

# The shared service concept business essay



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## **4 Theoretical Framework 18**

### **Shared Service Centers**

Since the late 1990s, the shared service concept has increasingly become popular as an organizational change approach focusing on extensive improvements in support processes. At that time shared services were mainly established in finance but it did not take long before other support processes -such as Human Resources- were included as well (Ulbrich 2006). The delivery of the HR function has undergone considerable changes partly due to the introduction of the Shared Services concept (Cooke 2006). Organizations expected improvements in HR processes and increasingly paid attention to the internal customer and to the need for quality and cost improvement. The HR function has sought to respond and support this sort of organizational changes and strategies, which eventually led to changes in the way HR delivers its services (Reilly & Williams 2003). One can observe a shift from small on-site HR departments, executing local administrative and transactional services to a situation in which these services are being organized more centrally: a HR Shared Services situation (Cooke 2006).

In the beginning only a number of large and multinational organizations moved to shared services models for delivering the HR function. But as technology improved and costs came down, the HR Shared Services option became feasible for smaller companies as well (Walker and McCall 2009). There are many ways to organize HR Shared Services. HR Shared Service Centers (HR SSC) are known under different names and organizations implement different models which are responsible for different HR activities. Alternative names for shared service centers are: shared services, shared

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service organization, shared service unit, resource centre, competence centre, counting house (Strikwerda 2006). Following the line of a large share of the existing body of literature on this topic (Ulrich 1995; Cooke 2006; Ulbrich 2006; Farndale and Pauwe 2008; Maatman, Bondarouk and Looise 2010; etc.) – and to avoid inconsistency- the term ‘ shared service center’ will be used in this research. The following paragraphs will emphasize on the different definitions and structures of SSC’s and on the influence of technology in HR SSC’s.

## **What is a Shared Service Center?**

Approximately two decades after the introduction of the shared services concept there is not only still some inconsistency regarding the concept’s terminology but also regarding its precise meaning and definition. However according to Ulbrich (2006) there is a common understanding that shared services focus on optimizing corporate resources in a new organizational entity. Ulrich (1995) was one of the first researchers to define shared services as: “ the combining or consolidating of services within a corporation.” Ulrich assumed that in divisionalized companies, each operating entity has support services. With the concept of ‘ shared services’ these different support activities could be merged into one shared service unit. Examples of these support functions are: finance, law, information systems, real estate, security and human resources (Ulrich 1995).

Moller (1997) expands the shared services literature by focusing on the Shared Service Center as an entity which provides services instead of solely on the services itself. In Moller (1997) it can be found that:

“ A Shared Service Center is an independent organizational entity which provides well defined services for more than one unit (which may be a division or business unit) within an organization. The SSC is responsible for managing its costs and the quality and timeliness of the services it provides to its internal customers. It has its own dedicated resources and typically will have informal or formal contractual arrangements, often called service level agreements, with its customers.”

Ulbrich (2006) compares several definitions of SSC's and concludes that:

“ Shared Service Centers gather a selection of common and well-defined services to provide these services to an organization's units, acting independently.”

Strikwerda (2006) defines SSC's in a way which basically entails all the previously mentioned elements. According to him SSC's have the following in common, they are:

“ An accountable entity in the internal organization of a firm or institution tasked to provide specialized services to divisions or business units on the basis of a service level agreement and with full charge out of costs on basis of a transfer price system.”

When one takes these different definitions in consideration one could argue that the introduction of a SSC ultimately leads to a centralized situation in which corporate controls all resources. However many authors (e. g. Maatman et al. 2010; Reilly et al 2003; Ulrich 1995) counter this argument because they believe that the SSC concept captures the best elements of

centralised and decentralised models, while minimising the drawbacks of both. The ethos behind this line of reasoning is that the customer gets to decide which services he or she would like to receive from the SSC, rather than the HR function within the organization deciding on which services it will deliver (Farndale and Pauwe 2008). By centralizing services SSC's can avoid duplication of certain activities and at the same time they are forced to remain responsive to their clients' local business needs. According to Ulrich, in a shared services situation resources may be shared, but the control over the use of these resources remains with the business (Ulrich 1995). However the way in which services are being shared within an organization differs. Organizations choose different models and structures which enable them to share services in an optimal way. The next paragraph elaborates more on these different structures.

## **Structures**

The sort of services and scope of the services within SSC's evolved over time. In his 1995 article Ulrich only touches upon the process of intra organizational service delivery and sharing. More than a decade later Cooke (2006) adds another type of HR shared services and basically distinguishes two broad types of SSC's. The first is the set of shared services set up by organizations to provide HR services both to their own organization and to external client organizations as an outsourcing business. The second type of HR shared services mentioned by Cooke (2006) is a reflection of the SSC that Ulrich defined in 1995. It refers to HR shared services set up by organizations that aim to restructure their HR service provision through recentralization and the creation of an internal market system. Within this research the focus

will be on the latter type of HR Shared Services, since the inclusion of outsourcing practices would exceed the scope of this study. However in this paragraph we will elaborate on several SSC structures to be able to gain a broad overview of the possibilities in structuring an SSC. The following cadre includes 6 different SSC models distinguished by Strikwerda (2003).

The SSC as an internal “ joint-venture”: the SSC will be governed by the divisions, the divisions also determine the SSC’s budget. The Board of Directors holds the divisions accountable for the performance of the SSC.

The SSC as infrastructure: the SSC is being governed by or on behalf of the Board of Directors, the board also determines the SSC’s budget. In this model the SSC basically functions a support division which exists alongside the functional divisions.

The SSC under a staff division: The manager of the SSC reports to the functional leader of the corporate staff department (Corporate HR director). Another version is that parts of a corporate staff department can be seen as a SSC.

The SSC as department within one division: the SSC gets internalized in the division which is responsible for the largest demand. The SSC will be governed by the division director and also provides services to other division.

The SSC as joint venture with an external party: in this situation the jurisdictional borders of the organization are being out stepped. The SSC is no longer a part of the internal organization of the company.

The SSC as service firm: this situation involves an independent service provider. The organization who decided to outsource its support functions only has a contractual relation with the service provider.

Different types of SSC's by Strikwerkda 2003.

Each of the above mentioned models are designed to suit a specific situation or organization. According to Srikwerda organizations should consider several important internal and external factors during their SSC design and decision making process (see Strikwerda 2003). The decision making process is of lesser relevance within this study, however the insight in the different SSC models enables us to gain understanding in the HR SSC under investigation in this study.

A little bit of the historical and structural background of SSC's in general has been revealed at this point. Now the time has come to narrow down the scope and to zoom in on HR SSC's in particular.

## **HR Shared Service Centers**

As has been stated in the introduction of this chapter, HR service delivery is increasingly being organized within SSC's. Reilly and Williams (2003) distinguish four principal reasons why organizations introduce a HR SSC.

Because it offers:

cost savings (e. g. cutting staff numbers and reducing accommodation charges)

quality improvement (e. g. enhance consistency and accuracy, increase professionalism)

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organizational change (e. g. SSC is often part of an organization wide change process)

technological development (e. g. alignment of systems and processes)

To be able to achieve these goals, the HR services formerly dedicated to a division or business unit are combined or consolidated into (semi-)autonomous centers.

Ulrich (1995) distinguishes two types of HR Services: transactional based services and transformational based services. Maatman, Bondarouk and Looies (2008) add a type of service which they call traditional HR services.

Transactional based services basically deal with administrative requirements of employees and involve activities such as: payroll, compensation, pensions, absence, development and learning activities (such as registration) and employee records (Farndale et al. 2008; Ulrich 1995). Shared Service Centers will typically start with the consolidation of transactional activities; in order to efficiently process data and provide consulting advice regarding administrative transactions (Farndale et al. 2008; Ulrich 1995).

According to Ulrich (1995) transformation based activities can be included into shared services as well, but it can not be a part of the SSC.

Transformational services are non-routine and non-administrative and therefore differ from transactional services. Example of transformational services are: staffing, development, organizational design, communication, organizational effectiveness, performance management, union relations etc.

Ulrich (1995) suggests to consolidate transformational services into what he



calls Centers of Excellence. In their study Farndale et al. (2008) refer to Ulrich's transformation based activities as traditional HR services. They add several HR activities and label those activities as transformational activities e. g. strategic HRM, knowledge management, change management, organization development and culture management. There is a slight overlap in Ulrich's transformational and Farndale's traditional and transformational activities. The main difference is that Farndale et al. (2008) explicitly want to emphasize on the different roles performed by HR. By making a distinction between traditional and transformational activities they put more emphasis on HR's strategic role. But in the end, Farndale et al. also suggest that both traditional and transformational HR activities may be taken care of in what they call a Centre of Expertise.

The division of these three sorts of activities (transactional, traditional, transformational) results in three different roles for employees within HR Shared Services. Reilly and Williams (2003) suggest three tiers of job roles:

First tier employees: direct contact with clients, first point of contact.

Second tier advisors: offer more detailed help in a particular discipline.

Third tier experts: interpret more complex policy issues.

Many companies add a tier zero to the above mentioned tiers, because with the advanced current technology many companies enable and encourage their employees to seek for digital advise or help before they consult a tier one employee. This is often called Employee Self Service (ESS). In this research the focus will be on tier zero and employees' acceptance of ESS

which encourages the usage of technological applications. The influence of information technology and HR will be outlined in the next paragraph.

## **HR SSC & IT**

In this research possible differences between two generations in acceptance of and requirements for technology based applications in HR shared service centers will be empirically examined. In the constantly changing organizational environment, the HR function has been redefined and IT plays a crucial role because it can function as an enabler for HR to meet the challenge of simultaneously becoming more strategic, flexible, cost-efficient, and customer-oriented (Snell, Stueber and Lepak 2002). HR IT can be defined as: “ any form of technology that is used to attract, hire retain, and maintain talent, support workforce administration, and optimize workforce management”(Shrivastava and Shaw 2003). Within this research the focus will be on HR Shared Services technology, because both technology and the Web have permitted human resource management to implement HR processes where business-to-employee (B2E) solutions are possible (Ruta 2005). Ulrich (1995) also claims that IT has enabled the development of HR Shared Service Centers and the B2E approach. HR IT in Shared Service Centers focuses attention on finding ways to share information and do work without face to face contact. Relationships can be built and maintained through call centers, interactive voice responses, computer networks, voice recognition systems, video-conferencing etc. The implementation of all these electronic HR solutions has led to redesigned HR processes and reduced administrative tasks for the HR department (Ruta 2005). The new technology based HR applications and information are often located at so called HR web

portals. These portals offer employees HR services which are usually accessible 24 hours a day, 7 days a week. This HR portal can be referred to as Tier zero service (see chapter 1. 3). HR portals often offer a wide range of information such as: HR policies, news, FAQ's, who's who. Besides for this general HR information, employees can also consult the HR portal for employee self service (ESS) activities. ESS is a web based technology that allows employees and managers to conduct much of their own data management and transaction processing (Marler and Dulebohn 2005). It enables employees to e. g. access pension services, update personal information, change their own benefit selections, or register for training. Shifting such duties to the individual employee allows HR employees to focus on more strategic functions. In spite of the intended benefits, implementation of ESS technology poses many challenges related to acceptance and utilization of the services. Shrivastava et al. (2004) distinguish four reasons why employees may not accept HR technology:

Lack of understanding of why time-tested HR processes are being suddenly changed.

Preference for personal interaction to cold automated responses.

Lack of faith in the ability of a ' bureaucratic' HR department to use technology effectively.

Employees may interpret ESS as just another cost-savings mechanism, requiring employees to perform a task that (they feel) should be performed by an administrator.

However, full acceptance and adoption of technology is necessary to realize the intended benefits of automation, because computer systems cannot improve organizational performance if they are not used (Marler, Fisher and Ke 2009; Davis, Bagozzi and Warshaw 1989) .

## **Technology acceptance: from TRA to TAM**

### **Theory of reasoned action**

Understanding why people accept or reject computers has proven to be one of the most challenging issues in information systems research (Swanson 1988). But especially for practitioners it might be very useful to gain more insights in why some people easily accept and use new technologies such as ESS whilst others don't. One of the models that has proven to be successful in predicting and explaining behaviour across a wide variety of domains is Fishbein and Ajzen's (1975) theory of reasoned action (TRA). According to Davis et al. (1989) the TRA is designed to explain virtually any human behaviour but therefore also to general to gain insights in computer usage behaviour.

“ According to TRA, a person's performance of a specified behaviour is determined by his or her behavioural intention (BI) to perform the behaviour, and BI is jointly determined by the person's attitude (A) and subjective norm (SN) concerning the behaviour in question (Ajzen and Fishbein 1980 in: Davis et al. 1989).”

As stated in the previous citation by Davis BI is a measure of the strength of one's intention to perform a specified behaviour. A is defined as an individual's positive or negative feelings about performing the target

behaviour. The subjective norm refers to the person's perception that most people who are important to him or her think he or she should or should not perform the behaviour in question. (Ajzen and Fishbein 1975).

## **Technology Acceptance Model**

Davis et al. (1989) introduced an adaption of TRA; the technology acceptance model (TAM). TAM is considerably less general than TRA, and is especially well-suited to gain insights in computer acceptance and specifically tailored for explanation of the determinants of computer acceptance in general. A key purpose of TAM is to provide a basis for tracing the impact of external factors on internal beliefs, attitudes and intentions (Davis et al. 1989). Specifically this aspect of TAM makes the model very useful for this research since the aim is to explore the influence of the external variable (age) on acceptance of computer usage. TAM can provide the basis for this particular exploration.

TAM posits that two particular beliefs, perceived usefulness (U) and perceived ease of use (E), are of primary relevance for computer acceptance behaviours. The first belief (U) can be defined as the degree to which a prospective user believes that a particular system would enhance job performance within the organizational context. The second belief (E) refers to the degree to which the prospective user expects the target system to be free of effort (Davis et al. 1989). Both TRA and TAM postulate that computer usage is determined by the behavioural intention to use (BI), but unlike TRA, in the TAM behavioural intention is viewed as being jointly determined by A and U. Another difference between the two models is that TAM does not

include TRA's subjective norm (SN) as a determinant of BI because of its uncertain theoretical and psychometric status (Davis et al. 1989).

### **Perceived usefulness (U)**

The U-BI relationship in TAM (see figure 1) is based on the idea that, within organizational settings, people form intentions toward behaviours they believe will increase their job performance, over and above whatever positive or negative feelings may be evoked toward the behaviour per se (Davis et al. 1989). For example, enhanced performance (U) might lead to a reward (which is extrinsic to the content of the work itself) and can therefore lead to a cognitive decision to use a system without paying attention to feelings that form a certain attitude (A) towards the use of the system (Davis et al. 1989). However positively valued outcomes of the behaviour (use of the system) often increase one's affect toward the means to achieving those outcomes. This explains the U-A link.

### **Perceived ease of use (E)**

TAM distinguishes two mechanisms which explain the direct link between ease of use (E) and attitude (A): self-efficacy and instrumentality. This means that the easier a system is to interact with, the greater should be the user's sense of efficacy, which will positively influence A (Davis et al. 1989).

As figure 1 displays, ease of use (E) is also linked to U. For example, educational programs designed to persuade users of the power offered by a given system and the degree to which it may improve users' productivity could positively influence U (Davis et al. 1989).

### **3. 2. 3 External variables**

As figure 1 implies, perceived usefulness (U) can be affected by various external variables over and above ease of use (E). External variables such as menus, icons, training and user support will specifically effect E, but might have an indirect effect on U as well because of the E-U link (Davis et al. 1989). According to Davis et al. (1989): “ external variables provide the bridge between the internal beliefs, attitudes and intentions represented in TAM and the various individual differences , situational constraints and managerially controllable interventions impinging on behaviour.” When the TAM was just developed, most researchers did not focus on external variables but on the prediction and explanation of user behaviour, working from U and EOU forward to user acceptance. However Davis (1989) explicitly included ‘ external variables’ in his original model to stimulate future research on the impact of various external variables on user behaviour. By doing this Davis offered current researchers and practitioners a push in the right direction on how to examine for example the influence of generational differences (external variable) on technology acceptance.

### **TAM’s challenges**

TAM has proven to be a useful theoretical model in helping to understand and explain behaviour in computer technology. Substantial theoretical and empirical support has accumulated in favour of the TAM. However many researchers are still working on an extension of the model since it only consistently explains about 40% in usage intentions and behaviour (Venkatesh and Davis 2000). From it’s original model (see figure 1) TAM has evolved over time. In 2000 Venkatesh and Davis extended the original TAM

and tried to explain perceived usefulness and usage intentions in terms of social influence and cognitive instrumental processes (Venkatesh and Davis 2000). This extension led to the development of TAM2. In addition Venkatesh (2000) tried to explain the determinants of perceived ease of use. Legris (2001) pointed out that the original TAM needed a lot of improvement, but that the latest model (TAM2 by Venkatesh and Davis 2000) goes a long way in the right direction. However even if established versions include additional variables (such as TAM2 does) the model still hardly explains 40% of the variance in use. This shows that significant factors are not being included in the models. Since the extended TAM (TAM2) is not being supported by substantial empirical research, this model will not be used in this research. The original TAM will function as the foundation for this research. According to Legris (2001, pp. 202) and Venkatesh (2000, pp. 357) there are still some relevant theoretical constructs which are not included in the technology acceptance model. By exploring individuals' attitudes towards the usage of computer technology on the work floor in an open and explorative way, some new determinants of TAM's key constructs might be unravelled in the current research.

Besides the fact that the TAM currently explains approximately 40% of the variance in actual system use, Legris (2001) raises three other concerns regarding the technology acceptance model, according to him:

Many studies involved students. Validity would increase if research would also be conducted in a business environment.



Most studies examined the introduction of office automation software.

Research would benefit from examining business process applications.

Most studies do not measure system use. What TAM actually measures is the variance in self reported use.

In this research at least two of the above mentioned limits defined by Legris (2001) will be taken into account. To increase validity the current research will be conducted in a business environment. Furthermore instead of office automation software, the use of business process applications will be examined.

In their critical review on the technology acceptance model Turner et al. (2009) emphasize on Legris' (2001) third concern: self reported use. Turner et al. found in their study that relatively few papers consider objective measures of actual usage. According to them the use of subjective measures of actual usage occurs because it is more difficult to measure actual usage objectively. This concern learns researchers that they might be measuring perceived usage when they think that they are measuring actual usage (Turner et al. 2009). The self reported limitation of TAM is of minor influence on this research since the aim is not to measure actual technology usage but to find out why people accept or resist certain technological applications. Subsequently this insight could lead to some recommendations on requirements for technology acceptance in the HR SSC environment.

### **Technology acceptance and the role of age**

As stated by Legris (2001) some significant factors are not being included in Technology Acceptance Models. The lack of inclusion of these factors partly

leads to the fact that TAM still only explains 40% of actual system use. Sun and Zhang (2006) support Legris' assumption and distinguish ten moderating factors (divided in three groups) that could be of influence on technology acceptance:

## **Organizational factors**

## **Technology factors**

## **Individual factors**

Voluntariness

Individual/Group

Intellectual capability

Task/Profession

Purpose

Cultural background

Complexity

Gender

## **Age**

Experience

In particular the effect of age on the TAM has received little attention although research suggests that age is of significant influence on technology acceptance and usage within organizational settings (Sun and Zhang 2006;

Morris and Venkatesh 2000). Morris and Venkatesh (2000) investigated age differences in individual adoption and sustained usage of technology in the workplace. The primary theoretical framework for their study was the theory of planned behaviour (TPB) by Ajzen (1985). Davis' (1989) TAM is comparable to TPB (see figures 1 and 2). Both theories incorporate the determinant attitude (A). But where TAM assumes that A is being influenced by a combination of perceived ease of use and perceived usefulness and that A eventually influences system use; the TPB suggests that A itself (together with subjective norm and perceived behavioural control) is a determinant of system use. In the context of technology use TPB's subjective norm (SN) refers to the perceived social pressure (peer influence and superior influence) to perform or not to perform the behaviour (Morris et al. 2000). Perceived behavioural control (PBC) is defined as people's perceptions of the ease or difficulty of using new technology (Morris et al. 2000).

The results from Morris' (2000) study suggest that age is of influence on technology adoption and sustained usage decisions. He found for example that in the case of younger employees attitude towards acceptance of a new technology turned out to be more salient as was the case with older workers. But older workers weighed the importance of subjective norm and behavioural control more strongly than younger workers.

Conclusively: in the short term technology usage of younger employees appears to be more driven by underlying attitudinal factors whilst older employees are more motivated by social and process factors. And over the long term, the contrasts between younger and older employees turned out to be equally striking but a difference in significance of the determinants did

occur. After 3 months of using the system, the importance of the SN determinant decreased for older employees and eventually reached the same level of significance as the younger employees' level (Morris et al. 2000).

## **Relation with current research**

Since the current study is not of a longitudinal nature and will include respondents who have been exposed to technological applications within HR for at least three months we can expect that the subjective norm will be of minor influence on possible differences in the behaviour of individuals.

Furthermore the outcomes of the current research might differ from some of Morris' findings because the type and scope of technological applications under study are different. Morris examined the use of new Word software technology, whereas in this study important HR business processes will be included as well. With the decision to investigate HR business processes (through HR SSC) one of Legris' concerns with the quality of TAM research is taken into consideration. As stated earlier the link between age and technology acceptance is an underexposed topic of investigation in academic literature. Morris and Venkatesh (2000) pioneered in their attempt to explore differences in technology usage between older and younger employees but acknowledge that additional research is essential in order to get a better understanding of the differences they defined and to extent these differences with new insights. In their research Morris and Venkatesh (2000) suggest that future studies look at individuals born in the post-baby boom era (the younger subjects in their study) as they begin to reach the age of around 40; in order to strengthen the findings in their study.

## **Generational approach**

As outlined in the previous paragraphs age will function as an important moderator on the TAM in this research. The generational approach will be used to be able to categorize the workforce of an organization into two different generations based on their age. However it is assumed in most literature that people from one generation have more in common than just the period in which they were born. But it is challenging to determine what it actually is what those people have in common and what it means to be part of a generation because the generational approach in itself is a topic of constant debate in the academic world.

Some researchers emphasize on the problems in determining the exact temporal point at which to segregate the various generations (Macky, Gardner and Forsyth 2008). Other researchers point out that it can not be assumed that all members of any given generation will experience the same key socioeconomic events in the same way (Giancola 2006). But Strauss and Howe (1997) argue that every social category has individual exceptions and that boundaries can get a little fuzzy at the edges. Another concern is that according to some researchers up till now there has been relatively little empirical evaluation on the assumption that generations differ (Cennamo and Gardner 2008). Giancola (2006) even states that the generational approach may be more popular culture than social science. Karl Mannheim, a social scientist who introduced the concept of generations in the 1950s, also states that a generation is a social creation rather than a biological necessity (Schuman and Scott 1989). But does that make the concept of any less significant