Enhancing HR Shared Service Centers through Resource Orchestration

Uncovering the Dynamic Capabilities of the Administrative Expert

Marco Maatman
ENHANCING HR SHARED SERVICE CENTERS THROUGH RESOURCE ORCHESTRATION
UNCOVERING THE DYNAMIC CAPABILITIES OF THE ADMINISTRATIVE EXPERT

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ENHANCING HR SHARED SERVICE CENTERS THROUGH RESOURCE ORCHESTRATION

UNCOVERING THE DYNAMIC CAPABILITIES OF THE ADMINISTRATIVE EXPERT

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You just need to spend a couple of months working within a HR SSC to become aware of the potential of all the information that is processed and see the extensiveness of the knowledge and experience of its employees and their networks. At the same time, you will see how the HR SSC struggles to keep up with operational work and is constrained to further explore the unleveraged potential of its resources.
THE POTENTIAL OF THE HR SSC

In the past decade many organizations have implemented HR Shared Service Centers (SSC). The primary responsibility of these HR SSCs is to support the business in performing transactional HR work (such as personnel administration and payroll). The resources needed to perform the transactional responsibilities are bundled and concentrated in the HR SSC. In its purest form, the HR SSC is governed through the horizontal relationships with the business (business units as customers) which exert power over the HR SSC to align its interests with their own. The combination of these characteristics is claimed to be essential for realizing the promised benefits of shared services, capturing the best elements and effects of centralized and decentralized organizational models while minimizing the drawbacks (see table 1).

**Table 1. Advantages and disadvantages of centralization and decentralization related to the shared services (Schulman, Dunleavy et al. 1999)**

<table>
<thead>
<tr>
<th>Disadvantages</th>
<th>Advantages</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher costs</td>
<td>Pooled experience</td>
<td>Common systems</td>
<td>Unresponsive</td>
</tr>
<tr>
<td>Variable</td>
<td>Enhanced career progression</td>
<td>and support</td>
<td>No business unit</td>
</tr>
<tr>
<td>standards</td>
<td>Independent of business</td>
<td>Consistent</td>
<td>control of central</td>
</tr>
<tr>
<td>Various control</td>
<td>Synergies</td>
<td>standards</td>
<td>overhead costs</td>
</tr>
<tr>
<td>environments</td>
<td>Lean, flat organization</td>
<td>and control</td>
<td>Remote from</td>
</tr>
<tr>
<td>Duplication of</td>
<td>Recognition of group</td>
<td>Economies of scale</td>
<td>business</td>
</tr>
<tr>
<td>effort</td>
<td>functions</td>
<td>Critical skill mass</td>
<td>Inflexible to business</td>
</tr>
<tr>
<td>Business units</td>
<td>Dissemination of best</td>
<td>No business unit</td>
<td>unit needs</td>
</tr>
<tr>
<td>remain in control</td>
<td>practices</td>
<td>control</td>
<td></td>
</tr>
<tr>
<td>of decisions</td>
<td></td>
<td>of central</td>
<td></td>
</tr>
<tr>
<td>Recognition of</td>
<td></td>
<td>overhead costs</td>
<td></td>
</tr>
<tr>
<td>local priorities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsive to</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>client needs</td>
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</table>

The HR SSC provides HR services to collect and process information as the result of the execution of HR policies and practices by the individual employee, line and business managers, expertise centers and other stakeholders in the delivery of HR. In this role it takes a central place in the HR function as it channels and processes much of the HR-related data through its service delivery processes. The service delivery and the collecting and processing of information are often supported by Information Technology (IT). Not surprisingly, the HR SSC (as the administrative expert) often has great responsibilities regarding the management
of the information infrastructure of the HR function. Moreover, its employees have an extensive network within the HR function and among its customers as they maintain relationships with different stakeholders in HR delivery.

Many HR SSCs are not able to achieve the promised benefits (see table 1) of shared services. In practice, the extent of power the business units exert over the HR SSC is dominated by a vertical top-down governance structure and is often combined with a focus on cost reduction. This limits the HR SSC from being pro-active, innovative, flexible, and responsive to business needs and at the same time supports the HR function to become more strategic as both require an evolution of the HR SSC itself. The HR SSC needs to learn how to benefit from the shared services concept on the one hand, and the potential of its central position in the HR function and delivery, and its concentrated knowledge and expertise on the execution of HR policies and practices on the other. The data that flows through the service delivery (IT) channels and is exposed as the employees of the HR SSC interact with the different stakeholders in HR delivery is of great value. It contains information on the effectiveness of the HR functions and the outcomes of the different HR policies and practices implemented. It can reveal the need for the change or alignment of the HR policies and practices, but also the gaps in achieving strategic objectives and the extent to which HR management is aligned with the strategic objectives of the organization.

Practice shows that the HR SSC needs to develop and deploy new capabilities and services to leverage the potential. This requires a change from being a player with capabilities for performing transactional HR work exclusively, towards a key player in the HR function that is also able to demonstrate capabilities that increase the understanding of how HR is delivered throughout the organization, what the needs of the business are, and what the bottlenecks are in the management of human resources. Subsequently, it needs capabilities that enable the HR SSC to develop solutions together with other stakeholders in HR delivery, which remove the bottlenecks and address new ways for the HR function to add value to the business. By using its knowledge expertise and access to data, information, and its extensive network, the HR SSC can support the integration of the often fragmented HR function and be of strategic importance as it supports the implementation of strategy and monitors the effects of its implementation and even the development of strategy. Such an expansion of capabilities takes time as
these capabilities need to be developed step-by-step. Unfortunately, the HR SSCs in many organizations have not evolved and matured to the extent required to fulfill the key roles described. The economic crisis that emerged in 2008 came too early for this process. The crisis has resulted in strengthened and tightened vertical top-down governance structures within many organizations and a main focus on the costs benefits of the HR SSC compared to the other promised benefits.

As a result of the crisis, the HR SSC as a business unit with a primary responsibility for performing transactional work, in which the resources used for doing that are bundled together, was often targeted repeatedly with headcount reduction objectives by the corporate level of organizations. For many HR SSCs, this has become a vicious circle in which they struggle to keep up with the work to be done while continuing to improve efficiency to comply with the increasingly tight objectives. The consequences of this vicious circle are becoming especially clear now that organizations want to move forward again and invest as economic conditions improve. Technological advances, such as Cloud, Big Data, Robotics, and Predictive and Prescriptive analytics, provide many opportunities for the HR function to increase its strategic contribution and improve its effectiveness and efficiency. Investments in HR Information Systems (HRIS) are back on the corporate agenda, just as mergers and acquisitions are. The renewal or expansion of the HRIS landscape and the integration of organizations require extensive knowledge of current HRIS configurations and adoption on the one hand, and of the execution of HR policies, practices, and delivery processes on the other. However, much of this knowledge and expertise that was formerly bundled and concentrated within the HR SSCs has been declared redundant and shed in recent years. The limited capacity and loss of knowledge and expertise limit the ability of the HR SSC to develop and deploy the capabilities expected and required to become of strategic importance and to integrate the fragmented HR function.

**NECESSITY FOR RESEARCH**

As organizations start moving forward again, the HR function is expected to do so as well. The war on talent has begun as organizations again invest in their human resources. New technology has been introduced that holds great potential for the HR function and the management of the organization’s human resources. The HR
SSC as a concept did not lose its potential to contribute to the objectives of the HR function in this rapidly changing world. On the contrary, the new technology and the use of data drive the need for a HR SSC that is able to leverage the potential of its position in the HR function and its knowledge and expertise.

To do so, it is important to understand the role of the key characteristics of the shared services concept. These characteristics are the concentration and bundling of resources and resource use by the HR SSC, and the control exerted by the business over the HR SSC.

The HR SSC itself needs to evolve and mature in stages to enable the smooth integration of the HR function and expand its strategic impact. It finds new ways of using resources and demonstrates new capabilities (based on the primary responsibility of performing transactional HR work), and the outcomes of their deployment justify their investment. These capabilities are essential for the HR SSC to leverage its potential and are therefore an important phenomenon to study. The processes of the creation of these capabilities enable the HR SSC to be pro-active, innovative, flexible, and responsive to business needs. As the routines that underlie these processes are continuously utilised as the HR SSC develops and deploys new capabilities, they can be considered capabilities themselves as well, and therefore it is especially important to understand how the HR SSC evolves and matures over time into its potential role.

The governance over the HR SSC directs its evolution and maturation. Power within the governance structure is exercised through the horizontal and vertical relationships within the organization. Through the horizontal relationships, the business (as the customer of the HR SSC) exerts power over the HR SSC to align its interests with its own. This horizontal relationship is thought to be key for the success of HR. For that reason it is essential to study if and how the power exerted by the business affects the resource use by the HR SSC for service delivery on the one hand, and for its evolution and development of new capabilities on the other.

The study presented in this thesis aims to explore and explain how resource use by the HR SSC and power exerted by the business play a central role in achieving the promised benefits of the HR SSC over time as it evolves and matures and expands its role. These insights are important as they create awareness and
Reason for Research: Based on observations from practice

acknowledgment of the potential of the HR SSC for the HR function, the business, and the organization as a whole and put an end to the relentless headcount reduction objectives. Moreover, they support the creation of the appropriate conditions for the business and the HR SSC to realize a pro-active, innovative, flexible, and responsive HR function and subsequently enable the HR SSC to integrate the fragmented HR function and, together with the other stakeholders in HR delivery, create value for the business and increase the strategic impact of its function.

REFERENCES

References can be found on page 205.
As a consultant I did observe the potential of the HR SSC and the constraints for deployment. I was motivated to explore and understand if and how the potential could be leveraged. As we knew little about the processes that underlie such a dramatic change of role, I realized that a longitudinal case study was required to frame how a transactional HR SSC uses its resources to provide services and contribute to the strategic impact of the HR function. Moreover, I realized that there was a need to study the role of the business as the customer of the HR SSC, as it is essential for the direction and the creation of the appropriate conditions for the HR SSC.
INTRODUCTION

The application of shared services has become commonplace in the delivery of HR practices within MNEs and medium to large multi-divisional organizations. Numerous practical models and frameworks can be found that support organizations during the implementation of the Shared Services Model (SSM) and the service delivery via this model. Especially in a transactional context, the model is adopted as best practice by business leaders to decrease costs through standardization, economies of scale and removal of duplicate functions. In the strategic HR management literature, the model in a transactional context receives little attention as it is disregarded as a concept that contributes to the strategic impact of the HR function. Increasing that strategic impact has become one of the primary objectives of the HR function and has received much attention from both practitioners and scholars. Paired with an objective to decrease the administrative workload for HR professionals, it has resulted in a transformation of the HR function in the past ten to fifteen years. Tasks and responsibilities have been reallocated, and new stakeholders in the delivery of HR introduced with the purpose to achieve the objectives. Employees and line managers were given responsibility in the execution of HR policies and practices with the introduction of self-service applications to relieve HR professionals of administrative tasks and enable them to focus on value-adding activities. HR expertise centers were introduced to support the business in its transformation, and HR business partners were introduced to support the business with the tactical and strategical HR challenges faced (Ulrich and Brockbank 2005, Farndale, Paauwe et al. 2010).

In practice, the different stakeholders in HR delivery focus on their tasks and responsibilities related to specific HR practices and policies on the operational, tactical or strategic level. This results in a fragmented HR function which is still struggling to increase, demonstrate, and present its strategic impact. The HR function often lacks alignment between the different stakeholders in terms of delivery, an ability to get an overview to address the alignment issues, assess the outcomes of the implementation of HR strategy, policies and practices, and benefit from opportunities to create additional value for the business. From the perspective of the business, the function lacks consistency and coherence, and receiving the required support can become a challenge in itself.
Chapter 1: Introduction

The concept of shared services in a transactional context implies that resources that are used on a daily basis to execute HR policies and practices are bundled and concentrated in a HR SSC. Combined with a governance structure that enables the business as a customer to exert power over the HR SSC to align its interests with its own, it is promised to benefit from the advantages of both decentralized and centralized organizational models while minimizing their drawbacks. Although its primary function is providing services that support its customers in doing administrative work, its position within the HR function and amongst its customers, the concentration of knowledge and expertise on the execution of HR policies and practices, and its responsibilities in the management of the information infrastructure of the HR function can be used to increase the integration and alignment of the HR function and the strategic impact of its function as it is better aligned with the business.

Little is known, however, about how the characteristics of the HR SSM affect the outcomes of the services provided by the HR SSC to the customers. Although the potential of the model can be estimated, it is unclear what mechanism enables its leveraging and how this can be achieved in a transactional context. The study presented in this thesis aims to explore and explain exactly that. The findings presented give rise to a reconsideration of the role of the HR SSM in a transactional context as a means to primarily reduce the headcount, while neglecting the role it can play in the creation of value through the HR function. It explores and explains how the power exerted by the customers affect the resource use by the HR SSC and how the HR SSC can evolve to contribute to the alignment of the HR function and to the value created and strategic impact.

In the past decade, HR practitioners and scholars have shown increasing interest in the execution or delivery of HR practices. This has resulted in a growing body of studies in which the focus shifted from having HR policies and practices in place towards the effectiveness and efficiency of stakeholders and the tools they use in the application and execution of these policies and practices (Meijerink and Bondarouk 2013, Meijerink, Bondarouk et al. 2013). The use of the word stakeholders is intentional, as the execution and application of HR policies and practices in contemporary organizations are certainly not reserved exclusively to a central HR staff department and its professionals. Scholars have already addressed the role of line managers (Bos-Nehles 2010, Gilbert, De Winne et al.
2011) and HR advisors (Boselie and Paauwe 2005, Teo and Rodwell 2007, Uen, Ahlstrom et al. 2012) as active participants in HR delivery.

Other scholars have explored the role of IT given its central role in enabling and supporting HR delivery for different types of stakeholders and, thus, changing the delivery model of HRM (Bondarouk and Maatman 2009, Bondarouk, Ruël et al. 2009, Bondarouk 2011). Employee self-service and management self-service applications, for example, enable employees and managers to take responsibility for HR delivery and have been used by many organizations since the previous decade. Moreover, as communication through digital channels has become a matter of course, the geographical constraints for service delivery have disappeared and cleared the way for new types of participants in HR delivery through outsourcing arrangements (Klaas, McClendon et al. 1999, Cooke, Jie Shen et al. 2005).

The study presented in this thesis complements this growing body of research literature as it addresses the SSM, and as part of it, the SSC as a HR delivery channel. It focuses not on the effectiveness and efficiency of the model but aims to explore and explain its value-creating and strategic potential in a transactional context. It does this by conceptualizing, uncovering, operationalizing and measuring the two characteristics that combined are key for the SSM. First, the Resource-Based View (RBV) perspective extended with the Dynamic Capabilities (DC) perspective and the resource orchestration process are applied to study how the SSC bundles and employs the available resources in the model, such as knowledge, expertise, and IT tooling, to provide services and perform activities that create value for the business it serves and support the organization to prepare for the future. Second, the study conceptualizes how the governance within the model affects the outcomes of resource employment by the SSC. It builds on Agency Theory logics to explain why there is a need for governance, and how within the HR SSM, the customers use control mechanisms in their relationship with the HR SSC. By applying the control mechanisms, the customers try to align the interests of the HR SSC with their own and in doing so affect resource employment by the SSC.
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CHALLENGES ADDRESSED IN THIS THESIS

The thesis addresses three main challenges that were studied in relation to the HR SSM in a transactional context. The concepts of HR shared services, the HR SSC and the HR SSM in a transactional context are deliberately left undefined in this thesis, as this was the first challenge to be addressed. The terms shared services, SSC and the SSM are often improperly and even interchangeably applied in practice and in the literature, ignoring the key characteristics that underlie the success of the concept. Clear definitions of the concepts are needed to operationalize and study the mechanisms and their role in success.

Second, this thesis addressed the lack of an integrated framework of SSM mechanisms that create value. As mentioned in the introduction, a wide range of prescriptive models and frameworks exists for the implementation, operation and monitoring of the SSM/HR SSM in a transactional context. These models and frameworks lack a theoretical foundation and prescribe how to manipulate specific parameters without including the whole context in the equation. Conflicting interests of stakeholders and resource restrictions, for example, affect the choices of which mechanisms and how they are deployed to create value. Subsequently, the deployment or a choice for not deploying a mechanism produces negative side-effects. The strategic management literature would benefit from a framework that supports management’s decision-making and explains how this leads to positive and negative outcomes as the result of the actions taken. This thesis provides such a framework. It is built on the key characteristics of the HR SSM that when combined, distinguish the HR SSM from other models for HR delivery. Moreover, the mechanisms and their interactions are conceptualized, and propositions to test the framework are created.

The third challenge addressed is the lack of empirical findings into the mechanisms of the HR SSM and value creation in a transactional context. The role of the HR SSM in a transactional context seems to be taken for granted. It is considered to be best practice for decreasing costs through standardization, economies of scale and removal of duplicate functions for administrative HR activities. It is simply ignored as a model that creates value and has strategic potential in a transactional context. Empirical findings are needed to validate these perceptions, or give rise to a reconsideration of the role of the HR SSM in a
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transactional context. The thesis presents empirical findings in two ways. First, the mechanisms that are deployed by the SSC, their interplay and their role in value creation and the evolution of the HR SSC are uncovered and described in a qualitative single case study. Second, a quantitative survey elucidates how the mechanisms within the SSM interact to create value.

Challenge 1: Defining the HR SSM and the transactional HR SSC

Although there is some disagreement about the origin of the SSM (Quinn, Cooke et al. 2000, Ulbrich 2003), many authors agree that the concept started in the US, and it was first introduced in the finance function (Quinn, Cooke et al. 2000, Ulbrich 2003, Davis 2005). During the 1990s, the concept was applied by an increasing number of organizations to a range of business functions, such as IT, logistics, procurement, and also HR (Reilly 2000, Ulrich, Younger et al. 2008). The impact of the concept on the HR function was studied in the late 1990s as the concept attracted the interest of HR scholars (Farndale, Paauwe et al. 2009).

The position of the service provider within the SSM and the organization as a whole was found to differ among organizations. Reilly (2000), Farndale et al. (2006), and Bondarouk et al. (2010), for example, found a wide diversity in the organizational forms for operating SSMs and concluded it was difficult to generalize about the position of the service provider, the SSC. In practice, organizations re-label the execution and application of HR practices and policies into HR shared services, although the provider of the services is still to be considered a central staff department (Quinn, Cooke et al. 2000). Shared services are perceived to advance the professionalization of the delivery of a function (Ulrich 1995, Ulrich 1997, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Ulrich and Brockbank 2005). It is therefore not surprising that organizations re-label their delivery methods as shared services. The wide variety of forms found in practice and the improper labeling of HR delivery by organizations presented a challenge for this study. One of the aims of the study is to explain how the governance within the SSM affects the deployment of the resources by the SSC. The definition of the HR SSM should support the conceptualization and operationalization of the research framework but at the same time cover the wide variety of SSM forms that exist in practice. On the
other hand, the definition should discriminate those organizations that claim to apply the HR SSM but actually do not. The definition of the SSM is therefore of crucial importance for this study and should incorporate and integrate governance elements within the SSM on the one hand, and characteristics of the service provider on the other.

Defining the HR SSM for this study started with the identification of its elements for which there seems to be agreement amongst scholars and practitioners. What is common in the literature is that the provider of the services in the SSM is described as a (semi-)autonomous business unit. This characteristic of the service provider is key for the definition of the SSM. It describes to some extent the position of the SSC within the HR function and the organization as a whole, and subsequently the relationship between the SSC and the other stakeholders in the delivery of HR. The second element for which there seems to be an agreement amongst scholars and practitioners is the features of the services provided by the SSC. These features characterize them as shared services. The three distinctive features of shared services are (Reilly 2000, Reilly and Williams 2003, Cooke 2006):

- The nature of the shared services provided is primarily determined by the customers;
- There is a common provision of shared services among customers;
- These shared services are available to multiple customers.

The fact that the nature of the services is primarily determined by the customers refers to a mechanism that affects the resource employment by the service provider. Customers can only determine the nature of the services provided to them if they have the possibility to apply mechanisms to ensure that the (semi-)autonomous business unit, the SSC, aligns its objectives with their own. For that reason the distinctive features of the shared services are integrated in the definition of the SSM as well.

The distinctive features of shared services combined with the characteristic of the service provider being a (semi-)autonomous business unit describe how the HR SSC is integrated within the intra-organizational HR arrangement and how it is governed. The intra-organizational arrangement is the formal structure that defines the responsibilities and delegation of tasks within a business function.
(Dibbern, Goles et al. 2004). In the context of HRM, it describes how the tasks and responsibilities in relation to the development of HR policy and practices on the one hand, and their execution and application on the other, are divided among the different stakeholders. Moreover, it describes how power is distributed and with that the mechanisms the stakeholders within the SSM can apply to exert control over the SSC.

**The HR SSM defined**

The definition of the SSM for this study comes from integrating the aforementioned features. It combines aspects of the distinctive features of the shared services, a service provider that operates as a (semi-)autonomous business unit and the intra-organizational HR arrangement. The integration of these features in the definition of the HR SSM can be applied to the wide range of HR SSMs, each with their own idiosyncratic characteristics. In an integrative way, the HR SSM for this study is defined as:

- A collection of HR shared services, whose characteristics are determined by the customers,
- provided within an intra-organizational HR arrangement to a specific set of end-users,
- by a (semi-)autonomous business unit on the basis of agreed conditions.

The next step for this research was defining the scope and type of services provided as the context in which the transactional HR SSC operates. Shared services are applied for a wide variety of tasks and activities regarding the execution of HR policies and practices. The services are provided, for example, to support personnel and salary administration and answer questions of employees and line managers regarding legal positions, recruitment and selection and talent development. In the literature, different terms are used for the provider of the services. While some scholars and practitioners use the term SSC for all service providers independent of the types of services provided, others explicitly differentiate between transactional SSCs, call centers, expertise centers, or centers of excellence depending on the type of services provided (e.g administration versus policy development).
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The HR SSC in a transactional context

The difference between labeling the service providers and using the term SSC as a container notion seems irrelevant. However, the type of services provided obviously has an impact on the required resources to be employed by the service provider as part of the SSM, and therefore is important for this study. The study initially used the differentiation defined by Ulrich (1995) and Ulrich and Brockbank (2005) between HR service providers that support their customers with transactional services (a transactional HR SSC) and the ones that support the business in their transformation (a transformational HR SSC or expertise center). However, during the study the perspective changed as the observation was made that a service provider that had the primary task of supporting the business with processing HR transactions and answering employees’ questions evolved. It developed and started performing activities and providing services that changed their customers and the organization. This expansion of focus was not related to an expansion of its responsibilities regarding the execution of additional HR practices (e.g. execution of recruitment) but was built on the original responsibility of supporting the business with transactional work. It was demonstrated through the development, execution and provision of new non-transactional activities and services as a result of using the knowledge, expertise and information gathered during transactional service delivery. Therefore, from chapter 3 onwards, the term HR SSC refers to those HR service providers for which the execution and provision of transactional-oriented activities and services are the root and basis for their existence, but which are not restricted in the development of new activities and services that can support transformation through the organization as a whole (unless specified otherwise).

Challenge 2: Conceptualization of an integrated HR SSM (research) framework

The HRS SSM in a transactional context has received little attention in the strategic management literature. The concept is considered to be best practice for the administration of the outcomes of policy and practice execution and application. Standardization, harmonization, economies of scale, increasing efficiency and effectiveness are the mechanisms to be applied and the outcomes to be expected (Ulrich and Smallwood 2002). The work of Dave Ulrich (1997), regarding the roles within the HR function, is widely followed in the strategic HR
literature. In practice, we see that even twenty years later, many organizations design their HR function based on this model and its variants (Farndale, Paauwe et al. 2010). The roles within the HR function are divided among different stakeholders, and often stakeholders are assigned exclusively to one role. It was Ulrich (1995, 1997 2002, 2005) amongst others who distinguished between service providers that provide services for transactional support and the ones that support organizational transformation as they implement strategy, create new culture, and accomplish business goals. Not surprisingly, the transactional HR SSC is categorized in the Process/Day-to-day operations quadrant of the Ulrich model. The metaphor Administrative Expert is applied to this quadrant, and its “deliverable” and primary responsibility is administrative efficiency (Ulrich, 1997).

It is the wide adoption and application of such models in the literature and practice (Farndale, Paauwe et al. 2010) that have resulted in ignorance of the potential of the transactional SSC. Nowadays, information is becoming increasingly valuable, and according to the same models, it is the Administrative Expert that is responsible for the management of the information infrastructure of the HR function (Ulrich 1997). The value of the information flowing through the service delivery processes of the SSC combined with the organization-specific knowledge and expertise regarding the execution and application of HR practices and policies should be acknowledged as a valuable resource that needs to be leveraged. An integrated framework to support research into the HR SSM, which at the same time can be used for the design and operation of the model, is essential to understand and explain how the key characteristics of the HR SSM can be leveraged in a transactional context.

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delivery processes in which the end-users of the services interact with the SSC (Meijerink, ten Kattelaar et al. 2014). This body of research is mainly descriptive and lacks a study into the key characteristics and mechanisms of the SSM to explore and explain its potential and outcomes. Such a framework is necessary to get the HR SSM on the agenda for strategic HR research. It also supports the professionalization of the HR function in general and provides insights into its strategic importance.

The management literature specifically addresses the different challenges faced during the implementation of the SSM and the SSC, and the monitoring of its performance. Often illustrated with a case study, specific actions are prescribed to address a challenge. Benchmarks figures and service level agreements (SLAs) are used to “test the health” of a function and the performance of the SSC. Tips, tools and tricks are prescribed to improve performance. The limitation of these normative stories, standards and key performance indicators (KPIs) is that the context of the intra-organizational HR arrangement is not considered. Measuring the performance of the SSCs and benchmarking quantitative and qualitative figures only makes sense with similar intra-organizational HR arrangements. The intra-organizational HR arrangement and the available resources affect the type and number of different services provided by the HR SSC. The performance management of the HR SSM and the HR SSC based on the benchmarks and standard SLAs, as widely documented in professional papers, can have a contradictory effect if the context of the HR SSM is not considered. Another problem with the tips, tools and tricks prescribed is that they often focus on one specific parameter and lack integration with other parameters and mechanisms that work counterproductively when not aligned. Poorly chosen SLAs are a good example of that. The lead-time for a service to be provided is often one of the first KPIs introduced. In a transactional HR context, such a KPI can have unnecessary negative side-effects. The pressure to complete a payroll transaction to comply with the agreed KPI can affect the quality of the output for other service requests which require intensive care because of their nature. Payroll transactions need to be completed to close the payroll. A fixed KPI of x-amount days for completion therefore makes no sense. As SSCs do not possess unlimited resources, it would be better to use the resources at a specific moment in time for services that actually matter at that moment from the perspective of the service
requestor. The example illustrates the need for an integrated framework that supports management decision-making with consideration of the resource restrictions. Such a framework gives insight into the parameters that matter and supports the predicting and understanding of the outcomes of actions that manipulate those parameters. It can also be used in the design of the intra-organizational HR arrangement, the HR SSM, and the position of the HR SSC and the resource configuration within the HR SSC.

**Foundation for an integrated HR SSM framework**

The integrated framework that was built for this study was founded on the key characteristics of the HRM SSM identified in the literature. Scholars have described how the model draws on characteristics of outsourcing, centralized and decentralized models (Janssen and Joha 2006, Farndale, Paauwe et al. 2009). The model is not considered to be a trade-off between different models, however, but promises to benefit from the advantages of different sourcing models while minimizing their drawbacks (Ulrich 1995, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Reilly 2000, Bergeron 2003, Reilly and Williams 2003, Strikwerda 2003, Farndale and Paauwe 2006, Janssen and Joha 2006, Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009). The idea is that in the SSM, the customers benefit from the efficiency, effectiveness, and need for the SSC to be responsive and flexible to sustain its business and effective relationships with its customer (Bergeron 2003).

Within an SSM, one or more (semi-)autonomous units are established, the SSCs, specifically to provide services to all (or some) other units of the organization (Bergeron 2003). Although at first sight the SSM looks like the centralization of a function, it is not (Ulrich 1995, Redman, Snape et al. 2007). Centralized functions are powerful as their roles involve both governance and control aspects, whereas with the SSM in its purest form, the customers of the SSC retain their authority and control (Redman, Snape et al. 2007). In this purest form, for example, the customers can decide where to acquire services, at a price they are willing to pay. Compared to the external sourcing of a function, the SSM offers customers a greater extent of control and lesser extent of exposure to risks dependent on the governance model chosen (Dibbern, Goles et al. 2004). In the SSM the resources required to perform the shared service are concentrated in the SSC. From that
perspective, the HR SSC benefits from centralization characteristics, such as the dissemination of best practices and use of valuable resources, economies of scale and the removal of duplicate functions. But what is really key for this study is that the concentration of resources in the HR SSC has the potential to create synergies. The SSC creates synergy as it develops new additional activities and services with the available resources, which create value and are of strategic importance. Moreover, the SSM is usually implemented by reallocating the resources to the SSC. The potential for synergy is expected to be greater as the customers benefit from the SSC’s employment of organization-specific knowledge and expertise on policies, practices, processes, tools, people and culture.

The key characteristics of the HR SSM that underlie the integrated framework are the concentration of resources within the SSC combined with decentralized control by the customer as the result of the governance structures applied within the HR SSM. The framework builds on the RBV extended with the Dynamic Capabilities Approach (DCA) to conceptualize resource employment by the HR SSC. For the conceptualization of the governance within the HRM SSM, the concepts of formal and informal control were introduced as the mechanisms that customers apply to align the interest of the HR SSC with their own.

**Use of resources by the HR SSC**

Conner (1991) and Conner et al. (1996) advanced the resource-based approach beyond strategic management research on competitive advantage by proposing a resource-based theory of the firm. They argued that the organizational mode for a specific business function has an influence on the employment of static (i.e. presently possessed) knowledge, referred to as the knowledge-substitution effect. It also influences the dynamics of future knowledge acquisitions and responses to new developments, referred to as the flexibility effect. These effects, once anticipated, affect the choice of organization for the organizational mode since the value of organizing the knowledge for a specific business activity within a specific organizational mode can be compared to its costs.

Although the SSC is not a firm itself, as it is merely a (semi-)autonomous business unit within the intra-organizational HR arrangement, the considerations made by organizations to design the intra-organizational HR arrangement (and with that the delegation of tasks and responsibilities within the HR function) are
similar. For this study, the choice of an organization to apply the HR SSM is considered to be an attempt to maximize the use of the organization-specific HRM resources, concentrated within the HR SSC, and the organization’s anticipation of the knowledge-substitution and flexibility effects. The benefits and costs for the execution of HR policies and practices within the HR SSM through the provision of shared services by the HR SSC are expected to be better compared to other models, such as outsourcing and the organization and sourcing of the delivery within the business units.

From a strategic management perspective, the RBV focusses on an organization’s strengths and weaknesses and builds on two assumptions (Barney 1991). The first one is that organizations within a specific market may be heterogeneous with respect to the relevant strategic resources they control. The second is that these resources may not be perfectly mobile. The resources an organization controls, therefore, play an important role in attaining and sustaining a competitive advantage. However, not all resources have the potential to be a source of sustained competitive advantage: only those that “(a) are valuable, in the sense that they exploit opportunities and/or neutralize threats in a firm’s environment, (b) are rare among a firm’s current and potential competition, (c) are imperfectly imitable or (d) are valuable but neither rare nor imperfectly imitable but for which there cannot be strategically equivalent substitutes” (Barney 1191: 105-106).

The valuable, rare, inimitable, non-substitutable (VRIN) criteria for resources in the context of the HR SSM can be used to identify and select those resources that require care and need to be protected (Crook, Ketchen et al. 2008). It is not the resource itself that creates value, “it is the functionality of the resource and how the resource is employed” (Locket, Thompson et al. 2009: 13). Moreover, the value of the employment of the resources concentrated in the HR SSC is determined by the customers, an exogenous factor in the RBV, when they use the shared services (Sirmon, Hitt et al. 2007). These arguments are critical for this study and have the following implications for the conceptualization of the framework. First of all, the framework needs to incorporate how the functionality of the concentrated VRIN resources (from the perspective of the HR SSC) is used to perform the tasks and activities that have the potential to create value. Second, it needs to incorporate the alignment of the employment of the resources by the HR SSC with the interests of the customers of the HR SSC and other
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stakeholders in HR delivery. This study does so as it built on the resource orchestration process to conceptualize the responsibilities and actions of HR SSC management in relation to the concentrated resources (Helfat, Finkelstein et al. 2007, Sirmon, Hitt et al. 2007). The HR SSC management is responsible for the structuring of the HR SSC’s resource portfolio and bundling the resources into capabilities that are deployed according a capability leverage strategy. It is this strategy that needs to be aligned with the customers’ interests to enable value creation. The choice of strategy affects the structuring of the resource portfolio and how the resources are to be bundled into capabilities that are deployed to provide the shared services. As the HR SSC operates in a dynamic environment, it needs to demonstrate the ability to identify the need or opportunity for change (e.g. changing needs of customers, technological developments, change in labor legislation, application of new HR policies, or threats to the organization) and take appropriate action. As such, the orchestration of resources can be an ongoing process in which the SSC management continually identifies new ways to use resources and which results in new sets of capabilities that are deployed by the HR SSC.

The role of the HR SSC management is important in the resource orchestration process, but it is not the management itself that senses the need and opportunities for change, nor builds or changes capabilities, since these activities require organizational capabilities (Holcomb, Holmes et al. 2009, Sirmon, Hitt et al. 2011). Management actions and the processes that underlie resource orchestration processes can be distinguished from those actions and underlying processes whose outputs create value for customers, and have been referred to as managerial capabilities (Sirmon, Hitt et al. 2011). They represent management’s ability to synchronize the various actions in the resource orchestration process. For this study a distinction is made between the managerial capabilities that consist of those resources that describe organizational structures and managerial processes and support productive activity (Teece and Pisano 1994), and the organizational capabilities that are the result of the bundling of the VRIN resources within the HR SSC and deployed by the SSC to create value for the customers (Eisenhardt and Martin 2000, Ambrosini and Bowman 2009).
Capabilities are defined as the capacity to purposefully perform a coordinated set of tasks or activities, utilizing organizational resources (Helfat, Finkelstein et al. 2007). The use of the words “capacity” and “purposefully” has two implications. ‘Capacity’ refers to the ability to perform a task or activity to the minimum acceptable level and, moreover, it implies a minimum level of reliable replication. Through that, it represents the function of the resources employed by the HR SSC. The term ‘purposefully’ implies a degree of intent, explicit or otherwise (Helfat, Finkelstein et al. 2007). It refers to the deployment of the capabilities according to the capability leverage strategy chosen by HR SSC management.

The dynamic context in which the HR SSC operates implies that the HR SSC needs to be able to “demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences” (Teece and Pisano 1994: 538). Besides the management capability and the organizational capabilities to provide the shared services, the HR SSC needs to be able to demonstrate the ability to identify opportunities and threats for the delivery of HR, formulate responses by developing solutions, and change delivery by implementing the solutions effecting change, functions of the so-called dynamic capabilities (Helfat, Finkelstein et al. 2007). For this study, therefore, the organizational capabilities of the HR SSC are divided into operational capabilities, which express the capacity of the HR SSC to deliver the shared services, and dynamic capabilities, which express the capacity to identify the need and opportunity for change, formulate/design a response to such a need or opportunity, and implement a course of action. The term dynamic does not refer to the environment in which the HR SSC operates but to changes in the resource base or to the renewal of resources as a result of the capability deployment (Ambrosini and Bowman 2009). The activities required for this, the identification, formulation and implementation of the response, can differ every time, but the routines that underlie these activities express the extent to which the organization deploys dynamic capabilities (Ambrosini, Bowman et al. 2009). With the extension of the DCA and the resource orchestration process, the main weaknesses for the application of the RBV for this research are addressed (for an overview of criticism of the RBV – see Kraaijenbrink, Spender, & Groen, 2010).

The deployment of dynamic capabilities by the transactional HR SSC is not limited to the change and renewal of the resource base of the HR SSC itself and as a
result the evolution of its role. Bowman and Ambrosini (2003) proposed several resource-creation configurations for organizations (organizational sourcing modes) that can be seen as congruent to modes of resource creation and organizational design parameters. They concluded that a corporate center (the HR SSC in the case of the HRM SSM) can create value for business units as the center creates capabilities within the business units through the services it provides. The provision of services by the HR SSC from this perspective is the result of the deployment of dynamic capabilities by the HR SSC. This argument confirmed the observation made in this study that even a HR SSC in a transactional context is able to support transformation through the organization as a whole.

For this thesis, the RBV extended with the DCA and the resource orchestration process are applied to the HR SSM and especially to the HR SSC to conceptualize how the concentrated resources within the HR SSC are used to create value for the business and address the strategic potential of the HR SSC in a transactional context. Combined, the DCA and the resource orchestration process enables the exploration and explanation of whether and how the HR SSC can evolve into its new role as it finds new ways of using its resources.

So far, this thesis has described the argument that the resources of the HR SSC are bundled into capabilities that are built and deployed as a result of the resource orchestration process. To perform its tasks and activities, the HR SSC has access to a wide variety of resources, for example the different types of knowledge and skills of the employees, and information knowledge and communication systems. As the result of the resource orchestration process, a specific resource can be bundled into one or many capabilities. The bundling of a resource into a capability can be temporary, when there is no continuous need for the capability or when the specific capability is deployed just once, or can have a more permanent character (until the capability is changed or replaced). At a higher level of abstraction, the thesis introduces the managerial capabilities, the operational capabilities, and the dynamic capabilities (which are further distinguished into the ones that enable change of the resource base of the HR SSC itself and the ones that support the transformation of the HR function and HR delivery). Moreover, three different functions of dynamic capabilities were described that enable the HR SSC to support transformation (identification of
need and opportunity, formulation of responses, and implementation of course of action).

Depending on the focus of the research, the HR SSM framework should support the study into resource employment by the HR SSC at an appropriate level of abstraction. The research into the VRIN resources concentrated within the HR SSC, research into the function of one or multiple dynamic capabilities, exploration of the role of the dynamic versus the operational capabilities, or research into interdependencies between organizational and managerial capabilities require different perspectives and level of detail in relation to resource employment by the HR SSC. A framework that supports different levels of abstraction enables the conceptualization and operationalization of resource employment at the desired level of detail consistent with the theories that underlie the framework. Moreover, the framework would benefit from a method to structure and visualize resource employment and through that support management decision-making. The study presented in this thesis applies the concept of the capability hierarchy (Grant 1991) to provide insight into the different levels of abstraction and structuring of resource use and different types of capabilities deployed to perform specific tasks or activities.

At the lowest level of the hierarchy, the different, wide-ranging, small bundles of resources that are employed by the HR SSC to perform the different tasks and activities are listed. At this level, the highest level of detail is provided. The different resources in these small bundles represent a capability of the first level. Subsequently, these first-level capabilities are integrated into the second level of capabilities, third, etc. (with every next level involving greater abstraction). Moving up the hierarchy of capabilities, the span of the resources and the activities they perform broadens, and task-specific capabilities are integrated step-by-step into cross-functional capabilities (Grant 1996).

The capability hierarchy and the application of the resource orchestration process are essential for the framework developed for this study as they enable structuration and visualization, along with research into resource employment by the HR SSC at the appropriate level of detail while securing consistency with the theories that underlie the framework.
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Power of the customers

The HR SSM can be distinguished from other models of HR delivery as it combines the concentration of resources within a HR SSC with the control of customers over the HR SSC. In the literature into the (HR) SSM, different types are described that vary according to the governance within the model and thus the extent of power the customers of the SSC can exert over the HR. Quin et al. (2000) introduced a continuum of SSMs that needs to be seen as the result of the evolution of the SSM as it matures. The basic, the marketplace, the advanced marketplace, and the independent business models are differentiated by the type of activities provided, the characteristics of the relationship between the service provider and the customers, and the governance over the SSC. At one extreme of the continuum, the customers and service provider are condemned to each other as the use of the services is mandatory for the delivery of HR. At the other extreme, the shared services are fully commercialized. The customers can make use of the services if they are willing to pay the market price. They can alternatively choose other models for the delivery of HR as they have the mandate to organize HR delivery according to their needs. At this extreme end of the continuum, the service provider has become an independent company with the objective to generate profit. It operates in the market where it competes with other service providers for the customers within the original parent organization and other customers in the market. As the service provider in this context is not positioned within the intra-organizational HR arrangement, this model does not comply with the definition of the HR SSM used for this study. The same can be said for two of the six SSC types described and schematically depicted by Strikwerda (2003). Those two models of Strikwerda (2003) and the independent business model described by Quin at al. (2000) are considered to be outsourcing arrangements.

The different models describe the position of the HR SSC in the intra-organizational HR arrangement and reflect on the relationship between the business units as the customers and the HR SSC as the provider. Although these models are helpful for the characterization of the HR SSC, they are of little use for this study and the creation of the integrated HR SSM framework. As mentioned before, it is hard to generalize about the position of the HR SSC within the HR SSM (Farndale and Paauwe 2006, Bondarouk, Maatman et al. 2010, Farndale, Paauwe et al. 2010). Reilly (2000), for example, failed to find a common model
for the activities provided through shared services in his study of 15 organizations. Bondarouk et al. (2010) observed that organizations combine characteristics of the different SSC types described by Strikwerda in their qualitative benchmark study into the characteristics of eighteen HR SSCs in the Netherlands. They concluded that although the types can be used for envisioning (theoretical), they empirically overlap.

The literature is not always clear about how governance and control refer to each other (Minaar 2014). For this study, the argument of Minaar (2014) is followed that the governance is reflected by the type of HR SSM applied. Power within the governance structure is exercised through the horizontal and vertical relationships of the management control structure as a part of the governance structure (Minaar 2014). An exclusive vertical management control structure (top-down control) conflicts with the definition of the HR SSM for this study. In the HR SSM, with characteristics of both centralization and decentralization, control should be exercised via the horizontal "customer-provider" relationship at least to some extent, reflecting the decentralized structural features. Minaar (2014) further distinguishes the management control structure via the horizontal relationship into captive buying/selling relationships and free buying/selling relationships. In other words, the customers are either required to make use of the services, or they can decide on a voluntary basis to make use of the services (and pay for them). The same holds for the service provider. It can be required to provide (specific) services to the customers, or it is free to provide the services requested by the customer. The latter implies that the HR SSC might enact opportunistic behavior to attain its own goals and objectives at the cost of the objectives and goals of specific customers within the HR SSM. The relationship type between the customers on the one hand and the SSC on the other is the result of a top management decision in relation to the choice of the management control structure within the HR SSM (Minaar 2014). From the perspective of the customers and the HR SSC, it is a given. Therefore, it is not a mechanism that can be manipulated by the customers of the HR SSC to control the resource employment by the HR SSC. At the same time, it does not reflect the extent of control the customers have, as the extent of control is also dependent on the freedom given to the HR SSC as the result of the choice for a governance and management control structure. The management control structure does constrain,
enable and influence the effectiveness of different types of control mechanism that can be applied by the customers.

Control is considered a multi-dimensional construct that consists of three parameters: level of control, scope of control and control mechanisms (Geringer & Hebert, 1989). In the context of the HR SSM, it reflects how much, whereupon, and how customers are able to influence the HR SSC. This study follows the arguments of Meijerink and Bondarouk (2013) that customers of the HR SSC apply formal and informal controls. The need for these control mechanisms is the result of the governance and management control structure applied within the HR SSM. The governance and management structure of the HR SSM reflects, besides the role of the customers in the governance of the HR SSC, the extent of freedom given to the HR SSC to enact opportunistic behavior. The customers apply the control mechanisms in an attempt to align the HR SSC’s interest with their own.

Formal controls represent ‘arm’s length’ relationships where an agent (the HR SSC in the context of the HR SSM) is controlled through output controls. Output controls evaluate the outcomes of an agent’s activities and should result in compliance as evaluating its performance should ensure that the HR SSC engages in the desired actions (Ouchi 1979, Eisenhardt 1985). Informal controls aim to nurture the relationship between the agent and the principal (the customers of the shared services in the context of the HR SSM) (Koulikoff-Souviron and Harrison 2006), and so secure the agent’s performance through collaboration, integration and joint decision-making by the principal and the agent (Germain, Claycomb et al. 2008).

In practice, formal and informal controls have been identified as mechanisms that are applied to influence the scope, content, and criteria for the services to be provided, such as service catalogues and SLAs (Farndale, Paauwe et al. 2009, Bondarouk, Maatman et al. 2010). Subsequently, customers apply KPIs and end-user surveys to measure the performance of the SSC (Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Bondarouk, Maatman et al. 2010, Howcroft and Richardson 2012). Redman et al. (2007) observed informal control mechanisms during a case study as the customers and the HR SSC collaborated to develop and improve the shared services. Janssen and Joha (2006) found in their study that
the objectives for the HR SSM were only accomplished after having effective control mechanisms in place.

The key characteristic of the HR SSM is the combination of centralized and decentralized structural features. The integrated framework for this study captures decentralization as it incorporates the attempts of the customer to align the interests of the HR SSC with their own. The governance and management control structure determine the extent of the customers' freedom, but also the extent of freedom of the HR SSC. The customers of the HR SSC apply control mechanisms to align the interests of the HR SSC with their own to prevent the HR SSC enacting behavior that does not serve or comes at the cost of their interests. This is consistent with Agency Theory logics, which argues that an agent (the HR SSC) is opportunistic and might pursue its own objectives at the expense of those of the principal (the customers of the HR SSC) (Jensen and Meckling 1976, Eisenhardt 1985).

**Value creation within the HR SSM**

Within the HR SSM, resources are concentrated in the HR SSC. The possession of the resources by the HR SSC is an insufficient condition for value creation. The resources need to be deployed to create value. Moreover, the value created through the employment of the resources is determined by the external environment of the HR SSC (McWilliams and Smart 1995, Bowman and Ambrosini 2000, Lepak, Smith et al. 2007, Priem 2007, McWilliams and Siegel 2011). The external environment of the HR SSC consists of the customers of the parent organization as a whole, for which value should ultimately be created, the organization as a whole in which the HR SSM operates, and the different stakeholders, customers (often referred to as the business) and end-users within the HR SSM that make use of the services of the HR SSC. For this research, value creation was studied from the perspective of the stakeholders within the HR SSM and explicitly those who are considered to be the customers of the HR SSC.

It would be interesting to study the extent to which wealth is created for the organization as a whole as a result of the value created for the customers of the parent organization. However, these “external” customers do not exert power over the HR SSC directly, and therefore this perspective is of limited use for studying the combination of decentralized and centralized structural features as
key characteristics of the HR SSM and value creation enablers. The same can be said for the perspective of value creation for the organization as a whole. Although power within the organization can be exerted by top management through the vertical relationship (top-down management control structure) (Minaar 2014), it is not through this relationship that the promised benefits of the HR SSM are realized. The focus is not on individual end-users. The end-users engage the service delivery processes and interact with the HR SSC. Although they have some extent of control, represented by whether and how they use the services provided, previous research has already indicated that the value creation from their perspective is not rooted in the key characteristics of the HR SSM (Meijerink, ten Kattelaar et al. 2014).

Value creation, in the framework presented in this thesis, is measured from the perspective of the customers of the HR SSC. Within the HR SSM, the customers exert power over the HR SSC via control mechanisms with the purpose to align the SSC’s interests with their own. By doing so, the customers influence the employment of the concentrated resources of the HR SSC and thus its outputs. The value created depends on the customers’ assessment of the overall utility of the HR SSC’s outputs. They assess the utility of the outputs based on their perceptions of what is received and what is given (Zeithaml 1988, Cronin, Brady et al. 2000, Petrick 2004). The quality, costs, efforts required to receive services and the usefulness of the SSC’s outputs determine the value created (Bondarouk 2011). For this research, value creation was conceptualized as the overall utility of the services provided and the customers' perception of what is received compared to what is given up (to include any type of sacrifice by the customers). The aim of the research was to explain how value is created from the perspective of the customer within the HR SSM and to what extent. The conceptualization applied was sufficient for this purpose.

The framework presented in this thesis incorporates resource employment by the HR SSC and the customers' control over the HR SSC to explain the value created within the HR SSM. This enables the exploration and explanation of how customers align the interests of the HR SSC with their own through the application of control mechanisms and thus affect the employment of the concentrated resources of the HR SSC through the resource orchestration process.
**Challenge 3: Exploring and explaining the potential of the HR SSM**

The HR SSM model promises to capture the best elements and benefits of both models, while minimizing the drawbacks (Ulrich 1995, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Reilly 2000, Bergeron 2003, Reilly and Williams 2003, Strikwerda 2003, Farndale and Paauwe 2006, Janssen and Joha 2006, Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009). In the literature, many studies can be found that explore the benefits and drawbacks of decentralized organizational models compared to centralized organizational models, and vice versa. The centralization-decentralization discourse is also conducted in the HRM literature and has resulted in many empirical studies (e.g. Kirkpatrick, Davies et al. 1992, Hou, Ingraham et al. 2000, Quintanilla and Ferner 2003, Schmitt and Sadowski 2003, Hays and Sowa 2006, Redman, Snape et al. 2007, Tessema, Soeters et al. 2009, Meyer and Hammerschmid 2010). These studies, however, focus on centralization and decentralization as alternative models instead of their combination. Meijerink et al. (2014), on the other hand, based their study on the combination of centralization and decentralization. Their aim was to study how a centrally provided, online portal was used in the delivery of HR by end-users (individual employees, line managers and HR professionals) and why the use of the portal might conflict with the intended use. They found that from the perspective of the end-users, the benefits are not rooted in the structural design of the HR SSM, but in the extent to which the end-users appropriate the structure. The benefits were only realized when the end-users used the services as intended by the HR SSC and not through the fact that they were enabled to maintain, update, and thus control the information and data (Meijerink, ten Kattelaar et al. 2014). Subsequently they have found that the interests of the HR SSC management and the individual end-users were not aligned in practice. The interests of the HR SSC focussed on the centralization benefits, while the end-users focussed on the decentralization benefits. These insights can help explain some of the problems associated with the HR SSM, essential for the design of the actual shared services, and the change management during shared services implementation. This study focusses on the use of the shared services, however, and not on the employment of the concentrated resources by the HR SSC. Nor does it focus on how the interests of
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the HR SSC are aligned with those of the customer, but concentrates on the appropriation of end-users as a form of control. The concepts of centralization and decentralization are applied, but in this context they do not represent the key characteristics of the HR SSM.

Janssen and Joha (2006) studied the motives of an organization to implement the SSM and the extent to which the motives/expected benefits were realized. They found that in some areas the benefits of both centralization and decentralization were realized, but often only after having control mechanisms in place. They did not address which agent applied the control mechanisms. Remarkably, the benefits associated with centralization seemed to be realized at the cost of the decentralization benefits, leading to the assumption that the vertical relationships (top-down) within the subject of the case study were stronger than the horizontal relationships (customer-supplier). Vague descriptions of the motives justifying the introduction of the SSM and unfamiliarity with the SSC concept and its potential were identified as the reasons for not realizing the expected benefits. The authors concluded that the SSM should be designed according to a consideration of the desired benefits. What the implications of this conclusion are in relation to combining both elements of centralized and decentralized structural features remain unclear as they were beyond the scope of the study.

Uncovering and structuring of HR SSC capabilities

The concentration of resources within the HR SSC, although a key characteristic of the HR SSM, was argued to be insufficient for the creation of value within the HR SSM. Centralization characteristics of the HR SSM were therefore conceptualized as the deployment of HR SSCs’ capabilities as the result of the resource orchestration process. This created a challenge for empirical research as no research existed into what kind of capabilities an HR SSC deploys in a transactional context that enable value creation within the HR SSM. Although descriptions of the role and responsibilities of the (HR) SSC and services provided by the (HR) SSC can be found in the management and HR literature, there is no insight into how resources are orchestrated to design, build, and deploy capabilities. Moreover, as different types of capabilities have different functions and are built through the integration of bundles of resources or capabilities, there was a need for a structured insight, revealing the interdependencies between
capabilities and their hierarchy, to represent different abstraction levels. Insight is also needed into how the HR SSC uses these capabilities as mechanisms to evolve into a new role to leverage the potential of its position within the HR function and amongst its customers, the concentration of knowledge and expertise on the execution of HR policies and practices, and its responsibilities in the management of the information infrastructure of the HR function.

The first empirical study presented in this thesis aimed to uncover the capabilities of an HR SSC in a transactional context. It analysed the results of a longitudinal single-case study in a Dutch organization that operates in the public sector and employs over 70,000 employees. There was a need to explore and explain how dynamic capabilities change the resource base of the HR SSC over time and enable it to evolve, expanding its focus and impact. A case study methodology is the most appropriate method for collecting the required in-depth data (Yin 2003, Eisenhardt and Graebner 2007). The longitudinal single-case study that was conducted over a timespan of two years, provided a rich set of data that enabled the exploration of how the resources of the HR SSC are used to create value and explain what capabilities the HR SSC needs to demonstrate to do that, and explain how the resources are used to change the operation of the HR SSC itself and the delivery of HR throughout the organization. To change the HR SSC’s operation and the delivery of HR throughout the organization, an HR SSC needs to find new ways to add value with the available resources, as it does not have infinite access to new resources, and to design, develop and implement new or changed capabilities. This can be an ongoing process in which the HR SSC leverages the experiences gained and deploys the routines to evolve step-by-step into its new role. The longitudinal character of this first empirical study enabled us to explore this process over time and explain how the resources of the HR SSC act as the mechanisms to create value, depending on their orchestration into capabilities.

The case study subject used the HR SSM for the delivery of HR, and a HR SSC was included in the model, with the execution and provision of transactional-oriented activities and services being its root and basis for existence. Data was collected by analysing over 500 pages of documentation, holding 20 interviews with MT members of the HR SSC and the representatives of the customers within the HR SSM responsible for maintaining the relationships with the HR SSC, and
attending three MT meetings and 13 informal meetings with HR SSC MT members and representatives of the central HR staff department.

During the analysis of the data, the concept of the capability hierarchy (Prahalad and Hamel 1990, Grant 1996, Grant 1996, Winter 2003, Zahra, Sapienza et al. 2006) was applied to identify the resources and the integration into capabilities on different levels of abstraction. Through this, a framework of capabilities was created that enabled the resource use to be visualized. It also enabled the description and visualization of the function of the different kinds of capabilities and their interdependencies. The findings and the framework led to the operationalization of the HR SSC’s capabilities for further empirical research. The framework can be used by management to structure the resource use by the HR SSC to address the needs of the customers of the HR SSC.

Application of the integrated framework

The third challenge addressed in this thesis is the lack of empirical findings in relation to the combination of centralized and decentralized features as the result of the choice for the HR SSM. Existing empirical studies have provided preliminary evidence of this integrated way of working and the value created within the HR SSM (Redman, Snape et al. 2007, McCracken and McIvor 2013, Hofman and Meijerink 2015). Due to a lack of theory application, however, it remains hard to explain why value is created (Maatman, Bondarouk et al. 2010, Hofman and Meijerink 2013). The same can be said of the management literature, which is full of case study descriptions of organizations that successfully applied (HR) SSM and created value for different stakeholders within the organization (e.g. Schulman et al. 1999, Bothof et al. 2007, Beaman 2011, Brouwer and Van Leeuwen 2011). At the same time, as mentioned earlier, the strategic management literature ignores any concept of the HR SSM other than its application to reduce the costs of administration and improve service quality to customers and end-users. Empirical research with the application of theory is needed to validate these perceptions, or give rise to a reconsideration of the role of the HR SSM in a transactional context.

The second empirical study presented in this thesis had the primary aim to explain how the key characteristics of the HR SSM, separately and combined, affect the value creation from the customer’s perspective. It studied the correlation between different mechanisms associated with one of the two key
characteristics of the HR SSM; in other words, the dependencies between operational and dynamic capabilities on the one hand, and formal and informal control mechanisms on the other.

The findings presented in this thesis are the result of a survey conducted among 91 SSC customers in 19 organizations in the Netherlands. The survey included items that represented formal and informal control mechanisms applied by the customers to exert power over the HR SSC to align its interests with their own. It also covered the extent to which the customers of the HR SSC experience the HR SSC as demonstrating operational and dynamic capabilities. Finally, it measured the extent to which the customers of the HR SSC experience the creation of value. For the operationalization of the research framework in the survey, existing scales were used that were transformed to fit in the context of the HR SSM, and new scales were developed based on the findings of the qualitative study described earlier.

Formal and informal control are concepts that have been applied in different studies, and therefore this study builds on existing work for the operationalization of these concepts (e.g. Jaworksi and MacInnis 1989 and Kale, Singh and Perlmutter 2000). The value created within the HR SSM was conceptualized as the overall utility of the services provided and the customer’s perception of what was received compared to what was given up. For the operationalization of the concept, the study relied on the two-item scale of Cronin, Brady and Hult (2000). This scale was originally applied to measure service value and was reworded to measure the value of the HR shared services as the output of the resource orchestration process of the HR SSC affected by the attempts of the customers within the HR SSM to align the HR SSC’s interests with their own. For this research, one operational and one dynamic capability were operationalized based on the findings of the case study research. The operational capability was operationalized at the abstraction level that reflects the primary role of HR SSCs in a transactional context described in the literature: the ability to provide HR administrative services repeatedly. The dynamic capability was operationalized at an abstraction level that can be described as one of the primary functions of a dynamic capability: the ability to provide new HR services repeatedly.
Descriptive analytics were applied to calculate the means, standard deviations, and correlations among the capabilities, control mechanisms and value. Path analysis was applied to determine the degree to which there was full or partial mediation among the variables.

**RELEVANCE OF THE STUDY**

The study presented in this thesis has relevance for different streams in research and the management literature and for practical application. First of all, it sheds light on the delivery of HR that is increasingly catching the interest of HR scholars (Meijerink and Bondarouk 2013, Meijerink, Bondarouk et al. 2013). It is relevant as it conceptualizes the role of both the HR SSC and its customers for the delivery of HR. It uncovers the different functions of the various capabilities that can be developed and deployed by the HR SSC, their interdependencies and their role in value creation.

This research complements the wide body of organizational studies as concepts of centralized and decentralized organizational structures are key for this study. It contributes to the advancement of the traditional centralization/decentralization trade-off discourse as it introduces an alternative in which centralized and decentralized structural elements are combined. The empirical findings presented in this study provide sufficient reason to continue exploring the interactions between the concepts associated with centralization and those associated with decentralization and the possible outcomes of their combination, because the success of the HR SSM relies on exactly that. Decentralization represented by the extent of power the customers exert over the HR SSC affects how the centralized resources are deployed and thus, the combination of the two affects value creation.

This research is relevant for the strategic management literatures as it applies the RBV extended with the DCA perspective and resources orchestration process to conceptualize value creation from the customer's perspective as the result of the employment of concentrated resources in a dynamic environment (Sirmon, Hitt et al. 2007). The findings presented in this thesis support the arguments that a corporate center creates value as it provides services that are continuously adapted to the needs of customers and suggest the necessity to continue the research into how a corporate center creates value through the deployment of
dynamic capabilities that transform the organization (Bowman and Ambrosini 2003). This study also demonstrates the use of the capability hierarchy (Prahalad and Hamel 1990, Grant 1996, Winter 2003, Zahra, Sapienza et al. 2006) to structure resources and capabilities to enable conceptualization, operationalization, and generalization on different levels of abstraction.

From the practitioner perspective, this study is relevant for different reasons for different stakeholders. For HR practitioners, this study addresses how customers and the HR SSC interact to create value within the HR SSM. This thesis leads to a reconsideration of the role of the HR SSC and how it should be governed as it reveals the potential of the HR SSC and the role of the top management and customers in allowing the HR SSC to develop and deploy new value-creating activities while at the same time ensuring alignment of the interests of the HR SSC with their own. The reconsideration of its role has become increasingly important as we enter the digital era through the digital revolution that is rapidly taking shape. Information is the oil of this new revolution, and as “the manager of the information infrastructure” (Ulrich 1997) of the HR function, the transactional HR SSC is a key player in leveraging the power of the data that flows through the service delivery processes.

This research is also relevant for the SSC management in general. It primarily describes the capabilities of an HR SSC, but the framework with the capability hierarchy can be applied to any business function. To accomplish this, the capabilities and resources on lower levels of abstraction need to be uncovered for the different business functions. This thesis describes the experiences gained with the framework and pinpoints the first practical opportunities for the application of the framework by management. The identification of the capabilities of an HR SSC is presented as a description of the evolution of the HR SSC and its capabilities. The SSC evolved from one focusing exclusively on transactions towards one that supports the transformation of the organization and the customers within the SSM. The story presented can support SSC management in any transactional context in envisioning the path for the future.

Finally, this thesis has relevance for business managers as the customers of the SSC. It aims to increase the understanding of the SSM and its potential in a transactional context. The acknowledgment of this potential by the customers is
essential as they engage in the attempt to control the HR SSC. Poorly selected objectives and control mechanisms will constrain the HR SSC from leveraging its potential.

**THESIS OUTLINE**

The remainder of this thesis is arranged as follows. In chapter two, challenges one and two are addressed. It presents the preliminary research framework of this study. The concept of the HR SSM is defined, and the characteristics of the HR SSM and value creation are conceptualized. The decision to use the RBV and the reasons for extending it with the DCA and the resource orchestration process are explained.

Chapters three, four and five address challenge three. Chapter three presents the capabilities uncovered during the qualitative study within an organization in the Netherlands that has implemented the HR SSM in a transactional context. The research is presented as a story describing the evolution of a transactional HR SSC as the result of the development of new capabilities. Chapter four builds on the same case study research as it describes, based on the experiences gained, the use of the framework as a management toolbox. It addresses the constraints within the HR SSM to evolve and become of strategic importance. Chapter five presents the quantitative survey conducted among 19 Dutch organizations that have implemented the HR SSM in a transactional context.

Chapter six discusses the overall findings of this research and what they mean for theory and practice. It addresses the limitations of this research and the opportunities and need for future studies.

**REFERENCES**

References can be found on page 205.
I was struck by the openness and willingness of HR SSC managers to share experiences and learn any way they could. Even among competing organizations, success factors, challenges, and pitfalls were shared. I was inspired by these practitioners and their joint effort to improve the concept of the HR SSM. At the same time I realized that all the HR SSCs, subjects of the discussions, differ and that there was a need for a framework that explains the outcomes of actions and configurations under different conditions.
Chapter 2: Conceptualising the Capabilities and Value Creation of HRM Shared Service Models

Abstract

Organisations are increasingly establishing HRM Shared Service Models (SSMs) for the delivery of HRM. These SSMs are claimed to maximise usage of the advantages of centralised and decentralised delivery approaches while minimising the drawbacks of both. This article draws on concepts from the Resource-Based View, the Dynamic Capabilities Approach and from contingency models in order to advance the argument on HRM SSMs and their value for organisations. We propose a model that enables one to conceptualise the value created by an HRM SSM and that is contingent on the types of capabilities employed within it, the types of HRM services offered and the organisational model chosen.

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INTRODUCTION

Recently, organisations have increasingly been establishing a range of different types of HRM sourcing arrangements, including Human Resource Management Shared Services Models (HRM SSMs), which are usually referred to as HRM Shared Service Centres (HRM SSCs). Selected HRM activities are concentrated, or bundled, into a new semi-autonomous business unit that performs HRM activities for the business by providing services that are shared by various organisational entities and matched to different end-user groups. Common examples of such shared services are the use of a call centre to support employees, line managers and decentralised HRM staff, and a centre for the processing of HRM-related transactions in an information system.

Although there is some disagreement about the origin of shared services (Quinn, Cooke et al. 2000, Ulbrich 2003), many authors agree that the concept was born in the US and that the finance function of organisations was the first function to which the concept was applied (Quinn, Cooke et al. 2000, Ulbrich 2003, Davis 2005). During the 1990s, the concept was applied by an increasing number of organisations for a range of business functions, such as IT, procurement, but also HRM (Reilly 2000, Ulrich, Younger et al. 2008). In the late 1990s, the concept of shared services for the delivery of HRM attracted the interest of academic researchers exploring how this organisational form was impacting on the HRM Function (Farndale, Paauwe et al. 2009). Since then, much experience has been gained and described regarding motivation, risk factors and lessons learnt about HRM shared services (Farndale, Paauwe et al. 2009). However, the literature on HRM shared services is dominated by a diversity of examples and ‘what if’ issues that question analytical generalisations (Farndale and Paauwe 2006, Farndale, Paauwe et al. 2009). Although introducing an HRM SSM should be justified through establishing a business case, the literature more generally suggests that organisations should use shared services to create value (Ulrich 1995, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Reilly and Williams 2003, Strikwerda 2003). Although the advantages and promises are widely addressed within the body of work on shared services, this fails to conceptually address the mechanisms through which value is created for the business units. The existing literature is very useful for describing and typifying certain aspects of an HRM
Chapter 2: Conceptualising the Capabilities and Value Creation of HRM Shared Service Models

SSC, but it fails to provide an understanding of why, and in which situations and under what conditions, organising an HRM business function through shared services will create value for the business (Strikwerda 2003). The lack of empirical work into SSMs in general, and especially HRM SSMs (Farndale, Paauwe et al. 2009), stresses the need for research into the HRM SSM and its promised creation of value.

Another important aspect to acknowledge, when studying existing work on HRM shared services, is that the term HRM SSC is used as a container notion in various contexts of HRM shared services provision, and can thus be confusing. In general, shared services in an HRM context can be divided into services that support business units in transaction work and services that help to transform the business units (Ulrich 1995, Ulrich and Brockbank 2005). The term HRM SSC is, however, often associated with a centre that provides no more than administrative (transactional) HRM support to the business, although organisations nowadays are moving towards also using HRM shared services for transformational HRM (Ulrich and Brockbank 2005). Together, these services might cover a wide range of the responsibilities of the HRM function within an organisation. As such, the adoption of shared services for HRM by an organisation should not be considered as simply bundling administrative capacity into a centre that provides shared services, but as an attempt by an organisation to restructure the HRM function and the relationships, responsibilities and delegation of tasks within HRM and also within the organisation as a whole (Ulrich 1997, Reilly 2000, Reilly and Williams 2003, Farndale and Paauwe 2006, Hodges, Cecil et al. 2007, Ulrich, Younger et al. 2008, Farndale, Paauwe et al. 2009).

Organisations intent on introducing HRM shared services need to consider how to restructure their HRM delivery, and deal with questions such as: what kinds of HRM tasks to provide through shared services, what are the new roles for HRM professionals, line managers and employees, and how to govern the HRM function and the centre(s) providing HRM shared services (Farndale and Paauwe 2006, Farndale, Paauwe et al. 2009). This has resulted in a wide diversity of organisational models in which one or multiple centres are established to perform different HRM activities (Reilly 2000, Strikwerda 2003, Farndale and Paauwe 2006, Redman, Snape et al. 2007).
The above approach has implications for the research into HRM shared services as the eventual success or failure of a sourcing arrangement can only be measured by analysing it in-depth (Baldwin, Irani et al. 2001, Janssen and Joha 2006). Therefore, we propose to shift the focus of the research away from the HRM Shared Service Centre (SSC) to the HRM Shared Service Model (SSM). In brief, we see three reasons for this:

- HRM SSM has a broader scope that covers a diversity of existing shared service arrangements in today’s organisational life;
- The focus should be on the concept of HRM shared services (applied for the delivery of various kinds of HRM activities) rather than focusing on a centre;
- The organisational model in which HRM shared services are provided is expected to affect the value created.

We see the HRM SSM as an organisational model for the provision of various components of HRM activities, and that these can be isolated in order to study their characteristics, their outcomes and their value enablers for the business, the customers of the shared services.

The purpose of this article is to extend the HRM SSM argument and conceptualise the mechanisms through which value is created for the business. An understanding of the mechanisms through which the promised value is created, and why, how and when they create value is important as these insights can be applied to effectively manage the HRM SSM. Something that is understood can be managed; something that is not understood leads to fire fighting and suspicion (Strikwerda 2003). We build on the Resource-Based View (RBV) and the Dynamic Capabilities Approach (DCA) that together enable us to study how one can create valuable, rare, inimitable and non-substitutable HRM resources, and how an organisation can exploit and refresh their current base of HRM resources through capabilities that create value for the customers of HRM.

The remainder of the article is organised as follows. First, we define the subject matter of this research based on the distinctive features of the SSM. An elaboration on the motives of organisations in establishing HRM SSMs explains our line of thinking and justifies the chosen research perspective. Applying this research perspective to HRM SSMs leads to a conceptual framework and an
elaboration on how value is created by employing capabilities through shared services, and how this is affected by the position of the service provider and the configuration of the shared services. We conclude with a discussion on the limitations of our work and suggest directions for future research.

**THE HRM SSM: MOTIVES, STRUCTURES, AND ACTIVITIES**

As with other business functions, organisations have to choose a model for the delivery of HRM (Sparrow and Braun 2008). In practice, there are many organisational forms for the delivery of HRM and many of these are used interchangeably. In order to reduce confusion, we contrast the HRM SSM approach with other organisational forms of HRM delivery. First we relate HRM SSM to sourcing and shoring strategies. Sourcing is about performing work across organisational boundaries, while shoring is about performing work across geographical borders (Chakrabarty, 2006). Organisations establishing an HRM SSM apply a sourcing strategy which is referred to as insourcing (Schulman, Dunleavy et al. 1999, Farndale, Paauwe et al. 2009) where the performance of a specific activity is the responsibility of one party that is positioned within the organisational boundaries. The responsibilities and delegation of tasks related to the organisation’s HRM needs are handled internally (within the boundaries of the organisation). This differentiates HRM SSM from outsourcing arrangements where at least some of the responsibilities and tasks are transferred to a third party. Offshoring (Chakrabarty 2006) is a strategy that can be adopted by organisations when designing their HRM SSM and involves transferring the performance of a specific activity to another country while remaining within organisational boundaries.
Based on the studies by Janssen and Joha (2006) and Baldwin, Irani & Love (2001), we distinguish four categories of motives for establishing an HR SSM:

- **Strategic and organisational motives** (related to clear control of focus, one-stop shopping, standardised functionality and processes, disseminating and imposing successful practices, focusing on core business, gaining access to high quality services and skills, sharing risks and rewards, speedy response to needs or quick decision-making, increasing productivity, professionalising service delivery, reducing complexity/uncertainty);

- **Technical motives** (concentration of technical and project management expertise, standardisation of platforms and application vendors, better information security and authorisation, consolidating expertise, accessing expertise/technology, better performance of local staff, higher service levels);

- **Political motives** (eliminating local and complicated control of function, enhancing credibility, solving internal conflicts); and

- **Economic motives** (reducing overcapacity by consolidation, lower control and maintenance costs, accountability of control, control of costs and better cost predictability).

The above shows that organisations choose to concentrate the performance of a specific business function through shared services arrangements because they want to remain in control, consolidate and build expertise, tools, processes and skills while, at the same time, reducing the duplication of functions and provide flexibility in HRM delivery. In this way, organisations go for so-called ‘in-sourcing’ (Farndale, Paauwe et al. 2009), or for an SSM, and we can consider this as an ‘in-between’ sourcing arrangement.

Several scholars have argued that the introduction of an SSM is a response of organisations questioning whether to centralise or decentralise support functions such as HRM. (Ulrich 1997, Quinn, Cooke et al. 2000, Janssen 2005, Janssen and Joha 2006, Ulrich, Younger et al. 2008, Farndale, Paauwe et al. 2009). A decision to decentralise or centralise is driven by the wish to either increase local responsibility and flexibility, or to centralise control over support functions. The SSM is considered as a hybrid organisational model that draws on traditional
centralised and decentralised models, and on outsourcing arrangements (Bergeron 2003). Within an SSM, one or more (semi-)autonomous centres are established specifically to provide services to all (or some) other units of the parent organisation (Bergeron 2003). The HRM services formerly dedicated to a single operating entity (in a divisional structure) are combined or consolidated into (semi-)autonomous centres. Although at first sight establishing an SSM looks like centralisation, it is not (Ulrich 1995, Redman, Snape et al. 2007). Ulrich (1995) goes a step further and claims that the concept of shared services is the opposite of centralisation. Centralised organisations are powerful in relation to the business as their roles involve both governance and control aspects whereas with shared services, in the purest form, the business units are in control over where they acquire services from, at a price they are willing to pay in relation to the quality delivered (Redman, Snape et al. 2007). Although in an SSM the actual service provision is “centralized”, it is not centralised in the sense that it is corporately determined because the business units maintain in control, or more succinctly ‘the user is the chooser’ (Ulrich, 1995: 14). The relationship between the centres providing services and the business units leveraging the services “is more one of customer and provider, and as such, power and control rests with the customer” (Redman et al., 2007: 1487). When the concept of shared services is “correctly” applied, it actually enhances decentralised corporate operation as organisations are enabled to focus on their core activities and at the same time maintain autonomy over the non-core activities (Schulman, Dunleavy et al. 1999, Reilly and Williams 2003). With decentralised corporate operation, the ownership of the decision on how to perform a specific business function is located within the business units, thus maintaining local autonomy. This enables business units to react faster and be more flexible in response to changes in market and institutional demands (Farndale, Paauwe et al. 2009). In other words, the business units retain control over the delivery of HRM although the HRM activities are performed centrally. Various authors (Ulrich 1995, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Reilly 2000, Bergeron 2003, Reilly and Williams 2003, Strikwerda 2003, Farndale and Paauwe 2006, Janssen and Joha 2006, Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009) have argued that the SSM concept captures the best elements and effects of centralised and decentralised organisational models, while minimising the drawbacks of both, and
that this makes the SSM a powerful alternative for HRM delivery (Schulman, Dunleavy et al. 1999). Supposed advantages and disadvantages of both organisational models are summarised in Table.

**Table 1. Advantages and Disadvantages of Centralisation and Decentralisation Related to the SSM (Schulman, Dunleavy et al. 1999)**

<table>
<thead>
<tr>
<th>Decentralised model</th>
<th>Shared Service model</th>
<th>Centralised model</th>
</tr>
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<tbody>
<tr>
<td>Higher costs</td>
<td>Pooled experience</td>
<td>Unresponsive</td>
</tr>
<tr>
<td>Variable standards</td>
<td>Enhanced career</td>
<td>No business unit</td>
</tr>
<tr>
<td>Various control</td>
<td>progression</td>
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<tr>
<td>environments</td>
<td>Independent of</td>
<td>overhead costs</td>
</tr>
<tr>
<td>Duplication of</td>
<td>business</td>
<td>Remote from</td>
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<td>effort</td>
<td>Synergies</td>
<td>business</td>
</tr>
<tr>
<td>Business units</td>
<td>Lean, flat organization</td>
<td>Flexible to business units</td>
</tr>
<tr>
<td>remain in control of decisions</td>
<td>Recognition of group functions</td>
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<tr>
<td>Recognition of local priorities</td>
<td>Dissemination of best practices</td>
<td></td>
</tr>
<tr>
<td>Responsive to client needs</td>
<td>Common systems and support</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consistent standards</td>
<td>Economies of scale</td>
</tr>
<tr>
<td></td>
<td>and control</td>
<td>Critical skill mass</td>
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Different HRM SSMs may vary in the HRM activities performed through shared services. The decision over which HRM activities are to be provided through shared services is not driven by core versus peripheral HRM activities (Reilly 2000, Lepak, Bartol et al. 2005, Farndale, Paauwe et al. 2009). Some SSMs incorporate centres that are established to support the business in performing HRM-related transactions (for example personnel and salary administration), others are established to provide HRM expertise and capacity to the business in support of the business (for example staffing issues/planning). Moreover, some of these centres perform a range of HRM activities to support the business (Cooke 2006, Redman, Snape et al. 2007). The centres also vary in the end-users they are serving (e.g. employees, line managers, executives, local HR professionals or a combination thereof) and the delivery channels (e.g. e-HRM applications, call centres, face-to-face support or project teams) through which the shared services are provided (Ulrich 1995, Ulrich 1997, Stright 2007). Together, these differences affect the characteristics of the centres (Ulrich 1995, Ulrich 1997, Stright 2007, Ulrich, Younger et al. 2008, Farndale, Paauwe et al. 2009). For example, a centre providing HRM-related transaction services to deal with employee requests requires different resources and service delivery channels to a centre providing services that support executives in their staffing process. What is common in
literature is that all these centres are described as a (semi-) autonomous business unit and, from now on, we will refer to such (semi-) autonomous business units as HRM service providers.

HRM service providers operate within an intra-organisational HRM arrangement that is the formal structure that defines the responsibilities and delegation of tasks within a business function (Dibbern, Goles et al. 2004). The configuration of the intra-organisational HRM arrangement will differ from organisation to organisation. This is due to the variations in the solutions that organisations have to consider when establishing an SSM for any business function (Strikwerda 2003). Organisations, for example, consider which tasks the HRM service provider has to perform and what its responsibilities are concerning these tasks in relation to the roles and responsibilities of other HRM stakeholders (employees, line managers, executives and local HRM professionals). Technology developments, such as the introduction of e-HRM applications, increase the opportunities to move responsibilities to those stakeholders and, therefore, the adoption of e-HRM applications is almost seen as synonymous with the adoption of shared services (Farndale, Paauwe et al. 2009). The adoption of shared services is therefore often associated with devolution to the line, ‘recording at the source’, and HRM self-service for line managers and employees (Reilly and Williams 2003, Renwick 2003, Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009). This is especially true when HRM shared services are applied to transactional support (Reilly and Williams 2003). Besides the consideration given to redesigning responsibilities in relation to the performance of HRM tasks, organisations consider who has the overall authority to determine what tasks the service provider has to perform (e.g. at the business or corporate level, or by the service provider itself).

The above discussion demonstrates how an HRM SSM may include different kinds of intra-organisational HRM arrangements such that the HRM SSM may be ill-defined. Difficulties in defining the HRM SSM are addressed in HRM-related studies (Reilly 2000, Reilly and Williams 2003, Stright 2007) as well as by scholars focussing on other business (such as IT or finance) functions (Broekhoff, Lousberg et al. 2004, Buijs, Van Doorn et al. 2004). The situation is not helped by using terms such as Shared Service Centres, Shared Services, Employee Interaction.
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Centres and Expertise Centres interchangeably, or by the variety of definitions and differences in application scope found in practice (Bergeron 2003, Strikwerda 2003, Buijs, Van Doorn et al. 2004, Janssen and Joha 2006). In an attempt to reduce confusion, we introduce a new, more comprehensive, definition of an HRM SSM. We start building our definition of an HRM SSM around the three distinctive features of Shared Services. These three distinctive features are (Reilly 2000, Reilly and Williams 2003, Cooke 2006):

- The nature of the Shared Services provided is primarily determined by the customer;
- There is a common provision of Shared Services among customers;
- These Shared Services are available to multiple customers.

These shared services are provided by one or more HRM service providers who are positioned within the intra-organisational HRM arrangement. We argue that a comprehensive understanding of the HRM SSM comes from integrating the aforementioned features, where the definition will combine aspects of (1) the distinctive features of the Shared Services, (2) the HRM service provider that provides the HRM Shared Services matched to the specific types of end-users, and (3) an intra-organisational HRM arrangement. We argue that the integration of these features in defining an HRM SSM enables the definition to be applied to the range of HRM SSMs, each with their own idiosyncratic characteristics depending upon the organisation. In an integrative way, we define an HRM SSM as:

- a collection of HRM Shared Services, whose characteristics are determined by the customers,
- provided within an intra-organisational HRM arrangement to a specific set of end-users
- by a (semi-)autonomous business unit on the basis of agreed conditions.

THE EMPLOYMENT AND DEVELOPMENT OF CAPABILITIES

The application of an HRM SSM is understood as an attempt by an organisation to maximise value creation through the concentration, or bundling, of their own
valuable HRM resources. We therefore build our conceptualisation of the value creation component of an HRM SSM on the Resource-Based View (RBV) and the Dynamic Capabilities Approach (DCA). Together, these perspectives enable one to study how one can create valuable, rare, inimitable and non-substitutable HRM capabilities, and how an organisation can exploit and refresh their current HRM resource base through capabilities that create value for the customers of HRM. We build on the assumptions underlying the RBV and the DCA that have, over the last 20 years, acquired a pre-eminent position in strategy research. Although the relative weight attributed to different scholars’ contributions may be subject to debate, it is clear that, over time, studies based on the RBV and the DCA approaches have laid a foundation for conceptualising the relationships among opportunities, resources, strategic behaviour and outcomes in terms of competitive advantage or value creation (e.g. Barney, 1991).

The Resource-Based View

The focus of the RBV is on an organisation’s strengths and weaknesses, through which it is able to attain and sustain a competitive advantage. Barney (1991) advocated the resource-based perspective on competitive advantage and introduced two assumptions. First, that organisations within a specific market may be heterogeneous with respect to the relevant strategic resources they control and, second, that these resources may not be perfectly mobile. The resources an organisation controls, therefore, play an important role in attaining and sustaining a competitive advantage. However, not all resources have the potential to be a source of sustained competitive advantage: only those that “(a) are valuable, in the sense that they exploit opportunities and/or neutralise threats in a firm’s environment, (b) are rare among a firm’s current and potential competition, (c) are imperfectly imitable or (d) are valuable but neither rare nor imperfectly imitable but for which there cannot be strategically equivalent substitutes” (Barney 1991: 105-106).

Conner (1991) and Conner et al. (1996) advanced the resource-based approach beyond strategic management research on competitive advantage by proposing a resource-based theory of the firm. According to these authors, the organisational mode (i.e. firm organisation versus market contracting) has an influence on the employment of static (i.e. presently possessed) knowledge, referred to as the
knowledge-substitution effect, and also on the dynamics of future knowledge acquisitions and responses to new developments, referred to as the flexibility effect, for a specific business activity. These effects, once anticipated, affect the choice of organisation for organisational mode itself since the value of organising the knowledge for a specific business activity within a specific organisational mode can be compared to its costs. These assumptions stress the need to analyse the organisational mode used to perform a business function as it affects the use and development of resources. Moreover, these assumptions enable one to explain why organisations have chosen a specific organisational mode for performing a business function. The authors do not claim that the resource-based theory of the firm is the only way to explain the existence of organisations, and acknowledge the validity of the opportunism-based view in explaining their existence.

Several scholars have criticised the resource-based perspective for its static and equilibrium-based approach (McWilliams and Smart 1995, Priem and Butler 2001, Sirmon, Hitt et al. 2007, Ambrosini, Bowman et al. 2009, Easterby-Smith, Lyles et al. 2009) (For an overview of critics on the RBV – see Kraaijenbrink, Spender, & Groen, 2010). According to McWilliams et al. (1995) and Priem and Butler (2001), the value of the resources controlled by an organisation is determined by its external environment through demand and competition: an exogenous factor within the resource-based view of the organisation. Organisations attain a sustained competitive advantage if they exploit the resources in such a way that they generate value for the external environment. A criticism of Barney’s (1991) approach is that it sees the uncertainty in an organisation’s external environment (such as demand and competition) as a static entity rather than as a process (McWilliams and Smart 1995). According to such authors, the applicability of the resource-based perspective, as described above, in strategic management research is therefore limited to identifying Valuable, Rare, Inimitable and Non-substitutable (VRIN) organisational resources. However, it does not specifically address how VRIN resources should be employed to create value.

The Dynamic Capabilities Approach

Further developments of the RBV have led to the incorporation of environmental models that address the dynamics of the environment (Teece & Pisano, 1994; Teece et al., 1997; Simon et al., 2007). In this, it is suggested that possessing
VRIN resources is a necessary, but insufficient, condition for attaining and sustaining a competitive advantage. It is not the resource itself that creates value, it is the functionality of the resource and how the resource is employed (Locket, Thompson, & Morgenstern, 2009: 13). Moreover, VRIN resources will only result in a sustained competitive advantage if organisations structure their resource portfolio and bundle their resources so as to build capabilities (Sirmon, Hitt et al. 2007). From this perspective, capabilities are made up of resources that describe organisational structures and managerial processes that support productive activity (Teece and Pisano 1994), or are those processes which utilise VRIN resources to attain a competitive advantage (Eisenhardt and Martin 2000, Ambrosini and Bowman 2009). These capabilities address how organisations earn their living by employing their VRIN resources: that is, they are an organisation’s operational, zero level (Winter, 2003) or substantive capabilities (Zahra, Sapienza et al. 2006). These capabilities are, however, insufficient for explaining how organisations sustain a competitive advantage in an environment that changes over time. Organisations that sustain a competitive advantage “demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences” (Teece & Pisano, 1994: 538). Attaining a sustained competitive advantage therefore requires not only the employment of existing capabilities, or operational capabilities, but also the capacity to develop new ones. The capacity to develop new capabilities is referred to as ‘dynamic capabilities’, where the term dynamic refers to changes in the resource base, or to the renewal of resources (Ambrosini and Bowman 2009). One of the definitions of dynamic capabilities that illustrate recent progress in this debate is by Helfat et al. (2007: 4), who define a dynamic capability as the capacity of an organisation to purposefully create, extend or modify its resource base. This definition encompasses the view of Teece et al. (1997) that dynamic capabilities enable organisations to respond deliberately and purposefully to environmental change, and so resolves the main weakness of the RBV. “The concept of dynamic capability includes the capacity with which to identify the need or opportunity for change, formulate a response to such a need or opportunity, and implement a course of action” (Helfat et al., 2007: 2). This perspective leaves space for employing dynamic capabilities in stable environments, and for organisational
changes unrelated to environmental change (Easterby-Smith, Lyles et al. 2009, Newey and Zahra 2009).

**Integrating the RBV and the DCA**

We develop the debate by integrating the RBV and the DCA: where the RBV gives insights into when resources can be classified as VRIN (Sirmon, Hitt et al. 2007), and the DCA explains how organisations earn a living by employing their VRIN resources – through the leveraging of operational capabilities – and how the resource bases of organisations evolve over time – a future orientation - through the employment of their dynamic capabilities to sustain competitive advantages (Ambrosini and Bowman 2009, Ambrosini, Bowman et al. 2009). The literature, however, is divided about the links, and their significance, between dynamic capabilities and competitive advantage (Rindova and Kotha 2001, Cepeda and Vera 2007, Ambrosini and Bowman 2009, Barreto 2010). While some authors make an explicit and direct link between dynamic capability and competitive advantage (Teece, Pisano et al. 1997, Lee, Lee et al. 2002, Griffith and Harvey 2006), others stress the implicitness of such a link (Zott 2003, Ambrosini and Bowman 2009, Ambrosini, Bowman et al. 2009) while another group of researchers even question the very existence of such a link (Helfat, Finkelstein et al. 2007). Although there is clearly no agreement on a direct link between dynamic capabilities and competitive advantage, such a perspective is nevertheless expected to be useful in explaining value creation since value is created because the capabilities of an organisation enable it to either better satisfy the needs of its customers, or to satisfy the customers’ needs at a lower cost, than its competitors (Bowman and Ambrosini 2000, Zott 2003, Sirmon, Hitt et al. 2007, Ambrosini and Bowman 2009, Ambrosini, Bowman et al. 2009).

Although the DCA provides a valuable perspective on change processes within organisations, the lack of empirical support and the problems in deriving managerial prescriptions from this perspective limit its current utility (Ambrosini and Bowman 2009). The scarcity of empirical data on the links between dynamic capability and competitive advantage suggests a benefit in conceptualising the value created by employing capabilities. In the next section, we consider the above discussion in terms of the HRM SSM and proceed to conceptualise its value.
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VALUE CREATION THROUGH THE HRM SSM’S CAPABILITIES

The strategic sourcing choices that organisations make have often been analysed from the RBV as this perspective gives insights into the choices that organisations make to improve, or acquire, resources (Sparrow and Braun 2008). However, for analysing the outcomes of a specific sourcing choice, such as the HRM SSM, it is important to recognise that a focus on how the resources are sourced is insufficient, and that one should focus on how these resources are employed (Espino-Rodriguez and Padron-Robaina 2006, Sparrow and Braun 2008, Locket, Thompson et al. 2009). Value is created when organisations leverage capabilities that are built through structuring and bundling their VRIN resources (Sirmon, Hitt et al. 2007). In this research, we define capabilities as the capacity of an organisation to purposefully perform a specific task or activity. The use of the words ‘capacity’ and ‘purposefully’ has two implications (Helfat, Finkelstein et al. 2007). First of all ‘capacity’ refers to the ability to perform a task or activity to the minimum acceptable level and, moreover, it implies a minimum level of reliable replication. The term ‘purposefully’ implies a degree of intent, explicit or otherwise. We distinguish two types of capabilities, namely operational and dynamic capabilities. Whereas operational capabilities are defined as the capacity of an organisation to purposefully employ its current resource base, dynamic capabilities are defined as the capacity of an organisation to purposefully create, extend or modify its resource base. The DCA has also been applied to sourcing strategies. Bowman and Ambrosini (2003) proposed several resource-creation configurations (organisational sourcing modes) for organisations that can be seen as congruent to modes of resource creation and organisational design parameters. They concluded that a corporate centre, in the case of HRM service providers within the HRM SSM, creates value for business units and can be justified either because the centre creates capabilities within the business units through the services it provides through the employment of the dynamic capabilities of the centre, or because the centre provides services to support the business units, through employing operational capabilities that are created within the centre itself (Bowman and Ambrosini 2003). The latter capabilities have to be created and refreshed, and therefore also require dynamic capabilities of the centre.
Strategic HRM researchers have studied the linkages between HRM and firm performance, and although several studies report statistically significant positive relationships, the effects are typically small (Paauwe 2009). These studies have focussed on financial, organisational and HRM-related outcomes of HRM (for an overview – see Paauwe, 2009). However, in this research, we focus on the sourcing choice that organisations make for their HRM, and are interested in whether they attain the promised advantages of this sourcing choice as discussed earlier. We therefore do not try to link the HRM SSM to firm performance, but to value creation for the business units. Value is created if business units perceive their needs are better satisfied, or are satisfied at lower costs than using alternative sourcing arrangements (Bowman and Ambrosini 2000). Value, therefore, should be measured from the perspective of the customer, for this research - the business unit (Bowman and Ambrosini 2000, Barney 2001, Priem and Butler 2001, Ulrich and Brockbank 2005, Lepak, Smith et al. 2007, Sirmon, Hitt et al. 2007). Therefore, it is important to explore how customers judge the extent to which their needs are met, and how value from the customer perspective is defined. In doing so, we follow several scholars (Bowman and Ambrosini 2000, Lepak, Smith et al. 2007, Priem 2007) who make a distinction between exchange value and use value. Whereas exchange value is the amount the customer actually pays, use value is the subjective evaluation of the benefits of consumption by a customer (Priem 2007), or the qualities of the services as perceived by the customers in relation to their needs (Bowman and Ambrosini 2000). We therefore define the value created for the customers as the use value perceived by them in relation to their needs. An example of a use value could be that, as the adoption of an HRM SSM reduces the HRM headcount, the business units have more freedom to employ resources for their core business. They, for example, could use the reduction in the HRM headcount to increase operational resources, or they could maintain their current stock of resources and so increase their margins as costs are reduced. Another example might be that a specific business unit, through the adoption of the HRM SSM, could leverage the specific HRM knowledge once owned by another business unit. Given our definition of the use value of an HRM SSM, it could have both positive and negative values (the former if, for example, business units perceive HRM services as quicker and better, but the latter if they perceive the services as losing their personal touch).
Use value is created through leveraging the capabilities of the organisation, or in our case of the HRM service provider(s) (Sirmon, Hitt et al. 2007). Capabilities are leveraged when they are deployed to deliver shared services to the business units. Business units operate in an environment in which they can compare alternative HRM service providers and their services. Moreover, the environment affects the needs of a business unit. A capability in itself cannot be valuable, but its value is dependent on the context in which the customer operates and how it is employed (Lepak, Smith et al. 2007, Sirmon, Hitt et al. 2007). In order to measure the value created for business units, we need a yardstick for capability performance from the perspective of a business unit that takes the unit’s environment into account and links it to the use value created for the business unit. Although there have been some efforts to conceptualise such a context-dependant yardstick (e.g. Helfat et al. 2009), we need to explore the constructs that make up such a yardstick. Moreover, we need to understand what business units perceive as use value before we can link the performance of the capabilities to use value. Although our understandings of the performance of capabilities and of use value are limited, we nevertheless argue that there is a positive link between the performance of capabilities and the use value by business units.

Earlier, we defined the HRM SSM as a collection of HRM shared services, whose characteristics are determined by the customers, provided within an intra-organisational HRM arrangement to a specific set of end-users by a (semi-) autonomous business unit on the basis of agreed conditions. We have also observed that successes and failures in sourcing arrangements can only be measured by their in-depth analysis (Baldwin, Irani et al. 2001, Janssen and Joha 2006, Farndale, Paauwe et al. 2009). Our conceptualisation of an HRM SSM’s value creation through the capabilities of the HRM services provider is affected by the position of the HRM service provider in the intra-organisational HRM arrangement as depicted in figure 1. The numbered arrows in the figure represent the propositions which will be introduced following sections in this paper. In these sections, we will also uncover the capabilities of the HRM service provider and its position within the intra-organisational HRM arrangement.
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Figure 1. Conceptual framework for HRM SSMs’ value creation

Service provider capabilities

As noted earlier, the intra-organisational HRM arrangement is the formal delegation of tasks and responsibilities. Further, we divided these HRM tasks between transactional and transformational HRM aspects. Whereas transactional HRM work is related to recording HRM-related transactions, transformational work is about designing and delivering business strategies (Ulrich and Brockbank 2005). The capabilities of an HRM service provider create value when they are employed to provide services that support the business units in their operations, or are employed to create capabilities within the business units themselves (Bowman and Ambrosini 2003). Although HRM SSMs in which the business is supported in carrying out HRM-related transactions through shared services are more common, both effects have been observed (Cooke 2006, Redman, Snape et al. 2007). Value can be created through transactional HRM services that support the business units in their transactional HRM work (by employing the HRM service provider to use its capabilities to support the business units in their operations), and transformational HRM services that support the business units in transforming
their operations (by employing the capabilities of the HRM service provider to create capabilities within the business units themselves).

In the introduction we mentioned that the various tasks to be performed by an HRM service provider affect its characteristics: for different tasks, different resources are required. As the capabilities are built from these resources through organisational and managerial processes, we argue that, for the performance of these different tasks, different capabilities are employed and therefore the performance of different capabilities will be related to the tasks performed. Given that adopting an HRM SSM can be perceived as a form of internal outsourcing (Shah 1998, Reilly and Williams 2003, Strikwerda 2003, Cooke 2006, Farndale and Paauwe 2006, Janssen and Joha 2006), much can be learnt from research into outsourcing in the traditional sense (Wagenaar 2006). Therefore, we apply the notion of competences from the Business Process Outsourcing (BPO) literature to conceptualise the capabilities of service providers in an HRM SSM context. In the BPO literature, some attention has been given to the competences and capabilities of service providers in Business Process Outsourcing arrangements. For example, Feeny et al. (2005) have identified twelve service provider capabilities within three domains (delivery plus relational and transformational capabilities) in BPO arrangements that should be considered by organisations intending to outsource functions. The delivery capabilities represent how well a supplier can respond to its customers’ requirements in terms of day-to-day operations. The relational capabilities reflect the extent to which the service provider is willing and able to align itself with a client’s needs and goals over time. The transformational capabilities represent how well a service provider can significantly improve over time through some combination of costs, quality and functionality. Some of the twelve capabilities support a single domain, while others contribute to two or all three domains (Feeny, Lacity et al. 2005). We build on the argument of Feeny et al. (2005) that it is not necessary for all service providers to excel in all capabilities. Moreover, these authors later note that different motives and goals might apply to each service arrangement, and therefore different capabilities will be favoured: “outsourcing of a simple and stable back office process with a cost reduction objective requires a level of delivery competency – and not much more” (Feeny, Lacity, & Willcocks, 2006: 12).
The three capability domains proposed by Feeny et al. (2005) cover the functions of the operational and dynamic capabilities of service providers. While the capabilities belonging to the delivery domain determine how well a service provider is able to perform its day-to-day operations (the operational capabilities), the capabilities belonging to the relational and transformational domains determine the capacity of the service provider to identify the need, or opportunity, for change, to formulate a response to such a need or opportunity, and to implement a course of action (the function of dynamic capabilities). The insights above can be applied to the HRM SSM.

When an HRM service provider is responsible for transactional HRM work (for example in supporting the business in carrying out its personnel and salary administration), it is natural that it should demonstrate operational capabilities as it needs such ability to support business units on a day-to-day basis in performing HRM-related transactions through the provision of services. However, it would be wrong to assume that HRM transactional service providers should only demonstrate operational HRM capabilities. As their customers operate in a changing environment (with opportunities and threats), internal and external forces may lead to the need for changes in the HRM transactional services (Ambrosini et al., 2009b, Easterby-Smith et al., 2009, Newey et al., 2009). Moreover, the technological developments in HRM create opportunities for increased efficiency in performing transactional HRM work. The service providers therefore need to be able to sense and identify any need for change in the HRM transactional services they provide, and develop and implement actions to react to these needs; the function of dynamic capabilities. Examples of such capabilities include the ability to implement new services in response to the changing needs of the business units, or to implement new technology (e.g. new e-HRM applications) that increases efficiency.

When an HRM service provider is responsible for transformational HRM work, it transforms the operation of the business units by changing or renewing their resource base. For example, if an HRM service provider carries out recruitment, selection and staffing tasks, its responsibility is to deliver capable employees for vacant positions in a business unit based on the specifications of the business unit. When the HRM service provider, recruits, selects and fills a vacant position,
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Shared Service Models

the resource base of the business units is changed. In so doing, the HRM service provider needs to demonstrate its dynamic capabilities by identifying any need or opportunity for change in a business unit, formulating a response to such an opportunity, and implementing a course of action within the business unit: the function of a dynamic capability. At the same time, a transformational HRM service provider also needs operational capabilities. In the example of the recruitment, selection and staffing process, the HRM service provider must be able to demonstrate the ability to recruit employees with the appropriate skills on a day-to-day basis for the multiple business units that it serves.

As table 2 illustrates, HRM service providers in an HRM SSM context need to possess a combination of operational and dynamic capabilities within both transactional and transformational work environments, even though the purpose of operational and dynamic capabilities for transactional and transformational HRM work differs.

<table>
<thead>
<tr>
<th>Table 2. Four desir able capabilities for HRM shared service providers</th>
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<tbody>
<tr>
<td><strong>Operational Capabilities of the HRM service provider</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>Dynamic Capabilities of the HRM service provider</strong></td>
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</tbody>
</table>

As the purpose of transactional HRM services is to provide support on a day-to-day basis, a direct link is expected between the performance of the operational
Chapter 2: Conceptualising the Capabilities and Value Creation of HRM Shared Service Models

capabilities and the use value created for the business. However, for performing transactional HRM work, dynamic capabilities are also required. If the HRM service provider is not able to change, refresh or renew its operational capabilities this will affect the value created through its operational capabilities. This leads to the following propositions.

Propositions 1a: Within a transactional HRM work environment, the performance of the operational capabilities of the HRM service provider will be positively related to the use value for the business units.

Proposition 1b: The relationships between the performance of the operational capabilities of the HRM service provider and its use value for the business units in a transactional HRM work environment will be stronger if the performance of the dynamic capabilities of the HRM service provider increases.

Conversely, with transformational HRM services, the focus should be on sensing the need for change in the operations of the business units, and designing and implementing actions in response. Here, a direct link can be anticipated between performance in terms of the dynamic capabilities and the use value created for the business the focus will be on dynamic capabilities. However, to perform transformational HRM activities, operational capabilities are also required. If the HRM service provider is not able to perform the processes related to a task this will reduce the value created through its dynamic capabilities. This leads to the following propositions.

Propositions 2a: Within a transformational HRM work environment, the performance of the dynamic capabilities of the HRM service provider will be positively related to the use value for the business units.

Proposition 2b: The relationships between the performance of the dynamic capabilities of the HRM service provider and its use value for the business units in a transformational HRM work environment will be stronger if the performance of the operational capabilities of the HRM service provider increases.
Position of the HRM service provider within the intra-organisational HRM arrangements

Although there seems to be an implicit agreement as to what an SSM is conceptually, it remains difficult to clearly classify the various HRM SSM forms (Cooke 2006). Reilly (2000), for example, failed to find in his study of 15 organisations a common model for the activities provided through shared services. Strikwerda (2003) and Farndale et al. (2006) found in their studies a wide diversity in the organisational structures for operating SSMs, and concluded it was difficult to generalise about HRM SSM classifications. However, several models for incorporating the service providers within the organisation have been described, for example Farndale et al. (2009) mention the models described by Quinn et al. (2000) and Strikwerda (2003).

The basic, the marketplace, the advanced marketplace and the independent business models described by Quinn et al. (2000) are differentiated by the types of activities provided, the characteristics of the relationship between the service provider and the business units and the government of the service provider. Strikwerda (2003) observed that the SSM appears in many forms, for various activities, and with different names. He observed several alternative positions for the service provider within an organisation and schematically depicted six models. However, we view two of these as outsourcing arrangements, leaving the following four alternative positions for the service providers which we will describe below:

- The service provider as an extension of the HRM staff department;
- The service provider as an infrastructure;
- The service provider within one of the business units;
- The internal joint venture.

HRM Shared Services provided through ‘central services’ attached to an HRM staff department

When a service provider is positioned as a central service, equivalent business functions are often removed from business units and relocated at the service provider. This enables standardisation and improved management information. A danger is that the business units perceive the service provider to be an instrument of corporate headquarters, imposed to control the business units and
make them accountable, rather than as a service provider to support the business units. This perception is increased when the HRM staff department practices its functional authority over the business units through the central services. As the central services are controlled by the HRM staff department, a fit between policies and their execution is achieved. This might result in the domination of a specific staff culture within a business function, and this can cause problems as HRM policy development and its execution require different mindsets and, therefore, should ideally be separate activities (Strikwerda; 2003, 2008).

**HRM Shared Services provided through an ‘infrastructure’**

The infrastructure approach to shared services often entails concentrating the various activities of different business functions in a “plug and play” environment that serves the business units. This means that the business units are free to use (or not use) the services provided. A new business unit is created which operates in the same way as other business units and, as such, the service provider management reports to corporate headquarters, often represented by a Chief Operations Officer. In this approach, the tasks delegated to the service provider are not solely determined by customer needs, but are also based on the expectations of corporate headquarters, who also determine the budget, in terms of capability employment and the development of the service provider (Strikwerda, 2003, 2008).

**HRM Shared Services provided by a service provider integrated within another business unit**

In this model, the HRM service provider is controlled by the business unit in which it is integrated, and therefore the remaining business units are dependent on the motives of this business unit. There are three reasons for organisations choosing to integrate their HRM service provider within one business unit that then serves the other business units. First, the business unit in which the HRM service provider is integrated is the dominant ‘user’ of the services provided. Second, the business unit holding the HRM service provider previously performed the activities significantly better than other units. Third, the corporate level is anxious over changing the business unit model (Strikwerda; 2003, 2008).
HRM Shared Services provided by an ‘internal joint venture’

The service provider becomes an internal joint venture when one or more activities are divested to a common operational entity covering all the business units. The managers of such internal joint ventures are accountable to the ones they serve or, to put it another way, the customers of the joint venture are also its ‘owners’. An internal joint venture is given a budget and a bundle of tasks by the customers, and these are effectively determined through the budgets of the business units. In this way, the business units are held responsible for the performance of the HRM-related activities (Strikwerda, 2003, 2008).

The four alternative models described above and schematically depicted in figure 2 differ on characteristics such as the application of the shared services, the relationships established between service provider and the business units, and the government of the HRM service provider.

![Diagram of alternative positions for the HRM shared services organisation](image)

**Figure 2. Alternative positions for the HRM shared services organisation (adopted from Strikwerda, 2003).**

From a resource-based perspective, these variations in the position of the service provider within the intra-organisational HRM arrangement affect the employment of capabilities and the flexibility in future developments both through the
knowledge-substitution effect and the flexibility effect (Conner and Prahalad 1996). The nature of the differentiation between the models of Strikwerda (2003) is quite similar to the distinctions made by Quinn et al. (2000) described earlier, and can be characterised by the amount of control the business units have over the HRM service provider (little control in the “central service” model, little to moderate control in the “infrastructure” model, moderate to high control in the “within a business unit” model, and high control in the “internal joint venture” model).

With the establishment of an HRM SSM, organisations have to consider to what extent the business units should be in control or, in other words, to what extent the control over HRM delivery is decentralised. In so doing, organisations anticipate the effects, or advantages and disadvantages, of centralised and decentralised models. Although the SSM model is claimed to capture the best elements and effects of both centralised and decentralised organisational models, while minimising the drawbacks, some organisations are reluctant to establish an HRM SSM in its purest form and retain some corporate (central) control. In its purest form, the business units will control the HRM service provider through a customer-provider relationship. However, giving greater control to the business units over employing the HRM service provider's current capabilities, and its enhanced flexibility for future development and employment of capabilities, comes at a cost. For example, because the business units together control the HRM service provider, and thereby the employment of its capabilities and the development of future capabilities, the business units have to agree on what the tasks and the responsibilities of the HRM service provider are, how the services should be configured and what the focus of the HRM service provider should be (e.g. quality versus costs). This requires intensive negotiations, especially when the natures of the various business units differ leading to different needs, in agreeing to standardised services, or may result in customised services to individual business units (so losing scale advantages). These costs should be considered by organisations intent on establishing an HRM SSM when determining the appropriate position for the HRM service provider within the intra-organisational HRM arrangement such that the chosen position is expected to maximise value creation for the business units.
We argue that the different positions for the HRM service provider, as described by Strikwerda (2003, 2008), reflect the amount of control the business units have over the employment of the HRM service provider’s current, and also the development and employment of future, capabilities. Moreover, as the usage of the HRM service provider’s capabilities is related to the use value, we would expect the amount of control the business units have over the HRM service provider to moderate the relationship between the performance of the capabilities and the use value. This leads to the following proposition.

Propositions 3: In both transactional and transformational work environments, the relationships between the HRM service provider’s capabilities and the use value for the business units are stronger when the latter have high levels of control.

DISCUSSION

In this article, we have elaborated on the value creating capacity of the HRM SSM, based on an integration of the RBV and the DCA. This perspective was adopted because organisations aim for effective and efficient delivery while, at the same time, wanting to retain decentralised control of HRM delivery when applying an HRM SSM. From the chosen perspective, the efforts that organisations put into establishing an HRM SSM – or ‘internal outsourcing’ - are explained by the fact that the HRM resources are seen as valuable, rare, inimitable and non-substitutable (VRIN), and therefore as offering a ‘competitive advantage’ over the HRM resources of external parties in HRM delivery. Moreover, these VRIN resources are concentrated and bundled into capabilities which are then employed through the use of HRM shared services to deliver selected HRM activities in order to maximise use value creation for the business. In applying an HRM SSM, an organisation deliberates over the benefits and costs of different delivery models for various HRM activities and anticipates the effects of the various delivery models on the employment of existing capabilities and the development of new ones.

We have defined an HRM SSM as a collection of HRM Shared Services whose characteristics are determined by the customers, and provided within an intra-organisational HRM arrangement to a specific set of end-users by a (semi-
autonomous business unit on the basis of agreed conditions. The intra-organisational HRM arrangement is a formal structure that defines the responsibilities and delegation of tasks within HRM. For our research into HRM SSMs, we distinguished between transactional and transformational work, and addressed the different positions that the HRM service provider can take within this intra-organisational HRM arrangement. We have argued that the capabilities of the HRM shared services provider play a central role in creating use value for the business. However, as the model is applied for a range of HRM shared services in the context of a supplier-customer relationship, it is argued that the service provider must be able to employ these various capabilities if it is to create actual use value for the business. Apart from the use value created through the more efficient employment of existing capabilities, it is argued that the service provider can create value by building new capabilities which are aligned with the evolving context in which the capabilities will be employed. In this way, the competitive advantage of this model over other forms of HRM delivery can be sustained. Although attitudes towards the HRM SSM seem to be generally positive, we recognise that the adoption of the HRM SSM could have some negative consequences for the business units. It is crucial that capabilities are not only available but are also performed well since, otherwise, adopting the HRM SSM might result in unanticipated outcomes.

The HRM service provider, acting in a supplier-customer relationship, must be able to employ and develop the appropriate capabilities for performing the transactional and transformational HRM activities that create use value. Moreover, we have argued that, for both transactional and transformational HRM activities, operational and dynamic capabilities are required although the focus differs. The position of the service provider varies within HRM SSMs and provides an insight into how the service provider is controlled and directed and, therefore, how capabilities are employed and built to create value. As such, the position for the HRM service provider chosen is expected to affect the use value created for the business units as it reflects the level of their control over HRM delivery. We argue that the framework discussed above contains those aspects that are important in determining the value created by utilising an HRM service provider’s capabilities in delivering HRM shared services.
We acknowledge that this paper lacks a description, let alone a prescription, of the specific capabilities required, or of how and to what extent they create value. We also acknowledge that the DCA perspective lacks a substantive supporting body of empirical work. Moreover, the link between operational and dynamic capabilities and the creation of use value is unproven. In developing this research further, we plan to explore the capabilities of HRM service providers in an HRM SSM context, and hope to gain insights into the roles of operational and dynamic capabilities in the creation of value. Although the DCA still has to prove its usefulness in strategic management research, we expect it to make a valuable contribution to this research. We argue that it can offer insights into how existing capabilities are employed, and how new ones are built to create value. In an HRM SSM context, it can provide insights into the type of capabilities that HRM service providers should be able to demonstrate in the supplier-customer relationship. Further, we need to explore the various positions of the HRM service provider within the intra-organisational HRM arrangement in order to understand their effect on the employment of the capabilities and on value creation. We recognise that, so far, we have only indicated some broad directions for the effects of the various positions found, and have yet to present empirical evidence that supports these effects. Future research needs to uncover the capabilities required for value creation, the process through which capabilities are affected, built and employed, and how this leads to which type of use value.

In conclusion, one sees that organisations are increasingly establishing HRM SSMs for the delivery of HRM. This form of ‘internal outsourcing’ retains internal control over the delivery of HRM, and is claimed to maximise the advantages of centralised and decentralised delivery models while minimising the drawbacks of both. Many claims for the capacity of an SSM to create value have been made, and the HRM application of the model is no exception. However, the variations in how the model is configured, the type of the services delivered and, therefore, the requirements placed on the service provider delivering the HRM shared services, make it hard to explain and predict how much, and in what way, value is created. The framework discussed above provides a useful step for future research into value creation through HRM SSMs.
ACKNOWLEDGEMENTS

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REFERENCES

References can be found on page 205.
CHAPTER 3:
Capability evolution in a Shared Service Center

Stories are very useful in explaining a phenomenon. For this reason, the use of resources by an HR SSC in an attempt to create additional value for its customers is presented as a story of its evolution, and how this was paired with subsequent changes in strategy and with the development and deployment of new capabilities.
Abstract

The focus of this paper is on the evolving capabilities of transactional Shared Service Centers (SSC) as they mature. The research is motivated by the lack of knowledge on the extent to which, and how, the resources bundled within an SSC concerned with stable back-office processes and functions create value for business units. The research builds on the Resource Based Theory, extended with elements from the Dynamic Capabilities Approach, to explore the nature of SSC capabilities and the way these are strategically developed and deployed. The paper reports on an explorative, longitudinal case study that has been used to identify the capabilities of a transactional Human Resource (HR) SSC and reveals an evolutionary shift in objectives toward adding business value that requires a matching evolution in SSC capabilities.

This chapter is published as:

INTRODUCTION

This paper concerns the development of one of the latest organizational forms, the Shared Service Center (SSC), which has entered the strategic management arena as an organizational response to global challenges and uncertainties, and the dilemma of whether to centralize or decentralize business functions. The promise of the SSC is that it captures the best elements and effects of both centralized and decentralized organizational models, while minimizing the drawbacks of both. It is therefore considered a powerful sourcing alternative for back-office processes and functions (Schulman, Dunleavy et al. 1999). While most organizations implement an SSC to reduce costs, improve efficiency, or smooth future outsourcing initiatives (Quinn, Cooke et al. 2000, Strikwerda 2003, Moorst van 2004, Stright 2007, Bondarouk, Maatman et al. 2010), some organizations want to transform the organization and create business value (Ulrich 1995, Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Reilly and Williams 2003, Strikwerda 2003). The literature fails to provide an understanding of why, and in which situations and under what conditions, the delivery of shared services for stable back-office processes creates value for the business units served (Maatman, Bondarouk et al. 2010). Moreover, the attention in the management literature to transaction-oriented shared services is limited to elaborating the importance and benefits of the required standardization and harmonization of processes and the economies of scale (Maatman, Bondarouk et al. 2010, Maatman 2011). We argue that this focus overlooks the full potential of transactional SSCs. A transactional SSC can create business value by identifying and leveraging new ways to use the knowledge, expertise, and information concentrated within it. To do so, SSC management needs to be able to identify opportunities and threats and then take appropriate action.

In this paper, we propose a novel perspective on the strategic envisioning of transactional SSCs, one that goes beyond the traditional centralization-decentralization discourse, and considers the evolution of SSC capabilities as the result of the resource orchestration process applied as a driving force and explanatory factor in creating business value. By integrating the Resource-Based View (RBV) and Dynamic Capabilities (DC) concepts (Bowman and Ambrosini 2003, Sirmon, Hitt et al. 2007, Ambrosini, Bowman et al. 2009, Sirmon and Hitt 2009, Barney, Ketchen Jr. et al. 2011, Ndofor, Sirmon et al. 2011, Sirmon, Hitt et
Chapter 3: Capability Evolution in a Shared Service Center

al. 2011), we are able to reveal how different bundles of resources interact and are integrated, developed, and deployed by the SSC. The integrated theoretical perspective enables one to unfold the dynamics of SSC evolution in the attempt by SSC management to increase business value. The purposes of this paper are twofold. First, we develop an integrative conceptual view of the mechanisms that play a role in value creation by an SSC. Second, we exam the validity of this conceptualization through empirical findings gained from case study research in an organization that has used the SSC concept for more than five years. We describe how this HR SSC, initially designed to support the business by providing stable back-office services, became an important asset as it shifted its focus toward adding value for the business. Subsequently, we describe how this change of focus was paired with the incremental development and deployment of new capabilities. The capabilities identified in this HR SSC are defined in Table 1.

Our empirical contribution is in the identification and description of the mechanisms within the SSC that affect the value created for the business units it serves. We do so by telling the story of the implementation and maturing of the HR SSC through five stages of maturity. The various stages are characterized by the deployment of new capabilities and a shift in focus by SSC management. The five phases and their characteristics are depicted in Figure 1.

We argue that the path described in this paper is a valuable guide for the strategic management of an SSC in its evolution from an administrative efficiency focus toward becoming a value creator for the business. The capabilities of the HR SSC were developed over time and were the result of SSC management actions in reaction to opportunities and threats. In describing the introduction and evolution of the capabilities, we highlight the role of SSC management as an important mechanism for value creation. Some of the capabilities identified support SSC management in addressing opportunities to, or needs for, change while others enable SSC management to leverage available resources in new ways.
### Table 1. SSC Capabilities

<table>
<thead>
<tr>
<th>Capability</th>
<th>Definition</th>
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<tr>
<td>Caring</td>
<td>The extent to which the SSC is able, by using its current resource base, to repeatedly provide end-users with information, answers, and advice in response to their needs.</td>
</tr>
<tr>
<td>Relieving</td>
<td>The extent to which the SSC is able, through using its current resource base, to repeatedly assist the business units in meeting their responsibilities.</td>
</tr>
<tr>
<td>Modifying</td>
<td>The extent to which the SSC is able to repeatedly redesign and redevelop the characteristics of its current operation and influence the quality, costs, and functionality of the services provided.</td>
</tr>
<tr>
<td>Expanding</td>
<td>The extent to which the SSC is able to repeatedly design and develop new services and expand its customer base.</td>
</tr>
<tr>
<td>Integrating</td>
<td>The extent to which the SSC is able to design, develop, and provide solutions for different stakeholders in the delivery of a specific business function that enable sustainable harmonized delivery throughout the organization as a whole.</td>
</tr>
<tr>
<td>Guarding</td>
<td>The extent to which the SSC is able to repeatedly identify opportunities for and threats to the delivery of a business function within the organization as a whole.</td>
</tr>
<tr>
<td>Implementing</td>
<td>The extent to which the SSC is able to repeatedly effect changes in the delivery of services by developing, extending, or creating new resources in the resource base of the SSC or in the organization as a whole.</td>
</tr>
<tr>
<td>Managerial</td>
<td>The extent to which SSC management is able to synchronize actions within the resource management process.</td>
</tr>
</tbody>
</table>
Chapter 3: Capability Evolution in a Shared Service Center

**The SSC and Its Value Creating Potential**

The Shared Services Model (SSM) is an arrangement for the delivery and sourcing of processes and resources. It involves selected resources being concentrated in a new, semi-autonomous business unit, the SSC, within the organization (Bondarouk, Maatman et al. 2010, Maatman, Bondarouk et al. 2010, Meijerink and Reilly 2010, Bondarouk 2011, Meijerink, Bondarouk et al. 2012). The term “shared” reflects key characteristics of the services provided by the SSC, in that: (1) the services are available to multiple customers; (2) there is a common provision of services to these customers; (3) the nature of the services provided is determined primarily by the customers (the business units); and (4) they are matched to the needs of different types of end-users (e.g., individual employees and line managers) (Reilly 2000, Reilly and Williams 2003, Cooke 2006, Stright 2007).
Chapter 3: Capability Evolution in a Shared Service Center

It is almost becoming conventional wisdom to think that a transactional SSC (from now on referred to as an SSC) that is concerned with stable back-office processes cannot create value for the business unless it is allowed to broaden its scope and take on the role and activities/services of so-called transformational Expertise Centers. In an earlier paper, it was argued that, on the contrary, transactional SSCs can create value (Maatman et al. 2010) and that three characteristics of the SSC enable value creation. First, within the SSC, firm-specific resources such as knowledge and expertise are concentrated. Second, the position of the SSC in the organization, between the relevant stakeholders of a specific business function, enables the SSC to act as a hub through which data on HR, IT, and/or financial processes, transactions, and perceptions can be processed. Third, with the establishment of an SSC, a business within a business is created that has a core function of delivering a specified business function (Ulrich, Younger et al. 2008), but also has its own strategic objectives and drivers. Business value is created by the SSC since redundancy is removed and new ways to use the available knowledge, expertise, and information are found and leveraged to fulfil the needs of the business. The SSC management’s role of creating value is important: they need to adopt a strategy that maximizes the use of available resources and the position of the SSC within the organization.

Whether a SSC creates business value depends on the business’s assessment of the overall utility of the SSC’s outputs. A business will assess the utility of the outputs based on their perceptions of what is received and what is given (Zeithaml 1988, Cronin, Brady et al. 2000, Petrick 2004). That is, the quality, costs, and the efforts required to receive the services and the usefulness of the SSC’s outputs determine the value created for the business (Bondarouk 2011). SSCs with only cost reduction and efficiency objectives require a Service Delivery capability and not much more (Feeny, Lacity et al. 2005). Here, the Service Delivery capability is viewed as an operational capability that needs to achieve technical fitness (Teece 2009, Gospel and Sako 2010) and is deployed for back-office activities. The SSC management’s focus is then predominantly on the harmonization and standardization of the service delivery processes and quantitative service level agreements such as first-call resolution and turn-around time for service requests. This limits SSC management’s ability to take initiatives to develop new value-adding activities to optimize the use of bundling and the
concentration of capacity, knowledge, expertise, and information within the SSC. A shift in SSC objectives toward creating business value requires SSC management to build and deploy new types of capabilities in which outputs, in the form of improved or new services, are aligned with the business’s needs for the delivery of a specific business function. To achieve this, a higher level of capabilities – i.e. dynamic capabilities - is required that will be deployed in performing activities that are closely coupled to, and interact with, the business processes of the SSC and of its customers (Gospel and Sako 2010) (for an explanation of operational and dynamic capabilities see Winter, 2003; Zahra, Sapienza, and Davidson 2006). The new or improved services will only create value for the business if they are successfully deployed through the SSC’s operational capabilities (Zott 2003, Helfat, Finkelstein et al. 2007, Ambrosini and Bowman 2009). Further, the dynamic capabilities of an SSC can also create additional value for the business if they are deployed to change or create new resources within the business units (Bowman and Ambrosini 2003). Although these activities of a transactional SSC are closely coupled to, and interact with, the primary business processes of its customers, they do not interfere with the strategic activities that fall within the domain of an Expertise Center. Rather, they enable the integration of the delivery of different types of activities for a specific business function performed by various stakeholders, such as the Expertise Center, senior executives, the business units, and the SSC itself.

THEORETICAL BACKGROUND

Despite the critics and debated limitations of the RBV and the idea of a sustained competitive advantage (Kraaijenbrink, Spender et al. 2010), we would argue that it is possible to apply the RBV, extended with the DCA, to explain how an SSC can create value for the business, justify its existence, and be preferable to other models when sourcing a transactional business function. A necessary condition for achieving and sustaining a competitive advantage is the creation of value for customers (Sirmon, Hitt et al. 2007). An SSC can do this either by demonstrating its capacity to support the business units through deploying its firm-specific resources for service provision, or by demonstrating its capacity to create firm-specific resources within or for the business units through the services it provides (Bowman and Ambrosini 2003). Further, organizations opt for the SSM over other forms of sourcing arrangements when they want to retain control, consolidate,
and build resources while, at the same time, reducing the duplication of functions (and increasing access to the scarce resources required) and providing flexibility in delivery (deployment of resources) (Maatman, Bondarouk et al. 2010). The RBV complements Transaction Costs Economics in attempting to understand the sourcing choices that organizations make (Kraaijenbrink, Spender et al. 2010). The organizational mode selected for a specific business activity (such as firm organization versus market contracting) has an influence on the use of static (i.e. presently possessed) knowledge through the knowledge-substitution effect, and also on the dynamics of future knowledge acquisitions and the responses to new developments, commonly referred to as the flexibility effect. These effects, once recognized, influence the choice of organizational mode. The value, within a specific organizational mode, of organizing knowledge for a specific business activity can be compared to the associated costs (Conner 1991, Conner and Prahalad 1996). We argue that organizations that have implemented an SSC tend to favor the SSM over other ways of sourcing a business activity because they recognize and anticipate the potential of the substitution and flexibility effects of resource development and deployment within the SSM.

To understand value creation, one needs to advance the argument beyond the consolidation and bundling of valuable resources within the SSC. Valuable resources do not, by themselves, create value. The resources need to be deployed and demonstrate the capacity to perform tasks and activities whose outputs are valuable to the business units served. To do this, the SSC needs a management that is able and willing to demonstrate the capacity to identify and leverage its potential.

A role of the resource management framework is to outline the role of management in the resource-based logic for value creation (Sirmon, Hitt et al. 2007). The framework focuses on management actions related to structuring, bundling, and leveraging resources to create value for customers. When combined with the asset orchestration framework, which consists of search and selection, configuration, and deployment by management (Helfat, Finkelstein et al. 2007), it is referred to as the resource orchestration process. The resource orchestration process provides insights into management actions to search for, select, invest in, allocate, and coordinate the required resources throughout the structure of the organization. Moreover, it provides insights into management attempts to
integrate resources to form new, or reconfigure existing, organizational capabilities with the purpose of creating value. We argue that resource orchestration helps to explain the business value created in the context of an SSC. An SSC creates business value through the outputs from deploying its capabilities according to a capability leverage strategy (as a part of resource orchestration) chosen by SSC management (Sirmon, Hitt et al. 2007, Maatman, Bondarouk et al. 2010, Maatman 2011). This is an ongoing process in which SSC management continually identifies new ways to use resources by developing and bundling them into new sets of capabilities.

Management actions and the processes that underlie resource orchestration processes can be distinguished from those actions and underlying processes whose outputs create value for customers, which have been referred to as managerial capabilities (Sirmon, Hitt et al. 2011). Managerial capability represents management’s ability to synchronize the various actions in the resource orchestration process. An SSC’s management plays an important role in value creation as it is responsible for deploying synchronized bundles of resources, or capabilities, that enable the organization to undertake novel and appropriate tasks and services that create business value (Holcomb, Holmes et al. 2009, Ndofor, Sirmon et al. 2011). Enabled by the characteristics of the SSM, and management actions that enhance resource use within the SSC, transactional SSCs can create value for the business. To achieve this, the SSC, led by its management, needs to demonstrate the capacity to identify and seize the need to, or opportunity for, change, develop solutions, and implement the solutions to effect change.

**METHODS**

We opted for a case study methodology since this is the most appropriate method for collecting in-depth data (Yin 2003, Eisenhardt and Graebner 2007). In what follows, we explain the choices made regarding our sample, our data collection, and our analysis methods.

**Case selection**

The case study was carried out in a public sector organization in the Netherlands, here referred to anonymously as Deforg. This organization was selected as it had more than five years of experience with the SSM in the areas of IT, facility
management, equipment maintenance, and HR. We have chosen to focus on the HR business function for several reasons. First, HR shared services have recently increased greatly in popularity and are increasingly applied as a sourcing solution for the delivery of HR. Second, shared services, in the context of HR, are being applied for expert functions (e.g. recruitment and selection, legal advice, and for training and development) and for back-office functions (e.g. personnel and benefits administration, payroll processing, and the provision of HR information to individual end-users through call centers, mailings, and portals) (Ulrich 1995, Ulrich and Brockbank 2005, Ulrich, Brockbank et al. 2008, Bondarouk, Maatman et al. 2010, Bondarouk 2011, Maatman 2011). Making a distinction between expert and back-office functions is relevant as it allows one to study the evolution in the capabilities of a transactional SSC that closely interacts with the primary business processes of the business units without taking over the role of so-called Expertise Centers that provide services for expert functions. Third, HR SSCs are concerned with the interests of various types of customers and end-users such as individual employees, line managers, local HR professionals, and entire business units. Moreover, HR is delivered through multiple delivery channels, such as corporate HR, HR expertise centers, HR business partners, and line managers (Bos-Nehles 2010, Farndale, Paauwe et al. 2010). Although this multichannel delivery of HR within organizations complicates the perceived business value of an HR SSC and the value it creates, it also increases the potential of the HR SSC to act as the integrator of HR delivery. Finally, the HR function has in general struggled to demonstrate its strategic contribution to the organization (Becker, Huselid et al. 2001, Ulrich and Brockbank 2005) and we argue that an HR SSC can increase the strategic contribution of the HR function to the organization and enable it to demonstrate its contribution to organizational performance.

Deforg is divided into four operational units responsible for the primary tasks (core business) of the organization, and numerous other units that provide support services to the operational units. The establishment of the HR SSC went beyond simply concentrating and bundling the administrative resources within the SSC: it was an element in the adoption of an HR SSM and the restructuring of the entire HR function, the HR delivery channels, and the division of responsibilities between delivery channels and end-users.
Within Deforg, we selected one specific HR SSC as our case study unit on the basis that it was a semi-autonomous business unit providing common transactional HR services to a range of operational units. The contents of the services provided had been discussed and agreed upon by the customers (the business units) on various levels. In the organizational hierarchy, the HR SSC was positioned under Shared Services, a business unit within Deforg. Moreover, there was a functional line linking the HR SSC to Corporate HR. Together, the hierarchical and functional lines strongly influenced both service delivery and the HR SSC’s development. For these reasons, the HR SSC studied represents a hybrid type of HR SSC: combining the infrastructure type with that of an extension to the staff department (Strikwerda, 2003).

The HR SSC became operational in 2006 as part of the optimization and restructuring program of the entire HR function at Deforg. As of 2009, the HR SSC employed approximately 350 staff. Although operational, the HR SSC was still undergoing construction at this stage and had yet to realize the full scope of the intended tasks. The HR SSC had been established to support personnel/salary administration and to act as the front desk for employees, line managers, and decentralized HR personnel when they had HR-related questions (concerning transactions, processes, systems, the law, and regulations). In 2009, the HR SSC comprised the following seven units with specific responsibilities:

- Information Center (front desk for HR-related questions);
- Support Center (supporting personnel/salary-related transactions);
- Knowledge Center (guarding the administrative organization of the HR processes);
- Business Desk (guarding the internal administrative organization, developing internal personnel, managing performance, and maintaining customer-relations);
- Accompaniments team (supporting the Management Team (MT) in implementing Corporate HR plans within the HR SSC);
- Project desk (controlling and providing support and expertise for internal projects);
- Support group (providing support activities, such as facility services and safety).
Three of the units, the Information Center, the Support Center, and the Knowledge Center, focused on performing the primary service delivery processes of the HR SSC. These units all essentially worked on the same HR processes but were distinguishable by the type of work they performed. The work of the four remaining units, the Business Desk, the Accompaniments Team, the Project Desk, and the Support Group, was allocated based on their function in supporting the primary HR SSC processes. Although the Support Group was located within the HR SSC, it had a direct hierarchal line to the Director of HR Shared Services - the umbrella organization of HR Service Providers.

Data collection

The longitudinal case study was conducted between July 2009 and June 2011 and involved interviews, document analysis, participatory observations, and attending official HR SSC meetings and informal meetings with the HR SSC MT and Corporate HR. We started with an analysis of documents and transcripts of informal meetings to gain insights into the context of the HR SSC. The documents included memoranda on the development and progress of the HR SSC, and project initiation documents related to its establishment and development. The oldest document (January 2004) described a future vision for the delivery of HRM within the organization as a whole. Following this, we conducted semi-structured interviews with each of the eight members of the HR SSC’s management team, each lasting approximately ninety minutes, to uncover the resources of the HR SSC and the activities that it performed. All the interviews were tape-recorded and then transcribed. The transcriptions were sent to the interviewees for verification. The document review process continued beyond the period of interviews, and the most recent documents (2011) describe the progress made over time and the current situation of the HR SSC (see Table 2 for an overview of the data collection methods).

Following the interviews with the eight MT members, we conducted twelve interviews with representative HR SSC customers, each lasting approximately one hour. The main goal of these interviews was to gain insight into how their perceptions of value created by the SSC were constructed. Representatives were selected from a provided list of demand managers (those responsible on the customer side for the relationship between the business and the HR SSC), and
invitations to participate, with confidentiality promised, sent out. Again, all the interviews were tape-recorded, and the transcript verified by the interviewees.

**Table 2. Data collection overview**

<table>
<thead>
<tr>
<th>Data collection techniques</th>
<th>Sample</th>
<th>Total</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(N)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Document Analysis</td>
<td>21</td>
<td>500+ pages</td>
<td>X X</td>
</tr>
<tr>
<td>Informal meetings with HR SSC</td>
<td>10</td>
<td>≈ 20 h.</td>
<td>X X</td>
</tr>
<tr>
<td>Informal meetings at Corporate HR</td>
<td>3</td>
<td>5 h.</td>
<td></td>
</tr>
<tr>
<td>Attending SSC HR MT meetings</td>
<td>3</td>
<td>3 h.</td>
<td>X</td>
</tr>
<tr>
<td>Interviews at HR SSC</td>
<td>8</td>
<td>12.5 h.</td>
<td>X</td>
</tr>
<tr>
<td>Interviews with customers</td>
<td>12</td>
<td>13 h.</td>
<td>X X</td>
</tr>
</tbody>
</table>

**Data analysis**

The transcribed interviews were analyzed using the NViVO software application. The transcribed interviews with HR SSC management amounted to 185 pages. We applied a deductive approach in categorizing all the activities and resources described by the MT members of the HR SSC. This approach was selected since the capabilities of an organization are difficult to observe as they are only visible when they are being employed in managerial and organizational processes (Helfat, Finkelstein et al. 2007). Next, we used insights from the resource orchestration concept to identify those activities and resources that were being deployed in line with the capability leverage strategy (Sirmon, Hitt et al. 2007). In this way, we were able to separate those resources and activities that were being used in managerial and organizational support processes from those that were being leveraged to achieve strategic goals. Subsequently, we were able to identify 31 subcategories of first-level capabilities within these two main categories.
Following this, we applied the capability hierarchy concept (Prahalad and Hamel 1990, Grant 1996, Grant 1996, Winter 2003, Zahra, Sapienza et al. 2006) to reveal how these first-level capabilities were integrated into second- and third-level capabilities that are leveraged in line with the capability leverage strategy to create value for the business. The documents and the insights gathered during the informal meetings and attendance during formal meetings were then used to reconstruct how the HR SSC had evolved over time as it developed and deployed new capabilities and found new ways to use the available resources. The findings were verified with the President and the Vice-President of the HR SSC. The transcripts of the interviews with the business-unit representatives, which amounted to 113 pages, were used to check if the identified capabilities were indeed deployed to fulfill the needs of the business units.

**Evolving Capabilities of the SSC**

Deforg initiated a project to restructure their HR function in 2001. The goal of the project was to replace its ten most important Human Resource Information Systems (HRISs) with a single commercial off-the-shelf HRIS and subsequently to standardize HR policies and processes for the delivery of HR throughout Deforg. The new HRIS was implemented in 2003. Subsequently, in 2004, a future vision for the delivery of HR was formulated. In this vision, HR would be delivered through four delivery channels: corporate HR, decentralized HR professionals, several HR Expertise Centers, and an HR SSC. A study into the implementation of an HR SSC to address HR back-office processes and functions was finalized in 2005. This led to a project initiation document for the establishment of such an HR SSC and the acquisition of a building in which the HR SSC would be based.

**Initiation phase**

The development of the HR SSC started in 2005 and its Information Center became operational in 2006. Subsequently, a Knowledge Center was established, as a department within the HR SSC, to secure the organization-specific HR knowledge and expertise. The Knowledge Center would feed the Information Center with the information it required, and served as a second line of support when the Information Center was unable to sufficiently support individual end-users (with intensive, difficult individual cases). At that stage, the primary tasks and activities of the HR SSC were to answer questions from individuals and to
offer end-users support in relation to their legal position, HR processes, and the HRIS, and to distribute HR information related to the delivery of HR. In carrying out these tasks, the HR SSC deployed an operational capability that we have label 'Care Capability'. We define this capability as the extent to which an SSC is able, using its current resource base, to repeatedly provide end-users with information, answers, and advice in response to their needs. The Care Capability was deployed in response to the needs of individual end-users within the HR SSC. As one of the HR SSC managers described it:

"We are the contact point for all 70,000 of Deforg’s employees if they have a question regarding HR, HR regulations, processes, and systems... The individual employees are helped to perform their HR activities, such as changing addresses, requesting business trips, etc. The local (decentralized) HR professionals are assisted in properly performing their role. We provide them, and their line-managers, with information on regulations, processes... Our focus is on the individual end-users. It is about contact with these individuals and ensuring that they are optimally supported when they have a question... We want our service employees, when on the phone, to demonstrate an understanding of the specific situation in which a questioner finds themself.” (SSC manager 1: all quotes translated from the Dutch original by the authors)

Although this Care Capability was deployed for individual end-users, the actual customers (the business units) nevertheless perceived the output of the Care Capability as valuable:

"In the end, the SSC contributes to the employees’ trust in the organization as a whole because they have a place to go to if they have questions.” (Customer 10)

"The extent to which employees, line-managers, and local HR professionals with specific questions can rely on the HR SSC and receive an accurate answer without delay is very important for me.” (Customer 3)

At the end of the first maturity phase, the HR SSC was still developing in line with the project planning. The HR SSC’s focus was primarily internal as it needed to develop into an operational organization if it was to provide the services designed
and prescribed by Corporate HR. We conclude that this initial development and deployment of a service delivery capability, a Care Capability in this specific HR SSC, characterizes the first phase of maturity in an SSC.

**Functional growth phase**

In the second phase, the function of the HR SSC was expanded in line with the initial project plan of Corporate HR. The HR SSC was foreseen as having a central role within the newly developed HR processes. With the support of external consultants and Corporate HR advisors, the administrative HR processes within Deforg were reconfigured. Resources for carrying out personnel and salary administration functions were bundled within two units of the HR SSC during the second half of 2006 and the first half of 2007. Together, these two units formed the Support Center of the HR SSC. From then on, the HR SSC relieved the business units of their personnel and salary administration activities. The purpose of the Support Center was explained by one of its managers as follows:

"Why are we on earth? To take care of the administration. Relieving the business from all the administrative tasks, and performing these tasks for them." (SSC Manager 3)

We refer to this ability of the SSC to support the business and to relieve it of the administrative tasks as a Relieving Capability. We define the Relieving Capability as the extent to which the SSC is able, through using its current resource base, to repeatedly assist the business units in meeting their responsibilities. The Relieving Capability was deployed to support the business units by processing changes in the situation of employees in the HRIS, as requested by the business units and in accordance with HR policies. Moreover, the HR SSC performed follow-up activities such as informing stakeholders about the transactions processed, payroll processing, and the generation of HR management information.

The Relieving Capability integrates with the Care Capability to create the SSC’s Service Delivery Capability. This Service Delivery Capability represents the capacity of the SSC to employ its current resource base to perform everyday functional activities that result in the delivery of services to end-users and business units. Together, the Relieving and Care Capabilities shape the originally intended function of the SSC.
"The HR SSC is the central service desk for employees, line managers, and local HR professionals who have questions and need support in relation to the HR legal position, HR processes, and HR systems." (Memo, 2006)

The personnel and salary administration function was a new task for the HR SSC and required the development of resources to relieve the business units plus the deployment of a dynamic capability which we refer to as the Expansion Capability. This Expansion Capability is defined as the extent to which the SSC is able to repeatedly design and develop new services and expand its customer base. In this instance, the Expansion Capability was primarily sourced from outside the HR SSC (from external consultants and Corporate HR staff) but was available to the HR SSC for carrying out actions and activities that resulted in an expanded HR SSC resource base and the development of new services. Deploying this Expansion Capability enabled the HR SSC to prepare for its intended function and provide new services as described in a project document covering the functional growth of the HR SSC:

"The HR SSC, as the receiving party (of a new HR administration function), is currently not equipped to perform the new tasks and should be made ready. For this, 120 extra FTEs will be employed... The construction of the Support Center will be phased, and co-evolve with the redesign of the HR delivery processes... An important activity in relation to the growth of the HR SSC is preparing it so that it is able to absorb the new tasks (sourcing, training, equipment, acceptance of new processes and systems). This activity will be performed by the Accompaniments Team." (project document 1, 2007)

The expansion, with new functions related to personnel and salary administration, had a significant impact on the HR SSC. In order to carry out the administrative activities, the HR SSC was expanded with an additional 120 FTEs. Although a significant number of the employees were familiar with Deforg and the work to be done, the HR SSC concept and its businesslike approach to HR changed how the work was to be performed. Further, the HR SSC was faced with new systems to provide the services, coupled with new service delivery and operational processes. An Expansion Capability was essential if the HR SSC was to develop the resources required for these new functions. The Accompaniments Team played an important role in expanding the HR SSC function by participating in the development and implementation of the new services, ensuring that the HR SSC operation was not
disrupted, and that the new functions were optimally performed after implementation.

The use of an Expansion Capability to achieve functional growth was the first indication we saw of the HR SSC deploying a dynamic capability to address business needs. Although the deployment of the Expansion Capability was primarily driven by the project planning, it was also deployed to comply with business needs as the business expected the HR SSC to perform these administrative tasks and had shed its own capacity to perform these tasks.

"The local decentralized HR professionals have the perception that there is still a lot of work that should have been shifted to the HR SSC. We call it administrative residues. Actually, it was promised and expected that local HR professionals would no longer be bothered by these activities. These ongoing activities limit our ability to perform our advice role. Our capacity to perform these administrative tasks has been removed, but there remains a lot of administrative work." (Customer 3)

Here, we argue that the second maturity phase of an SSC is characterized by the expansion of its operational Service Delivery Capability through the deployment of a dynamic Expansion Capability.

In our study, the dynamic Expansion Capability was used to change and develop the resource base of the SSC itself. The fact that the deployment of this capability had an internal focus is not surprising given that the SSC was focused on developing so as to achieve its intended scope. This, however, does not imply that the SSC was unable to create business value in this phase. The businesslike approach to performing a specific business function through the bundling of resources and providing shared services in itself enabled business value to be created. Through the HR SSC deploying its Service Delivery Capability, the employees of the various business units received just-in-time and just-in-place support. This created trust among the employees of the different business units served, and ensured HR policies were identically interpreted by all the business units. Moreover, the employment of the Service Delivery Capability enabled the business units to let go of these basic tasks and instead focus more on primary tasks.
"It means that knowledge is concentrated and bundled in a single organization and therefore that activities are performed more effectively, and quality can be secured.” (Customer 3)

"The communication is unambiguous, and HR policies are applied consistently within the organization as a whole. In my opinion, this is progress because earlier there were different interpretations of HR policies throughout the organization. This is a win-win situation and everybody is treated equally.” (Customer 2)

"The fact that you can submit a question on a single point is very positive. There are real specialists there [i.e. the employees of the SSC].” (Customer 6)

"The HR SSC independently carries out a set of tasks and there is no need for me to become involved. We make decisions that go to the HR SSC and they process our decisions... If we take a decision, it should be processed correctly and, for me, as a representative of my business, it is important that we spend as little time as possible on it. I do not want to have to deal with the tasks I have now given up. The HR SSC independently performs a set of tasks and I am no longer bothered by those tasks. We take a decision and the HR SSC provides the services to process those decisions.” (Customer 1)

**Optimization and expansion phase**

The initial project implementation plan developed by Corporate HR foresaw a third phase in the optimization and expansion of the HR SSC, and this was scheduled for a three-year period from 2007 to 2009. Over this period, those HR administrative processes that had not already been modified were redesigned. In doing so, the scope of the services provided by the HR SSC again expanded. The service delivery processes were enhanced through the introduction of employee self-service (ESS) and management self-service (MSS) components. Both these initiatives were driven by Corporate HR’s initial project plan and co-sourced using external consultants and Corporate HR expertise.

Over time, the HR SSC also became responsible for guarding and implementing HR delivery in that it addressed bottlenecks in HR policies and processes designed by Corporate HR, processed change requests related to the HR processes, and
managed content related to the HR delivery processes. Moreover, the HR SSC began to implement new HR policies and practices developed by Corporate HR as part of the restructuring program for the HR function. We refer to the capacities of the HR SSC to perform these activities as ‘Guarding’ and ‘Implementation’ Capabilities respectively.

The Guarding Capability is defined as the extent to which an SSC is able to repeatedly identify opportunities for and threats to the delivery of a business function within the organization as a whole. Using its Guarding Capability, an SSC monitors how a business function performs. In this phase, the Guarding Capability was particularly deployed in our case organization to monitor the consistency and the quality of services delivered through its Service Delivery Capability. The activities included the logging and categorization of questions asked by end-users, and contacting end-users who had submitted questions to the HR SSC to ask their perceptions of service delivery.

Both the Expertise Center and another business unit, the Business Desk, played central roles in guarding the HR delivery processes of the SSC. Similarly, the Information Center logged complaints from individual end-users related to the service delivered by the HR SSC, and also related to HR delivery through other channels, such as the local, decentralized HR professionals and other HR service providers within the organization. This had a further use in that it revealed valuable information on HR delivery throughout the organization.

The Implementation Capability is defined as the extent to which an SSC is able to repeatedly effect changes in the delivery of services as a result of developing, extending, or creating new resources in the resource base of the SSC or within the organization as a whole. In this phase, we saw that the HR SSC relied heavily on external consultants and Corporate HR staff (bundled in the HR SSC’s Accompaniments Team) for its activities related to implementing services developed by Corporate HR.

Overall, the Guarding and Implementation Capabilities can be seen as support for SSC management, and as being primarily of interest to Corporate HR and to the HR SSC itself. Further, these capabilities had not been leveraged primarily to create value for the business but to monitor value creation and to ensure new
value creating activities (services) could be introduced without disturbing existing value creating activities.

In practice, through deploying its Guarding Capability, the HR SSC identified a need for optimization. Outputs stemming from this Guarding Capability were then used when the management team discussed opportunities and threats related to service delivery.

“We monitor customer satisfaction. Every month we call 105 individuals who have asked questions and received answers. We ask them about quality aspects of the service delivery in relation to their question and the answer they have received... We monitor our compliance, and how the customers are treated. We also do this for transaction requests. Here, we call the local HR professionals who have made such requests. Again, we ask about their perceptions of the service delivery in relation to their transaction request. Various measures are used in this analysis to identify necessary improvements to specific processes. If we see that we are not meeting a performance norm, we dig deeper. Every week the various measures are discussed within the management team.” (SSC Manager 3, 2009)

We saw that the HR SSC’s management addressed the need for capacity within the HR SSC so that it could carry out optimization projects without outside help: it felt it needed the capacity to develop solutions that would optimize service delivery.

“After two years, we realized that we needed our own capacity to carry out projects. We needed the structural capacity to carry out improvements. The evaluations, the external influences, the process owners... they all identified bottlenecks and suggested improvements. Minor adjustments could be handled within the different units. For larger adjustments, those that result in a change to the organization or require coordination between different units, we needed our own capacity to run projects - to be able to fulfill our need for continuous improvement.” (SSC Manager 4, 2009)

In response, a Project Desk was established to play a central role in such optimization activities. Together with resources from other units within the HR SSC, the Project Desk would optimize service delivery and the operational
processes of the HR SSC, effectively altering its resource base. The Project Desk, and the projects it carried out with other HR SSC units, provided the first clear indication of the existence of a dynamic capability that was deployed by the HR SSC and built by integrating its own resources.

"We are continuously seeking opportunities for improvement. We have adopted improvements in our operations. We involve our own employees and they are made responsible for performance. They are allocated to groups that are responsible for the performance of specific areas or processes. They analyze how we can improve our processes and procedures. They come up with ideas and, where possible, these ideas are developed." (SSC Manager 1, 2009)

We refer to this dynamic capability as the Modifying Capability of an SSC, which is defined as the extent to which the SSC is able to repeatedly redesign and redevelop the characteristics of its current operation and affect the quality, costs, and functionality of the services provided. This Modifying Capability is deployed by an SSC as it optimizes its own processes, and the skills of its employees, to improve operational efficiency and effectiveness. In our study, the optimization efforts were not invested solely to improve the operations of the SSC itself, but also to improve service delivery to its customers. Whereas the HR SSC initially had an inward focus, by setting up service delivery and organizing operations, the focus expanded toward the business, and attempts were being made to respond to the business’s needs. The HR SSC’s management acknowledged the importance of its Modifying and Expansion Capabilities for its customers by including continuous optimization in its 2008 mission statement:

“The HR SSC is your central service desk for HR questions and support. Founded on our commitment and expertise, we do what we have agreed, and our aim is continuous improvement." (Business plan, 2008)

As such, the 2008 mission statement demonstrates that deploying Modifying and Expansion Capabilities were, by then, part of the HR SSC’s capability leverage strategy.

Based on this analysis, we argue that the third phase of an SSC’s maturity can be characterized as the development and deployment of internally sourced Modifying
and Expansion Capabilities, and by these having a central role in its capability leverage strategy. We saw that, through the deployment of Modifying and Expansion Capabilities, the Service Delivery Capabilities were changed (with new and changed procedures, services, etc. being implemented through the Implementation Capability). We saw that the initiative of the HR SSC’s management to optimize and expand service delivery was linked with an expansion of the focus from internal HR SSC activities to include the business’s needs and to act upon these needs.

The deployment of Modifying and Expansion Capabilities, as a part of a capability leverage strategy, creates additional business value. We observed that customers favored an HR SSC strategy that would continuously improve and expand service delivery, and increasingly focus on meeting customer needs.

"Concerning the introduction of digital, service delivery processes: "First of all, the processes run smoother, as digital processes are quicker than hard copy forms through the mail. The time gains, and not having to check the output of the service delivery processes, saves my unit a lot of time that can be spent on other activities.” (Customer 5, 2010)

"In the last year they have made big improvements in the quality of service delivery. The services are friendlier and therefore the processes run more smoothly. Self Service has developed nicely and is easy for the individual end-users to use. Moreover, the travel expenses service has made a lot of people happy. Overall, it has removed a lot of the workload from my local HR professionals... I know they are still busy with a lot of new services, but that gives me confidence as it means they are not yet at the peak of their abilities. They continuously search for improvements and you, as a customer, are involved.” (Customer 2, 2010)

**Delivery integration phase**

Delivery integration is about integrating the individual delivery channels for a specific business function across an organization. Since a transactional SSC is positioned at the center of a business function, it can play an important role in integrating its delivery and act as a channel through which transactions and questions/problems can be processed. With a Guarding Capability, an SSC is able to identify opportunities and bottlenecks in the delivery of a business function.
These may be bottlenecks in the SSC’s own service delivery, but also in other delivery channels (such as line managers or business partners). The integration role of the HR SSC at Deforg was recognized and addressed by the HR SSC’s management:

“The organization as a whole is redesigning the delivery of HRM. There are many projects throughout Deforg where we should know the direction they are moving in as they have a significant impact on our HR SSC. We are not always directly involved in these projects but we monitor how they evolve. We have many contacts outside the HR SSC. We are becoming the hub of the spider’s web as we build a network of relationships between the HR SSC and its environment. This goes beyond our primary service delivery and covers all the HRM delivery channels within Deforg.” (SSC Manager 4)

“The added value of the HR SSC is that knowledge and expertise are centralized. As such, the HR SSC is in a position to identify trends which can be adopted when managing HR delivery throughout the organization as a whole.” (SSC Manager 8, 2009)

The integration role is best illustrated with some simple examples. As the HR SSC monitors all the questions put by end-users to the Information Center, and knows the organizational assignment of end-users within the organization, the HR SSC is able to identify bottlenecks in HR delivery within specific business units. This information is used by the HR SSC to address and develop training material for line managers to improve their performance of specific HR practices. Another example of the integration role in action is the development and provision of procedures that enabled local, decentralized HR business partners to implement HR policies without running into problems. Both these examples illustrate how the SSC provides solutions developed through what we label as its Integration Capability. We define the Integration Capability as the extent to which an SSC is able to design, develop, and provide solutions, to a range of stakeholders for the delivery of a specific business function, that are required for sustainable, harmonized delivery throughout the organization. The SSC employs its Integration Capability to optimize, or participate in optimizing, the business function delivery within the organization as a whole. Such actions by the SSC affect the resources
of the business units and, therefore, represent a dynamic capability that is used in the delivery of the business function beyond the SSC’s boundaries.

In deploying its Integration Capability, the HR SSC expanded its focus to encompass the delivery of HR within the organization as a whole. Before this step, the Guarding Capability was deployed to identify service-delivery bottlenecks within the various delivery channels. The SSC’s management then used this information to initiate actions by deploying it Integration Capability. The HR SSC’s management recognized this need to expand its focus, and reflected the importance of having an Integration Capability for its customers in its 2009 mission statement:

"The HR SSC is an effective and efficient executor of HR policies and processes. It is comparable to the best in its market. The HR SSC is a customer-oriented partner, and adds value to the HR delivery chain of the organization as a whole. As an HR expert, the HR SSC provides a significant positive contribution to the development, implementation, and evaluation of new HR policies within the organization as a whole (Brochure, 2011).

The SSC held to the 2009 mission statement throughout the final years of our research project at Deforg. During informal meetings with members of the HR SSC management team in 2010 and 2011, initiatives to develop a new role as an integrator of HR delivery within Deforg were discussed. These initiatives were part of a seven-track improvement project referred to as SSC HR 2.0. In this, the HR SSC management planned to establish an analytical business unit whose outputs would be used to identify bottlenecks and opportunities. Another initiative was the introduction of the ‘lean’ concept. This concept triggered the HR SSC to focus on its added value for various groups of end-users and customers, and to improve the delivery of HR among the various HR delivery channels by removing slack from the HR service delivery processes. The application of the lean concept resulted in some pilot projects that restructured the HR SSC to reflect the HR processes supported, rather than having a functional structure based on the types of service provided, and aimed to increase the ability of the HR SSC to monitor and guard the delivery of HR. At the end of our case study, it was uncertain if the HR SSC would develop its Integration Capability further as the economic downturn had limited its ability to invest substantially in new initiatives.
Nevertheless, interviews with customers of the HR SSC revealed that there was a felt need for an integration role. The quote below from a customer demonstrates their desire for the HR SSC to carry out actions/activities that require an Integration Capability:

“They [the HR SSC] should demonstrate their value and make use of all the information they gather. They should address the identified bottlenecks in the delivery of HRM within the organization as a whole. That is added value.”

(Customer 11, 2010)

The quote above suggests that an Integration Capability can be part of a capability leverage strategy for creating business value. Earlier, we had conversely argued that the Guarding and Implementation Capabilities were not part of a capability leverage strategy for creating value for the business, and that these capabilities were primarily of interest for the HR SSC itself and for Corporate HR. However, the 2009 HR SSC mission statement showed that evaluation (guarding) and implementation had become part of its mission. We observed that, as a consequence of its expanded focus on the delivery of HR within Deforg, the HR SSC had also expanded the classification of its customers. The continuous development and deployment of existing and new capabilities enabled the HR SSC, by deploying its Expansion Capability, to address the needs of a new customer: Corporate HR. We therefore argue that the adoption of “evaluating” and “implementing” aspects in the HR SSC mission reflects the SSC’s management acknowledgement of Corporate HR as an appropriate customer. Initially, Corporate HR had played an important role in determining the role of the HR SSC as it was responsible for HR delivery and had redesigned the HR delivery model. At that time, the HR SSC was dependent on decisions made by Corporate HR as to how HR should be transacted. What we see is that, over time, the top-down relationship between Corporate HR and the HR SSC changed as the latter developed its own capabilities:

"Corporate HR pushes its decisions toward us in a top-down manner... If we compare the top-down and bottom-up proportions, then top-down is more prominent. Actually, however, in my opinion, the balance should shift toward bottom-up.... The advice role is currently taking shape ... It is a workload that is coming toward us. We are increasingly involved in the development of HR
delivery... We are increasingly asked our opinion on how HRM should be delivered... This goes beyond our operational role.... I think that we are a successful HR SSC. We perform really well and they (Corporate HR) increasingly know where to find us.” (SSC Manager 5, 2009)

Given these trends, we see the fourth phase in an SSC’s growing maturity as characterized by the development and deployment of an Integration Capability. In our case study, the Integration Capability was developed and deployed as the SSC’s management came to recognize the potential of the SSC’s position within the business function. As the SSC adopted an integration role, its focus expanded from providing its own services to include the service delivery channels present throughout the organization as a whole.

Although, in our case study, the Integration Capability was not fully developed, customers already acknowledged its potential to add business value.

“It is important that the SSC identifies trends and determines whether everybody is doing what they should be doing according to the standards set. I think that is extra value. They should use everything they observe in favor of the organization as a whole. It would be good if they were able to do this.” (Customer 11)

“The SSC can create added value by aligning procedures throughout the organization since this would result in greater efficiency. I mean that this would enable processes to run more smoothly.” (Customer 9)

Whereas the dynamic Modifying and Expansion Capabilities created value by modifying or developing new operational service delivery capabilities within the SSC, the Integration Capabilities created business value through their outputs changing the resource base of the business units with the purpose of improving their HR performance.

“Within the SSC there is a lot of knowledge. The SSC can and wants to share that knowledge. They let us use their knowledge, which helps us to improve our processes.” (Customer 3)

“The SSC should identify where mistakes are being made, and must ensure that we learn from this so that we can improve.” (Customer 8)
Chapter 3: Capability Evolution in a Shared Service Center

Toward the fifth phase

Although we did not observe a fifth maturity phase during our case study, we argue that such a phase, and a corresponding role for the SSC, exists. We saw that the SSC had the potential to integrate the delivery of a specific business function across the organization as a whole, and we therefore argue that the various SSCs, that address different business functions (such as finance and IT), together have the potential to integrate the organization as a whole. We refer to this phase of SSC maturity as the strategic integration phase. The information gathered by the SSCs within the organization’s various business functions, and the knowledge and expertise bundled within the SSCs, could enable the opportunities and threats for the organization as a whole to be identified. Moreover, there is a further role for the SSCs in predicting and evaluating the outcomes of strategic decisions, and perhaps even in advising on strategic decisions that have to be made. The role of the SSCs in this would be to prepare the organization as a whole for the future and to provide support in strategic decision-making.

The role of management and capabilities in creating business value

Our data have enabled the mapping of the capabilities deployed by an SSC (see Figure 2). At the highest level of the capability hierarchy, we place two capabilities that are used in line with the capability leverage strategy of the SSC. The first of these is the Service Delivery Capability that resulted from integrating the Care and the Relieve Capabilities. The Care and Relieve Capabilities are employed to carry out functional activities and result in a service being provided to the business units and their end-users on a daily basis, and these are therefore characterized as operational capabilities. Similarly, the Expansion, Modifying, and Integration Capabilities integrate into what we refer to as the Engineering Capability. The Modifying, Expansion, and Integration Capabilities change the resource base of the SSC, or that of the delivery channels and their customers, within the organization as a whole. Together with the Guarding, Implementation (the Change Facilitating Capability), and Managerial Capabilities they enable change and, as such, all these capabilities can be characterized as dynamic capabilities.
We also identified several capabilities that can be integrated into the seven mid-level capabilities (Care, Relieve, Guarding, Implementation, Modifying, Expansion and Integration Capabilities). However, these lower-level capabilities are very case-specific, and are probably only useful for observing differences between the capability leverage strategies of various HR SSCs. As such, we see these lower-level capabilities in the capability hierarchy as useful for studying the contribution of single resources, and very small bundles thereof, to value creation. We would argue however that these capabilities do not enable one to assess the value creating capacity of HR SSCs in general because different HR SSCs will have different resource bases.

We saw how the Service Delivery Capability and the Engineering Capability became parts of the capability leverage strategy of the HR SSC’s management as they became embedded in its mission, vision, and strategic goals. We observed how the representatives from the business units were positive about the outputs of these capabilities as they were deployed. We therefore argue that the Service Delivery and the Engineering Capabilities are mechanisms that an SSC applies to create value for the business. We illustrated how the dynamic Engineering Capabilities created business value. First, the Engineering Capabilities are able to create additional business value if they are used to align the Service Delivery Capabilities with customer needs. Second, the Engineering Capabilities create value when they are employed to create or change the resources used by the business units in their operations.

We have identified the importance of the Guarding and Implementation Capabilities for SSC Management. These two capabilities acted as a link between those capabilities that were integrated to form a Service Delivery Capability and those that formed the Engineering Capability. The Guarding Capability acted as a sensor in extracting data not only from the external environment but also from the service delivery processes of the SSC itself. The sensor function was used by management to seize opportunities and respond to threats. The SSC’s management took action by deploying the SSC’s Engineering Capabilities with the task of developing responses to the opportunities and threats identified. Provided appropriate solutions were developed, the SSC’s management then used its Implementation Capability to effect changes. In this way, capabilities were altered or developed, and then redeployed in line with the capability leverage strategy.
Chapter 3: Capability Evolution in a Shared Service Center

The Guarding and Implementation Capabilities therefore supported the orchestration of resources and further supported management in synchronizing actions within the resource orchestration process (see Figure 2). As such, we concur with Ambrosini and Bowman (2009) and with Bowman and Ambrosini (2003) who argue that management does not by itself sense opportunities and threats, nor build or change capabilities, because these activities require organizational capabilities. As such, the ability to manage resources (Holcomb, Holmes et al. 2009, Sirmon, Hitt et al. 2011) is limited to seizing opportunities and repelling threats, and synchronizing the various steps within the resource management process. We would, however, argue that a resource management ability can affect value creation (Bowman and Ambrosini 2003, Holcomb, Holmes et al. 2009) through the Service Delivery and Engineering Capabilities since the actions of management change the configuration of the capabilities and how they are deployed. As such, managerial ability can be seen as a dynamic capability in itself (Sirmon and Hitt 2009). However, this is not leveraged through a capability leverage strategy: its role is to leverage the available capabilities in line with a chosen leverage strategy.

DISCUSSION AND CONCLUSIONS

This paper has addressed, in an empirical setting, several concepts described in the recent literature on the Resource-Based View and Dynamic Capabilities. Firstly, we revealed how the capability hierarchy (Prahalad and Hamel 1990, Grant 1996, Kraaijenbrink, Spender et al. 2010) evolves over time (Helfat and Peteraf 2003, Barney, Ketchen Jr. et al. 2011, Wan, Hoskisson et al. 2011) as an SSC matures. We were able to reveal the evolution of capabilities within a specific SSC by assessing, and then defining, the specific capabilities of the SSC, and the resources that were integrated at different moments in time to form these capabilities (Kraaijenbrink, Spender et al. 2010, Drnevich and Kriauciunas 2011). We saw how the resources of the SSC were configured into new or modified bundles of resources with which to build new or develop existing capabilities (Helfat, Finkelstein et al. 2007, Sirmon, Hitt et al. 2007, Sirmon and Hitt 2009, Barney, Ketchen Jr. et al. 2011, Sirmon, Hitt et al. 2011). The evolution of the capabilities was associated with changes in the capability leverage strategy chosen by the SSC’s management, and were seen as an outcome of resource orchestration.
We were able to show the outcomes of this resource orchestration as the SSC developed and employed its Modifying Capability to optimize service delivery and initiate the development of an Integration Capability, thereby changing the capability hierarchy. Although only some of the SSC’s capabilities addressed change (the dynamic capabilities), we saw that both the Service Delivery Capability (an operational capability) and the Engineering Capability (a dynamic capability) were able to accommodate change (Helfat and Peteraf 2003). For example, we saw how both these latter capabilities were modified and expanded over time. In changing, or evolving, the capability hierarchy, the SSC deployed its dynamic capabilities. Initially these capabilities were primarily sourced from outside the SSC but, as the capability leverage strategy changed, the SSC’s management foresaw the need to have access to its own dynamic capabilities. Moreover, as the scope of the capability leverage strategy broadened, the
importance of dynamic capabilities increased. Initially, the dynamic capabilities were deployed to optimize/expand the operational and service delivery processes of the SSC itself but, as the SSC matured, these capabilities were also deployed to change the delivery of business functions throughout the organization, including in the business units. In so doing, it changed the resources of the business units. The dynamic capabilities played an important role in expanding the focus of the SSC: from reducing costs to adding value. Moreover, we saw an important role for these dynamic capabilities in the SSC: creating value for the business units.

We are not claiming that there is a unique way for SSCs to evolve and mature, nor do we claim that we have found the ‘best’ way for SSCs to evolve to ensure they move in the direction of value creation. First, this is because there are differences among SSCs in that they are established to address different business functions. Second, we did not measure the value created by the specific SSC in our study. This SSC, and the associated Shared Services Model, might well be sustained as it is seen as beneficial by corporate levels, but this situation might change. Moreover, since we built our foundations on the RBV and the DC, we are aware that there is an implied position and path dependency that affects the evolution of the SSC and its capabilities (Peteraf and Barney 2003, Ambrosini and Bowman 2009, Kraaijenbrink, Spender et al. 2010, Maritan and Peteraf 2011).

The evolution of the capabilities is the result of resource management and the asset orchestration process, or resource orchestration in short (Helfat, Finkelstein et al. 2007, Sirmon, Hitt et al. 2007, Barney, Ketchen Jr. et al. 2011, Maritan and Peteraf 2011, Sirmon, Hitt et al. 2011). We argue that managerial capability, representing the effectiveness of management in synchronizing actions within the resource management process, plays an important role in the evolution of the capabilities since management is responsible for acquiring, developing, and configuring resources into synchronized resource bundles (Sirmon, Hitt et al. 2007, Sirmon, Gove et al. 2008, Holcomb, Holmes et al. 2009, Maritan and Peteraf 2011, Ndofor, Sirmon et al. 2011, Sirmon, Hitt et al. 2011). However, we have shown how management used the organization’s Guarding and Implementation Capabilities existing in the SSC to sense opportunities and need for change, and to effect changes in the resource base (Bowman and Ambrosini 2003, Ambrosini and Bowman 2009). Neither the Guarding nor the
Chapter 3: Capability Evolution in a Shared Service Center

Implementation Capabilities defined the resource orchestration; rather they were organizational capabilities that supported resource orchestration. Nevertheless, the Guarding Capability, in its sensing role, is indispensable if an SSC is to continuously identify opportunities and threats in order to increase business value creation. The Implementation Capability enables an SSC’s management to secure operations and create value when rolling out new services or procedures.


In the context of HR, the empirical findings shed light on how HR can justify a role for itself in strategic decision-making. First, we revealed how, by using its Care and Relieving Capabilities, an SSC actually relieves local HR business partners of administrative responsibilities. The time and capacity thus saved by decentralized HR professionals can be used to focus on supporting business management in strategic HR decisions. Second, as an HR SSC matures, we see it as having a role in developing strategy for the organization as a whole. Given its central position, its concentration of knowledge and expertise, and its access to data, an HR SSC can provide the information required for making sound decisions related to the HR strategy of the organization as a whole. The HR SSC can be part of the strategic decision-making process by using its knowledge to predict and evaluate the outcomes of decisions made and still to be made. Future research could determine whether an HR SSC can indeed increase the strategic contribution of HR to strategy development within the business units and the organization as a whole.
Overall, our main contribution has been in exploring the various types of capabilities possessed by a transactional SSC that can contribute to creating business value. We investigated this in an HR context, and illustrated the linkages between managerial and supportive organizational capabilities (collectively the Change Facilitating Capability) and the Service Delivery and Engineering Capabilities. We identified five capabilities within the HR SSC that were deployed with the aim of creating value for the business units. Two of these five capabilities integrated into an operational Service Delivery Capability, and the remaining three into a dynamic Engineering Capability. Further, we identified two capabilities (Guarding and Implementation) that we characterized as supportive organizational capabilities that are positioned between the Service Delivery Capability and the Change Capability. The managerial capabilities found within the HR SSC were able to orchestrate resources and, through this, coordinate the development and deployment of the available capabilities.

REFERENCES

References can be found on page 205.
As a consultant, I find research especially interesting as it provides useful tools to apply in practice. For that reason, I have introduced the capability hierarchy map that can be used by both scholars and practitioners to study and manage the resource use within the HR SSC. It can be applied at different abstraction levels for different purposes to visualize resource use and the interdependencies between the different functions performed by the HR SSC.
Chapter 4: Value creation by transactional Shared Service Centers: mapping capabilities

Abstract

The purpose of this chapter is to introduce the capability map that addresses the potential of transactional Shared Service Centers (SSCs). The mapping approach represents a heuristic logic that provides means for analysing SSC operation, connects SSCs capabilities with their value, and supports academics and practitioners in developing a transactional SSC that is of strategic importance.

This chapter reports on findings from a longitudinal case study within an organization that has implemented a transactional Human Resource (HR) SSC. Over a period of three years, several formal and informal meetings were attended, more than 20 interviews were conducted with SSC MT and customers, over 500 pages of project documentation and memos were studied, which allowed after integration for an in-depth analysis of how resources are bundled to build different types of capabilities.

We uncovered and mapped the operational and dynamic capabilities of a transactional SSC, their role in value creation, and their interdependencies. While the operational capabilities enable the HR SSC to provide day-to-day services to take care of individual end-users and support the business, the dynamic capabilities enable transformation of HR delivery throughout the organization and increase HR’s strategic contribution.

In the literature, the primary focus regarding transactional services is limited to cost savings and efficiency. This chapter addresses the potential of the transactional SSC and introduces the capability map as a tool to leverage its potential.

Parts of this chapter were published as:

INTRODUCTION

Leveraging the full potential of concentrated and bundled resources within the transactional Shared Service Center (SSC) requires a shift in strategy towards value creation supported by the adoption of a capability development and deployment perspective. A map of capabilities visualizes the value-creating mechanisms and their interdependencies and supports management in their resource-related actions and decisions.

Senior executives have multiple alternatives for sourcing back- and front-office processes and functions. As an alternative to Business Process Outsourcing and the dilemma to centralize or decentralize, senior executives go for so-called internal outsourcing when they implement the Shared Service Model (SSM) as an “in-between” sourcing mode for the delivery of a business function (Cooke 2006, Janssen and Joha 2006, Farndale, Paauwe et al. 2009). The SSM is defined as a collection of Shared Services provided by a semi-autonomous business unit – the SSC – within organizational boundaries, on the basis of agreed conditions, the characteristics of which are determined by the customers of the SSC and matched to the needs of different types of users (Stright 2007, Maatman, Bondarouk et al. 2010). “Shared” is the key characteristic for three reasons: the nature of the services provided is determined primarily by the customers of the SSC, there is a common provision of services, and the services are shared by multiple customers (Maatman, Bondarouk et al. 2010). The promise of the SSM is that it captures the best elements and effects of both centralized and decentralized organizational models, while minimizing their drawbacks. It is therefore considered an innovative and powerful sourcing alternative for back- and front-office processes and functions (Schulman, Dunleavy et al. 1999, Quinn, Cooke et al. 2000, Bergeron 2003, Reilly and Williams 2003, Farndale and Paauwe 2006, Farndale, Paauwe et al. 2009, Meijerink and Reilly 2010, Meijerink, Bondarouk et al. 2012).

While expertise centers with a focus on change management and strategy are associated with value creation for the organization, transactional SSCs are often considered merely a solution to reduce costs. Not surprisingly, the attention paid in the management literature to them is limited to elaboration on the importance and benefits of standardization, harmonization, and economies of scale. We argue, in contrast, that even a transactional SSC with the primary task to provide
administrative support to business has the potential to be of strategic importance for the entire organization and create value by sharing its human and organizational capital with the customers it serves (Meijerink, Bondarouk et al. 2012). It can leverage its central position within the business function, maximize the use of its resources, and find new ways to serve its customers.

Although the management literature describes the advantages and the foundation for the promised outcomes, it lacks a comprehensive framework that supports the SSC management in truly transforming the SSC into a value-adding entity with strategic importance for the entire organization.

This chapter offers a capability perspective that supports optimization of the use of the available resources within the SSC and the realisation of the required conditions for value creation and evaluation. We build on the Dynamic Capability Perspective, which evolved from the Resource-Based View of the Firm in a reaction to the criticism of its static and equilibrium-based approach (McWilliams and Smart 1995, Priem and Butler 2001, Ambrosini, Bowman et al. 2009, Easterby-Smith, Lyles et al. 2009), to illustrate how transactional SSCs can justify their existence. This chapter seeks to contribute to this literature by offering the capabilities map as a heuristic model that can inform these earlier conceptualizations. Based on our case study within a large Dutch organization, we demonstrate how a map of capabilities can be used to identify the value-creating mechanisms and support management during the implementation of a chosen strategy.

In the following section we describe three different types of capabilities that are key in the process of value creation and the basis for the capability map of transactional SSCs: service delivery, engineering and change-facilitating capabilities.

**VALUE CREATION THROUGH CAPABILITY DEPLOYMENT**

An organizational capability represents the ability of an organization to purposefully perform a coordinated set of tasks or activities, utilizing organizational resources (Maritan and Peteraf 2011). At the highest level, we make a distinction between operational capabilities of the SSC, which express the
capacity to deliver services, and dynamic capabilities for the engineering of solutions that address opportunities and bottlenecks in the delivery of a business function and facilitate change of the business (Winter 2003, Zott 2003).

**Figure 1. Capability map**

The foundation of the transactional SSC is the capacity to provide and perform back-and front-office services and processes (figure 1). We refer to this as the *Service Delivery Capability*. Through its deployment, the SSC provides administrative services to support the business units. Value is created when the output of the services provided is aligned with the needs of the different customers. The service delivery capabilities represent how well a supplier can respond to its customers' requirements in terms of day-to-day operations (Feeny,
Lacity et al. 2005) and concern the extent to which the SSC is able to provide the services repeatedly by using its current resource base; it is therefore characterised as an operational capability.

A transactional SSC established for stable back- and front-office functions in a static environment requires operational service delivery capabilities and not much more (Feeny, Lacity et al. 2005). The motivation behind the implementation of the transactional SSCs is often focussed on efficiency gains and the reduction of costs (Janssen and Joha 2006, Scully and Levin 2010). The objectives are realized as the SSC benefits from centralization by bundling resources and activities, removing redundancy, and increasing standardization and economies of scale (Schulman, Dunleavy et al. 1999). However, the SSM promises benefits from decentralization too, as its characteristics allow the SSC to be flexible and responsive to customers’ needs (Bondarouk 2011). To do so, the SSC needs to be able to recognize its customers’ priorities and take appropriate actions. In other words, the SSC needs to be able to identify opportunities and threats for the delivery of a business function, formulate responses by developing solutions, and alter delivery by implementing the solutions, effecting change. These are functions of the so-called dynamic capabilities (Helfat, Finkelstein et al. 2007, Teece 2010). The activities are performed differently every time, but the routines that underlie these activities express the extent to which the organization deploys dynamic capabilities (Ambrosini, Bowman et al. 2009). There is an on-going debate on the link between dynamic capabilities and competitive advantage, firm performance, and value creation (Helfat and Peteraf 2009). While some scholars argue that there is an explicit and direct link (Teece, Pisano et al. 1997, Lee, Lee et al. 2002, Griffith and Harvey 2006, Helfat and Peteraf 2009, Holcomb, Holmes et al. 2009), others stress the indirectness of such a link, emphasizing that value is created by the deployment of operational capabilities (Bowman and Ambrosini 2003, Helfat and Peteraf 2003, Ambrosini and Bowman 2009, Ambrosini, Bowman et al. 2009, Drnevich and Kriauciunas 2011).

The scholars who reserve the value creation link exclusively for operational capabilities argue that dynamic capabilities are deployed to change the resource base of an organization. The value created derives from their outputs, the changed or new resources. In other words, dynamic capabilities create value as
the new or changed resources are valuable for customers (Bowman and Ambrosini 2003). Other scholars who stress the indirectness of the link argue that the changed resource base itself is an insufficient condition for value creation. They feel that customer value is created when the changed resource base is deployed through the operational capabilities to produce goods or services that give an organization its competitive edge, increase its performance and create value/wealth. In this way the characteristics of the outputs of the operational capabilities, the goods or services produced, determine value creation from the perspective of the customer and not the outputs of the dynamic capabilities (Helfat and Peteraf 2003).

Contemporary organizations increasingly face tightening margins. Support functions, and especially the back- and front-office ones, are forced to improve their efficiency and reduce costs. At the same time, the business units (customers within the SSM) increasingly expect the support functions to address their needs, while corporate headquarters is waiting for input for strategic decision-making. To address these challenges, the SSC needs Engineering Capabilities, which concern the extent to which the SSC is able to develop solutions repeatedly to improve the quality, cost, functionality and agility of delivery throughout the organization. The engineering capabilities are deployed for different purposes with different foci for changing or developing resources. First of all, the SSC deploys them to improve its own efficiency and/or the quality of its service delivery processes and output. Second, it uses them to expand the customer base or service portfolio by providing the services to new groups of customers and end-users or by offering new services. In both cases the resource base of the SSC used for service delivery changes as the SSC requires additional operational service delivery capabilities. The engineering capabilities are also deployed to develop solutions that can be used by other stakeholders in the delivery of a business function. The solutions are both the output from the dynamic capabilities of the SSC and resources from the perspective of the stakeholders using the solutions (Bowman and Ambrosini 2003).

The Change-Facilitating Capabilities enable the SSC to deal with change. First of all, the SSC is faced with changes in the environment of the business function, including advances in technology, new legislation, and evolving customer needs.
Second, delivery is in need of change when the desired outcomes are not achieved, due to inadequate policies, practices and processes, or inconsistencies between the stakeholders’ interpretation and the implementation of the delivery of a business function. The change-facilitating capabilities concern the ability of the SSC to identify changes in the environment and the need for change in delivery of a business function throughout the organization. The activities create input or resources for the SSC management to take actions and address the need for change. Depending on the anticipated role of the SSC, the actions of the SSC management result to a greater or lesser extent in the development of solutions that affect the delivery of the business function throughout the organization. The change-facilitating capabilities therefore also concern the capacity of the SSC to implement the solutions, effectuating change, without disrupting the day-to-day operations of the SSC, the business function as a whole, and the customers it serves. As the different functions of a change-facilitating capability are combined, it represents the extent to which the SSC is able to repeatedly accommodate and enable the changing of the resources used for delivery throughout the organization.

UNCOVERING MECHANISMS FOR VALUE CREATION

As a capability expresses the capacity to perform a specific task or activity (Helfat, Finkelstein et al. 2007; Helfat and Peteraf 2009) and the outputs of the capabilities of the SSC are the antecedents for value creation, the description and definition of the different capabilities of a SSC allow us to identify the resources and activities to be performed that are required to create value (Sirmon, Hitt et al. 2007). From a capability perspective, the process of uncovering the value-creating mechanisms of the SSC starts with identifying small bundles of resources used for the performance of specific tasks and activities that fulfil a specific need of a specific customer. Together, they represent a capability of the first level. Subsequently, the concept of the capability hierarchy (Grant 1991) integrates first-level capabilities into the second, third (and so on) level of capabilities. Moving up the hierarchy of capabilities, the span of the resources and the activities they perform broadens, and task-specific capabilities are integrated step-by-step into cross-functional capabilities (Grant 1996). At the first level in
the capability hierarchy, the capabilities are specific for that SSC as the resource bases and processes of different SSCs for a specific business function are to some extent heterogeneous. As these capabilities are integrated step-by-step into higher-level capabilities, the definitions, characteristics, and function of the identified capabilities become general to SSCs for a specific business function, or even SSCs in general.

We applied the capability perspective while studying a transactional HR SSC of an organization in the public sector in the Netherlands. The organization adopted the HR SSM as it concentrated resources for the delivery of HR in several HR centers with different functions. One of these centers can be characterized as a transactional HR SSC with a primary focus on performing front- and back-office HR processes and functions. It serves different types of customers, such as corporate HR, business units, and over 70,000 individual employees, line managers, and HR professionals. Over a period of three years, we have attended several formal and informal meetings at the HR SSC and corporate HR, conducted over 20 interviews with MT members of the HR SSC and its customers (divisions), and studied over 500 pages of project documentation, memos, newsletters and mission/vision statements. We used our data to identify the activities the HR SSC performed for different types of customers, the purpose of these activities, and the resources used for performing these activities. Subsequently, we applied the concept of the capability hierarchy (Grant 1991, Grant 1996) to uncover and map the capabilities at different levels. The care and relieve capabilities form the operational service delivery capability; the guarding and implementation capabilities form the dynamic change-facilitating capability; the expansion, modifying and integration capabilities form the dynamic engineering capability.

**Care and Relieve Capabilities**

The primary function of the transactional HR SSC is the performance of the back- and front-office functions and processes through deployment of the operational service delivery capabilities. First of all through the deployment of the *Care Capability:*
The care capability is the extent to which the HR SSC is able, by using its current resource base, to repeatedly provide end-users with information, answers, and advice in response to their needs in relation to HR.

The HR SSC takes care of the individual end-users as they struggle to perform their HR-related tasks. It does so by providing the required information and answering questions in the front office on labour legislation, HR policies and practices, systems, applications and processes used for HR delivery. For the business, this function is valuable as it enables employees to address their uncertainties and concerns.

The HR SSC uses tooling with Customer Relation Management (CRM) functionality to log all the data in relation to the service delivery and FAQ databases to address the questions of individual employees and line managers. The combination of the activities described requires different kinds of knowledge, expertise and information through various communication channels such as newsletters (digital or printed), intranet, and phone. It also requires the availability of additional skills, competences and tools. Moreover, the HR SSC needs to be able to reach the different target groups of end-users, and the individual end-users need to be aware and able to obtain and trust the HR SSC’s service delivery.

Where the care capability represents the capacity to support individual end-users, the Relieve Capability represents the capacity of the HR SSC to support the customers, especially the business units. While the delivery of HR is not a core function of the business units, it is important as the business units are dependent on a properly performing workforce and are responsible for the management of HR. Many of the transactional tasks to be performed require different kinds of expertise, such as HR administration according to HR policies and legislation, payroll, generating management information, and complying with the information needs of external parties (tax offices, social security agencies, or external payroll providers). The business units are supported as they can trust the HR SSC to take on these tasks according to the agreed conditions. Value is created for the business units as the HR SSC uses its capacity by providing services and minimizing the need for the business units to maintain a base of resources for the performance of these administrative tasks. This reduces administrative pressure on the business units and enables a greater focus on the core business.
The relieve capability is the extent to which the HR SSC is able, through using its current resource base, to repeatedly take on the transactional tasks of the business units in relation to HR.

Examples of the resources used during the deployment of the relieve capability are ERP systems with HR functionality, self-service applications, CRM tooling to log data in relation to the service requests and service delivery processes, and personnel and salary administration expertise.

In figure 2 we depict in detail how the capability map can be used to visualize the outcomes of capability deployment in relation to different types of customers. The outcomes can also be negative when capabilities are deployed for purposes that are not aligned with the needs of a specific type of customer; this will be demonstrated later on when we discuss the deployment of the guarding capability. With the combination of the visualization of the resources used and the activities that underlie a specific capability (see figure 3) and the visualization of the interdependencies between capabilities (see figure 4), the capability map gives insight into the activities and resources that need to be reconfigured to build new capabilities or align them better with customers’ needs.
Guarding and Implementation Capabilities

The first enabler allowing the HR SSC to change its operation and service delivery or provide solutions for the different stakeholders is the ability to identify changes in the environment or in the needs of its stakeholders. We refer to this as the Guarding Capability.

The guarding capability is the extent to which the HR SSC is able to identify opportunities and threats for the delivery of HR throughout the organization as a whole.

There are multiple sources of opportunities and threats which require the attention of the HR SSC and different methods of monitoring and evaluation. A well-designed administrative organization allows for the monitoring and evaluation of HR SSC operations. Well-chosen SLAs permit the quantification of service delivery levels experienced by customers and end-users and achieved by the HR SSC. Automation of the service delivery processes combined with a well-designed administrative organization for the HR processes enables monitoring of the implementation, execution and progress of the HR processes. The information gathered is used to identify bottlenecks and constraints in the implementation/execution of the different processes for the different end-users at different places within the organization. Employee and management self-service applications and the use of workflow, for example, help identify bottlenecks in the transactional HR processes. CRM tooling enables the logging of data, but more importantly the categorisation, monitoring and evaluation of trends in types and number of questions asked by end-users of different business units. The data is analysed to reveal defects in the implementation and interpretation of the HR processes. Subsequently, the analyses and evaluation of the data processed by the HR SSC reveal if and how the business units implement the HR policies and practices and how effective they were in relation to the chosen HR strategy.

The different sources of opportunities and threats for HR delivery illustrate the need for the HR SSC to be able to apply different types of measurement tools to abstract data from different places and sources. Moreover, this stresses the need for a capacity to analyse and evaluate the data to reveal different kinds of opportunities and threats to HR delivery. To do so, the HR SSC needs resources to store and evaluate data and human resources to analyse all the information. The
information retrieved is valuable for the HR SSC itself as it can be used as a starting point to improve its performance, but also for the organization as a whole to improve overall HR delivery. The information is also used as a resource by corporate HR, the HR expertise centers, and the HR business partners to monitor the implementation of HR policies and practices. From a business unit perspective, this was sometimes perceived as a negative outcome of the deployment of the HR SSC’s guarding capability. If in their perception the guarding capability was deployed primarily with the purpose to force the business units to implement HR according to set standards and policies, the HR SSC was perceived as an extension of corporate HR, limiting the space of the business units to manage their human resources.

The solutions developed in response to the opportunities and threats identified affect HR delivery when implemented. Service delivery by the HR SSC is affected if the solutions concern changes in the scope and quantity of services provided and the resource base used for service delivery. Actions are required to minimize disruption of the day-to-day operation. This is achieved in several ways. First of all, it is important to make all stakeholders aware of the changes in HR delivery. This primarily involves describing and adopting the changes made in the administrative organization and internal control function of the HR SSC itself, but also the administrative organization and internal control function of the transactional HR processes in general. The HR SSC plays an important role in accomplishing this as it describes the procedures for its service employees and other stakeholders in HR delivery, anticipates the types of questions asked by individual end-users in relation to the changes made, and develops and maintains FAQ databases. Second, the HR SSC agrees with the different stakeholders on the conditions of implementation and communicates details about the changes to all stakeholders. In this way, it plays a central role in the management of change within the HR function. Finally, it makes sure the implementation process itself runs smoothly. It secures resources for changing HR delivery, such as extra capacity at the contact center to deal with a temporarily increased number of questions from individual employees. The ability of the HR SSC to perform the activities and minimize the disruption resulting from the change is represented by the Implementation Capability and is the second change-facilitating capability.
The implementation capability is the extent to which the HR SSC is able to sustain day-to-day operations as it repeatedly effectuates changes in the delivery of HR by the HR SSC or throughout the organization as a whole.

The implementation capability of the HR SSC was primarily sourced externally during the implementation of the initial processes and services. External consultants helped the HR SSC management to roll out services and establish service- and non-service-related processes. As the HR SSC matured, the need for the implementation capability decreased, and the activities were increasingly sourced internally.

In Figure 3 we visualize in detail how the activities and the resources used during the performance of activities can be mapped. The capability map reveals that specific resources can be used for different activities and different purposes. For example, we see that CRM tooling is used during the deployment of the guarding and implementation capabilities, but also during the deployment of the care and relieve capabilities. This provides insight into the requirements for the characteristics and capacity of specific resources. Moreover, it reveals the impact of developing or shedding a specific resource.

Expansion, Modifying and Integration Capabilities

The HR SSC operates within the HR SSM, which has the characteristics of a market for supply and demand of HR services. Just as with any other market, supply and demand change over time. Besides the annual and monthly peaks and dips for service requests resulting from the HR process cycles, such as performance appraisal and payroll, the HR SSC is also faced with irregular occurrences that affect service delivery temporarily or permanently. Mergers, acquisitions, reorganizations and the development of new business have an effect on the client base of the HR SSC and the quantity and types of services to be provided. The HR SSC plays a role in the temporary efforts to change the organization as a whole, as new business units are set up and/or integrated. It develops and provides solutions to support the migration and the change of the organization from an HR perspective.
Second, it must be prepared to deal with the changed customer and end-user base and a changed demand for service delivery as a result of migrations. These changes are permanent and negatively affect service delivery to customers and end-users and their perception of it unless appropriate actions are taken by the HR SSC. The HR SSC needs to be able to change its own resource portfolio used for the delivery of day-to-day services to sustain service levels. The resource portfolio also needs to change as the HR SSC provides new services (types) on a day-to-day basis. In response to the changing needs of the customers or the changing environment, the HR SSC develops new skills, competencies, procedures, processes and tools to prepare itself for the expansion of service delivery. Combined with the changing customer base and its temporary and permanent effects on service delivery by the HR SSC, the development of new services requires an ability of the HR SSC to change its resource base and develop...
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solutions in response to changes in the HR SSM “market”. We refer to this ability as the Expansion Capability.

*The expansion capability is the extent to which the HR SSC is able to repeatedly design and develop new HR services and expand its client base.*

The expansion capability expresses the flexibility of the HR SSC to change the scope of services provided. It creates value when the extent of the HR SSC’s flexibility is aligned with the customers’ needs. Along with new services, the HR SSC also requires an ability to adjust, redesign and redevelop the existing way of doing business. We refer to this ability as the Modifying Capability.

*The modifying capability is the extent to which the HR SSC is able to repeatedly redesign and redevelop the characteristics of its current operation and affect quality, costs, and functionality of the services provided.*

The HR SSC deploys its modifying capability to redesign and redevelop the resources it uses, such as the competencies and skills of its workforce, its procedures, processes and systems used. By doing so, it changes the resource base used for non-service delivery-related functions as well as that for the service delivery functions. Both changes affect the HR SSC’s operation and the characteristics of and conditions for service delivery. While the latter affects the actual delivery of the services, the former affects the conditions of service delivery such as the costs of the services provided. Value is created as customers perceive the responsiveness and willingness of the HR SSC to align existing services to their needs, or when efficiency increases result in lower costs (monetary and non-monetary) for the customer.

Both the modifying and expansion capabilities change the resource base used for HR delivery by the HR SSC. These changes can be small and incremental, or radical. We have seen that small, incremental changes were designed and developed by and within the operational service delivery units of an HR SSC supported by project management/coordination capacity. For radical changes in the resource base of the HR SSC, we have seen the HR SSC introduce project teams. For different projects, different resources were extracted from the primary
processes of the HR SSC and bundled into temporary capabilities for a specific project. The project teams were supported with resources specialized for performing projects, sometimes sourced by external consultants.

While the modifying and the expansion capabilities are deployed to change the resource base of the HR SSC, the Integration Capability is deployed to change the resource base used for HR delivery throughout the organization. It is deployed when the HR SSC makes use of its network and central position within the HR function, its specialized knowledge and expertise on HR delivery, and its access to the information processed through the service delivery processes to develop solutions that are used by different stakeholders in the delivery of HR. The need for this ability is the result of the fragmentation of the HR function. HR is delivered by different stakeholders (e.g. the employees themselves, line managers, HR business partners, HR expertise centers, corporate HR, central staff departments, and the HR SSC) with different interests, responsibilities, and interpretations of HR policies (Farndale, Paauwe et al. 2010). These differences affect the effectiveness of the implementation of the HR system. For the business units, the solutions developed by the HR SSC concern the provision of the means required for the implementation of HR according to the lines chosen and set by headquarters. Examples of such means are HR training for line managers (to make them aware of their responsibilities and able to comply with these responsibilities), checklists for the execution of procedures, and reports evaluating the HR performance of separate parts of the business according to strategic objectives. In this way the business units are provided with resources that enable them to execute and improve HR delivery. The HR SSC also deploys the integration capability when it participates in the development of HR policies and preparing the organization for the future. The corporate headquarters receives consolidated feedback on the compliance with the chosen strategy, the feasibility of the policies and practices designed, and the outcomes of HR delivery.

The integration capability is the extent to which the HR SSC is able to design, develop and provide solutions to different stakeholders in HR delivery that are required for sustainable, harmonized HR delivery throughout the organization as a whole.
Figure 4 visualizes in detail the interdependencies between the change-facilitating capabilities and the engineering capabilities. Both are essential for change (Teece 2007). The output of the guarding capability can be used as the input for the development of solutions by deploying the expansion, modifying or engineering capabilities. Subsequently, the solutions developed are implemented to create value. The disruption of operations during the implementation of the solutions depends to some extent on the characteristics or, in other words, the output of the engineering capabilities. The service delivery and the change-facilitating capabilities are interdependent as well. When the solutions change the service delivery of the SSC itself, the implementation capability affects the care and/or relieve capability of the SSC. Moreover, the output of the guarding capability comes from the analysis of the data collected by the SSC. To some extent, these data are gathered during service delivery by the SSC as the result of the deployment of the care and relieve capabilities. The SSC management can use the capability map to visualize interdependencies between capabilities at different levels. This is useful for the synchronization of actions during the orchestration of resources.
THE CAPABILITY PERSPECTIVE AS A MANAGEMENT TOOLBOX

The identification of capabilities and the construction of a capability map can be used for different management purposes. First of all, it enables management to visualize the use of resources (and potential bottlenecks) within the SSC. Second, as customers determine the value created by the SSC when assessing the overall utility of the outputs of the SSC as the result of the deployment of its capabilities, the identification and mapping of capabilities improve our insights and enable visualization of the specific resources and activities that lead to value creation for specific types of customers. Third, uncovering the value-creating mechanisms results in sets of different types of operational and dynamic capabilities, for different purposes, and with different outputs and resource requirements. The visualization of the capabilities and their interdependencies supports management in the process of resource orchestration and the alignment of capability development and deployment.

Although management does not intervene directly on the level of capabilities to achieve value creation, it does influence capabilities (Bowman and Ambrosini 2003, Foss 2011). The role of management from a capability perspective is twofold (Sirmon, Gove et al. 2008, Holcomb, Holmes et al. 2009, Sirmon and Hitt 2009, Kraaijenbrink, Spender et al. 2010, Ndofor, Sirmon et al. 2011). First, the SSC management is responsible for the appropriate resource portfolio and the bundling of the resources into capabilities. Second, it is responsible for the leveraging of the capabilities according to a chosen leverage strategy. The endeavour of the SSC management is to create a fit between resource management-focused decisions in relation to the development of the resource portfolio and the bundling of resources into capabilities on the one hand, and the leveraging of the capabilities according to a strategy chosen on the other hand: combined asset orchestration (Sirmon and Hitt 2009). A fit is created when the SSC management synchronizes the different actions that underlie asset orchestration. Such activities include investing in resources (hiring, acquiring, divesting and developing), allocating resources to different activities, addressing and seizing identified opportunities and threats, choosing a strategy for capability leveraging, and coordinating the deployment of the different capability configurations (Holcomb, Holmes et al. 2009, Sirmon and Hitt 2009, Maritan and
Peteraf 2011, Sirmon, Hitt et al. 2011). In other words, the management has to synchronize investments in resources with the chosen capability leverage strategy and vice versa, thereby facilitating the change of the capability hierarchy of the organization. Its actions ultimately select the renewal, developing, replication or retrenchment of capabilities and the resource bundles used (Helfat and Peteraf 2003). We refer to the extent to which the SSC management is able to synchronize actions within the process of resource orchestration to build and deploy capabilities according to the chosen capability leverage strategy as the Managerial Ability. The most appealing way to demonstrate the role of management in resource orchestration and the development cycle of capabilities is to illustrate it with some observations from our case study.

The HR SSC management of our case study had chosen a strategy to create value for the business units by minimizing the administrative pressure on them. When the business units the HR SSC served were confronted with the reorganization (centralization) of specific business functions announced by headquarters, the HR SSC management anticipated the potential increased need for support. To assess the opportunity for additional value creation, the HR SSC management used input of the demand management function of the HR SSC, whose role is to identify opportunities and threats for the delivery of HR throughout the organization as a whole: a Guarding Capability. The input gathered enabled the HR SSC management to assess the need for HRM capacity by the business units as employees needed to be relocated or were made redundant. The HR SSC management seized the opportunity for value creation, and demand management was used to identify the specific needs.

When a decision is taken to seize an opportunity, the next step for the SSC management is to assess the required resources for the development and implementation of a solution. Subsequently, the management builds an engineering capability by bundling the resources required for the development of the solution and dedicating these resources to a project or task group. In the specific example, resources were bundled and deployed to develop new services to process mass mutations in personnel administration and follow-up for individual employees. The resources deployed for the engineering capability can be extracted temporarily from the market, developed through training, or
acquired, such as software. Sometimes existing and available resources are sufficient and just need to be mobilized, bundled and deployed. Depending on the size and skills required, we observed varied combinations of internal and external resources bundled in small task groups that developed solutions besides their day-to-day operational activities, as well as dedicated project teams.

When the solution was developed (in the case of the reorganization announcement, a new administrative service), the HR SSC management had to decide what to do with the resources used for the development of the solution. They can be divested (for example, external consultants), retained to form a permanent engineering capability, or integrated with other resources to build an implementation capability to launch the new services. During implementation of the new services, the relieve capability of the HR SSC was changed as new resources for service delivery (the solution) were introduced and new processes and procedures were effectuated. Moreover, the implementation of the solutions required updating the administrative organization and internal control function of the HR SSC processes and the service delivery processes, as well as the FAQ databases.

With the implementation of the new service, the cycle is complete (see figure 5), and a new one starts again through the deployment of a guarding capability with the purpose to monitor the outcomes of the new solution, which can be used by the SSC management to address the opportunity or need for improvement, or stop the provision of the service.

After finalization of the reorganization, the demand for the new services decreased and subsequently the need for the deployment of the relieve capability. The HR SSC management had to decide what to do with the resources that were bundled to deploy the new administrative services. In the specific example, there was no need to maintain the service delivery capability, and it was dismantled. The resources were integrated in the remaining capabilities in such a way they could be easily re-bundled and deployed for future reorganizations.
The examples demonstrate that every single capability has a life cycle (building, replication, renewal or retrenchment), but also that the capability hierarchy changes with the management decision as a selection event (Helfat and Peteraf 2003). It also illustrates how management has to orchestrate resources to build and deploy different capabilities to change an existing service delivery capability or develop a new one. The capability map can be used to address and plan the different phases for the development of a specific capability, and to estimate the resource requirements for the capabilities to be deployed in the different steps. The actions of management between and during the different steps have to be synchronized as they all have to contribute ultimately to the chosen capability strategy to create value for the business units. This stresses the importance and dependence of management on the change-facilitating capabilities. The change-facilitating capabilities act as a link between the operational service delivery
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capabilities and the dynamic engineering capabilities and are therefore key for the extent of value created by the engineering capabilities. To address and seize the opportunities and threats from a customer perspective, the SSC management uses the output of the guarding capability. Based on the information gathered through the guarding capability, the management decides to change the resource portfolio and capability configuration and/or change the capability leverage strategy. The actual solutions required for change are designed and developed through the deployment of the modifying, expansion, and integration capabilities. The SSC management deploys the implementation capability to effectuate changes and implement solutions without disturbing the day-to-day operations. Depending on the solutions developed, some of the former resources used for service delivery might become redundant if they are not part of the new solution; for example, in the case of the introduction of management and employee self-service applications that decrease the need for administrative capacity at the SSC. After the implementation of such solutions, the SSC management has to decide to divest these resources or develop them and integrate them into other existing capabilities. In the latter case the resources can also be used for the development of new or improved services and procedures.

LIMITATIONS FOR CAPABILITY DEVELOPMENT AND DEPLOYMENT

The extent to which the SSC maximizes the use of its resources and searches for new or changed activities that create value depends on its governance, the acknowledgment and addressing of its potential, and its objectives and performance measures.

The management literature describes four different models for the governance of intra-organizational SSCs (Strikwerda 2003, Strikwerda 2008, Maatman, Bondarouk et al. 2010, Meijerink, Bondarouk et al. 2013). The SSC as a central service department is closely coupled to corporate headquarters and acts as its extension. The scope, characteristics and conditions of service delivery are primarily determined top-down by corporate headquarters. Some organizations choose to integrate the SSC within a business unit when one business unit is a dominant user of the services provided, has more experience or is better in delivering the business function. In this governance model, the SSC is “owned” by
and positioned within a single business unit serving all other business units. Where the services are provided through an infrastructure, a “plug-and-play” environment is created in which the business units are free to use the services provided by the SSC. The SSC is governed in the same manner as the business units it serves and reports to corporate headquarters. The SSC as an internal joint venture is owned by the customers it serves, the business units. It is held accountable by the business units, and the hierarchical line to corporate headquarters is lacking. The different models vary regarding the extent to which the joint customers control service delivery by the SSC.

In practice, we see that organizations apply hybrid models for the governance of the SSC as they combine the SSC as a central service with the other models (Bondarouk, Maatman et al. 2010, Bondarouk 2011, Maatman 2011, Meijerink and Bondarouk 2013, Meijerink, Bondarouk et al. 2013). In our case study subject, we observed a strong top-down governance relation between the corporate level and the HR SSC. Corporate HR interfered with and determined the characteristics and conditions of service delivery. Moreover, it provided the required means (financial and non-financial resources) for service delivery and change of service delivery, and took a prominent role in making decisions concerning the change of service delivery. As a consequence, there was no solid basis for the business units and the HR SSC to build a customer-supplier relationship. In this relationship, a customer is charged for new or improved services, and the SSC is held accountable by the customer for the quality, usefulness, and amounts charged for its outputs, and appraised for the improvement and expansion of service delivery. In the case of a strong top-down dependence, the development and deployment of dynamic capabilities required for change depend on the initiatives of the headquarters, which remains in control. This comes at the cost of the business units’ perception of control over delivery and responsiveness of the SSC towards business unit needs. This is especially true when the strong top-down dependence is combined with a primary focus on cost reduction, efficiency gains, and Key Performance Indicators (KPIs) that are exclusively aligned with these objectives. In this situation, the dynamic capabilities are developed and deployed with the aim to improve the effectiveness of the operation of the back- and front-office functions and service delivery processes. The lack of a focus on creating additional value for the customers
limits the SSC management to developing and deploying new capabilities out of the resources obtained through efficiency and effectiveness improvement initiatives. Poorly chosen performance indicators limit the SSC management in pro-actively searching for and developing solutions to serve customers and create value from a customer perspective (Hodges, Cecil et al. 2007). There is no opportunity or incentive for the SSC management to expand its services or look for new ways and activities to use the concentrated knowledge, expertise and information within the SSC to create additional value (Hodges, Cecil et al. 2007). We observed this when the HR SSC identified the opportunity to develop and deploy new analytical services using the available resources, but was confronted with cost-saving targets by headquarters and therefore was not able to build the required capability.

In our case study subject, the business units themselves also limited the transactional HR SSC’s ability to develop and deploy dynamic capabilities. This was the case as some business units perceived the HR SSC merely as an administrative factory and an extension of corporate HR with the purpose of processing transactions and other service requests. Instead of partnering with the HR SSC with its concentrated knowledge, expertise and information, they kept it at a distance. Due to a lack of awareness of the potential of the HR SSC or anxiety about corporate HR interference, business units developed their own solutions for the implementation of HR instead of relying on the HR SSC’s dynamic capabilities for developing integrated solutions.

**DISCUSSION**

We have introduced the capability perspective as a framework for scholars and practitioners to study how the centralized resources within a transactional SSC are used to create business value. By categorizing resources used for specific activities, a map of capabilities can be created. The capability map enables reflection on the value-creating mechanisms of the SSC. It promotes the visualization of resource use, resource requirements, the role of specific resources in value creation, and the inter-dependency of the value-creating mechanisms. The ultimate role of the capability map is to ensure that the resource orchestration within SSCs by the SSC management delivers value to the customers. This is important as the implementation of a SSM and the prescribed
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governance structures that combine the centralized and decentralized organizational model is necessary but not sufficient to meet current and future business expectations. Another condition to justify the existence of the SSC and sustain the justification for the future from a business perspective lies in the enhanced use of capacity, knowledge, expertise and information concentrated within the SSC to maximize value creation (Holcomb, Holmes et al. 2009).

The capability perspective enabled us to categorise different kinds of activities and resources into capabilities as mechanisms for value creation. We have explained how the HR SSC fulfils its promises of being responsive and flexible towards customers’ needs by developing and deploying dynamic capabilities. The dynamic change-facilitating capabilities help the SSC management to enable change by identifying the need for change and implementing changes in reaction to the needs of the customers. The change-facilitating capabilities link between the traditional operational service delivery capabilities that enable the SSC to provide day-to-day services and the dynamic engineering capabilities to develop solutions when the need for change is seized by the SSC management. Those solutions can be targeted to change the operations of the SSC itself by changing the operational service delivery capabilities, or to provide resources to other stakeholders in the delivery of a business function.

We have explained how the capability perspective acts as a management toolbox in the orchestration of resources and aligns the capability development and deployment with the intention of justifying the existence of the SSC. The capability hierarchy map enables the management to visualize the use of resources, increasing its understanding, and to visualize the specific resources, activities and their interdependencies that enable value creation for different types of customer.

In addition, we have shown how the capability perspective can be used to address limitations and constraints, such as the governance model and poorly chosen SLAs and KPIs, to change the SSC from a factory for transactional activities into a value-adding entity within the organization.

We have illustrated our arguments and reasoning with observations within an organization that has implemented a transactional SSC for HRM. Although some
activities and resources, and therefore to some extent the described capabilities, are specific for HR, we do argue that our framework can be used in general for SSC. The steps to uncover the hierarchy for capabilities can be applied to any other type of transactional SSC, and the map of capabilities can be used by the SSC management to support its actions in the resource orchestration process. A key aspect is that management must choose a capability leverage strategy and synchronize its resource-related actions according to the strategy. Positive outcomes as the result of completing the development cycle of capabilities, such as increased effectiveness and efficiency, should be used for the next development cycle with the purpose of complying even better to the chosen leverage strategy.

The future of the transactional SSC depends on the ability and willingness of the SSC management and its incentives to search for new ways of maximizing the use of resources. With the use of the capability perspective and the capability map, organizations that have implemented the SSC can advance further and change their transactional SSC into a value-adding entity for different types of customers and users of the services.

REFERENCES

References can be found on page 205.
CHAPTER 5:

Why Sharing is Synergy? The Influence of Decentralized Control Mechanisms and Centralized Capabilities on Shared Services’ Value

"I love it when a plan comes together!" (John "Hannibal" Smith)

A review of the literature was required to define the main subject and conceptualize the key mechanisms that were claimed to explain the success of the HR SSM. An intensive case study was conducted to uncover and identify some of these mechanisms empirically. Were all the efforts useful? Now was the time to put the model to the test!
**Abstract**

Shared service centers have been claimed to create value for their clients (i.e. the business units they serve) by centralizing resources and decentralizing control. However, it remains unclear as to what extent, and how, these two aspects of shared service centers enable an improvement in the value of the services provided. To clarify this issue, this study aims to test hypotheses on the separate and joint influence of an SSC’s operational and dynamic capabilities and the control mechanisms used by the business units to explain the value of shared services for the business units served. Drawing on data from 91 business units in the Netherlands, we find that the use of formal control mechanisms (e.g. contracts, service level agreements) relates negatively with service delivery value, but that this effect turns positive once mediated by informal control mechanisms (e.g. trust and shared language). As such, the study identifies the dual effects of decentralizing control on service delivery value.

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INTRODUCTION

Urged on by the need to save costs, improve quality, and enable strategic transformations, organizations are increasingly using new organizational forms and sourcing arrangements. One of these organizational forms is the shared services model involving the provision of operational services, such as finance, HRM, and IT services, by a shared service center (SSC) (Farndale, Paauwe et al. 2009, Maatman, Bondarouk et al. 2010, Meijerink, Bondarouk et al. 2013). Proponents of the shared service model anticipate increased value – defined as the ratio of a service’s benefits to its costs – because SSCs integrate centralization and decentralization models and should therefore reap the associated benefits of both (Janssen and Joha 2006, Meijerink and Bondarouk 2013). SSCs integrate both approaches in that they centralize resources (e.g. human capital, information technologies, and organizational processes) for the consolidated provision of services, yet simultaneously decentralize control over these services to the business units served. Indeed, empirical studies have provided preliminary evidence of the value added by this integrated way of working (Redman, Snape et al. 2007, McCracken and McIvor 2013, Hofman and Meijerink 2015).

However, due to a failure to develop a relevant theory, it remains hard to explain why and under which conditions HR SSCs provide high-level value to their clients (Maatman, Bondarouk et al. 2010, Hofman and Meijerink in press). It could be argued – in line with the resource-based view (Barney 1991) – that the centralization features of SSCs matter in terms of providing bundled, integrated, and hence advanced resources. Agency theorists might, however, stress the relevance of their decentralized nature where control mechanisms, such as service-level agreements, secure the fulfillment of the principal’s interests and, hence, create value (Jensen and Meckling 1976). Although the resources and the control of SSCs have been empirically described (Farndale, Paauwe et al. 2010, Meijerink and Bondarouk 2013), we do not know the extent to which they actually influence shared services’ value. Previous studies into SSCs have tended to examine the two antecedents independently, whereas, in theory, organizational control and resources may be interrelated in explaining value (Mahoney and Pandian 1992, Bergh 1995). As such, a better understanding is required as to why
and how SSCs, through integrating centralization and decentralization models, provide value. Until this is explained, managers will remain suspicious about the advantages of SSCs and are likely to engage in guesswork regarding which SSC features (centralization, decentralization, or both) to invest in in order to establish an SSC that provides high value.

To get a better understanding of why, and the way in which, SSCs create high value, this study aims to examine the extent to which both centralized resource deployment and control decentralization influence the value for the business units served. To achieve this aim, we build on the resource-based view, the capabilities perspective, and agency theory. In so doing, we build hypotheses regarding the separate and joint influences of an SSC’s operational and dynamic capabilities and the business units usage of control mechanisms to explain the value of shared services for the business units served.

The contributions of this paper are threefold. First, we provide empirical nuances regarding the influence of dynamic capabilities on value. While some suggest an explicit direct link between dynamic capabilities and value (Griffith and Harvey 2006, Helfat and Peteraf 2009), others question the existence of such a linkage (Bowman and Ambrosini 2003, Ambrosini and Bowman 2009). We contribute by investigating whether dynamic capabilities directly or indirectly (through shaping operational capabilities) influence shared services value. Second, this paper provides further insight into the role of various control mechanisms. Whereas some have argued that formal controls (e.g. output controls, service level agreements) and informal controls (e.g. tie strength, trust) are alternatives, others claim that both are necessary to generate high value (Farndale, Paauwe et al. 2009, Meijerink and Bondarouk 2013). This paper examines both types of control mechanism and contributes by showing how formal and informal control mechanisms interrelate to explain shared service value. Finally, previous studies into SSCs have examined capabilities and control independently whereas, in theory, organizational control and resources may be interrelated in explaining value (Mahoney and Pandian 1992, Bergh 1995). By studying both antecedents in an integrated way, we shed more light on how organizational control and capabilities interrelate in explaining value creation.
The article is structured as follows. First, we explain how the centralization and decentralization models are integrated in building the shared services model that is used to justify the focus on the link between capabilities, control mechanisms, and value. We then proceed to develop hypotheses regarding these linkages, followed by a discussion on our methodology to test these. After presenting the results obtained from a survey involving 91 SSC clients in 19 organizations, we conclude with a discussion on the theoretical and practical implications of our study.

THEORETICAL BACKGROUND AND HYPOTHESES

Implementing shared services is seen as a response to the question of whether firms should centralize or decentralize support functions, such as HR, finance, and information technology services, to increase corporate-level control and/or improve local responsiveness (Quinn, Cooke et al. 2000, Strikwerda 2004, Farndale, Paauwe et al. 2009). As such, shared services span centralization and decentralization models (Janssen and Joha 2006, Meijerink, Bondarouk et al. in press). When establishing shared services, organizations bundle resources and activities in a (semi-) autonomous business unit: the SSC. However, the bundling of resources and activities into an SSC does not equate to a centralized organizational model since, in principle, a corporate entity does not determine, or control, the activities carried out by the SSC. Rather, at least in theory, the business units served, and their employees, are in control. This involves the business units choosing ‘the type, level, and quality of services they want from the center, at the price they are willing to pay’ (Quinn et al. 2000, p.13, italics added). As such, the establishment of shared services creates an intra-organizational market where the relationship between the business units and the SSC evolve into a client – supplier relationship that is governed through the use of service level agreements, contracts, client boards, and customer satisfaction surveys. As such, shared services are defined as a hybrid organizational model for bundling resources in an SCC that performs activities that are controlled by the business units (Meijerink 2013, Meijerink and Bondarouk 2013, Maatman and Bondarouk 2014).

Given their hybrid nature, it has been argued that SSCs reap the benefits of both centralization and decentralization models while, at the same time, reducing their
individual drawbacks. On the one hand, bundling resources can result in a more efficient and high-quality service delivery through exchanging and integrating best practices that foster cross-group learning (Cooke 2006, Janssen and Joha 2006). On the other hand, giving business units control should secure compliance by the HR SSC (Farndale, Paauwe et al. 2010), which should support the realization of business unit priorities. On this basis, several researchers (Maatman, Bondarouk et al. 2010, Bondarouk 2011, Meijerink 2013) have argued that SSCs have the potential to create value (seen as the ratio of the quality/benefits of a service to the costs incurred by clients in acquiring the service benefits). As such, value is a useful measure to assess the degree to which an SSC realizes the benefits of both centralization (i.e. reduced costs) and decentralization (i.e. better service quality for its clients - the business units). Consequently, we examine the value of the shared services for the business units served in order to establish under which conditions the clients of an SSC can enjoy improved and/or more efficient service delivery.

**Decentralized control and SSC value**

In order to understand the extent to which the decentralization of control explains SSC value, we draw on agency theory as this predicts that the principal (in this case, the business units) can utilize various control mechanisms to ensure compliance on the part of the agent (in this case, the SSC); that is, aligning the activities and interests of the agent to those of the principal (Jensen and Meckling 1976, Eisenhardt 1985). Agency theory builds on the assumption that agents are opportunistic and thus would, if having goals that conflict with those of the principal, engage in self-serving behavior at the expense of the principal’s interests. In SSC environments, the goals are likely to conflict for two reasons. First, SSCs serve multiple business units that differ in their expectations and therefore require the SSC to pursue different goals such as to reduce costs or to innovate services (Farndale and Paauwe 2006, Meijerink, Bondarouk et al. 2013, Knol, Janssen et al. 2014, Hofman and Meijerink 2015). Second, SSCs often have to respond to the interests of other stakeholders (e.g. a board of directors) that have different interests than those of the business units (Meijerink and Bondarouk 2013). As a result of these conflicting goals, misalignment can occur leading to limited value being created for a specific business unit.
In order to ensure alignment, agency theorists argue that a principal can draw on two types of control mechanisms: formal and informal controls (Jaworski and MacInnis 1989). Formal controls reflect arm’s-length relationships where an agent is controlled through output controls. Output controls evaluate the outcomes of an agent’s activities and should result in compliance as evaluating its performance should ensure that the HR SSC engages in the desired actions (Ouchi 1979, Eisenhardt 1985). Research has shown that SSCs are indeed governed through formal control mechanisms by business units, such as with service-level agreements that specify criteria against which services should be delivered, or user surveys and performance data that measure criteria such as frequency, quality, and costs (Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009, Farndale, Paauwe et al. 2010). Ultimately, these formal control mechanisms should ensure that the SSC creates value for the business units since the rewards provided to the SSC depend on how well it meets the business units’ needs and interests. Besides formal controls, informal control mechanisms can also ensure interest alignment. Informal controls aim to nurture the relationship between the agent and the principal (Koulikoff-Souviron and Harrison 2006) and so secure the agent’s performance through collaboration, integration, and joint decision-making (Germain, Claycomb et al. 2008). Research has shown that business units, besides drawing on formal controls, do also adopt informal controls to govern their relationship with the SSC. For example, Reilly and Williams (2003) found that business units and SSCs collaborated to jointly develop and improve services to ensure that shared services matched end-user needs. Also, Meijerink and Bondarouk (2013: 509) concluded that “informal controls also play an essential role in controlling the SSC, with the business units and the SSC cooperating to improve service levels, develop new shared services, improve IT functionalities and fine-tune the current service portfolio”. Ultimately, these informal control mechanisms should ensure that the SSC creates value for the business units as their collaborative actions will increase trust and establish shared norms that avoid the interests of the agent conflicting with those of the principal and, hence, secure interest alignment (Uzzi 1997).

Although it is tempting to assume that both formal and informal control mechanisms directly influence the degree to which business units value shared services, matters are somewhat more complex. It has been argued that formal
controls can best be used when the principal is not dependent on the agent and thus is able to keep the agent at arm’s length (Dyer 1996, Uzzi 1997). That is, if an agent can choose from a variety of providers, it can easily sanction an agent’s self-serving behavior by changing to another provider. However, in SSC environments, the business units are not independent of the SSC for two reasons. First, most organizations adopt a ‘truck system’ where the business units are only allowed to purchase services from the SSC and, therefore, cannot easily sanction the SSC by switching to another service provider (Farndale, Paauwe et al. 2009, Meijerink, Bondarouk et al. 2013). Second, the business units and the SSC are highly interdependent since centralized and decentralized processes provide mutual inputs (Redman, Snape et al. 2007, McCracken and McIvor 2013, Meijerink and Bondarouk 2013). For example, business units often have to provide inputs for the delivery of shared services through inputting data or initiating operational processes which, in turn, are transformed into services for the business units (e.g. management information or administration) by the SSC (Meijerink and Bondarouk 2013). This reciprocal interdependence (Thompson 1967) between the SSC and the business units does not allow arm’s-length control. Rather, the SSC and the business units have to collaborate and share information to achieve the common goals that follow from their interdependent relationship (Thompson 1967, Jaworski 1988, Koulikoff-Souviron and Harrison 2006). It is therefore in the interests of the business units to make use of informal relationships to exert control, which leads us to assume that the degree of informal control usage by a business unit will have a direct and positive effect on the value it gains from the shared services.

The interdependent nature of the SSC – business unit relationship does not mean that formal controls are completely obsolete: formal controls could still have a support function in implementing informal controls. For example, service level agreements and end-user surveys could signal to the business units that bottlenecks are occurring in interdependent service processes. That is, the assessment of service quality, as a formal control, could serve as the starting point or as input for collaboration between the business units and the SSC to develop a joint understanding on how to improve service delivery. Therefore, although formal controls are unlikely to directly influence value for the business units through sanctioning/rewarding the SSC’s behavior, they are likely to
indirectly influence service value through enabling the business units to enact informal control mechanisms:

_Hypothesis 1: The use of informal control mechanisms by a business unit fully mediates between the use of formal controls by the business unit and shared service value for the business unit._

**Centralized resources and SSC value**

In order to understand how SSCs can create value through centralizing resources, we draw on the Dynamic Capability (DC) perspective as this explains how SSCs can exploit their consolidated resource base to create value for their clients – the business units. The DC perspective grew out of the resource-based view (Barney 1991) and addresses one of the RBV’s limitations: that it views the static possession of, rather than deployment of and change in, resources to be a source of competitive advantage. Conversely, in the DC perspective, it is not the possession of a resource itself that creates value, but the way it is employed or utilized (Locket, Thompson et al. 2009), thereby recognizing that resources need to be bundled and leveraged into capabilities (Sirmon, Hitt et al. 2007). On this basis, capabilities are defined as the ability of an organization to purposefully perform a coordinated set of tasks or activities through utilizing organizational resources (Maritan and Peteraf 2011, Maatman and Bondarouk 2014). Organizational resources that can be bundled in SSCs are in the form of human capital (i.e. the knowledge, skills, and abilities of SSC employees), social capital (i.e. knowledge sharing within the SSC), and organizational capital (i.e. codified knowledge) which can be used in building capabilities (Meijerink and Bondarouk 2013, Meijerink, Bondarouk et al. 2013). Although an SSC possess the resources to build capabilities, the value created through its deployment can vary across business units (Maatman and Bondarouk 2014). Agency theory suggests that it is very likely that an SSC will vary in its efforts to leverage its knowledge and skills across the business units. As with any organization (Pulles, Veldman et al. 2014), an SSC has a limited resource capacity and, therefore, has to be selective in allocating resources to a particular business unit. Furthermore, SSCs differentiate in the degree to which they bundle and leverage resources in line with the needs and interests of a business unit. Here, research has shown that business units compete to obtain favorable resources from the SSC (Knol, Janssen et al. 2014).
On this basis, we would expect the capabilities deployed by an SSC to vary across business units and, therefore, we examine the degree to which business units experience the bundling and leveraging of SSC resources into SSC capabilities.

Researchers have further differentiated between two types of capabilities: operational capabilities and dynamic capabilities (Teece and Pisano 1994, Helfat, Finkelstein et al. 2007). In an SSC environment, operational capabilities refer to the capacity of an SSC to perform its day-to-day activities in terms of carrying out administrative activities that relieve the business units and allow them to focus on their core business (Maatman, Bondarouk et al. 2010, Maatman and Bondarouk 2014). Examples of operational capabilities include the capacity to engage in record keeping, administer the payroll, and answer users’ questions on the usage of information technologies. Research has shown that SSCs build these capabilities by bundling resources such as knowledge of HR policies and regulations, management information, and consolidated business processes (Maatman & Bondarouk, 2014; Meijerink & Bondarouk, 2013). Conversely, dynamic capabilities refer to the capacity of an SSC to identify the need, or opportunity, for change, to formulate a response to such a need or opportunity, and to implement a course of action for a business unit (Maatman, Bondarouk et al. 2010, Maatman and Bondarouk 2014).

Given the operational nature of the work that most SSCs engage in, it is natural that an SSC requires operational capabilities in order to provide value to its clients as it needs such abilities to support the SSC on a day-to-day basis. However, at the same time, an SSC also needs dynamic capabilities since its clients – the business units – operate in changing environments with internal and external threats that require changes in the services provided. For example, ongoing changes in labor laws and regulations require the SSC to update its service portfolio to ensure the organization and its business units remain fully compliant (Paauwe and Boselie 2003, Boon, Paauwe et al. 2009, Meijerink, Bondarouk et al. 2013). Furthermore, technological advancements create opportunities for increased efficiency in providing routine everyday services (Bondarouk and Ruel 2009). The SSC therefore needs dynamic capabilities to be able to sense and identify any needs for change in the services they provide, and develop and implement actions to react to these needs. Examples of such capabilities include...
the ability to implement new services in response to the changing needs of the business units, and to implement new technology (e.g. new information technologies) that increases efficiency. As such, we would expect dynamic capabilities to play an important role in ensuring the creation of shared service value for the business units.

However, the effect of dynamic capabilities on shared service value is likely to be indirect where the dynamic capabilities have the purpose of changing the operational capabilities of the SSC (Bowman and Ambrosini 2003, Helfat and Peteraf 2009). Although an SSC might possess the ability to sense improvement opportunities, this will have limited value unless the SSC is capable of translating these opportunities into new services that are offered effectively on an everyday basis. In this context, a changed resource base is an insufficient condition for creating client value since renewed resources will not meet clients’ needs unless they are effectively leveraged (Bowman and Ambrosini 2003). As such, a changed resource base helps to create value to the extent that it enables the SSC to provide its everyday services in a more efficient or better manner to the business units. In other words, dynamic capabilities support value creation for the business units to the extent that they help to improve the operational capabilities of an SSC (Maatman and Bondarouk 2014). On this basis, we assume that dynamic capabilities will indirectly influence service value through building operational capabilities:

Hypothesis 2: The operational capabilities of an SSC fully mediate the relationship between its dynamic capabilities and the shared service value for the business unit.

Besides explaining why dynamic capabilities affect service value, we also expect that operational capabilities explain why informal control mechanisms influence shared service value. First, informal control mechanisms are likely to influence the operational capabilities of an SSC since capability building requires high-level trust between an SSC and its clients. Knowledge management research has shown that knowledge resources – out of which capabilities are built – can be acquired from outside the organization and then absorbed and integrated with existing knowledge resources (Tsai and Ghoshal 1998, Crossan, Lane et al. 1999). In shared-service environments, knowledge exchange is likely for capability building
Chapter 5: Why Sharing is Synergy? The Influence of Decentralized and Centralized Control Mechanisms

purposes since the interdependences between the SSC and its clients require the SSC to receive input from the business units in order to develop joint processes and serve its clients on an everyday basis (Meijerink and Bondarouk 2013). Previous research has shown that interpersonal trust is strongly associated with knowledge sharing (Uzzi 1997, McEvily, Perrone et al. 2003). In particular, Uzzi (1997) found that strong social relationships, characterized by high levels of trust, were significantly more effective in stimulating tacit knowledge transfer than arm’s-length relationships. Further, several studies have shown that trust is significantly and positively related with HR capability building (Sumelius, Björkman et al. 2008, Mäkelä, Sumelius et al. 2012). Given that informal control mechanisms are conducive to building trusting and strong relationships, we would expect them to relate positively with the operational capabilities of an SSC.

Second, a key feature of operational capabilities is that they include both resource bundling and leveraging with the purpose of supporting clients on a daily basis. As previously noted, an SSC, due to its limited resource capacity, has to be selective in allocating resources to a particular business unit. As a result, an SSC is likely to differentiate between business units in the degree to which it bundles and leverages resources in line with their needs and interests (Knol, Janssen et al. 2014). Consequently, it is in the interest of each business unit to try to ensure that the SSC builds and leverages its capabilities in line with the desires and wishes of that business unit. One way in which this can be ensured is through the use of informal controls that enable the business unit to trust that the SSC will favorably leverage its scarce resources. As an example, supply chain management researchers have shown that strong and trusting relationships are positively associated with the degree to which a supplier is willing to share its resources with a focal client (Pulles, Veldman et al. 2014). On this basis, we assume that the use of informal controls increases shared service value for the business units through its capacity to ensure that the SSC bundles and leverages its scarce resources into operational capabilities that benefit the focal business unit:

Hypothesis 3: The operational capabilities of an SSC partially mediate the relationship between the use of informal control mechanisms by a business unit and the shared service value for the business unit.
Chapter 5: Why Sharing is Synergy? The Influence of Decentralized and Centralized Control Mechanisms

METHODOLOGY

In order to test our hypotheses, we drew on data from a sample of business unit representatives from 19 Dutch organizations that make use of human resource management (HRM) shared services. We decided to investigate the value of HRM shared services for several reasons. First, HR SSCs are one of the most common types of SSCs as evidenced by several studies showing that at least 75% of the organizations they studied utilized the SSM for providing HRM services (CIPD 2007, SHRM 2010, SSI 2010, CedarCrestone 2012). Numerous studies have also shown that HRM positively influences firm performance (Jiang, Lepak et al. 2012), implying that creating high-value HR shared services is key to securing the strategic success of an organization. Second, previous studies have found that HR SSCs are controlled through both formal and informal controls (Farndale, Paauwe et al. 2010, McCracken and McIvor 2013, Meijerink and Bondarouk 2013), implying that both output and social controls are present in an HR SSC context. Third, HR SSCs engage in both providing services on an everyday basis as well as in redesigning, modifying, and improving existing ones (Meijerink, Bondarouk et al. 2013). As such, HR SSCs are a useful empirical setting in which to observe operational and dynamic capabilities.

In line with the notion that the use of control mechanisms and the deployment of capabilities can vary across business units (Knol, Janssen et al. 2014, Hofman and Meijerink 2015), we collected data on the business-unit level. Previous research has shown that, in most cases, control over an HR SSC is exercised by an HR professional (such as an HR director, HR manager, or HR advisor) who is affiliated with a specific business unit where they engage in developing Service Level Agreements (SLA) (or satisfaction surveys) and collaborate with the HR SSC to improve and develop new services (Meijerink, Bondarouk et al. 2013). Furthermore, being experts on the content as well as formal client representatives, such HR professionals are considered best placed to report on the degree to which the HR SSC bundles and leverages its resources for the selected business unit (Sumelius, Björkman et al. 2008). Therefore, in addition to obtaining information on the shared service value for the business units, we surveyed one HR professional in each business unit, as a client representative, to report on the use of control mechanisms and the capabilities of the HR SSC.
To avoid having to rely on a convenience sample, we first constructed, based on personal contacts and referrals, enquiries through LinkedIn, and snowball sampling, a sampling frame made up of 95 Dutch organizations with an HRM SSC. The sampling procedure itself consisted of two phases. First, personal invitations were sent to the HR director or manager of the HR SSC of each of the 95 organizations inviting them to participate in the research. In total, 19 organizations agreed to participate, an inclusion rate of 20%. The sample means of the 19 participating centralized HRM service providers were compared to those of 27 that decided not to participate to address any concerns over potential sampling bias. Results from t-tests and chi-square tests indicated that the participating service providers did not differ significantly from those that did not in terms of the number of years of operation ($t (42) = .583, p = .56$), number of workers served ($t (42) = 1.11, p = .27$), and industry ($\chi^2 (1) = 3.04, p = .08$). Overall, 26% of the participating organizations were in the public sector and 74% were service firms. They all had an HR SSC, with between 5 and 250 HR professionals serving between 1,300 and 130,000 workers.

During the second phase, all the 129 business units within the 19 organizations were invited to participate in the research. For each business unit, we invited the HR professional that was formally responsible for controlling the HR SSC’s operations to complete an online survey. Invitations, including a link to the online questionnaire, were sent by email. The business unit representatives had four weeks to complete the questionnaire during which time they received two reminders by email. All the completed surveys were returned directly to the research team to reassure the representatives that their responses were confidential. A forced-entry technique was used to avoid missing values. To reduce the likelihood that this forced-entry technique induces non-differentiation between questions in a respondent’s ratings, we kept the survey as short as possible and placed bundles of items that measured different variables on each webpage. Further, for each respondent, we calculated the standard deviation of the items measuring each variable, since a standard deviation of ‘zero’ would signal potential ‘straight-lining’ of answers. In this check, none of the respondents produced a zero standard deviation for any of the variables, suggesting that they did not ‘straight line’ their answers.
To maximize the response rate, we employed various techniques such as sending pre-notification emails one week prior to the survey, publicizing the goals and importance of the research, adding a covering letter to the survey (stating their organization’s commitment to the research, the guarantee of anonymity, and who was sponsoring the researchers), and sending two follow-up reminders (Duncan 1979, Dillman 1991). Of the 129 business unit representatives (i.e. HR professionals) invited, 91 completed the survey, equivalent to a 71% response rate. Overall, the business units represented by the HR professionals had an average size of 1,965 employees (SD = 3,640) and had been making use of shared HR service delivery for an average of 4 years (SD = 3).

**Measurement of the main variables**

Unless stated otherwise, existing scales were used to measure all the variables of interest in the form of Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree). Two researchers, both proficient in Dutch and English, translated the established items from English into Dutch and back again to ensure the items were correctly represented. Appendix A provides an overview of the measurement scales used for both the independent and dependent variables.

**Capabilities of the HR SSC**

Prior to this study, no scale existed for measuring the capabilities of the HR SSC and therefore, we had to develop our own scale. We based the capabilities scale on a case study of a Dutch HR SSC involving interviews with nine of its managers. In line with the conceptualizations of Helfat et al. (2007), Teece and Pisano (1994), and Maatman et al. (2010), who define capabilities as the capacity to purposefully perform a specific task or activity, these interviews focused on both the resources deployed as well as the activities performed by the HR SSC. From this, we developed two scales to measure (a) the *operational capability* (3 items, e.g. ‘In my view the HR SSC demonstrates the capacity to purposefully provide administrative HR services to business units’) and (b) the *dynamic capability* of an HR SSC (3 items, e.g. ‘In my view the HR SSC demonstrates the capacity to purposefully develop new HR services). After this scale development procedure, we asked four HR SSC experts (two academics and two seasoned HR SSC managers) to review the items and assess the scales’ content validity. Later, we pre-tested the items, using think-out-loud procedures, with four business unit
representatives. Where necessary, we made small adjustments to the items after each pre-test session. We next conducted a confirmatory factor analysis to check the consistency of the operational and dynamic capability scales. To test whether the capability scales indeed measured two conceptually distinct constructs, we estimated a confirmatory factor model of two inter-correlated factors. This two-factor model had an acceptable fit ($\chi^2(8) = .98; \text{NFI} = .97; \text{GFI} = .97; \text{RMSEA} = .01$) and was therefore retained for testing our hypotheses. Both the operational and dynamic capability scales also had acceptable Cronbach’s alphas of .80 and .89 respectively.

**Control mechanisms used by the business unit**

The business units’ representatives were asked to report on the extent to which they rely on formal and informal control mechanisms using the scales of Jaworski and MacInnis (1989) and Kale, Singh, and Perlmutter (2000) respectively. Originally, these scales were used for measuring the output control of individual employees or alliances and they were therefore reworded to fit the HR SSC context. For example, the item ‘If my performance goals were not met, I would be required to explain why’ was changed to ‘The business unit I represent requires an explanation if the established goals of the HR SSC are not met’. One item from the Jaworski and MacInnis scale (‘My pay increases are based upon how my performance compares with my goals’) was left out because the pay increases and annual budgets of the HR SSC (managers) are generally determined by a corporate department and not by the business units (Meijerink, Bondarouk et al. 2013). As such, the scales were adapted to measure the extent to which business units rely on formal and formal control mechanisms to control the operations of their HR SSC. We estimated a confirmatory factor model with two intercorrelated factors to measure the consistency of the formal and informal control scales (comprising 4 and 5 items respectively). This model had a poor fit ($\chi^2(25) = 1.98; \text{NFI} = .89; \text{GFI} = .89; \text{RMSEA} = .10$), mainly because one item (‘The business unit I represent, establishes specific goals for the HR SSC’) had a poor factor loading of .45. We therefore decided to remove this item, primarily because, conceptually, this item measures the development of output criteria rather than the monitoring of an HR SSC’s output that the formal control variable is intended to measure. The revised two-factor model, excluding this item, had an acceptable fit ($\chi^2(18) = 1.18; \text{NFI} = .95; \text{GFI} = .95; \text{RMSEA} = .04$) and was therefore retained.
for testing our hypotheses. Both the operational and the dynamic capability scales had acceptable Cronbach’s alphas of .82 and .91 respectively.

**Service delivery value for the business unit**

To measure the service delivery value for the business units, we relied on an adapted version of the two-item scale by Cronin, Brady, and Hult (2000). This scale was originally applied to measure service value and was therefore reworded to measure the value of HR shared services. The two items were: (1) ‘In my view, the value of the HR SSC’s service delivery for my business unit is very high’ and (2) ‘Compared to what my business unit has to give up (in terms of effort, money, time, and energy), the extent to which the service delivered by <HR SSC> satisfies the unit’s HR-related needs is very high’. The inter-item correlation was .77 (p < .001) indicating an acceptably consistent scale. The reliability of the scale was good, with a Cronbach’s alpha of .87.

**Control variables**

We controlled for the confounding effect of two variables that were again reported by the business unit representatives.

**Years of service by the SSC**

Research shows that, within organizations, business units differ in the number of years they have been served by an SSC since most organizations phase the going-live of their SSC (Meijerink and Bondarouk 2013). We would expect that the longer a business unit has been making use of shared services, the more experience and skill it will have in controlling the SSC’s operation. Furthermore, capability building is dependent on the experience of the client (Mäkelä, Sumelius et al. 2012). Consequently, we considered it advisable to control for the number of years that a business unit has been served by the SSC.

**Business unit size**

We intuitively expect that business units with a large number of employees will have more power (Ferner, Edwards et al. 2012) than smaller business units when it comes to enacting control mechanisms and thus in ensuring that the SSC leverages its capabilities to meet the interests of that business unit. Therefore, we
control for business unit size which is measured as the number of employees (headcount) working within the focal business unit.

Data analysis

We relied on structural equation modelling (SEM) to test our hypotheses. Given our multistage sampling technique, we might rely on a nested data structure in which the observations of the business unit representatives are not independent while they share a similar SSC. This would require the use of multilevel SEM. Therefore, using HLM (Raudenbush and Bryk 2002), we first estimated a null model, in which independent variables were not specified, and determined the significance level of the organizational level variance ($\tau_0^2$) and the business unit level (or residual) variance ($\sigma^2$) of the intercept of the value construct. Only the residual variance was found to be significant ($\tau_0^2 = .17, p = .10; \sigma^2 = .56, p < .001$), indicating that organizations do not significantly differ in terms of averages in HR shared service value for the business units. In other words, our observations on the business unit level can be treated as independent and, therefore we relied on traditional SEM using AMOS.

SEM is particularly suited for testing our mediating hypotheses since it allows for simultaneously estimation of different regression equations along with testing the significance of indirect effects. We used maximum-likelihood estimation and report on the chi-square statistics and significance. Since chi-square significance is affected by the sample size and correlational effect sizes, we also used Hu and Bentler (1999)’s fit criteria, including the comparative fit index (CFI), Tucker-Lewis index (TLI), and the root mean square error of approximation (RMSEA). A well-fitting model was defined as one that had a RMSEA below .06, and CFI/TLI above .95.

FINDINGS

The means, standard deviations, and correlations among the capabilities, control mechanisms, and value of the HR SSCs are presented in Table 1. As can be seen, most of the proposed independent variables are significantly and positively related with service delivery value, the exception being formal control which is negatively, albeit not significantly, related to service delivery value. Further, formal and informal control mechanisms are significantly and positively related to each other,
as are operational and dynamic capabilities. Finally, informal control mechanism usage and operational capabilities are significantly and positively correlated with each other. What the results in table 1 do not show is the degree to which there is full or partial mediation among the variables of interest. For that insight, we consider the path analysis results in the next section.

**Table 1. Descriptive Statistics and Correlations among the Study Variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Years of service by SSC</td>
<td>4.27</td>
<td>2.64</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Business unit size</td>
<td>1919</td>
<td>3483</td>
<td>-.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Formal control</td>
<td>3.06</td>
<td>.96</td>
<td>.01</td>
<td>.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Informal control</td>
<td>2.93</td>
<td>.94</td>
<td>.12</td>
<td>-.03</td>
<td>.32</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Dynamic capability</td>
<td>3.14</td>
<td>.98</td>
<td>.20</td>
<td>.16</td>
<td>-.04</td>
<td>.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Operational capability</td>
<td>3.29</td>
<td>.88</td>
<td>.21*</td>
<td>.12</td>
<td>-.18</td>
<td>.21*</td>
<td>.37*</td>
<td></td>
</tr>
<tr>
<td>7. Service delivery value</td>
<td>2.98</td>
<td>.84</td>
<td>.23*</td>
<td>.02</td>
<td>-.20</td>
<td>.39*</td>
<td>.28*</td>
<td>.51*</td>
</tr>
</tbody>
</table>

** p < .01; * p < .05

N = 91 business units

**Model comparison and overall model fit**

We first compared a model that includes only direct paths from the control variables and the four independent variables to the dependent variable – i.e. service delivery value (referred to as Model 1), to a similar model that also includes a direct path from formal control usage to informal control usage (Model 2). In other words, we compared a direct relationships model (Model 1) to one that also includes a partially mediated relationship between the formal control mechanisms and service value (Model 2). These models were significantly different ($\Delta \chi^2(1) = -9.2, p < .01$), with the addition of a partial mediation path for informal control usage between formal control usage and service delivery.
value significantly improving the model. Next, we compared Model 2 to a similar model excluding the direct relationship between formal control mechanism usage and service value (Model 3). In other words, we compared a model in which informal control usage partially mediates the link between formal control usage and service value (Model 2) to one that assumes informal control usage fully mediates the relationship (Model 3). Model 3 had a significantly worse fit than Model 2 ($\Delta \chi^2(1) = 9.8, p < .001$) and, therefore, Model 2 was preferred. Next, we compared Model 2 to a similar model that included a direct path from the dynamic capabilities to the operational capabilities of the SSC (Model 4). In other words, we compared a model with only direct relationships from the SSC capabilities to service delivery value (Model 2) to one that also includes a partially mediated dynamic capabilities – service value relationship (Model 4). These models were significantly different ($\Delta \chi^2(1) = -5.5, p < .05$), with the addition of the partial mediation path for the role of operational capabilities between dynamic capabilities and service delivery value significantly improving the model. Therefore, we retained Model 4. Next, we compared Model 4 to a similar model excluding the direct relationship between dynamic capabilities and service value (Model 5). In other words, we compared a model in which operational capabilities partially mediate between dynamic capabilities and service value (Model 4) to one that assumes full mediation by operational capabilities (Model 5). These models were not significantly different ($\Delta \chi^2(1) = 1.48, p = .22$) with the direct effect of dynamic capabilities included in Model 4 turning out to be insignificant ($\beta = .12, p = .22$) Therefore, we retained Model 5 as the most parsimonious, and thus preferable, model. Next, we compared Model 5 to a similar model that included a direct relationship between informal control mechanism usage and operational capabilities (Model 6). In other words, we compared a model that includes a direct effect of informal control usage on service delivery value (Model 5) with one that also includes a partially mediated relationship between informal control mechanisms and service value (Model 6). These models were significantly different ($\Delta \chi^2(1) = -4.0, p < .05$), with the addition of the path for a partial mediation role of operational capabilities between informal control mechanism usage and service delivery value significantly improving the model. We therefore retained Model 6 and then compared this to a similar model that excluded the direct relationship between informal control usage and service value (Model 7). In
other words, we compared a model in which operational capabilities partially mediate the relationship between informal control usage and service value (Model 6) to one that proposes a full mediation by operational capabilities (Model 7). Here, Model 7 had a significantly poorer fit to the data than Model 6 ($\Delta \chi^2(1) = 14.92, p < .001$). Model 6 fitted the data well ($\chi^2(128) = 139.14, p = .24; \text{CFI} = .99; \text{TLI} = .98; \text{RMSEA} = .03$) and was therefore retained for testing our hypotheses.

**Testing the hypotheses**

Hypothesis 1 states that the use of informal control mechanisms by a business unit fully mediates the relationship between its use of formal control mechanisms and the service delivery value it accrues. As Figure 1 shows, there is indeed a significant and positive relationship between formal control usage and informal control usage ($\beta = .35, p < .01$) as well as between informal control usage and service delivery value ($\beta = .45, p < .001$). However, because the direct path between the use of formal control mechanisms and service delivery value is significant and negative ($\beta = -.37, p < .001$), partial mediation rather than full mediation is indicated. Therefore, we partially accept Hypothesis 1.

![Figure 1. Estimated Path Coefficients for the Final Models](image)

* Fit indexes are: $\chi^2(128) = 139.14, p = .24, \text{CFI} = .99, \text{TLI} = .98, \text{RMSEA} = .03$
* $p < .05; \quad ** p < .01; \quad *** p < .001$

$N = 91$ business units
Hypothesis 2 states that the operational capabilities of an SSC fully mediate the link between its dynamic capabilities and service delivery value for the business unit. As shown in Figure 1, there is a significant and positive relationship between dynamic capabilities and operational capabilities ($\beta = .30, p < .05$), as well as between operational capabilities and service delivery value ($\beta = .42, p < .001$). As the direct path between dynamic capabilities and service delivery value did not improve the structural model (as explained in the previous section), full, rather than partial, mediation is indicated. Therefore, we accept Hypothesis 2.

Hypothesis 3 states that the operational capabilities of an SSC partially mediate the relationship between the use of informal control mechanisms by a business unit and the service delivery value it accrues. As Figure 1 shows, there is a significant and positive relationship between informal control usage and the experience of operational capabilities ($\beta = .24, p < .05$), as well as between the experienced operational capabilities and service delivery value ($\beta = .42, p < .001$). The significant and positive direct path between the use of informal control mechanisms and service delivery value ($\beta = .45, p < .001$) is indicative of partial rather than full mediation. Therefore, we can accept Hypothesis 3.

**DISCUSSION**

Driven by promises that shared service delivery models provide added value to those served – the business units – by integrating centralization and decentralization models, researchers have studied the capabilities centralized in SSCs and control mechanisms used by the business units to control service delivery operations. Some studies have indeed shown that SSCs improve service value for local business units. However, it remained unclear how and to what extent SSC capabilities and business unit control influence and thus explain the value of an SSC for the business units. Therefore, we examined the separate and joint influences of an SSC’s operational and dynamic capabilities and control mechanism usage by the business units in an attempt to explain the value of shared services for the business units served.

We found that although business unit use of formal control mechanisms has a negative direct effect on perceived service delivery value, these mechanisms also have a positive indirect effect by having a positive effect on informal control
usage. Further, informal control usage has a positive effect on service delivery value both directly and indirectly through its positive effect on the operational capabilities of the SSC. Finally, we found that the dynamic capabilities of the SSC have only an indirect positive effect, through their positive effect on operational capabilities, on service delivery value for the business units. Below, we discuss the theoretical and practical implications of our findings.

Theoretical implications

First, our results show that operational capabilities and informal control usage by the business units have similar influences on service delivery value for the business units. This implies that both the structural features of the service delivery model – centralization of resources and decentralization of control – are important in explaining the value of this form of service delivery. Further, it is unlikely that either the leveraging of centralized resources or the decentralization of control are sufficient on their own to drive service delivery value creation. We claim this based on our finding that the use of informal control mechanisms by the business units is positively related with operational capabilities. Whereas previous studies have generally studied the centralization of resources and the decentralization of control separately (Farndale, Paauwe et al. 2009, Meijerink and Bondarouk 2013, Knol, Janssen et al. 2014), our results show that these two structural features are interdependent and mutually reinforcing in creating service delivery value. Therefore, it is important to address both the centralization of resources and the decentralization of control, and how these two structural features interact in service delivery models, to explain the value of shared services.

Second, whereas previous studies have generally assumed that informal control mechanisms are of limited relevance in ensuring service delivery value and have mainly emphasized the use of formal controls such as SLAs and contracts (Farndale, Paauwe et al. 2010), our results show that it is only informal control mechanisms that have a direct and positive impact on service delivery value for the business units. Given that previous studies have shown that SSCs and their clients are interdependent (Redman, Snape et al. 2007, McCracken and McIvor 2013, Meijerink and Bondarouk 2013), meaning that they have to collaborate in order to jointly develop services or solve problems in service delivery processes,
our results show that social capital and social exchange dimensions – such as shared language, trust, and reciprocity between the SSC and its clients – are important in explaining the value of shared services.

Third, our results show that the use of formal control mechanisms has a direct but negative impact on service delivery value. However, this negative effect can turn positive when the formal control mechanisms impact on service value through the mediating role of informal control mechanisms. Whereas previous studies have assumed that formal control mechanisms would positively contribute to interest alignment (Farndale, Paauwe et al. 2010, Meijerink and Bondarouk 2013), our results imply that formal control usage can have both negative and positive effects on service delivery value. A possible reason why formal control mechanisms have a negative direct effect on service delivery value is that the business units and the SSC are interdependent (Redman, Snape et al. 2007, McCracken and McIvor 2013, Meijerink and Bondarouk 2013) and, consequently, that the business units cannot easily sanction the SSC by turning to another service provider due to the use of truck systems (Farndale, Paauwe et al. 2009, Meijerink, Bondarouk et al. 2013). As such, sanctioning the SSC for not meeting service level agreements will involve significant effort, time, and/or frustration, and still might fail to motivate the SSC to improve service levels as sanctions and arm’s-length relationships are less effective instruments in a mutually interdependent situation. Further, in interdependent service delivery processes, the root of low service value may be in omissions on the client/user side, and these are unlikely be uncovered if the business units control the output of these processes by an SSC. Overall, our results imply that formal control mechanisms can best be used as a ‘signaling device’ to inform both SSCs and their clients that service delivery processes are stagnating, and thus can serve as a driver for collaborative initiatives (i.e. the use of informal control mechanisms). As such, it is important to study how business units exercise control mechanisms when seeking to explain the value of shared services, and test the idea that formal control mechanisms only positively influence service delivery value when they are used as a signaling device for collaborative problem solving.

Finally, our results support the arguments presented in Maatman et al. (2010) that operational capabilities are directly and positively related with the value of
transactional shared services. However, our study also shows that dynamic capabilities are important for operational shared service centers, but not always as a contingency against which operational capabilities influence shared service value, as proposed by Maatman et al. (2010). Instead, we find that dynamic capabilities can represent a condition for the development of operational capabilities, such that capabilities mediate between dynamic capabilities and shared service value. In the strategic management literature, some have proposed a direct link between dynamic capabilities and value (Griffith and Harvey 2006, Helfat and Peteraf 2009), whereas others questioned the existence of such a linkage (Bowman and Ambrosini 2003, Ambrosini and Bowman 2009). Our results seem to support the latter school of researchers and imply that dynamic capabilities only influence service value for clients to the extent that they allow the service provider to improve and renew its everyday operational capabilities.

**Practical implications**

Our results have several implications for practice. Whereas earlier research shows that SSC managers are tempted to only focus on internal processes and resource bundling to ensure efficient service delivery (i.e. a delivery logic, Farndale et al., 2009), our results show that it is equally important to build strong and trusting relationships with the business units they serve in order to allow for joint problem-solving and new service development. This can be effected by installing user boards or employing account managers (Meijerink and Bondarouk 2013). From the other side, clients/business units should avoid drawing on formal control mechanisms, such as user satisfaction surveys and service level agreements, to hold the SSC accountable for its performance since this will reduce the value of shared services. Rather than using formal controls as sanctioning mechanisms, business unit representatives can better use informal mechanisms to initiate discussions on how to improve the value of shared services. Our results suggest that one way informal control mechanisms can contribute to service delivery value creation is through building the operational capabilities of the SSC. In practical terms, this implies that business units need to develop strong and trusting relationships with the SSC in order to help the SSC to develop and leverage its knowledge of HR policies and regulations, management information, and consolidated business processes (Meijerink and Bondarouk 2013, Maatman and
Chapter 5: Why Sharing is Synergy? The Influence of Decentralized and Centralized Control Mechanisms

Bondarouk 2014). Finally, our results show that SSCs should not only invest in those operational capabilities that allow them to serve the business units in terms of everyday operations but should also invest in their dynamic capabilities, that is, in their capacity to identify the need, or opportunity, for change, to formulate a response to such needs or opportunities, and to implement a course of action for a business unit (Maatman, Bondarouk et al. 2010, Maatman and Bondarouk 2014). In doing so, it is important to ensure that these capabilities are converted into improved or renewed shared services that can be offered on a day-to-day basis to ensure that the dynamic capabilities contribute to service delivery value creation.

LIMITATIONS AND FUTURE RESEARCH

As with any study, the results and implications of our study should be seen in the light of its limitations. First, all of our variables were reported upon by the same respondents, which exposes our results to the danger of common method bias. However, the survey included several other questions on variables related to additional issues, such as the number of shared services provided, co-production by employees, and the degree of HR service customization, and, therefore, common method bias that could follow from testing of respondents’ implicit theories is less of a concern.

Second, we relied on cross-sectional data to test our hypotheses. As a result, we cannot draw any conclusion on the causal direction of the observed relationships. For example, it could be very likely that high levels of service value result in a reduced use of formal control mechanisms, hence explaining the negative relationship between both variables. Furthermore, operational capabilities could also influence the dynamic capabilities of the SSC since existing knowledge is supportive to the search for and absorption of new knowledge. Therefore, we would encourage future research to collect longitudinal data to hopefully replicate our findings and clarify the causality involved.

Finally, we investigated the extent to which the business units relied on predetermined control mechanisms. However, it is possible that SSC managers do not experience the presence of these controlling forces, and thus are not motivated to align their interests with the associated business unit. Further, it is
possible that business unit representatives fail to effectively use the control mechanisms at their disposal (Meijerink and Bondarouk 2013) and thus limit the extent to which these control mechanisms influence the creation of service delivery value. To clarify these aspects, future research could usefully assess the degree to which SSC managements experience the use of control mechanisms by the business units.

CONCLUSIONS

Our study has attempted to identify and explain the extent to which the centralization and decentralization features of the shared services model influence the value of the shared services for the business units. In doing so, we have shown that the consolidated dynamic capabilities of an SSC positively influence service value through improving its own operational capabilities. Furthermore, the results show that the use of formal control mechanisms by the business units positively contributes to service delivery value, but only through their capacity to bring about the use of informal control mechanisms. As such, we believe that our study has provided a valuable and improved insight into the creation of service delivery value, and can pave the way for future research into how SSCs and the associated business units can jointly improve the centralization of resources and the use of decentralized control mechanisms to create value.

REFERENCES

References can be found on page 205.
Chapter 5: Why Sharing is Synergy? The Influence of Decentralized and Centralized Control Mechanisms

APPENDIX: MEASUREMENT SCALES USSED

Formal Control Mechanisms

✓ The business unit I represent establishes specific goals for the <HR SSC> (e.g. SLAs, contracts or service charter).
✓ The business unit I represent monitors the extent to which the <HR SSC> attains the established goals.
✓ The business unit I represent requires an explanation if the established goals of the <HR SSC> are not met.

Informal Control Mechanisms

✓ In my view, at different levels, there is close, personal interaction between representatives from the <HR SSC> and my business unit.
✓ In my view, at different levels, the relationship between <HR SSC> and my business units is characterized by mutual respect.
✓ In my view, at different levels, the relationship between <HR SSC> and my business units is characterized by mutual trust.
✓ In my view, at different levels, the relationship between <HR SSC> and my business units is characterized by intensive collaboration among representatives from both parties.
✓ In my view, the relationship between <HR SSC> and my business unit is characterized by high reciprocity between both parties.

Dynamic Capabilities

✓ In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully extend the number of HR services provided
✓ In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully expand its HR service delivery scope
✓ In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully develop new HR services
Operational Capabilities

- In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully provide administrative HR services to business units.
- In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully relieve the business units from the processing of HRM administration.
- In my view <HR SSC> demonstrates the capacity to (repeatedly and) purposefully process data to provide HR management information to the business units.

Service Delivery Value

- In my view the value of <HR SSC> `s service delivery for my business units is very high.
- Compared to what my business unit has to give up (the sum of effort, money time and energy), the extent to which the service delivery by <HR SSC> satisfies its HR-related needs is very high.
DISCUSSION

It was frustrating to observe that the concept of the HR SSC, just before it was about to realize its potential, was stopped in its tracks within many organizations as a result of the economic crisis. Nevertheless, the research presented in this thesis provides sufficient rationale to reconsider the exclusive transactional role of the HR SSC and making it an easy target for headcount reductions. Moreover, as organizations move forward again, the HR function must evolve as well to comply with the needs of the business. The HR SSC has the potential to support the function in doing so.
INTRODUCTION

The study presented in this thesis aimed to explore and explain the potential of the HR SSM in a transactional context. Three relevant challenges were addressed. The first was to define the subject. The HR SSM definition was constructed through the integration of features describing the formal structure and organizational boundaries, the governance, and the distinctive features of shared services. The HR SSM was defined as:

- A collection of HR shared services, whose characteristics are determined by the customers,
- provided within an intra-organizational HR arrangement to a specific set of end-users,
- by a (semi-)autonomous business unit on the basis of agreed conditions.

The focus of the study was narrowed further to those HR SSMs that incorporate a HR SSC for which the execution and provision of transactional-oriented activities and services are the root and basis for its existence.

The second challenge addressed was the need for an integrated framework to support research and management decisions. The framework was built on the key characteristics of the HR SSM identified in the literature that distinguish it from other models for HR delivery and enable value creation. Value creation was conceptualized from the perspective of the customers of the HR SSC as an assessment of the overall utility of the HR SSC’s outputs. The HRM SSM itself was conceptualized as the combination of centralized and decentralized structural features of organizational models. Decentralization was conceptualized as the power the customers exert over the HR SSC to align the HR SSC’s interests with their own. The concepts of capabilities and the resource orchestration process were introduced to explain how the concentrated resources within the HR SSC are used to create value, as the characteristics of centralized structural features.

The third challenge addressed was the lack of empirical findings that explored and explained how the key characteristics of the HR SSM create value and how the HR SSM evolves into its new role. The choice for the conceptualization of resource use by the HR SSC through its capabilities and the resource orchestration
Chapter 6: Discussion

processes imposed a challenge. There was a lack of empirical findings in relation to the orchestration of resources within the HR SSC to design, build and deploy capabilities. Therefore, the concept of the capability hierarchy was introduced and applied in a case study to uncover and structure the use of resources by the HR SSC for different functions on different levels of abstraction. The findings were used to operationalize two capabilities with different functions for a survey. The survey aimed to explain how the key characteristics affect the value creation, separately and combined, from the customer's perspective.

MAIN FINDINGS

In the following sections the main findings of the study presented in this thesis are summarized. A reflection is given on the findings of the two empirical studies and their integration.

The transactional HR SSC that is able to accommodate and support transformation

The literature review into the (HR) SSM and other sourcing models revealed the first challenge for this study. The terms SSC, expertise center, and shared services are often improperly and even interchangeably applied. Different types of SSMs were identified, varying in terms of the governance and management control structures, the position of the service provider in relation to organizational boundaries and the organizational structure, the motives and objectives for the application of the model, and the activities provided through shared services. Case study descriptions and benchmark reports often lacked any further characterization of the subject matter, thereby discarding the context for the operation of the (HR) SSM. As a result, it was almost impossible to discriminate between models for the delivery of HR that could be characterized as a HR SSM in a transactional context, and those models that should be characterized otherwise. The key characteristic of the SSM identified in the literature was the combination of both centralized and decentralized structural features. There seemed to be a consensus about the characterization of the service provider within the HR SSM. It is considered to be an (semi-)autonomous business unit within the organizational boundaries (the models in which the service provider operated beyond the organizational boundaries were considered to be outsourcing arrangements), in which the resources for the delivery of specific tasks and activities are
concentrated (Klaas, McClendon et al. 1999, Cooke, Jie Shen et al. 2005, Chakrabarty 2006, Cooke 2006). There also seemed to be a consensus in the literature on the characteristics of the services provided. The nature of these services is primarily determined by the customers. The services are provided to different customers and types of end-users within the organization, based on agreed conditions between the service provider and the customers that use them. The latter characteristic implies that there should be at least some amount of power that customers exert via the horizontal relationship in the management control structure of the HR SSM. The identified characteristics were integrated in the definition of the HR SSM for this study. Finally, the combination of centralized and decentralized features within the HR SSM was conceptualized as the key concept of the research framework that explains value creation within the HR SSM.

In the HR literature the HR shared services were further discriminated between those that support customers in doing transactional work and those that support the business in its transformation as they implement strategy, create new culture, and accomplish business goals (Ulrich 1995, Ulrich and Brockbank 2005). The distinction however, is often improperly applied as it is used to make a distinction between HR service providers; those service providers that support the processing of transactions (often referred to as the HR SSC), and those that transform the organization as they execute HR policies and practices such as staffing, development, and compensation (often referred to as the HR expertise centers). The HR SSC, as it is referred to from this perspective, is characterized as an administrative expert (Ulrich, 1997) and ignored as a source of transformation for the organization and the customers to which the services are provided.

The empirical findings of the case study presented in this thesis conflict with the commonly accepted distinction between the two types of HR service providers. They revealed that the HR SSC, for which the execution and provision of transactional-oriented activities and services were the basis for its existence, evolved and enhanced transformation throughout the intra-organizational HR arrangement. This was not the result of an expansion in the execution of additional HR practices, but was built on the original responsibility of supporting the business in transactional work. New activities and services were developed and deployed by the HR SSC as the SSC management seized the opportunity and
developed a strategy to leverage the opportunities. The HR SSC management recognized the potential of all the data that flowed through the service delivery processes, and the concentration of knowledge and expertise concerning the execution and application of HR policies and practices within the HR SSC on the one hand, and seized the need for support of the customers on the other (as a result of the interaction via the horizontal relationship as part of the management control structure). The HR SSC addressed the opportunities and improved the service delivery processes, and advised the customers on how to transform the execution of HR policies and practices. Last but not least, the HR SSC created demand for these new activities and services as the outcomes were perceived as valuable by the customers, as a result of their deployment.

**The role of capabilities in value creation**

The findings described above were the result of a case study aiming to uncover how the resources concentrated within the HR SSC are used. It had been argued that the concentration of resources within the HR SSC was an insufficient condition for the creation of value within the HR SSM. In response to the criticism of the RBV, the logics of the DCA and the resource orchestration process were applied to conceptualize how the HR SSC uses the concentrated resources to create value within the HR SSM and evolves into a new role as it finds new ways of using the available resources. The application of the perspectives combined with the concept of the capability hierarchy enabled the uncovering and the structuring of resource use by the HR SSC on different levels of abstraction. The structuring of small bundles of resources used by the HR SSC to perform a specific task or activity represented the first level of capabilities in the capability hierarchy. Based on their function, these capabilities were integrated into the second and subsequently third level of capabilities. The map of capabilities created for the HR SSC enabled the analysis of the function of different bundles of resources as a result of their integration into capabilities.
### Table 1. HR SSC Capabilities

<table>
<thead>
<tr>
<th>Capability</th>
<th>Definition</th>
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<tr>
<td><strong>Service delivery</strong></td>
<td>The extent to which the HR SSC is able to provide HR services repeatedly, by using its current resource base.</td>
</tr>
<tr>
<td>Care</td>
<td>The extent to which the HR SSC is able, by using its current resource base, to provide end-users repeatedly with information, answers, and advice in response to their needs.</td>
</tr>
<tr>
<td>Relieve</td>
<td>The extent to which the HR SSC is able, through using its current resource base, to assist the business units repeatedly in meeting their administrative responsibilities in relation to HR.</td>
</tr>
<tr>
<td><strong>Engineering</strong></td>
<td>The extent to which the HR SSC is able to change repeatedly the quality, cost, functionality of the HR service delivery by the HR delivery channels within the intra-organizational HRM arrangement as a result of developing, extending, or creating new resources.</td>
</tr>
<tr>
<td>Modifying</td>
<td>The extent to which the HR SSC is able to redesign and redevelop repeatedly the characteristics of its current operation and influence the quality, costs, and functionality of the services provided.</td>
</tr>
<tr>
<td>Expansion</td>
<td>The extent to which the HR SSC is able to design and develop new services repeatedly and expand its customer base.</td>
</tr>
<tr>
<td>Integration</td>
<td>The extent to which the HR SSC is able to design, develop, and provide solutions for different stakeholders in the delivery of HR that enable sustainable, harmonized HR delivery throughout the organization as a whole.</td>
</tr>
<tr>
<td><strong>Change facilitating</strong></td>
<td>The extent to which the HR SSC management is repeatedly enabled to seize opportunities and threats for the delivery of HR and support the resource orchestration processes.</td>
</tr>
<tr>
<td>Guarding</td>
<td>The extent to which the HR SSC is able repeatedly to identify opportunities and threats to the delivery of HR within the organization as a whole.</td>
</tr>
<tr>
<td>Implementation</td>
<td>The extent to which the HR SSC is able to effect changes repeatedly in the delivery of HR by developing, extending, or creating new resources in the resource base of the HR SSC or in the organization as a whole.</td>
</tr>
<tr>
<td><strong>Managerial</strong></td>
<td>The extent to which the HR SSC management is able to synchronize actions within the resource orchestration process.</td>
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</table>

Within the HR SSC, capabilities were identified that represent the function of operational capabilities and ones that represent the function of dynamic capabilities. The operational capability on the highest level of the hierarchy was
labeled as the Service Delivery Capability of the HR SSC, and represented the integration of the operational Care and Relieve capabilities. The functions of the dynamic capabilities on the highest level in the hierarchy were represented by two different capabilities. The first, labelled the Engineering capability, represented the functions of designing and developing solutions in response to opportunities or threats and was the result of the integration of the dynamic Expansion, Modifying and Integration capabilities. The second, labelled the Change Facilitating capability, represented the functions of identifying the opportunities or need for change, and implementing solutions developed to effect change of the resource base. The case study revealed a positive relationship between the HR SSC deploying its operational Service Delivery capability and the dynamic Engineering capability from the customers' perspective. For the Change Facilitating capabilities, however, the case study revealed positive and negative perceptions by customers. The deployment of the Guarding capability by the HR SSC was perceived by some customers as the HR SSC controlling them. These customers felt that the HR SSC acted as an enforcer of the application and execution of HR policies and practices and thus restricted the extent of their autonomy to choose how to organize and deliver HR. In this context, this should not be confused with a horizontal management control structure in which the HR SSC is given the freedom to decide to provide the requested services according the customer's needs (Minaar 2014). In the case study, it was the result of a dominant top-down relationship between the HR SSC and corporate HR that determined to some extent the types of services to be provided and the conditions under which they had to be provided by the HR SSC to its customer.

**Capabilties, HR SSC management and the evolution of the HR SSC**

The research revealed that the HR SSC management relied heavily on the Guarding capability and the Implementation capability (capabilities that integrate into the Change Facilitating capability), as by itself it cannot sense opportunities and threats, nor build or change capabilities, as these activities require organizational capabilities (Bowman and Ambrosini 2003, Ambrosini and Bowman 2009). The output of the Guarding Capability was used by the SSC management to seize opportunities and/or express a need for change. The Implementation capability, on the other hand, supported management to effectuate change in the
resources configuration and thus enabled the deployment of new or changed capabilities (for new or changed activities and services) according to the capability leverage strategy.

The study also revealed how the HR SSC evolved over time. This came paired with the deployment of new capabilities and a change of strategy by the SSC management. In the beginning, the evolution was part of the original project plan for the implementation of the HR SSC. The dynamic capabilities that were required to develop new Service Delivery capabilities were primarily sourced with external resources. However, as the HR SSC management recognized the opportunities and need to be responsive, it incorporated the ability to improve and change the execution of HR delivery in its strategy. The result was that over time, the HR SSC demonstrated the ability to deploy dynamic capabilities as the result of the bundling of resources of the HR SSC. At first, these capabilities were leveraged according to a strategy that was primarily focused inwards and enabled the HR SSC to change and improve its own operation and service delivery processes. This changed as, paired again with a change of strategy, the HR SSC deployed dynamic capabilities that changed HR delivery through the intra-organizational HR arrangements and thus supported transformation of the HR function.

Some practical examples illustrated how the Change Facilitating capability acted as a link between the operational Service Delivery capabilities and the dynamic Engineering capabilities and how the SSC management used these capabilities to synchronize the different actions in the resource orchestration process (referred to as managerial capability). The Guarding capability was deployed to monitor the execution of HR policies and practices by the HR SSC itself, but also by the other stakeholders in the delivery of HR. It was deployed in the interactions with the different stakeholders. The combined activities enabled the identification of opportunity and need for change. The HR SSC management decided which opportunities and threats needed to be and could be addressed. This subsequently created the conditions required for the solutions to be developed (e.g. project teams). As a result, the Engineering Capability was deployed to design and develop solutions (e.g. specific tasks, processes or services). Once they were designed and developed, these solutions needed to be implemented, which implied a change of the resource configuration used for service delivery. To
accomplish this, the SSC management relied on the Implementation capabilities that supported it in the orchestration of the new or changed resources into new or changed capabilities that are deployed in the service delivery processes. With the implementation of the solution and the orchestration of the resources, the cycle is complete (see figure 1), and a new one starts again through the deployment of the Guarding capability to monitor the outcomes of the new solution.

**Figure 1. Capability Map and Capability Development Cycle as the Result of Resource Orchestration**

**Combining centralization and decentralization to create value**

The aim of the survey was to explore how the aspects of both centralized and decentralized features affect value creation within the HR SSM from the perspective of the customers that use the services. The decentralized feature was conceptualized as the control mechanisms applied by the customers in an attempt
to align the SSC’s interests with their own, and thus affect how the HR SSC deploys its resources and the value created. Following this reasoning, the HR SSC needs to deploy dynamic capabilities as well as the operational capabilities, in order to be able to continuously (re-)align with the customers’ interests for service delivery. Therefore, one operational and one dynamic capability, identified in the case study, were operationalized to study their role and their interdependencies in relation to value creation. The operational capability was operationalized at the abstraction level that reflects the primary role of HR SSCs in a transactional context: the ability to provide HR administrative services repeatedly. The dynamic capability was operationalized at an abstraction level that can be described as one of its primary functions: the ability to provide new HR services repeatedly. The capabilities represent the use of the concentrated resources by the HR SSC as a feature of centralization. Together with formal and informal control mechanisms, the effect of the combination of centralized and decentralized structural features, as the key characteristic of the HR SSM and claimed to be the reason for its success, was put to the test.

The survey revealed that the operational Service Delivery capability, the dynamic Engineering capability, and the use of informal control mechanisms by the customers were all positively related separately to the value of the HR SSCs perceived by the customers. Formal control, however, was negatively related to the perceived value. Although negatively related to value creation, it was positively related to informal control, which partially mediated the relationship with value. The use of formal control mechanisms seems to support the implementation of informal control mechanisms and increase the extent to which the customers seek collaboration with the HR SSC to improve service delivery.

Both structural features of the shared services model – centralization of resources and decentralization of control – were found to be equally important in explaining the value creation within the HR SSM. The research revealed that the use of resources, conceptualized as the capabilities being deployed, partially mediated between the use of control mechanisms by the customers and the value perceived by them. This was explained as the customers using control mechanisms to align the SSC interests with their own in order to affect the deployment of the HR SSCs. Value is affected indirectly as the outcomes or output of the capabilities are perceived as valuable as the result of the interference by the customers.
Therefore, it is unlikely that the use of the concentrated resources and control exerted by the customers will substitute as drivers for value creation.

The findings of the empirical studies in integration

The survey confirmed the case study research findings to a great extent. First of all, both operational and dynamic capabilities affect value creation from the customer’s perspective. While the positive relationship between dynamic capabilities and value creation was identified in the case study research, the survey provided an explanation of how the operational and dynamic capabilities together affect value creation. The operational Relieve capability (that together with the Care capability integrates into the Service Delivery capability of an HR SSC) was found to mediate fully between the dynamic Expansion capability (that together with the Modifying and Integration capability integrates into the Engineering capability) and value creation. This finding confirms that an indirect link exists between dynamic capabilities and value creation (Bowman and Ambrosini 2003, Ambrosini and Bowman 2009).

Second, the survey revealed the negative relationship between the use of formal controls by the customers and the value created from their perspective, although the research did not allow us to draw conclusions about the causal direction of the relationship. On the one hand, high levels of perceived value could result in a reduced use of formal control mechanisms, hence explaining the negative relationship between both variables. However, in the context of the HR SSM, the services are provided according to agreed conditions between the customers and the HR SSC. These conditions are controlled through the horizontal relationships in the management control structure and are often characterized as SLAs with KPIs. Although a higher perceived service level might decrease the need for customers to apply the mechanisms, it does not immediately imply that they do. On the other hand, poor performance of the HR SSC from the customer's perspective might result in the application of more formal control mechanisms. The case study research also revealed a possible explanation of the negative relationship between formal controls and the value perceived. Corporate HR interfered in the relationship between the HR SSC and its customers as it determined to some extent the characteristics of and the conditions under which the services were provided by the HR SSC. From the customer's perspective, formal control mechanisms were applied to control the HR SSC, but they were
aligned with the interests of corporate HR and not specifically their own. This resulted in negative perceptions of the customers towards the HR SSM, as some of them considered the HR SSC to be an extension of corporate HR.

Third, the survey revealed the importance of informal control mechanisms. The relationship between informal control mechanisms and value creation was partially mediated by the operational Service Delivery capability. Although the case study research did not investigate how the customers apply control mechanisms, it revealed from the perspective of the HR SSC how the informal controls, applied by the customers, trigger the resource orchestration within the HR SSC to design and develop new capabilities that address the customers’ needs. At different levels in the organization, via different relationships and communication channels, information was exchanged between the customers and the HR SSC. One very important channel was the relationship between Demand Management of the HR SSC and the demand managers of the customers. Demand Management and the demand managers discussed the service delivery by the HR SSC and the customers' needs, with the aim to enhance collaboration between the HR SSC and its customers. The Guarding capability of the HR SSC was deployed as a sensor to identify the customers' needs. The collaboration relationship between Demand Management and the demand managers was used to identify opportunities and threats as the result of the deployment of the Guarding capability. It enabled the HR SSC management to seize an opportunity or address a threat through the resource orchestration with the aim to design and build a new or changed capability. From the customer’s perspective, value was created as their collaboration with the HR SSC resulted in the deployment of a capability whose outputs addressed their needs.

THEORETICAL CONTRIBUTIONS

The second and third challenges addressed in this thesis were the lack of a framework to study the HR SSM with the application of theory, and the lack of empirical findings to explain how value is created within the HR SSM. To create the research framework, this study built on the findings of a literature review regarding the (HR) SSM. The key characteristic of the HR SSM for its success was identified as the combination of centralized and decentralized structural features.
Chapter 6: Discussion

Centralization in the HR SSM is represented by the concentration of resources in the HR SSC. From the perspective of the HR SSC, the resources are key for the creation of value for its customers. From a strategic management perspective, however, the concentration of resources is an insufficient condition for value creation. The difference in the strategic resources of organizations in a specific market control and the imperfect mobility of these resources cannot explain why organizations attain and sustain a competitive advantage. Several scholars have criticized the resource-based perspective – to explain attaining and sustaining competitive advantage – for its static and equilibrium-based approach (McWilliams and Smart 1995, Priem and Butler 2001, Sirmon, Hitt et al. 2007, Ambrosini, Bowman et al. 2009, Easterby-Smith, Lyles et al. 2009) (for an overview of criticism of the RBV – see Kraaijenbrink, Spender, & Groen, 2010). In response to the criticism of the RBV, it was developed further, which led to the incorporation of environmental models that address the dynamics of the environment (Teece & Pisano, 1994; Teece et al., 1997; Simon et al., 2007). While the DCA can be used to explain how organizations attain and sustain a competitive advantage as they renew or change their resource base in response to the opportunities or threats identified (Teece and Pisano 1994, Helfat, Finkelstein et al. 2007), the resource orchestration process explains how management actions in relation to the resources affect value creation in dynamic environments (Helfat, Finkelstein et al. 2007, Sirmon, Hitt et al. 2007).

Bowman and Ambronisi (2003) applied the RBV and integrated some arguments of the DCA to elucidate corporate-level strategy and the conditions under which they create or destroy value from a shareholder perspective. They concentrated on the issue of value creation by corporate centers as the result of possessing or providing resources to the business units. The focus in their research was on six different resource creation modes as the result of the deployment of dynamic capabilities. The resource creation modes were considered in relation to organizational design parameters, and this resulted in the prescription of different resource-creating configurations congruent to the resource creation modes and the organizational design parameters. They concluded that corporate centers can have their own bundles of resources, but must be able to deploy dynamic capabilities as otherwise they will destroy shareholder value. Moreover, from the perspective of the business units, the corporate center should be a resource or
create resources within the business units (Bowman and Ambrosini 2003). For support activities, such as HRM, the authors prescribed a resource-creating configuration in which the resources are created within the center. From this perspective, it is difficult to perceive the center as an enabler of transformation throughout the organization. Again, cost reduction is considered to be the main benefit, and with that the strategic potential of the center in a HRM context and especially a transactional HRM context is discarded.

For this research, the arguments of both the DCA and process orchestration are integrated into the application of the RBV. The DCA is integrated in the research framework, and the resource orchestration process is applied to illustrate the interdependencies between management actions and the identification of the need to change capabilities, design and build capabilities, and implement and deploy the new or changed capabilities as the result of the deployment of the dynamic capabilities of the HR SSC. Furthermore, the research follows the attempts of scholars (Bowman and Ambrosini 2003) to identify the contexts to which it can be applied in a reaction to the defence of the RBV (Barney 2001, Barney 2001). This thesis contributes to theory by focussing on HRM as a support function and the HR SSM as a sourcing model for the execution and application of HR policies and practices. The research is not restricted to any prescribed resource-creation configuration, however. It aims to explore and explain how the HRM SSM creates value for the business and becomes of strategic importance as it enhances transformation through the intra-organizational HR arrangement by deploying both operational and dynamic capabilities. Moreover, the context of the HR SSM implies that the customers exert control to some extent over how the HR SSC deploys its resources within the HR SSM (and where resources should be created – within the HR SSC or within the business). With the integration of control by the customer, as a feature of decentralized models, the research framework introduces an aspect of the management control structure as a new external factor that affects how resources are deployed and explains value creation.

With the application of the RBV and its extension and the integration of features reflecting the management control structure within the HR SSM, the research framework used for this study was built. With the application of the theory, it enables us to study the strength and weaknesses of the HR SSC within the HR
Chapter 6: Discussion

SSM, and explain the value creation within the HR SSM from the customers’ perspective, as a result of the use of the resources within the HR SSC. The framework integrates the external environment of the HR SSC as a factor that determines the value creation and one that affects the use of the resources within the HR SSC. It addressed the second challenge of this research and conceptualized how the combined key characteristics of the HR SSM explain value. It thus contributed to the application of the RBV and its extension into a new context, the HR SSM. It can be used to explain the outcomes of different resource configurations at different levels of abstraction within the HR SSC and different aspects of the management control structures if they are operationalized properly.

EMPIRICAL CONTRIBUTIONS

The third challenge addressed in this thesis was the lack of empirical findings in relation to the mechanisms within the HR SSM in a transactional context that explain value creation. In the following sections the empirical contributions of the study presented in this thesis are described.

First of all, a rationale was found to reconsider the role of the HR SSM in a transactional context. The literature review revealed that the role of the HR SSM in a transactional context seemed to be taken for granted. It is ignored as a model that creates value and has strategic potential. The empirical findings of this case study conflict with the commonly accepted exclusive function of the HR SSM to decrease costs through standardization, economies of scale and removal of duplicate functions in administrative HR activities. They revealed that the HR SSC, for which the execution and provision of transactional-oriented activities and services was the basis for its existence, evolved and enhanced transformation throughout the intra-organizational HR arrangement and created value for its customers as it did so. Moreover, it became a key player in the design and implementation of HR policies and practices and in the monitoring of the application and execution of HR policies and practices.

Second, this study contributes to empirical research as it uncovered the capabilities of an HR SSC on an abstraction level that enables us to compare performance among HR SSCs in a transactional context. The capabilities identified, described and defined on two levels of abstraction have different
functions. The bundles of resources deployed to perform specific tasks or activities were structured into 22 capabilities of the lowest level in the hierarchy. These lowest-level capabilities are very case-specific and are probably only useful for observing differences between the capability leverage strategies of various HR SSCs. Subsequently, these 22 first-level capabilities were integrated into 7 second-level and 3 third-level capabilities (with every next level involving greater abstraction). Moving up the hierarchy of capabilities, the span of the resources and the activities they perform broaden, and task-specific capabilities are integrated step-by-step into cross-functional capabilities (Grant 1996). The identification of the capabilities and their structuring in the capability hierarchy map contribute to the empirical research into the HR SSM and the use of resources by the HR SSC, but what is at least as important is the description of the application of the capability map to structure and visualize resource use in a hierarchy, the interdependencies between the different capabilities and their functions, and the interactions with the resource orchestration by the HR SSC management. The thesis also presents some practical applications of the capability map for management in their efforts to manage resources.

Third, our case study research revealed how the HR SSC evolved into its new role as it developed and deployed new capabilities. The story is presented in a chronological manner and reveals different steps in the evolution that were the result of a change in the strategy of the HR SSC management to leverage the concentrated resources within the HR SSC. Every step in the evolution was represented by the development and deployment of a new or changed capability, driven by the desire of the HR SSC management to address an opportunity or need for change, and required the orchestration of the resources within the HR SSC and a change of strategy. The story presented is not a prescription of how HR SSCs should evolve but is an illustration of how the different capabilities are required for different functions and that they can be developed over time if the required conditions are present. There is an implied position and path dependency that affects the evolution of the SSCs and its capabilities. The evolution of HR SSCs, therefore, varies as HR SSCs are heterogeneous with respect to the resources they control or at least have access to (Peteraf and Barney 2003, Ambrosini and Bowman 2009, Kraaijenbrink, Spender et al. 2010, Maritan and Peteraf 2011). The study also revealed that dynamic capabilities do matter and
have a role in value creation, although only an indirect link between dynamic capabilities and value was identified, as the relationship was fully mediated by the operational capability.

Last but certainly not least, this thesis contributes to the research into the HR SSM that aims to explain value creation. With the application of theory, it explained the value creation within the HR SSM perceived by the customers (business units) within the HR SSM as the result of the combination of decentralized and centralized structural features of organizational models. The empirical findings validate the widely accepted claim that the success of the HR SSM from the perspective of the business depends on the combination of centralization and decentralization. This thesis clarified how decentralized and centralized structural features interact to explain value creation and validated the existence of an indirect link between the deployment of dynamic capabilities and the value creation from the customer's perspective.

**IMPLICATIONS FOR PRACTICE**

This study revealed several findings that have implications for practice. They concern both opportunities and threats to the success of the HR SSM in a transactional context, and to some extent for SSMs for other business functions beyond the transactional context.

**Practical use of the capability map**

This research introduced the concepts of the capability hierarchy (Prahalad and Hamel 1990, Grant 1991, Grant 1996) and the capability map. These concepts were perceived to be useful for application in both research and practice. The concepts enable one to structure and visualize the use of resources, improve the insights and understanding by visualizing where value is created, and visualize the interdependencies between capabilities. The capability hierarchy and map can be used for every business function but requires the identification of bundles of resources that form the lowest level in the capability hierarchy. The capabilities can be based on their function, further integrated into the second, third, etc. level of capabilities. Depending on the abstraction level chosen in the map, SSCs for different business functions probably have capabilities with similar functions. On the lowest level, however, the capability hierarchy is specific for the organization that is the subject of study, as all organizations are heterogeneous in
relation to the resource base they possess (Peteraf and Barney 2003, Ambrosini and Bowman 2009, Kraaijenbrink, Spender et al. 2010, Maritan and Peteraf 2011). The map supports the SSC management in the orchestration of resources within the SSC as the integrated hierarchy enables visualization of the resource use on different levels of abstraction, according to the required detail, to address an opportunity or need for change of the resource base. For the SSC management, this is essential as the resources concentrated within the HR SSC are mechanisms at their disposal to influence the value creation within the HR SSM.

**Nuances for the application of traditional benchmarks**

The HR SSM has increasingly been subjected to benchmark reviews since it was introduced in the 1990s. HR practitioners, and especially those involved in the operation and management of the HR SSC, have made it almost a tradition to compare the performance of their model with those of other organizations (Bondarouk, Maatman et al. 2010). Driven by consultancy firms, which prescribe targets and the actions to achieve those targets based on benchmark results, many organizations ended up in a cycle to do more with less and faster. The research presented in this thesis also conceptualized the centralization features as a mechanism to improve the balance of what is received compared to what is given up (including costs). However, it does not use metrics such as the average lead times to process requests, the ratio of headcount HR versus total headcount, or even worse, the headcount of the HR SSC versus total headcount. There is a reason for this. The literature review on the HR SSM revealed that it is almost impossible to find two HR SSMs that are similar (Reilly 2000, Farndale and Paauwe 2006, Bondarouk, Maatman et al. 2010). They differ in objectives, types of services provided, scope of HR practices and policies covered, characteristics of the management control structure (free buying and selling versus captive buying and selling), size (headcount ratios), the funding methods for the resources and activities of the HR SSC, the autonomy of the HR SSC and the business units as its customers, the labor market in which it operates, etc. Some of these characteristics can be changed by the top management. Some can be changed by the HR SSC management (together with its customers).
It is important to acknowledge, however, that changing some of the characteristics might be considered negative from a benchmark metrics perspective, while they are not from a value creation perspective. The case study revealed, for example, that headcount restrictions and objectives for the HR SSC restricted the HR SSC from further designing, developing and building dynamic capabilities to address an opportunity that would improve the delivery of HR throughout the organization. For the design, development, and deployment of any capability, a solid business case should naturally be present.

**Position and path dependency implications for the evolution of the HR SSC**

Not all characteristics can simply be changed by designing, building, and deploying capabilities. Moreover, not everything can be addressed at once as there are obviously resource restrictions. Some changes require the HR SSC to evolve and mature over time before the opportunity or need to change can be addressed. This is related to the position and path dependency of the HR SSC (Peteraf and Barney 2003, Ambrosini and Bowman 2009, Kraaijenbrink, Spender et al. 2010, Maritan and Peteraf 2011). How the HR SSC was sourced initially and to what extent it was given the freedom to develop are important aspects that affect the speed and priority setting for improvement and the development and deployment of dynamic capabilities. The maturity model and the different steps of the evolution of the HR SSC presented in this thesis should therefore not be considered as the best and unique way to develop the HR SSC. Moreover, it should not be considered a plea for HR SSCs to acquire capabilities on the market in an effort to advance its role. It does demonstrate how the HR SSC evolves and matures as it develops, designs and deploys new dynamic capabilities.

**Justifying and aligning capability design, development, and deployment**

The evolution of the HR SSC depends on the design, development, and implementation of new capabilities. It is important to acknowledge that this is not simply an endless cycle in which the HR SSC expands its capacity (quantitative). Such an expansion would result in increased overhead costs, which are hard to justify. The research findings revealed that capabilities have a life cycle (building, replication, renewal and retrenchment) which is dependent on HR SSC management decisions during resource orchestration. The evolution of the HR
SSC is not about creating and sustaining capacity for dynamic capabilities for a specific function, it concerns capturing the routines that underlie these dynamic capabilities and the ability to reconfigure the available resources repeatedly through the resource orchestration process and enable the HR SSC to design, develop and deploy a capability when it is required. They therefore should be considered as re-activating capabilities instead of sustaining already developed capabilities. Nevertheless, designing, developing, and deploying capabilities require investments independently of whether earlier experiences have been captured or not, and the HR SSC should be governed in such a way that it needs to justify the investments made. The horizontal relationship in the governance structure plays an essential role in that.

The case study revealed that as a result of the experience gained and by using its dynamic capabilities, the HR SSC was able to develop in a direction that was positively received by the customer. Under the right conditions, the HR SSC deploys its dynamic capabilities to identify what its customers need, develop solutions, and implement these solutions to change the resource configuration of the HR SSC or of its customers to create value. The survey showed that both centralized and decentralized features are key for creating value. Moreover, the features interact and together explain value creation from the perspective of the customer. This is especially important for those organizations that claim to have implemented the HR SSM, but actually have not, and use the HR SSC as an extension of corporate HR with a vertical management control structure in the HR SSM that dominates the horizontal management control structure. The lack of a strong horizontal governance structure or a dominant vertical governance structure will decrease the effectiveness of the alignment of capability design, development and deployment with business needs.

**Constraints on capability development**

Due to the research focus and approach, it is not possible to generalize about what configurations of centralized and decentralized features are appropriate under what conditions. The research did reveal configurations of both centralized and decentralized features that negatively affected value creation. To enable the HR SSC to evolve in a direction that creates value for the business and thus increases the value of the HR function, these constraints need to be addressed.
Chapter 6: Discussion

First of all, and closely related to the benchmarking of the HR SSM, there are inappropriate KPIs. Many organizations struggle with selecting the appropriate KPI for the HR SSC to align it with the objectives set (by the corporate organizations or the customers served) (Bondarouk, Maatman et al. 2010). KPIs are a formal control mechanism (Redman, Snape et al. 2007, Farndale, Paauwe et al. 2009, Farndale, Paauwe et al. 2010) and were found to be negatively related to value creation. Although the research was not able to specify the direction of the causal relationship, some reasons for the negative relationship were addressed. An additional reason for the negative relationship could be poorly chosen KPIs that represent the trade-off of interests of different customers. The more KPIs applied in such a context, the greater the chance that the interests of the HR SSC will not be aligned with the interests of a specific customer. KPIs that are chosen by corporate HR do not necessarily reflect the interests of the customers within the HR SSM, as was shown in the case study research. Some KPIs did not reward or even prevented HR SSC management from investing in a capability for which there was a need from the customers' perspective.

The second limitation has already been partially addressed in previous paragraphs. It involves the domination of the top-down relationship within the HR SSM over the horizontal relationships between the customers and the HR SSC. The power relations within the HR SSM are the result of the choice for a management control structure for the HR SSM and were argued to be a characteristic of the governance or type of the HR SSM (Minaar 2014). The types of SSMs of Strikwerda (2003) differ by how the HR SSC is positioned within the organization and thus how governance is organized. Although scholars have found that organizations apply hybrids of the different types (Bondarouk, Maatman et al. 2010), they can still be used to classify both the horizontal relationships and the vertical relationships within the management control structure. A strong vertical top-down relationship, represented by the governance that shows characteristics of the "Central Service" model, can disturb the effectiveness of the control mechanisms applied through the horizontal relationship in different ways. The case study revealed the existence of a strong top-down relationship between corporate HR and the HR SSC. Corporate HR determined to some extent the characteristics of the services and the conditions for service delivery, provided the resources for the sourcing of the HR SSC (financial and non-financial ones), and
was to great extent involved in the selection of opportunities and threats that needed to be addressed. The top-down relationship limited the development of the horizontal relationship between the customers and the HR SSC. In the case of a strong top-down dependence, HR SSC tended to align its interests with that of corporate HR. This results in the design, development, and deployment of capabilities whose outputs are not necessarily perceived as valuable by the customers.

The next limitation is the deployment of capabilities that are not synchronized with the capability leverage strategy to create value for the customers, as a defect in the synchronization actions of management in the orchestration of the resources. This was demonstrated in the case study subject as the Guarding capability was deployed to monitor how the customer carried out the execution and application of HR policies and practices. The way it was deployed resulted in negative perceptions from some of the customers. They felt that the HR SSC acted as an enforcer of the application and execution of HR policies and practices and for that reason considered the HR SSC to be an extension or outpost of corporate HR. It resulted to some extent in distrust towards the HR SSC, and the deployment of the Guarding capability was perceived as an attempt to reduce the autonomy of the customers.

The customers within the HR SSM themselves can also limit the extent to which the HR SSC aligns their interests with their own. The absence or the ineffective use of control mechanisms by the customers affects the creation of value (Meijerink and Bondarouk 2013). For example, the case study research revealed how the lack of awareness and understanding of the potential of the HR SSC restricted the customers from engaging in collaboration with the HR SSC. These customers perceived the HR SSC as merely an administrative factory, unable to address and support customers in their challenges with the delivery of HR. When customers do not use informal control mechanisms represented by engagement in a collaborative relationship, the HR SSC is restricted in identifying the opportunity or need for change. Thus, the HR SSC will not design, develop, and deploy capabilities that address the customers’ needs.
Impact on the HR function

The research presented in this thesis revealed that a HR SSM in a transactional context is able to create value and become a valuable player in the HR function. It demonstrated how an HR SSC evolves over time and designs, develops, and deploys new activities and services based on the transactional work for which it is primarily responsible. The central position of the HR SSC in the intra-organizational HR arrangement through which all HR data is processed and its responsibilities regarding the management of the information infrastructure of the HR function are key aspects. In addition, the HR SSC as a service provider providing services to different types of customers and end-users has access to a wide network of stakeholders through which it can deploy its capabilities to identify the need or opportunity for change in the delivery of HR.

HR practitioners are more likely to be associated with the role of employee champion, change agent, or strategic partner than the role of administrative expert, often the role exclusively reserved for the HR SSC (Ulrich 1997, Bothof, Cohen et al. 2007, Van den Heurik, Landlust et al. 2008, Farndale, Paauwe et al. 2010). This research revealed that the HR SSC in a transactional context can evolve into all four roles on the basis of being an administrative expert and the manager of the infrastructure of the HR function (Ulrich 1997). The Engineering capability combined with the Relieve capability represents the function of the administrative expert as its primary actions are the support of the business in doing administration and the reengineering of service delivery processes. The Care capability represents the function of the employee champion as its primary activity is listening to employees and responding to their needs. From a business perspective (like that of the customers of the HR SSC), the same can be said for the Relieve capability. The Guarding capability represents the function of the strategic partner as it monitors the alignment of the business and HR. And finally the Implementation capability represents the function of the change agent as it manages transformation and change. The HR SSC can evolve into these roles as it maximizes the use of resources, data flows through its service delivery processes, and its network, without interfering with the role of other stakeholders in HR delivery such as HR business partners, expertise centers and corporate staff.

The findings presented in this thesis should not be considered a plea to replace the stakeholders in HR delivery. On the contrary, all the different stakeholders
have a role in the creation of value by the HR function. The extent to which the HR SSC evolves into the different roles is limited and should be considered as facilitating, but as it evolves into these roles, it can support the stakeholders in becoming more effective and enhance the integration of the HR function. The evolution of the HR SSC should not be considered an independent objective, it is an integrated effort to improve the performance of the HR function. This does not imply that its evolution represents a reallocation of budget and capacity from other stakeholders in HR delivery towards the HR SSC. However, the HR SSC cannot grow into its new role(s) endlessly by developing new capabilities and expanding its capacity as restrictions on overhead costs would limit the HR SSC in doing that. The HR SSC needs to do more with the same, reduce the effort spent on less value-adding activities or have a solid business case in place to justify an expansion of capacity. Except for the last case, this means that the HR SSC needs to find ways to change the proportions of effort and capacity required for operational administrative activities to free up resources and justify the investments in the design, building and deployment of new capabilities. By doing that, it changes the traditional pyramid of HR delivery (see figure 2).

**Figure 2. Traditional HR function (adopted from Van den Heurik, Landlust et al. 2008), and HR function with an evolved HR SSC**

Technology can play an important role in this change, as demonstrated in previous HR transformations. The introduction of self-service applications, for example, shifted administrative tasks and responsibilities to employees and line-managers. With the recent advances in technology, the change of the pyramid is
Chapter 6: Discussion

not limited to shifting administrative responsibilities to other stakeholders in HR delivery. Robotics, the cloud, and advanced methods to integrate technological solutions that support HR processes end-to-end when combined can reduce the extent to which manual labor is required (for both the HR SSC and other stakeholders in HR delivery). The HR SSC as the manager of the HR information infrastructure is able to identify and address opportunities to increase the efficiency of HR delivery and thus reduce the headcount required for the operational administrative activities. The findings presented in this thesis should be considered a plea to reinvest (at least to some extent) the savings resulting from the concept of the HR SSM and the efforts of the HR SSC to increase the efficiency of HR delivery, and enable the HR SSC to design, develop and deploy new capabilities and support HR SSC evolution.

The HR SSC is not something new, but the technological developments of recent years have further enhanced the potential of the “manager of the infrastructure” of the HR function. New technology has increased the ability to combine, structure, and analyze data and predict outcomes. With its central position within the intra-organizational HR arrangement through which all HR data resulting from the execution of HR policies and practices is processed, and its wide network among the stakeholders in HR delivery, the HR SSC is key in leveraging the potential of the technological developments. When the HR SSC is enabled and demonstrates the ability to leverage this opportunity – as it further develops its capabilities to identify the need for change, design solutions and implement them to affect change – it will play an important role in the preparation of the organization for the future, as it too needs to undergo a digital transformation and engage in the competition for the people with the required skills to support the organization in doing that. The extent to which the HR SSC is able to leverage this opportunity depends on how it uses its resources and how it is supported and rewarded through the horizontal and vertical management control structures for designing, developing, and implementing new capabilities.

LIMITATIONS AND FUTURE RESEARCH

For this study, the RBV and its extensions were applied as organizations apply the HR SSM and concentrate resources within the HR SSC due to the acknowledgement of the importance of these organization-specific resources.
Although the application supported the research during the conceptualization of the integrated framework and while exploring and explaining value creation and the evolution of the HR SSC, there are some issues with the application that need to be addressed.

**The application of the RBV and its extensions to the HR SSC**

The resource-based theory of the firm sheds light on the understanding of how organizations decide to source a specific function as they anticipate the knowledge substitution effect and the flexibility effect (Conner 1991, Conner and Prahalad 1996). The design of the HRM SSM determines the extent to which the underlying assumptions of the RBV of a market with heterogeneous resources in which competitors compete with the HR SSC for business are valid. The extent of their validity depends on the management control structure chosen by the top management (often the corporate level of a multi-business unit organization) and the extent of freedom given to both the customers of the HR SSC and the HR SSC (primarily reflected by the captive buying/selling relationships versus the free buying/selling relationships) (Minaar 2014). As the customers of the HR SSC do not always have the freedom to buy, the RBV and its extensions cannot explain why those customers chose the HR SSM. In the situation with a captive buying relationship, the customer does not choose the HR SSM as a model for the delivery of HR in anticipation of the knowledge substitution and flexibility effects (Conner 1991, Conner and Prahalad 1996). However, the research presented in this thesis did not aim to study how the implementation of the HR SSM enables the organization as a whole to attain and sustain a competitive advantage, nor did it aim to study to what extent the model is better than other models for HR delivery. Its aim was to explore and explain the value creation within the HR SSM. The RBV and its extensions were applied earlier in a context of captive buying and selling (Bowman and Ambrosini 2003). Those authors argued that the corporate center can possess its own resources but destroy value if it is not able to deploy dynamic capabilities. The corporate center from the perspective of the strategic business units must be a resource or create resources within the business units. The same arguments can be applied to the HR SSC within the HR SSM.
Further exploration of decentralized structural features and their application within the HR SSM

For the research framework developed for this study, governance within the HR SSM was integrated as an aspect that creates value from the customer's perspective along with resource use by the SSC. For this study, it was conceptualized as the extent of power the customers within the HRM SSM exert over the HR SSC, and further operationalized as the application of control mechanisms by the customers to align the interests of the HR SSC with their own. The research framework does provide the opportunity to choose other ways to operationalize the extent of control as a decentralized structural feature. Future research is necessary to study the effects of the different mechanisms reflecting the decentralized structural features. It should reveal what mechanisms work best under what conditions. An example of such a decentralized structural feature that is expected to affect the value creation perceived by the customers is the captive buying/selling relationship, as a characteristic of the management control structure within the HR SSM.

Financing models and the conceptualization of value

Future research should investigate the role of different models for funding the HR SSC (Quinn, Cooke et al. 2000, Bondarouk, Maatman et al. 2010) and its effects on resource use for service delivery and transformation by the HR SSC and through that on the value created as perceived by the customers. The research into the funding methods and a free buying/selling relationship requires a reconsideration of the conceptualization of value. In this thesis, value creation was conceptualized as the overall utility of the services provided and the customers’ perception of what is received compared to what is given up (to include any type of sacrifice by the customers). The aim of the research was to explain how value is created for the customer within the HR SSM and to what extent. In this case, the conceptualization applied served the research needs. A free buying/selling relationship might imply that the HR SSC is allowed to fully commercialize its services and enter the open market. Scholars need to reconsider whether the value creation conceptualization from the customers' perspective within the HR SSM is appropriate, as they are not the only customers that apply control mechanisms through horizontal relationships. In the proposed context for future research, value is created when the HR SSC is able to capture
the value for the shareholders. Therefore, value should be conceptualized as the exchange value paid by customers (Bowman and Ambrosini 2000, Lepak, Smith et al. 2007, Priem 2007) as a result of the deployment of the resources and wealth created for shareholders (Sirmon, Hitt et al. 2007).

Future research should provide further insights into how the customers’ perceptions of value are determined and if and how they can be associated to different capabilities demonstrated by the HR SSC. The findings presented in the thesis revealed that the HR SSC can play an important role in the integration of the HR function and transform HR delivery throughout the organization. Alignment of HR practices and policies with business needs and improved service delivery processes are possible outcomes of the capability deployment by the HR SSC. Our findings did not allow us to explain the extent to which these outcomes affect the value perceptions of the customers, and therefore they cannot be associated to specific capabilities.

The research also did not consider other stakeholders in HR delivery as the customers of the HR SSC. HR expertise centers, HR business partners, corporate strategizers and planners all make use of the outcomes of the deployment of the capabilities by the HR SSC. They would benefit as well from the integration of the HR function. Future research should investigate their perceptions of value in relation to the deployment of the capabilities by the HR SSC.

**Validation and continuation of the identification of HR SSC capabilities**

The application of the RBV and its extensions to the HR SSC also implies position and path dependency (Peteraf and Barney 2003, Ambrosini and Bowman 2009, Kraaijenbrink, Spender et al. 2010, Maritan and Peteraf 2011). For that reason, this research did not claim there is a unique way for HR SSCs to evolve, nor did it claim that the “best” way for evolution was found. The evolution varies as HR SSCs are heterogeneous with respect to the resources they control or have access to at least. Thus, this study cannot conclude that those capabilities of the HR SSC were identified that are exclusively responsible for value creation as the capabilities were uncovered by making use of a single case study. To some extent, this issue is covered by the use of the capability hierarchy (Prahalad and Hamel 1990, Grant 1991, Grant 1996). The concept of the capability hierarchy
Chapter 6: Discussion

integrates first-level capabilities (small bundles of resources to perform a specific task or activity) into the second, third (and so on) levels of capabilities. Moving up the hierarchy of capabilities, the span of the resources and the activities they perform broadens, and task-specific capabilities are integrated step-by-step into cross-functional capabilities (Grant 1996). At the first level in the capability hierarchy, the capabilities identified are specific for that HR SSC as the resource bases and processes of different HR SSCs are heterogeneous. As these capabilities are integrated step-by-step into higher-level capabilities, the definitions, characteristics, and function of the identified capabilities become common to HR SSCs in a transactional context, or even transactional SSCs in general. For this reason, the survey research operationalized the operational and dynamic capability on a high abstraction level, based on the assumption that at the chosen level of abstraction, the function of the capabilities is common among HR SSCs in a transactional context. This does not mean there is no need for further research into the identification of capabilities of the HR SSC and their role in value creation. The identified set of capabilities on the middle level of the capability hierarchy require additional research to validate its existence among different HR SSCs, and the set needs to be extended as additional capabilities are found.

The role of dynamic capabilities in value creation

The research presented validated the argument for the existence of an indirect relation between dynamic capabilities and value creation as the operational Relieve capability fully mediated the relationship between the dynamic expansion capability and value creation. It does not support the rejection of the existence of a direct link between dynamic capabilities and value creation. For this study, one operational and one dynamic capability were operationalized. The dynamic Expansion capability represented the extent to which the HR SSC repeatedly provides new services. It is deployed by the HR SSC to create the capabilities that are required for the provision of new services. From that perspective, capability creation as the result of the deployment of the dynamic Expansion capability happens within the HR SSC. Value is experienced by the customers when the new capability (an operational Service Delivery capability) is deployed by the HR SSC to provide the services rather than as a direct consequence of the deployment of the dynamic Expansion capability. As the new capability can be characterized as
an operational capability, the full mediation of the operational Service Delivery capability between the dynamic Expansion capability and value creation is explained.

The case study research revealed three different functions of different dynamic capabilities according to the description of Helfat et al. (2007): the identification of the need or opportunity for change, formulation of actions by the design and development of capabilities, and the effectuation of change as the result of the implementation of a capability. It also revealed that capabilities can be created for use by the HR SSC or within the business units it serves. For the survey, a dynamic capability was operationalized that has the function to design and develop capabilities for internal use by the HR SSC as it develops new operational capabilities to provide services. The Integration Capability of the HR SSC also has the purpose of designing and developing capabilities, but they are created within the business units the HR SSC serves. Future research should reveal whether these dynamic capabilities, as they create capabilities within the business units, explain value creation without the mediation of an operational capability of the HR SSC. It should focus on dynamic capabilities with the other functions and their role in the value creation perceived by the customers. Although the case study research revealed the linkage between the different types of dynamic capabilities and positive and negative perceptions of the customers in relation to their deployment, it does not provide a thorough explanation of the role of these different dynamic capabilities in value creation from the customer's perspective as they were not incorporated in the survey. Future research should operationalize the different dynamic capabilities and study their role and interdependencies. Longitudinal data should be collected to replicate the survey findings presented in this thesis. As the survey research relied on cross-sectional data to test the hypotheses, it was not possible to draw any conclusion about the causal direction of the observed relationships.

**The role of HR SSC management**

The study presented in this thesis reveals the importance of the HR SSC management in value creation. It is the management that is responsible for the orchestration of resources as it sets out the actions to acquire, develop, and configure resources into capabilities that are deployed according to a capability leverage strategy (Sirmon, Hitt et al. 2007, Sirmon, Gove et al. 2008, Holcomb,
Holmes et al. 2009, Maritan and Peteraf 2011, Ndofor, Sirmon et al. 2011, Sirmon, Hitt et al. 2011). The management of the subject in the case study heavily relied on the Guarding and Implementation capabilities for support in the orchestration of resources. This confirms the arguments that it is not the management itself that senses the need and opportunities for change, nor builds or changes capabilities, since these activities require organizational capabilities (Holcomb, Holmes et al. 2009, Sirmon, Hitt et al. 2011). The hypothesis was made that neither the Guarding nor the Implementation Capabilities define the resource orchestration; rather, they are organizational capabilities that support resource orchestration. Further research is required to study the interactions between what was defined as the managerial capability (management’s ability to synchronize the various actions in the resource orchestration process) and the organizational capabilities that support resource orchestration. The aim of the research presented in this thesis was not to uncover the resource orchestration as such, nor the full importance of management perceptions, motivations, and actions (Ambrosini and Bowman 2009, Ambrosini, Bowman et al. 2009, Kraaijenbrink, Spender et al. 2010, Barney, Ketchen Jr. et al. 2011, Ndofor, Sirmon et al. 2011). By using a micro-foundation perspective of the RBV, future research could usefully increase our understanding of management actions in resource orchestration within the HR SSC (Ambrosini and Bowman 2009, Holcomb, Holmes et al. 2009, Sirmon and Hitt 2009, Kraaijenbrink, Spender et al. 2010, Barney, Ketchen Jr. et al. 2011, Coff and Kryscynski 2011, Drnevich and Kriauciunas 2011, Foss 2011, Ndofor, Sirmon et al. 2011, Sirmon, Hitt et al. 2011). Future research, focused on managerial and organizational capabilities within the HR SSC, will increase the understanding of value creation as the result of the use of the resources by the HR SSC.

CONCLUSION

This thesis presented research into value creation within the HR SSM in a transactional context. In the research framework, value creation was conceptualized from the perspective of the customers within the HR SSM. The key characteristic of the HR SSM – the combination of decentralized and decentralized structural features – was incorporated in the framework to explain value creation. The centralization feature was further conceptualized as the capabilities of the HR SSC within the HR SSM. These capabilities are derived from the concentrated pool
of resources within the HR SSC and represent the HR SSC’s ability to perform specific tasks and activities deliberately. The decentralized feature was further conceptualized as the power or control the customers within the HR SSM exert over the HR SSC in an attempt to align its interests with their own and thus affect the use of resources (capability deployment) by the HR SSC. The research has identified different types of operational and dynamic capabilities with different functions that are deployed by the HR SSC with the aim to create value for its customers and enable the HR SSC to evolve into a role in which it enhances transformation within the intra-organizational HRM arrangement. The HR SSC does this by designing, developing and deploying new capabilities as the result of resource orchestration. The interdependencies between the capabilities, the role of management and the use of the capabilities by management are also described. The capabilities are structured according a hierarchy and documented in a capability map that enables visualization of the resource use and the interdependencies. The research showed that both the centralized and the decentralized structural features of the HR SSM explain value creation from the customers’ perspective. It also revealed how these two components interact and are not substitutable.

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ABOUT THE AUTHOR
Marco Maatman was born on 23 November 1981 in Enschede, the Netherlands. He received a BSc degree in Business Information Technology and an MSc degree in Business Administration at the University of Twente, the Netherlands. His master thesis on the subject of e-HRM was given the University of Twente thesis award for the best Business Administration thesis of the year. During his study, the role of IT in HR attracted his interest. Soon this was paired with the application of different types of models for the delivery of HR. The combination of the two resulted in his interest in the HR SSM that many organizations in the Netherlands were implementing at the time of Marco’s graduation.

Marco has studied the concept in over twenty organizations and has worked for over ten years as a consultant in large organizations that have implemented the HR SSM in a transactional context. He has experienced the concept from both the customer (business) side and from the HR SSC side during implementation and operation. He understands the challenges of the HR SSM to be the consequences of combining centralized and decentralized structural features. Moreover, he has observed the growing potential of the HR SSC in the digital revolution currently unfolding. In the coming years there will be plenty of challenges to be addressed in the context of the transactional HR SSM, and overcoming these will enable the organization to prepare for the future. Marco intends to remain closely involved as the HR SSCs undergo their evolutionary journey and will attempt to contribute to improving the HR SSM in general.

PUBLICATIONS AND CONFERENCE PAPERS


1st author: Why Sharing is Synergy? The Influence of Decentralized Control Mechanisms and Centralized Capabilities on Shared Services’ Value

(with dr. Jeroen Meijerink)

1st author: *Value creation by transactional Shared Service Centers: Mapping Capabilities* 
(with prof. dr. Tanya Bondarouk)


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(with dr. Jeroen Meijerink and prof. dr. Tanya Bondarouk)

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2009  New e-HRM typology: from broadcasting towards supply change support (2nd author; with prof. dr. Tanya Bondarouk)


Measuring the effectiveness of e-HRM: the development of an analytical framework for the measurement of e-HRM and its application within a Dutch Ministry.
SUMMARY IN DUTCH

SAMENVATTING VAN

HET VERBETEREN VAN HR
SHARED SERVICE CENTERS DOOR
RESOURCE ORKESTRATIE

DE DYNAMISCHE CAPABILITIES VAN DE ADMINISTRATIE

EXPERT
INTRODUCTIE

Het doel van het onderzoek dat gepresenteerd wordt in deze thesis was het verklaren van de waardecreatie van het HR Shared Services Model (SSM) in een transactionele context. De studie adresseert drie uitdagingen. Ten eerste de definitie van het HR SSM en het HR SSC in een transactionele context. Ten tweede het ontwikkelen van een geïntegreerd (onderzoeks-) model dat de kenmerkende karakteristieken bevat die de waardecreatie verklaren. En ten slotte het ontbreken van empirisch onderzoek naar die karakteristieken en hoe ze zich tot elkaar verhouden in relatie tot waardecreatie.

De definitie van het HR SSM voor dit onderzoek werd opgesteld na een review van de HRM literatuur en de sourcing literatuur. Het bevat de kenmerken waarover de verschillende auteurs het eens zijn en die vervolgens geïntegreerd zijn in de definitie. De definitie van het HRM SSM die gebruikt is voor dit onderzoek luidt als volgt:

- Een verzameling van gedeelde diensten, waarvan de karakteristieken voornamelijk bepaald worden door de klanten,
- die aan worden geboden binnen het intra-organisatiele HR arrangement aan een specifieke set van eindgebruikers,
- door een (half-) autonome business unit op de basis van overeengekomen condities.

De scope van het onderzoek werd verder afgebakend door de focus op het HR SSM in een transactionele context. Dat wil zeggen: in een context waarbij er een HR Shared Service Center (SSC) is geïmplementeerd binnen het HR SSM, die een primaire verantwoordelijkheid heeft de bedrijfsonderdelen te ondersteunen bij het administratieve werk tijdens de uitvoering van HR beleid en praktijken.

HET ONDERZOEK EN DE RESULTATEN

Een HR SSC in een transactionele context kan zich ontwikkelen tot een HR SSC die transformatie van de HR functie en de uitvoering van HRM door de organisatie als geheel teweegbrengt. Dit vloeit niet voort uit de uitbreiding van de verantwoordelijkheden ten aanzien van de rol in de uitvoering van HR beleid en praktijken, maar uit nieuwe activiteiten en diensten die ontwikkeld worden op basis van die administratieve kennis, kunde en activiteiten. Transformatie
teweegbrengen is dus niet exclusief behouden voor de zogenaamde expertisecentra of centers of excellence die de bedrijfsonderdelen ondersteunen bij bijvoorbeeld het werven van nieuwe medewerkers en de strategische planning van het personeel. De observatie dat transactionele HR SSC ook transformatie teweeg kunnen brengen is gemaakt tijdens een longitudinaal casestudie onderzoek in een bedrijf dat het HR SSM heeft geïmplementeerd met daarin een transactioneel HR SSC.

Voor dit onderzoek is een model opgesteld dat de waardecreatie van het HR SSM conceptualiseert. De basis voor het model is de sleuteleigenschap voor het beloofde succes van het HR SSM. Deze eigenschap is de combinatie van gecentraliseerde structurele eigenschappen en gedecentraliseerde structurele eigenschappen. De gecentraliseerde structurele eigenschap van het HR SSM wordt gerepresenteerd door de concentratie van de resources die benodigd zijn voor het administratieve werk in het HR SSC. Om deze redenen bouwt het onderzoeksmodel op de Resource-Based View (RBV) en is het uitgebreid met de omgevingsgerelateerde modellen van de Dynamic Capabilities Approach (DCA) en het resource orkestratieproces.

De toepassing van de theorie maakte het mogelijk te verkennen en te verklaren hoe het HR SSC de resources in haar geconcentreerde resourcepoel gebruikt om bepaalde taken en activiteiten uit te voeren. Met het bundelen van setjes van resources bouwt het HR SSC capabilities die de kunde van het HR SSC representeren om een bepaalde taak of activiteit doelbewust uit te voeren. Er wordt een onderscheid gemaakt tussen operationele capabilities en dynamische capabilities. De operationele capabilities representeren de capabilities die het HR SSC in staat stellen om van dag-tot-dag te voldoen aan de behoefte van klanten aan de bestaande dienstverlening. De dynamische capabilities representeren de capabilities die het HR SSC in staat stellen veranderingen aan te brengen in de resourcepoel en zodoende bestaande capabilities te wijzigen of geheel nieuwe te maken. De dynamische capabilities hebben drie verschillende functies. Ten eerste het identificeren van de noodzaak of mogelijkheid tot verandering. Ten tweede het ontwerpen en ontwikkelen van oplossingen in een reactie op de noodzaak of mogelijkheid tot verandering en ten derde de oplossingen effectueren en daarmee verandering teweegbrengen. In het onderzoeksmodel zijn zowel operationele als
dynamische capabilities geconceptualiseerd omdat beide een rol kunnen hebben in waardecreatie.

De RBV met zijn uitbreidingen zijn eerder toegepast in een vergelijkbare context met corporate centers. Waar dit onderzoek zich richtte op de waardecreatie voor aandeelhouders/eigenaren met een gegeven resource creatie configuratie, richt het onderzoek dat wordt gepresenteerd in deze thesis zich op de waardecreatie binnen het HR SSM (voor de klanten van het HR SSC) en is de resource creatie configuratie juist onderdeel van het onderzoek in plaats van voorgeschreven (waar en waarvoor worden capabilities ontwikkeld en ingezet). Daarnaast is de focus uitgebreid met een nieuw element uit de externe omgeving; de mate van macht of controle die de klanten uitoefenen op het inzetten van de resources door het HR SSC. Dit element representeert de gedecentraliseerde structurele eigenschap van het HR SSM. In het HR SSM hebben de klanten die de diensten afnemen van het HR SSC in verschillende mate macht over het HR SSC. Die klanten oefenen die macht uit door het toepassen van controlemechanismen in een poging om de belangen van het HR SSC in lijn te brengen met hun eigen belangen. Via deze weg oefenen de klanten een invloed uit op het ontwikkelen en inzetten van de capabilities door het HR SSC.

De conceptualisatie van resourcegebruik door het HR SSC zoals de capabilities van het HR SSC met verschillende functies, maakte het noodzakelijk om een diepgaande studie uit te voeren naar hoe deze capabilities zijn opgebouwd en wat hun afhankelijkheden zijn. Hiervoor is een longitudinale enkelvoudige casestudie uitgevoerd. Op basis van documentanalyse (projectdocumentatie en communicatie) en interviews (met het MT van het HR SSC, vertegenwoordigers van corporate HR en vertegenwoordigers van de klanten) werd een beeld geschetst van hoe de resources binnen het HR SSC worden gebruikt en hoe het beeld van waarde wordt gevormd door de klanten. De data maakte het mogelijk de evolutie van het HR SSC te beschrijven naar nieuwe rollen die waarde creëren voor de klanten en de integratie van de HR functie te ondersteunen. Deze evolutie ging gepaard met de identificatie van mogelijkheden en noodzaak tot veranderen, een verschuiving in de focus van de strategie (van sterk intern gericht op dienstverleningsprocessen, naar extern en de verbetering van de HR functie in zijn geheel), gevolgd door het ontwerpen, en ontwikkelen van nieuwe capabilities.
Deze werden vervolgens geïntegreerd in de operatie zodat het HR SSC en de klanten konden profiteren van nieuwe of verbeterde processen en diensten.

Voor het structureren van het gebruik van de resources is gebruikgemaakt van het concept van de capability hiërarchie. Op het laagste niveau in de hiërarchie zijn de capabilities te vinden die worden gevormd door de bundeling van kleine setjes van resources die gebruikt worden voor het uitvoeren van een specifieke taak of activiteit. Deze capabilities werden op basis van hun functie verder geïntegreerd in het tweede niveau van de hiërarchie en via dezelfde systematiek in het derde niveau van capabilities in de capability hiërarchie.

Op het tweede niveau zijn zeven capabilities geïdentificeerd die geïntegreerd zijn in drie capabilities op het derde niveau van de hiërarchie. De operationele Zorg en Ontzorg capabilities zijn geïntegreerd in de operationele Dienstverlening capability. Zij representeren gezamenlijk de kunde van het HR SSC om haar resources in te zetten om aan de dagelijkse behoefte aan dienstverlening van de klanten te voldoen. De dynamische Aanpas, Uitbreiding en Integratie capabilities integreren in de dynamische Bouw capability. Zij representeren gezamenlijk de kunde van het HR SSC om oplossingen te ontwerpen en te bouwen in een reactie op geïdentificeerde en door het management geselecteerde mogelijkheden en noodzaak tot verandering. De dynamische Verandering faciliterende capability, die geïntegreerd is vanuit de dynamische Bewaking en Implementatie capabilities, werkt als een scharnierpunt tussen de operationele Dienstverlening capability en de dynamische Bouw capability. Bovendien ondersteunt zij het HR SSC management in de orkestratie van de resources. Ten eerste, omdat het wordt ingezet om de mogelijkheden en noodzaak tot verandering te identificeren, zodat deze geïdentificeerd en aangemerkt kunnen worden door het management, dat vervolgens, door bijvoorbeeld het vormen van werkgroepen of opstarten van projecten, oplossingen laat ontwikkelen en bouwen. Ten tweede het verandering mogelijk maakt van de capability configuratie wanneer de ontworpen en gebouwde oplossingen geimplementeerd/geeffectueerd worden. Hoewel het management dus essentieel is in de orkestratie van alle resource gerelateerde activiteiten, worden Verandering faciliterende capabilities gebruikt door het management om de mogelijkheden en noodzaak tot verandering te identificeren en om oplossingen te bedenken, te bouwen en te implementeren.
Voor het surveyonderzoek zijn zowel een operationele als een dynamische capability van het HR SSC geoperationaliseerd. Dit maakte het mogelijk om hun rol in de waardecreatie zowel apart als gezamenlijk te bestuderen. De decentrale structurele eigenschap van het HR SSM is geoperationaliseerd als de informele en formele controlemechanismen die de klanten binnen het HR SSM toepassen om de belangen van het HR SSC in lijn te brengen met hun eigen belangen.

De dynamische Bouw capability, de operationele Dienstverlening capability en informele controlemechanismen bleken een positieve relatie met waardecreatie te hebben. Formele controlemechanismen een negatieve relatie. Door de aard van het onderzoek is het echter niet mogelijk conclusies over de richtingen van de relaties te trekken, hoewel wel beargumenteerd kan worden hoe zowel positieve als negatieve relaties die gevonden zijn werken en het waardebeeld van klanten verklaren.

Informele controlemechanismen mediëren gedeeltelijk de relatie tussen formele controlemechanismen en waardecreatie. Hoewel formele controlemechanismen zelf een negatieve relatie hebben met waardecreatie, lijken ze gebruikt te worden om nadere samenwerking via de informele controlemechanismen te zoeken om samen de dienstverlening te verbeteren. Daarnaast blijkt de relatie tussen de dynamische Bouw capability en waarde volledig gemedieerd te worden door de operationele Dienstverlening capability en zodoende het bestaan van een indirecte relatie tussen dynamische capabilities en waardecreatie te bevestigen. Laatst, maar zeker niet het minst belangrijk, is de gedeeltelijke mediatie van de operationele Dienstverlening capability tussen de informele controlemechanismen en waarde. Hiermee wordt bevestigd dat de combinatie van zowel de gecentraliseerde als de gedecentraliseerde structurele eigenschappen van het HR SSM een rol speelt in de waardecreatie. Decentrale controle leidt in zekere mate tot waardecreatie via het inzetten van de resources door het HR SSC. Of met andere woorden: via de controlemechanismen beïnfluesten de klanten van het HR SSC het inzetten van de resources door het HR SSC in lijn met de behoeften van de klanten.

**IMPLICATIES**

De literatuurstudie heeft aangetoond dat het lastig is twee HR SSC’s te vinden die in grote mate vergelijkbaar zijn. In de praktijk worden HR SSC’s echter vaak met
elkaar vergeleken in kwantitatieve benchmarks. Dit brengt risico’s met zich mee en kan leiden tot een vicieuze cirkel waar het HR SSC continu meer moet doen met minder en sneller. Het veranderen van parameters die slecht scoren in een benchmark kan vanuit een benchmark perspectief wenselijk zijn, maar vanuit een waardecreatie perspectief kunnen zij ook een negatief effect hebben. Hetzelfde geldt voor SLA’s en KPI’s. Het gebruikmaken van slecht gekozen KPI’s beperkt het HR SSC in het ontwikkelen van de benodigde capabilities om te kunnen reageren op de behoeften van de klanten. Aan de andere kant kunnen HR SSC’s ook niet gewoonweg overgaan op het ontwerpen en ontwikkelen van de benodigde capabilities. Ten eerste gaat dit niet omdat er resource restricties zijn. Er moeten dus keuzen gemaakt worden. Ten tweede is het voor de ontwikkeling van bepaalde capabilities noodzakelijk dat het HR SSC een bepaalde mate van volwassenheid heeft. Het HR SSC moet zich evolueren voordat bepaalde mogelijkheden of noodzakelijkheden tot verandering kunnen worden geadresseerd; het heeft soms simpelweg tijd en ervaring van het HR SSC nodig. Het onderzoek heeft aangetoond dat onder de juiste condities voor zowel de gecentraliseerde als gedecentraliseerde structurele eigenschappen het HR SSC zich over tijd in een richting ontwikkelt die als waardevol wordt ervaren door de klanten.

Het onderzoek was niet gericht op specifieke configuraties van gecentraliseerde structurele eigenschappen en gedecentraliseerde structurele eigenschappen. Er konden dus geen conclusies getrokken worden over welke configuraties het beste werken onder welke condities. Naast slecht gekozen SLA’s en KPI’s zijn er echter wel een aantal eigenschappen geïdentificeerd die het HR SSC kunnen belemmeren in het ontwikkelen van de benodigde capabilities om waarde te creëren. Een verticale management control structuur die dominant is over een horizontale management control structuur bijvoorbeeld, beperkt het effect van de controlemechanismen die worden gebruikt door de klanten om het HR SSC in lijn te brengen met hun belangen. Ook het inzetten van capabilities volgens een strategie die niet gericht is op waardecreatie voor de klanten, of het inzetten van capabilities volgens verschillende strategieën kan leiden tot negatieve percepties bij de klanten. Een volgende beperking voor het ontwikkelen van het HR SSC is het niet gebruiken van de informele controlemechanismen door de klanten. Dit kan het gevolg zijn van het gebrek aan kennis over de mogelijkheden en de
potentie van het HR SSC. Klanten die het HR SSC als een administratiefabriek zien, zijn minder snel geneigd tot het aangaan van de samenwerking om samen tot oplossingen voor problemen te komen. Dit limiteert het HR SSC in het identificeren van de mogelijkheden en noodzaak voor verandering.

Voor het onderzoek is het concept van de capability hiërarchie toegepast om het gebruik van resources door het HR SSC te structureren. De bevindingen zijn vervolgens gevisualiseerd in een capability hiërarchie kaart. De kaart maakt het mogelijk om op verschillende abstractieniveaus naar het gebruik van de resources te kijken, de afhankelijkheden tussen verschillende bundels van resources met verschillende functies inzichtelijk te maken en te identificeren waar de knelpunten voor de waardecreatie zitten. De kaart kan zodoende gebruikt worden door het HR SSC management in de orkestratie van de resources om een mogelijkheid of noodzaak tot verandering van de resourcepoel te adresseren.

Het onderzoek leidt tot de conclusie dat het HR SSC waarde creëert en van strategisch belang is als het haar centrale positie binnen de HR functie, waardoor de diensten gerelateerde informatie stroomt, en het netwerk van verschillende soorten eindgebruikers van de diensten waar de mogelijkheden en noodzaak tot verandering geïdentificeerd kunnen worden, gebruikt. De rol van het HR SSC is niet beperkt tot een administratieve expert als het de geconcentreerde resources gebruikt om verschillende capabilities te bouwen met verschillende functies. Daarbij neemt het HR SSC niet de rol in van bijvoorbeeld de business partners, expertise centers en corporate HR, maar helpt het juist deze belanghebbenden effectiever te zijn en de HR functie te integreren.

Het HR SSC is zeker geen nieuw concept, maar recente technologische ontwikkelingen bieden weer nieuwe mogelijkheden voor het HR SSC als de manager van de infrastructuur van de HR functie. Nieuwe technologieën vergroten de mogelijkheden om data te combineren, structureren, analyseren en uitkomsten van acties te voorspellen. Gecombineerd met de centrale positie binnen de HR functie waardoor de gegevens uit de dienstverleningsprocessen stromen en het netwerk van belanghebbenden, heeft het HR SSC een sleutelpositie om de technologische mogelijkheden te benutten om waarde te creëren. Hiervoor is het noodzakelijk dat er binnen het HR SSM de juiste condities gecreëerd worden die
het HR SSC in staat stelt om de juiste capabilities te ontwerpen, ontwikkelen en in te zetten.

**CONCLUSIE**

Deze thesis presenteerde het onderzoek naar waardecreatie binnen het HR SSM in een transactionele context. In het onderzoeksmodel is de waardecreatie geconceptualiseerd vanuit het perspectief van de klanten in het HR SSM. De kenmerkende eigenschap van het HR SSM - de combinatie van elementen van gecentraliseerde structurele eigenschappen en gedecentraliseerde structurele eigenschappen - vormt de basis voor waardecreatie in het onderzoeksmodel. De gecentraliseerde eigenschappen zijn voor dit onderzoek verder geconceptualiseerd als de capabilities van het HR SSC binnen het HRM SSM. De capabilities worden opgebouwd door het samenvoegen van kleine bundels van resources uit de poel van resources in het HR SSC en representeren de kunde van het HR SSC om specifieke taken en activiteiten doelbewust uit te voeren. De gedecentraliseerde eigenschappen werden geconceptualiseerd als de kracht of controle die de klanten binnen het HR SSM uitoefenen over het HR SSC in een poging de belangen van het HR SSC in lijn te brengen met hun eigen belangen en via die weg het gebruik van resources (de capabilities) door het HR SSC te beïnvloeden. Het onderzoek heeft verschillende typen operationele en dynamische capabilities geïdentificeerd met verschillende functies die worden ingezet door het HR SSC om waarde te creëren voor klanten binnen het HR SSM. Bovendien zijn de afhankelijkheden tussen de capabilities, de rol van het management van het HR SSC en hoe het management de capabilities gebruikt in kaart gebracht. De capabilities zijn gestructureerd volgens een hiërarchie en geplaatst in een kaart die de visualisatie mogelijk maakt van het gebruik van de resources binnen het HR SSC en hun afhankelijkheden. Het onderzoek heeft aangetoond dat zowel de gecentraliseerde elementen als de gedecentraliseerde elementen waardecreatie vanuit het perspectief van de klanten verklaren. Bovendien toonde het onderzoek aan dat deze twee elementen samen de waarde kunnen verklaren en niet uitwisselbaar zijn. Als laatste heeft het onderzoek aangetoond dat een HR SSM in een transactionele context in staat is om verandering binnen het intra-organisatie HR arrangement mogelijk te maken en van strategisch belang is voor de organisatie als geheel.
OVER DE AUTEUR

Marco Maatman werd geboren op 23 november 1981, te Enschede in Nederland. Hij heeft zowel zijn Bachelor Bedrijfsinformatietechnologie diploma als zijn Master Bedrijfswetenschappen diploma behaald aan de Universiteit Twente. Tijdens zijn studie raakte Marco geïnteresseerd in het gebruik van IT voor de uitvoering van HRM en de architectuur – het model voor de uitvoering van beleid en praktijken – van de HR functie. Met name het HR SSM, dat tijdens zijn afstuderen en daarna door veel organisaties in Nederland geïmplementeerd werd, wekte zijn interesse.

Marco heeft het concept van de HR SSM in meer dan twintig bedrijven bestudeerd en als consultant meer dan tien jaar ervaring opgedaan bij verschillende grote organisaties die het HR SSM hebben geïmplementeerd in een transactionele context. Hij heeft gewerkt aan de implementatie van het model en verschillende rollen in het HR SSC vervuld tijdens zowel de implementatie als de operatie. Daarnaast heeft Marco ook gewerkt binnen de bedrijfsonderdelen die de diensten afnemen van het HR SSC en zodoende begrijpt hij de uitdagingen die er zijn voor zowel het HR SSC als de klanten in het HRM SSM. Als het gevolg van de digitale revolutie die aan gang is, ziet hij in toenemende mate potentie voor het HR SSM in een transactionele context en een belangrijke rol voor HR SSC’s in het klaarstomen van organisaties voor de toekomst.