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Shared services as a new organisational form: Some implications for management accounting

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ABSTRACT

As an alternative approach to outsourcing, the Shared Service Organisation (SSO) model retains support services in-house. By re-locating in specialised sites, and by incorporating characteristics from business divisions, head office and outsourcing, the SSO is a new organisational form that combines a market-style, customer-centred, outlook with in-house management direction and control. Consultants claim that the SSO can reduce costs and improve support service quality, with the additional benefit that both control and knowledge remains located within the hierarchy of the firm.

In order to critically review these claims and examine the specific novelty of the SSO, the paper interprets data from a longitudinal case study through the lens of institutional theory. Some implications for management accounting and management accountants are noted.

1. Introduction

In a recent paper, Gospel and Sako (2010) distinguish between the unbundling of corporate *support services* and the vertical disintegration of *primary activities* (Ezzamel, Morris, & Smith, 2005; Gospel & Sako, 2010; Porter, 1985). The research in this paper is focused on the unbundling of corporate and divisional support services and additionally distinguishes between the use of *outsourcing* as a key mode of delivery for support service activities (Adler, 2003; Barnes, 2004, p. 20) and the *in-house* re-organisation of service activities through the establishment of a shared service organisation (SSO).[1] Although the SSO retains service activities in-house, many of the same strategic criteria that are used in an outsourcing decision, are applied to the SSO – the search to reduce costs, to re-engineer processes and to delineate core from peripheral activities. The focus in this paper is the impact of the SSO on the finance function, although other support services such as human resources have also been subjected to in-house re-organisation (Cooke, 2006; Farndale, Paauwe, & Hoeksema, 2009).

The practitioner and consultant literature emphasises the potentially positive impact of the SSO as a mode of corporate unbundling. By concentrating service activities in a specialist business unit located at a carefully chosen site, possibly off-shore, it has been claimed that the SSO can substantially reduce the cost of support service provision. For example, Quinn, Cooke, and Kris (2000) suggested that an 'easy' 25–30% reduction in costs is possible; with the promise of further improvement as the SSO itself may be threatened by relocation to an even lower cost site or contracted out to third-party

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[1] Often practitioners and consultants use the term shared service *centre*. Our own preference is to use the term share service *organisation*. It was the term used by practitioners in our case study. The main advantage of the SSO label is that it intentionally emphasises the *special organisational* characteristics of the new model which distinguish it from the 'traditional' centralised- or head-office model of service provision.

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providers. It is also argued that the SSO should provide better service than the old functional service departments (Davis, 2005; Ulrich, 1995). As SSOs are often linked to other organisational changes such as the introduction of Enterprise Resource Planning (ERP) systems, advocates argue that the SSO offers the critical mass to re-engineer and standardise business processes using the best technology (Oliveira, 2010; Ulbrich, 2006). The consolidation of workers within an SSO facilitates the use of the types of technologies developed in call-centre style operations which link voice, video and data interaction capability (Leach, 2004, p. 31; Schulman, Dunleavy, Harmer, & Lusk, 1999). The pertinent feature being that the resolution of a query or transaction will not be the exclusive responsibility of any one individual worker. Customers may speak to a different worker each time, yet continuity is maintained through a central, real-time, customer database. Standardisation of systems and technology may allow the SSO to employ cheaper junior staff but, conversely, the scale and new focus of the SSO should also enable it to recruit and concentrate top experts and professionals. Over time, this creates new core competencies to support and enhance the overall organisation.

The list of benefits produced in the consultancy literature might suggest that the case for SSOs is compelling (for example, Accenture, 2005). Yet, academic research suggests a more mixed verdict. For example, Janssen and Joha (2006, p. 109) found that in a public service in the Netherlands several primary motives for the SSO model, such as cost reduction, access to higher skills, reduction of complexity, higher service levels, and so on, were *not* achieved although, some *unanticipated benefits*, such as sharing best practice and better security were realised serendipitously. Cooke (2006) tested the realisation of Reilly's (2000) schedule of benefits in a sample of Human Resources SSOs, concluding that poor change management in practice had led to reduced 'quantity and quality' of service (Cooke, 2006, p. 221). Even some consultants have questioned the business case for the SSO. For example, Seddon (2005, 2008) argues that the SSO embeds a 'command and control' culture which focuses too much on managing activity *within* the SSO.

In terms of organisational transformation and changes in management accounting practices, the SSO appears to lack the radical impact of outsourcing. For example, Smith, Morris, and Ezzamel (2005),[2] found that outsourcing caused organisational change and that 'the more outsourcing is used, the more likely is the organisation to have made major changes in its management accounting systems' (2005, p. 437). But, can similar claims be made for the SSO? For example, it could be argued that the SSO approach represents just another head-office driven, centralisation, project (ACCA, 2009); simply a variation on the traditional hierarchical, multi-divisional corporation (Chandler, 1962) in which a 'button-downed' management (Thrift, 2005) is reluctant to commit to genuinely new ways of organising support functions.

This paper draws on institutional theory and, specifically, the models of organisational and management accounting change developed by Burns and Scapens (2000) and Dillard, Rigsby, and Goodman (2004). These theoretical models are used to interpret a longitudinal case study of an organisation that introduced an SSO model. The specific contributions of the paper are to understand the significance of the SSO and its role in the development of wider organisational processes including management accounting. To this end, the research questions addressed in this paper are as follows;

Research Question 1: To what extent does the SSO constitute a new organisational form, and does it represent a *conceptual* change in the way that corporations are managed?
Research Question 2: What are the implications of the SSO for the management accounting function?

The paper proceeds in the next section by explaining how institutional theory, might be used to guide the interpretation of field data in terms of the nature and extent of organisational change caused by the introduction of the SSO model. In the third section, data from a case SSO are presented. The fourth section examines the extent to which the SSO model may be interpreted as a new organisational form with implications for the management accounting function. Finally, some tentative conclusions are advanced together with some suggestions for further research.

2. Organisational change and management accounting: an institutional interpretation

In this section we explain and justify why we have chosen institutional theory to interpret our case study, in particular at a micro-level, Burns and Scapens (2000), and at a wider societal level, Dillard et al. (2004). Given the research agenda, any appropriate theory of organisational change should comprise a number of characteristics. First, the theory has to indicate what is being changed or left unchanged. If 'institutions can be regarded as imposing form and social coherence upon human activity, through the production and reproduction of *settled habits of thought and action*' (Burns & Scapens, 2000, p. 6), emphasis as original], then claims of organisational change can be based on showing changes in routines and the reproduction of new patterns of behaviour. Secondly, the extent and type of change may be influenced by organisational resistance in the enactment of rules and routines, particularly if they challenge existing meanings and values. Additionally, unconscious/unintended change 'may occur in the absence of systems to monitor the execution of the routines and where the rules and routines are not sufficiently understood and/or accepted by the actors' (Burns & Scapens, 2000, p. 10).

In contrast to the rather static model of the M-form, the Burns and Scapens (2000) model offers a richer and more nuanced interpretation of organisational change by proposing three dichotomies: *formal versus informal change, (i.e., conscious design*

[2] Note that the emphasis in this research is specifically on the organisation of *business support* functions. Smith et al. (2005) looked at outsourcing in general.