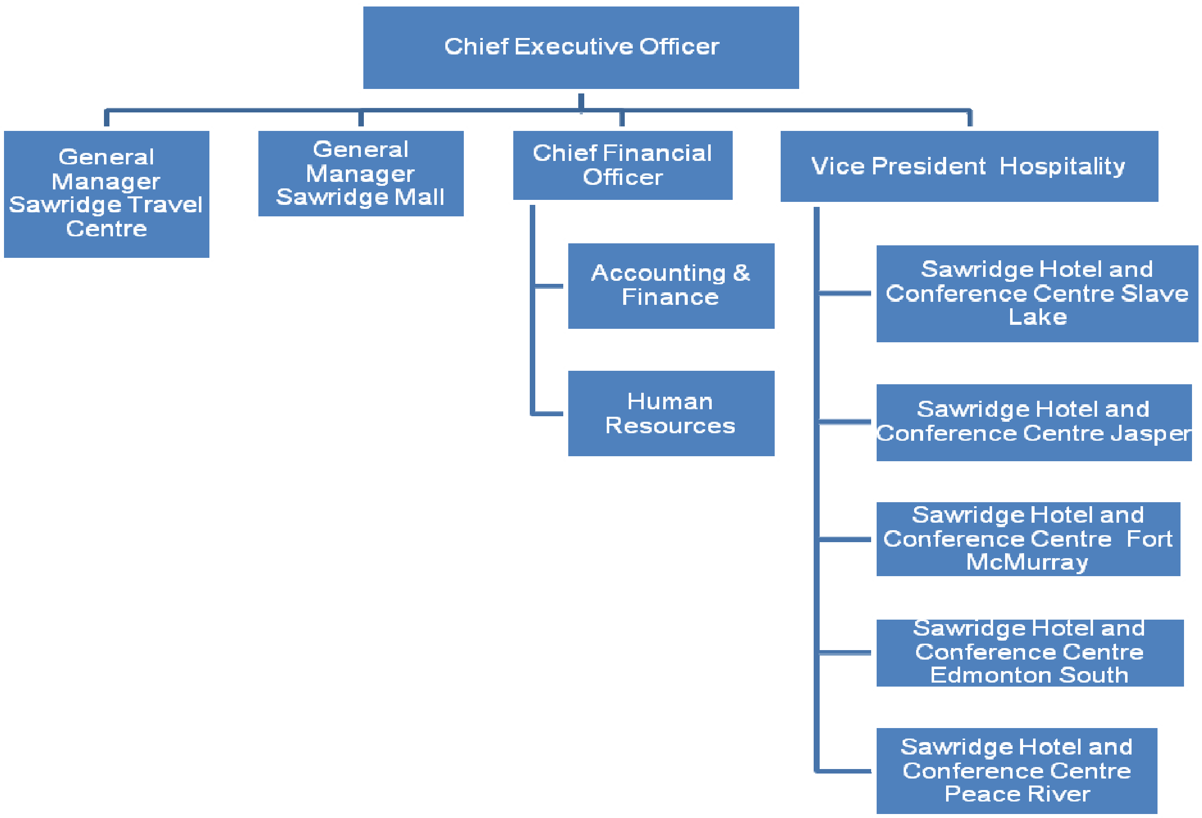
To facilitate this growth Sawridge is embarking on centralizing some vital functions of the organization. The main centralization project involves the Accounting and Finance department. The following functions are part of Accounting and Finance.

- Corporate Accounting – involves consolidations and preparation of financial statements and is done centrally at head office
- Monthly Accounting at property level
- Treasury – is also centrally handled at head office.
- Payroll
- Accounts payable
- Accounts receivable

As a first step towards centralization the organization centralized the payroll function in 2009.

Figure 1 below illustrates the current organization structure at Sawridge.

Figure 1: Sawridge Organization Structure- Current



The hotel accounting and finance activities with the exception of payroll are still handled locally at the hotel properties. The majority of accounting for other parts of the organization is handled corporately at Head Office in the Accounting and Finance Department.

The proposed centralization will result in the following activities migrating to the head office Accounting and Finance department.

- Payroll – already completed
- General Accounting
- Accounts Payable

At the property level the current set up has the following positions in the Accounting function.

- Property Controller
- Accounts payable Clerk
- Accounts receivable clerk
- Cash Handlers
- Payroll clerks

The new proposed structure will eliminate two to three positions from these departments. As Sawridge operates full service hotels the requirement of a Property Controller will exist, however all other positions may be either eliminated or amalgamated. Currently the hotel controllers concentrate mainly on accounting; however in the new structure they will have the opportunity to get further involved in the hotel operations, which will assist them to obtain valuable experience to further their careers in the hospitality industry.

In the hospitality industry full-service hotels are defined as hotels that have from 250 rooms to more than 2,000 rooms; these establishments provide sleeping rooms, operate food and beverage outlets, provide catering functions and meeting room rentals, and offer gift shops, valet laundry, health workout facilities, bellmen, a concierge, and other services and amenities that are typically included in larger hotels. A wide range of hotels are included in the full-service category, such as corporate hotels, airport hotels, suburban hotels, convention hotels, and resorts. Because of the wide range of activities and the large amounts of revenues and profits generated, most full-service hotels have accounting departments in the hotel to take care of all the accounting responsibilities.

In contrast smaller hotels and select-service hotels do not offer their guests such a wide range of amenities and services, they do not require an onsite accounting department. Their accounting functions are coordinated by a regional or corporate accounting structure, which includes a centralized accounting department that handles the accounting activities of the individual hotels. These hotels provide information daily to the corporate accounting office, which then prepares reports and information and sends them back to the individual hotels for their use and review.

Sawridge, being a medium sized company currently operating in the province of Alberta, Canada, has chosen to adopt the latter, as the main purpose is to standardize processes whilst reducing costs which will facilitate expansion mainly through acquisition.

It is evident these changes will bring about immense changes within the organization; however the organization sees this as necessary to go forward.

According to Cathy A. Enz in her article Organizational Architectures for the 21st Century: the Redesign of Hospitality Firms, the hospitality industry has become increasingly globalized, hospitality corporations have gone through fundamental organizational restructuring to meet challenges of expansion. An efficient structure has the ability to maximize a company's survival and growth. Most hospitality corporations now operate with few corporate layers in an attempt to narrow the distance between executives/ managers and employees. Due to the differences in local cultural and commercial practices, hotel management in different geographic locations is given the responsibility of operational decision making and quality control. The corporate headquarters are normally responsible for strategic development, finance, marketing, legal affairs and human resources.

The accounting operations of chain restaurants are similar to the accounting operations of smaller hotels. A regional or corporate accounting office provides the accounting services for each individual restaurant. It is the responsibility of each restaurant to provide the daily operating information to the corporate accounting office, which then prepares the necessary accounting statements and operating information for the restaurant. Independent operators of small hotels and individually owned restaurants will either do their own accounting or hire an outside accounting company to handle all accounting requirements and to prepare financial reports.

Further, technological development in the industry has encouraged organizations in the industry to develop structures in response to their information requirements. Enhanced communication has made it possible to reengineer processes and made it possible to decentralize decision making while retaining centralized control.

Centralization, or shared services, enables businesses to implement a standard or uniform off-the-shelf software package that can be used by all of their site locations. It creates a standard global chart of accounts, implements standard global processes, and offers centrally controlled procurement, as well as shared services. Another key advantage is the added degree of control available to the operating user at the shared service centre. Because the entire database is in one central location, the user has access to any site's data. He or she can study it in "granular" form to find specific details, such as salary expenditures in the Slave Lake hotel for the month of July.

Some of the advantages that Sawridge intends to realize through this activity in no particular order are

- Standardization of policies and procedures
- Downsizing staff for a cost savings (i.e., downsizing not necessarily the advantage, rather the savings)
- Creation of a centre of excellence
- Increased flexibility that would assist in expansion through acquisition

Research Objective

The Sawridge Group of companies is growing rapidly.

Given this scenario the research questions addressed would be

1. What organization structures currently exist, that Sawridge may adopt? What organization structure is best suited for the Sawridge Group of Companies in the current scenario?
2. What does "Shared Services" mean? What are its advantages and short falls?
3. How will a centralized structure in accounting and finance improve effectiveness and efficiency within the organization?
4. How can this change be effectively implemented with consideration to the main stakeholders?

Research Design

The research design utilized a two part approach to collecting information and developing recommendations regarding this project:

- The literature review, an essential part of the research design was gathered by reviewing past work in the area of organizational structure and design, shared services and change management. Both computer-based and manual searches of published research articles were conducted. Previous textbooks from the Athabasca University MBA curriculum were reviewed. Business literature was reviewed and Sage and Emerald databases were used, to identify articles, journals.
- Informal sources being former colleagues employed in organizations that have successfully implemented shared service centres and also a professional in the hospitality sector. Informal conversations were conducted to gather information from these individuals.

Organizational Structure

In his book, Structure in Fives: Designing Effective Organizations, Henry Mintzberg opens with a question: "What could be more important to the effective functioning of our organizations . . . than the design of their structures?" (Mintzberg, 1993, v). The question is asked rhetorically; it is a formative challenge for all leaders. The one thing hospital managers, entrepreneurs, municipal administrators, corporate chief executive officers and not-for-profit executives all have in common is the challenge of managing people. The visions, ideas and assets of any organization are worth very little unless the leaders can figure out how to mobilize people in an efficient and effective manner to serve the potential inherent in their visions, ideas and assets.

Although there are vast numbers of books and periodicals dedicated to elucidating the ways in which organizations get things done – how individuals and groups interact to facilitate strategy, how decisions are made and how organizations evolve over time – this diverse, complicated literature is in many respects inconclusive. Valuable information is dispersed and tangled across a wide variety of subjects: strategic management, organizational theory, anthropology, sociology, psychology, social network theory, computer science, biology, etc. Further, this literature is changing rapidly, as new models and ideas emerge within each of these areas.

Organizational analysis has been going on for millennia. The classical notion of organizational design, upheld by social theorists from Plato to Max Weber, is that there is a single best way for human organizations to be structured. Yet most of us have learned through our personal experience that social organizations vary considerably in their structural attributes. The objective of organizational theory has been to understand what determines these variations. Are some organizations simply less perfect than others, or are different designs better for different situations?

For at least the past four hundred years, we in the Western world have been developing mechanistic, linear systems to help manage our work. We have applied the "command and control" model to the design of virtually every aspect of society – our legal system, our financial procedures, our management theory and the design of our organizations.

"We manage by separating things into parts, we believe that influence occurs as a direct result of force exerted from one person to another, we engage in complex planning for a world that we keep expecting to be predictable and we search continually for better methods of objectively measuring and perceiving the world. (Wheatley, 1999:7)"

With specific reference to the design of organizations, many managers have been operating with this machine model to design linear, controlled organizations. The traditional "machine bureaucracy," as Mintzberg describes it in Structure in Fives: Designing Effective Organizations embodies this thinking. This historical perspective of machine models has dominated our organizational thinking until very recently.

With a deepening understanding of how things really work in the real world, academics, scientists, business people and leaders of all sorts are beginning to move away from linear, "command and control" models and apply new approaches that reflect broader, more systemic ideas about organizational design, as structures such as matrix, web, pizza, adhocracy, cell, networked, and virtual, show (Morgan 1998; Mintzberg 1993; Wheatley 1999; Zimmerman et al. 1998). These approaches are specific to the context of each organization and each phase in the life cycle of an organization. Context-specific design takes into account the environment and the strategic objectives of an organization, leading to the emergence of new models. For the past fifty years, most actively in the past thirty, there has been a massive amount of thinking applied to the issues that affect design.

Organizational structure is mainly a hierarchical concept. An organization may be structured in many different ways and styles depending on its objectives. Structure determines the modes in which the organization operates and performs. It allocates responsibilities for different functions and processes to different entities.

An effective organizational structure facilitates working relationships between various entities and improves working efficiency within the organization. A successful structure may be attributable to skill exercised in designing the system or to the quality of management practiced during operations or both.

Effective organizational structures are characterized by their simplicity, flexibility, reliability, economy and acceptability.

Simplicity in design eases the task of communicating information throughout the organization. This can be achieved by providing precise definitions and outlining specific tasks for each area in the organization. Organizations become complex due to sheer size and nature of operations, therefore simplicity in structure assists in maintaining both effectiveness and efficiency.

Internal and external environments evolve very rapidly in the current business world. Therefore, flexibility is a priority in meeting these changes in the marketplace. Flexibility also eases change management.

Reliability brings about consistency in operations and therefore is an important component in organizational structure. For example, structure should provide for coverage or assistance for critical skills, thereby maintaining consistency in providing service.

An effective system may not necessarily be the most economical. However, if the cost of the storekeeping was greater than the potential savings from the particular degree of control the structure would not be efficient.

Organization structure may be well designed; however implementation may not be successful if it is not accepted by the employees who are subjects. Non acceptance will result in the structure being changed continuously and finally failing.

The following are several standard organizational structures that organizations may adopt.

- Functional Structure
- Divisional Structure
- Geographical Structure

- Horizontal Structure
- Matrix Structure
- Hybrid Structure

The Sawridge Group adopts a mainly functional organization structure. The hospitality division has a geographical structure to facilitate effective management.

Functional organizational structure

An organization needs structure for achieving common goals – the functional model is structured hierarchically with a strong concept of subordination. Most companies in the modern era rely upon this functional/hierarchical model.

In the functional organization, each job becomes the focus point. Similar function-based jobs done by the employees are put together in silos in the functional structured based organizational. Specialization is centralized and employees who are doing these specialized jobs are clustered, thus each unique department is born.

The functional areas will have personnel with varied skills, but those skills are grouped on their similarities. The people who have identical skills can be grouped easily and they can be placed in separate units and an aforesaid organizational structure is formed. The ultimate controlling authority coordinates with all levels which are commonly called the top management. When an organization handles a solitary product, the aforementioned functional organizational structure is most suited and most frequently used.

In such a model, the purchasing function concentrates on purchasing activities. Human Resources personnel handle the hiring, training, and firing activities. The accounting department takes care of financial activities. Manufacturing focuses on rolling out the finished product. The sales team takes the role of promoting the finished product in the marketplace. Marketing activities market the product with a long range goal of staying competitive in the market.

The organizational structure with a functional focus tries to allocate the available people according to their roles, forming what is referred to as a functional department. Each department usually has a department head with the title of department manager, or something similar. At times, these department heads may be given a title of Director, if the board gives their function such a representation.

Imagine that a functional organizational structure operates in silos, due to the controlling nature used in such structures. When project management is necessary, each project is performed inside a single departmental unit. In the necessity of drawing information or efforts from other departments occurs for project management, it is done by requesting assistance from the other unit. The procedure for getting this cooperation between departments is to route the request through the head of the unit to the other head of the other unit from whom the information is sought. In other situations, the communication flow is restricted inside the functionally silo of the department.

Functional organizational structures are ideal for organizations having a lone product or a cluster of products which can easily group under a single head. The benefits in utilizing a structure which relies upon the functional model are:

- the chain of command is linear and sound
- The human resource abilities are constantly nurtured by concentrated tutoring, leadership, and guidance
- Professional similarities between the organizational participants in each of the different functional offices
- The development of professional expertise attained by clustering specialists in the present function as a single unit
- Provides an easy path for the employees to grow within the organization sideways as well as upwards in the organizational tree

The drawbacks of the functional organizational structure are

- The decision making process is bureaucratic and far from expedient
- The flow of communication and synchronization between functional departments is complicated
- The speed of resolving problem is slow and inefficient
- Grouping based on functions results in a lack of broader view from employees resulting in narrowed vision of overall organizational objective

Literature Review

Organizational Structure & Design

In *Designing Your Organization* (2007:1), Kates and Galbraith define organizational design in the following way:

"*Organizational design* is the deliberate process of configuring structures, processes, reward systems, and people practices to create an effective organization capable of achieving the business strategy. The organization is not an end to itself; it is simply a vehicle for accomplishing the strategic tasks of the business. It is an invisible construct used to harness and direct the energy of the people who do the work."

This is particularly true for Sawridge at present; the company is gradually changing its structure to facilitate future growth. The new structure will be used as vehicle for accomplishing strategic goals of the business.

Kates and Galbraith argue that an organization's structure is too often a barrier to effective performance.

"Structure is an entity (such as an organization) made up of elements or parts (such as people, resources, aspirations, market trends, levels of competence, reward systems, departmental mandates, and so on) that impact each other by the relationship they form. A structural relationship is one in which the various parts act upon each other, and consequently generate particular types of behaviour." (Fritz, 1996:4)

In his classic *Corporate Tides*, Fritz points out that, in practice, organizational structures are rarely designed in a deliberate manner. Small structures grow into larger ones and individual units become the focus of managerial power. Fritz says that (Fritz, 1996:5): 'Departments and divisions become entrenched as power systems.' Any structural change is likely to meet resistance from these power systems.

Fritz also argues that organizations are structured either to *advance* or to *oscillate*. Advancement is a positive move from one state to another that acts as a foundation for further advances. Fundamental to structural advancement is the concept of *resolution* when an outcome is achieved and a particular problem is resolved. According to Fritz (1996:6), management in an organization that is structured to advance coordinate 'individual acts into an organizational tapestry of effective strategy.' When all the individuals in this utopian organization are acting together, the result is synergy, allowing the achievement of 'enormous feats.'

The alternative is structural oscillation. Fritz (1996:6) explains this: 'Oscillating behaviour is that which moves from one place to another, but then moves back towards its original position.' So many organizations set out on some change program, full of enthusiasm and energy. But, six months later, the enthusiasm has evaporated and the program peters out leaving very little changed.

Fritz's views on advancement and oscillation may be true in the short term, however in many cases organizations go through cycles where they may change their structure from time to time to ensure that they are sustainable and remain market leaders.

Labovitz and Rosansky (1997:7) consider that senior managers can achieve alignment to ensure advancement through:

- Carefully crafting and articulating the essence of their business and determining the Main Thing.
- Defining a few critical strategic goals and imperatives and deploying them throughout their organizations.
- Tying performance measures and metrics to those goals.
- Linking those measures to a system of rewards and recognition
- Personally reviewing the performance of their people to ensure the goals are met.

Labovitz and Rosansky criticize traditional structures of organization that are based on the notion of breaking up a managerial problem into pieces: departments and divisions. As they point out (1997:8): "Psychologists have long recognized that human beings like people who are like themselves and tend to reject people who are different from them. Yet organizations continue to create differences between people in the interest of efficiency. Line versus staff, management versus labour, field versus corporate, international versus domestic, East versus West, accounting versus sales - the list goes on. No wonder it's so hard to focus people around common goals when they are so different from each other simply by virtue of what they do and where they do it. Specialization and expertise can be a wedge that drives people further apart and makes it difficult for them to work together."

Roberts (2004:32) argues that whereas strategic choice and organizational design are immensely complex - indeed, 'mind bogglingly complicated' - there is an underlying logic based on the concept of 'fit':

"Certain strategies and organizational designs do fit one another and the environment, and thus produce good performance, and others do not. Moreover, there are frequently recognizable, understandable, and predictable relations among the environmental features and the choice variables of strategy and organization that determine which constellations of choices will do well and which are less likely to do so. These relations arise for both technological and behavioural reasons. Recognizing these relations and understanding their implications can guide the design problem."

With globalization and social changes companies are calling for greater agility, flexibility and innovation. In their article Designing Organizations that are Built to Change, Worley and Lawler talk about how organizations need to be in touch with the market and other environmental demands to define and redefine continually a series of short-term competitive advantages. There is a need to think constantly about potential alternative futures, creating a variety of short and long term scenarios. This means that built to change companies must adopt flexible and reconfigurable organizational structures.

In Strategy and Structure Alfred Chandler has argued that a firm’s structure is dictated by its chosen strategy. “Unless structure follows strategy, inefficiency results. First, a company should establish a strategy and then seek to create the structure appropriate to achieving it” (1962:36). Only after an organization figures out what it wants to be, should it then consider how to structure itself to serve the strategy. On the surface this sounds rational and appropriate: you have to know where you are going before you choose the mode of transportation.

Since 1962 many management professionals have challenged Chandler’s position, claiming that strategy and structure are actually related partners in a process (Lawrence and Lorsch 1967; Mintzberg 1991; Morgan 1998; Quinn 1977). Structure, these authors suggest, is a critical part of the strategic process. For many, structure is the most important strategic tool available to a manager, especially for organizations that operate in dynamic environments where multiple variables are in play on a constant basis, or where the focus is on innovation. Where fluid, informed problem solving is necessary to respond to changes in the marketplace, strategy and structure must act as partners in the delivery of successful results – they inform each other (see Bartlett and Ghoshal 1989; Mintzberg and Quinn 1996). In Strategy Safari (1993:35), Mintzberg writes that "structure follows strategy, the way the left foot follows the right in walking. In effect, the development of strategy and the design of structure both support the organization, as well as each other. Each always precedes the other and follows it, except when the two move together, as the organization jumps to a new position. Strategy formulation is an integrated system, not an arbitrary sequence."

The concept of "Shared Services"

Organization structures have evolved significantly since the 1900's. Initially centralization and standardization offered great economies of scale. However, its inability to address differentiated markets effectively and its slowness to react to customer behaviour swung the pendulum towards more decentralized structures.

In an attempt to reduce costs and improve quality and responsiveness, US firms were the first to attempt to create Shared Services.

The private sector has been moving towards shared services since the beginning of the 1980's. Large organizations such as Ford, General Electric, and British Petroleum are operating them with great success. According to the English Institute of Chartered Accountants more than 30% of US Fortune 500 companies have implemented this concept and are reporting cost savings in their general accounting functions of up to 46%.

As organizations expanded, bureaucracy and administrative burdens increased. As administrative and support functions are often not exposed to customer needs and market forces daily, Shared Services meant a transformation of these functions into much more flexible, responsive, effective and customer-oriented teams.

The main advantage of shared services lies in the change in activities and roles different departments play. Performing homogenous tasks in such a function enables economies of scale and significant reduction in costs.

The concept refers to the provision of a service by one part of an organization or group where that service has previously been found in more than one part of the organization or group. The funding and resourcing of the service is shared and the providing department effectively becomes an internal service provider.

One purpose of shared services is the convergence and streamlining of an organization's functions to ensure that they deliver to the organizations the services required of them most effectively and efficiently. A key success of this model is that it enables economies of scale within the function and can enable multi function working where there is potential to create synergies. Shared Services are often common in back office functions such as Human Resources and Accounting and Finance.

Another success lies in its ability to improve quality through standardization. Continuous repeated processes often reduce errors and saved time.

“SAP”, a market technology leader in business software solutions, identifies four major usage models of Shared Services. They are

- Basic Model
- Market Place Model
- Advanced Market Place Model
- Independent Business Model.

At this point Sawridge is looking at implementing the Basic Model which reduces cost and standardizes processes.

In 2001 the Shared Services Network together with HCL Axon undertook to conduct one of the largest most detailed research projects on shared service centres. This research primarily focused in Europe and North America and almost 200 blue chip organizations contributed their perspectives, learnings and best practices to this study. The most important learning from this study was that organizations have only just begun to realize the benefit stream emanating from shared services and that achieving those further benefit areas require a much broader approach to governance, charging policies, revenue generation and sourcing and for those corporations who are willing to take those steps the rewards are handsome.

The study found that shared service strategies were prevalent amongst Fortune and European 500 companies. The study found that 90% of these companies were planning to or were in the process of implementing a shared services strategy.

There were two main principal strategies in use for creating a shared service centre.

- Aggressive- Create a stand-alone business unit (internal or external), that must pay for itself through charging its services back to the business or to new external clients. That shared service business unit has full autonomy over what it can charge, but so do the internal clients in what they wish to buy. If the business units are unhappy with what they obtain they have complete freedom to look externally for a better deal. Approximately 15% of the companies followed this approach.
- Incremental- The shared service centre is created, typically with the expectation of a lower cost than previously when it was fragmented throughout the business, but other than its co-location is broadly unchanged. It does not form a separate entity, and the business units have no choice but to purchase their services, which are charged to that business as an allocation or flat fee. Approximately 85% of the companies followed this approach.

Sawridge will follow the ‘incremental’ strategy explained above.

The study identified the following as the overall drivers for pursuing a Shared Services Strategy.

- Reduce overall costs – 78% of participants
- Improve service standards – 64% of participants
- Focus on core business – 44 % of participants
- New Technology – 29% of participants
- Control cost increases – 28% of participants
- Merger/ Acquisitions – 11% of participants
- Generate new revenue – 8% of participants
- Other – 8% of participants
- E-commerce- 5% of participants
- Customer pleasure – 3% of participants

The study found that approximately 81% of the organizations studied were implementing just one centre. Further, 5% supported all global operations mostly in one continent. Even though many organizations expressed a desire to break loose from corporate culture and find a location mat maximizes cost savings, the reality was that the primary influences on the locations actually selected were availability of space and a workforce with the right skills. Therefore, approximately 73% selected existing buildings to create the shared service centres.

The study also found that almost 20% fully utilized existing staff however; two thirds of the organizations studied used less than 30% of their existing staff. Further, on average around 45% of the total support staff were working in shared service centres. The trend was expected to continue with 70% of total support staff working in shared service centres by 2004.

The finance function was the overwhelming choice for a shared service centre with 92% of the participants creating this shared service centre. Overall 21 specific functional areas were identified, Travel and expenses, Payroll, Human Resources, Information Technology, Procurements, Facilities Management being some of the more important ones.

Whilst reducing costs and improving service standards were the prime drivers of creating these centres, very few organizations had in fact put these goals to test – by giving their internal customers the lever of choice.

For four out of five companies that participated in this study cost reduction was the primary driver. However, almost 40% did not know what the primary driver was, as no formal business case was developed. Only 1% of companies achieved more than 10% above their original business case expectations. The vast majority got what they set out to achieve, and about one-in-five got less.

The planned implementation for a shared service strategy varied from just 3 months to over 48 months. Heavily resourced and highly focused implementation was more likely to get benefits flowing on time. Almost 40% of implementations over-run, with longer planned implementations being more likely to over-run than shorter ones.

Measuring the effectiveness of a centralized structure

Measuring organizational effectiveness is a very important part of an organization's existence and the outcomes it seeks to achieve.

In "Essentials of Organization Theory and Design," Daft describes the effectiveness as the degree to which an organization realizes its goals and efficiency as the amount of resources used to produce a unit of product.

As beauty is in the eyes of the beholder, effectiveness is in the eyes of the stakeholders. However, organizations have to deal with stakeholders who have different priorities, therefore could be a very challenging task.

Traditionally, effectiveness was based on specific contingencies.

- The resource based approach measures effectiveness based on observing the beginning of the process and evaluating whether the organization effectively obtains resources necessary for high performance.
- The internal process approach measures effectiveness based on the health and effectiveness of both the people and the systems in the organization.
- The goals approach looks at product and service outputs similar to profits or customer satisfaction (Daft, 2007)

Even though the traditional approaches have something to offer they concentrate on only part of the issue.

A more recent stakeholder approach recognizes that effectiveness is a matter of perspective. The strength of this approach is that it takes a broader view of effectiveness and examines the environment as well as within the organization.

The competing values approach attempts to cope with the issue of tradeoffs by making them manifest. Leaders are asked to make some strategic choices:

- Will the organization's main focus be internal or external?
- Is the structure designed primarily for flexibility or control? (Daft, 2007)

The choices managers make place the organization within a set of four models, each of which has a different emphasis on structure and focus, and a clarification of important goals and values.

Richard Field of the University of Alberta states that structure concerns more than the division of labour or the boxes on the organization chart. It is also about the reporting relationships between organizational members. These are the lines connecting the boxes, rules and regulations about how the work is performed, and whether organizational decisions are made at the top of the organization or lower down. In order to compare one organization's structure with that of another or to study the effects of structure on organizational performance, we need to have consistent ways to measure structure. Three important structure measures are complexity, formalization, and centralization.

Complexity refers to the number of separate parts in an organization's structure. The more tasks are divided among individuals and specialized, the more the organization is horizontally complex. As the vertical chain of command lengthens, more organizational layers are inserted between top management and production workers. The organization becomes more vertically complex. Vertical complexity is often also called the tallness of the organization. Organizations today are tending to move towards flatter organizations by eliminating whole levels of middle management. This downsizing increases the number of people supervised. Therefore the span of control increases for the managers that remain.

Formalization refers to the extent to which job activity is defined and controlled by rules. The more rules there are about how to do the work and how decisions are made, the more an organization is formalized. Police departments are often much formalized as the activities of officers are strictly controlled by rules that cover almost every situation that may arise. A campus radio station, on the other hand, may be much less formal, having only a few rules governing the broadcasting behaviour of station members.

Centralization concerns where in the organization decisions are made. When decision-making is reserved for top management, vertical centralization is high. Vertical centralization is low when lower-level employees in the hierarchy are given decision-making authority. Horizontal decentralization occurs when workers in many different organizational units are allowed to make decisions without referring to a more central authority.

These structural measures of complexity, centralization, and formalization may be combined into the two broad and descriptive categories of mechanistic and organic. Mechanistic organizations were so named because they can be seen to operate as machines. They are characterized by highly specialized tasks that tend to be rigidly defined, have hierarchical authority and control, and communications that primarily take the form of instructions and decisions issued by superiors to subordinates. Communication is mostly vertical from the top down. Further, loyalty to the organization and obedience to superiors is a condition of membership. Mechanistic organizations tend to be complex, formalized, and centralized. An automobile factory that uses a production line technology is a good example of an organization with a mechanistic structure.

Organic organizations act more as living things. They have tasks that are more interdependent and that are continually adjusted and redefined through interaction with organizational members. An advertising agency such as Saatchi & Saatchi needs to be flexible in dealing with customers and in creating concepts for television commercials and print advertisements. In an organic organization, control depends less on formal job position and more on expertise relevant to the particular problem being considered. Communication is both vertical (up and down the hierarchy) and horizontal (across different departments of the organization) depending on where the needed information resides. These communications primarily take the form of information and advice. Commitment in the organic organization is to the organization's tasks and goals. Members accept general responsibility for task accomplishment beyond their individual role definition. That is, they do not stick to a job description as a definition of the work they will do. Organic organizations tend to be simple, low in formalization, and decentralized. They adapt to and create change in their environments.

Change Management

The technical and cultural challenges of shared services are substantial and will not be overcome without visible executive sponsorship. Especially in an unintegrated business environment, executive leadership must be prepared to mandate consistency of finance programs and processes across the firm. Leadership must be able to clearly articulate the drivers behind a shared services initiative. These may include:

- finance becoming more of a strategic partner (and consequent increase in competitive advantage)
- elimination of duplicate resources (and consequent reduction in bottom-line costs),
- consistency of programs and services (and consequent ease of management reporting) and
- improved quality of services (and consequent improvement in employee satisfaction).

Having identified the critical drivers, executive management must understand the contribution that accounting and finance shared services can make, region by region, and be prepared to support and defend the strategic decision.

A change to the organization structure constitutes immense change within an organization. The strategic management of change is a critical task in organizations. In order to strategically manage change, managers must understand key competitive issues, structural options, and behavioural responses.

Dunphy and Stace present a contingency model of change that goes beyond the traditional Organizational Development (OD) model. The literature on Organizational development represents a prolific contribution to theories in organizational change. The OD model assumes that effective change is seen to proceed by small, incremental adjustments. It also sees effective change to be followed by widespread organizational participation to ensure consensus. However, this is often not true in the case of takeovers, mergers and closures. Sawridge experiences this first hand when acquiring new hotel properties. The process of integration is rapid and very top- down.

In Dunphy and Stance's contingency model, change approaches are placed into a typology based on two dimensions:

Type of change: Incremental <=> Transformative
Mode of change:Collaborative <=> Coercive

The typology is reproduced below.

Figure 2: A Typology of Change Strategies

	Incremental Change Strategies	**Transformational Change Strategies**
Collaborative Modes	*Type 1* Participative evolution	*Type 2* Charismatic transformation
Coercive Modes	*Type 3* Forced evolution	*Type 4* Dictatorial transformation

Source: Dunphy, D., & Stace, D. (1988). Transformational and coercive strategies for planned organizational change: Beyond the O.D. model. *Organization Studies, 9*(3), 327. Reproduced by permission of Sage Publications, www.sagepub.co.uk.

Looking at the above model Sawridge's acquisition activities can easily be placed in Type 4- Dictatorial transformation, where change is implemented using transformational change strategies and coercive modes.

Dunphy and Stace in the above article mention that a comprehensive change strategy should include both incremental and transformational change strategies, where they both work together in complementary rather than in conflict. It reconciles the views of two major and often opposing theoretical traditions in the organization behaviour area, as they apply to the management of organizational change. These are the 'tender minded' tradition of the 'human relations/human resource' theorists who's theories underlie the OD strategies and the ‘tough minded’ tradition of the pluralistic power perspective.

Looking at the above model and given that Sawridge is looking at implementing this change to a part of the organization; incremental change strategies using collaborative modes would be desirable. This falls in to Type 1-Participative Evolution.

Beer and Nohria discuss "hard" and "soft" approaches to change. The important issues discussed here are.

- Content - The content of the change can be measured by how the organization is different after the change has been implemented—this is the "what" of change. Is technology being upgraded? Is the organization being downsized or restructured in some way? Are there new initiatives to improve quality, efficiency, or customer service?
- Process -The process of the change is all about implementation—this is the "how" of change. Here we consider not whether downsizing was carried out but rather how the downsizing was carried out from a process standpoint.

In some cases, such as re-engineering and total quality management, the content and process components become somewhat blurred. However, it is still important in such initiatives to attempt to keep these aspects separate.

In “Leading change: Why transformation efforts fail,” Kotter describes eight errors managers make when attempting to lead change. In his 1996 book Leading Change, Kotter goes on to describe (Kotter,1996:16) several consequences that can arise from these errors:

- new strategies aren’t implemented well
- acquisitions don’t achieve expected synergies
- re-engineering takes too long and costs too much
- downsizing doesn’t get costs under control
- quality programs don’t deliver hoped-for results

These could clearly be very damaging to organizations.

Kurt Lewin (1951) developed one of the simplest models of change that has endured the test of time. This is a three step model.

- unfreezing
- changing
- refreezing

The Unfreezing stage is probably one of the more important stages to understand in the world of change we live in today. This stage is about getting ready to change. It involves getting to a point of understanding that change is necessary and getting ready to move away from our current comfort zone.

This first stage is about preparing ourselves, or others, before the change (and ideally creating a situation in which we want the change). The more we feel that change is necessary, the more urgent it is, the more motivated we are to make the change. With the deadline comes some sort of reward or punishment linked to the job. If there's no deadline, then the urge to change is lower than the need to change. There's much lower motivation to make a change and get on with it.

Unfreezing and getting motivated for the change is all about weighing up the 'pro's' and 'con's' and deciding if the 'pro's' outnumber the 'con's' before you take any action. This is the basis of what Kurt Lewin called the Force Field Analysis.

Kurt Lewin was aware that change is not an event, but rather a process. He called that process a transition. Transition is the inner movement or journey we make in reaction to a change. This second stage occurs as we make the changes that are needed.

People are 'unfrozen' and moving towards a new way of being.

That said this stage is often the hardest as people are unsure or even fearful. This is not an easy time as people are learning about the changes and need to be given time to understand and work with them. Support is really important here and can be in the form of training, coaching, and expecting mistakes as part of the process.

Using role models and allowing people to develop their own solutions also help to make the changes. It's also really useful to keep communicating a clear picture of the desired change and the benefits to people so they don't lose sight of where they are heading.

Kurt Lewin refers to the third stage as freezing although a lot of people refer to it as 'refreezing'. As the name suggests this stage is about establishing stability once the changes have been made. The changes are accepted and become the new norm. People form new relationships and become comfortable with their routines. This can take time.

In today’s world of change the next new change could happen in weeks or less. There is just no time to settle into comfortable routines. This rigidity of freezing does not fit with modern thinking about change being a continuous, sometimes chaotic process in which great flexibility is demanded.

Therefore popular thought has moved away from the concept of freezing. Instead, Company’s think about this final stage as being more flexible, similar to a milkshake or soft ice cream, in the current favourite flavour, rather than a rigid frozen block. This way 'Unfreezing' for the next change might be easier.

Given today's pace of change this is a reasonable criticism. But it might help to get in touch with what Kurt Lewin was actually saying. In 1947 he wrote:

A change towards a higher level of group performance is frequently short-lived, after a "shot in the arm", group life soon returns to the previous level. This indicates that it does not suffice to define the objective of planned change in group performance as the reaching of a different level. Permanency of the new level, or permanency for a desired period, should be included in the objective.
Kurt Lewin, "Frontiers of Group Dynamics", Human Relations, Volume 1, pp. 5-41

Lewin's concern is about reinforcing the change and ensuring that the desired change is accepted and maintained into the future. Without this people tend to go back to doing what they are used to doing. This is probably what Kurt Lewin meant by freezing - supporting the desired change to make sure it continues and is not lost.

In 1995 in his book Leading Change J Kotter introduced his Eight Step Change Model which is illustrated in page 23 below. Kotter's eight stages can be seen to parallel Letwin's three phases.

- Stages 1 to 3 are the "set-up" of change – unfreezing
- Stages 4 to 6 are the "roll-out" of change – changing
- Stages 7 and 8 accomplish the "follow-through" - refreezing

Kotter is particularly good on the avoidable mistakes commonly made when organizations try to bring about change:

- Writing a memo instead of lighting a fire. Kotter believes that at least half of failed change efforts bungle the first step - establishing a sense of urgency. Too often initiatives are launched by meetings or by the circulation of a consultant's report – more immediate methods are needed to establish urgency, get agreement on the problems, and start to build support for the idea of change.
- Talking too much and saying too little. There is a widespread tendency to under-communicate the change vision. Kotter believes most communication programs about change should be multiplied by a factor of ten. Every available channel should be used, and there should be no hesitation about repeating and reinforcing key messages. Action should be an integral part of this communication blitz – leading by example can be far more powerful than words (three examples Kotter gives are: spending dramatically more time with customers, cutting wasteful spending, or axing a pet project).
- Declaring victory too soon. While it is very important to achieve and celebrate early successes, organizational change is almost always a long haul – it is rare to achieve changed behaviour and embedded new practices inside three years. So change leaders need to be clear about the extent of change being aimed for and the real length of time such a transformation will take. Even more important is that the long term vision and its benefits are communicated clearly to staff, customers and stakeholders.

Figure 3- Kotter's Eight-Stage Process of Creating Major Change

1. **Establishing a Sense of Urgency**

   Examining the market and competitive realities
   Identifying and discussing crises, potential crises, or major opportunities

2. **Creating the Guiding Coalition**

   Putting together a group with enough power to lead the change
   Getting the group to work together like a team

3. **Developing a Vision and Strategy**

   Creating a vision to help direct the change effort
   Developing strategies for achieving that vision

4. **Communicating the Change Vision**

   Using every vehicle possible to constantly communicate the new vision and strategies
   Having the guiding coalition model the behaviour expected of employees

5. **Empowering Broad-Based Action**

   Getting rid of obstacles
   Changing systems or structures that undermine the change vision
   Encouraging risk taking and non-traditional ideas, activities, and actions

6. **Generating Short-Term Wins**

   Planning for visible improvements in performance, or "wins"
   Creating those wins
   Visibly recognizing and rewarding people who made the wins possible

7. **Consolidating Gains and Producing More Change**

   Using increased credibility to change all systems, structures, and policies that don't fit together and don't fit the transformation vision
   Hiring, promoting, and developing people who can implement the change vision
   Reinvigorating the process with new projects, themes, and change agents

8. **Anchoring New Approaches in the Culture**

   Creating better performance through customer- and productivity-oriented behaviour, more and better leadership, and more effective management

   Articulating the connections between new behaviours and organizational success
   Developing means to ensure leadership development and succession

Source: Kotter, J. (1996). Leading Change. Boston: Harvard Business School Press (p. 21).

- Looking for villains in all the wrong places. Kotter describes the all too familiar scenario where change initiatives begin with a witch-hunt – in a great many medium and large organizations, it is the middle management which finds itself scape-goated for all the ills associated with an untenable situation. It's important that change is not executed in a climate of blame and fear, and at the same time, that leaders at every level of the organization are actively involved in the unfreezing, changing and re-freezing process.

In the above model Kotter has clearly set out the different phases of implementing change successfully. At Sawridge, employees are aware of the upcoming changes. By centralizing some functions the company had already created a sense of urgency. Key players have also been identified and have been given the responsibility for certain areas. Employees are already aware of the vision of the centralized accounting functions. However, the organization needs to develop a comprehensive communication plan, which reaches the employees that are affected. The geographical diversity has often been a barrier to the development of such a communication strategy.

In *Essentials of Organization Theory & Design*, Daft notes that five elements are necessary for a successful organizational change. These include; allowance for creative thinking that generates ideas, a sense of urgency based on the need for the change, adoption of the proposed change, implementation when the new idea is actually used, and resources that are necessary to manage the change. “For a change to be successfully implemented, managers must make sure each element occurs in the organization. If one of the elements is missing, the change process will fail.” (Daft, 2001:136)

Daft asserts that at the beginning of the change sequence that includes the five elements listed above is either a need (related to a perceived problem) or an idea (related to internal creativity). A shift to systems thinking and the ability to create a successful change can be attributed to beginning with both a need and an idea. If the need is seen to come from the clients, desire for a more streamlined service system that is more holistic in nature and more effective, then the ideas will be the vehicle that drives the change if internal creativity is able to be fostered by management through the process. An idea is a new way of doing things. It may be a new product or service, a new management concept, or a new procedure for working together in the organization. Ideas can come from within or from outside the organization.

“A perceived need for change occurs when managers see a gap between actual sense of urgency so that others will understand the need for change” (Daft, 2001:137)

“Although many ideas are generated to meet perceived needs, innovative companies encourage the constant development of new ideas that may stimulate consideration of problems or new opportunities” (Daft, 2001:137)

Adoption of the proposed change will be necessary by all staff in order for the philosophical shift to truly become part of the organizational culture. “Adoption occurs when decision makers choose to go ahead with a proposed idea. Key managers and employees need to be in agreement to support the change” (Daft, 2001:137)

Implementation takes place when new behaviours and/or new ideas are actually put into action. “Implementation of change is often the most difficult part of the change process. Until people use the new idea, no change has actually taken place” (Daft, 2001:137)

The final element in Daft's sequence for successful change is resources. Human energy and activity are required to bring about change. Change does not happen on its own; it requires time and resources, for both creating and implementing a new idea. A shift from program thinking to systems thinking is a considerable change for an organization and one that should be viewed as a process over time, and not a change that occurs overnight.

Research Results

Benefits of Shared Service Centres

The concept of shared service centres (SSCs) was born when managers of decentralized businesses realised how much money they were losing because of inefficient delivery of large-scale services across the organisation. These inefficiencies were most obvious in large corporations with distinct strategic business units, each of which performed the same basic business tasks. Pooling and consolidating large numbers of employees to perform repetitive tasks was the first step towards creating Shared Service Centres.

Shared services lay the groundwork for a more strategic deployment of finance resources, and they offer significant and immediate benefits to an organization, including the following:

- Financial gains.
  The financial savings as a result of economies of scale are surprisingly large. Most surveys suggest that the potential savings from shared services are between 15% and 40% of labour costs (Source -Moving Towards Global Shared Service Centres – JP Morgan Treasury Services). Obviously, the savings will depend on the size of the labour cost and the volume of finance services that are consolidated. Consequently, the arguments in favour of shared services are much more compelling in geographies with large populations, high labour costs and consistent local requirements.

  A benchmarking study completed in 2001 by PriceWaterhouseCoopers confirmed the savings potential of moving finance functions into a shared service environment.

  Figure 4-Shared Service Center Finance Function Savings

Finance Function	**Savings Realized in SSC Environment**
Invoicing Customers	40%
Accounts Payable	40%

Accounts Receivable	50%
General Accounting	75%

Potential benefits of moving into a shared service environment are clear, but positive results are contingent on a company's ability to also implement best practices. The Hackett Partnership concluded a recent survey on SSCs by observing that "those that have succeeded [in realizing significant efficiency gains] have done so by making concerted effort to improve their operations, by adopting best practices" (Moving Towards Global Shared Service Centres by JP Morgan, p:2)

- Process re-engineering
  Recent surveys stress that many companies do not meet savings targets because they fail to reengineer their processes as part of the move to adopting a shared service center model. The majority of those who have succeeded have made a concerted effort to improve their operations by adopting best-practices beforehand or subsequent to moving into a shared services environment. Since the centralized nature of shared service centers makes them more suited for standardization than individual business units, the move to a shared service model makes future reengineering initiatives easier to implement, thereby promoting ongoing process improvement.

  A joint McKinsey/JPMorgan study on the cost reduction potential from a shared service environment estimated the relative importance of three different factors: geographic savings, scale benefits and reengineering. These findings are illustrated below and demonstrate that the greatest potential for cost savings comes from reengineering, rather than from economies of scale or off-shoring. Clearly, reengineering plays a pivotal role in the success or failure of a shared service center.

  Figure - 5

Cost Reduction Opportunities	**Cost Savings**
Geographic Savings (factor costs)	10%-20%
Scale benefit	20%
Process reengineering	60%

- Service enhancements.
  The increased consistency in financial policies and their articulation in a service-level agreement typically result in substantially improved quality and consistency of service, leading to greater employee satisfaction. The greater consistency also allows the benefits of economy of scale to be leveraged by investments in technology.

- Ease of integration.
  Companies that grow by acquisition benefit from shared services for several reasons. Organizations with shared services already will have negotiated cost and performance criteria for each service option and documented them in a service-level agreement. The terms of these agreements provide an immediate basis for assessing the effectiveness of the Finance function of an acquisition target and provide a streamlined basis for the subsequent integration of the acquisition.
- Strategic support.
  Perhaps the greatest benefit of shared services is the reallocation of local finance resources. With fewer transactional and administrative responsibilities, local finance representatives are better able to provide more strategic support to business unit leadership.

These benefits do not come without substantial challenges, even in a country similar Canada where the business case is very attractive. One of the most common barriers is the loss of control felt by business units when their services (or staff) are relocated to a central function. The disruption to finance staff can be traumatic, especially when accompanied by awareness that different skill sets will be required. In addition, corporate leadership and the businesses may be concerned about possible work disruption before the new delivery model is finalized and implemented. Plus, there may be budgetary concerns (i.e., does the company have the resources to complete an effective implementation?). Technology challenges also may surface. A successful implementation requires consistency and integration of data and technology. All parties must be able to access the same information technology, whether in accounting applications or Human Resource Management systems. All of these challenges can be effectively addressed, but it would be wise not to underestimate their potential to undermine the shared services project. These challenges underscore the importance of a well-considered implementation plan for the shared services center. A thorough change program and implementation plan that are supported by corporate leadership, business leadership and the Finance function must be put in place before the transformation is set in motion.

Informal discussions with a counterpart in another organization revealed that the concept works well within a large organization. The organization employs close to 6000 employees and has Accounting and Finance, Human Resources, Information Technology, Legal, and External Affairs as established as shared service centres. These service centres have the ability to provide specialist knowledge to the entire organization. Further, in a tight Alberta labour market, they believe that this has also given them the ability to attract professionals. The organization centralized the Accounting and Finance in the recent past. In the earlier set up employees from other professions had the ability to cross train and get involved in accounting and finance however as a down side, the current set up has restricted this.

Informal discussions with a hospitality professional also indicated that these facts were indeed true. In large multinational hospitality outfits such a Starwood, operations are organized geographically. There are head office reporting requirements, however the requirements end at that. According to the interviewee this is due to the fact that these organizations have been in business for over five to ten decades and have already created standardized processes for almost every activity, other than for those that are specific to the culture or regulations of the geographic location that they are operating in.

However, organizations such as Royal Host who own and operate diversified resorts and hotels in Canada are highly centralized. This gives them the flexibility required when acquiring new properties and maintaining central control of all their properties.

Organization structure is the vehicle that directs the organizations' resources towards what it desires to achieve. Globalization and rapid changes in the environment, encourages organizations to develop flexible structures that evolve with time and market conditions. Matrix structures, virtual structures are some of the more modern structures that have been created due to these changes.

Effects of Organizational Change

A change in structure, even in a smaller scale brings in change within an organization. Therefore, the organization has to develop a strategy that will successfully lead it through this change. Change, to be implemented successfully, needs to be done in a participative manner.

Technology

The number of shared services available today is a result of the technology that is now available. Advances in software and telecommunications have been at the heart of improvements in business processes. Perhaps the major difference between centralization in the past, and the shared services of today, is technology.

IT and telecommunications have enabled the free flow of processes almost to the extent that they have created total transparency across a process chain. This has made it possible to place specific segments of a process in the hands of a service provider, while allowing the customer to retain control. As technology continues to develop, SSCs must keep up with these developments if they are to stay abreast of competitors and satisfy increasing demands of customers.

Enterprise resource planning (ERP) software has played a significant role in shaping today's SSC model. For example, a procurement transaction initiated in a maintenance management program goes to the purchasing module of an ERP system to kick off a purchase order. This goes into a supplier's order processing and production system to initiate a delivery. Then the supplier's invoicing system dispatches an electronic invoice that enters an accounts payable system. This in turn processes an electronic settlement to the supplier's bank account. Advances in technology also affect the staffing requirements of SSCs as skill needs change constantly. New software and e-commerce technology is eliminating some tasks which were considered permanent a few years ago.

And business-to-business and business-to-consumer technology is cutting down multiple processes across the supply chain. No longer does accounts payable processing require human intervention. In fact, with the pace of progress of technology, it is almost impossible to identify with certainty which tasks and roles will always exist. This situation gives rise to significant uncertainty for managers of SSCs.

SSCs have been around since the start of the 1990s. But it could be argued that the concept has been around for rather longer. The current context of shared services is the result of technological innovation leading to transparent transaction-processing across functions.

The future of SSCs depends on the pace of change of technology. Add to this changes in business practices that are eliminating non-value-adding processes and it appears that the long-term shelf life of shared services is limited. Scale processes with transaction critical mass led to the creation of shared services in order to reduce unit costs. If this end is achieved through other means, the long term viability of SSCs is bleak.

There may still remain transactions that are best performed in a shared services environment, but with innovative business practices such as vendor-managed inventories, evaluated receipt settlements and business-to-business interaction via the internet, commercial transaction volumes are declining. Other transactions may replace these, but the long-term prognosis for SSCs as they exist today is not good.

Implementing technology for shared services programs generally won’t reap immediate savings. Instead, technology implementations typically cost more in the first few years than they save. Technology requires investment — in hardware, software, training, even real estate, for example, if a new location for the data center has to be found. Moreover, when transitioning to a shared services model, organizations usually run parallel systems for three to six months or more to ensure that the new system can deliver what’s needed.

Implementing Shared Service Centres

It is never easy to implement organizational change. Establishing shared services is a major change for any organisation and creates many challenges. The implementation process can be divided into a number of phases.

- Phase 1. Identify the potential of the initiative to the organisation. This includes project mobilization and the development of a strategic business case. This high-level business case should be able to demonstrate the viability of the initiative.
- Phase 2. The strategy stage. Collect business data, develop an operational model, prepare a detailed business case, including a high-level implementation plan, and seek management confirmation that the firm is committed to establishing an SSC.
- Phase 3. The development stage. Formulate detailed designs, evaluate locations, look at staffing considerations, process-map tasks, compile job specifications, identify key performance indicators, calculate service costs and prepare draft service level agreements.
- Phase 4. Transition to the shared service environment. This is perhaps the most important stage which determines success or failure. The change is certainly not unilateral. Both service provider and prospective clients must establish their respective operating strategies.
- Phase 5. The stage of mastery. Operations begin to stabilise and continuous improvement

Measuring success

As customers and service providers have joint responsibility for results, this helps to sustain optimum performance. A service level agreement is a means of establishing an operating relationship between the service provider and its customers. It is a formal agreement between the two parties setting out levels of service performance on the part of the provider. These are also based on certain customer responsibilities. For example, an agreed level of accounts payable output would be dependent upon the customer's data integrity.

The service level agreement will also specify deadlines and penalties as well as the levels of compensation and payment that the provider is entitled to. There may be clauses that stipulate progressive performance improvements to be delivered.

Key performance indicators are essential to show that the service provider is either operating at, or striving for, best practice performance. Given that the underlying reason why a customer chooses to operate in a shared services environment is cost efficiency, the service provider must demonstrate that it can achieve this benefit. Key performance indicators and benchmark comparisons are perhaps the only way of demonstrating this. As continuous improvement is a cornerstone of the shared services concept, continuous measurement is required to demonstrate that benefits are being delivered to the customer.

In order to ensure service delivery meets the demands of service level agreements, it is essential to operate an adequate IT infrastructure, including a workflow and information management system. This creates a robustness that ensures all services and communications are performed via clearly defined interfaces.

Requirements will change over time, which can compromise outcomes. Increasing transaction volumes or changes in the scope of service, for example, can result in increasing costs or a decrease in quality - if the organizational structure and processes are not flexible enough. This can be seen via increased;

• processing time
• system downtime
• error rates and
• costs per unit.

Furthermore, Shared Service Centre optimisation often focuses only on narrowly defined service requirements. If changes to these requirements occur, processes have to be adjusted reactively and independently. As a consequence, corporate-level standardisation benchmarks cannot be sustained. The ability to avoid this depends on the maturity of Shared Service Centre.

Operating a high performance Shared Service Centre

For a SSC to be run efficiently it should be run similar to a business**.** In the USA, where the shared services business model has had a few more years to mature, many practitioners are trying to bring the rigours of external market forces to previously sheltered internally focused functions. To ensure high performance, SSCs must be run like a business. This means that an SSC must excel in three areas delivering excellent customer service, driving process improvement and making the SSC a great place to work.

SSCs have been marketed as bringing the best of both worlds-the benefits of economies of scale from a centralized operation, with the customer focus of a decentralized operation. Building strong internal customer relationships is critical. This must start from the top with leadership, which must be outward-facing and sincere about treating internal clients as real customers. Process team leaders must have strong consensus-building skills to achieve a balance between customer service requirements and cost efficiency through standardisation of processes across several business units.

There are three phases of customer relationship development to consider: targeting, partnering, and sustaining.

In the targeting phase, key customer groups both internal and external are identified. This is really a form of market segmentation. It is driven by the types of output provided by the SSC, such as management reports or expense claims, which may divide up by geographic region, process variations or service expectations. Representatives for each key customer group are identified. It is useful in the long run to select the noisiest and most outspoken person in a customer group to represent its views. It is important to nominate people who have the authority to negotiate customer service level agreements (CSLAs), a good knowledge of the business process, and will support the development of the shared services business model.

The next phase of customer relationship development is partnering. Here we get down to the detail of clarifying and confirming customer expectations, and ultimately devising and agreeing the CSLAs. There is no substitute here for face-to-face discussions with the key customer group representatives. These are necessary to build a true partnership relationship. Expectations should be managed to, achieve agreement with the representatives, and document the outcomes. The organization should adopt a 'keep it simple' approach, with a simple table listing the key agreements for each major output of the SSC. Characteristics of a good CSLA include agreement on the input requirements as well as tile outputs, quantification of the requirements in terms such as accuracy, timeliness and cost, as well as a statement of key contacts.

The most important and hardest phase is sustaining the hard-won customer relationships similar to any other business. This starts with delivery of service which meets or exceeds the CSLAs, but can also be helped by using customer focus groups and ongoing customer surveys. The focus group members would typically be the key customer group representatives. The purpose of these groups is to get feedback and ideas for continuous improvement of all processes, and continue the spirit of partnership to develop joint solutions to issues arising. Annual customer surveys are a useful tool to measure customer service performance against expectations. Typically customers would be asked to rate the SSC's performance on criteria such as responsiveness, professionalism, business or technical knowledge, and accessibility. Involving SSC staff in devising and running the survey will result in motivating staff and engaging them in sustaining achievements.

One advantage that SSCs have is that they give focus to previously dispersed and fragmented processes. It is difficult to justify investment in major IT projects for different locations, but bringing the processes together in an SSC makes the investment worthwhile. Technology such as workflow, document imaging and electronic data interchange may also be justified as a way of bringing further process improvement. But IT solutions are not the answer to everything. Managers must continually seek improvements in processes for a successful SSC 'business'. A good starting point for process improvement is performance measurement.

Many SSCs are implementing a 'balanced scorecard' approach, which provides a set of operational performance indicators to give a balanced view of business performance. Measurements can be devised for several categories on customer (linked to CSLAs), quality, productivity, financial and people. Performance measurement should be linked to benchmarking. In the absence of a true external market, this is one way to challenge the SSC to improve continuously, and to keep it accountable. Benchmarking will involve a quantitative and qualitative assessment. Perhaps more important than traditional comparisons of numbers, such as invoices per head, is developing an understanding of

the best practice processes adopted by other companies. As the number of worldwide SSCs grows, benchmarking between them will be an obvious and necessary step to share best practice ideas. In addition to benchmarking other companies, comparisons can also be made with expert service providers. Consolidating processes into an SSC provides an excellent foundation for a comparison to outsourcing.
An activity-based approach to charging may encourage internal customers to participate in process improvement. For example, if an electronic payment is charged less than a cheque, there is an incentive to help the SSC convert suppliers to the more efficient process. If the activity analysis reveals that higher costs are incurred because a particular business unit's sales force submits incomplete expense claims, the charge can be set higher until it improves. Process improvement should also take place at the day-to-day level, with the help of an effective SSC management team. Modern approaches to people management can have a powerful effect on productivity in an SSC.

To create a high-performing SSC, it is critical to focus on people. The SSC is a chance to start from a blank sheet of paper, and create a new culture. Many companies choose to locate at a brand new site in order to achieve this, away from the history and baggage of traditional corporate cultures. The staff retention strategies for SSCs start on day one. Location selection and design comes first. Many companies have really emphasised the facility design--making it a pleasant place to work, considering ergonomics and optimum lighting, doing whatever is reasonable to ensure that an atmosphere of caring is created, while avoiding the 'accounting sweatshop' environment. Attention to detail is important. For example, if the organization is looking to hire a number of administrative staff, a location on primary travel routes may be more attractive than a totally greenfield site. The organisation structure of an SSC will be quite flat--the business case calls for this. The facility design can reinforce this delayered structure with an open plan environment with no fixed offices apart from meeting rooms and training facilities. Recruitment and selection is critical. Experience shows that what works best is a good blend of existing experience and business knowledge combined with new starters who have fresh skills and ideas. The recruitment process should be competency-based to ensure that a good 'fit' is obtained, as well as finding the necessary technical and language skills. Assessment centres are increasingly popular to supplement the traditional interviewing approach. The important point to note is that cost per transaction is more important than cost per head. It is worthwhile to invest a little more in higher quality people who are efficient and will assist in running the SSC as a business.

Teamwork is usually seen as essential for high-performing SSCs and performance management systems and approaches to reward and recognition should reinforce this. All SSC team members should be encouraged to own their personal development plan, participate in projects that enhance their skills, and gain exposure to the end-to-end processes, or other business events.

Training plans should be designed to reflect the desired service culture. Induction training will reinforce this and outline desirable behaviours and values in the SSC.

Training should also cover systems, customer service, process improvement techniques and positive attitudes to change. Although a certain level of staff turnover is to be expected and planned for, experienced SSC practitioners have found that by creating a positive environment where everyone is involved and encouraged to learn and develop, motivation is enhanced, leading to high levels of service , productivity and retention.

Evolution Process of a Shared Service Centre

According to a study conducted by PricewaterhouseCoopers the evolution process of a Shared Service Centre consists on the following stages:

Stage	Characteristics	Focus
Local Departments (no SSC)- Level 1	Duplication of effort Inconsistent service standards No consistent management culture Redundant structures	
Shared Service Centres – Level 2	Process optimization -Bundling of competencies -Economies of scale -Standardization and harmonization Implementation of -Performance Measurement System(incl. KPIs) -Service Level Agreements (SLAs) -Workflow management	Shared Service centre operations are stable
Optimized Shared Service Centres- Level 3	Continuous improvement process Development of Performance Measurement System (incl. KPIs) Quality management Refinement of controlling tools/instruments Reward and incentive systems Selective sourcing	Shared Service Centres are efficient and effective
2nd Generation Shared	Establishment of service	Shared Service Centre

Service Centres – Level 4	culture Modular expandability of services Professionalization of management Quality improvements through Six Sigma Self dependent optimization Systematic human resources development	maximizes added value for entire company

In recent years a new trend in SSC implementation (Level 2) has emerged. Namely, that decisions around where to base sites, have often been made on the basis of quality rather than cost, which has created greater opportunities to embed continuous improvement. Typically, once the SSC is implemented, continuous improvement of processes and service levels is initiated by the SSC (Levels 2 and 3). A key aspect of this is a review of the organizational structure, focusing on opportunities to optimise delivery quality and improve efficiency. In order to sustain the provision of enhanced services, appropriate payment models and reward structures should be established; this is essential, in order to maintain staff motivation through periods of change.

When the SSC reaches a ‘steady state’, where service delivery is stabilized and efficient, the SSC can extend the scope of the services it provides. This stage is typically the starting point for considering selective outsourcing of specific services. Research, however indicated that, selective outsourcing often proves to be less beneficial than expected. Primary reasons include the profit margin of the outsourcer, loss of flexibility and increased delivery risk.

A 2nd Generation SSC goes beyond this state (Level 4). Its focus is no longer limited to internal optimisation - it now encompasses added value creation for the entire company. The SSC becomes more than an internal service provider, increasingly assuming the role of an operational and strategic consultant. This is predicated on a service-oriented culture, made possible by enhanced use of the people talent at its disposal. The SSC becomes capable of anticipating changes related to ‘customer’ needs and implements changes to service delivery and process optimisation proactively.

To ensure that a SSC is able to anticipate future service requirements and responds accordingly, it is important that the SSC gradually evolves into an “independent” organisation. This is achieved by focusing on the following aspects

• implementation of a customer-oriented service culture
• expansion of decision-making authority in order to execute service adjustments proactively and autonomously (e.g. adjustments to the service portfolio)
• development of human resources to safeguard and improve internal competencies

• implementation of professional customer management to optimise and further develop customer relationships (e.g. implementation of a complaint management system); and
• commitment to continuous process improvement.

Recommendations

Sawridge has decided to go ahead with the centralization of Accounting and Finance. The payroll function has already been centralized. The following recommendations should be considered to make the rest of the centralization a success with minimum impact to motivation. Most of the recommendations are based on Kotter's eight stage change model.

- The payroll centralization happened during a period of change in the company. There were many senior management changes that affected how this project was implemented. This resulted in major changes to the implementation design as well as implementation plan for the project. One such major change was related to the pay frequency. For years Sawridge followed a semi-monthly pay frequency. The initial implementation plan adopted the same principle, however with the change in senior management it was decided to change the pay frequency to bi-weekly. This decision was taken over night without stakeholder consultation. There were several similar decisions that changed the original plan significantly. Due to this reason it almost became a transformational and directorial change according to Dunphy and Stace's model described above. This resulted in some resistance, which could have been avoided Better communication in this case would have definitely assisted in overcoming some of this resistance as in most cases where change is involved being informed is very important to the employees who are directly affected by the change. According to Kotter's eight stage model creating a vision for change is a central activity; even though the project has progressed it is never too late to engage in this activity get everyone concerned on board. This can be done by:

    - Determining the values that are central to the change.
    - Developing a short summary (one or two sentences) that captures what you "see" as the future of your organization.
    - Creating a strategy to execute that vision.
    - Ensuring that your change coalition can describe the vision in five minutes or less.
    - Practicing the "vision speech" often.

  This process should be lead by individuals that are well respected and considered as leaders of the organization.

- Kotter identified communicating the change vision as the 4th step in his model.

  Communication has been a challenge at Sawridge. Most decisions get communicated as directives down the organization structure. Therefore, Sawridge has to plan ahead its communication strategy as this centralization will bring about major change in the organization and it is important to have a majority support the cause rather than oppose it. In this situation it becomes especially important as centralization results in loss of control for some employees. What you do with your vision after you create it will determine your success. Your message will probably have strong competition from other day-to-day communications within the company, so you need to communicate it frequently and powerfully, and embed it within everything that you do.

  Don't just call special meetings to communicate your vision. Instead, talk about it every chance you get. Use the vision daily to make decisions and solve problems. When you keep it fresh on everyone's minds, they'll remember it and respond to it.

  It's also important to "walk the talk." What you do is far more important - and believable - than what you say. Demonstrate the kind of behaviour that you want from others.

  This can be implemented by:

  - Talking often about change vision.
  - Openly and honestly address employees' concerns and anxieties.
  - Applying the vision to all aspects of operations - from training to performance reviews. Tieing everything back to the vision.
  - Leading by example.

- Removing obstacles to change is another important step in implanting change within an organization. This may sound harsh but is a necessity as there are already employees who are resistant to this change. To carry out this recommendation Sawridge has to put in place the structure for change, and continually check for barriers to it. Removing obstacles can empower the people needed to execute the vision, and it can help the change move forward.

  This can be done by:

  - Identifying, or hiring, change leaders whose main roles are to deliver the change.
  - Looking at the organizational structure, job descriptions, and performance and compensation systems to ensure they're in line with the vision.
  - Recognizing and rewarding people for making change happen.

- Identifying people who are resisting the change, and helping them see what's needed.
- Taking action to quickly remove barriers (human or otherwise), in a legal, ethical manner.

- Sawridge should create short-term wins. Nothing motivates more than success. Giving the employees a taste of victory early in the change process is important. Within a short time frame in this case monthly, it is important to have results that affected employees can see. Without this, critics and negative thinkers might hurt the progress.

  Create short-term targets - not just one long-term goal. Each smaller target should to be achievable, with little room for failure. The change team may have to work very hard to come up with these targets, but each "win" that is produce can further motivate the entire staff.

  This can be accomplished by:

  - Looking for sure-fire projects that can implement without help from any strong critics of the change.
  - Not choosing early targets that are expensive. The company should be able to justify the investment in each project.
  - Thoroughly analyzing the potential pros and cons of the set targets. If there is no success with an early goal, it can hurt the entire centralization initiative.
  - Rewarding the people who help the project meet the targets.

- Kotter argues that many change projects fail because victory is declared too early. Real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change. Therefore Sawridge should build on the change.

  This change in structure may assist the organization in this current stage of development. However, when the group grows beyond the borders to the province and maybe to international borders further changes may be required. The Company should be flexible to accommodate these changes.

  Each success provides an opportunity to build on what went right and identifying what improve.

  This can be accomplished by:

  - Analyzing what went right and what needs improving.
  - Setting goals to continue building on the momentum that was achieved.
  - Learning about kaizen, the idea of continuous improvement.

- Keeping ideas fresh by bringing in new change agents and leaders for change coalition.

- Sawridge should also work on anchoring the changes in corporate culture. This will ensure that the changes are permanent and, become part of the core of the organization. Corporate culture often determines what gets done, so the values behind the vision must show in day-to-day work.

  Making continuous efforts to ensure that the change is seen in every aspect of the organization will help give that change a solid place in your organization's culture.

  It's also important that the Sawridge leaders continue to support the change. This includes existing staff and new leaders who are brought in. If the Company loses the support of these employees, the organization might end up back where it started.

  This can be accomplished by:

  - Talking about progress at every opportunity. Telling success stories about the change process, and repeating other stories from similar situations in other organizations.
  - Including the change ideals and values when hiring and training new staff.
  - Publicly recognizing key members of the original change coalition, and make sure the rest of the employees - new and old - remember their contributions.
  - Creating plans to replace key leaders of change as they move on. This will help ensure that their legacy is not lost or forgotten.

- Measuring the success of the project will lead into celebrating small successes on the way to achieving the full benefits of a Shared Service Centre. The following objectives are measurable and would assist Sawridge in determining whether the project was successful. Were the target timelines met?

  - Do the different locations use the standardized processes? This can be measured by completing a full process audit and often is completed by external auditors during the annual audits. Most external auditors now prefer to perform process audits rather than engage in substantive testing which is very time consuming.
  - Has the control environment improved? This is a test of internal controls which are currently lacking at Sawridge.
  - Has the organization realized the potential cost savings? This will be a quantitative measurement.

- Are the employees satisfied with the new shared service centre? This can be included in the quarterly employee surveys that are completed within the organization.

Conclusion

The opportunities presented by shared services are enormous, both financially and strategically. This is well recognized by the very large multinational companies. However, the need for corresponding change in internal governance structures and the deep effect that this will have on the organization are less understood. This is part of the reason for many existing shared services efforts being little more than consolidation. Because the benefits are so attractive, particularly in the current business climate, shared services are well worth the consideration and will, at a minimum, enable the organization to better understand the value of consistency over standardization.

As the Company continues to grow it should look at creating other shared service centres. This would of course depend on whether the Accounting and Finance Shared Service Centre meets its objectives. Research above indicates that success in this area is definitely possible. With the rapid advances in information technology, a tighter labor market with higher recruitment and retention efforts by employers together with an increasingly mobile workforce in a global market place, the face of the Human Resources function has changed forever. All these influences represent both challenges and opportunities for all management functions and especially for Human Resources, with employees' skills and knowledge becoming the key factor to success in today's very competitive marketplace. Creating a Shared Service Centre for Human Resources will meet these challenges. Therefore Sawridge should look at taking this path in the future.

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