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SHARED SERVICE CENTRES

A Successful Solution for Swedish Companies?

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ABSTRACT

**Thesis in Business Administration, School of economics and Commercial Law,
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Title: Shared Service Centres – A successful solution for Swedish Companies?

Background: Searching for best business practice has for a long time had its focus on the business process, which includes cutting costs and improving quality and flexibility of products and services. In the 1980s the focus turned to the support processes, which contributed to the development of Shared Service Centres (SSC).

Problem: Implementing a Shared Service Centre involves many changes, which leads to a wide variety of effects for the company, and depending on where the SSC is located, these effects can have different characteristics and can be of different importance. We formulated these problems in three questions: How is the implementation of an SSC realised in a company? What underlying causes are decisive for the selection of location? How does the implementation of an SSC reflect on the interested parties (staff and customers) and the financial situation?

Purpose: To describe and evaluate the phenomenon of Shared Service Centres by relating findings from reality in some Swedish companies, to existing theory. The main focus lies within three central areas; implementation, localisation and effects.

Methodology: To investigate how the Shared Service solution is applied in Swedish companies we conducted two deep interviews, at SKF and Volvo, and a less extensive questionnaire was sent out to five companies. The empirical findings have been analysed and compared to a theoretical frame of reference, followed by a discussion. Finally, our own conclusions are presented.

Conclusions: The main aim for implementing a Shared Service Centre seems to be cost savings. A difficult task for management, regarding the implementation, is to convince staff of the advantages of changing into an SSC. When choosing a location for the SSC, existing business activities with existing staff appears to be the decisive argument for the management. Due to the standardisation, work tasks can easily become tedious, and the big challenge is to create variation. The expectations of the SSC solution seem to be met, since Shared Services have led to great cost savings.

Suggestions to further research: An issue that we did not receive satisfactory answers to was the customer aspect concerning the effects of implementing an SSC. Therefore a continuous study in this area could be pressing, since customer satisfaction is vital for the survival of an SSC. We also think it would be interesting to conduct the same type of investigation as we have done, but instead focus on smaller companies. Are there differences depending on the size of the company?

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1 INTRODUCTION

Shared Services are an important part of the service industry and therefore a basic survey of this subject will be presented in this chapter. Initially a general background will be described, followed by the formulation of our problem and finally the purpose of this thesis.

1.1 Background

When domestic demand grew along the lines of rising welfare, focus turned to services. In the 1960s, this contributed to declining workforce in the industrial sector, and instead more people began working in the service sector. Parts of the service sector have shown lower growth rate of productivity compared to that of the industrial enterprises. This is partly due to the fact that the service sector for a long time has been protected from competitors; this applies both to the public as well as the private production of services. Another reason for this low productivity could be the simple fact that it is more difficult for staff in service areas to increase their productivity than it is for workers in the production industry. On the other hand, reliable methods for measuring increased productivity in the service sector do not exist. This kind of problem is especially important in a country such as Sweden, where large parts of the service production take place within the public sector and is therefore not priced, nor valued on a market. Instead this kind of service is distributed more or less free, and is financed by taxes (Eklund 1992).

The search for best business practice has for a long time had its focus only on the business process, which includes cutting costs and improving quality and flexibility of products and services. Eventually it came to the point where no more improvements could be done in this area; the focus was then turned to the support processes. In the end of the 1980s, a change-project started, which organised support processes and non-strategic activities in separate organisations outside the companies. From the beginning the idea was to duplicate processes and activities in one organisational unit and thereby create potential for optimisation and extensive economies. This turned out to be a threat to processes and activities in the company's own business, and many companies realised that the Shared Service solution was the way to solve this problem (Ulbrich 2003).

The Shared Service solution has, since its start in the 1980s, developed and evolved significantly. From the start the major focus was on financial services, but during the last decade more functions have been included. IBM has made a study over European Shared Service Centres (SSC), which showed to which extent European SSCs provide other than financial services (Monasch and Slavenburg 2004):

- IT service 23 %
- Human resource service 21 %
- Customer support 17 %
- Logistic service 7 %

The development for some companies continued with starting to combine different service centres. An example of this is putting the financial service centre together with customer support, which enables companies to respond easier and faster to invoice-related questions. This resulted in more efficient procedures and an increase in the level of customer satisfaction. Put in another way, *“the attention has shifted to finding the*

right tools to enable companies to swiftly and securely implement new SSCs” (Monasch and Slavenburg 2004).

1.2 Problem

When a company chooses to implement an SSC, there are many questions that need answers before starting the implementation process. Cost reductions are probably one of the main reasons for implementing the SSC concept. The first and basic decision that has to be made before continuing the process is to choose which level of the SSC solution that is wanted.

The degree of independency influences the structure of the organisation, as well as the localisation of the SSC. A company has two options regarding location; either to locate it at the headquarters, or to locate it elsewhere. This decision leads to another issue, whether to locate the SSC nationally or internationally. Usually the answer is associated with advantages in cost structure in the chosen country. This question is of great importance, since the choices of location can have crucial effects on a company’s comprehensive result.

Implementing a Shared Service Centre in a company involves changes and effects on three major subjects: staff, customers and costs. Since it concerns several different parties, it is vital to examine the attitudes of the environment to the change.

We have chosen to focus our investigation on three major issues:

- How is the implementation of an SSC realised in a company?
- What underlying causes are decisive for the selection of location?
- How does the implementation of an SSC reflect on the interested parties (staff and customers) and the financial situation?

1.3 Purpose

The purpose of this thesis is to describe and evaluate the phenomenon of Shared Service Centres in some Swedish companies, acting within different industries. The main focus lies within three central areas; implementation, localisation and effects.

We will conduct deeper research in two important and successful companies, SKF and Volvo, where we will focus the interviews on the three main areas. To broaden our perspectives, we will also make a less extensive questionnaire, which will be sent out to other Swedish companies that have implemented the SSC concept.

1.4 Limitations

We have chosen to limit our investigation, to only study the general conditions of a few Swedish companies. We will only look into three aspects; implementation, localisation and effects.

2 METHODOLOGY

Due to the purpose and the condition of an investigation, different ways and scientific approaches can be used for observing reality. In this chapter the aim is to present some of the ideas we found applicable for our study, such as primary and secondary data, validity and reliability, and qualitative and quantitative methods. Finally, we will describe the way of performing our empirical study, i.e. the interviews and the questionnaire.

2.1 Types of investigations - explorative, descriptive and testing of hypothesis

There are different kinds of investigations and the three most common are (Patel and Davidson 2003):

- Explorative: Used when there are gaps in knowledge about the problem. The aim with explorative investigations is to find as much information as possible about the problem, which means that the problem must be looked at from all sides. It is common to use several techniques when an explorative investigation is performed.
- Descriptive: Used when a certain amount of knowledge exists. The descriptions produced can concern circumstances in the past or circumstances in the present, but this type of investigation is limited to regard a few aspects of the phenomenon and can therefore be more detailed and profound.
- Testing of hypothesis: Used when substantial knowledge exists and theories have been developed. This type of investigation presupposes that there is sufficient knowledge of an area so that assumptions about circumstances in reality can be made from theory. Assumptions made are of the type “if...then...” which means that they are hypotheses and they express connections. To try hypotheses, the investigation must be organised so that the risk of having something influencing the result not expressed in the hypothesis is, as far as possible, minimised.

We started off by the explorative way, which meant that we gathered as much information as possible about the phenomenon in its entirety using all types of sources, such as books, articles, web pages and the daily press. By looking at all sides of this specific phenomenon, we found that some areas of the phenomenon were more interesting than others, therefore we took the investigation to the next level and began using the descriptive method to focus on just a few areas.

2.2 Deduction, induction and abduction

According to Patel and Davidson (2003), the three concepts of deduction, induction and abduction represent alternative modes of procedures when relating theory and empirical findings.

A deductive way of working is characterised by drawing conclusions of separate phenomena from general principles and existing theories. Hypotheses are found in the existing theory and are later tested empirically in the case concerned. By working in a de-

ductive way, the results will be more objective and less coloured by the single researcher's opinions. A disadvantage with this method is that there is a risk for existing theory to influence the researcher so that new interesting findings will not be discovered (Patel and Davidson 2003).

By using induction, the researcher can study the chosen object without first anchoring the investigation to existing theory. Afterwards a theory can be formulated, based on the information collected. A risk is that the scope of the theory is limited, since it is based on an empirical foundation that is typical for a special situation, time or group of persons. The researcher has of course also own thoughts that will colour the results of the investigation (Patel and Davidson 2003).

Abduction is a third way to relate theory and empirical findings and could be said to be a combination of deduction and induction. Abduction means that a hypothetical pattern from a single case should be formulated, which explains the case. This first step is characterised by induction; in the next step the theory or hypothesis is tested on other cases, which means that a deductive way is used. The original theory or hypothesis can here be developed and enlarged to become more general. An advantage with abduction is that the researcher will be less restricted, compared to a strict use of deduction or induction. A disadvantage is that the researcher, unconsciously, might choose an object from his earlier experiences to study and also formulate a hypothetical theory that excludes alternative interpretations (Patel and Davidson 2003).

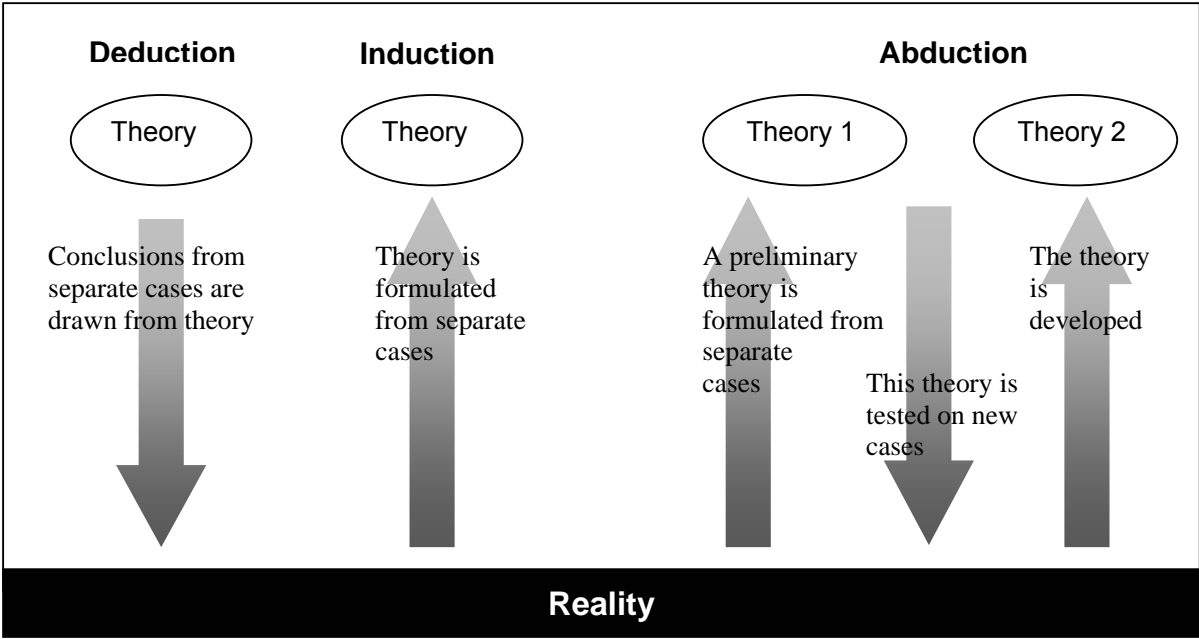


Figure 2.1 Relation between theory and reality, illustrated by some central concepts (Source: Patel and Davidson 2003, p. 25)

Our investigation is based on theory written on the subject concerned, and we try to compare this theory to how Swedish companies have proceeded. Therefore the investigation mainly is based on a deductive approach, but comes close to an abductive approach.

2.3 Validity and Reliability

Empirical findings must fulfil two requirements (Jacobsen 2000):

1. It must be valid and relevant = validity
2. It must be reliable and credible = reliability

Validity means that we are measuring what we wish to measure, that what we have measured is perceived as relevant, and finally, that the things measured at only a few companies are valid for others as well. General validity and relevance can be divided into two components: internal validity and external validity (Jacobsen 2000).

Internal validity and relevance concern if we are actually measuring what we think we are measuring. Are the results valid and is the description of a phenomenon correct? There are two ways to test the internal validity: The first is to control the investigation and the results against others, e.g. by verifying against theory or experts. The second is to critically revise the results, e.g. by examining the selection of units and the analytical phase (Jacobsen 2000).

External validity deals with the matter to which degree the results from the investigation can be generalised. There are two forms of generalisation: the first is to generalise from data from a smaller selection of investigated units to a more theoretical level; the second is to generalise the frequency of a phenomenon. The strength of qualitative methods is the first form of generalisation. The second form is hard to reach when using a qualitative approach. Since normally only a few units chosen for a specific cause are investigated, the results cannot be said to be representative for a larger population (Jacobsen 2000).

Reliability concerns the matter whether the instrument can resist the influence of chance or not. The result of investigating an individual can be referred to as “observed value” of this individual. This value consists of two different parts: the “true value” of the individual and the “false value”. The false value depends on the lacks in reliability of the instrument and can depend on factors that are uncontrollable. The more reliable the instrument is, the closer to the true value of the individual one can get (Patel and Davidson 2003).

The only time when a correct measure of reliability can be established is when an instrument resulting in that each individual receives a point, e.g. a scale of attitudes, is used. When another type of investigation is used and reliability cannot be secured in the same way, other methods to guarantee the reliability must be found. For example, two observers can be present during the interview. Reality can also be “stored” by using a tape-recorder, registrations can then be made afterwards. Since reality is stored, it can be repeated over and over again to make sure that everything is correctly understood (Patel and Davidson 2003).

It is impossible to know whether or not a questionnaire is reliable until the respondents have sent their answers. Were any questions skipped? Did they mark more alternatives than they were supposed to? Were all possible alternatives included or have new options been added? The reliability of the questionnaire can only be judged after responses are received and the analysis is made (Patel and Davidson 2003).

2.4 Primary data

Collecting primary data means that the researcher collects the information for the first time, going directly to the primary information source. The data collection is tailored for a special approach to a problem, and is received by using methods such as interviews, observations or questionnaires (Saunders *et al.* 2003).

The primary data we collected were based on interviews and questionnaires. We chose to contact all companies, which we thought had an SSC, by mail and telephone. The companies we received positive answers from were contacted again, and asked if they were willing to participate in our study. The companies that contributed with information about their SSCs were; ABB AB, AcandoFrontec AB, Arla Foods AB, Göteborgs kommun, SKF AB, TeliaSonera AB and Volvo AB.

2.5 Secondary data

Secondary data are data already collected for other purposes by other persons. According to Saunders *et al.* (2003), this means that the information normally is collected for a purpose that does not match our need. Other disadvantages with secondary data are:

- Documents may represent the interpretations of those who produced them
- No real control over data quality is obtained
- Access can be difficult

On the other hand, there are great advantages with secondary data, such as:

- Enormous savings in resources
- Quick to obtain
- Can provide comparative data
- Can result in unforeseen discoveries
- The data source is relatively permanent (Saunders *et al.* 2003)

The most important source of secondary data we used was one book written on the subject, by Schulman *et al.* (1999). Other important sources were articles found in trustworthy databases such as Business Source Premier and Affärsdata, and the Internet. Three essays written about Shared Services from the School of Economics and Commercial Law, Göteborg University, were also of great help and inspiration.

2.6 Quantitative Methods and Qualitative Methods

Quantitative methods are methods giving results in figures, percentages and/or numbers. The most common form of quantitative methods is questionnaires where the answer alternatives are predetermined (Jacobsen 2000).

A quantitative approach is useful when much about the subject, that is going to be investigated, is known beforehand. It is good to use when frequency or extent of a phenomenon (attitudes, behaviours etc.) is going to be described. This approach is often quite individualistic since the information is received from single individuals, not from groups (Jacobsen 2000).

A quantitative approach has its strength in external validity, overview and distance while its weakness lies in internal validity (Jacobsen 2000).

Qualitative methods depict a person's experience and interpretation of a situation in words. The ultimate form of a qualitative method is a totally open conversation between interviewer and interviewee (Jacobsen 2000).

Openness is a keyword when it comes to qualitative methods, in the context that the researcher does not know exactly what he is looking for. It is the situations observed or the persons interviewed that decide what kind of information he receives. The researcher does not force the investigated by using fixed questions with predetermined alternatives. A qualitative approach has its strength in internal validity, understanding and closeness but is weaker when it comes to external validity (Jacobsen 2000).

These two methods are to be considered as complementary, not competitive. They measure the same things even though there are differences regarding data collection. People's interpretations of questions – open or standardised – are always received and it is the analysis of these interpretations that gives the result of an investigation (Jacobsen 2000). (A more deep comparison can be found in Appendix I).

We have chosen to use mixed methods when interviewing and constructing questionnaires, to cover the unique disadvantages of each method when used alone. Both face-to-face interviews and questionnaires were used for collecting data. (The interview plan and questionnaires are found in Appendix II and III).

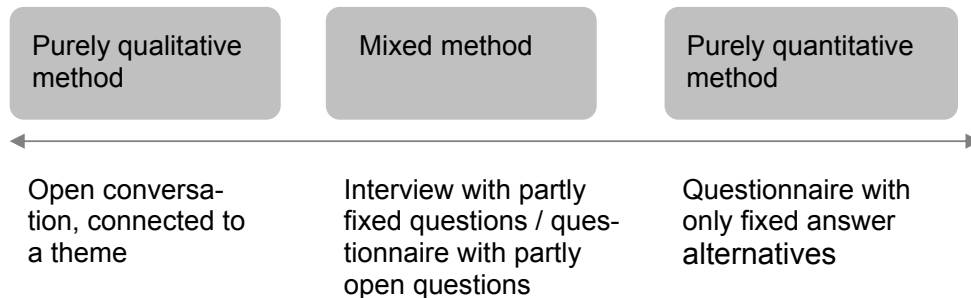


Figure 2.2 *Qualitative and quantitative methods as endings on a scale* (Source: Jacobsen 2000, p. 139)

2.7 The interviews

We had one interview with Stefan Genne at SKF on the 12th of April 2005 and one with Nils Rune at Volvo on the 29th of April 2005. We chose not to conduct telephone interviews since we preferred the more personal contact that is achieved by having face-to-face interviews. Another reason not to conduct a telephone interview was because it is often an unsuitable method when the interviewers have open questions. On the other hand there are some disadvantages with face-to-face interviews as well, e.g. there is a risk that the interviewers unconsciously influence the interviewee in any direction (Jacobsen 2000).

According to the context effect, the environment where the interview is taking place can affect the respondent (Jacobsen 2000). We chose to have the interview at SKF where Mr. Genne worked, respectively at Volvo where Mr. Rune worked. This choice felt natural since we thought they would feel more comfortable in their normal working environment than someplace else.

Something we considered was whether or not to bring a tape-recorder to the interview. The advantages of a tape-recorder are of course that the necessity of taking notes is smaller and therefore a better contact with the respondent can be established. On the other hand, there is always a risk that the interviewee will feel uncomfortable with getting recorded and therefore cannot speak as freely as normal. For the interviewers there is also a disadvantage, i.e. becoming too relaxed and forgetting that notes are always necessary (Jacobsen 2000). It also takes a lot of time to transcribe the interview; normally an interview that lasted for about one hour takes about four to six hours to transcribe (Patel and Davidson 2003). We found that the advantages overcame the disadvantages, and therefore decided to bring a tape-recorder but also reminded ourselves to take notes as well. Before we started the interviews, we asked for the interviewees' approval to get recorded. Since we were two observers present during the interviews and a tape-recorder was used, we believe that the reliability of the interviews is assured.

The interviews were complemented afterwards with telephone calls and email correspondence, to cover the areas we did not receive satisfactory answers to and to unravel uncertainties.

2.8 The questionnaire

The most common form of questionnaire is one where all answers are given by the investigator. When the answer alternatives are predetermined, it is important that they cover all aspects of the question. Another demand for predetermined answer alternatives is that the different alternatives must be mutually exclusive, which means that they cannot overlap each other (Jacobsen 2000).

We chose to use predetermined answer alternatives as well as open questions. It is only recommended to use open questions when:

1. All alternatives cannot be overviewed or
2. There are so many alternatives that several pages would be needed for the list (Jacobsen 2000).

For us it was the first case, since we could not know all alternatives for all companies involved in the investigation.

In the beginning of a questionnaire it is often recommended to have neutral questions, such as background questions needed for the general understanding. A questionnaire is often also ended with a neutral question where the respondent can add things that he finds important but that has not been asked for. We followed these recommendations since we also believed that starting off with more controversial questions could make the respondents react with suspicion, discouraging them from filling out the form. The sequence of questions is also very important. Here we followed the so-called "reversed funnel technique", which means that the questionnaire opens with specific questions

regarding different aspects and is ended with open questions. This technique will help the respondents to think through the area and to form an opinion (Patel and Davidson 2003).

To select the respondents of our questionnaire we began with sending an email to the information center at the companies concerned, and asked them to forward us to someone with a lot of knowledge about the company's Shared Service Center. All respondents have a central position in the company's SSC, and have therefore a good insight in the activities concerned.

3 FRAME OF REFERENCE

Initially this chapter describes the history and the concept of Shared Service Centres. There after, the theoretical part of the three main issues; implementation, localisation and effects will be presented, followed by coverage of the alternatives to the Shared Service solution

3.1 History

The term Shared Service Centre was originally founded in the 1980s in USA. According to Strömsnes and Gil-Eldh (1999), it was Jim Bryant at Arthur Anderson Business Consulting who minted the expression.

Shared Services is a relatively new concept. There are many theories of who the first user of a Shared Service Centre was, and according to Schulman *et al.* (1999), General Electrics was the first company to use the technique in the early 1980s. It has its origin in USA, and a legal orientation towards corporations in USA made the concept Shared Service Centre known, and the expression entered the corporate dictionary. Since American companies, who had implemented an SSC, demonstrated significant cost savings up to 50 percent (Jarman 1998), the concept became known all over the world, and eventually it was introduced in Sweden. Today the Shared Service solution has become very popular in Swedish companies and is used by many of the leading groups in Sweden (Ulbrich 2003).

3.2 What is a Shared Service Centre?

“The concentration of company resources performing like activities, typically spread across the organization, in order to service multiple internal partners at lower cost and with higher service levels, with the common goal of delighting external customers and enhancing corporate value.” (Schulman et al. 1999, p. 9)

Collaboration between units can take place at three different levels where the third is the pure Shared Service-solution.

1. Common processes and shared competences. Each unit executes the process in a similar way, where required expert knowledge in and about the process is shared among the units.
2. As above plus co-location. Processes function as at level 1 but the different economic activities are performed in common premises with the purpose to facilitate backup and to relieve pressure over the borders of the different units.
3. Level 1 and 2 amalgamated into one unit. Processes are conducted mutually for all parties concerned with common competences over the borders of the different units, i.e. a central process oriented organisation (Meritmind).

The initial purpose with an SSC, which goes far back in time, was to create optimal organisations. Standardisation, specialisation and diversion of labour are three cornerstones of the notion Shared Services (Ulbrich 2003). The possibilities of standardisation and a uniform way of working increase the efficiency, and with a consolidation it is also possible to afford the required information technology (IT) investments. Consolidating

the administrative support activities within a corporation can also create economies of scale (Meritmind).

Shared Service Centre is an approach of doing business that takes many of the activities within support processes from each business unit, and brings them together to achieve critical mass. Those processes and activities are treated as the core of the Shared Service unit (Schulman *et al.* 1999).

Supporting processes in a company can often be seen as “non-value-added” by the management and because of this they often receive little attention and result in being too expensive. But when these processes are operated as a freestanding business unit and “*run like a business*”, they do add value by liberating time and management resources in the different business units (Schulman *et al.* 1999).

The point with collecting non-strategic processes into a common organisation under its own management is that the management in other business units of the company can be freed up to manage their goals. This, in turn, allows business unit managers to focus on solving business problems by enhancing the business units’ core processes, and therefore enhancing the value chain that leads to growth. Another purpose with Shared Service Centres is to free up the sales force so that they are able to spend as much time as possible with their customers, and to release those salespeople’s managers to help them make those sales (Schulman *et al.* 1999).

As a freestanding business within the company, the SSC needs its own goals, metrics, and performance targets. These should cover the business, through metrics such as cost savings and value added targets. The customer aspect should also be covered, through business unit satisfaction and compliance with service level agreements, and the process can also be covered through process improvement, activity-based costing and capacity utilisation. Finally, the goals and targets should cover people, through employee satisfaction, training and loyalty measures (Hogg 2003).

The idea with SSCs is to use leading technology to deliver the highest value of services at a low cost to internal customers. Shared Service Centres have a customer-oriented mind-set where users are viewed as customers. An SSC is dedicated to provide high-quality, cost-effective and timely service (Sciclient).

Shared Service Centres are most often seen in large and more complex organisations, those with over two milliard dollars in revenue and with multiple business units. Attributes of a Shared Service Centre are:

- It operates as a stand-alone organisation
- It is process oriented and focuses on specific activities within different processes
- It is driven by market competitiveness. The services are the organisation’s “product”
- It leverages technological investments
- It focuses on service and support to “business partners”, which goes beyond the traditional notion of “customer service” or “client support”
- It focuses on continuous improvements (Schulman *et al.* 1999)

3.3 Implementation

The first step in creating a Shared Service Centre is to identify what business areas that potentially can be involved. This identification can be done both by function and by process (Schulman *et al.* 1999). The success with which activities that can be moved to an SSC ultimately comes down to how well they can be consolidated and standardised. Two categories of activities meet these criteria (King and Leong 1998). The first is large volume-based transaction processes, which can be performed in the same way in all business units, and are often featured by having limited contact with external customers. Examples of such activities are Finance (accounts payable, accounts receivable etc.), and Human Resources (training, payroll, recruitment) (Hedborg 2000). The second group of activities are expert functions such as logistics, law and IT (King and Leong 1998).

The main reason for implementing an SSC is because the environment demands consolidation of supporting activities and processes, and therefore companies must create more unified systems and processes. Other reasons why companies should move toward a Shared Service environment are:

- To present one face to the business unit partner or customer
- To create a one-company approach among many disparate business units
- To free up the sales force from supporting tasks (Schulman *et al.* 1999)

Implementing a Shared Service Centre is a major organisational change that needs to be defined and mapped out. This is usually done by help from outside consultants. Today there are several practitioners that a company can turn to for expert assistance in this complicated implementation. By using consultants, the company can learn from the mistakes of others and get through the minefields that damaged other companies. Consultants can also transfer their knowledge in best practice to the company (Schulman *et al.* 1999).

3.3.1 Phase-in plan

There are different ways of implementing a Shared Service Centre. One is to phase it in process by process (or sub processes), e.g. consolidating all pension and benefits transactions first, then travel and expense, i.e. moving along from one process to another. An alternative to this is to bring in all the processes in each type of services in order, i.e. Finance first, then Human Resources, then Materials management etc. Another way is to focus on the largest business unit first, bringing the following business units into the Shared Service Centre in descending order of size (Schulman *et al.* 1999).

3.3.2 Systems

A question frequently asked is whether it is more effective to implement a new IT system before or simultaneously with the creation of the SSC. There is no right answer to this, but one thing that must be noted is that implementing IT systems can take a long time, which may delay the Shared Services project (King and Leong 1998).

The IT systems must be rationalised so that all of the business units are feeding the necessary information into compatible IT systems. Systems are a critical infrastructure component to a Shared Service Centre's success. The ultimate goal is to move from the

current mishmash of transaction systems to a common system platform. Managing this can be very hard, especially in global corporations where different national organisations are sometimes committed to their locally developed hardware, software and work systems (Schulman *et al.* 1999).

An opportunity to both improve productivity and reduce costs for quality appears when processes are standardised and best practices implemented. This occurs because the employees can begin to view their work in an end-to-end process perspective and see how their activities fit into the entire process (Schulman *et al.* 1999).

A minimum requirement when moving to an SSC is to rationalise the number of hardware platforms and software packages on which recordkeeping is performed. Processes cannot be fully standardised unless the systems are standardised. Moving to common hardware and software platforms also reduces software purchases, license fees and maintenance costs. Technological transformation is natural when creating an SSC, since there is always some kind of upgrading of hardware and/or software. Carrying out service processes for many different physical locations and many business units also requires heavy investments in telecommunication infrastructure (Schulman *et al.* 1999).

Costs	Benefits
Systems (processes and technology)	
<ul style="list-style-type: none"> • Reengineer processes • Establish metrics • Implement best practices • Hardware • New software • Upgrade infrastructure • Call centre 	<ul style="list-style-type: none"> • Improved productivity • Implement best practices • Standardised processes • Enterprise-wide software • Platform scalability • Reduced license fees • Reduced maintenance fees • Reduced software purchase prices

Table 3.1 Costs and benefits for systems, associated with moving to a Shared Service Centre (Source: Schulman et al. 1999, p. 181)

3.3.3 Barriers to implementation

At a more fundamental level, barriers to implementation of a Shared Service Centre all circle around individuals, the business problem and how groups work together. These barriers are essentially the same that would be found in any major organisational change initiative:

- People
- Policies and procedures
- Technology
- Corporate culture and organisational dynamics
- Controls
- Metrics (Schulman *et al.* 1999)

To break those barriers, a person who is both willing and able to lead is needed; a leader who creates visions and drives it deep into the organisation. The visionary leader must be convinced of his vision, and must frequently remind his staff why the organisation is

“*doing what it is doing*” (Schulman *et al.* 1999, p. 236), i.e. to solve business problems. He must also continually explain how the vision will solve business problems easier, and that the vision, in the end, will make people’s jobs more stimulating and more challenging (Schulman *et al.* 1999).

3.3.4 Managing change

Change management means the effort it takes to manage people through the emotional ups and downs that unavoidably take place when an organisation is experiencing a massive change. Successful change management must provide, to each member of the staff, a sense of ownership in the vision of “to be”. Each person must understand why the company needs to get from “*as is*” to “*to be*” (Schulman *et al.* 1999, p. 237), and must understand which role he will play in the future organisation. To be able to achieve full intangible benefits (see section 3.6.2), companies must actively deal with the expectations of individuals (Schulman *et al.* 1999).

Communication between management and staff cannot just be impersonal memos and intranet postings; the managers have to talk to people personally. It sometimes happens that corporate leaders do not want to communicate until they can announce an outcome. This is wrong, because a major business change is about the process as a whole, not just about the outcome. If the staff is aware of the progress toward the final decision, the risk of rumours is minimised and it also helps to create trust (Schulman *et al.* 1999).

To achieve a successful implementation of an SSC, it is important that management plays an active role. This can be done by:

- Building people’s understanding of and commitment to the changes connected to the implementation of the SSC
- Make sure that the key elements of the organisation (structures, roles and skills) support the implementation
- Enabling continuous improvements to keep the change moving (Schulman *et al.* 1999)

It is important not to forget that “*an organization can undergo successful change only if the management are willing to let the natural processes take its course*” (Schulman *et al.* 1999, p. 239)

3.3.5 Service-Level Agreements (SLAs)

It is vital that operating business unit executives and Shared Service executives work together and in partnership consent to service-level agreements. An SLA clearly defines what the Shared Service Centre has to do to meet its business partner’s requirements. Satisfaction of the partners should become the mantra for the Shared Service organisation and become the management’s objective (Schulman *et al.* 1999).

Strategic Business Unit → *Shared Service Operation* → *Strategic Business Unit*
Input → *Process* → *Output*

Within the processing of inputs, there is an efficiency element and an effectiveness element:

$$\begin{aligned} \textit{Speed} + \textit{Resources} &= \textit{Efficiency} \\ \textit{Cycle Time} + \textit{Quality} &= \textit{Effectiveness} \\ \textit{Efficiency} + \textit{Effectiveness} &= \textit{Value} \end{aligned}$$

The requirements for appropriate inputs must be clearly defined and agreed to by the strategic business units (SBUs) and the Shared Service Centre, and must be held on to by the SBUs. At the same time, the SSC has given a promise to deliver high value (Schulman *et al.* 1999). A set of requirements and promises is defined within the SLA; an example of this is shown in table 3.2:

• Definition of services to be provided by whom and to whom	• Share and liquidation of implementation costs
• Timeliness and effective dates	• Allocation of benefits and cost reduction
• Pricing per transaction and duration of price-list	• Continuous improvement teaming and beneficiaries
• Discounts	• Disaster recovery plans
• Signatures of both parties and date discussed	• Help desk names, contact numbers and availability

Table 3.2 Principles of a Service-Level Agreement (Source: Schulman *et al.* 1999, p. 167)

3.4 Localisation

Before starting to create a Shared Service Centre it is important to consider where the best physical location for the activity can be. This decision will affect all interested parties (management team, personnel and customers) and it is, therefore, important to place the SSC at a location suitable for everyone. According to Schulman *et al.* (1999, p. 142) there is one question that is central when deciding where to locate the Service Centre:

“Is this the right place from which to work in order to solve the basic business problem we are setting out to solve?”

A good place to locate an SSC in can be a place where other SSCs already are established. This is due to the existing labour pool that has already dealt with the start-up environment and is familiar with the processes. This can contribute to a smoother implementation process (Monasch and Slavenburg 2005).

Starting a Shared Service Centre can create many problems. Especially difficult is it in Europe, since it contains such a variety in working styles, currencies, languages, regulations regarding working conditions and accounting standards. It is, therefore, important to make sure the location of the SSC fits the needs of the company. Depending on what business the SSC is focusing on and which country the business is located in, different variables need consideration, see below (Schulman *et al.* 1999).

3.4.1 Cost

In most cases, cost reduction and standardisation are the main objectives for setting up an SSC. It is, therefore, vital to set up the organisation within a low-cost environment. Earlier it was only possible to run Shared Service organisations near the highly developed capitals, where the technology and educated staff needed for the business existed. But as technical development ran forward and telecommunications improved, the possibilities to move the Service organisations to suburban or exurban areas increased. The advantages with placing businesses outside big cities are the low costs for living, which helps keeping the wages down. Also, costs for real estate are lower in these areas. On the other hand, it is vital for some companies to have a central location and must therefore prioritise the higher prices for real estate in the cities (Schulman *et al.* 1999).

3.4.2 Workforce

There can be big differences in working conditions, depending on what country the workforce originates from, e.g. hourly or daily rate, amount of paid holiday and sick time, training costs, benefits and redundancy payments, which highly influences the cost for workforce. Therefore, it is important to choose a location where the workforce conditions are most profitable for the company. If parts of the workforce have to move to another location, it is important that they can acclimatise to the new environment and the new working conditions, i.e. that the workforce is flexible.

Another important indicator when deciding location is the language skills of the workforce. In a pan-European business it is desirable that they speak at least three languages; English, German and either French, Italian or Spanish. Bearing in mind that some countries in Europe have relatively low language skills, it can be important to think about what languages are needed in the business (Schulman *et al.* 1999).

An SSC requires a workforce that has good knowledge in IT and it is therefore important to locate it in an area where these qualities exist. Since companies often have business units in many different countries, it is important that the communication between them work properly. In this case IT systems such as SAP, Peoplesoft and Baan can help overcome these problems (King and Leong 1998).

3.4.3 Taxes

Establishing an SSC can create many opportunities regarding taxes, especially, since the variety of options for a location is wide. “*Essentially, the greater the number of activities taken within the SSC, the greater the tax issues and opportunities*” (King and Leong 1998). Therefore it is important to choose the location with the lowest amount of payable tax.

There are a few variables that influence the amount of tax that an SSC has to pay:

- The tax rate
- The method of calculating the profits to be taxed
- The individual circumstances of the company, e.g. utilisation of tax losses (Schulman *et al.* 1999)

Within Europe the rate for company taxes vary widely; the countries with the highest level of tax are France and Germany with rates over 40 percent, and the country with the lowest is Ireland with only about 12 percent (King and Leong 1998). Many international companies, particularly American multinationals, choose the Netherlands or Ireland to set up an SSC (Lam 2000). Locating the SSC in a country with good tax conditions can involve tax deductions for capital expenditure, financial costs and intangible assets, which can lead to major savings for the company (King and Leong 1998). Starting up a new business, in some countries, includes tax relieves from the government, e.g. reduced property taxes (Schulman *et al.* 1999).

3.4.4 Transportation possibilities

Depending on what kind of service the SSC performs and where it is located, it can be important to look at the external infrastructure, i.e. roads and utilities. This issue is especially important for companies that choose to locate in remote areas, where the availability is limited (Schulman *et al.* 1999).

It is important that the location has good travel possibilities, such as international airports with many flights and advantageous prices, since the managers will have to visit the different Service Centres for meetings and check-ups. Also, if the business is going well, the executives will probably want to show their business to other companies and help them by giving advices on how to create their own SSC (Schulman *et al.* 1999).

3.4.5 Political aspect

When creating a business abroad, it is important to look at the political situation as well as the economic situation. Sometimes foreign companies can be protected from shifts in politic and economic instability. Though, there is always a risk for companies to locate in a country instable in these areas. When dealing with the stability of a country, it is not only important to look at the risks for war and governmental failure, but also security of banking, telecommunications and road systems are essential in a security aspect. Included in political stability is the constancy of the country's currency. Before 1980, it was nearly impossible to perform a Shared Service operation because of the currency differences. But since the IT software ERP, that calculates numerous currencies, was introduced, it enabled the Shared Service solution to work properly (Schulman *et al.* 1999).

In Europe, the situation has improved and the currency has stabilised after the introduction of the Euro. Though, it was not only currency advantages that came with the EMU. It also has included access to a generously proportioned capital market, provided price transparency, simplified trade and quotation of financial instruments, and enabled more efficient operations. All of these arguments can be advantageous for companies deciding to establish Shared Service Centres in Europe (Schulman *et al.* 1999).

There are four aspects to consider before making the final decision of location:

- Both company and governmental politics will play an important role in the performance of the SSC
- To overcome the difficulties with variety of cultures in Europe, a Greenfield solution (see Appendix IV) is, probably, the best alternative

- The importance of the workforce situation is often underestimated and needs a lot of focus
- Tax havens today do not always result in tax savings in the long-run (Schulman *et al.* 1999)

According to Schulman *et al.* (1999, p. 150), “*the best advice is probably to make decisions relatively quick. Do not get caught in analysis paralysis*”.

3.5 Effects

The implementation of a Shared Service Centre brings about many effects, both positive and negative. Below some of the possible effects are described.

3.5.1 Staff aspects

Some companies that are using the Shared Service Centre solution report that employees in SSCs have a better perception of their work than they did before the implementation. The staff believes that their work is valuable and that they are part of a large corporate team. Many people find that moving to a Shared Service Centre enhances both their current job and their career prospects, since a well-designed SSC is set up to provide a training ground for individuals to move into management. Unfortunately, some staff also feels that they are in no man’s land and that they have lost the close connection to a business they had when they worked within a business unit (Schulman *et al.* 1999).

When adopting the Shared Service Centre methodology, companies are forced to rethink concerning the skill set they are looking for in employee selection. The skill set needed for successful Shared Service Centres is robust and does not focus on narrow technical expertise in transaction processing. The skills needed are broader service skills that are going to be used to focus on solving business problems through understanding the four components of value: cost, time, quality and service. When it comes to the skills needed for the management of a Shared Service Centre, it is visionary and growth-oriented persons that should be searched for (Schulman *et al.* 1999).

Benefits for a company regarding staff include a reduction of full-time equivalent (FTE) employees through improved and standardised processes. A reduction can also be obtained through a higher level of workload, e.g. if there is enough work for 3.5 persons at four different sites in one process, four persons are paid to complete the work at each site. Just consolidating the process will allow a reduction of two persons, without any improvements. Wages can also be reduced when an SSC is established and the processes are performed by employees in a location with lower wages (Schulman *et al.* 1999).

Before cost savings from staff reduction can be realised, there are costs that need to be paid. For those employees who are needed after the implementation, even if it means moving, there can be relocation costs and bonuses for staying. There is also the cost of increased training to help them build up all skills necessary to handle the new activities. For those employees who are not wanted anymore, there are severance costs including accumulated leave time payments, possible early retirement buyouts, outplacement and

possibly increased unemployment insurance costs for those laid off (Schulman *et al.* 1999).

There are also costs associated with creating new staff in the new location. Even if all staff is taken from other business units within the company, there will be temporary staff needs while they do the move and the transition. If there is a need to hire new staff, there are recruiting costs as well as orientation and training costs (Schulman *et al.* 1999).

There is an obvious trend towards professionalized performance of service related activities together with increased demands for educated staff. This includes a risk for former employees to get reduced to the benefit of persons with higher education (Hedlund 2005). Experience shows that what works best in this case is a good mix of existing experience and business knowledge combined with new starters with fresh ideas. The recruitment process should be competence-based to ensure that necessary technical and language skills are found (Management Accounting 1998).

Costs	Benefits
People	
<ul style="list-style-type: none"> • Relocation • Stay bonuses • Training • Temporary staff • Severance packages 	<ul style="list-style-type: none"> • Reduction in FTEs • Reduction in wages due to site selection • Maximised span of control • Minimised overtime

Table 3.3 Costs and benefits for staff, associated with moving to a Shared Service Centre (Source: Schulman et al. 1999, p. 181)

3.5.2 Customer aspects

According to Schulman *et al.* (1999) the expression “customers” of Shared Services is confusing and is not a suitable term, instead business units should be referred to as “partners” with Shared Services. After implementing an SSC the relationship between the different parties goes from being a simple transactional relationship to a partnership relationship. This means that customer / supplier relationship is established, where the SSC is the suppliers and the other business units are the customers (Hedborg 2000).

The pricing mechanism will influence the relationship between Shared Service Centres and its partners. It can range from no charge– under which cost management would be the sole responsibility of the SSC – to fixed prices and transaction pricing based on forecast volumes or on competitive market rates (Hogg 2003).

Building strong internal customer relationships is essential for the company. This process must start from the top with management that is outward facing and honest about treating internal clients as real customers. Team leaders must have strong agreement-building skills to achieve a balance between customer service requirements and cost efficiency (Management Accounting 1998).

3.5.3 Financial aspects

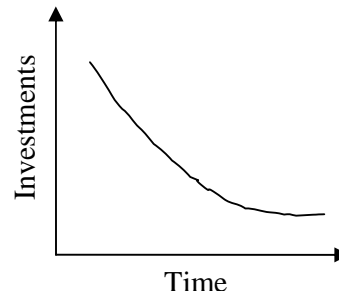
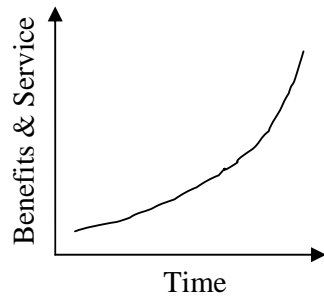
An important part of the decision whether or not to create an SSC, has to do with the ability to save costs. Initially the costs for implementation can be quite high, and most companies expect to get payback of these costs within a few years. Though, it is important that cost reduction is not the only reason for implementing an SSC, but to increase the level of service provided to the business partners (Schulman *et al.* 1999).

Creating an SSC includes a lot of changes, which creates a lot of costs. One big expense when moving to a Shared Service environment is the change of the processes; e.g. process reengineering, process redesigning, or new process designing. These costs always exist to some degree; in simple cases there are costs for establishing new metrics and implementing best-practice processes, and in the more advanced cases an extensive business process reengineering (BPR) can be carried out (Schulman *et al.* 1999).

When consolidating to an SSC, hardware and software will need upgrading, this contributes to technology costs for the company. Further, having business units on different locations requires costs for improving the telecommunications, which leads to increased technology costs. Moving to other locations also includes costs for finding, taking possession of, and designing the new facilities. Also moving equipment and records from the old facilities will contribute to costs for companies (Schulman *et al.* 1999).

There is a difference between Europe and America concerning how long it takes to get payback from costs associated with the implementation. In Europe, normally, it takes up to 30 to 60 months, since costs for saving labour is replaced with severance costs during the first year. In America, on the other hand, companies usually get payback within two to three years (Schulman *et al.* 1999). There are intangible benefits such as enhanced customer service, flexibility, and employee satisfaction that increase the payback even further (Hogg 2003). The conclusion of this is that in Europe, the non financial reasons for implementing an SSC must be stronger than they are in America (Schulman *et al.* 1999). An example from Schulman *et al.* (1999) shows that an American company can save up to 70 million dollars annually, mainly due to a reduction of workforce (minus 40 percent), but also because of the increased level of control for the management.

Figure 3.1 (see next page) shows the benefits over time when optimising service delivery to maximise productivity (left), as well as the investments over time that are necessary to undertake the effort (right). Early costs are enormous, but as soon as this payback has been reached, gains will grow rapidly (Schulman *et al.* 1999).



- Volume synergies
- Technology investments
- Best practice adoption
- Standard processes
- Leveraged spending

- Leveraged spending
- Severance costs
- Relocation costs
- Recruiting costs
- System integration costs
- System enhancement costs

Figure 3.1 Benefits and investments from optimising productivity (Source: Schulman *et al.* 1999, p. 174)

3.6 Benefits

3.6.1 Tangible benefits:

- Expense reduction
- Increased productivity
- Economies of scale
- Leveraged technology
- Improved spans of control
- Working capital improvements from standardising, centralising and netting treasury activities
- Working capital gains from operating receivables, payables and inventory management in a centre of expertise
- Consolidated transactions with common customers and vendors
- Leverage consolidated spending with vendors to negotiate better terms and prices
- Reduction in business complexity, audit and statutory reporting fees (Schulman *et al.* 1999, p. 14, 177)

3.6.2 Intangible benefits:

- Enhanced customer service
- Standardised processes and pooled resources
- One-company approach is promoted
- More rapid transition by focusing on “added value”
- More effective maintenance of standard “code block” throughout the organisation

- Improved accuracy and consistency of information
- More sophisticated business controls from leveraging volumes and technology investments
- Better leverage of learning curve due to new systems (Schulman *et al.* 1999, p. 14, 177)

3.7 Alternatives to Shared Service Centres

There are many similarities between Shared Service Centres and its three most common alternatives; centralisation, decentralisation and outsourcing. To clear out the differences between these three concepts and SSCs, a comparison of these will follow.

3.7.1 Centralisation vs. Shared Services

Shared Services and centralisation are two concepts that are easily mistaken for one another. The main difference between these two is that centralised processing is focused on the corporate headquarters, where all services are collected and standardised. The Shared Service unit, on the other hand, is an individual business unit within the corporation, which provides services for other companies in the same group. Put in another way, they work as partners to the business units who have the right to demand a certain level of service from the SSC (Schulman *et al.* 1999).

A common reason for centralising business units is because it is a cheaper alternative compared to the SSC solution (Ulbrich 2003). Centralisation means that companies can become more efficient and increase their possibilities of using the company's experts within the international organisation. Though, centralising management can involve problems like international legislation, different languages and cultures, which can cause confusion both to customers and to the company's staff (Lam 2000).

By centralising units, they become a part of a legal entity with budgets as the main mean of control. This usually results in lower awareness of costs and service levels. The difference from Shared Services, in this area, is that SSCs often perform as cost-centres (Ulbrich 2003), where the awareness of costs usually are higher, since cost-centre units are controlled and followed up according to how well they achieve their cost-targets (Ax *et al.* 2001).

In centralised units, functionally oriented design tends to be the main character in the company, while Shared Services tend to have more process thinking and put the customer and business partners in focus. This means that centralised companies often have a lower rate of customer orientation, while Shared Service Centres usually have a medium or even high rate of customer orientation (Ulbrich 2003).

Centralisation “often suffers from its sordid history of a bureaucratic centre with no idea of service or the real world” (Quinn *et al.*; cited by Ulbrich 2003, p. 6).

3.7.2 Decentralisation vs. Shared Services

According to Schulman *et al.* (1999, p. 13) “shared services goes hand-in-hand with decentralization”. This means that SSCs optimise a decentralised corporation, by allow-

ing the individual companies in a group to focus on the strategic part of the processes and transfer the non-strategic part to a separate service unit within the company (Schulman *et al.* 1999).

Decentralisation is the opposite alternative to centralisation, which means that, for example, support processes are placed in the local departments. Decentralisation can also involve movement of responsibility and decision-making from a central level in a group to the individual companies. The main reasons for decentralising units are usually to encourage local initiatives, to decrease the vulnerability in companies and to enable faster decisions (Nationalencyclopedin).

Decentralisation is different from the SSC solution in many aspects. One difference is that Shared Service Centres often are separate legal entities, fully owned by the company. In decentralised companies, on the other hand, processes and services are spread out over the different business units in the group. Further, there is a difference in responsibility. Decentralised companies are only responsible for the local departments and the activities and processes performed at the same location, while SSCs serve departments at different locations and are not necessarily located in connection to any of the served companies. The procedure of pricing is also one feature that differentiates decentralisation from Shared Service Centres. Transfer prices are most commonly used in SSCs, while decentralised companies usually apply to local cost pricing. Just like a centralised company, the structure of a decentralised company is usually functional, while in Shared Services the structure generally is process oriented (Ulbrich 2003).

SSCs have been promoted as bringing the best of both worlds - the benefits of economies of scale from a centralised operation, with the customer focus of a decentralised operation (Monasch and Slavenburg 2005).

“Shared services capture the best elements of both centralisation and decentralisation, while leaving behind the problems” (Schulman *et al.* 1999, p. 11). For a more extensive comparison, see Appendix V.

3.7.3 Outsourcing vs. Shared Services

There are many reasons why companies choose to outsource parts of their business to external companies. Examples of this can be lack of competence for special performances or lack of capital for investments (Ax *et al.* 2001). Outsourcing means that companies go from using its own resources (internal) to using an external company's resources (Schulman *et al.* 1999).

To relate outsourcing and Shared Service Centres, a quotation of Schulman *et al.* (1999, p. 99) can be used: *“Shared Services and Outsourcing are flip sides of the same analytical coin”*. To decide whether outsourcing or “insourcing” (i.e. having an SSC) is the better decision, it is important to have all facts about the disadvantages and the advantages, and analyse them (Schulman *et al.* 1999).

An essential difference between outsourcing and Shared Services concerns the legal body. A company applying to outsourcing loses the legal right for the part they choose to outsource, i.e. the legal responsibility is transferred to an external company that is independent from the corporate group. On the other hand, an organisation with an SSC

as their service provider still has the legal control over the unit since the company owns it. Another difference is the way of deciding prices. Since outsourcing includes two different companies, the pricing is often based on negotiable market prices, while companies with Shared Services most commonly use transfer prices (Ulbrich 2003).

There is one prominent advantage with having an SSC instead of using outsourcing. It includes having a closer relationship with the rest of the organisation, which gives better conditions for continuous improvements of the service unit. Though, with outsourcing, companies can take advantage of the supplier's possibilities of economies of scale, which can encourage greater investments in technology and the potential of having a higher level of expertise and service (Hogg 2003). But there is also a negative side of this. The professional competences that are created in the service-process fall on the external company, and the company that chooses to outsource, misses out on important knowledge. In the long run this can result in a decrease of the existing competence since the tasks are no longer performed in the company (Ulbrich 2003).

When choosing whether to outsource or to have a Shared Service Centre, there are three important questions that need to be considered:

1. How important, to the company, is the service that they plan to outsource/insource?
2. To what extent does the company perform the service today?
3. What level of performance does the service need in the future? (Schulman *et al.* 1999)

4 EMPIRICAL FINDINGS

To broaden our study and to get a reality-based perspective of the Shared Service Centre phenomenon, we decided to conduct interviews and questionnaires. The first two parts of this chapter contain interviews with two large Swedish companies, SKF and Volvo, followed by findings from five questionnaires. The structure of the empirical findings will follow the three focus areas: implementation, localisation and effects.

4.1 Interview with Stefan Genne, SKF, April 12th 2005

The Shared Service Centre of SKF is called European Financial Centre (EFC) and is situated in Holland. All SKF sales divisions in Europe are centralised and managed by EFC. EFC is also responsible for all financial reporting in SKF, e.g. producing several monthly reports.

4.1.1 Implementation

The idea of creating an SSC was founded when a project, created by the finance department in the corporate group, called SARA (SKF Accounting and Reporting Application) was carried through. The project aimed for common software for the financial activities in the European business units, and was initiated when the management, by benchmarking, found out that the costs per transaction were much higher for SKF than for other leading companies. With this in mind, the idea of creating an SSC for the sales divisions came up.

The figure below shows that the company, which had the most efficient administrative functions, only paid 0.6 percent per transaction. This meant that SKF paid several times more than necessary for their administrative services, which triggered them to make a change.

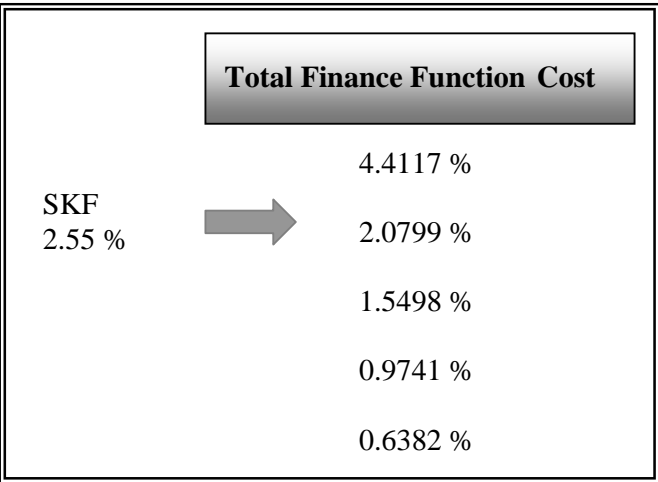


Figure 4.1 Benchmarking of Finance Treasury Function (Source: SKF, presentation material)

The main objective for SKF to introduce an SSC was cost savings, but also standardisation of bookkeeping and procedures was of great importance. Before the SSC was introduced, each company used its own procedures and chart of accounts, even though there were standardised forms available. After the implementation of the SSC, all companies were forced to use the same standardised settings.

The idea of an SSC became reality for SKF in 1997, and in the beginning of 1998, the final installation of the new system was completed. At this time, the first company was incorporated and went online on the new system, an American software called Masterpiece. This was the beginning of a common platform for all administrative activities in SKF. The project required approximately one year to develop before it could be integrated in the business units. This was due to the fact that the new system had to be approved by the companies, which also needed information and instructions about the processes. The main idea with the SSC was to centralise all administrative services, i.e. incoming and outgoing invoices, into one unit. This required good communication between the companies, which took a long time to create and demanded an efficient system. Systematic incorporation of companies has been conducted through the years and is still going on.

The objective for introducing an SSC was to minimise the costs on transactional and accounting activities and instead focus on decision support. This meant that as little time as possible should be committed to system running and error detection. This was obtained by mechanising the whole flow of transactions. Before the SSC was introduced, SKF paid a lot more for transactional and accounting activities than necessary. The goal was to reach the same structure as for the leading companies, i.e. to be able to put as much as possible of their budget on decision support.

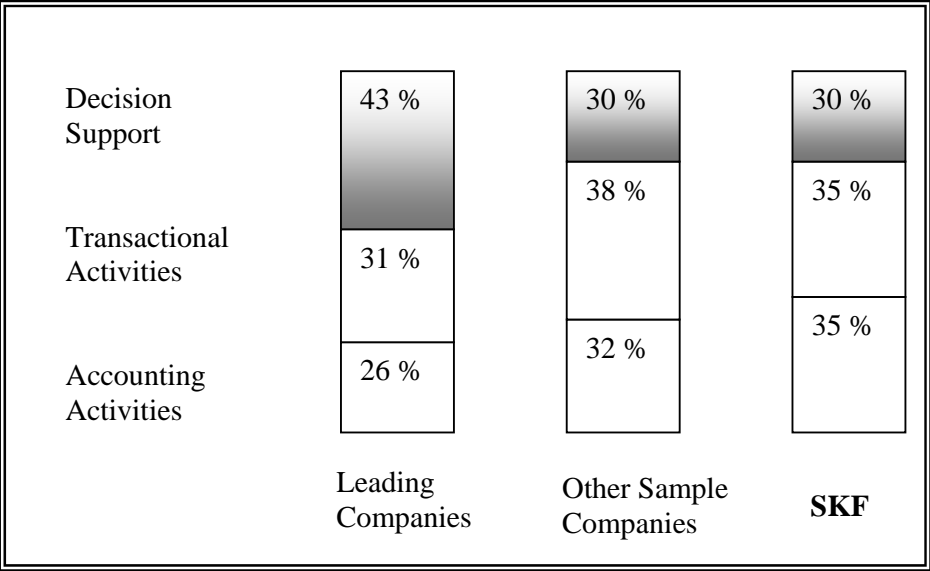


Figure 4.2 Structure of Total Finance and Treasury Cost (%) (Source: SKF, presentation material)

Outsourcing the financial functions was never an alternative for SKF since there was no outsourcing solution ready on the market when the project started. Therefore an integrated SSC was the obvious choice.

4.1.2 Localisation

There were many reasons for SKF to locate their Service Centre in Holland, and one of them was tax reasons. The EFC was financed by a mark up, which contributed to a few tax-related consequences, and in Holland, those consequences were possible to solve. Another possible alternative for location, regarding taxes, was Belgium. Holland was chosen since SKF had other companies there for this specific reason. They also had a centre for research there, which meant that they already had available facilities. Another reason was that Holland is situated in the centre of Europe, which made EFC the central spot for all sales units they were going to serve.

The reason for SKF not to place the EFC in Sweden was because they did not want to emphasise the corporate headquarters. It would have been possible to place it in Gothenburg, but the EFC is an independent business unit and should not be mixed up with the group headquarters. From this point of view, it was better to place it in Holland, accentuating the independency.

There have not been any obvious problems with this choice of location. The intention was to start a business with a European crew and this has worked out well. One minor problem though, has been the system settings, which are complex with all the different countries and national differences regarding tax rules, VAT-rules etc.

4.1.3 Effects

4.1.3.1 Staff

The implementation of an SSC involved transferring 80 percent of all economic transactions from each company in the SKF group to the EFC. This, obviously, implied big changes for the employees. This was most prominent among the chief financial officers (CFOs), who lost a lot of their responsibilities and subjects. This was probably one reason why some of the concerned parties were against the SSC solution.

Since routines and work procedures changed when the SSC was implemented, the duties for some staff disappeared while other tasks had to be performed in a different way. This created some problems for the workers. The staff had to go through internal education in software and procedures. This process took a long time to complete, especially in the sales divisions.

The change did not imply a lot of dismissals, but since it took so long, some natural resignations occurred. Therefore, it is hard to estimate how many people that had to leave due to the implementation of the SSC.

The staff at the EFC consists of people from many different European countries. The staff was not recruited from existing administrative divisions in SKF, which meant that none of the existing staff had to move. The EFC involves increased career possibilities, since many employees can continue their careers in other SKF companies, which will lower the staff turnover for SKF as a group. This also means that staff will be more competent and recruitment costs will decrease. The general opinion of the SSC solution among the staff is mostly positive, but it takes a long time to make the staff accept a change. *"Never underestimate the human factor when system changes are made!"* (Stefan Genne)

There is a large problem to make people realise that SKF now is one single company with one common process that everybody has to accept and follow. This takes a long time accomplish, and a lot of the employees seem to think *“it was always better in former times”* (Stefan Genne).

4.1.3.2 Customers

As far as Mr. Genne knows there have not been any negative responses from customers and suppliers. The intention was that the implementation should not be noticeable for the customers; the only difference is the appearance of the invoice, since it is now coming from SKF International. A conceivable negative reaction could have been difficulties with customer contacts, e.g. concerning invoice related inquiries. SKF solved this problem by keeping the sales divisions responsible for all customer related contacts, i.e. the responsibility that an invoice gets paid. The EFC is only responsible for handling the transactions. This has created some problems with the sellers, and as Mr. Genne said, *“a problem could be that the sellers think - damn, we are responsible for selling, not to impel payments – but this is a part of the changes that an SSC involves”*.

4.1.3.3 Financial

The production of reports handled by EFC has become extensive. This makes it profitable to build bridges between different systems so that reporting into other systems can be done automatically. All figures and reports carried out by EFC are made under the same conditions, which makes them more trustworthy for the decision makers. This also enables a higher level of control for the management; if they set a new standard it will be followed by every part of the company. The reporting process is now much faster and more efficient; it takes only four workdays to complete the monthly reports, and in the near future, the time will decrease to only one workday, thanks to the SSC solution.

The SSC leads to a common follow-up for all sales divisions, which results in efficiency gains, though the biggest economic profit lies in the new way of handling the large amount of transactions, which now can be performed in a more efficient way.

Setting up an SSC is expensive. For SKF it is hard to measure how much it cost since they created a new system for the manufacturing divisions at the same time. The only thing they know for sure is that they spent several million SEK to create a common system in Europe.

4.1.4 Future

The next step for SKF is to centralise the processes for the European manufacturing units and integrate them in the EFC. Since the EFC has been very successful in Europe, a discussion has started whether or not SKF should implement an SSC in South-East Asia.

SKF believes in the SSC concept and consider it very efficient, since they have reached desirable results. *“There is no doubt that this is a good solution!”* (Stefan Genne)

4.2 Interview with Nils Rune, Volvo Business Services, April 29th 2005

Volvo AB's Shared Service Centre is called Volvo Business Services (VBS). Its vision is to be *"the Volvo group's preferred partner for business administrative services"*. To reach this vision they have a mission, in which they state: to standardise and actively develop processes in cooperation with their customers, to provide efficient administrative services matching customer requirements, and to achieve economies of scale.

In the beginning, VBS consisted of 120 employees, but have now reached the size of 430 employees. The reason for this great expansion is that VBS has, through the years, incorporated more and more of the companies in the Volvo group.

VBS performs three different processes: accounts payable, accounts receivable, and accounting and reporting. These processes are divided up in three main parts (for examples, see Appendix VI):

- Standard products: a flow that VBS has as standard offer
- Additional services: services that VBS can perform but are not part of the standard offer
- Error detection: a way of showing customers the potential of VBS for cooperation

The main priorities for VBS are:

- Customers
- Quality
- Competence
- Efficiency

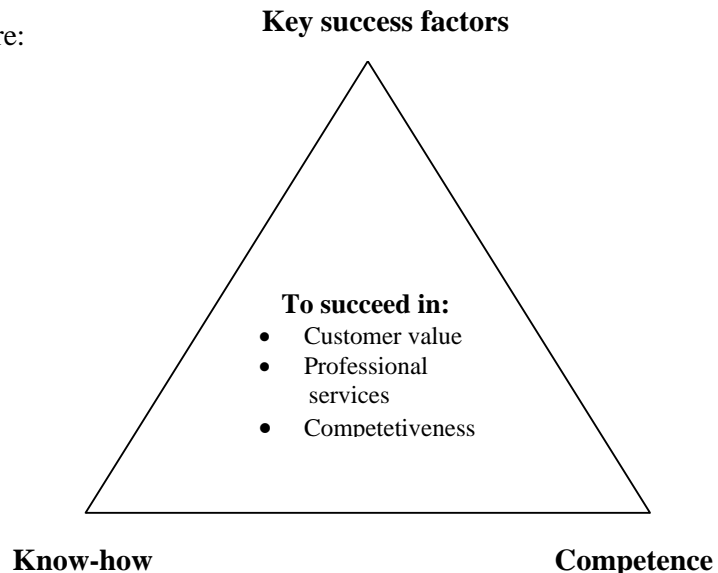


Figure 4.3 Key success factors for VBS (Source: Volvo Business Services, presentation material)

4.2.1 Implementation

In 1994, at Volvo's controller's conference, a decision of a project concerning common transactions for the Volvo group was made. The business units within the Volvo group had different economic systems, e.g. in Gothenburg the GRS (Göteborgs Redovisningssystem) accounting system was used, therefore the management decided to move on with only one common system. The decision weighed between three different systems, and the German alternative SAP R/3 was chosen, since it could be combined with the Swedish Generally Accepted Accounting Principles. In order to move on with

SAP R/3, the Inter Company Transactions (ICT) project was commenced, which aimed at providing a common solution and chart of accounts.

The main reason for Volvo to implement an SSC was cost reductions, but also the ability to “*press only one button*” to receive trustworthy reports was an important indicator. The decision to found VBS was made in 1997 by the management at Volvo. This involved moving transaction handling to one location, where common routines and ways of working were attained. The purpose was to reduce staff costs in the long-run; initially the aim was not to exceed 150 employees at VBS. This limit was impossible to maintain, concurrently with the increasing amount of Volvo companies incorporated. The first companies incorporated were Volvo AB with its subsidiaries and Celero Support.

In 2001, a project called the Comet project was finished, which involved abolishing some parts of the dealing with Volvo’s market units. This led to invoicing directly from VBS, which “*economised a lot of economists*”. Controllers are still active within the different business units, performing cost controls.

All processes that VBS performs were implemented at the same time. The incorporation of the business units has occurred gradually, and in 2005, the last step on the Swedish market will be taken when the accounts payable of Volvo Aero will be incorporated in VBS.

The cost for implementing VBS was initially very high, but since the decision to create an SSC was taken at the same time as a new economic system was introduced, the exact cost is hard to specify.

The implementation was carried out with help of a few external consultants. They contributed with the time reporting system, but not with the set up of the SSC, since those competences could be obtained internally.

4.2.2 Localisation

The decision to place VBS in Gothenburg was not obvious. The crucial factor was that many companies within the Volvo group already were situated in Gothenburg, and thereby also the economists working there. This means that there are economists at VBS who have worked with invoicing for the Volvo group in many years and know the company and its business very well. Locating VBS in Gothenburg is, in fact, more expensive than to locate it in the countryside, since the standard prime cost is higher in cities because of the high salary levels. On the other hand, it is easier to get skilled and well-educated staff in Gothenburg. A disadvantage, though, is that the staff turnover is high.

VBS Gothenburg only deals with the Swedish market. But since Volvo has companies all over the world, several other VBS have been established:

- Eskilstuna: VBS Eskilstuna started in 2003 and handles Volvo Construction Equipment-related transactions
- Poland: VBS Poland started in 2004 and concentrates on the market Central Europe, but also on Inter Company Transactions (ICT) between the Swedish companies in the group
- USA: VBS USA started in 2004 and concentrates on the North American market, but the incorporation of business units is still not completed

4.2.3 Effects

4.2.3.1 Staff

VBS states that “staff is the basis of our organization”. The three cornerstones of their staff policy are:

- Active leadership
- Higher level of knowledge and skill
- Training and development

The most prominent change for staff is standardisation, which has cost a lot of energy, time and money. This involved dividing up the work routines into small boxes within accounts payable, i.e. a very square-shaped way of working. This has led to alienation and gloominess among the employees. But thanks to the implementation of VBS, a possibility to advance in the company now exists for the staff.

There has been noticeable resistance among the staff regarding the standardisation. VBS is now a factory with job rotation, and many of the employees cannot see the Shared Service concept in its entirety.

Getting support from staff has been the greatest dilemma for VBS, and it has taken about a year for the employees to accept the change. The advantage for VBS, though, is that the staff has been relatively young and therefore easier to change, and has also contributed with a lot of fresh ideas. The elderly staff, on the other hand, was harder to change since some of them have worked at Volvo for more than 30 years and have their own routines and ways of working.

4.2.3.2 Customers

The reactions from customers have been remarkable. The customers demand closeness to their service supplier, and since the economists no longer are physically found in the same premises as the business units, the gap between customers and suppliers has increased.

A new online system for account coding has created new possibilities for the customers. The result of this is that coding control can now take place at the parent company instead of at VBS. The opinion of VBS is that errors should be corrected at the source, which has resulted in a huge resistance among the customers, who do not think of this as a good solution. A problem that VBS needs to solve is to get the customers to trust VBS's profession. Another problem for them concerns the issue of pricing, and as Mr. Rune said, *“we are still making war against the customers”*.

Due to the implementation of VBS, some customers have chosen alternative ways of handling their transactions, e.g. when Ford took over Volvo Car Corporation, they ended their collaboration with VBS. Customers that choose to abandon VBS as their supplier have two years notice. Despite of customer resistance, this solution has been profitable for Volvo since it involves an outwardly uniform way of working, which is important for a large group as Volvo.

4.2.3.3 Financial

A big problem with the VBS solution is that the costs for economic transactions have become visible, which has resulted in a general opinion that services are expensive.

The exact cost savings are hard to measure, but VBS believes that their costs will be, and have been, reduced by ten percent per year. They have not yet reached the desirable results; it will take a long time before full effects of the implementation can be achieved.

4.2.4 Future

The next step for Volvo in 2005 is to incorporate their existing SSC in South America into the VBS system. In 2006, they wish to set up a VBS in Asia. Here, all companies now perform transactions in their own ways, but Volvo wishes to standardise the business units and incorporate them into the VBS system.

Another future focus area for VBS, concerning staff, is competence development and people empowerment. This should be obtained by stimulating creativity and personal development. This is especially important since VBS feels a constant threat from low-cost countries and therefore it has to be able to compete in quality instead of in costs.

Within next year VBS needs to enter the external market and accept external customers in order to decrease administrative costs and reach further economies of scale for the Volvo group.

“We will gradually move our position from being a traditional supplier of business administration services to being a natural business partner” (Per Aldenstig, President of Volvo Business Services AB)

4.3 Questionnaire to ABB AB

The questionnaire was sent to Kerstin Wähl, Vice President at Admin Partner, the Shared Service Centre of ABB AB. It was founded six years ago (1999) and performs processes in the areas Finance and Human Resources, but there is also an SSC for law in ABB, which Admin Partner does not handle. These processes are different for different customers, but are on the way of becoming standardised. They are performed for all the companies in the group with common competences over the borders of the different units, i.e. a central process oriented organisation.

Admin Partner is located in Västerås, which is the same location as the headquarters, and in Ludvika, which is the largest field of activities for ABB. The purpose for locating in these specific areas was, of course, that business already was established there.

The initiative to implement an SSC was taken by the Swedish group management of ABB, with the main aim of cost savings. The integration of the business units into Admin Partner occurred gradually, but has not yet been completed. Though, the main part of the implementation was done within two years. There were many problems re-

lated to the expectations; e.g. all parties concerned thought the cost savings would occur immediately.

The effects of implementing an SSC regarding staff are that work tasks have become and will continue to become more specialised, demanding another type of specialist competence, compared to the former broader competences. The way of performing invoice related activities has gone from “*being the mother*”, to working in big groups with process enhancements, customer contacts, problem solving etc. An advantage with this way of working is the possibility to use the staff in a more efficient way.

The reactions from customers were from the beginning negative, since they felt that they lost control over their processes and that cost savings were not immediate. Now their opinion has changed to the positive, they can now see the possible savings from standardisation.

The economic effects show large cost savings during year three to five. There are also possibilities of common investments for ABB Sweden, which gives potential to further cost savings.

According to Mrs. Wähl, an SSC has many similarities to normal production industry and from here, a lot of knowledge can be gained regarding quality management, production methods, planning etc.

Establishing an SSC is “*the only way to go if a cost-efficient administration should be achieved*”. (Kerstin Wähl)

4.4 Questionnaire to AcandoFrontec AB

The questionnaire was sent to Jan Rehn, information director at AcandoFrontec. Their SSC is relatively new, i.e. less than two years old. They have the highest level of the SSC solution, which includes a central process oriented organisation. It comprises many different areas of their organisation: Finance, Human Resources, Law, Operation and IT. The SSC is located in Stockholm, which is in the same city as their headquarters. The reason for its location is because the company wishes to have the financial functions close to their management.

The initiative to implement an SSC was taken by the company management, with the aim to create common processes as well as to increase efficiency. Their own staff performed the implementation, since they are a consultant firm that makes this kind of changes for their own customers. The process took about six months to complete.

Implementing an SSC has had positive effects on the company and their financial situation. Staff, working in concerned departments, has been reduced by 38 percent, while the total overhead costs for the company have decreased with several million SEK. A disadvantage is that some functions require personal contact, which is more difficult now and can give rise to misunderstandings.

“*We should have carried this through much earlier*” (Jan Rehn)

4.5 Questionnaire to Arla Foods AB

The questionnaire was sent to Ulrika Nergård, director of Arla Service Centre Sweden (ASC SE). Arla have had their Service Centre for a relatively long time, i.e. more than seven years. They have the highest level of the SSC solution, which includes a central process oriented organisation. Their SSC comprises Finance, including salary payments.

When ASC was founded in 1998, the headquarters were situated in Stockholm and therefore the Service Centre was located there. In 2000, a fusion was made, and the headquarters moved to Århus in Denmark. A new ASC was established in Århus in 2003, concerning the Danish business activities.

The initiative for implementing an SSC was taken by the former CFO. The aim was cost savings, i.e. to become more cost efficient and to make it easier to follow the administrative costs. Other reasons were to reduce the number of employees, centralise everything to one location and gather competences, and to improve the quality of financial reports. A certain amount of preparation was performed before the start off. Since Arla already had a common business system, the implementation process was relatively fast. Every unit was phased-in gradually according to a plan. The salary unit commenced its centralisation process in 1999. This project has been severely delayed by different reasons and will not be finished until 2005, since the employees (under a collective wage agreement) will now go from hourly wages to monthly salaries.

There has been some resistance to this centralisation among staff, which makes it very important for the management to be highly convinced that this is the right thing to do. This conviction has to be clearly communicated to all people involved.

The implementation of an SSC at Arla has shown large effects on the staff. Some of the employees have developed and have had the opportunity to perform a variety of work activities, while others mean that tasks are more monotonous with more registration work and little variation. The customers have been pleased and indicate that it is good that Arla gathers the existing competence in the company. On the other hand, they experience that the availability is not the same anymore, since ASC is not physically in the same premises. If there are any inquiries now, they have to be solved by phone instead of face-to-face. The financial effects have involved an easier way to follow the development of costs, since everything regarding finance is congregated in one place. Left in the business units are only the controllers.

An advantage with having an SSC is the possibilities to gather and to continue the development of competences and receive backup from each other. A common picture of different events and transactions creates the possibility to give signals about packages of measures that should be taken by the organisation. Since the company is working with the SAP system in both Sweden and Denmark, they can harmonise the processes and further rationalise them. A disadvantage is that the staff comes from the core activities, which decreases their comprehension of the company as it is today. When new employees enter, they do not know the business of Arla, and the SSC becomes like “*a company in the company*”.

“We have plans to expand the activities – there are, of course, other administrative routines that can be performed within an SSC”. (Ulrika Nergård)

4.6 Questionnaire to Göteborgs kommun

The questionnaire was sent to Per-Inge Jarlmo, unit director at the SSC in Göteborgs kommun, called Gemensam Administrativ Service (GAS). GAS was implemented a few years ago, i.e. between two and five years ago. They have the highest level of the SSC solution, which includes a central process oriented organisation. The areas that GAS comprises are Finance and other administrative tasks suitable for central processing.

Since Gothenburg is a municipality, their SSC is obviously located in Gothenburg where all activities are performed.

Mr. Jarlmo, at the time cash manager for Göteborgs kommun, took the initiative to implement an SSC. To create a system and the department of GAS took about four months after the decision was made. The aim was to make the payment flows more efficient. Initially the focus lay on accounts receivable and accounts payable, but in time it developed. Today, an extensive development of GAS is in progress, which was required by the political majority in Göteborgs kommun,. The GAS now comprises, except for accounts receivable and accounts payable, central pension administration, central salary administration, accounting assignments for smaller municipal administrations and also some foundation administration. The GAS employs about 40 persons today, but within the next six months, all of the salary administrators will be moved to GAS and the staff will increase with about 100 employees.

The effects on staff have in general been positive, though one problem or maybe challenge could be to create variation in work assignments. The customer satisfaction has been measured by using a questionnaire, and the responses were positive. The effects on the economy, though, have not been measured.

“There is a risk that focus is too strong on productivity, it is therefore important to pay attention to quality.” (Per-Inge Jarlmo)

4.7 Questionnaire to TeliaSonera AB

The questionnaire was sent to Erik Hansson, Director of the department of IT Strategy. TeliaSonera has many different Shared Service Centres, but since Mr. Hansson is Director for the IT department, he focused his answers according to their IT Service Centre. The IT SSC is relatively new for TeliaSonera, i.e. less than two years old. They have the highest level of the SSC solution, i.e. a central process oriented organisation.

TeliaSonera has chosen to locate their IT Service Centre in Helsinki, Finland. The reason for doing so was because they already had existing competent staff there, which earlier worked locally with the Finnish market.

The IT SSC was implemented when the SAP system, among other IT platforms, became common for the whole group of TeliaSonera. The chief executive officer (CEO) drove the issue and cost savings were the decisive argument for implementing an IT SSC. Another reason was difficulties of finding qualified staff for the SAP system. It took about six months to re-organise the Finnish competence centre to a common SSC for the whole group.

The effects of the implementation regarding staff have involved a concentration of jobs within a few functional areas, focusing on specific geographic locations. The effects on customers have not been very extensive, but it affected TeliaSonera's ability to keep competitive prices, which obviously is a positive effect for the customers. The financial aspect of the implementation is very positive, leading to cost savings up to 30 percent.

The advantages that the SSC has resulted in are mainly of financial character, but there has also been improvements regarding competence, since it is easier to recruit and achieve critical mass when the business is amalgamated. It is also easier to control and coordinate development. At the moment, TeliaSonera is establishing ten new SSCs within the IT and other technical areas, both in Sweden and in Finland.

5 ANALYSIS

In this chapter we will compare the theoretical frame of reference to our empirical findings. We will make an objective analysis of the questions we presented in the problem formulation in the first chapter and observe how well theory agrees with practice in these specific areas.

5.1 Accomplishing the implementation of an SSC

The initiators to a Shared Service solution can be persons with different positions in the company. The results we received from the companies show a majority of company management as initiators, e.g. at ABB and AcandoFrontec. Other initiators have been CEOs and CFOs, but even a cash manager can take the initiative to implement an SSC.

According to Schulman *et al.* (1999), one reason for companies to move towards a Shared Service environment is to present one facade to partners and customers, but also to create a one-company approach among the different business units. This proved to be a very important reason for Volvo.

Schulman *et al.* (1999) emphasise that cost savings should not be the main reason; instead focus should lie on improving the level of service provided to the business partners. This is something that the companies interviewed did not exactly agree to; most of them gave the answer that cost savings were the main aim for implementing an SSC. Other aims were more connected to theory, such as standardising bookkeeping and procedures, achieving common processes, increasing efficiency, receiving trustworthy reports, and making it easier to follow the administrative costs. According to theory (Schulman *et al.* 1999), another reason for implementing an SSC is because the environment demands consolidation of supporting activities and processes. Though, this is something none of the companies has mentioned.

There are different levels of the Shared Service solution (Meritmind), and according to our findings, there seems to be a trend among the companies observed to go through with the highest level, i.e. a central process oriented organisation, since all of the companies, except for ABB, applied to this.

One of the first issues to be considered when creating an SSC is which activities to include (Schulman *et al.* 1999). The most common area to incorporate for the companies studied is Finance, but also Human Resources and IT occur frequently. Some companies, though, have incorporated all possible service activities, e.g. AcandoFrontec with an SSC comprising Finance, Human Resources, Law, Operation and IT.

When it comes to phasing in the Shared Service solution, there are different alternatives (Schulman *et al.* 1999). The alternative to incorporate the different business units gradually seems to be the most preferred among the companies. The only company that performed the opposite action was Volvo, who implemented all activities at the same time.

Oppositions to implementing an SSC are mainly related to staff and systems. According to Schulman *et al.* (1999), it is always hard to manage to change the attitudes of people

who are concerned by the implementation of an SSC. This seems to have been almost the only problem among the companies observed, and this can, according to Schulman *et al.* (1999), be solved by having a strong management convincing staff that the change is necessary and profitable. This is also the opinion of Arla Foods, who emphasises that clear communication between management and staff helps to decrease the oppositions. SKF had another solution to this problem, since they chose not to use any of the existing staff, but instead to only recruit new employees.

According to King and Leong (1998), it is hard to decide which method is best when it comes to IT systems, either to create them before or simultaneously with the implementation of the SSC. We have received disparate answers on this issue. Arla Foods already had a common business system before moving to an SSC, and therefore their implementation process was relatively fast. TeliaSonera, on the other hand, implemented their IT SSC simultaneously with the SAP system and other IT platforms, and took about six months. In Göteborgs kommun the process also was simultaneous and took about four months to complete. Both at Volvo and at SKF, the processes occurred rather simultaneously.

According to Schulman *et al.* (1999), an important aim is to go from many different transactions systems to a common system platform. The companies we observed seem to agree with this, since most of them have started their SSC project by creating a common platform for hardware and software.

5.2 Decisive causes for selecting location

When choosing a location for an SSC, many aspects need consideration. Examples of such areas are costs, workforce, politics, taxes and transportation possibilities (Schulman *et al.* 1999). The companies we observed have a wide variety of causes of their localisation. Some companies focus on closeness to the headquarters while others absolutely do not want to situate their SSC at the same location as the headquarters, since they want to emphasise the independency of the SSC.

According to theory (Schulman *et al.* 1999) it is important to set up the SSC in a low-cost environment. This is something the companies we observed did not find essential, since almost all of them placed their SSC in Sweden. Though, SKF chose to locate their SSC in Holland, but this was due to facts such as geographical reasons, tax reasons, language knowledge and available facilities. Another reason for SKF to situate the SSC in Holland was the availability of educated workforce, something that also TeliaSonera found decisive when locating their SSC in Finland.

Theory states that a possibility for companies to save costs is to locate their SSC outside big cities, but apparently this was not something the studied companies paid much attention to. The companies seem to find things such as easy recruitment of skilled staff and closeness to business activities more important. This is especially applicable in the case of Volvo. They had the possibility to situate their SSC anywhere in Sweden, and even though Gothenburg was one of the most expensive alternatives, it was chosen for the specific reasons of existing business units with existing and competent staff.

Locating an SSC in Europe can be very difficult, since it contains such a variety of currencies, languages, regulations regarding working conditions, accounting standards and tax rules (Schulman *et al.* 1999). For SKF this did not include a lot of trouble since Holland is known for having good conditions for having business in, such as political stability, travel accessibility, external infrastructure and workforce flexibility.

5.3 Effects on interested parties and the financial situation

5.3.1 Staff aspect

Implementing an SSC includes big changes for the company's employees. According to Schulman *et al.* (1999), some employees might feel that they are in no man's land and have lost the close connection to the business. This seems to have been the problem also in many of the observed companies. In SKF this problem has been most prominent among the CFOs, who lost parts of their responsibility and therefore opposed to the SSC solution. The implementation also involved changes of work procedures and routines, which resulted in disappearing duties. A big problem for the staff at Volvo is that the ways of working now are very square-shaped and often result in tedious tasks and alienation, and as Mr. Rune said, "*it has now become a factory*". A solution to this problem, though, is that VBS now uses a system that includes job rotation. A positive thing with the implementation is the possibilities to advance in the company, which we have seen good indications for at Volvo.

When moving service activities to an SSC, a natural effect is redundancy, since processes become standardised and improved (Schulman *et al.* 1999). For SKF the change did not result in a lot of dismissals, but some natural resignation occurred. In the case of Volvo, this was neither a problem, since they transferred their existing staff to VBS. A company that has had redundancy problems is AcandoFrontec, who reduced their workforce by 38 percent.

A Shared Service Centre demands a set of skills that is vigorous and that does not focus on narrow technical expertise, instead the skills needed are broader and focused on service (Schulman *et al.* 1999). ABB's opinion is the total opposite. They believe the work tasks have become and will continue to become more specialised, demanding other types of specialist competence compared to the former broader competences. Another theory (Hedlund 2005), states that there is a trend towards a professionalized and highly educated workforce. For example, all employees at VBS who have been recruited during the last years have had a master degree; the same trend goes for SKF's SSC in Holland, where large parts of their staff have higher education. This includes a risk for former employees to get reduced to the benefit of persons with higher education (Management Accounting 1998), but experience shows that a good mix of existing experience and business knowledge combined with new starters with fresh skills and ideas is the best solution (Hedlund 2005). This is something that especially Volvo paid much attention to, when mixing old employees with new recruits.

When changing systems, increased training is necessary to help the staff build up all new skills (Schulman *et al.* 1999). At SKF they have had internal education in software and procedures, a process that has taken a long time to complete.

5.3.2 Customer aspect

According to Schulman *et al.* (1999) the expression “customers” of Shared Services is confusing; instead business units should be referred to as “partners”. This is something Volvo has accepted, since they wish to move “*from being a traditional supplier of business administration of services to being a natural business partner.*” The other companies observed have not mentioned anything about this.

According to theory (Hogg 2003), the pricing mechanism will influence the relationship between the SSC and its customers. For Volvo’s customers, a big problem has been the visibility of the costs for economic transactions, which has resulted in a general opinion that services are expensive. When it comes to the issue of pricing is VBS still “*making war*” against the customers, which might be the reason why some customers have abandoned VBS as their service provider. On the other hand, the pricing mechanism can have positive influences, e.g. for TeliaSonera where the SSC has affected their ability to keep competitive prices, which obviously is positive for the customers. According to Volvo and Arla Foods, a negative side with having a customer / supplier relationship can be an increasing gap between customers and suppliers when the economists are no longer physically found in the same premises as the business units.

One purpose with Shared Service Centres is to free up the sales force so they are able to spend as much time as possible with their customers (Schulman *et al.* 1999). At SKF, they did the opposite. Instead of keeping EFC responsible for customer related contacts, e.g. the responsibility that invoices get paid, the sales divisions were given the main responsibility for this. A possible effect of this is that sellers have less time to focus on selling when their time is occupied by problem solving.

An SSC is meant to operate as a customer-oriented business, by using leading technology to deliver the highest value of services at a low cost to internal customers (Scicli-ent). Reactions to this from ABB’s customers were negative in the beginning because they felt they lost control over their processes and they could not see the cost savings at once. But their opinion changed when they saw the possibilities to save from standardisation in the long run.

5.3.3 Financial aspects

According to Schulman *et al.* (1999), cost savings should not be the main reason for implementing an SSC, but to increase the level of service provided. Though, cost savings are something almost all of the companies observed had as their decisive argument for establishing their SSC. Göteborgs kommun, on the other hand, have not even measured the financial effects. Other decisive arguments were to create common processes and increase efficiency.

Implementing an SSC can give rise to extensive cost savings. This is something we have seen proof of in both theory and empirical findings. For example, Volvo believes that their costs will be and have been reduced by ten percent per year. In the case of AcandoFrontec, the implementation has reduced staff by 38 percent, resulting in decreasing overhead costs, which they believe have saved several million SEK. Also TeliaSonera have seen positive effects, with cost savings up to 30 percent.

The financial effects of the implementation are not immediate, and according to Schulman *et al.* (1999), it can take up to 30 to 60 month to get payback from costs associated with the implementation. This is something we have seen indications of at ABB, where large cost savings occurred during year three to five. On the other hand, at Volvo, where the SSC was created eight years ago, the desirable results have not yet been reached. They believe it will take a long time before full effects of the implementation can be achieved.

Creating an SSC, obviously involves a lot of costs, e.g. changing processes, upgrading hardware and software, and moving to other locations (Schulman *et al* 1999). It can be hard for companies to measure the exact costs for the implementation. This has been especially hard in the cases of Volvo and SKF, since they implemented new economic systems at the same time.

6 DISCUSSION AND CONCLUSIONS

In this chapter, a reconnection to the problem formulation in the introduction will be made. We will make a subjective analysis and discuss the possible answers to our three questions, from a theoretical and an empirical perspective. Our own opinions of the subject, Shared Service Centres, will be stated and followed by our conclusions.

6.1 Reflections concerning implementation

According to Schulman *et al.* (1999), there are high costs regarding system settings when creating an SSC. This is something none of the companies mentioned. We thought the issue of systems would be of greater concern than it proved to be. A reason to this could be that the systems and the SSC solution were implemented at the same time, which was the case at Volvo and SKF. This made it hard to define the costs associated with the implementation of the SSC respectively with the new systems. We then find it a bit misleading to state that cost savings have been achieved, when the real costs for the implementation of a Shared Service Centre solution are unknown. We think the best way of measuring cost savings is to clearly define the costs associated with the implementation respectively with the new systems, and not until then the real cost savings can be estimated.

Another thing stated by theory that drew our attention, was that SSCs most often are found in large companies, i.e. companies with over two milliard dollars in revenue (15 milliard SEK). Since the theory studied was American, we thought that this would not necessarily apply to the Swedish companies we observed. Therefore we decided to investigate the size of their revenues (found at each company's homepage):

- ABB AB, 151 milliard SEK
- AcandoFrontec AB, 0,5 milliard SEK
- Arla Foods AB, 59 milliard SEK
- Göteborgs kommun, 18 milliard SEK
- SKF AB, 45 milliard SEK
- TeliaSonera AB, 82 milliard SEK
- Volvo AB, 210 milliard SEK

Our apprehensions proved to be partly right, and made us think that it is possible even for smaller companies to have a successful SSC; an example of this is AcandoFrontec AB. Though, most of the companies we observed have revenues far above the two-milliard dollar level.

A common barrier to implementing an SSC is the issue of existing staff. According to theory and many of our empirical findings, there are severe problems with changing the minds of the staff. This is something we think SKF has found a good solution to, though the financial aspect of this can be questioned. SKF chose to recruit only new staff to their SSC in Holland, therefore none of the existing staff had to move and acclimatise to the new environment, which made it possible to avoid staff related problems. On the other hand, we assume this should have created negative financial effects, since they did not reduce the existing staff. This means that more staff now performs the same tasks as before, which we definitely think should lead to increased costs. Another negative as-

pect of SKF's solution is that existing competence in the company will not be transferred to the new business unit. There is also a possibility that staff working at EFC do not have insight in the core business activities of SKF. This is something Mr. Genne did not mention, something we after consideration found a bit strange.

6.2 Reflections concerning localisation

There are many aspects to consider regarding the location of an SSC, especially concerning costs, taxes, transportation etc (Schulman *et al.* 1999). Though, the companies observed did not seem to pay much attention to these issues. Most of the companies situated their SSCs in Sweden, mainly in Stockholm and in Gothenburg, which from a cost perspective is not very profitable. We think this is a bit strange since almost all of the companies had cost savings as their main objective. Even though Sweden may be a good country in which to locate an SSC, the question why companies chose to locate in high-cost environments remains. We believe when there are options of placing the SSC in the suburbs or in the countryside, the companies should take advantage of this opportunity, since the possibilities of cost savings are even higher there.

When we reflected further on the issue why the companies chose to locate in Gothenburg respectively in Stockholm, we found several possible reasons. One reason could be that both cities have well-reputed universities and therefore highly educated and skilled staff was available. Other reasons could be good transportation possibilities with the rest of Sweden and the rest of the world; also there are more options in those two cities regarding facilities, employees and consumers.

Localising the SSC in a low-cost country would probably have been more profitable and the same competences would have been achieved. But, for some of the companies, localising in Sweden was natural since the main part of the activities is performed here. Though, for large international companies, we think there are good possibilities for creating European SSCs, preferably in a country with more advantageous cost structure than Sweden.

6.3 Reflections concerning effects

We thought moving to a Shared Service environment would imply extensive effects on customers. Though, neither theory nor empirical findings emphasised reactions from customers. We think the reason for this might be that the companies have not measured the level of customer satisfaction, except for Göteborgs kommun who carried out a questionnaire, which resulted in positive responses. Generally, the companies claim that customer reactions have been positive, but for example in the case of Volvo, reactions were negative and they have even lost a few customers. All these positive responses surprised us, since we have heard from personal contacts that Shared Services have negative sides. For example, people can find it difficult to get in contact with staff responsible for invoices etc. when the SSC is located abroad and the staff do not speak the same language. We think that measuring customer satisfaction is a very important issue, since customers are one of the key factors to a successful SSC. This is something we believe the companies have not emphasised enough and need to focus a lot more on in the future.

Another thing important to measure is the responses from the company's employees. We have received disparate answers from the companies, ranging from very positive to very negative. Though, it seems to us that some of the companies have not even evaluated the staff aspect. We have seen an example of this at AcandoFrontec, who claims that effects on staff have been positive; this is something we find very odd since they also claim that workforce has been reduced by 38 percent. How can such a severe reduction result in positive staff effects? From a cost saving perspective, we can agree to that it is a very profitable solution for the company, but is the change worth to conduct at the expense of lost skills and competences?

Göteborgs kommun is the only company that have not measured the financial effects from their SSC. Even though we know that cost savings were not their main aim, we find it strange that a municipality handling tax money does not focus more on saving costs. We suggest that benchmarking regarding costs with other municipalities would be a good measure to take. The other observed companies have reported significant cost savings, which did not surprise us. After all, the concept would never have been so successful if it was not for the large cost savings that the Shared Service solution involves.

6.4 Conclusions

- There is an obvious trend among companies towards having cost savings as the main aim for implementing a Shared Service Centre. Some companies, though, have paid attention to theory and consider efficiency improvements and common processes equally important.
- The most difficult thing, regarding implementation, is to convince staff of the advantages of the change to an SSC.
- When choosing location, most of the companies seem to think that situating the SSC in connection to already existing business activities with existing staff is the decisive argument. Further, they do not seem to pay much attention to low-cost environments, recommended by theory.
- The greatest effect on staff is visualised through standardisation of work tasks, which often leads to oppositions among the employees. The challenge is to create variation in work assignments.
- Customer satisfaction seems to vary a lot among the companies. Since we did not receive satisfactory answers regarding the effects on customer effects, it is hard to draw a conclusion about this issue.
- The companies have accomplished large cost savings due to the Shared Service solution and have thereby lived up to their expectations regarding financial effects.

7 SUGGESTIONS TO FURTHER RESEARCH

Since we did not receive satisfactory answers concerning customer reactions of implementing an SSC, a continuous study in this area could be pressing, especially since customer satisfaction is vital for the survival of an SSC.

We think it would be interesting to conduct the same type of investigation as we have done, but instead to focus on smaller companies. Are there differences depending on the size of the company?

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APPENDIX I

A comparison between quantitative and qualitative methods

	Quantitative Methods	Qualitative Methods
Should be used when we have:	- Much knowledge about the phenomenon	- Little knowledge about the phenomenon
When we shall:	- Try theories and hypotheses	- Develop new theories and hypotheses
When we wish to:	- Generalise (know a lot about few units)	- Get a lot of information about few units (not generalise)
When we wish to:	- Find out how often a phenomenon occurs	- Find out what a phenomenon contains
Advantages:	- Many units - Possibility to generalise from selection to population with high level of security - Relatively low cost	- Depth - Understanding of details - Comprehensive picture of phenomenon/situation/ individual - Flexibility of data collection
Disadvantages:	- cursory information - Rigidity of data collection - Opinions forced by using standardised questions and answer alternatives - Analytical distance could lead to bad understanding	- Immense and too detailed information - High costs, especially in the analytical phase - Closeness to the respondent could disturb the ability of analytical distancing - Too big flexibility could lead to a never finished investigation

Overview of when quantitative and qualitative methods should be used, as well as advantages and disadvantages of both approaches. (Source: Jacobsen 2000, p. 150)

APPENDIX II

Interview plan Mall för intervju på SKF och Volvo

Nivå av SSC

Vilken nivå av SSC lösningen har Ni?

- A. Företaget har gemensamma processer och kompetenser, d.v.s. processer utförs av de enskilda företagen på ett likartat sätt.
- B. Företaget har gemensamma processer, delade kompetenser **samt** samlokalisering. Ekonomifunktionerna arbetar i gemensamma lokaler för att underlätta backup och avlastning över bolagsgränserna.
- C. Nivå A och B sammanslagna i en enhet. Processerna utförs gemensamt för alla företag i koncernen med gemensamma kompetenser över bolagsgränserna, dvs. en central processororienterad organisation.

Införandet

När införde Ni SSC? Vem tog initiativet till att införa ett SSC? Av vilken orsak valde Ni att införa SSC?

Tog det lång tid att införa SSC? (Hur lång tid?)

Vad var Ert mål med införandet av SSC, vad ville Ni uppnå? (kostnadsbesparingar, organisation etc.)

Var det mycket kostsamt att införa ett SSC, anser Ni att nyttan är större än kostnaden?

Vilken avdelning började med SSC (inköp, fakturor etc.)? Skedde införandet successivt eller lade Ni alla administrativa funktioner i ett SSC direkt?

Hade Ni liknade datasystem föra sammanslagningen? Blev förändringarna stora?

Kom systemet eller lösningen först?

Stötte Ni på några problem vid implementeringen, i så fall vad?

Lokalisering

Är Ert SSC integrerat eller outsourcat?

Var är Ert Service Centre lokaliserat? Varför just där? Varför inte någon annanstans?

Är Ni nöjda med valet av lokalisering eller har det skapat något problem?

Påverkan på personalen

Kan Ni använda Er utav samma personal som tidigare eller har Ni varit tvungna att säga upp en stor del av personalen på de administrativa avdelningarna i de enskilda bolagen?

Om ja- var denna personal tvungen att flytta till orten Ni har Ert SSC?

Kan Ni se några andra märkbara effekter för personalen i och med införandet?

Är det en ny trend av högutbildade nyanställda i och med införandet av SSC?

Har Ni varit tvungna att kompetensutveckla Er personal?

Effekter

Har Ni fått några negativa responser från omgivningen (kunder, leverantörer etc.)?

Vad kan Ni se för positiva resp. negativa effekter av införandet?

Vad var den största märkbara förändringen?

Har Ni märkt några skillnader i det ekonomiska perspektivet? Kostnadsbesparingar?

Har Ni uppnått önskade resultat med Ert SSC?

APPENDIX III

Questionnaire Enkät Shared Service Centres (SSC) i svenska företag

Instruktioner: Då fler alternativ finns, vänligen markera med rött det alternativ Ni finner lämpligast. Då det finns en linje efter alternativ, vänligen skriv det som passar Ert företag. Vid de öppna frågorna (4b-8), vänligen skriv så mycket Ni själv önskar.

Var god svara direkt i dokumentet och sänd tillbaka till: *gusksara05@student.gu.se* före 30 april.

Företagets namn:
Benämning på Ert SSC:
Ert namn:
Roll i företaget (titel):

1. Hur länge har Ni haft SSC i ert företag?

- A. 0-2 år
- B. 2-5 år
- C. 5-7 år
- D. 7 år eller mer

2. Vilken nivå av SSC har Ni?

- D. Företaget har gemensamma processer och kompetenser, d.v.s. processer utförs av de enskilda företagen på ett likartat sätt.
- E. Företaget har gemensamma processer, delade kompetenser **samt** samlokalisering. Ekonomifunktionerna arbetar i gemensamma lokaler för att underlätta backup och avlastning över bolagsgränserna.
- F. Nivå A och B sammanslagna i en enhet. Processerna utförs gemensamt för alla företag i koncernen med gemensamma kompetenser över bolagsgränserna, dvs. en central processororienterad organisation.
- G. Övrigt: _____

3. Vilka områden omfattar Ert SSC?

- Ekonomi
- HR
- Juridik
- Drift
- It
- Annat: _____

4. A. På vilken ort är Ert SSC lokaliserat? _____

Var god markera lämpligt alternativ.

- På samma ort som huvudkontoret
- Utomlands
- Annan svensk ort

B. Varför just där?

5. Vem tog initiativ till att införa SSC? Vad var orsaken till att Ni beslutade Er för att införa SSC? Hur gick implementeringen till? Hur lång tid tog det att införa SSC på Ert företag? Stötte Ni på några problem vid implementeringen, i så fall vad?

6. Vilka effekter har införandet av SSC haft på, dvs. positiva och negativa responser från:

- Personal?
- Kunder?
- Ekonomi?

7. Vilka för- resp. nackdelar har införandet av SSC i Ert företag inneburit?

8. Egna tankar om SSC?

APPENDIX IV

Greenfield Site – Decision Matrix / Europe

SSC Location Criteria*	Weighting factor %	Europe			
		Belgium	Holland	Rep. of Ireland	UK (N. England)
Quality/Skill of Workforce		●	●	●	●
Availability of IT Skills		☐	●	●	●
Cost of Workforce		○	☐	●	☐
Workforce Flexibility		☐	●	●	●
Availability of Govt. Grants		○	○	●	●
Tax Considerations		●	○	●	○
Cost of Communications		○	○	●	●
Communication Infrastructure		☐	☐	●	☐
Real Estate Cost		○	☐	●	●
Statutory/Legal Requirements		○	☐	●	●
External Infrastructure		●	●	☐	●
Travel Accessibility		●	●	●	●
Political Stability		●	●	●	●
Linguistic Ability		☐	●	☐	○
Company Infrastructure**	To be completed according to each organization's profile				

Key

- Unfavourable
- Recommended
- ☐ Neutral

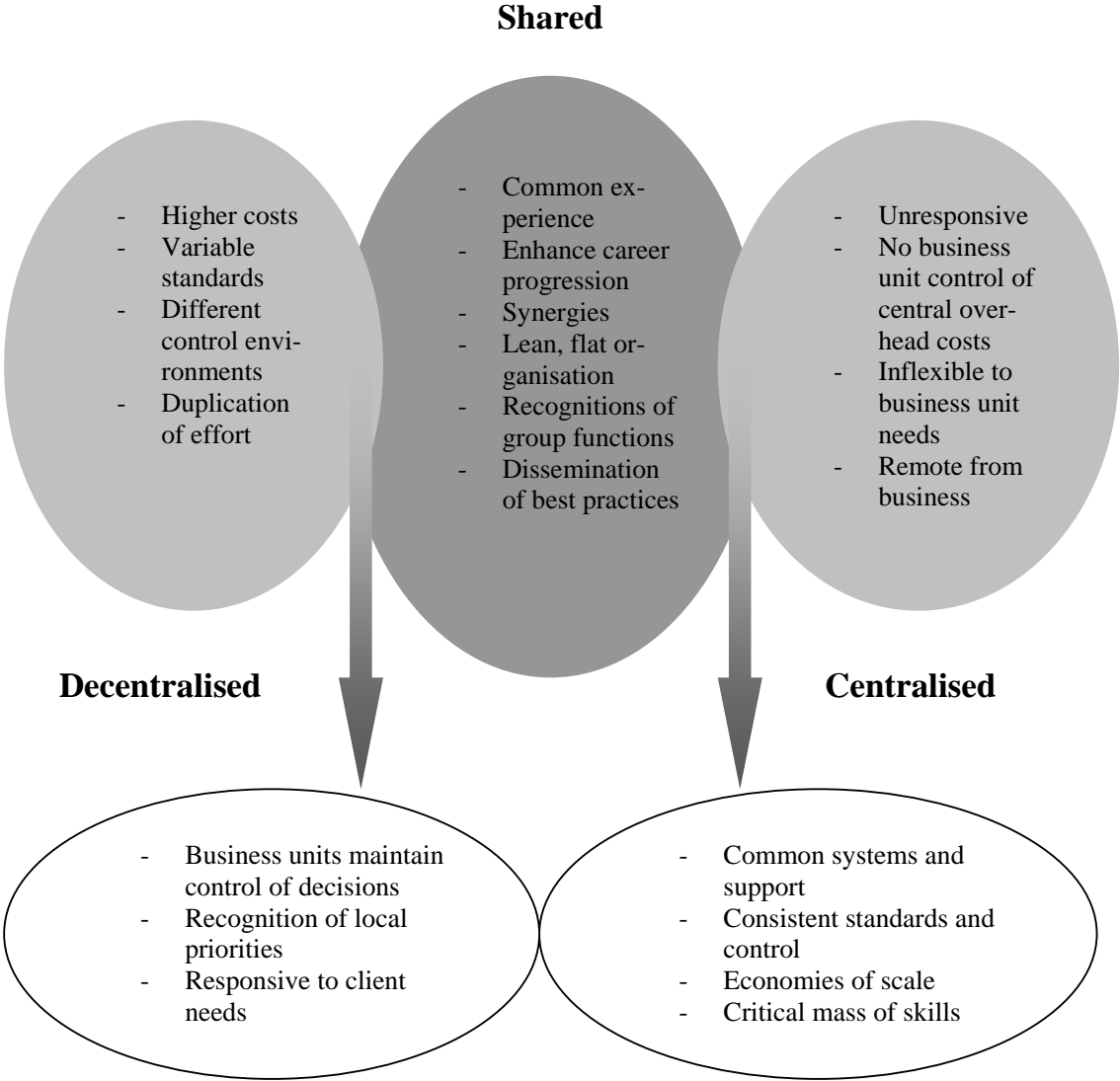
* Assessment of comparison within region, not between regions

** Concentration of organisational presence

Source: Schulman *et al.* (1999, p. 144)

APPENDIX V

The best elements of centralisation and decentralisation



Source: Schulman *et al.* 1999, p. 12

APPENDIX VI

Examples of the main parts of the three different processes that VBS performs

	Accounts Payable	Accounts Receivable	Accounting & Reporting
Standard products	Invoice processing	Posted customers payments	Sales accounting
	Payment advices	Month end reports	Payroll and pension
	Administration of work-flow	Cash forecasts, long- and short term	General ledger
		Payments and administration of currencies	Financial reporting
Additional services	Statistics	Release of customer orders	Forecasts and analysis
	Follow up/tracking of non-authorized invoices	Ad hoc reports	Tax audit

Source: Volvo Business Services, presentation material