

UNIVERSITY OF TAMPERE  
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# RISK MANAGEMENT OF THE SHARED SERVICES CENTER IMPLEMENTATION

UPM Financial and Supply Chain SSCs

Management and Organization  
Master's thesis  
September 2010  
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## ABSTRACT

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Title: Risk Management of the Shared Services Center Implementation: UPM Financial and Supply Chain SSCs  
Master's thesis: 93 pages  
Date: September 2010  
Key words: shared services center, implementation, risk management, risk

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The opportunities that shared services centers present are enormous, both financially and strategically (Horan & Vernon 2003, 53). Therefore, it is no wonder that more and more organizations have established their own shared services centers, in which support functions that have very little of strategic implication have been located. However, implementing a shared services center creates many challenges for any organization (Fisher 1998, 40). It requires a transformation of people, processes, and technology (Shah 1998, 7; Jarman 1998, 33). Therefore, the SSC implementation should be managed carefully and the risks related to the initiative should be identified and managed properly in order to complete the implementation successfully.

Implementing a SSC has not been studied previously from the risk management perspective. This study provides some feasible contributions to this gap and omission in the research. The purpose of the study is to identify the risks related to the SSC implementation and to discover the methods of managing these risks in order to successfully adapt a SSC. The study was conducted by using qualitative research methods and it consisted of two case studies: the other concerning a global financial SSC and the other concerning a regional supply chain SSC. Analytic benefits of having two cases are substantial as the conclusions arising from the two experiments are more powerful than those based on a single experiment alone (Yin 2009, 61). In this study, the cases were analyzed together to compare the empirical results and to find out if the results are similar in both cases despite the SSCs produce different types of services. Having two cases increases the validity of the study substantially.

The key risks and risk management methods related to the SSC implementation were similar in both cases despite the different nature of the services. People related risks were identified as the most significant risks in terms of the SSC implementation. Key issues concerned finding the right resources, retaining the current personnel, and managing the resistance to change. Process, technology, and management related risks were also found to be part of the SSC implementation. The key cornerstones to manage the risks in the SSC implementation were identified as the following: top management support, the appropriate core team and schedule, detailed enough plans, communication and support for the initiative among the units and staff.

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# 1 INTRODUCTION

## 1.1 Background of the study

The interest of this study lies on the phenomenon called shared services centers. According to Carr (2008, 29), shared services takes a non-core function of an organization and has it handled by one part of the organization instead of having that function spread across various locations. Shared services centers have gained a lot of popularity in recent decades both in private and in public sectors, as more and more companies have established their own SSCs. Above all, the concept is the most recent organizational form to organize support functions that have very little of strategic implication. In many occasions the SSC model is mistakenly mixed up with centralization. However, as stated by Legare and Bechtel (2001, 33), the SSC concept is fundamentally different from centralization, decentralization, or outsourcing, even though it incorporates some characteristics of each.

The opportunities that shared services centers present are enormous, both financially and strategically (Horan & Vernon 2003, 53). According to Loikkanen and Rätty (2007, 161), the most common reason for transferring functions and processes into a SSC is cost savings that occur when duplicate functions and processes are consolidated and harmonized, which reduces overlaps and makes operations more effective. As Ulbrich (2006, 196) states, by organizing duplicate support processes and non-strategic activities as shared services, a tremendous theoretical potential exists for optimization and extensive economies. This means increasing shareholder value, reducing costs, and improving the quality of internal service functions by creating an internal marketplace in which the SSC operates as a business (Legare & Bechtel 2001, 33.)

Shared services is a very current topic to be studied. As a field of research it is still less explored and the number of studies conducted on the topic is not extensive despite shared services centers have been implemented since the mid-1980s and there has been a lot of hype surrounding the model among large organizations. At least for the greater public the concept is still quite unknown. When material for this study was searched, it was discovered that many of the articles conducted on the phenomenon dealt with the concept itself, its advantages and disadvantages, or just the concept in general. Furthermore, very few books were found, and therefore the theoretical material of the study consisted mainly of journals.

The researcher found some Master's theses conducted in Finland on shared services centers. These theses concentrated mainly on describing the phenomenon from the perspective of how it affects the work, how the nature of work or working atmosphere changes and what its effects in an organization are (e.g. Tanskanen 2008). Furthermore, some theses focused on the concept itself and on the reasons why organizations adapt the model (e.g. Heikkinen 2005). In one thesis the SSC concept was compared with outsourcing and a survey had been carried out about why companies choose from one over the other (Karra 2009). None of them discussed though the risks that relate to implementing the SSC model.

Implementing a SSC is not an overnight project. It is a challenging initiative which in many cases may take more time than was anticipated. As Wang and Wang (2007, 282) state, many organizations have discovered that implementing a shared services center requires considerable organizational redesign before it serves the organization as planned. According to Cooke (2006, 211), "the financial and emotional cost of moving to a shared services model can outweigh the tangible cost savings predicted by firms". Therefore, it is crucial that the implementation is carefully done and possible risks related to the initiative are properly identified and managed.

Risk management has not been previously studied in the context of the SSC implementation. In other words, implementing a SSC has not been studied from the risk management perspective. Risk related to the SSC implementation may have been indirectly touched in the studies conducted on the shared services centers as the challenges of the model have been discussed, but at least for the purpose of this study no previous research was found. However, an organization that wants to implement a SSC successfully needs to pay considerable attention to risks associating with the implementation. This study will try to find a feasible solution for this gap and omission in the research.

The case company of the study is UPM, which among many other companies has turned to shared services in order to improve operating efficiency. Two shared services centers of the company will be under the examination in this study: a global financial SSC and a regional supply chain SSC. The researcher has been working in the financial SSC besides her studies since the establishment of the center in 2007. Thus, the researcher has been involved in the transition phase of the SSC implementation, but she did not have any control over the planning or any actions that would have affected the success of the overall transition. This can be regarded as a significant advantage from the research point of view, as the researcher is familiar with the context of the study and is more eligible to judge the research data. The fact that the researcher is familiar with the phenomenon and has a clue how the SSC concept works in practice, can be considered to give more contribution and validity to the study. However, it can also decrease the researcher's objectivity towards the situation. However, this was not considered a problem in the study as it aims to find out facts, not necessarily any subjective experiences based on people's own evaluation ability.

## 1.2 Research questions and definitions

The purpose of this study is to identify the risks related to the implementation of a SSC. In addition, this study concentrates on discovering the methods of managing these risks in order to successfully adapt the SSC model. The overall risk management perspective is taken into consideration – what would be the possible consequences of the risks if they occurred and how the risks can possibly be controlled. However, the quantitative and mathematical perspective of risk management is not considered of particular interest in this study. The aim is only to determine the risks, not to estimate their mathematical probabilities. Moreover, calculating and estimating quantitative probabilities and impacts would be impossible and unnecessary within this research context, as the purpose is to identify generic risk management practices in SSC implementations. The questions to be answered in this study are the following:

*Which risks relate to implementing a SSC?*

*How can these risks be managed?*

In addition, this study shortly describes how the implementation related risk management is conducted and what are the key cornerstones in implementing a shared services center.

This study concentrates only on risks that can be identified *during the SSC implementation process*, and therefore risks that concern the SSC after the implementation are not included in the research scope. The purpose is not to cover risk management of the SSC, but risk management concerning the SSC set-up phase.

The overall companywide risk management is not taken into account in this study – the focus is only on the SSC level – nor is the SSC model considered a means that could help organizations to control their overall risks and liquidity. Finally, this study focuses only on shared services centers that provide services internally in an organization. SSCs that provide services to external client organizations as an outsourcing business are, instead, excluded from the research scope. To clarify, terms “shared services”, “shared services centers”, and “SSCs” are all used to refer to the very same concept.

### **1.3 Methodology**

This study is conducted by using qualitative research methods. For this kind of study, it can be seen as a more natural methodology choice than the choice of quantitative methods. In other words, in this study quantitative methodology could hardly be exploited. The aim is to find out risks and risk management practices related to the implementations of the specific SSCs and it can be assumed that for this purpose qualitative methods can provide more extensive results. Qualitative research views the problem from several perspectives and thus, a great number of research units and statistical argumentation are not even necessary or possible (Alasuutari 1999, 39; 83).

In addition to being qualitative research by its nature, this study can also be characterized as a case study. According to Ghauri (2004, 109), a case study is not a methodological choice, but rather a choice of object to be studied. The use of the case study for research purposes is becoming increasingly popular in management. Both qualitative and quantitative methods are used for collecting data in case studies, but the former normally predominates in the study of processes, in which data collection, analysis, and action often take place concurrently. (Gummesson 2000, 3; 83.) This is also one reason that favored the use of qualitative methods in this study. According to Gummesson (2000, 1), qualitative methodology and case studies provide powerful tools for research in management and business subjects, as for example in corporate strategy and organization.

In this study, the objects to be studied are the target company's two shared services centers. Hence, this study contains two cases. This assumption was made because the both SSCs are separate operational units and provide services on their own, being independent from each other and consisting of totally different operations. The other provides financial transaction services for the internal business units and functions in Europe and North America and the other SSC provides services regarding supply chain management for the paper business group in North Europe. According to Yin (2009, 47), a single-case study is analogous to a single experiment, which does not apply to this study. As the SSCs under examination are independent business units, their implementations are independent experiments as well. Moreover, this study concentrates on risk management procedures related to the implementation of these two specific SSCs, thus the centers cannot be considered as subunits of analysis of the target company either – the company itself is just the context of the study, not the target. Therefore, this study consists of two cases.

Since the cases are independent entities, they are described separately in the empirical part of this study in order to give the reader sufficient background information. However, the implementation related risks and the implementation related risk management practices of the SSCs are discussed together in the empirical analysis. As Ghauri (2004, 114-115) states, in multiple or comparative case studies the same questions are examined in a number of organizations and compared with each other to draw conclusions. Hence, the purpose of the data collection is to compare or replicate the phenomenon, and to look for general explanations (*ibid*). In this study, risk management practices related to the implementation of the two SSCs are compared in order to get more extensive and reliable research results, and to find out if results found occur in both cases, despite the SSCs are of different types. As Yin (2009, 53) states, a replication design is followed, as the aim is to cover two different experiments, like in this study.

Case studies vary in character but the ones used for research purposes can be divided roughly into two types. The first type attempts to derive general conclusions from a single or limited number of cases. The second type attempts to arrive at specific conclusions regarding a single case because the case is of particular interest. (Gummesson 2000, 84-85.) This study corresponds more with the first case study type. It seeks to derive general conclusions and patterns from the empirical data by comparing and combining the data collected from the two cases. The assumption is that if the risk management practices regarding the both cases are similar, the research results can be generalized to some extent.

A case study can be considered a useful method especially when the area of research is relatively less known and the case is expected to advance understanding of the research phenomenon (Ghauri 2004, 109-110). In this study, the research area has not been studied directly from this perspective previously, and thus the study can be expected to enhance the understanding concerning the SSC model from the risk management perspective. The expectation is that new valuable information can be derived from the study.

Case studies have a distinct advantage especially in the situations where “how” or “why” questions are to be answered, when the researcher has little or no control over events and when the focus is on a current phenomenon in a real-life context (Yin 2009, 13). Basically, all these aspects are fulfilled in this research context. First of all, the aim of the study is to find out the risks related to the SSC implementations and *how* these risks are managed in order to successfully adapt the SSC model. Secondly, the researcher has no control over the area of research, because the events have already occurred in the past. As mentioned, the researcher is working in the financial SSC but did not have any control over the implementation and related risk management procedures. Finally, the focus of the study is on the contemporary phenomenon. Both of the centers are up and running and the persons having involved in the implementations were interviewed, so that the researcher would not have to rely solely on the historical documents.

Case studies can be exploratory, descriptive or explanatory (Yin 2009, 8). In addition, Scapens (1990) adds two other types: illustrative and experimental (Collis and Hussey 2003, 68). According to Kjellen and Soderman (1980), case study research can also be used to generate theory and as a means for initiating change (Gummesson 2000, 85). Case studies are probably used the most frequently in theory-building types of research in business studies (Ghauri 2004, 109). According to Gummesson (2000, 86), the types of uses of case study research are hard to see in isolation – exploratory studies as well as descriptions can be theory generating, descriptions may be explanatory, and so on. Collis and Hussey (2003, 69) also state that the different types of uses of case study are not well delineated and one type may be combined with or merged into another.

This study can be mainly characterized as an illustrative case study. However, it includes elements of the other types of case study uses as well. On the one hand, the aim is to describe the risks related to the SSC implementations and describe how these risks were managed in order to successfully adapt the SSC model. On the other hand, the study seeks to derive explanations that could possibly be generalized to some extent and applied to other contexts as well. Existing theory is used to better understand the phenomenon and to give framework for the empirical analysis in order to draw more extensive results and explain what happened. It is tested whether the created theoretical framework corresponds with the empirical results. However, the existing theory concerning risk management in the SSC context is inadequate, and thus the research results might consolidate the existing hypotheses and facts, or even bring some new perspectives out. Or then, due to the limited scope of the study, it can also be considered one that can be used as a basis for further research, as its results cannot be generalized as an ultimate truth. To summarize, this study aims to illustrate the risks and the risk management practices related to the SSC implementation adopted by the two shared services centers. The study aims to both test the existing theory and to possibly bring out new perspectives that could then be further tested in the further research whether they would apply to some other contexts as well.

## **1.4 Structure of the study**

This study consists of six main sections: an introduction, two literature and theoretical parts, an empirical part, results of the study, and conclusive remarks. The first section covers the background and the relevance of the study. The research context and previous research on the topic are introduced. Research questions, definitions, and the purpose of the study are discussed in this section. Furthermore, research methodology is introduced as well. However, data collection and analysis are discussed later on, within the empirical part of the study. To summarize, the first section introduces the setting for this study.

The second section seeks to explain the SSC concept and its implementation. The first part of it discovers what the concept is about, which functions or processes are the main candidates for shared services and what are the pros and cons of the model are issues covered. The history and development of the concept is discussed as well. The second part of this section deals with the SSC implementation and different phases and procedures that relate to the implementation. Critical success factors in implementing a SSC are covered as well. At the end of the section, a framework for implementing a SSC is created. The framework indicates issues, which the implementation has influence on and it will be utilized in the next section in categorizing the SSC implementation related risks.

The third section forms another literature and theoretical part of the study. At first, it leads the reader to risk management and seeks to explain the issue in a nutshell. Then, the SSC implementation related risks are discussed through different categories created in the previous section of the study. No actual material on risk management related to the SSC implementation was found, so a theoretical setting is to be established by combining the existing theoretical material on the SSC implementation and risk management.

The fourth section of the study introduces the empirical setting of the study. The target company and the two cases that are the objects of the study are introduced. Backgrounds for the SSC implementations are discussed but the implementation processes are not covered in detail because the aim is to study the risks and risk management methods related to the implementations, not the implementations themselves. Finally, the section also introduces the methods for generating and analyzing the empirical data.

In the fifth section the empirical results of the study are introduced. The theoretical framework is utilized in categorizing the empirical results. This section gives answers to the research questions but the interpretation is done in the next section. Thus, the final section of the study concludes the findings of this study and gives suggestions for further research. The quality of the study is also assessed in this section.

## **2 SHARED SERVICES CENTERS: CONCEPT & IMPLEMENTATION**

### **2.1 Defining the shared services center concept**

According to Shah (1998, 4), a shared services center (SSC) is the internal consolidation of services that were formerly handled by individual business units. In other words, a shared services center is a separate business unit founded to provide services for its internal customers (Fisher 1998, 40). Shared services could also be called the internal outsourcing of back-office transactions (Shah 1998, 5). According to Ulbrich (2006, 196), the shared services concept is still relatively new and definitions in the management literature differ slightly - however, there is a common understanding that shared services focus on optimizing corporate resources and processes in a new organizational entity. The way that Joachim (2001, 34) describes the shared services concept is in accordance with the common understanding; according to him, in-house SSCs are strategic business units that contribute to overall organizational profitability. Cost savings resulting from the consolidation and process improvements are passed on to each unit of the organization (Davis 2005, 1). According to Cecil (2000, 33), roughly a hundred people are needed in order to make a shared services center worthwhile, but once the center grows beyond 500 to 600 people, increases in size tend to become counterproductive.

Designated business functions and processes for shared services are the ones that are supportive and administrative, not strategically critical nor unique to any business units but instead common to several business units such as accounting and financial management, human resources and IT (Wang & Wang 2007, 282; O'Neill 2005, 19; Fisher 1998, 41). On the other hand, as O'Neill (2005, 19) suggests, functions that are core to the businesses, such as marketing and sales, are not prime candidates for shared services. According to Fisher (1998, 41), there are only two reasons why processes may not appear suitable for shared services: the function has local strategic importance and

needs to remain close to the customer; or a regulation appears to prevent the consolidation – for instance, a law may prevent a document from being taken out of the country. In addition to local strategic importance, King and Leon (1998, 33) take the view that support activities sit more comfortably with local business units if there is not enough scope for harmonization. According to them, a service should not be incorporated into a SSC if the distance reduces the effectiveness of the process to the extent it becomes unresponsiveness and ineffective. Nevertheless, most support services are generic and there are few industries in which it does not make sense to consolidate them (Davis 2005, 15).

As mentioned, a key issue to consider when choosing activities for SSCs is how well they can be consolidated and standardized. Basically, two categories of activities meet these criteria: the first is large volume-based transaction processes such as accounts payable and the second includes expert functions common to several business units such as logistics. The key in the former category is the economies of scale and greater productivity that can be attained. In terms of the latter, it is possible to create cost effective and responsive services supporting the entire organization by pooling the requirements of several business units. Otherwise, in particular in smaller units, it may be hard to justify investment in the expert functions. (King & Leong 1998.) However, most organizations start their SSCs by first consolidating repetitive transaction processes such as accounts payable or payroll (Davis 2005, 1).

### **2.1.1 The development of the concept**

According to Cecil (2000, 32), the concept of shared services centers emerged in the U.S. in the mid-1980s when a handful of pioneering U.S. companies began consolidating their finance functions into shared services centers. Malcolm (1999) states that early examples of SSCs were mainly found in the U.S. and included companies like General Electric, which introduced the strategy 1984, Baxter International in 1987, and Johnson and Johnson in 1989. European SSCs began to appear in the mid-1990s, when companies such as AT&T International, Shell, and Whirlpool founded their SSCs centers (Miller

1999, 47). In the Pacific region, Australia and New Zealand are the leaders in implementing shared services (Cecil 2000, 32). In Latin America relatively few SSCs have been established so far (Davis 2005, 7).

In the following, the development of SSCs will be discussed from different perspectives. Firstly, the concept of SSCs will be seen as the next phase after the phases of centralization and decentralization in the process of a continuing corporate evolution. Secondly, the role of outsourcing in terms of SSCs will be discussed. Finally, the improvements in technology and their effect on the formation of the SSC concept will be covered.

#### **2.1.1.1 Centralization, decentralization and SSCs**

Internal service functions have historically shifted back and forth, between being centralized and decentralized (Legare & Bechtel 2001, 33). Shared services can be seen as a part of a continuing evolution and a wider process of corporate restructuring comprising three distinct but overlapping phases – centralization (1950-86), decentralization (1980-99) and SSCs (since 1985). Globalization, competitive pressures, speed of communication and access to information, and a response to more demanding customers and shareholders drive this evolution and restructuring. However, the phases of corporate restructuring are not mutually exclusive; for instance, not all the activities that have been decentralized are suitable for rationalizing to SSCs. (Malcolm 1999.)

Centralization meant removing a service from a local division and placing it in a central – mainly head office – location. It was said that centralization strategy was economical because of the economies of scale that were achieved. (Malcolm 1999, 32.) However, in the 1980s and 1990s the situation changed and strategic business units (SBUs), local autonomy and empowerment were the new order (Bray 1996, 42). Basically, two things affected this change. First of all, the challenge from low cost and high quality Japanese manufacturers led Westerns organizations to flatten the extended hierarchical and bureaucratic organizational structures. Second, the personal computer revolution encouraged divisions to think local and get close to the customer. (Herbert and

Seal 2009.) This new era of decentralization meant that that each business unit of a company had its own support functions – accounting, payroll, IT and other administrative services – and different systems to support these processes (Shah 1998, 4).

Decentralization yielded a number of benefits and not least of which is that it allowed organizations to manage a portfolio of businesses more effectively. Moreover, it has been particularly useful in identifying both non-core and non-performing businesses, which can be more easily divested because they have been disentangled from the organizational whole. (Bray 1996, 42.) Despite the numerous benefits of decentralization, there are also several drawbacks within the strategy, such as duplication of management effort, ineffectiveness from small-scale operations, inadequate and non-standard systems, inefficient localized practices, outdated processes, duplication of infrastructure, and failure to leverage service provisions on a regional level. (Shah 1998, 4.)

The concept of shared services center was born when it was realized how much money was lost because of the inefficiencies in the delivery of the decentralized large-scale services across organizations. Above all, these inefficiencies were seen in large corporations with distinct business units, each of which performed the same basic business tasks. (Joachim 2001, 34.) The number of support services has even expanded as multinational firms have extended their operations overseas and made acquisitions in different countries (Davis 2005, 2). Shared services center was seen as a means to alleviate the drawbacks of the decentralization strategy while preserving the autonomy of the local business units (Shah 1998, 4). In other words, if implemented properly, a shared services center combines the advantages of centralization and decentralization without the disadvantages of either (King & Leong 1998, 32).

There has also been criticism of the endurance of the SSC concept. Herbert and Seal (2009) state that cynics might argue that the SSC may prove to be just another management fad or that it is just another manifestation of centralization. According to Malcolm (1999, 32-33), it is legitimate to state that there are some similarities between centralization and SSCs; there are economies of scale, fewer locations carrying out the same activity, and the fact that local business units are the beneficiaries of the service. Yet, several features distinguish the bureaucratic centralization strategy from the SSC concept (Malcolm 1999, 32-33; Fisher 1998, 40). These features are listed below in Table 1.

**Table 1 SSC versus centralization (Malcolm 1999, 35)**

Shared services center	Centralization
<ul style="list-style-type: none"> <li>○ Usually organized as a business unit in its own right; often a location where tax and labor costs/supply are most favorable, often managed by an entrepreneur</li> <li>○ Committed to improved quality of service regulated by a partnership, service level agreement</li> <li>○ Accountable to the local business units</li> <li>○ Focused on improving and standardizing work processes</li> <li>○ Aimed at empowering the local business by increasing their focus on business strategies</li> </ul>	<ul style="list-style-type: none"> <li>○ Usually attached to the corporate center</li> <li>○ Often a response to cost reduction</li> <li>○ Accountable to corporate centre</li> <li>○ Focused on concentrating similarly skilled staff in one place</li> <li>○ Aimed at securing central control</li> </ul>

First of all, centralized services tend to be located at corporate headquarters being definitely corporate entities; shared services are invariably located at a cost-effective site and are operated as independent business units. The other features that distinguish shared services from centralization are very much

related to culture. These features conclude that a shared services center has a customer-focused culture, whereas centralization is all about cost savings and central control. As Jarman (1998, 32) states, the fundamental difference between shared services and a centralized organization is that the focus in the shared services is to provide services to individual business units – it is not a method of dictating control, which is common to centralized organizations. The service provider's setting levels of service delivery and performance characterized centralization, but the main principle of shared services is meeting client requirements at the lowest possible cost and agreed performance standards (Joachim 2001, 34). According to Loikkanen and Rätty (2007, 161), in addition to the change in the way of thinking, also the changes in an organization, in processes and in technology distinguish the SSC model from the traditional centralization.

#### **2.1.1.2 Outsourcing and SSCs**

Shared services is quite similar to outsourcing but an external party is not paid to provide a service that has previously been internal to the organization (Carr 2008, 29). As Ulbrich (2006, 197) states, shared services is built on the idea of taking advantage of the existing knowledge of an organization and its culture. According to Deloitte Consulting's research (2000), there are good arguments for both shared services and outsourcing, and the question for today's organizations is whether to outsource support processes to an external vendor or to consolidate them in a shared services center. For smaller companies, outsourcing may be the only practical way because they fall far short of the minimum SSC scale required (Cecil 2000, 32). On the other hand, in terms of the big multinational corporations the situation may be just the opposite; the multinationals' far-flung operations may be beyond the scope of many external service providers (Davis 2005, 3).

Outsourcing is a viable option for many of the functions typically residing in a shared services organization, and the question of outsourcing is often put on the table as an organization goes through the process of transitioning to a shared services model. However, best practice companies attempt to get their

internal costs optimized before outsourcing – for instance, reducing headcount and costs while making the transition to sharing functions establishes a better starting point for evaluating an outsourcing alternative. (O’Neill 2005, 25.) From the operational perspective, for the shared services organization there may be significant pressure to deliver the best possible service levels to its internal customers at a cost that is competitive with that offered by external providers – if SSCs cannot demonstrate value, they may well find their role outsourced (Deloitte Consulting research 2000, 28). Furthermore, as more accounting firms and other companies begin to offer outsourcing services, increased competition should drive down the costs and force providers to share more of the benefits (Cecil 2000, 32). However, according to Herbert and Seal (2009, 47), when shared services is designed and explained properly, it can go beyond simply cutting headcount or being a halfway house to third party outsourcing.

Herbert and Seal (2009, 44) take the view that, compared to outsourcing, it is significant that in SSCs both control and knowledge remains located within the hierarchy of the firm. There are also other significant features that distinguish the shared services concept from outsourcing. For instance, shared services bring in long-term stable competitive advantages such as cost savings and knowledge sharing while outsourcing involves much uncertainty and concentrates only on cost savings in the short run. The shared services concept also includes re-deployment and training while outsourcing mainly involves staff reduction. Moreover, in terms of shared services the organization has the control over the overall process re-engineering and standardization while in outsourcing control over coordination does not exist. (Wang & Wang 2007, 282.) In fact, outsourcing has often netted mixed results and during the last two decades shared services centers have begun to take their place as a preferred alternative to outsourcing (Carr 2008, 29).

### **2.1.1.3 Technological developments and SSCs**

A look at recent decades suggests that technological change often precedes or coincides with organizational changes and that cycle times for organizational strategy appear to be shortening, correlating reasonably closely with

technological developments (Malcolm 1999, 33-34). Advances in software and telecommunications have enabled improvements in business processes. For instance, it can be said that the number of SSCs available today is a result of the technology that is now available. Technological innovations, such as enterprise resource planning (ERP) software, have led to the current context of shared services in which the transparent transaction processing across functions is possible. (Joachim 2001, 35; Granlund & Malmi 2004, 19.)

The emergence of mainframe computers in the 1970s created a further impetus towards centralization and towards “management by remote control” meaning that the center became more proactive in divisional affairs. At that time both hardware and software were expensive and complex to operate with, which again meant that a single mainframe was likely to be located at head office with the result that central direction and control over divisions was strengthened. Then again, in the 1980s and 1990s, the role of IT developments and new technology solutions was essential when decentralization became the new order. The personal computer revolution enabled dispersed data processing and analysis, which encouraged organizations to think local and to choose appropriate systems for each situation. (Herbert and Seal 2009, 43-44.) As mentioned, ERP software has played a significant role in the emergence of the SSC model. According to Granlund and Malmi (2004, 32), ERP software integrates all information flows within an organization providing transparent information and data across the whole organization. The system enables the connection of front- and back-office operations effectively and productively (Shah 1998, 8).

In general, developments in IT and telecommunications have provided organizations with three fundamental capabilities: dealing with diverse processing requirements, managing language requirements, and improving accessibility of information. For instance, in SSCs diverse and complex processing rules such as VAT codes and payment terms that are different for each country have to be taken into consideration. The emergence of enterprise-wide IT systems such as SAP and PeopleSoft has reduced the confusion in handling these different transactions because the system automatically guides the user to process them correctly. The enterprise-wide systems offer screens

and interfaces in several languages as well, thus enabling the use of the same system regardless of different language skills. Furthermore, enterprise-wide IT systems ensure the easy accessibility of information for both the SSC and the business units over distance and across national borders and no inefficient duplicate databases and paper copies are needed. (King & Leong 1998.)

Organizational strategies need to be continuously reviewed in light of technological developments. If technology is a leading indicator in the organization, it is likely that profound and increasingly rapid changes are ahead. What transactions will actually require processing is the foremost question for SSCs in the rapidly changing business environment (Malcolm 1999, 33-34). Advances in technology are eliminating some tasks that a few years ago were regarded as permanent, and this also affects the staffing requirements of SSCs. For instance, human intervention would no longer be required in accounts payable processing. Because of the pace of the technological progress, it is extremely hard to identify with certainty which tasks and roles will always exist. The future of SSCs depends on the pace of technological change. (Joachim 2001, 35.)

### **2.1.2 The pros and cons of the concept**

Two types of strategic opportunities can be achieved as a result of shared services. The first is cost savings through process reengineering and the second is information and knowledge sharing beyond back-office business processes. (Wang & Wang 2007, 282-283.) According to Deloitte Consulting's research (2000), cost savings are the primary driver for organizations to move towards shared services centers. However, the research also reveals that the desire to increase operational flexibility and improve customer service follow close behind the cost savings. As King and Leong (1998, 32) state, SSCs can provide both higher quality services and at a lower cost if a strong customer orientation is developed when operations are consolidated.

According to Cecil (2000, 32), shared services is such an effective approach to improving performance that companies may even do a poor job in implementation and still achieve considerable savings. Bray (1996, 42) also agrees that shared services can be very effective and that some organizations are claiming 40-60 per cent operational cost savings. However, Bray questions whether these savings are sustainable and points out that the savings also need to be set against the costs of implementation and support, which can be considerable. However, Malcolm (1999, 33) also states that cost savings of 40-60 per cent are cited. The estimated scale in terms of the amount of cost savings seems to vary. O'Neill (2005, 19), for his part, states that organizations successfully implementing shared services achieve approximately 15 percent in savings but the savings may even be in the 25 percent range. One explanatory factor seems to be the location; according to O'Neill, savings ranges tend to be a little higher in US-based companies than for their European counterparts due to restrictions imposed by some country-specific labor laws. Jarman (1998, 33) suggests that there are differences in cost savings between American and European SSCs – according to him, savings of up to 50% have been quoted in the U.S, while 30-40% savings are targeted in Europe.

Shared services centers are able to provide services at a low cost because through consolidation greater economies of scale can be achieved. SSCs also allow business units to focus on their core activities because the repetitive and less specialized activities are handled in the SSCs. The consolidation of services also enables organizations to invest in enterprise-wide software because the resources are pooled among divisions and not every division needs to maintain its own expensive software. Moreover, shared services allow organizations to focus on operational excellence – driving change and improvements is easier in a single location than in multiple small locations. (Shah 1998.) Interpretations are also more convergent and transparent because the same issues are no longer discussed separately in every unit. An efficient SSC is based on one contact level meaning that as many assignments as possible are tried to be solved in the first hand contact. (Tiensuu 2007, 228.)

Ulbrich (2006, 199) refers to Kagelmann's research (2000) when suggesting that implementing shared services helps to create a platform for business growth, flatten organizational structure, and support general group strategy. SSCs may provide decision support, consulting help and strategy coordination across the different units in a geographic region or globally (Davis 2005, 1). SSCs support organizational growth whether it is achieved through new global products, mergers or acquisitions, or different co-operation agreements. Shared services centers are valuable when organizations are expanding their operations to new markets and making organizational arrangements – an established SSC is a ready format and for instance in a case of an acquisition, the support services of the acquired company can easily be moved into the SSC. (Loikkanen & Rätty 2007, 161; Horan & Vernon 2003, 52.)

In addition to all the positive aspects of SSCs, there are some drawbacks with the concept. According to Herbert and Seal (2009, 45-46) one is that divisional managers often tend to see the SSC as simply an overhead cost rather than the bigger vision of business partnering. Herbert and Seal present a case example, in which the head of one SSC expresses her frustration: *"I seem to be engaged in a constant PR campaign. I should be spending more time improving the service but instead I feel more like a sales rep. Divisional directors are not saying the service is bad, but they don't like paying for it. We don't get the opportunity to step back and reflect on the bigger picture, what shared services is trying to do and how it can best help the business"*. Moreover, the key goal of the SSC model – improved customer service in a more efficient way – may not always be stating the obvious. Over the years business practices may have become routines that have been handled effectively at the local level and the transition to a shared services center may even lead to a slower and more uncertain – though a less expensive – service. (Granlund & Malmi 2004, 19.) Moreover, there is also a contradiction concerning the cost allocation. For instance, the cost structure should lead to a decreased number of transactions at the company level, but instead it may lead to a situation, in which the work is either transferred back to the units or the units try to avoid using the services provided by the SSC at the expense of the staff's satisfaction. (Tiensuu 2007, 229.)

Because the typical shared services center has a very flat organization, opportunities for promotion are limited as well. In the long-run this is not motivating enough for most employees and therefore SSCs need to develop non-traditional career paths such as job rotation. (Cecil 2000, 32-33.) Shah (1998, 7) agrees that the shared services organization needs be one that rewards performance and the development of new competencies because the employees have accepted the flatter organizational structure with fewer promotional opportunities. On the other hand, Ulbrich (2006, 199) states that because of the idea of concentrating on core competences within shared services centers, employees may feel that their knowledge is more appreciated and they may actually be more satisfied. As a separate organizational unit with an own organizational identity, a SSC is able to create its own models for the professional growth of its personnel (Loikkanen & Rätty 2007, 161). A shared services center is often seen as one of the best ways to sustain changes in work practices and employee behaviors. This is due to the rigorous planning and infrastructure required during the implementation in the first place. (Legare & Bechtel 2001, 33.)

## **2.2 Implementing a shared services center**

A shared services center implementation includes business events similar to starting up a new business and shutting down operations. For instance, an organization establishing a SSC has to define its vision, build a leadership team, and conduct a business plan including elements like goals of the SSC, definition of its customers, products, and suppliers; human resource plan for the SSC, strategic performance measures for the SSC, and the initial budget. Moreover, service-level agreements with the internal customers have to be agreed on and the location of the SSC has to be decided. Furthermore, a SSC design – organizational structure, process design, job descriptions, and software selection – needs to be covered. Finally, the migration strategy and business shutdown strategy need to be taken care of as well. (Shah 1998, 6.)

According to Joachim (2001, 34), implementing organizational change is never easy and thus an establishment of a SSC creates many challenges for any organization. Implementing a shared services culture is a huge event in any company's life and not a decision that should be taken without proper commitment (Fisher 1998, 40). In a typical shared services implementation process there are several projects going on at the same time. In order to minimize ambiguity and internal conflicts, the overall project management has to be strict and led by the predetermined committee. The following areas need to be managed carefully: planning, controlling, communications and quality management. (Loikkanen & Rätty 2007, 162.) Implementing a shared services center requires thorough planning, a systematic effort and managerial attention to the many soft issues, such as people and processes, which are critical to long-term business success within the SSC concept, although the principal result of the implementation is improvements in hard business indicators and performance metrics (Legare & Bechtel 2001, 33-34).

The bottom line in implementing a shared services centre is the importance to plan realistic timescales for the setting up process (Bray 1996, 43). According to Davis (2005, 16), the significant savings that some organizations have achieved may "take several years of trial and error and a great deal of frustration". In the implementation patience is the key. In general, full implementations tend to take about two years. From a change management perspective, most organizations are better at handling the transition to the SSC in a phased manner – meaning the transition of a couple of functions first, and then learning from the transition before moving other functions. The best practice tend to be implementing one or two functions and then leveraging the experience as a prototype for communication strategy, training, chargeback procedures, service level establishment and governance. (O'Neill 2005, 20; 25.)

Joachim (2001, 34-35) has divided the SSC implementation process into five different phases. Phase 1 is identifying the potential of the initiative to the organization. It includes project mobilization and the development of a business case, which should be able to demonstrate the viability of the SSC initiative. Phase 2 is the strategy stage consisting of the following actions: collecting business data, developing an operational model; preparing a detailed business case including an extensive implementation plan; and seeking management confirmation for the establishment of the SSC. Phase 3 is the development stage, in which detailed designs are formulated. Locations are evaluated, staffing considerations are taken into account, job and process specifications are compiled, key performance indicators are identified, and service costs and service level agreements are calculated and prepared. During the phase 4 the transition to the SSC is carried out. This is probably the most critical stage, which determines the success or failure of the project. The transition affects both the SSC and the business units, so both parties must establish their respective operating strategies. Finally, the phase 5 is the stage of mastery. Operations should begin to stabilize and continuous improvement of the SSC should take place.

Legare and Bechtel (2001, 41) summarize three phases during which the implementation of the SSC model of their case company was executed: analysis, design and start-up. The first phase, analysis, involves determining the necessary scope for shared services in an organization, and deciding what services are included. Using other organizations' shared services models as benchmarks, it is possible to develop data on the costs of delivering defined services and decide on the workable scope of shared services. The second phase, design, consists of developing and defining practical issues and policies concerning the SSC and services to be offered. For instance, it includes outlining pricing policies, creating service level agreements, defining the organizational infrastructure – including roles and responsibilities, selecting a physical site for the center, and determining implementation costs. The final phase, start-up, entails the physical movement of the organization to a shared services center. During this phase the organizational culture, organizational capabilities and employee competencies necessary to support a shared

services approach should be articulated. Moreover, the organization's performance measurement and management systems to support and reinforce new ways of working should be aligned.

According to Shah (1998, 7), the transition to a SSC model requires a major transformation in the way a function operates – above all, there is a shift from a functional view to a process view. It requires a transformation of people, processes and technology (Shah 1998, 7; Jarman 1998, 33). A successful SSC implementation requires that a company works at two fundamental organizational levels: the transformational level and the transactional level. At the former, overarching level, the company must focus on how its vision, mission, strategy, and culture can all be leveraged to support the concept. Conversely, at the latter level, the company must focus on leveraging or manipulating specific systems, policies, incentives, communications, and management practices to support new ways of working. Change efforts at the transactional level concentrate on the level, in which every day work gets done. (Legare & Bechtel 2001, 34.)

### **2.2.1 Implementation process**

According to Bray (1996, 43), at a detailed SSC implementation level there are many practical issues to address. Davis (2005, 10) has listed fifteen steps that are typically involved in investigating and setting up a SSC – according to him, examples of leading firms indicate that in general, a similar type of path is followed in setting up SSCs. The steps are the following:

01. Benchmark company support services with leading firms
02. Top management makes a commitment to investigate and fund a SSC
03. Formation of a steering committee comprised of senior line and staff managers from headquarters and subsidiaries
04. Appointment of a project director/SSC director and possibly a consultant
05. Development of a plan to set up a SSC and transfer services
06. Selection of services that will be transferred to the SSC
07. Assignment of process ownership
08. Selection of a location and facility
09. Approval of feasibility study
10. Recruitment/transfer of staff
11. Migration of services “as-is”
12. Streamline and standardize processes within and across functions
13. Integrate IT and automate processes
14. Cost and price processes as services
15. Add additional services and make more extensive use of a regional strategy to coordinate country business units

Benchmarking studies (01) are helpful in educating leaders and key managers about the company's level of performance and convincing them about the potential benefits shared services offer (Davis 2005, 9). According to Exclusive IOMA Research (2008, 7), it is essential to compare costs to other similar companies in the industry and benchmarks can be useful when considering setting up a SSC. Once the top management has made the decision to investigate the SSC concept more fully (02), a steering committee is formed in the region affected (03). A project director or centre director is appointed (04) to provide continuity of leadership during the transition period as well as during the first years of the existence of the centre. The chosen steering committee and the project director are responsible for conducting a feasibility study for setting up the SSC and proposing both the short- and longer-term role of the centre (05). At the beginning, services that will be performed in the SSC and services that will remain in the units need to be selected (06). Furthermore, members of the steering committee often become owners of the processes that will be transferred to the SSC meaning that each member takes charge of one process

improvement team, which has been appointed to streamline and harmonize particular procedures (07). (Davis 2005, 10.)

One of the problems frequently been recognized in implementing shared services centers is the choice of location (08). Especially multinational corporations have a large number of alternatives where to locate their centers. An organization has to decide whether to set up one center or several centers, whether to organize operations locally, regionally or globally or whether to have some kind of virtual organization. There are many questions to be answered and the answer differs from case to case, depending on an organization's prerequisites. Therefore it is hard to establish some general rules that could be followed. (Ulbrich 2006, 199-200.) However, the location of the SSC needs to be given careful consideration. Factors that make the location promising include the presence of an educated, low-cost labor force with foreign language skills; adequate telecommunications; stability and safety; and a favorable regulatory environment. (Davis 2005, 11.)

Once the steering committee has agreed on the location, hardware, software, staffing, and the approach to managing the centre, the plan can be presented to the top management for approval (09). The approved business plan should include the results of benchmarking study and the quantified projected benefits from reduction in headcount and redundancies. Also, a description of the main responsibilities and operations of the centre should be included, as well as a start-up budget and a detailed plan describing how the targeted processes will be transferred to the centre. After the top management approves the plan, centre staff will be recruited and/or transferred from the business units and trained (10). Whether the staff is transferred from the business units or an entirely new staff is recruited depends partly on people's willingness to move. It also depends on the current level of service quality and the extent to which the service culture would be liked to change. This may include breaking a culture of internal service indifference in order to create a culture of internal service excellence. (Davis 2005, 11-12.)

The migration of processes is done next (11). This may be done in several ways. Each unit may submit a description of its “as-is” processes to the SSC or alternatively, “workshadowing” may be used to copy or record how the work is currently done. Workshadowing means sending the staff of the SSC out to different units to shadow the people whose jobs they are assuming. The SSC staff may also visit the different units in teams to study how the processes are performed. Before the processes are transferred to the SSC and to the ERP system, they are streamlined and harmonized within and across units (12). After reengineering and standardization has been conducted, the application of IT can be used to automate the processes (13). Moreover, the cost of performing different processes can be calculated and the service prices for the business units may be defined (14). All centre costs must be recovered in the charges to the business units, so the services can be priced with overhead costs. Finally, if the opportunity exists, the SSC can take on more policy making, systems support and consulting services in the longer-term (15). The SSC may then progress to conduct more of a strategic role. (Davis 2005, 12-13.)

### **2.2.2 Critical success factors in implementing a SSC**

According to Hornan and Vernon (2003, 53), all the challenges related to implementing a SSC can be effectively addressed, but organizations should not underestimate their potential to undermine the shared services project. Shah (1998, 8) and Fisher (1998, 41) identify critical success factors and practical tips for implementing a SSC. Those issues have been combined and the researcher has formed six different categories, success factors, to implement a SSC successfully. These factors and actions they contain are presented in Table 2 below.

**Table 2 Implementing a SSC successfully**

Success factor	Specific actions
Get the senior management sponsorship and ensure the quality of SSC management	Ensure that the board (CEO,COO and the manager of the function, e.g. CFO) is committed to the project, appoint a leader with entrepreneurial flair to run the SSC like a business
Have a clear business case	Make sure that suitable amount of project resources are available, ensure that the feasibility stage is multidisciplinary and do not get bogged down in a strategic review
Recognize the needs of the business units/users	Ensure the appropriate business-unit representation and heavy involvement of users in planning, develop common technology infrastructure
Gather some ammunition and support	Gather acceptance and commitment to change among the units and staff, conduct employee training, measure the cost savings, remember that "anyone who complains about shared service center will not remember what it was like before" (Fisher 1998,41)
Communicate	Ensure the constant communication to affected parties and strong communication between teams
Move on slowly	Remember the staged implementation, conduct initial rollouts at smallest markets, do not overload the project team, phase out external help gradually

As indicated in Table 2 above, the SSC implementation should get the senior management sponsorship and commitment, and the SSC management should be chosen carefully. Preferably the appointed SSC leader would have entrepreneurial flair to run the SSC like any business. Furthermore, defining a clear business case is essential before conducting implementation any further. Suitable amount of resources should be available and all aspects should have been taken into account from several perspectives – at the practical level as well. The needs of the units and the users should be recognized, and therefore

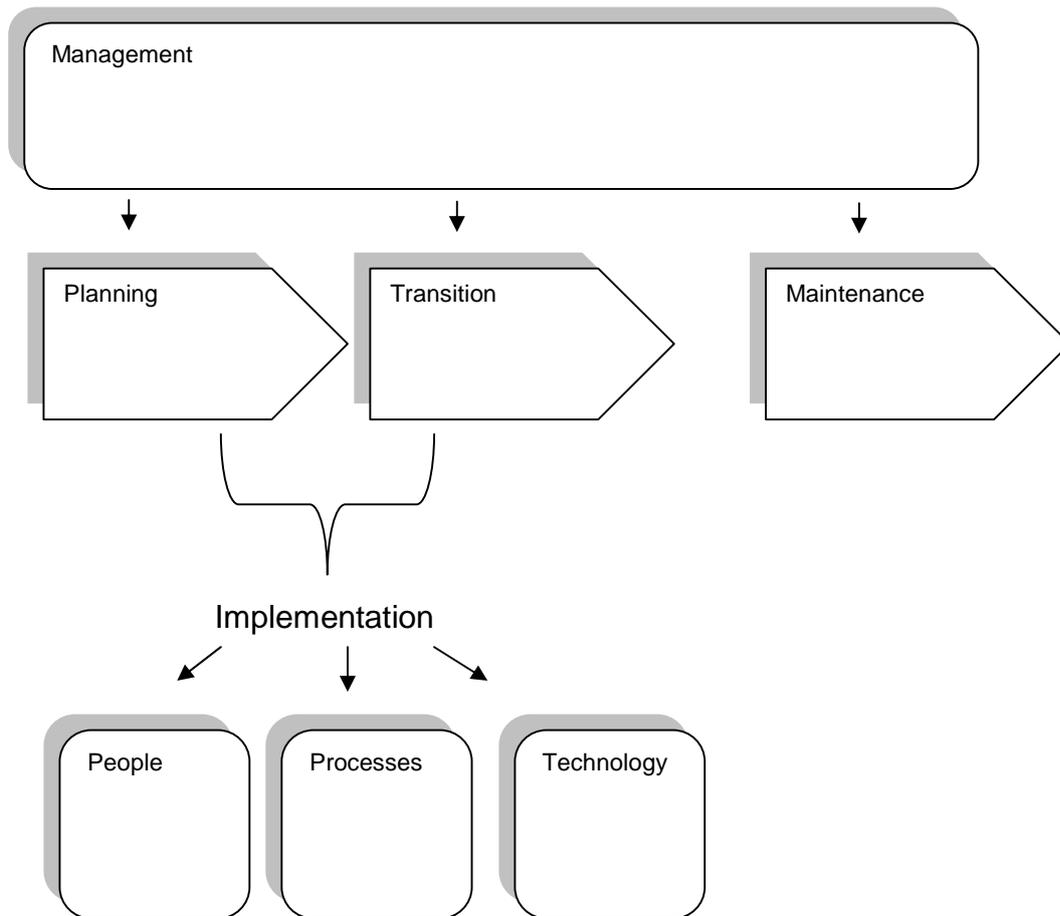
they should be involved in planning process. (Adapting Shah 1998, 8; Fisher 1998, 41.)

To implement a SSC successfully, support for the project is needed. The SSC concept should be accepted among the units and staff. For instance, training the employees and measuring the cost savings of the SSC model are means to gain acceptance. However, it should be kept in mind that people always tend to resist change. Finally, constant communication to affected parties should be ensured and the implementation should be conducted slowly enough – for instance, through staged implementation and initial rollouts at smallest markets. (Adapting Shah 1998, 8; Fisher 1998, 41.)

### **2.3 The SSC implementation framework**

The SSC concept and its implementation have been introduced in this second chapter of the study. The purpose of defining the SSC concept was to create background knowledge regarding the concept in order to demonstrate its versatile purposes of use and potential in organizing non-strategic functions and processes in various types of organizations. It was also considered important to clarify the development of the SSC concept and its differences between centralization, decentralization and outsourcing in order to identify the concept as an own entity, of which implementation includes its own opportunities and threats.

As the aim of this study is to identify the risks related to implementing a SSC and methods of managing these risks in order to adapt the SSC model successfully, it was considered important to be able to identify key issues, which have an effect on in an organization when implementing a SSC. On the basis of the theory concerning the SSC implementation, Figure 1 was created. It illustrates the process of setting up a SSC and the issues which the implementation affects and is affected by.



**Figure 1 Implementation framework for a SSC set-up**

The process concerning setting up a SSC can roughly be divided into three separate phases: planning, transition and maintenance. In this study the focus is mainly on the first two phases, which can be considered as the actual implementation phase, as the last step, maintenance, may continue several years after the actual set-up and includes many aspects that relate more to running a business, not implementing it. Planning consists of all the actions done before any processes or services are moved to a shared services center – from the decision to move the SSC model to the actual implementation plan. Then, transition means moving the processes and services from the units to the SSC and all the actions that relate to that move. It is more concrete phase than planning.

Implementing a SSC affects people, processes and technology, as stated by Shah (1998, 7) and Jarman (1998, 33). Therefore, it is possible to draw a

conclusion that implementing a SSC successfully requires that these three issues are taken carefully into consideration. If not, it can be assumed that problems would arise. However, these issues, especially technology as discussed earlier, may affect the implementation as well. For instance, technology has enabled the existence of the whole model. That is yet the background for the phenomenon and in the implementation phase technology plays more concrete role, being among the issues that must be changed in order to conduct the implementation successfully.

The role of management in implementing a SSC is crucial. First of all, it is behind the whole implementation, being the driven force for the restructuring and setting up process. Management and the appointed manager(s) are responsible for implementing the SSC successfully and conducting feasible plans for the set-up. Thus, the SSC implementation is highly dependent on management, so another conclusion that can be drawn is that if managerial aspects are not managed properly, problems would arise as well. However, the category is extremely broad and issues that can be included under the management are various. Figure 1 will be utilized in categorizing the risks related the SSC implementation in the next chapter.

## **3 MANAGING RISKS IN SSC IMPLEMENTATIONS**

### **3.1 Risk management**

Risk management is a process that helps to determine an organization's exposure to risk and is then used to minimize, control or eliminate the risk exposure (Hall 2000, 58). According to Roth and Espersen (2002, 59), the primary goal of risk management is to avoid nasty surprises. Risk management is a systematic way to control uncertainty and instability of the operating environment (Flink, Reiman & Hiltunen 2007, 10) and it provides a structured approach to decision analysis (Belluz 2002, 40). It is a strategic, tactical and operative tool. Through risk management, organizations may improve the shareholder value, conduct business operations and ensure that legal requirements are fulfilled. (Loikkanen & Rätty 2007, 168.) Effective risk management helps organizations to achieve their business goals (McNamee 2000, 46).

According to terminology typically used in the risk management, it can be stated that if managers are attempting to reduce risk through their actions, they are said to be hedging. On the other hand, if managers are trying to increase the firm's risk exposure because they believe that such a strategy will yield abnormal profits, they are said to be speculating. (Cummins, Phillips & Smith 1998, 31.) Basically, this is the essence of modern risk management – taking advantage of opportunities to prosper in addition to avoiding potential losses. In other words, risk management is about minimizing the probability of loss and maximizing the change of success of decisions made. (Belluz 2002, 39.)

Furthermore, risk management is not an occurrence conducted only once. It must be done constantly and for example, if the case is about a project, risk management should be revalidated continuously throughout the project life-cycle. The reason is that risk management involves taking a snapshot in one point and using it to anticipate the future. However, the conditions of an

environment may be extremely dynamic and may challenge the validity of assumptions incorporated when managing risks. (Kliem 2000, 72.) In order for an organization to be able to manage risks effectively and react if risks occur, it has to ensure that change management is one of its key competences (Loikkanen & Rätty 2007, 168).

Risk management consists of three actions: risk identification, risk analysis, and risk control. Risk identification is just that – identifying the risks possibly confronted. Risk analysis is analyzing data collected about the identified risks, including impact and probability of occurrence. Risk control consists of identifying and verifying the existence of measures to lessen or prevent the impact of a risk. (Kliem 2000, 71-72.) In terms of project risk management, Lehman (2007, 99) identifies two major areas: risk analysis, an upfront project planning activity; and risk control, an ongoing project management activity. The former consists of risk assessment and risk reduction. Risk assessment is determining what could cause the project to fail, estimating how likely it is to happen and what would be the consequence if happened. Risk reduction includes determining what could be done to mitigate the risk or what a contingency would be if the risk occurred. The other major area of project risk management, risk control, consists of risk tracking and risk reporting. Risk tracking is monitoring the identified risks and looking for new risks. Risk reporting is communicating the results of the risk tracking. (Ibid.)

### **3.1.1 Risk categorization and identification**

Risks can be divided into dynamic and static risks. Dynamic risks fluctuate with circumstances and business cycles, and include for example business risks such as technical, economical and political risks. Dynamic risks cannot be transferred to another party's responsibility. Static risks are risks that cannot lead to profits but instead only to losses. Probability of occurrence of these risks is more easily estimated than that of the dynamic risks, and that is why static risks can be insured. (Kuusela & Ollikainen 2005, 33-34.) Flink et al. (2007, 28) refer to Waring and Glendon's (1998) division of risks – terms pure risks and speculative risks are used instead of static and dynamic risks. The way the

terms are defined is congruent with Kuusela and Ollikainen's definition about dynamic and static risks, so it can be concluded that dynamic and speculative risks, as well as static and pure risks, are synonyms. Furthermore, Suominen (2003, 12) takes a similar view. According to him, a risk that causes only damage if occurred represents a pure risk, and it does not include a chance of profits in any circumstances. On the other hand, a risk that does not lead to profits or the desired result even if there was a chance can be called a business risk. These risks are related to organizational decision-making and normal business practices concerning personnel, production, marketing, IT systems or finance operations. The field of business risks is extensive and fragmented. (Ibid.)

Another way to categorize risks is to divide them into strategic and operational risks. Strategic risks are related to strategic and operative goals of an organization whereas operational risks are related to an organization's daily operations. Research and development (R&D) is an example of an area to which strategic risks relate – for instance, is the R&D able to create right products in order to respond to customer needs. An interruption in production is an example of an operational risk. In general, operative risks are short-term risks while strategic risks have longer-term effects. (Flink et al. 2007, 24-25.)

Finally, risk management can be defined as consisting of controlling financial, business, operational and event risks. Financial risk management includes the proactive risk analysis and detailed calculations concerning market, credit and liquidity risks. Business risk management consists of analyzing risks related to management and planning processes that support organizations' operating models or operating plans. In general, business risk management concentrates on the assessment of internal or external variables such as market dynamic or economic fluctuations. Operational risk management means analyzing and simulating risks related to processes, technology and logistics. Event risk management consists of analyzing risks that cannot be controlled by the organization. For instance, these risks include political risks or catastrophe risks. Furthermore, regulations such as Sarbanes-Oxley act are examples of external risks, which effects can be seen across industries. These regulations

and laws set by the authorities should be included into the company-wide risk management model and not be handled separately without the overall risk management policy. (Loikkanen & Rätty 2007, 166-167.)

It is not possible to identify a set of risk categories that would fit all organizations but instead the key is to have a manageable number of risk categories that generate meaningful information for the specific organizational needs. Having the right set of risk categories helps organizations identify risks and prevent possible losses – major losses often result from a risk that never occurred to anyone. For instance, the following risk categories can be tailored to a variety of industries or organizational preferences: assets, operational, technology/information, regulatory/legal, market, and strategic risks. (Roth & Espersen 2002, 57-58.)

Risks differ for different industries, depending upon the nature of markets, the extent of government regulation, the customer segment, the nature of technology and its rate of change, and other external threats (McNamee 2000, 51). In addition to industry, risk categorizing depends on the context and chosen strategy. Risks can be classified according to their origin, impact, likelihood of occurrence, and timing. Risks may have their causes in the internal or external environments of the company, a low or high potential impact, and a low or high probability of occurrence over short or long time-periods. (Drew & Kendrick 2005, 21.) As mentioned, the difficulty of the risk identification is that risks are not similar to all organizations and therefore risk analysis tools should be tailored to each organization (Loikkanen & Rätty 2007, 167).

### **3.1.2 Risk analysis**

Risk analysis is both the most apparent and the most demanding phase of risk management (Suominen 2003, 35). The purpose of risk analysis is to identify risks and assess their frequency, likelihood and impact (Howard 1998, 17; Suominen 2003, 35). The analysis can be applied to both insurable and non-insurable risks (Howard 1998, 17). There are two dimensions of risk analysis: quantitative and qualitative. The former concentrates on estimating how severe

are the risks associated with a decision when expressed as the probability and magnitude of potential benefits and consequences. Mathematical calculations are applied to determine the relative importance of each risk to the others and the respective probability of occurrence. The latter concentrates on assessing what the decision and the range of possible outcomes mean for the company and its stakeholders, given the values, goals, needs and concerns of each party. It relies less on mathematical calculations than quantitative risk analysis. (Belluz 2002, 40; Kliem 2000, 72.) For instance, the analysis can produce a ranking number for every identified risk. Ranking numbers denote the priority that a risk should claim for management attention and for preventive actions. (Lock 2003, 579.) Traditional risk management disciplines, such as insurance and finance, tend to focus on the quantitative side of risk analysis. However, ignoring the qualitative side of risk can be harmful. (Belluz 2002, 40.)

Risk is measured in terms of impact and likelihood. In many traditional risk assessment practices, these two measurements are combined with the result that a high-impact risk which is believed to have a low likelihood will appear to be average. To avoid this, the risk assessment can be started by measuring the raw magnitude of the risk in each of the risk categories. It is relatively easy to rate a risk when the potential impact can be quantified but in many risk categories the impact is qualitative. Usually the qualitative risks are the ones that do not cross anyone's mind until it is too late. In terms of measuring likelihood of the risk, the key is timely identification and response when the likelihood changes. (Roth & Espersen 2002, 58-59.) In order to be able to rank risks, it is necessary to start by considering the possible causes and effects of every risk (Lock 2003, 574). The way how risks are recognized and prioritized and how resources are mobilized for action should be adapted to the causes of the risks (Drew & Kendrick 2005, 32).

### **3.1.3 Risk control**

After the risks have been identified, assessed, and possibly ranked, it is time to consider which actions to take. A range of options exists: avoid the risk, take precautions to prevent or mitigate the risk impact, accept the risk, share it, limit it, or transfer the risk. (Lock 2003, 582.) Avoiding the risk means taking action to not confront the risk. Taking precautions to prevent or mitigate risk impact means living with the risk and dealing with it. (Kliem 2000, 73.) It is the most important part of risk management, requiring a high-level risk prevention strategy combined with determination to ensure that all preventive actions are followed. Examples of preventive actions are double-checking to detect errors in design calculations for vital project components, provision of secure handrails to all stairways and adequate training of all those operating potentially hazardous machinery. (Lock 2003, 582-583.)

Accepting the risk means letting it occur and taking no actions (Kliem 2000, 73). It is reasonable to tolerate minor risks when the cost of managing them is greater than the potential harm (McNamee 2000, 51). The risk can be accepted in the knowledge that its effect is not likely to be serious, and it can be overcome by corrective actions or re-planning. To share the risk is to reduce its impact among partners. For instance, the work may be undertaken as a joint venture. Limiting the risk can be, for example, applied to occasions, when the opportunities are too great to consider avoiding the risk altogether so the risk should be accepted with safeguards in place to limit potential effect. Transferring the risk is valid in situations when risks, or substantial parts of them, can be transferred to another party on payment of fee or premium – for instance, insurance can be taken against the risk. (Lock 2003, 583-584.) Trying to eliminate all risks is not profitable to any organization – risk taking is a natural part of all businesses and is needed simply to optimize profitability and profits. Therefore, it is highly important that organizations define their level of risk tolerance and procedures that guide different units to act according to established risk levels. (Loikkanen & Rätty 2007, 167.) Each organization has a unique risk tolerance, which is linked to corporate values, objectives and culture (Belluz 2002, 41).

## 3.2 People risks

Personnel risks can be defined as matters related to personnel that may harm or even prevent an organization to reach its operational goals. For instance, personnel risks include risks related to knowledge, working relationship and working environment. It may be risky for an organization if its personnel do not have adequate know-how; it has made a fault recruiting decision or the working environment endangers employees' health. (Haunia 2005, 275.) Risks associated with acquiring, maintaining, and disposing of human assets are perhaps the most varied and difficult risks to manage. These personnel related risks can lead to productivity loss, dysfunctional workplace and opportunity costs. The productivity loss results from poor worker commitment or poor management practices. The risk of dysfunctional workplace arises for example from gender or racial harassment, employee theft or sabotage, or excessive pressure to meet objectives without proper compensation. Finally, opportunity costs are associated with the cost of making less-than-optimum decisions about human assets – having a poor compensation system or letting the wrong people leave the organization. (McNamee 2000, 49-51.)

In implementing a shared services centre managers may be anxious to get the technical and legal side right, but they should not neglect the personal impact that the implementation will have on staff within the company (Kurtz & Duncan 1998, 47). As Fisher (1998, 41) states: "Never forget that whatever the cost savings or strategic sense, this is a people issue, and therefore anything but predictable." One of the most common barriers is the loss of control felt by business units when their services – and possibly staff – are relocated to a shared services center (Horan & Vernon 2003, 53). The disruption and upset to staff can be enormous and traumatic (Horan & Vernon 2003, 53; Fisher 1998, 40). Therefore, a thorough appreciation of human factors is essential in order to conduct a SSC project successfully (Bray 1996, 43). Many of the people problems are universal – problems faced by international SSCs are no different from local centers (Reilly 2009, 22).

Changes to staff are unavoidable; some job descriptions and roles will change or even disappear altogether (Jarman 1998, 33). Old staff's work is reorganized and they often get new job and role descriptions, their workplace is relocated, and some of them are downsized (Ulbrich 2006, 200; Cooke 2006, 214). Furthermore, employees have to adapt to a new way of thinking (Ulbrich 2006, 200). In an existing organization, employees are used to a departmental or functional relationship with the other business units. However, the transition to a SSC model requires employees to develop a customer service or business partnership relationship with the other units. As mentioned previously, there is a shift from a functional view to a process. An effort from business units is required to overcome employees' fears about downsizing and loss of control, and to get people to accept and support shared services. Training is needed both in terms of SSC employees and employees remaining in the units. (Shah 1998, 7.)

Resistance to change from staff should be expected during the implementation. People are likely to resist the change irrespective of their level in the organization and their resistance, as well as reactions, will occur in many ways. First of all, it is likely that people feel threatened and angry, but they might suppress their feelings because they may have no one to complain to and furthermore, they may have doubts that the project will happen. Also, people might try to persuade the local operational managers that the project does not benefit them at all and that they should use their influence to slow down or even halt the project. Or then, they might choose not to cooperate fully with members of the project team. (Kurtz & Duncan 1998, 47.) Some may vote with their feet or some others may seek revenge. Some employees may also react to changes by accepting them. For most, however, there is a hankering for the old security of the status quo and a belief that it is gone forever. (McGreevy 2003, 242.) The local staff needs to get prepared for the changes beforehand. Headquarters management must try to reduce the resistance of the unit managers and their staff through strong leadership and extensive involvement. (Davis 2005, 15.)

Within shared services centers there are difficulties in getting team coherence across a diverse workforce; especially if the workforce consists of several nationalities and languages. SSCs can also face problems in recruitment and retention. The need for language skills often means recruiting graduates into administrative or contact center jobs resulting in difficulties in terms of retention and motivation. Centers may also have to compete for the skilled workforce in some locations, where many companies have set up their shared services centers. (Reilly 2009, 21-22.) In order to increase employee motivation, many companies have introduced new ways of working in their SSC. For instance, high-levels of employee involvement in decision-making, a membership in self-directed teams and a possibility to collaborate with others in terms of redesigning and improving the processes are actions conducted. (Davis 2005, 12.)

Miller (1999, 47) identifies examples of human resource risks needed to be taken into consideration in the audit of a SSC. Firstly, a SSC may be understaffed, resulting in missed deadlines, poor quality of output, and employee burnout. Employees may also be inadequately trained or supervision of work may be inadequate, thus reducing efficiency and quality of work.

The people related risks discussed above, the possible consequences that could derive from these risks, and actions that could be conducted to control them are summarized in Table 3 below.

**Table 3 People risks in implementing a SSC**

Risk	Consequence	Control
Resistance to change	Try to halt/slow down the project, not cooperate with the SSC project team, vote with the feet, seek revenge, have the hankering for the old status quo	Have through appreciation of human factors, ensure effort from management/head quarters to reduce the resistance of the unit managers and their staff through strong leadership and extensive involvement, prepare the units and staff beforehand, ensure effort from the units to overcome people's fears and get them accept/support the SSC model, train the staff remaining in the units
Retention	Reduction in quality and efficiency of work	Get the people to accept/support the SSC model & reduce the resistance to change, introduce new ways of working at the SSC
Recruiting	Reduction in quality and efficiency of work	Introduce new ways of working at the SSC, compete for the skilled workforce
Difficult to act adapt a new role as the internal service provider	Reduction in quality and efficiency of work	Prepare the units and staff beforehand, train the SSC staff and staff remaining in the units
SSC understaffed	Missed deadlines, poor quality of output, employee burnout	Recruit
Inadequately trained personnel	Reduction in quality and efficiency of work	Train
Team coherence across a diverse workforce	Reduction in quality and efficiency of work , missed deadlines	Train the SSC staff, introduce new ways of working

### **3.3 Process risks**

The transition to the SSC model requires changes in processes. As discussed previously, processes must be standardized and harmonized in order for an organization in the SSC environment to benefit of them. As Shah (1998, 8) states, the transition to shared services involves a review of the current processes and a design of new processes based on internal or external best practices. In designing new processes, all aspects of the processes should be considered. For example, at the practical level, organizations have to consider issues like how and where suppliers should send their invoices to, how the invoices should be paid and which currency should be used. (Jarman 1998, 33.) According to Cecil (2000, 32), companies reporting the highest return on investment when having moved to the SSC model are those that placed the greatest initial emphasis on redesigning their processes, while reshaping their organization and technology to support this process redesign.

According to Horan and Vernon (2003, 52), corporate leadership and the businesses may be concerned about possible work disruption before the new SSC delivery model is implemented and finalized. Restructuring the work and processes may create confusion in the ownership of responsibilities, which may result in a tangible reduction in the quality of services and an increased level of user dissatisfaction with the delivery of services (Cooke 2006, 214). Process ownership should be identified clearly so that a SSC can function smoothly. Thus, service level agreements are set up between the SSC and the business units for which the center provides services. A lack of detailed, written agreements between the customer and the SSC could lead to a situation, in which customer and SSC expectations are not aligned. (Miller 1999, 47-48.)

An insufficient description of interfaces is a problem in SSC implementations. In other words, processes are not adequately documented and understood, which results in unnecessary work and high costs and makes it difficult to deliver services in the shared services environment. (Ulbrich 2006, 200; Miller 1999, 47.) A successful SSC has well-defined processes and services with

established measures to communicate value (Shah 1998, 8). Agreeing service standards and managing against them can be a problem when an organization moves to a shared services model, especially if the organization goes global in service delivery. There can be wide variation between locations in business policies and practices, terms and conditions and legal frameworks. Furthermore, international SSCs face barriers of culture and language. These barriers can make remote service delivery inefficient. (Reilly 2009, 21.)

An example is a cross-border shared services centre implemented in Europe – when implementing the centre, an organization has to deal with different languages, cultures and business practices as well as diverse legal, fiscal and regulatory frameworks in addition to the transition process itself. Against this kind of background, it is no surprise that organizations can expect to confront considerable resistance to change during the implementation process. (Bray 1996, 43; King & Leong 1998.) However, Europe has become more homogeneous along with the convergence of regulatory frameworks and introduction of the single currency. This favors organizations that are extending their presence across borders. As Davis (2005, 5) states, the more regulations and standards being set on a pan-European basis, the easier it is for organizations to deal with them.

In general, tax, currency and legal differences between countries are important issues to be taken into consideration when implementing a cross-border SSC. These differences may sometimes prevent complete consolidation in the centre, meaning that certain tasks have to remain decentralized. This is why it is highly important to investigate regulatory barriers to consolidating services, especially when operating in Asia where, unlike in Europe, there is no pan-Asian model. Besides that laws may prohibit commercial documents from being taken out the country, for example China, Malaysia and Taiwan do not allow unrestricted currency transfers and some countries insist on local country invoicing. (Davis 2005, 11.) Many organizations attempt to take a huge step from disparate and fragmented national structures to global structures, with no attempt at regional integration at first place. It can be yet stated that before a global structure is feasible, a strong emphasis on the regional integration must be laid. (Krempel

1999, 4.) Organizations have to accept that some tasks have to be done locally. However, differences are often exaggerated and most policies and practices can be accommodated to a cross-national delivery. (Reilly 2009, 21.) The process risks covered above are summarized in Table 4.

**Table 4 Process risks in implementing a SSC**

Risk	Consequence	Control
Confusion in the ownership of responsibilities	Reduction in the quality of services, increased level of user dissatisfaction with the service delivery	Place great initial emphasis on redesigning the processes, identify the process ownership clearly, set up service level agreements between the SSC and units
Processes are not adequately documented and/or understood	Unnecessary work and high costs, difficult to deliver services in the shared services environment	Place great initial emphasis on redesigning the processes, define processes clearly
A lack of detailed service level agreements	Customer and SSC expectations are not aligned	Set up service level agreements between the SSC and units
Legal, regulatory, tax, currency, culture, language etc. differences	Reduction in the quality of services, unnecessary work and high costs, difficult to deliver services in the shared services environment, resistance to change	Investigate the regulatory and other barriers thoroughly

### 3.4 Technology risks

The transition to a SSC requires changes in IT systems as well. It is obvious that a service organization that is geographically distant from the business units must rely heavily on communications and IT (Jarman 1998, 33). The role of technology and improvements in IT systems in terms of the emergence of the SSC model has been discussed in Chapter 2.1.1.3 in more detailed. The role of IT is twofold in SSC implementations. First of all, it makes the set-up possible

as the required technology and systems are available and secondly, it provides the tools for the shared services to maintain its operations and services. As Jordan and Silcock (2005, 15) state, in many organizations IT services support several important business processes and the whole operations can be based on IT, so therefore, IT should be able to ensure the continuity of the operations. That is also the case in the shared services environment, in which the dependence on technology is undeniable.

Technology can cause challenges in the transition to the SSC (Horan & Vernon 2003, 53). IT implementations are usually undertaken within a project framework (Aubert, Barki, Patry & Roy 2008, 46). However, projects may totally fail or be completed but not as expected. Some function that was supposed to be included in the new IT system may lack entirely or it may have been executed wrongly. Furthermore, interferences and interruptions in IT services can halt the operations, which can be measured as the loss of income. (Jordan & Silcock 2005, 13; 15; 19.)

The variation in policies and practices between different business units is often accentuated by the existence of many poorly integrated IT systems (Reilly 2009, 21). Implementing a SSC successfully requires consistency and integration of data and technology – all parties involved must be able to access the same information technology (Horan & Vernon 2003, 53). There is no right answer whether it is more effective to implement a new IT system before or simultaneously with the creation of the SSC, but implementing IT systems can take a long time, which may stall the shared services project (King & Leong 1998, 33). As with the people and process risks, the technology related risks are also summarized below in Table 5.

**Table 5 Technology risks in implementing a SSC**

Risk	Consequence	Control
Delays or fails in IT projects or projects not completed as expected	Loss of income, delays in the SSC implementation	Consistency and integration of data and technology
Interferences and/or interruptions in IT services	Loss of income, halt in SSC operations	Consistency and integration of data and technology
The existence of many poorly integrated IT systems	Delays in the SSC implementation, not all parties have the access to the same information technology	Consistency and integration of data and technology

### 3.5 Management risks

The management of organizations through transitions is not easy and not to be underestimated. It can be said to be one of the most difficult challenges managers ever face, especially if it is associated with restructuring. (McGreevy 2003, 246.) A successful implementation of a SSC requires that a top management team is strongly unified behind the importance of a shared services approach and it is understood that the implementation requires a vast amount of personal change management (Legare & Bechtel 2001, 38). Furthermore, the challenges of shared services will not be overcome without visible executive sponsorship (Horan & Vernon 2003, 49).

Miller (1999, 47) identifies two management risks concerning shared services centers. First, SSC management may not be supported in the company, thus being unable to obtain resources needed for SSC operations or make changes to upstream and downstream processes impacting the SSC. Second, skill level of management may be inadequate to recognize needed quality and cost improvements. Horan and Vernon (2003, 52) identify budgetary concerns as challenges in implementing SSCs – whether an organization has the resources to complete an effective implementation. However, as Cecil (2000, 32) states,

one planning pitfall relating SSC implementations is that organizations try to reduce costs too sharply at the expense of customer service.

A shared services center takes its strategic direction from the company's headquarters but forms a supplier-customer partnership with the business units. Having this bottom line in mind, managing the ongoing operations of the SSC needs to concentrate on two main purposes: to continue to align the SSC with the strategic needs of the company and to serve the business units, which are the internal customers of the SSC. (Davis 2005, 2; 13.) This role is contradictory: on one hand, the shared services center is expected to be client-oriented in its decisions; but on the other hand, it has to find some corporate services having the company's best in mind rather than one unit's. For instance, this contradiction can appear to be a problem when the range of services is negotiated between the center and the business units. (Ulbrich 2006, 200.) The management risks are summarized in Table 6.

**Table 6 Management risks in implementing a SSC**

Risk	Consequence	Control
SSC management is not supported in the company	A lack of resources needed for SSC operations, not the needed changes to upstream and downstream processes impacting the SSC conducted	Visible executive sponsorship
Skill level of SSC management inadequate	Not all the needed quality and cost improvements recognized	Understanding that implementation requires a vast amount of personal change management
Too small budget for the SSC implementation	Impossible to complete an effective implementation	Not trying to reduce costs too sharply at the expense of customer service, the top management team strongly unified behind the importance of a shared services approach, visible executive sponsorship
The contradictory role of the SSC	Problems e.g. when negotiating service level agreements with the units	Not trying to reduce costs too sharply at the expense of customer service, visible executive sponsorship

## **4 EMPIRICAL PART OF THE STUDY**

### **4.1 Introducing the case company**

UPM was established in the fall of 1995 when Kymmene Corporation and Repola Ltd and its subsidiary United Paper Mills Ltd merged. The new company, UPM-Kymmene, officially started its operations on May 1996. UPM operates in forest industry where it has a long tradition. The oldest of UPM's mills, Papeteries de Docelles, is located in northeastern France, where paper has been made without interruption since 1478. In Finland the group's first mills started operations in the early 1870s. The present group comprises six independent business areas: energy, pulp, forest and timber, paper, label and plywood. The company's products are manufactured in 15 countries, altogether in 59 production units and it has a worldwide sales network. In the end of 2009, UPM's personnel consisted of 23 231 employees.

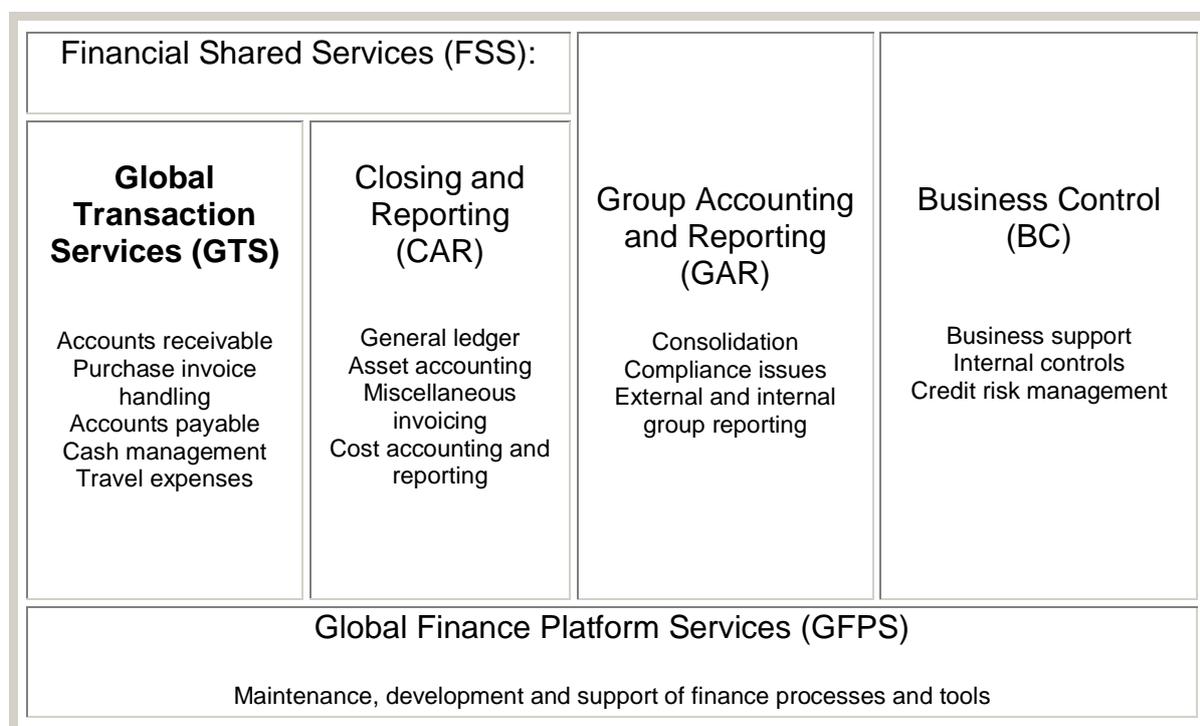
UPM has recently defined itself as The Biofore Company, which is a new industry category UPM has created to describe the heritage and the future of the company and the industry alike. "Bio" stands for future orientation, sustainable solutions and good environmental performance. "Fore" stands for forest and the company's position at the forefront of development. Biofore combines bioeconomy and forest industry into one. It describes fiber- and biomass-based businesses, recyclable raw materials and products that are cornerstones of UPM's business. The company uses fiber and forest biomass in its current products and its aim is to create new growth opportunities based on continuous product development and innovation. UPM's vision states that it wants to become the front-runner of the new forest industry and biofore describes this vision.

The company has already for several years aimed for different kind of forest industry. In addition to defining the new vision and business strategy, UPM has also adopted a new business structure in order to respond the ongoing industry transformation. The amount of business groups was reduced from five to three in 2008 and the company now consists of the following business groups: energy and pulp, paper, and engineered materials. The restructure was one result of an extensive, company-wide profitability program UPM launched in March 2006 to restore its profitability. The reason behind the launch of the program was the challenging situation that the paper industry was facing. The business environment has fundamentally changed and the companies operating in the industry are in front of the tremendous challenges. For instance, when the decision about the program was made, there was remarkable structural overcapacity within the industry especially in Europe. Traditional markets had become mature and at the same time UPM was facing new competition especially in short fiber segment. Moreover, a clear downward trend in real paper prices was seen while rapidly increasing cost of production inputs was teasing the industry at the same time. As mentioned on UPM's webpage: "The forest industry is undergoing its biggest transformation."

## **4.2 Background for Global Transaction Services SSC**

The company-wide profitability program's one aim was to improve operating efficiency. For this aim UPM's finance and control function launched the One Finance and Control Program (1FC) at the beginning of April 2006. The key idea behind the 1FC was to improve the function's operating efficiency by bringing all the group's finance operations under one function. The change was implemented during the years 2006-2008. In addition to global finance and control, also global sourcing, centralized R&D, integrated IT, enhanced sales approach, and integrated human resources were set as targets.

In terms of the 1FC program, both qualitative and quantitative benefits were targeted when the program introduced. First of all, savings and improved efficiency levels were the key issues aimed at. Moreover, improved quality in terms of data and services was also targeted, as well as better business support and better global steering. Finally, professional growth and readiness for changes were also important goals of restructuring. During the intensive planning period that continued until the end of September 2006, all finance processes were reviewed and considered whether each is best dealt with locally, regionally or globally. A key part of the planning work was also to review locations and required resources. The 1FC function was to be consisting of the following cornerstones showed in Figure 2 below:



**Figure 2 Cornerstone functions of the new 1FC**

As it comes out from Figure 2, 1FC was organized into four different functions: financial shared services, group accounting and reporting, business control, and global finance platform services. First of all, the purpose of the financial shared services was to provide common and cost competitive services for all divisions and functions across the company. Shared services function was further divided into global transactions services and closing and reporting. The latter, CAR, can

be defined as smaller-scale financial preparation while the former, GTS, being more volume-based transaction processing. Secondly, the role of group accounting and reporting, GAR, was to ensure compliance with different standards, laws and market regulations. Thirdly, business control, BC, was seen as business integrated support and control and finally, the purpose of global finance platform services, GFPS, was to provide common services for the other 1FC functions in order to ensure efficiency in operations. Examples of the processes and tasks included in each cornerstone function are introduced in Figure 2 above.

As mentioned, when the finance and control function was restructured, one of the key elements was to decide locations for the new cornerstone functions. First of all, business control was seen to be business specific and for that reason it was decided that control functions would remain part of each business unit at the local level. GAR and GFPS functions were decided to remain part of the corporate finance meaning they would remain centralized and would neither be relocated. Finally, as to the financial shared services, CAR was organized regionally, whereas GTS was organized globally. CAR shared services centers were set up in seven locations: in Tampere (Finland), in Augsburg (Germany), in Grand Couronne (France), in Irvine (United Kingdom), in Westmont (United States), in Changshu (China), and in Singapore (Singapore). GTS shared services centers were established in two locations – in Tampere and in Changshu. Tampere center was planned to provide transaction services for Europe and North America and Changshu center would produce the same services for Asia Pacific and China. In terms of the operational scope, it was estimated that the headcount of Tampere center would be 140 and in Changshu center a bit over 20. In this study *only GTS Tampere shared services center* is under the examination.

### 4.3 Background for Supply Chain SSC

The introduction of the new company-wide business structure discussed earlier reduced the number of UPM's business groups to three: energy and pulp, paper, and engineered materials. The restructure of the supply chain relates to this change but concerns only the paper business group. Before the business structure change there had been three separate paper divisions and they were now merged into one paper business group. Paper business supply chain was renewed in order to better serve the current business needs and to create a high performing supply chain, which combines operational efficiency and customer focus. Improving the customer service was the main goal of the renewal. However, it was also recognized that when the processes are harmonized and standardized, the efficiency and profitability of operations are to be increased. Furthermore, through more efficient operations the customer service could be further improved.

The renewal of the supply chain was implemented during the years 2008-2010 and that point concerned only North and Central Europe because the majority of the company's paper mills locate there. From the very beginning it was clear that consolidation was needed so that the processes and ways of working could be further developed. Earlier the supply chain processes – production planning, inventory management, order fulfillment, logistics and customer service – were conducted in many locations at the paper mills and in the sales offices. The extent of the consolidation and centralization was though under a heavy discussion. Finally, it was decided that altogether three shared services centers were to be established to facilitate centralized steering of operations. In terms of Northern Europe, a regional supply chain center was located in Tampere, Finland. In Central Europe, two regional centers were located in Germany, one in Augsburg and one in Dörpen. In terms of the operational scope, the headcount in Tampere center was set to be 80 and the centers in German were altogether to provide around 180 positions. This study concentrates *only on Supply Chain shared services center, which locates in Tampere.*

Chapters 4.1, 4.2 and 4.3 are based on UPM's internal documents, on UPM Annual Report 2009, and on information given on the company's web pages.

## **4.4 Collecting and analyzing the data**

Triangulation is one of the defining features of a case study. It means collecting data through different methods. Case studies involve data collection through multiple sources such as personal interviews, observation and written reports. The use of triangulation can be traced back to Campbell and Fiske (1959), who argued that to ensure validation more than one method should be used. However, the main advantage of triangulation is that it can produce a more complete, holistic and contextual portrait of the subject under study. Triangulation can be used to reduce the likelihood of misinterpretation. (Ghauri 2004, 109-110; 115.)

In this study, triangulation is used in order to view the subject from different angles to increase understanding and validate the information that is received from different sources. Interviews and written, internal organizational documents were exploited as sources of data to find answers for the research framework and the questions set. Interviews and internal written documents were used to complete each other. For instance, some of the documents were used in both pre-interview and post-interview phases of the study. In pre-interview phase they were utilized in preparing interview questions and in post-interview phase the documents helped to complete and to check the data gathered from the interviews.

### **4.4.1 Interviews**

According to Yin (2009, 106), interviews are essential sources of case study information. This applies also to this study, in which the role of the interviews was significant in data gathering. Stake (1995, 64) states that qualitative researchers discover and portray the multiple views of the case, for which purpose the interview is the main means. This is the reason why interviews

were chosen as a significant source of information in this study as well. It was assumed that by conducting interviews more extensive and substantial results would be discovered than by relying solely on the written documentations. As Collis and Hussey (2003, 170) state, interviews permit the researcher to ask both more complex questions and follow-up questions, which are not possible in many other data collecting methods.

Semi-structured interviews were used in this study. It was thought that some framework was needed to guide the interviewing but yet not too rigid, so that the interviewees would have a chance to describe the events themselves and follow-up questions could be asked. The interviews were structured on the basis of different implementation phases derived from the theory concerning the implementation of the SSC model. Then, clarifying questions were generated under each theme. Selecting semi-structured interviews as the type of interview turned out to be the right choice, which resulted in very conversational interview situations. As Yin (2009, 106) states, interviews in case study are guided conversations rather than structured queries.

The directors of both shared services centers were interviewed so altogether two interviews were conducted for this study. It was regarded as a sufficient number considering that the researcher also had several internal documents in place. Furthermore, the both directors had been involved from the very beginning in implementing the SSCs, so they were expected to have the first-hand knowledge of the implementations and related procedures. Because of this, no reason for more interviews was seen. Conducting more interviews was not expected to provide any additional value, because it was possible to assume that no other persons would have something more to tell.

The both interviews were recorded by using a digital voice recorder, so that it would be easy to get back to them later on and that during the interviews taking notes would not take the researcher's all attention and all the necessary information would be captured. In spite of the recording, the interview situations remained comfortable and conversational. The both interviews lasted for approximately an hour (other being 1:00.47 and the other 51.52). The recorded

data was transcribed after both interviews and produced altogether 34 pages of transcribed interview data in Finnish, the mother tongue of the both interviewees, in which language the interviews were also conducted. In the empirical analysis the interviews were quoted as suggested by Collis and Hussey (2003, 70), but without identifying the person behind the quotation due to the limited number of informants. From the research point of view, it was considered irrelevant which one of the interviewees had said which quotation.

#### **4.4.2 Internal documents**

Documentary information is relevant to almost every case study topic. The most important use of documents in case studies is to corroborate and augment evidence from other sources. (Yin 2009, 101-103.) Several internal organizational documents were exploited in this study for this very same purpose – to corroborate and augment evidence gathered from the interviews. However, as mentioned previously, internal documents were also used when prepared for the interviews. The documents gave relevant background information and helped formulating the interview questions.

Written organizational documents used in this study contain the following materials: two material packages concerning the announcement of 1FC program, GTS implementation plan package, press release regarding the restructure of the supply chain, roadmap material concerning the supply chain implementation, material regarding the location criteria for the supply chain, UPM personnel magazines, UPM annual report 2009, and training material package concerning GTS. Altogether these materials provided dozens of pages documentary information that turned out to be very useful from the research point of view.

#### **4.4.3 Seeking patterns and consistency from the data**

In a case study research, data analysis and collection should be closely interconnected during the life cycle of the research. Therefore, there is not necessarily a definite phase of data analysis – analysis may not form an isolated process. Nevertheless, it involves some distinct stages. The first step is

to construct a case description and explanation in order to understand the case; that is, to make complicated things understandable. The second stage consists of rearranging the data that have been collected into more conceptual rather than chronological categories. This coding and categorization helps in interpreting the data and relating the information to questions and frameworks. The purpose is to search for common or conflicting themes in data, and to look for themes and trends related to research questions. (Ghauri 2004, 117-120.)

In this study the data analysis and collection were closely interconnected. As mentioned, interviews and internal documents were used to complete each other and thus analysis was conducted throughout the study. As Stake (1995, 71) states, there is no particular moment when data analysis begins, which applies to this study as well. However, at that point, when the both interviews were completed and all the empirical material was collected, began the phase, which can be defined as the most obvious data analysis stage in this study.

The data analysis occurred as Ghauri suggests (see above). First of all, case descriptions were created in chronological order so that the researcher was able to understand and perceive the events in light of the research framework. The data was then rearranged into different themes, which were derived from the theoretical framework or which the researcher was able to identify from the empirical data. By categorizing the data into themes the researcher was able to form information that again helped find answers for the research questions and eventually draw empirically based conclusions.

Yin (2009, 126) suggests that case study analysis should follow a general analytic strategy, which defines priorities for what to analyze and why. According to him (2009, 130), there are four general strategies, which are not mutually exclusive and which can be used in any combination. In this study the combination of relying on theoretical propositions and developing case descriptions was regarded as the general analytic strategy. As mentioned, the data was analyzed and categorized into themes derived from both the theoretical framework and the empirical data. Theoretical propositions were used as a template for the analysis but at the same time case descriptions were

developed to capture the data that would not fit into the prior propositions.

According to Stake (1995, 78), the search for meaning is often a search for patterns and correspondence, which was the aim in this study as well. The data from two cases was analyzed in order to find patterns, consistency within the given context. Some patterns were noticed already in the data collection phase, while some others were found after having arranged the collected data into more sophisticated format. In a nutshell, the key in the analysis was to identify patterns between the two cases – issues that were noticed replicating in both cases. Once patterns were found, also some broader conclusions regarding the risk management related to the SSC implementation were possible to draw.

## **5 THE RESULTS OF THE STUDY**

### **5.1 Three-level risk management**

Risk management related to shared services implementations was a continuous process and was re-examined in several phases during the implementation in both GTS and supply chain set-up. Three risk management phases that apply to both cases were possible to identify on the basis of the empirical data. First of all, the decision about moving to the shared services model was the first level where risks were weighted. This level included the assessment of the operating model and the SSC structure and scope. In other words, in which scope to move or whether not to move at all to the shared services model were the questions examined. In this study, the decision to move to a shared services organization is taken as given and it is not examined any further. Backgrounds for both GTS and supply chain were discussed earlier and that is considered a starting point for the research. It is assumed that reasons for moving to the shared services model are related to company-wide strategic decisions and thus, it is not included in the scope of this research.

The second phase, in which risks were again examined, was when possible locations of the centers were considered. At this point, the decision to move to the shared services model had been made and the scope of the transition had been decided. The pros and cons related to selected locations were now assessed. After the location had been chosen, the most concrete implementation phase – and the third risk management phase – began. It included the assessment of location specific risks and risks related to the transition itself.

It is yet important to emphasize that the SSC related risk management occurred continuously in the both implementations. New risks came up during the process and, on the other hand, some risks disappeared as they were overcome. Some identified risk issues were overlapping and were considered

risks in several phases during the implementation. Risks were continuously monitored and re-checked so that they were up-to-date. Furthermore, impacts and probabilities changed during the implementation process as the projects proceeded. Whenever some issue that was considered as a risk was taken care of, the susceptibility to that risk decreased.

*“At first, when we didn’t have enough information, some risk may have been considered as very significant but after we got more information and understood more, the risk was changed, either its impact or probability.”*

*“It’s a definite prerequisite (the continuous monitoring of risks), otherwise the reality could be something else than our view of the risks.”*

### **5.1.1 Setting up the center as a risk itself**

As mentioned, the decisions to move to the shared services environment are taken as given in this study. However, when the decisions to move to the SSC model were made, there was an assumption that the model will lead to certain projected benefits. In other words, both GTS and supply chain were set certain goals that they were expected to meet. These goals were examined to some extent earlier when the backgrounds were discussed.

According to Lehman (2007, 100), projects face benefit-realization risks, which are the factors that could cause the business not to receive the projected benefits from the project, even if the implementation is successful. Setting up both shared services centers included this project risk aspect. There was a risk that the centers could not meet the expected goals and the set-up would not lead to the projected benefits. However, the research revealed that in both cases at least some of the projected benefits have already been captured – both in the cost and quality sense. The both centers, especially the supply chain SSC, have though been established quite recently, so the maintenance phase has just begun, meaning that not all possible benefits have been captured yet.

As the operations will stabilize more, the overall benefit of moving to the SSC model can be assessed further.

*“This unexceptional situation has proved that there really is potential in this set-up --- starting point for the reaction ability to face unexceptional situations is better.”*

*“Some of the goals have not fully been met but then again, some of the expectations have been surpassed. So on average, we surely are there where we should be.”*

### **5.1.2 Location related risk issues**

Selecting locations for the shared services centers was a crucial part of the risk management related to the SSCs implementations. It can be considered as the second phase of the risk management process related to the implementations. At this point it was clear how the functions – finance & control and supply chain – will be organized and that the shared services centers will be established. The question was just where to locate the centers. In terms of GTS, the decision was made that there will be two centers handling the transaction processes, of which one will be located in Asia. As to the location of the other center, several options in Europe and North America were examined. In terms of supply chain, it was decided that three centers will be established and one of them will be located in Finland. The question remained in which city.

Selection criteria for SSC locations were very similar in both cases. Not all the selection criteria can be defined as risk aspects but more like predefined issues that had some kind of importance in selecting the location and in the process of weighting the alternatives to find the most suitable locations. In other words, some issues were not seen weaknesses or threats in any location, but instead were neutral in all alternatives. The availability of right resources was identified as the most important criterion for location. That is, the availability of skilled labor with the required language skills. The availability of current people was also seen crucial so that there would be enough experience and that knowledge

transfer could be conducted.

*“Workforce is the most important capital we have here. People and their know-how run our operations.”*

The availability of skilled labor was not only considered the most significant criterion for locations, but also an obvious risk as well. If there was a lack of it or it would not be available, the shared services center could not be established in that location. In order to overcome the risk, for instance, educational institutions were contacted to estimate the situation in the long run. Managing the risk was a prerequisite for the both set-ups.

*“We investigated the issue that much until we were 70-80% sure and we had the courage to move on. No doubt it was still a bit risky that are we going to find all the required resources. That’s always a bit question mark, especially foreigners, they are coming and going and changing the city. So if today we have the resources, it may be that tomorrow we won’t have.”*

In addition to availability of right resources, cost level was another important criterion for locations. Overall cost level of labor and fixed costs, such as rents and telecommunication, was included in the assessment. The level of external infrastructure and business operating environment were also criteria that were taken into consideration. Issues like the availability of office space and telecommunications, easiness of access, stability of the business environment, and attractiveness from personnel point of view were estimated. However, these criteria are examples of the issues that were considered quite neutral between all locations, especially in terms of supply chain as the location selection was made between localities in Finland. As to GTS, there was a little bit more variance in these criteria between location options, but they were not regarded as literal risks in any location. In both cases the most important criterion for selecting the location was the availability of labor.

The location options were estimated and compared in terms of the selection criteria and their strengths and weaknesses were rated against each other. In both cases, the city of Tampere emerged as the most suitable option. Its neutrality was considered an important factor. Setting up the centers on the neutral location was regarded as an objective decision, which would not favor any business unit. Moreover, for supply chain the fact that GTS was already located in Tampere was also a cogent reason. It was seen that synergy between the centers could be utilized in the long run.

Concentrating all operations on one location may turn out to be risky if some unexpected external events occur. For instance, consolidating most of the accounting related transaction processes handled for the units in Europe and North America on one location was a risk itself. The risk was taken because its probability was seen such a minimal. Moreover, as discussed, extensive location assessments were made to ensure that the location was chosen carefully. However, if something unexpected happened, the whole company would paralyze for a long time because a vast amount of accounting related back-office services are handled in GTS. As to supply chain, consolidating all supply chain activities from Northern and Central European part on one location was seen as too significant risk, and thus it was avoided by establishing three separate centers.

After the locations had been chosen, risk analyses concerning the actual transitions and the chosen locations took place. This can be regarded as the third phase of the risk management process related to the SSC implementations. According to Lehman (2007, 99), project risks are the factors that could cause the project to fail. Utilizing the theoretical framework, the project risks that emerged in the SSC implementations can be categorized into people risks, process risks, technology risks, and management risks. However, some of the risks included in these categories occurred already in the earlier stages of the SSC implementations than in the actual transition phase, but to make it more explicit, the risks have been categorized based on their cause. The four risk categories will be discussed next.

### 5.1.3 People risks

In both cases, personnel risks were considered the most significant risk category in implementing shared services. Two key personnel risks were identified in both GTS and supply chain cases. First of all, the availability of skilled personnel in the chosen location and secondly, the retention of the current personnel in order to retain the current knowledge and to be able to deliver the knowledge transfer successfully. To some extent, both of these key personnel risks were already taken into account in selecting the SSC location and actions were taken to limit and control them already in that phase.

Despite the actions taken, the risks were not yet avoided or overcome. The susceptibility to the risks had been mitigated, but the risks still existed in the actual transition phase as well. It was recognized that not finding all the required resources meant substandard service and lack of acceptance of the SSC concept in the units. Preliminary investigations had been conducted in the phase of selecting the locations to make sure that the required labor would be available. To further mitigate the impact of the risk, the aim in both cases was to retain as many old employees as possible. Another key action was recruiting, which was started early enough.

*“Our genuine aim was to retain as many people and jobs as possible.”*

In order to retain current personnel and not losing the unplanned people, retention and knowledge transfer packages were compiled. In terms of GTS, packages were compiled according to standards and practices of each country from which the services and processes were transferred to the SSC. Supply chain was able to utilize GTS's models, experiences, and best practices when compiling their retention packages. May it have been this experience, the different nature of operations or the difficult market situation in 2009, but supply chain's retention rate was significantly higher than GTS's.

Resistance to change was among the most significant personnel risks as well and it was taken as granted that it was a risk that could not be avoided. It was recognized that resistance would cause poor performance and cooperation from the units in the new processes and negative spiral of criticism if not managed properly. Furthermore, it could have jeopardized the functionality of the operations right away after the announcements concerning the move to the SSC model had been made if there had not been any plans to mitigate its impact. In other words, personnel could have been unmotivated because of their resistance to change and this could have led to early resignations, sick leaves or poor job performance.

*“It was totally clear that it was a risk that was going to occur and the only thing was that as how severe.”*

Change management and open communication were chosen as means to mitigate the impact of the risk. In both cases the plans were communicated at the early stage of the project and openness was striven from the very beginning. Plans were formulated for both change management and communication activities. It was also recognized that enough time and resources had to be allowed for change management. For instance, in GTS there was a full-time person hired to conduct change management activities and to ensure that all the possible activities would be taken care of.

The biggest resistance was faced abroad, outside of Finland, and despite the extensive change management activities, it seems that some units abroad have not approved the change even now. This can be seen in everyday cooperation between GTS and certain units. As to supply chain, managing the resistance to change was easier because the transition to the SSC was made on regional basis, not global. However, in both implementations the importance of moving towards company-wide values and processes instead of cherishing local or business unit based values was emphasized. This may have increased the resistance to change.

*“It was about old, embedded UPM organizational cultures. - -  
Maybe this (SSC) is the crowd, who took something local away  
from them.”*

A characteristic that appears in the shared services environment is that problems are often overemphasized. For instance, if a couple of bigger mistakes are made, those mistakes are discussed everywhere and no one remembers all the other tasks that were done correctly.

*“People are acting so that they tend to forget the mistakes that  
were made in the past and begin to remember that no mistakes  
were made at all that time but that it is not true.”*

Probably the most critical personnel risk in terms of the success of the overall SSC projects was faced at the very beginning, when the decisions of moving to the shared services model had been made – finding right people to conduct the change. In other words, to establish core teams to execute the implementations. The core teams were required to have sufficient expertise, knowledge and network so that the project mode and functionality were to be ensured.

*“It wasn’t until I got my own subordinates when I started believing in  
this project.”*

The importance of the sufficient network was seen especially important in terms of being able to conduct the implementations successfully and smoothly. It was crucial that there was always some member of the core team, who knew the counter-player personally and who could take advantage of the relationship. For instance, if managers outside the company had been hired to execute the implementations, the projects would have been much more demanding for them to conduct. This applied especially to GTS, where the transition to the shared services was conducted globally.

*“Extensive network is extremely important. I’ve said this to all other  
companies that have asked about the key things.”*

Recruiting was also an issue that included risk aspects in both cases. First of all, the question of finding the right resources was a part of the recruiting. Moreover, recruiting many new employees at the same time was a risk itself. Quality in recruiting was emphasized to avoid wrong recruiting decisions. Aptitude tests and motivation tests were also used to find the right people to be recruited.

**Table 7 People risks in empirical analysis**

Risk	Consequence	Control
Availability of skilled personnel	Cannot establish the shared services center, substandard service & lack of acceptance of the SSC concept in the units	Preliminary investigations: e.g. contact educational institutions, retain as many old employees as possible, start recruiting early enough
Finding the appropriate core team	Difficulties in implementing the SSC model	Emphasize the importance of network, expertise, knowledge
Resistance to change	Personnel unmotivated; early resignations, sick leaves or poor job performance -> could jeopardize the functionality of the operations right away after the announcement concerning the move to the SSC model, could also cause poor performance and cooperation from the units in the new processes and negative spiral of criticism	Conduct change management and open communication activities and make detailed plans, allow enough time & resources for change management activities
Retention of the current personnel & losing unplanned people	Loss of the current knowledge, not being able to deliver knowledge transfer successfully	Compile retention & knowledge transfer packages
Recruiting: not finding the right resources & recruiting many new employees at the same time	Substandard service & lack of acceptance of the SSC concept in the units	Emphasize quality in recruiting, conduct aptitude & motivation tests

#### **5.1.4 Process risks**

Not being able to define processes, roles, and responsibilities clearly and detailed enough was considered a significant risk in both GTS and supply chain. It could have caused same consequences as not finding the skilled labor: substandard service for the customers and lack of acceptance of the SSC concept in the units. Moreover, so called hidden manning could have remained in the units, meaning that the number of personnel would not have been reduced and that the personnel outside the finance or supply chain would have increased. Securing detailed enough process documentation in the planning phases was emphasized so that the transitions to the shared services environment would occur smoothly. Defining clearly enough the responsibilities between the SSC and the units was emphasized in both transitions as well.

The decrease in the service quality at go-live was regarded as a risk as well. For instance, ambiguity in defining the roles and responsibilities or poor knowledge transfer could have caused the decrease. Thus, the importance of a clear distribution of work and a thorough training process were considered as highly important tools to mitigate the decrease in the service quality. Above all, the importance of a detailed enough project plan was emphasized in both cases.

The challenge of coping with different laws and procedures varying from country to country was not regarded as a significant risk. Harmonization in the European Union level may have made some issues easier and mitigated risks, but anyhow, it was not considered as such a significant issue that would have affected for example the decisions of moving to the SSC model or where to locate the centers.

**Table 8 Process risks in empirical analysis**

Risk	Consequence	Control
The decrease in the service quality at go-live	Lack of acceptance of the SSC concept in the units	Distribute work clearly, secure a thorough training process, have detailed enough project plan
Not being able to define processes, roles, and responsibilities clearly and detailed enough	Substandard service for the customers, lack of acceptance of the SSC concept in the units, hidden manning in the units	Secure detailed enough process documentation in the planning phase, define clearly enough the responsibilities between the SSC and the units

### 5.1.5 Technology risks

In addition to enabling everyday operations in the SSC environment, the role of information technology can be viewed as being the overall factor by which it was even possible to consolidate services into the GTS or supply chain's SSC. The company-wide IT decisions have reduced and coordinated the number of systems in use, thus enabling restructuring in operations as well.

*“We were lacking of the tools before. Common tools are prerequisite for the consolidation.”*

Information technology and its successful implementation along with the SSC implementation was a significant challenge both in GTS and supply chain. If IT implementations had not been on schedule, it would have caused delays in the SSC transitions and weakened the quality of services. In the shared services environment, the functionality of operations relies on the functionality of information technology.

*“If IT is not working, it paralyzes. ---Nothing works then.”*

Implementing IT systems took place simultaneously with the overall shared services implementations. The key was to reduce the number of systems and integrate them so that SSC operations could be run smoothly. The mess of numerous IT systems was considered as a significant risk in both cases. For instance, the business units had dozens of different software programs in use before the consolidations.

*“Only in the material management they had 27 different systems in use.”*

Reducing the number of the systems and connecting the remaining systems by interfaces caused challenges. Even though the number of systems has now been reduced, the number of several interfaces is still a significant risk. Interfaces connect different systems and users are dependent on the functionality of the interfaces. When operating in the SSC model, the remote connections must function or otherwise there is no ground for the operating model.

*“There cannot be such a situation that the connections would not be working. Then we cannot be here.”*

In the SSC environment, IT systems are personnel's operating tool. One task of IT is also to monitor and update users' access rights. Before a new employee can start working, (s)he needs certain access rights to the systems (s)he is supposed to use. This works other way around as well. When the services were transferred to the centers, the access rights in the units were removed. It would have been a significant risk if some open access rights had been remained in the units.

*“Removing the access rights was important. If there had been open access rights, it would have been a significant risk. Some people who had lost their faith in the company and were about to lose their jobs could have been a risk.”*

**Table 9 Technology risks in empirical analysis**

Risk	Consequence	Control
Open user/access rights	Possible misuse	Remove unnecessary rights
The number of several interfaces	May jeopardize operations	Move to common, companywide tools
Successful implementation of IT along with the SSC implementation	Delays in the SSC transitions, decrease in the quality of services	Ensure that IT implementations are on schedule
The mess of numerous IT systems	Operations cannot run smoothly	Reduce the number of systems

**5.1.6 Management risks**

Probably the most significant management related risk in both cases was to be able to show that the move to the shared services environment was worth of it. In other words, the goals of the initiatives needed to be met. This issue was already covered when the SSC project as a risk itself was discussed. As mentioned, the both centers have already proved their potential and at least some of the goals have been reached. However, the results cannot be seen overnight. Thus, after having transferred the operations to the SSC, sufficient amount of time must be reserved for stabilization.

*“Stabilization after the transition took more time than was expected.”*

Setting up too aggressive business case could have negatively affected the overall success of the implementations. That is, the currency amount savings would have been overestimated, thus possibly causing too lean staffing of the centers, which would have then affected negatively the quality of services, and stabilization would have been even more challenging. To mitigate the risk of too aggressive business case, updating the business case throughout the project was considered important in both cases.

Being able to define realistic operating budget after the transition of the services to the SSCs was also seen as a risk. Not including all the required resources into the budget would have jeopardized the functionality of the operations, but at the same time, the budget should show the needed cost decrease in reality. That is, the budget should have shown the cost decrease yet fulfilling customer expectations. To define the realistic budget, communication concerning expectations was conducted and again, the significance of thorough planning was emphasized.

Not reaching benchmarking efficiency figures was also regarded as a risk in both cases. The risk was related to the overall risk of not reaching the expected goals that had been set for the whole project. It was accepted that benchmarking figures would only give some direction and that they would not necessarily be reached in this specific context. So there was readiness to accept this risk and increase the number of resources if needed.

Dependencies of implementing the SSCs to other group initiatives were a risk that was taken into consideration in the implementation phase. Furthermore, it can also be considered a risk characterizing everyday operations in the SSC environment after the actual transitions. In the implementation phase, the risk may have occurred for example as an unrealistic business case and too lean staffing of the SSCs. However, in both cases there was a bigger organizational restructure behind the SSC implementation, so this was not considered a significant risk aspect. In the everyday operational level, the dependency could be noticed for example when a mill would be closed down. No longer the mill needs inventory planning or invoice handling. In other words, both GTS and supply chain would lose a customer.

*“If a mill is closed down, it affects here or if the company makes organizational changes, it affects here.”*

As in any operation, also in implementing the SSC model external environment may cause sudden surprises that companies have very little control over. A good example is the year 2009 that was exceptional with its vast economic downturn. In 2009, and partly in 2010, was also the transition to the supply chain SSC. First of all, the exceptional situation caused challenges from the operational perspective – many new employees had just started in the center and faced immediately some unusual challenges. For instance, the harbor strike among Finnish stevedore workers at the beginning of 2010 turned out to be a vast challenge. No one could forecast that the strike was so long. Secondly, the decline might also have affected positively the employee retention rate at the first place – few jobs were available

**Table 10 Management risks in empirical analysis**

Risk	Consequence	Control
The need to meet the goals of the initiative & to reach the benchmarking figures	Lack of acceptance of the SSC concept	Reserve enough time for stabilization, readiness to accept that all the benchmarks cannot be reached, readiness to increase resources
Dependence to other group initiatives	Unrealistic business case, too lean staffing of the center, possibility of losing customers	Be part of the bigger plan
External factors	Sudden surprises	Forecast
Too aggressive business case & realistic budget after transition	Too lean staffing of the center, decrease in the service quality, stabilization difficult, stagnation of the functionality, difficulties in showing the savings	Update the business case throughout the project, communicate about expectations, emphasize thorough planning

## 5.2 Risk management cornerstones

Four key cornerstones for managing the risks related to implementing the shared services model were possible to identify based on the research data: appropriate core team, detailed enough plans, appropriate schedule, and top management support. The importance of the core team was already covered earlier as a part of the people risks. In addition to what was already covered, it was found out that one important aspect related to the core team is that the same people, who conduct the implementation, should also be responsible for the consequences.

*“Somehow I have refused to talk about this as a project, because project means traditionally that there’s a project organization that is conducting the project and then hands it over to the main organization and then escapes leaving all the mess behind. Here it was a key success factor that there was no project organization, because then it (the implementation) would have been done badly, as it tends to happen with all projects.”*

Planning is another key cornerstone in the successful implementation. Plans should be detailed enough, realistic and they should be followed rigorously. However, they should be flexible enough, so that sudden situations can be taken into consideration if needed. Therefore, the plans should be monitored continuously.

*“The detailed plan and thinking everything thoroughly are without no doubt cornerstones. I’ve been reading the plan afterwards and been able to find that it was basically the same as the story how we ended up here.”*

An appropriate schedule is also crucial in the successful implementation. In general, enough time must be allowed for the whole implementation. The schedule should not be impossible but neither too loose. For instance, in terms

of GTS the scope of the implementation was more extensive than the one of supply chain's and for the operation like that, the optimal schedule was found out to be one plus two plus one, meaning a year for planning, two years for executing and a year for follow-up. In terms of supply chain, the planning phase concerning the transition might have been longer, whereas the transition phase itself could have been shorter. As to the first units that were moved to the SSC, the planning time was only three months, which turned out to be too short and caused some challenges. On the other hand, the transition phase lasted for five months and it could have been done in tighter schedule. Now there was a constant, almost six months, state of change and the stabilization and maintenance phase could not start since all the time somebody was coming.

In addition to core team, schedule and plans, top management support is also one of the key cornerstones in managing the SSC implementation successfully. Without the top management's support not all the required resources would be available, thus complicating the implementation. Furthermore, moving to the SSC model is a significant structural change in an organization, so top management's support is needed.

### **5.3 Generic risk management procedure**

The research revealed that the implementation of the SSC model and the risk management actions related to the implementation seem to be similar despite the type of the services moved to the center. In other words, the implementation phases and risk management phases related to the implementations in both GTS and supply chain were basically the same. Furthermore, the main risks were also the same, though some operation specific issues occurred. Supply chain was able to utilize the models and concepts that GTS had used and its employee retention rate was also higher. Therefore, implementing the SSC concept was much easier for supply chain than it was for GTS, which acted as a pioneer also in the whole company level.

*“On the other hand, it can be asked if there can even be any unforeseeable risks in this kind of activity. Setting up this (SSC) is so straightforward process that there are those universal principles and if one goes to any company, they have the same kind of list.”*

Three explaining features for the similar implementation process were possible to identify. First of all, as the quotation above indicates, setting up the SSC itself is quite standard procedure despite the type of the services or the type of the industry where the company operates. Anyhow, the purpose is to move certain processes from one unit to another, and even though that requires a lot of organizational redesign, possible risks are easy to generalize.

Companies and shared services centers are also changing information and benchmarking to find out the best-practices and best ways of working. Therefore, it is no surprise that many centers have been organized similarly. Furthermore, many companies use external consulting help when setting up their SSCs. The same consultants with their best-practice templates are attending many SSC projects, so it is obvious that the projects are conducted in similar manner and companies are ending up with similar settlements. However, utilizing consultants' help is a way to mitigate risks related to the SSC implementation.

*“There is the same group of consultants who are basically involved in everything and of course centers are changing information that how they have organized something and how it is somewhere else. We have also had conversations with several companies.”*

*“The role of the consultants was to challenge our plans, not to make the plans on behalf of us. They were like devil's advocates, they tried to prove our plans incompetent but they couldn't. That way we got courage that we were going to the right direction.”*

## 6 CONCLUSION

### 6.1 Findings and discussion

The purpose of this study was to identify the risks related to the implementation of a SSC and to discover the methods of managing these risks in order to successfully adapt the SSC model. The purpose was to identify generic risk management practices and key cornerstones in SSC implementations and to describe how the implementation related risk management is conducted. The problem was approached through two empirical cases, which acted as illustrative examples about how the SSC implementation related risk management had been carried out in practice.

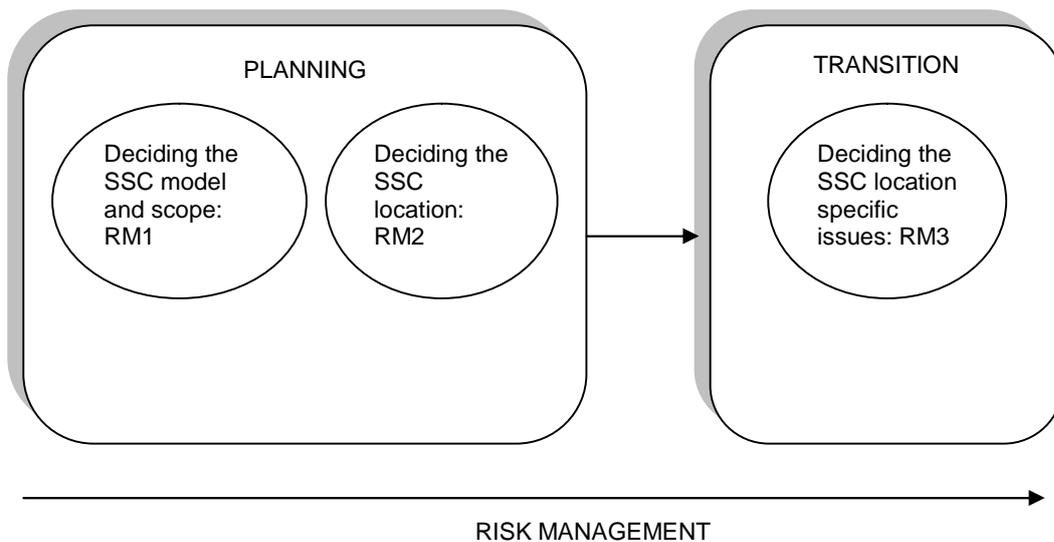
Furthermore, due to the lack of proper theory concerning risk management related to implementing a SSC, the theory gathered for this study was tested by the empirical data to find out whether any similarities would exist. The created theoretical framework was also utilized in categorizing the empirical data. In general, the theoretical framework was very suitable to categorize the risks and applied very well to the empirical part of the study as well. In addition, many of the identified risks in the theoretical part of the study applied to the empirical findings as well. In the following, the key findings and propositions of the study will be discussed.

**Proposition 1.** *Risk management related to the SSC implementation is similar and continuous despite the type of the services moved to the center*

In this study the other case was about the global financial SSC, which provides financial transaction services for the internal business units and functions in Europe and North America and the other case was about the regional supply chain SSC that provides services regarding supply chain management for the company's paper business group in North Europe. However, the SSC implementation related risk management was similar in both cases and the same risk management phases applying to both cases were possible to identify

from the empirical study. From the similar type of risk management process indicates also the fact that the SSC implementation was much easier for the supply chain SSC as it was able to utilize the practices used when the financial SSC was implemented.

Basically, three risk management levels were identified. In other words, there were three explicit phases, when the risks were analyzed and assessed during the SSC implementation process. However, it is important not to mix things up. The SSC implementation related risk management was a continuous process that occurred during the whole implementation – the identified three levels or phases are just explicit risk management points, when the risks were chartered all over again as the implementation process proceeded. Figure 3 below identifies the risk management phases in relation to the SSC implementation process.



**Figure 3 Risk management in implementing a SSC**

As Figure 3 indicates, the first risk management (RM) phase occurred when the SSC model and scope – and whether to move to the SSC at all - was decided. As mentioned, in this study the decisions to move to the SSC model were taken as given but despite, it can be stated that this was the first phase when the SSC implementation related risks were assessed. The second risk management

phase was conducted while selecting the SSC locations. The advantages and disadvantages of the selected location options were assessed at that point. Both of these actions – deciding the SSC model and scope and deciding the SSC location – were part of the planning in terms of the SSC implementation process.

The third risk management phase, on the other hand, was then related to the transition in terms of the SSC implementation. At this point, risk management included the assessment of the location specific risks in terms of transition itself. Even though these three risk management phases have been identified as their own entities, the SSC implementation related risk management was yet continuous as the arrow in Figure 3 indicates. That is, risks were monitored and re-checked during the implementation and their impacts and probabilities changed as actions had been taken for example to mitigate the risks.

The reason why the SSC implementation related risk management was practically similar in both cases – despite the different types of operations moved to the center – is probably because also the implementation process itself seemed to be similar in both cases. Even though the implementation process itself was not the main interest of this study and was not investigated in detailed, naturally it was touched indirectly in the study as risk management related to it was the area of interest. It was found out that implementing a SSC is quite standard procedure despite the type of the services moved to the center. Thus, as it came out from the study, there hardly can be any unforeseeable risks in the implementation neither. Both companies and shared services centers are changing information and benchmarking to identify the best-practices and many companies setting up their SSCs are also using external consulting help – and there seems to be a limited number of consultants involved in SSC implementations – so it is no surprise that the implementation process itself and risks and methods to manage those risks are similar in spite of the type of services moved to the center.

**Proposition 2.** *People risks form the most significant risk category in terms of SSC implementation*

In both cases people related risks were considered the most significant risk category in implementing shared services. The key people related risks were the availability of skilled personnel in the chosen location, the retention of the current personnel, and finding the appropriate core team. For instance, the risk of the availability of skilled personnel shows really well the continuous nature of the SSC implementation related risk management. The risk was already taken into account when deciding the SSC location and actions were taken to control and mitigate the risk already in that phase. However, even though the susceptibility to the risk had been mitigated, it still existed also in the transition phase, where it was again taken into consideration.

It is interesting that two of the three key people risks that came out from the empirical study – the availability of skilled personnel and finding the appropriate core team – were not identified as people related risks on the theoretical basis. But then again, the retention of current personnel, resistance to change, and recruiting were identified as risks in both the empirical and theoretical basis. However, the risks are related to each other. For instance, by being able to retain the current personnel and by recruiting new employees the risk of the availability of skilled personnel can be controlled and/or mitigated – supposing that the current personnel is skillful and recruiting decisions are successful and there are enough people to be recruited. In other words, it can be supposed that by managing these two risks the risk of the availability of skilled personnel can partly be managed as well.

As it can be seen, people related risks are very dependent on each other and it may be difficult to separate them as their own specific entities. It was found out that some of the identified risks related to the SSC implementation – practically all were people related – are not only risks but also methods to manage and control some other risks. On the other hand, some other risks, on their part, were noticed to be consequences of some other risks. In other words, an issue can be both a risk and a control method or then a risk and a consequence. For

instance, above discussed recruiting is an example of an issue that can be considered both a risk and a control. As mentioned, it can be a risk itself or it can be a method to control the risk of the availability of skilled personnel. Similarly, the above-mentioned retention of current personnel can also be a risk itself or then a method to control the risk of the availability of skilled personnel.

However, to summarize, the main people related issues in the SSC implementation seemed to concern finding the right resources, both in employee and management level and retaining enough current personnel so that the current knowledge would not be lost. The following issues can be seen as the main people related risks in implementing a SSC:

- The availability of skilled personnel both in the management and employee level so that a SSC can be established, the implementation can be conducted properly, and that the center will be got up and running as planned.
- The retention of the current personnel in order not to lose the current knowledge and to deliver the knowledge transfer successfully.
- Resistance to change so that the functionality of operations will not be jeopardized and the SSC concept will be accepted in the units.

**Proposition 3.** *Defining processes, roles and responsibilities clearly and detailed enough is essential in the SSC implementation*

The process related risks that came up from the study were pretty similar both in the empirical and theoretical parts. The key issue that was revealed was that all the processes, roles and responsibilities should be defined clearly and detailed enough so that the quality of services would not be reduced, the SSC concept would be accepted in the units, and unnecessary work and costs, and hidden manning in the units would be avoided.

On the theoretical basis of the study, taking differences for example in laws and other procedures between different countries into account in the SSC implementation was identified important. However, on the empirical basis of the

study these issues were not seen as very significant. It was found out that for example harmonization in several issues in the European Union level had no influence in neither cases on where to locate the centers or whether to move to the SSC model.

**Proposition 4.** *Implementing a SSC is dependent on the functionality of IT*

The significant role of IT in implementing a SSC was highlighted both in the empirical and theoretical part of the study. IT is not only enabling the whole transition to the SSC model but the everyday operations as well are dependent on its functionality in the SSC environment. In terms of SSC implementation, the successful implementation of IT projects along with the SSC implementation can be identified as the key IT related risk on both theoretical and empirical basis. If IT projects failed or delayed, it would also mean delay in the SSC implementation and decrease in the service quality.

One IT related risk that came up in the empirical part of the study but not in the theoretical part was the risk of open user/access rights. In other words, the unnecessary access rights should be removed to prevent misuse in the units as the services have been transferred to the SSC. In addition to possible misuse, it can be supposed that by removing the access rights also the roles and responsibilities are easier to define – once the user/access rights are removed in the units, the work cannot be done there anymore.

**Proposition 5.** *To be able to show the cost decrease and meet the other goals of the SSC implementation while yet defining an appropriate operating budget are the biggest management challenges in the SSC implementation*

The contradictory role of the SSC came up both in the empirical and theoretical part of the study. On the other hand, the SSC management should be able to show the cost decrease and also meet the other goals set for the SSC implementation but then again, the SSC is expected to provide excellent customer service for the internal units and functions. This means, an appropriate enough operating budget needs to be compiled so that the service

standards can be met and the implementation can be effectively completed. Basically, enough resources should be allowed for the SSC implementation so that the expected goals would even be possible to meet.

External factors and their role in the SSC implementation came up in the empirical part of the study but were not identified risk issues in the theoretical part. These issues can be considered management related risk issues because in the SSC implementation, the SSC management eventually needs to come up with solutions for such issues. It was noticed that very rarely companies have control over sudden external factors that appear in the operating environment. The external issues are part of all business operations, so their role cannot be considered particularly significant in implementing a SSC either.

**Proposition 6.** *Key cornerstones in implementing a SSC successfully are essential risk management methods in managing the risks related to the implementation*

Certain key cornerstones to manage the SSC implementation related risks could be identified on this study basis. First of all, on the empirical study basis, the following four key cornerstones were identified: appropriate core team, detailed enough plans, appropriate schedule, and top management support. Having these large-scale elements in place, the risks related to implementing a SSC can be controlled and managed. In other words, a SSC is most likely successfully implemented. Basically this means that the risks are managed as well.

Therefore, these issues can be considered factors to implement a SSC successfully as well – similarly as the critical success factors in implementing a SSC identified in Chapter 2.2.2 in the theoretical part of the study. These introduced factors were the following: get the senior management sponsorship and ensure the quality of SSC management, have a clear business case, recognize the needs of the business units and users, gather some ammunition and support, communicate, and move on slowly.

The role of these issues introduced in Chapter 2.2.2 is twofold – just like the role of the four key cornerstones identified on the empirical basis. First of all, as they are issues by which organizations are able to more successfully implement a SSC, they can also be considered factors by which organizations are able to control the risks related to the SSC implementation. In other words, they are means that are part of the successful risk management relating to the SSC implementation and can be considered prerequisites for managing the SSC implementation and related risks successfully – similarly as the ones identified in the empirical study.

On the other hand, however, all these issues – the ones identified in the empirical study as well – could be regarded as risks themselves. For instance, if there is no clear business case before starting the project, it is highly probable that it has a negative effect on the SSC implementation. Basically, these issues could be part of the management related risks supposing that they would *not* be fulfilled. However, there is more impetus to regard them as risk management methods than risks themselves. That is, they never become risks if taken into consideration in the first place. For instance, when compared to other management risks identified in the study, it can be noticed that these critical success factors are actually possible methods to manage the other risks. But again, the twofold nature of the risk issues can be seen here as well.

To conclude, the four key cornerstones derived from the empirical part of the study can be completed with the critical success factors derived from the theory concerning a successful SSC implementation. As a result, the following key cornerstones to manage the risks related to the SSC implementation can be identified:

- Top management support for the project so that all the required resources are available and the SSC concept would be better accepted in the units.
- The appropriate core team – if possible, not a project team – with sufficient expertise, knowledge and network complete with a leader with entrepreneurial flair to conduct the implementation.
- Detailed enough plans that include a clear business case and recognize the needs of the business units and the users, who should be involved in planning.
- The appropriate schedule that allows enough time for the implementation and stabilization – it is essential to move on slowly enough through for example staged implementation.
- Proper and constant communication to affected parties and between teams.
- Support for the implementation by gathering acceptance of the SSC concept among the units and staff to overcome the resistance to change and negative conceptions of the SSC concept.

## **6.2 The quality of the study**

Conventional research methods are scarcely applicable to studies of processes of decision-making, implementation, and change in companies, to which case studies would be the preferred approach. However, case studies have traditionally been criticized for not being applicable to making generalizations. It yet no longer seems so obvious that a limited number of observations cannot be used as a basis for generalization or that properly devised statistical studies based on large numbers of observations would lead to meaningful generalizations. (Gummesson 2000, 88.)

This study does not attempt to state that risk management procedures related to the implementation of a SSC would be the same in every context as the ones concluded in this study. According to Stake (1995, 7), generalizations about a case or a few cases in a particular situation may need a label such as *petite generalizations*. Thus, the results of this study can be regarded as *petite generalizations*, which do not necessarily apply to some other situations. However, the study consists of two different cases, meaning that already two different situations are taken into consideration, which increases the validity of the study and its results. As Gummesson (2000, 92-93) states, generalization is closely related to validity, which in essence means that a theory, concept, or category describes reality with a good fit.

As Yin (2009, 61) states, conducting only a two-case case study leads to a better chance of doing a good case study than using a single-case design as one does not need “to put all eggs in one basket”. This is also the advantage of this study – the results are not based solely on one single-case. According to Yin (2009, 61), analytic benefits from having two cases are substantial as the conclusions arising from two experiments are more powerful than those coming from a single experiment alone. Therefore, having two cases increases the validity and credibility of this study substantially. In other words, external validity of the study increases. Yin (2009, 40; 43) defines the external validity as knowing whether a study’s findings can be generalized beyond the immediate case study and as one test to establish the quality of a case study.

Construct validity is another test that can be used to establish the quality of a case study research. It means being able to develop a sufficient operational set of measures for the concepts being studied instead of using subjective judgments to collect the data. Three tactics to increase construct validity when doing case studies are using multiple sources of evidence, establishing a chain of evidence, and having the draft case study report reviewed by key informants. (Yin 2009, 40-42.) All these aspects were taken into consideration in this study. First of all, in addition to interviews, internal written documents were used as sources of evidence in order to get more extensive research results. Secondly, a chain of evidence was established by identifying all the relevant phases and

choices made by the researcher openly and justifying the assumptions made with theory whenever possible. Finally, the case study report was reviewed by the key informants to eliminate possible misunderstandings.

According to Ghauri (2004, 117), in qualitative research authenticity rather than reliability is the main issue. In this study, all the relevant aspects have been attempted to be described as authentically as possible to increase the quality of the study. According to Yin (2009, 45), an excellent guideline for doing case studies is to conduct the study so that an auditor could repeat the research procedures and end up with the same results. Therefore, all the conducted steps and references to sources have been attempted to be explained properly in this study.

### **6.3 Suggestions for further research**

In this study the suggestions for further research are much related to the definitions of the study indicated in the first chapter (see Chapter 1.2). The topic of this study was narrowed to concern only the SSC implementation, so the issues defined out of this research scope are potential areas for further research.

First of all, as mentioned, the risk management related to the SSC set-up was the interest of this study and thus, the risk management of a SSC – meaning managing the risks related to every day operative side after the implementation – was defined out of the scope. However, as SSCs are independent business units and they are run like any other businesses, it would be interesting to study how the risk management is taken into account from the operative perspective and therefore, it would very potential area for further research. Another interesting topic for further research would be to study a SSC as a part of the company-wide risk management – this perspective was defined out this research scope as well.

It would also be interesting to study how the SSC implementation related risk management is conducted in other organizations and in other shared services centers. Preferably, in order to get more extensive results, the SSCs should be of different types meaning they would produce different types of services. Furthermore, the companies should operate in different industries so that the conclusions could be drawn whether the risks and risk management practices are similar despite the SSC type and the industry where organizations operate. Then it could be seen whether the results of this study would apply to other contexts as well.

In this study, the probabilities and impacts of the risks were not mathematically calculated but that could be done in further research. However, in that case a specific moment – or moments – of the implementation should be defined, as it was found out in this study that the probabilities and impacts change during the SSC implementation.

This study aimed at defining the SSC implementation related risks and risk management practices generally. One possibility for further research would be to concentrate on certain risks or risk categories and to study these thoroughly. For instance, people related risks in implementing a SSC could be one example or then, for example resistance to change alone: “Managing the resistance to change in the SSC implementation”. That way the issues would be studied more extensively and detailed.

Finally, this study concentrated only on the types of SSCs that provide services for the internal use only. However, SSCs may provide services for other organizations as well, without yet being only outsourcing business. These types of SSCs could be studied in further research for example from that perspective that when it would be profitable for organizations to conduct this kind of business. The final suggestion for further research is to compare the SSC concept with other organizational arrangements – for example with mergers or acquisitions – and to find out if there are any similarities between risks and risk management practices between these ways to restructure organizations.

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