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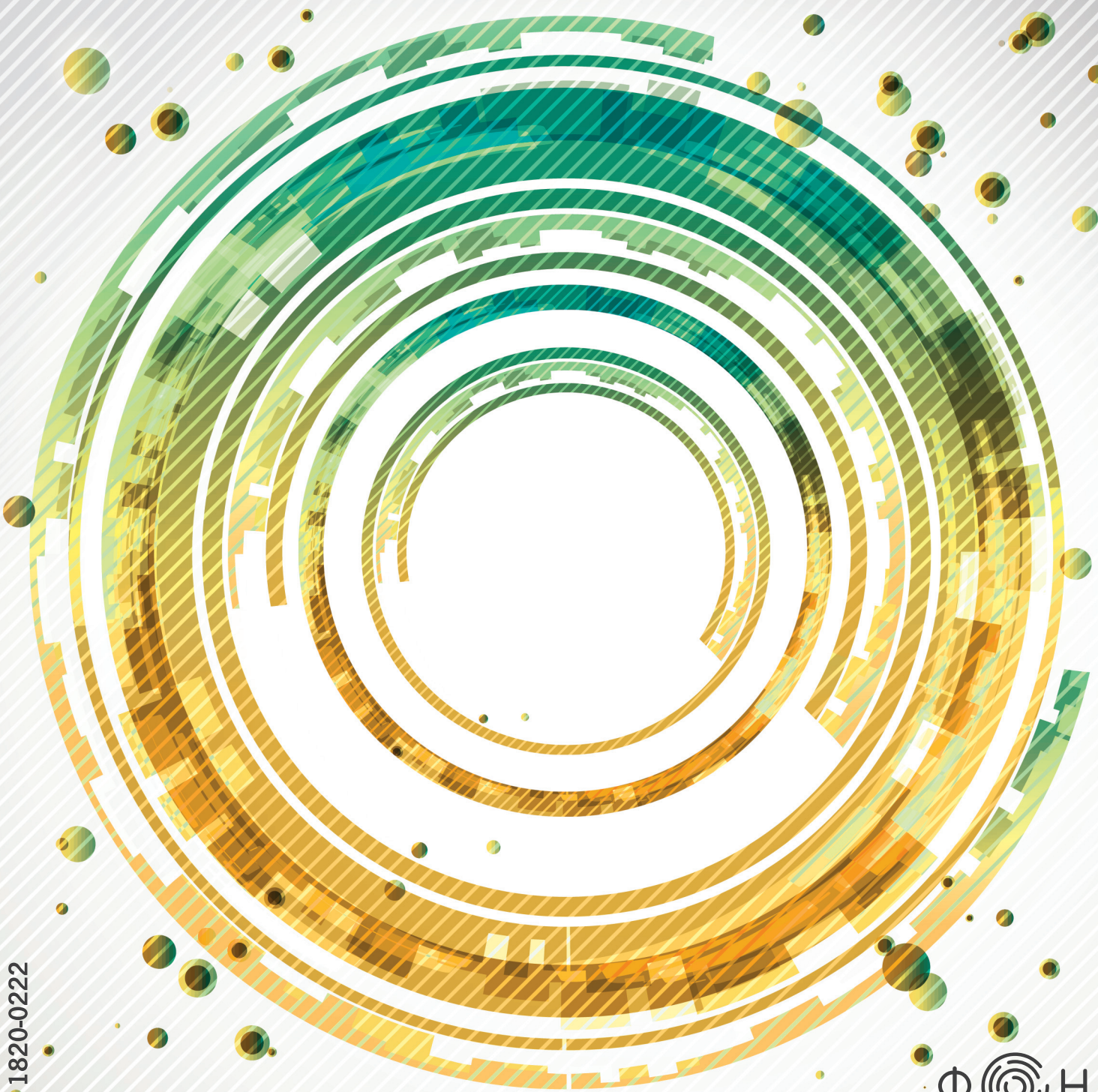

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УНИВЕРЗИТЕТ У БЕОГРАДУ
ФАКУЛТЕТ ОРГАНИЗАЦИОНИХ НАУКА

Mirjana Petković[1], Snežana Lazarević[2]
[1]Faculty of Economics, Belgrade,
[2]College of Sports and Health, Belgrade

Managing Interorganizational Relations: Design of Shared Services Centre

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This paper analyses interorganizational relations and interorganizational design as a means to manage those relations. The focal point of analysis is the design of Shared Services Centre-SSC, by using a method of Workflow Management, WFM. The authors point out strategic and organizational, political, technical and economic motives for establishing SSCs. The paper also describes a conceptual model and process of designing SSC.

Keywords: interorganizational relations, interorganizational design, shared services center, workflow management, SSC design model.

1. Introduction

In the today's environment, extremely complex due to dramatic changes triggered by informatization and globalization, organizational design has gained in importance and become one of the most important tools in managers' programs, which they implement to improve the organizational operations and make their organizations more competitive. These are the times when knowledge has become a key resource, namely, when organizations are exposed due to lack of information, ignorance and non-standard inputs, processes and outputs. Integration of organizations into groups (partnerships, alliances, networks, kairetsu, clusters, etc.) becomes imperative. It is obvious that companies open to collaboration as well as to competition; they have learnt to co-evolve with others and thus adjust to change successfully[1]. Their essential goals are to save resources and access information and new knowledge without endangering the reliability of output and to save information that is part of business secret and is not subject to transparency. The preconditions for these are two strategic choices of design: (1) efficient design of interorganizational relations, and (2) redesign of interior organization for the purpose of allocating certain jobs onto the level of the group (partnership). The former choice is meant to ensure a necessary firm structure for forming partnerships (shared services center, crossorganizational team) which will formalize organizational relations, professionalize their management and give them the necessary legitimity. Trust between partners in these relations is important, however, it is not sufficient to ensure the standardization of the process and the reliability of inputs or outputs. The latter choice is meant to identify the processes that should be transferred from the company level to the level of partnership, or that should be introduced if they have not existed before and are important for the partnership. It is in this way that, through an integration of resources and competencies, interorganizational processes contribute to an efficient business process management, to sharing information and knowledge. Global competition becomes a strategic reason for the companies to integrate. The goal of this paper is to point out to the inevitability that interorganizational processes be managed, as well as to the possible design of an organizational unit for shared (services) functions, through which interorganizational relations are operationalized and controlled (shared services centre)[2]. For the interorganizational relations to be successful, certain structural, technological and socio-technical preconditions have to be ensured, and this is the starting point of the authors of this paper. The paper is theoretical in nature and is based on the literature which offers not only theoretical papers, but also papers based on empirical research conducted implementing the case study method [3]. Primarily, the nature of interorganizational relations will be explained, when and why they are established; then the authors will highlight the importance of organizational/interorganizational design in order to find out how important it is that these relations should be formalized. Then the focus of the analysis will be directed onto the service unit design in terms of what can be concentrated on the level of partnership and how it can be performed without endangering the core business in the process, and show that, in addition to form, interorganizational relations should involve certain concrete contents (activities).

2. Interorganizational relations

An important lesson learnt by modern organizations can be sublimed into an attitude that an organization has to cooperate with others, not only with suppliers and customers, but with the competition too. A large number of activities in the value chain are not profitable enough for certain organizations; hence it is viable to outsource them to other organizations, often even to the competition, with which they make different forms of interorganizational design (networks, alliances, kairetsu, cluster, etc.). [4] The trend of interorganizational integration is especially stimulated by the need for continual innovation, improvement and adjustment of the output to the market requirements and the customers' expectations. Organizational specialization and focusing upon certain activities in the value chain results into a higher productivity, higher quality and lower costs. These are the basic drivers of organizational competitiveness and organizations can hardly achieve them on their own, especially not in the globalized market[5]. In search of new strategies of survival and successful business managers have found solution in organizational partnerships, that is, in interorganizational integrations[6].

The practice of integration and cooperation among organizations on various grounds is not new to either management or organization. Most frequently these were different types of contractual relations, sales, franchising, joint venture, etc. Their basic characteristic was their short-term character and a high level of independence of contracting parties[7]. In modern conditions, the nature of interorganizational relations is substantially different; relations are established with certain long-term interests in mind and have an impact upon the inter- and intraorganizational design of the organizations involved in these relations. These new forms of cooperation, too, are supported by contracts that are considerably more important than sales, franchise or licencing agreements[8]. They stipulate concrete goals, on the input, as well as on the output sides. The inputs the member-partners introduce into the relations are specific resources each of the individual members have at disposal, such as: facilities, technology, people, knowledge, market, etc. The outputs are actually the reason they establish such relations, and they can be: innovation, productivity, quality, learning, new technologies, new markets, higher standard of living of both the employees and citizens. In other words, interorganizational relations can be said to be an efficient strategy of concentrating the resources in order to improve the competitiveness of the members and the living standard of the population.[9]

Thus modern organizations have recognized in interorganizational relations a new strategy for successful operations on the globalized market. This strategy has become both a challenge and a driver of the development of internal capacities of organizations for a continual growth and development. This all resulted into a massive internal redesign of organizations in order that they should be relieved of the activities and jobs from the value chain for which they are not competent or lack competitive resources. This process has brought forth the reductions of the number of employees and the change in the organizational pattern.[10] Interorganizational relations are recognized as a new source of organizational growth and development, on one hand, and of reducing the organization to an optimum level in order that it should be more efficient, on the other.

The key issue for interorganizational relations to produce the effects for the purpose of which they have been established is how they should be managed. Managers are faced with the choice of organizational design as a central issue of interorganizational relations management.[11]

3. Organizational and interorganizational designs

Organizational design is a management process that involves defining of the strategy as a starting decision of any organization's management, defining organizational structure whose numerous dimensions are meant to support the strategy, defining the systems and processes that start the entire organizational architecture and guide it in the direction defined by the strategy. This means that organizational design is a management lever (tool) used to achieve a balance between effectiveness and efficiency in order that given resources should be used to achieve the right outputs. With a good choice of solutions in the organizational designing process managers achieve more success and better performance in comparison with their competition. When a quality internal organizational design is created, the organization becomes attractive for forming partnerships with similar organizations, since no accountable management wants partnerships with organizations burdened with problems and irrational solutions. This is a basic principle of success of any attempt of organizational integration, recognized in varied forms of partnerships: joint ventures, company groups, networks, alliances, clusters, etc.

Ever since it began to deal with the problems of an efficient organization, the theory of organizational design has predominantly been focused upon the issues of internal organization in order that available resources should be rationally employed: job design, job classification, job grouping, chain of command, coordination and control. With the development of different forms of interorganizational relations, the theory of organizational design has more or less successfully followed these trends and tried to offer adequate solutions. It has become clear that organizational design is strategically important for any organization, that it is the central issue of management, that the choice of design models are strategically important, because organizational design can add or reduce value for shareholders, employees and customers.[12] The key features of organizational design that make it a strategic dimension of management are flexibility and absorbtivity. The former enables organizations to introduce change to adjust to the environment, the latter enables organizations to learn, adopt and offer knowledge. Well designed organizations are capable of both exploitative and explorative behaviour, namely, of both stability and dynamism; their designs reveal features of an ambidextrous organization.[13] Ambidextrous structures have proven to be highly suitable for the innovative organizational behaviour, especially in situations when they wish to retain in their portfolios a recognizable brand that records the fall in the returns to engaged assets, and find solution in setting up a separate organizational unit that becomes the "owner" of the new brand.[14]

Any kinds of organizations may decide to enter into partnerships in a situation in which they realize that they are unable to carry out a concrete business enterprise by themselves, for market, technological or any other reasons. Hence the leading strategic goal of forming partnerships is attracting resources to create value for partners, in a manner and to the extent to which they themselves could never accomplish through their individual efforts. Interorganizational cooperation means establishing concrete relations via certain forms of interorganizational design (IOD). As a rule, creating an IOD form means that partners redesign their internal organizations since only in this way can value be added to a newly created structure and its components, intra- and interorganizational units, most often a form of network forms.[15] On the interorganizational level, an efficient design should have effects similar to those it has on an intraorganizational level. Thus it is possible to distinguish among different forms of IOD, in that they differ in the ways in which they contribute to the success and competitiveness of their members, support learning, knowledge transfer, innovativeness and entrepreneurship. As well as it is important for large and complex organizations to ensure focus and leverage by an efficient design that has a firm and recognizable architecture, it is also important for groups of organizations (interorganizational networks – IOM) to create an efficient external design alongside their efficient internal design, namely, to define relatively firmly structured and institutionalized organizational units that are to take over and integrate activities of mutual concern for the IOM member-organizations. It means that interorganizational relations that are expected to give concrete results have to be supported by an adequate organizational design that would be visible in a concrete form (network, kairetsu, alliance, cluster) and would have a professional superstructure in the form of an integrating unit or centre (shared services centre).[16] In accordance with this approach it is possible to create a model of interorganizational relations that will depict the importance of interorganizational design, or an integrating unit or centre whose task is to ensure coordination and integration of partners in interorganizational relations (see Figure 1). Coordination and integration are the key preconditions of successful partnership and a guarantee that partnership's goals will be achieved.

4. Shared services center concept

Historically, the concentration of resources, both human and material, on the top organizational level is associated with the practices of large diversified and divisionalised companies during the 1960s and 1970s. Namely, the increase in the company size and a new strategy of growth and development (diversification) brought forth the organizational environment which demanded that the theory of organizational design provide solutions to new issues of organizational designing. For example, the manner in which the complex structure of large companies can be integrated and how the operations of complex organizational systems can be controlled. Different theoretical approaches emerged that offered solutions to certain situations. The starting criterion in the core of these approaches is a form of interdependence of business the members of the complex structure perform, so that we deal with a situation in which they are vertically integrated and interdependent, and also with another situation in which they are integrated horizontally. Similarly, companies may enter into partnerships even when there are no clear vertical nor horizontal connections, however, they have found a certain mutual interest, on the basis of either capital, knowledge, technology, people, market or other.

The shared service activities centre is a relatively new phenomenon that has become the focus of attention of the authors in the area of organizational design only in early 1990s, with the intensification of the trends in the areas of informatization, globalization, deregulation and transformation of complex organizations. The concept of organization of shared functions is not new, however, that of shared services centre (SSC) is. These two concepts differ in their approach to the very issue of positioning service activities in relation to the core activities of the company, as well as to the form of their design. The concept of shared functions has long been based on a theoretical perspective of the administrative structure of a firm and the theory of transaction costs. This concept advocates the *centralization* of shared jobs and is engaged in making "make or buy" decisions; basically, it created the *functional structure*. The concept of service centre is based on a value chain and resource perspective[17] according to which the company is viewed as a "storage of resources and competences that ensure competitive advantage" and basically advocates the *process structure* in which core or primary processes are differentiated from non-core or supportive processes. Core processes are organized in a basic model of structure, functional of divisional, whereas supporting processes are organized in a derived forms of the structure, the so-called superstructure, based on expert groups and teams. According to the resource theory, a firm's competitive advantage lies in managerial processes or routines that shape specific assets whose accumulation depends on the path within the organization or between/among organizations.[18]

The concept of shared services center is based on the *concentration* of resources, rather than on the centralization of functions. Centralization in the concept of organizing shared functions results in forming a head office that is often viewed as isolated and nonresponsive to clients, while decentralization is identified with doubling activities and costs. On the other hand, the SSC model allows for business units to retain decision-making control, while at the same time using the economy of scope via shared business systems and consistent standards. The goal in forming SSCs is to save costs and gain access to resources, on one hand, and to allow partners the time to focus upon core business, on the other. Similarly, the role of a SSC is to coordinate activities via standardization of flows of resources, services and information provided by interdependent partners. In order that this concept and its idea should be understood, it is necessary that we know that in their development companies had different experiences and that the concept of SSC is similar to that of outsourcing. Through a vertical integration the companies originally internalized a large number of processes of the front-office and back-office of the value chain, while diversification made it possible for them to develop or take over the jobs complementary to their core business.[19] Not all companies, however, internalized to the same extent, nor did companies in different national context behave in the same way. Thus, for example, American companies tended to internalize to a larger degree in comparison to their European competition.[20] Similarly, the regional concentration of resources was in favour of externalization, where large corporations were in a position to rely on other, smaller firms in their procurement of resources.[21] Different companies internalized and externalized service processes, not only in different degrees, but different service processes as well. Many even combined these two strategies. The mid-1980s witnesses the emerging of a trend of creating network forms (net organization – N form) and the so-called heterarchies in order to preserve companies' internal capability of performing business in which they excell, while outsourcing non-core business to others that are highly professionalized in performing them. In the outsourcing concept one company becomes a client to several service providers (suppliers); it becomes the network *core* around which gather network members, numerous suppliers of components, services and other inputs the company previously produced itself. Such an approach had numerous advantages, however, it had a lot of disadvantages as well. Those who suffered most were the manufacturers in the field of automobile industry and the industry of household appliances, due to erratic standards, lack of trust and disregard of rules and regulations.[22] Changes began in mid-1990s. Many large corporations that de-diversified and relieved themselves from the so-called unrelated jobs find more reliable methods of improving their competitiveness, raise productivity, rationalize costs, ensure the reliability of inputs and the access to markets to place their outputs.

Managers have recognized new capabilities of information technology (IT) that makes conditions for establishing firm interorganizational relations via forming a shared services centre. The logic in the concept of SSC differs from that of outsourcing. *The SSC is the core of the network*, one service supplier that provides services to a number of clients, members of the network. Many companies are restructured due to the managers' motivation to find a new growth strategy. They redesigned their internal organization in that they redefined their processes and diversified their corporate functions according to the criteria set by the value chain and the theory of resources (see Figure 1). To create an effective SSC that would optimize benefits for the IOM members, it is necessary that each of them should redesign their internal organizations. The conceptual frame for designing interorganizational relations are shown in Figure 1.

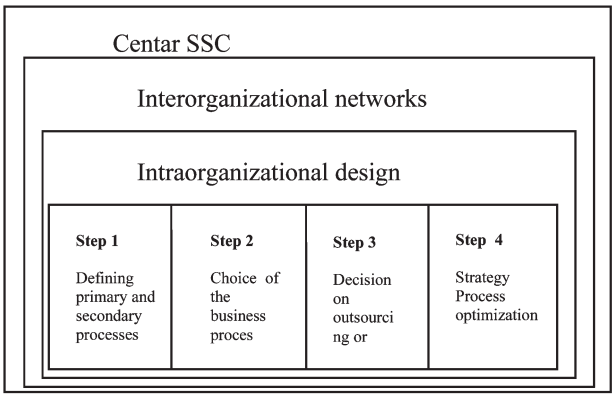

Figure 1: Conceptual frame for designing SSC

(Source: Authors)

The manner in which interorganizational relations are defined largely preconditions the success of the enterprise. Interorganizational design means defining interorganizational integrations that exist between the organizations that established these relations. These relations will be firmer if the partner clearly defined the activities that are to be performed as their mutual activities and that will also be formally organized within a separate organizational unit – SSC. This issue can by no means remain only a formal one. The SSC has to have its own management, its operations have to be legally defined and it has to have its own budget.

Interorganizational design should ensure the partners a flexible manner in which they will achieve a variety of organizational goals, which means that this form of integration is expected to provide a high level of sharing information, knowledge, contacts and other resources. This means that partners define activities or only sections of certain business processes that will be allocated to the level of a new entity created through their integration. Simultaneously, partners have to strategically profile and design a shared unit, having in mind the benefits they will achieve by its forming. This means that it is necessary to do considerably more than produce a simple description of the job it will perform and the roles it will play. The basic question is whether and in which way the shared services unit (SSC) will increase or add value to the members.[23] In order that the SSC should be efficient and ensure long-term steady competitive advantage for the partners, it is necessary that each of them redesign their processes. The starting point is the organizational pattern and its redefining; this is a strategic issue for complex organizations with diversified programs, those that operate beyond national borders. Globalization of business imposes new models of organizational structure. The basic models characterised by an organizational symmetry yield to hybrid, asymmetric models that answer differentiated needs of markets, of geographical areas, and of national cultures.

The design of interorganizational relations, considerably more than the design of internal organization of each individual company, requires that the structure of these relations be viewed not through an organizational pattern as a visual form but rather as a system of communications and processing information between those employed in the centre and their colleagues in organizational units dispersed all over the world, that together make an international network of a complex organization.[24] It is in this sense that designing a SSC requires an additional effort to create and implement a *culture* based on trust, respect for differences and observing of standards, alongside SSC structuring.

The core component in the designing of the unit (centre) on the IOM level is the strategy that views this unit as a way to achieve long-term savings of the costs of conducting certain processes for the benefit of all the members, of achieving synergy effects via a value added through collaboration, sharing of knowledge and of marketing and other information. Each member of the network is both the founder and the shareholder, that is, owner of the shared unit and hence participates in its management. Each member does the business in which they are the best, namely, for which they have core competence, so that all the members in the IOM get the non-core processes, or support, form the shared organizational unit. Thus a new work and technological environment is formed in the IOM that is relieved of all burdens, irrationalities and lack of competences and a sound and quality business environment is established.[25]

The crucial conceptual issue in designing the model of shared jobs is the distribution of costs among the partner organizations. Namely, a mutual agreement must be achieved as regards the division of costs for the group of shares services. The essence of the solution is that each partner organization has to bear part of the load in that it will participate in saving, but also fund costs. For the purpose of an effective management of shared processes (services), certain organizational and legal acts have to be adopted (statute, codes, rulings) in addition to the cost distribution defined by the contract, acts that define the rules and procedures to regulate the manner in which the services provided by the centre will be used, the authorised persons and the manner in which the authority is used (further elaborated in chapter 5).

5. implementation of workflow management (WFM) in SSC designing process

Literature suggests that the analysis of interorganizational processes will benefit from implementing a workflow management (WFM) methodology.[26] In a new organizational environment, work does not only mean manufacturing of tangible goods, but also the flow of information through the value chain. Information flow has become critical for the company's business processes and aroused a lot of interest in the methods of information-intensive workflow defining, analysis and management. Workflow management (WFM) is defined as a technological support in redesigning work, business and information processes, as a technique of organizational change and a technique of process redesigning. To implement this technique, organizations need to have a well organized informatized work environment, and this precondition is the very basic presumption for forming an IOM, which proves that the WFM technique can be highly useful in an SSC optimization.[27] Workflow designates a process consisting of a succession of connected steps with the focus on a continual flow of work where each step derives from the previous one, without pause or idle run.[28] Traditionally, workflow management was viewed as a methodological technique oriented towards processes within one organization. In situations in which two or more companies collaborate closely, when they pool efforts and become a network of interdependent processes, however, the systems of workflow management in different organizations integrate to manage interorganizational processes in heterogeneous workflow environments. While the classic organizational pattern, job classification and description are associated with an individual that plays a certain organizational role, the WFM technique is used to design a process in whose realization one or more incumbents may participate, depending on the approach to distribution and integration of process tasks and the assignments defined within individual instances of the process.[29] In a nutshell, workflow management technology can raise efficiency, flexibility and adaptability of both internal organization and interorganizational forms. Besides, WF systems are by an in-built process control mechanism so that each partner can control their own resources and activities, however, none of them has access to the control systems of their partners. Even in the conditions of incomplete transparency beyond organizational boundaries the WF system ensures the continuity of processes and prevents job doubling, which is an important motive for forming a shared service centre. SSC designing by implementing WFM helps establish the business process owner – user relations. The SSC becomes the owner of business processes that partners allocated to the centre, while partners cease to be the owners and become the users, or participants in the business process.

The existence of shared functions in interorganizational relations is by all means important because of the *need to standardize processes and share knowledge and information*. Organizational unit of shared functions is a specific tool for coordination and integration of members and as such should be a component of the plan for establishing interorganizational relations. Recognizing the importance of this issue, certain authors also attempted to define possible organizational solutions to the shared functions on the partnership level.[30] Common to all efforts is that they insist on a special organizational unit meant to accomplish shared functions, on its optimum size, professional profiles of its members, management bodies and budget to support its operations. Its *adequate size* should be in accordance with the value it adds to the members. This requirement in the conditions of organizational informatization is not difficult to satisfy, as information technology and electronic communications enable forming virtual organizational units (virtual work groups, virtual teams). What may prove to be a problem in partnership practice which is more difficult to solve is related to budgeting and control, that is, to finance sources and financial discipline of the partners. Here belong additional issues of behavioural nature, the issue of *trust*, as well as an emotional issue, the issue of *emotions*, both the core components of the members' commitment to partnership. Hence the trainings of employees, managers and non-managers, make a component part of the interorganizational relations and SSC designing processes. The purpose of the training programs is to prepare the employees in companies

to adopt change in two groups of activities that, with a strategic orientation towards process sharing, help them adopt different attitudes and behaviours. One group involves ongoing activities, whereas the other involves the activities in the SSC strategy implementation. In case of ongoing activities, training includes those employees who are expected to understand and adopt the new reality that they will no longer perform activities they have performed so far because these activities are allocated to the centre, as well as that they should stick to the agreement made and be responsible for performance. For the needs of implementation, training includes managers who are expected to learn about the new strategy, organization, systems and processes, especially new leadership and culture.

The experience of successful partnerships shows that they operate on the model partners created, either spontaneously, working together for years, or through the creative activities of experts that carefully planned the solution in the process of designing interorganizational relations. Literature does not offer many sources that can describe an efficient method, model or formula for designing shared activities on an IOM level. In accordance with the orientation that a new entity administration should not be voluminous and burdening for partnership members, it seems that workflow management methodology and technique is a good solution to implement in the process of interorganizational relations designing.[28] This means that the essence of this technique is reflected in reconsidering the processes and in the analysis of the processes. The analysis is to reveal the connections and relations between the core processes of each of the members in the partnership and the shared activities allocated to the IOM level, as well as the nature of the relations among/between the members; it is a sort of process analysis or reengineering of interorganizational relations. Workflow management allows for partner-organizations to share knowledge on shared services, however, it simultaneously protects one from another, so that they should not have insight or come into possession of information that is not to be shared.

6. SSC designing model

Basically, the model of SSC designing involves three groups of issues:[26] (a) design of partnership, (b) design of optimized shared functions and (c) design of policies and regulations. For interorganizational relations to be successful there are other issues that are important too, and these primarily are the issues of concord between organizational cultures, of leadership style, human resource management, etc. In this sense, the model of interorganizational relations designing involves a set of concrete elements (Figure 2).[26] (1) *partnership environment,* which means that there is a potential for integrating functions recognized by prospective partners, as well as a necessary level of their informatization; (2) *partnership organizations* that recognize interorganizational relations as a long-term low cost strategy, a long-term alliance and focus upon core functions; (3) *integrated partners networking*, partners networked through interorganizational relations, and then interorganizationally, via a shared functions centre ; (4) *optimum centre size*, according to the activities it performs and the number of employees; and (5) *new policies and regulations* that regulate management, costs distribution, ethics and rules of using the centre's services (Figure 2).

It is the SSC's responsibility to maintain and improve the effect of the services it provides to the partners, to develop and improve the integration level among the partners, so that they get used to using shared functions and avoid simultaneously developing the same ones on the same levels. In other words, once established SSC becomes the agent of service processes, however, also a coordinator and a supervisor of an efficient use of resources on the network level.

According to the SSC concept, companies – partners of the centre externalize their supporting (service) activities and allocate them to the centre that in turn, as a provider of services, forms a network with them. Then its internal organization, a service provider to several partners, takes on the form of an intraorganizational network. Thus, for example, a SSC may specialise in providing services to partners in the areas of human resources, financial, tax and legal consulting, IT, market research, investment consulting, but also in the area of production etc. Its founder-companies are integrated in interorganizational relations, in a form of alliances, networks, etc., and then they establish relations with the centre stating clear and concrete expectations and goals. The efficiency of the centre's operations will depend on its organizational design that should be created in such a manner as to conform to the combined criterion of a process and a user, namely, set up in a flexible way so that it is adaptable enough to track information flows, and capable of using the expertise of the employees to track the needs of the partners.

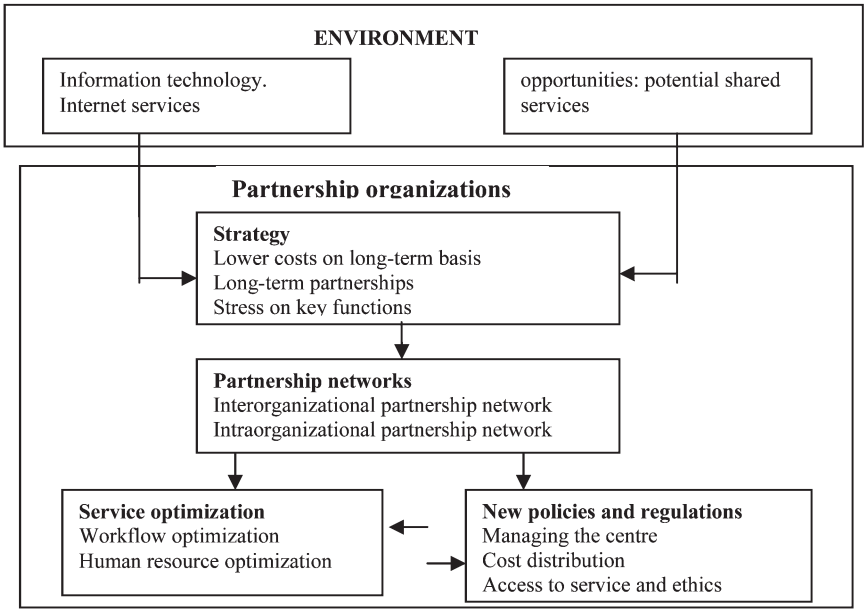

Figure 2: Conceptual model of organizational design for shared services

(Source: Wang S., Wang H.,Shared services beyond sourcing the back offices: Organizational design, Human Systems Management 26, 2007, pp 288, 2007)

Hence the interior architecture of the SSC will take the form of a organic design models, most often the matrix, in which the functions (process agents) allocated to the centre by the partners are presented horizontally while the partners (A,B,C,...N) to whom the centre provides services are presented vertically. Similarly, what distinguishes the SSC concept from all the previous designs of shared jobs (centralization of corporate functions, outsourcing, etc.) is that the centre has its own management bodies that define strategy, business and development policies, regulations, rules and standards.

Literature also offers numerous papers in which authors explain the SSC concept from different aspects, however, few of them tackle the very process of SSC designing and basic components of the organizational design of SSCs. Among the latter is a co-authored paper in which the authors identify four primary components of the SSC organizational design and a group of secondary ones: (1) *strategy* of shared services, (2) *collaborative partnership network design*, (3) *optimum design of service process*, and (4) *policy and regulation* design, as chief components of the centre organizational design, and the additional component (5) *other dimensions* of organizational design such as leadership, scope of control, information systems and culture.[26]

Strategy. – The decision on forming a SSC and transferring certain processes to its competence is a strategic decision. Hence companies that decide in favour of externalization strategy simultaneously affect the strategy of the centre. Two approaches are viable in defining the shared services strategy: "top to bottom" and "bottom up".[31] Both approaches involve business process assessment from the aspect of their importance for the organization. In the top to bottom approach, subject to assessment is the importance of corporate functions that are already recognized as common to all business entities of a complex organization. This assessment uses the technique of value chain analysis, in the sense of assessing their importance and the value they add to the organization. In conducting the value chain analysis the company may define its strategic orientation in that it will stress some shared services it will insist on in the future, for example, reduction of transaction costs, provision of better service to customers, knowledge sharing with partners in shared services, etc. The bottom up approach is implemented in the analysis of secondary (*non-core*) functions to identify potential benefits and risks from sharing these functions with other organizations.

Choice of partner(s) and collaborative partnership network design. – When they have decided in favour of outsourcing processes from the value chain, the companies establish interorganizational relations with the centre, plotting a network. On the other hand, by dislocating non-core processes, they network with the

partners they transferred these processes to. The alliance created in this manner also becomes a partner to the centre. Thus the centre becomes a point of integration of partners and also a point of coordination of their processes. Centre's partners are long-term alliances. For the partnership to last longer, it is necessary that certain preconditions be satisfied: first, the partner organization performs similar secondary functions that can be integrated; second, the partner has to be aware of a potential benefits resulting from integration; third, the partner is willing to and capable of taking the risk that is present in the shared services development; and fourth, the partner has the knowledge of how to implement shared services.

Optimization of shared services. – A SSC is meaningful only on condition it does not grow into an unnecessary administrative burden for the partners. In order to prevent this to happen, the SSC designing process has to follow the principles of efficient organization. Two designs are crucial in this process: the workflow design and the human resource design. As well as in the process of internal organization design in which it is necessary that a balance be achieved between two fundamental but opposite requirements, division of labour and coordination, the SSC design requires that this balance should be achieved. Since this is the problem of superstructure, balance here can be achieved by workflow optimization and human resource optimization. With the implementation of WFM, workflow optimization in a SSC includes the elimination of worthless business processes, negotiations on uniform business processes, standardization of service provision processes and knowledge sharing on business process restructuring. Workflow optimization is achieved on three levels. On the level of individual partner, the workflow optimization criterion is a value added maximization. On the level of shared services, the criterion is to eliminate business process doubling. On the level of SSC, all work flows are optimized so that services are provided at lowest possible costs. For the organizations integrated into shared services human resource design becomes most important ever. SSC uses a rigorous selection method and employs people who have good knowledge of shared services. The human resource design optimization process means recruiting new people that will adopt the SSC concept promptly, that are capable and skillful in communication and team work, but also organizing numerous trainings for the purpose of improving the present employees so that they could adapt to the new environment. SSC design will also imply a potential reduction in the number of employees and lay-offs of employees who turn out to be redundant.

Policy and regulation system design. – The SSC management system is regulated by a statute, and so are the issues of rights, liabilities and responsibilities of both partners and the centre. The top management body of the centre is the managing board that includes directors, candidates proposed by the centre partners. The managing board of the centre appoints the director general of the centre, is in charge of finance, coordinates and controls the work of the centre. Furthermore, the centre is obliged to keep a pattern/chart of cost distribution to partners-service users, and also program and resource policies, uniform standards and ethical code.

Other dimensions of SSC organizational design. – Management, leadership and culture also make very important dimensions of a successful performance of SSC. The SSC is a challenge for managers that have to adopt change and a new "mental matrix", which is by no means a little effort to make. Also, managers' attitudes and behaviour will affect the pace at which other employees will adopt new attitudes on jobs that are allocated to another organizational unit, the extent to which they will be committed to their jobs and ready to collaborate with experts in the SSC. Instead of a routine and steady management concept implemented in the past, a flexible and differentiated approach to management is needed today, a willingness to delegate authority to others and to manage cultural differences. This becomes imperative, the more because SSCs are, as a rule, located in different national environments. Interorganizational heterogeneity has to be adopted as a set framework for a new leadership behaviour of managers.

7. SSC vs. outsourcing

The SSC concept evolved in complex organizations for the purpose of providing a quality service or support to operation divisions and strategic business units via resource concentration. During the 1990s, with the expansion of business beyond national borders and with the expansion of interorganizational relations, the concept was externalized, it went beyond company limits and reached interorganizational networks. It did not come out of the thin air, it had its predecessor in the form of outsourcing. Companies, however, had already had certain experiences with outsourcing, so the SSC concept appeared to be a better solution to implement for longer-term partnerships, as stated in literature (Table 1)

Table 1: Shared services vs. Outsourcing

Organizational aspects	Shared services	Outsourcing
General organizational structure	Networking with share services centre	Bilateral relations
Strategy	Long-term cost savings and knowledge sharing	Short-term cost savings
Risk sharing between partners	Yes	No
Process reengineering coordination and process standardization	Yes	No
Reducing process doubling	Yes	No
Knowledge sharing between partners	Yes	No
Centralised control (uniform policies)	Yes	No
Changes in human resources	Re-development and re-training	Reducing number of employees

(Source: Wang S,. Wang H., Shared services beyond sourcing the back offices: Organizational design, Human Systems Management 26, 281-290, IOS Press, pp. 282, 2007.)

Table 2: Motives for forming SSC

Strategic and organizational motives	Policy motives	Technical motives	Economic motives
High quality of services and skills, Concentration of innovation and new technologies, Risk sharing, Process standardization, Expanding and adopting good practices, Reducing organizational complexity.	Raises credibility, Solves internal conflicts, Increases control and supervision.	Concentration of technological knowledge and access to projects, Low individual performances in organizations, Higher level of services, Concentration of experience, Standardization of platforms and applications, Better protection and central authorisation of information.	Poor control and management of costs, Financial control skills, Cost assessment control, Economy of scope and scale, Reducing capacities and system consolidation.

(Adapted after: Janssen M., Wagenaar R., Analysis of a Shared Services Centre in E-government, Proceedings of the 37th Hawaii International Conference on System Sciences, pp. 5-6, 2004).

Research has shown that service centres are constantly growing and that this type of organization of service processes becomes a choice of not only large multinational corporations, as has been the case fo far, but also of a growing number of medium-size enterprises. The concept also expanded to the non-profit sector, so that literature often offers examples of SSCs in the military, the state administration, and in the non-governmental sectors. SSCs have distinguished themselves as a sound platform for process improving and cost reduction.[32] Their locating in the areas with competent labour force that, in addition to their expertise, know and speak foreign languages well has proven to be an excellent strategy. SSC have considerably improved business processes and thus became growth generators and a critical factor of performance of many an organization.

The results of the research in the 1999 – 2009 period have shown that SSC have reached a maturity phase in their life cycle and that they now expand their activities from traditional service processes (HRM, finance, IT logistics) to entirely new ones, such as supply chain, marketing, real property, legal affairs and manufacture. From single-functional centres they have grown to be multifunctional centres.[33] The trend of organizational focusing upon core business and an increasing alienation from bureaucratic organizational form helps SSCs gain in importance. The motive is not only lower costs. SSCs are increasingly perceived as drivers of innovation, entrepreneurship and development. SSCs are also the centres of knowledge, they employ the most competent experts, leaders in their respective areas, so that these centres have become the points with a high concentration of credible resources (see Table 2).

Conclusion (and implications for management)

The last decades have witnessed an intensification of interorganizational relations in which managers recognize a new potential for growth and development. This business strategy had to be supported by a respective organizational design. Organizational design is a mechanism of relations management. Certain new forms of interorganizational design have emerged, such as networks, groups, clusters, etc. Common to these forms is partnership with certain goals and interests. The steadiness and long duration of these relations has largely depended on the manner in which partners managed interorganizational relations.

Since the mid-1990s, it has been the shared service centres (SSC) that distinguished themselves as units of IOM coordination and integration. According to the research companies (Deloitte Consulting LLP and Hitachi Consulting Corporation), experiences as regards this design of interorganizational relations have proven to be highly positive. SSCs expanded to other business sectors, state administrations, state military forces, health care, non-governmental sectors.

Despite favourable experiences and insistence on advantages, literature also warns about real problems emerging in the relations between SSCs and partner-organizations. In some cases it takes a lot of time, insistence, learning, understanding and trust for SSC to be implemented. In the Serbian economy, clusters seem be the most beneficial SSC concept in partnership relations among organizations. Experiences with this form of interorganizational relations show that superficiality, improvisation and enthusiasm of an individual present to a high extent rather than professionalism.

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About the Author

Mirjana Petković
[1]Faculty of Economics, Belgrade,
mirjana.ekof@beotel.net

Mirjana Petković, Ph.D., is professor at the Faculty of Economics at the Belgrade University (the courses of Enterprise Organization and Human Resource Management). She is the author of *Organizational Behaviour with Human Resource Management*. She is also the author and co-author of several monographs and numerous articles in the fields of organizational theory, organizational structure, organizational behavior, organizational design, culture and changes; and took part in many projects as a consultant or project manager.

Snežana Lazarević
College of Sports and Health, Belgrade
snezanalazarevic@vss.edu.

Mr.Snežana Lazarević, master of ecc. is a lecturer in the course Human Resource Management in Sport and assistant director at the College of Sports and Health in Belgrade. She is the author of a number of articles in the field of management in sports. Her doctoral dissertation *''The role of work teams in the development of a learning organization''* is due to be defended by the end of this year at the Faculty of Organizational Sciences in Belgrade.