

Bundling of Intellectual Capital within Human Resource Shared Services as a Mechanism to Create Value: Towards a Conceptual Model

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Abstract

Human Resource Shared Services (HRSS) are increasingly established to reap the benefits of both centralization and decentralization. Such benefits are to be expected, as HRSS centrally bundle intellectual capital and offer HR services that are adapted to the needs of clients and end-users. As a result, HRSS are believed to create value for end-users: employees, managers and HR professionals. Yet we still understand little about how HRSS create value. Therefore, we aim to develop a conceptual model that explains how HRSS create value for end-users. The underlying theoretical notion of this paper can be found in the theory of intellectual capital, which starts from the central thesis that value is created by leveraging the knowledge and *knowing* capability of organizations. As this paper proposes, the creation of HRSS value is enabled by the leverage of both human and organizational capital. Yet the relative importance of both human and organizational capital depends on the type of HR services that are offered by HRSS. Ultimately, the conceptual model that is presented in this paper should enable a future empirical investigation of HRSS value creation.

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Introduction

Nowadays, organizations rely on multiple arrangements for sourcing human resource (HR) activities. One of these sourcing arrangements is HR Shared Services (HRSS), usually called an HR Shared Service Center. The central premise in HRSS is the bundling of HR activities and resources within a single, organizational unit in order to deliver HR services that are adapted to the needs of internal clients at the organizational level (the business unit) and end-users at the individual level (managers, employees and HR professionals) (Cooke 2006; Farndale et al. 2009; Redman et al. 2007; Ulrich 1995). As an example, HRSS can offer employee self-service applications to end-users to facilitate the central execution of personnel administration.

Several types of HRSS exist. HR (Shared) Service Centers that offer transactional HR services are commonly referred to as HR Shared Services (Cooke, 2006; Farndale, Paauwe, & Hoeksema, 2009; Ulrich, 1995). Yet Centers of Expertise and Centers of Excellence — that deliver transformational HR services — also fall within the realm of HR Shared Services (Farndale et al., 2009; Ulrich, 1995). In order to avoid confusion, we will use the comprehensive concept of HR Shared Services (HRSS), instead of Service Center or Expertise Center. Yet we concur with others (Redman, Snape, Wass, & Hamilton, 2007) that two types of HRSS exist; one that offers transactional HR services and an HRSS type that offers transformational HR services. Given this, we will make a distinction between transactional and transformational HRSS.

Although two types of HRSS exist, both types share a common definition. In this paper, HRSS is understood as *a (semi)autonomous business unit within an organizational entity that bundles intellectual capital, in order to provide HR services to its end-users, while the features of these HR services are partially determined by its clients*. First, HRSS is a (semi)autonomous business unit within an organization that offers HR services to end-users. This implies that HRSS is a business-within-a-business. Second, HR activities and HR resources are bundled or combined within HRSS (Janssen and Joha 2006; Janssen et al. 2007; Redman et al. 2007; Ulrich 1995). The prime HR resources which are bundled and which enable the execution of HR activities are believed to be the knowledge, skills and experiences within HRSS (Farndale & Paauwe, 2008; Farndale et al., 2009; Ulrich, 1995). These resources are also called *intellectual capital* (Stewart, 1997). Given that intellectual capital is centrally bundled within HRSS, one could consider HRSS as a centralized staff function. In general, the centralization of staff functions ensures a high degree of corporate-level control but at the expense of client focus and responsiveness. However, the latter is not the case in HRSS (Janssen & Joha, 2006; Strikwerda, 2004): clients that are served by HRSS still have a degree of ownership over HRSS and partially determine the features of the HR services that

are offered. This arrangement is believed to ensure client focus and responsiveness, which otherwise would be damaged if HRSS were just a centralized staff function. For this reason, an HRSS is expected to reap the benefits of both centralization and decentralization, while minimizing their drawbacks. Whereas centralization offers economies of scale and scope, it can also harm client/end-user focus. In contrast, decentralization increases client/end-user focus at the expense of cost increases due to e.g. duplication (Janssen & Joha, 2006; Strikwerda, 2004). Therefore, the main drivers for establishing HRSS are to achieve simultaneous cost reductions and quality improvements (Janssen & Joha, 2006; Redman et al., 2007).

As our knowledge about the motives for HRSS increases, so does our knowledge about HRSS characteristics, critical success factors, and lessons learnt (Farndale et al. 2009; Janssen and Joha 2006; Redman et al. 2007). Yet we still know little about the actual realization of these motives and critical success factors, for example, remain too prescriptive in nature (Cooke 2006; Farndale et al. 2009; Otter 2003; Redman et al. 2007; Reilly 2000; Strikwerda 2004; Ulrich 1995) Besides that, given the argument that HRSS are established to deliver extra value (Ulrich 1995; Strikwerda 2006; Farndale et al. 2009), little is yet known about the creation of HRSS value (Farndale et al. 2009). As a result, a conceptual model that explains HRSS value creation has not yet been developed or tested. Therefore, the central aim of this paper is to explore conceptually how value can be created within an HRSS.

Since we focus on value creation, we concur with others (Bowman & Ambrosini, 2000; Lepak, Smith, & Taylor, 2007) that value refers to both *use value* and *exchange value*. Use value refers to the quality of a service as perceived by end-users in relation to their needs. Exchange value refers to the monetary amount paid by end-users to sellers to capture the use value of a focal service (Lepak et al., 2007). Given this, use value in the case of HRSS is defined as the quality of an HR service as perceived by end-users in relation to their needs. However, in an HRSS arrangement, the clients of HRSS (the business units) pay for the delivery of HR services (Strikwerda, 2004), whereas end-user need to expend effort in order to receive use value from HRSS (Cooke, 2006). Therefore, we define exchange value in the case of HRSS as the amount of effort expended by end-users for the capture of HRSS use value. After all, both definitions suggest that HRSS value creation depends on the perceived value of HR services as offered by HRSS and the willingness of end-users to spend time in order to capture value.

As the value creation of HRSS is a perceived value, it can only be evaluated by the end-users who receive HR services from HRSS. Previous research demonstrates that employees, managers and HR professionals are the end-users that receive such HR services (Cooke, 2006). Therefore, we will consider how HRSS create value for employees, managers and HR professionals.

Finally, as the literature demonstrates, HRSS value is believed to be created through the bundling of the knowledge, skills and experiences within HRSS (Farndale et al. 2009; Ulrich 1995; Redman et al. 2007). Given this, we build on the theory of intellectual capital that departs from the central thesis that value is created by leveraging the knowledge and *knowing* capability of organizations (Nahapiet & Ghoshal, 1998; Youndt, Subramaniam, & Snell, 2004). We build on this theory to explore conceptually how HRSS employ their intellectual capital in order to create value. Therefore, we will address the following question in this paper: how do HRSS employ their intellectual capital in order to create HRSS value for end-users? By addressing this question, this paper will contribute to the field by introducing a conceptual model that explains the relationship between HRSS intellectual capital and the creation of HRSS value.

The remainder of this paper is structured as follows. First, we will conceptualize intellectual capital in general and describe the intellectual capital that resides within HRSS. After that, we will present our conceptual model that links HRSS intellectual capital with HRSS value. Finally, we discuss and suggest directions for future research.

Bundling Resources through Employing Intellectual Capital in HRSS

Intellectual capital is widely considered to be the most strategically important resource within organizations (Grant, 1996) since they rely on their intellectual capital in order to gain and maintain competitive advantages (Edvinsson & Sullivan, 1996; Guthrie, 2001; Youndt et al., 2004). In this paper, we define *intellectual capital* as the aggregate of knowledge and knowing capabilities that an organization is able to leverage with the aim of creating value.

Knowledge refers to both *explicit knowledge* and *tacit knowledge*. Explicit knowledge is knowledge that can be expressed explicitly and reflected upon (Cook & Brown, 1999; Gourlay, 2006), whereas tacit knowledge refers to those ‘unarticulated elements of human knowledge’ (Miller 2008 p. 937). Although we make a distinction between explicit and tacit knowledge, we agree with others that knowledge can never be completely objective (Cook & Brown, 1999; Gourlay, 2006; Kakabadse, Kakabadse, & Kouzmin, 2003; Miller, 2008; Tsoukas, 2003; Walshman, 2005). We postulate this, by referring to the work of Michael Polanyi, who argued that ‘all knowledge is either tacit or rooted in tacit knowledge’ (Polanyi, 1969: 144). According to Polanyi, every individual holds his or her own personal assumptions, beliefs and frames of reference. As many of these assumptions and beliefs cannot be expressed explicitly, people always interpret – both tacit and explicit – knowledge tacitly (Miller, 2008).

As well as comprising knowledge, intellectual capital also embraces the *capability of knowing* (Bukh, Larsen, & Mouritsen, 2001; Nahapiet & Ghoshal, 1998). *Knowing* is

supposed to be epistemologically different from *knowledge* (Cook & Brown, 1999; Orlikowski, 2002). According to Cook and Brown (1999), knowledge is something we possess and therefore falls within the epistemology of possession. Yet *knowing* is part of action when we interact with the world (Cook and Brown 1999; Kuhn and Jackson 2008; Orlikowski 2002). Therefore, *knowing* falls within the epistemology of *action* (Cook & Brown, 1999). Given both the epistemologies of possession and action, we argue that intellectual capital represents the integration of both knowledge and knowing.

Several scholars stress the notion that the integration of knowledge and knowing is valuable and strategically important for an organization (Bukh et al. 2001; Spender 1996; Stewart 1997; Youndt et al. 2004). According to Stewart (1997), a strategic context is needed in order to classify whether knowledge and knowing capabilities are valuable. In other words, knowledge and knowing capabilities are of no value if no one knows what to do with them. Therefore, as Stewart (1997) argues, one needs to take into account a strategic orientation in order to determine the value of knowledge and knowing. Youndt et al. (2004) add to this notion by claiming that organizations should utilize their knowledge and knowing capabilities in order to create value, which implies that both knowledge and knowing capabilities need to be leveraged in the process of value creation.

Intellectual Capital Categories

From the literature, we infer that intellectual capital is a multidimensional construct residing at the individual level and organizational level (Bontis 1998; Edvinsson 1997; Nahapiet and Ghoshal 1998; Petty and Guthrie 2000; Youndt et al. 2004). In other words, organizations not only leverage the knowledge of individual employees, but also the knowledge embedded within processes, protocols and databases (Youndt et al., 2004). For the purposes of this paper, we conceptualize *intellectual capital* in two categories: *human capital* and *organizational capital*. Together, these two categories represent an intellectual capital configuration.

Human capital refers to the knowledge and knowing capabilities of individual employees as represented in their knowledge, skills and abilities, whereas organizational capital refers to the knowledge and knowing capabilities that are embedded or stored within databases, protocols and processes. Within the literature, there is consensus that human capital is a category of intellectual capital. However, organizational capital is often considered to be the same as structural capital (Youndt et al., 2004). Structural capital is considered to comprise the mechanisms, infrastructures (software systems, distribution networks and supply chains) and organizational capabilities that *support* employees in combining and commercializing their human capital (Bontis, 1998; Edvinsson & Sullivan, 1996; Petty & Guthrie, 2000;

Stewart, 1997). Therefore, structural capital represents a support mechanism that facilitates the integration and leverage of human capital, but not knowledge or knowing capabilities of organizations themselves. We concur with Youndt et al. (2004) that organizational capital is more accurate as an intellectual capital category since it represents the knowledge that is owned by the organization.

Social capital is also considered to be an intellectual capital category (Youndt & Snell, 2004; Youndt et al., 2004). Social capital is defined as *the knowledge resources embedded within and derived from network of relationships* (Nahapiet & Ghoshal, 1998; Youndt et al., 2004). Yet we argue that social capital is not an intellectual capital category. As Nahapiet and Ghoshal (1998) postulated, social capital enables the development of intellectual capital. Therefore, it represents a support mechanism, just like structural capital does. Besides that, the authors who argue that social capital is an intellectual capital category (Youndt & Snell, 2004; Youndt et al., 2004) implicitly argue that social capital is associated with intellectual capital instead of being a category of intellectual capital. They do so by arguing that ‘there is a significant risk that organizations may incur a capital loss unless individual knowledge is transferred, shared, transformed and institutionalized. This highlights the need for social capital to protect these investments’ (Youndt and Snell 2004: 341). In other words, Youndt and Snell (2004) argue that social capital enables both the exchange of human capital among employees and the institutionalization of human capital into organizational capital. This implies that human capital and organizational capital represent knowledge and the knowing capabilities, whereas social capital is the enabler of knowledge and knowing-sharing. Therefore, social capital does not of itself constitute knowledge and knowing capabilities. As a result, we argue that intellectual capital consists of only human and organizational capital.

Bundling of Intellectual Capital within HRSS

As we have argued, the prime resource that is bundled within HRSS is intellectual capital. As argued by others, knowledge and knowing capabilities in the form of skills, knowledge and experiences are centrally bundled within HRSS (Cooke, 2006; Ulrich, 1995). In the section below, we will consider which specific knowledge and knowing capabilities are bundled within HRSS.

Concerning human capital, HRSS rely on knowledge and knowing capabilities that are possessed by first-tier call agents and administrative assistants (who offer support to end-users facing difficulties with e.g. self-service applications). In addition, HRSS also employ second-tier and third-tier HR advisors with expertise in the fields of e.g. benefits, recruitment, development (Farndale et al., 2009; Ulrich, 1995). Especially the latter group of HRSS employees rely on their knowledge and knowing capabilities in order to deliver HR services

to end-users (Redman et al., 2007; Ulrich, 1995). Therefore, the human capital within HRSS is defined as the knowledge and knowing capabilities of first, second and third tier service providers within HRSS. Yet our concept of human capital remains rather abstract and needs further specification (Sturman, Walsh, & Cheramie, 2008). To achieve this, we draw on literature about HR competencies (Boselie & Paauwe, 2005; Schuler & Jackson, 2001; Ulrich & Brockbank, 2005), service competencies (Russ-Eft, 2004) and call centre competencies (Callaghan and Thompson 2002; Hampson et al. 2009; Taylor and Bain 1999). We argue that human capital and competencies are interchangeable, since competencies also represent knowledge and knowing capabilities of service providers as reflected in their knowledge, skills and abilities (Han, Chou, Chao, & Wright, 2006; Ulrich, Brockbank, Yeung, & Lake, 1995).

The human capital within HRSS is made up of four elements (see table 1): HR technology, HR delivery, personal credibility, and strategic contribution. First, previous research has demonstrated that HRSS offer HR services by means of information technology (Cooke, 2006; Farndale et al., 2009). As a result, HRSS service providers should be comfortable with IT and have knowledge about IT in order to deliver HR services by means of IT (Boselie & Paauwe, 2005; Han et al., 2006; Meisinger, 2005). Therefore, we believe that HR technology is a human capital element within HRSS. Second, HRSS offer transactional and transformational HR services (Ulrich, 1995). To provide these HR services effectively, HRSS service providers need to possess technical HR knowledge/capabilities (Huselid, Jackson, & Schuler, 1997). These cover the knowledge and knowing capabilities to effectively design and deliver HR services such as compensation, staffing or development (Han et al., 2006; Kochanski & Ruse, 1996; Paauwe & Boselie, 2005; Ulrich & Brockbank, 2005). Therefore, we argue that HR delivery is a human capital element within HRSS as well. Third, HRSS service providers directly interact with end-users (Farndale et al., 2009). Therefore, service providers are supposed to possess writing and communicative knowledge and knowing capabilities (Boselie & Paauwe, 2005; Callaghan & Thompson, 2002; Hampson, Junor, & Barnes, 2009; Meisinger, 2005). Therefore, we expect that personal credibility is also a human capital element within HRSS. Fourth, transformational HRSS offer expertise on organizational or cultural change, as well as strategy development (Farndale et al., 2009; Ulrich, 1995; Ulrich, Younger, & Brockbank, 2008b). To enable this, HRSS service providers need to have knowledge and knowing capabilities in the fields of change management (Boselie & Paauwe, 2005; Buckley & Monks, 2004; Meisinger, 2005) and strategic decision-making (Boselie & Paauwe, 2005; Buckley & Monks, 2004; Selmer & Chiu, 2004). Therefore, we consider strategic contribution as a human capital element within HRSS.

Concerning organizational capital, we distinguish three organizational capital elements within HRSS: IT processes, protocols and databases (see Table 1 below). First, HRSS offer

employee and management self-service (ESS / MSS) applications. Such applications, which enable the delivery of these services, are IT-based (Cooke, 2006; Farndale et al., 2009). These applications contain knowledge and knowing capabilities in the form of IT processes that guide end-users to be effectively self-serving. Second, service providers rely on protocols and scripted texts in addition to their human capital (Cooke, 2006; Farndale et al., 2009). These protocols and scripts contain knowledge (Youndt et al., 2004) that is used by HRSS service providers to inform end-users, for example. Third, HRSS that offer transactional HR services accumulate a vast amount of data about end-users. Usually, this data is stored in databases. Examples of such data are sick leave, performance or resignations (Cooke, 2006; Farndale et al., 2009). Besides that, call centre literature reveals that 1st tier service providers rely on knowledge stored in databases in order to consult end-users (Hampson et al., 2009). Therefore, we argue that HRSS store knowledge and knowing capabilities in databases, next to processes and protocols.

Intellectual Capital		Definition
Human Capital	HR technology	Knowledge and knowing capability of individual service providers to use technology and web-based channels by which HR practices are delivered
	HR delivery	Knowledge and knowing capability of individual service providers to provide transactional HR services and HR service that transform the human resource base of an organization
	Personal credibility	Knowledge and knowing capability of individual service providers to effectively write and communicate with end-users
	Strategic contribution	Knowledge and knowing capability of individual service providers to provide transformational HR services.
Organizational Capital	(IT) processes	Knowledge and knowing capability embedded within a series of actions that result in the production of a services
	Protocols	Knowledge and knowing capabilities stored in manuals or online documents
	Databases	Knowledge and knowing capabilities stored as a structured set of data held on a computer

Table 1: HRSS human and organizational capital elements

Proposing Relationships between HRSS Intellectual Capital and Value Creation

As mentioned earlier, intellectual capital is not just bundled within HRSS; it is also leveraged in order to create value. In other words, HRSS rely on both its human and organizational capital in order to create value. Although extant literature does not examine the relationship between HRSS intellectual capital and its value as perceived by end-users, there is evidence that suggests that such a relationship does exist. For instance, previous research demonstrated that intellectual capital is associated with outcomes such as HR effectiveness, service solution effectiveness or service quality (Boselie & Paauwe, 2005; Liao, Toya, Lepak, & Hong, 2009; Tuli, Kohli, & Bharadwaj, 2007; Ulrich, Brockbank, Johnson, Sandholtz, & Younger, 2008a). Given that these are outcomes as perceived by end-users, which is also the case with HRSS value, we argue that the value of HRSS is also dependent on the intellectual capital within HRSS. In the section below, we will provide evidence that supports this argument.

The creation of HRSS value is postulated to be affected by the human capital within HRSS. As research on service organizations demonstrates, the human capital within service organizations is positively related to service quality (Liao et al., 2009). While focusing on HR professionals in general, previous research demonstrated that the human capital of HR professionals affects their effectiveness (Boselie & Paauwe, 2005; Brockbank & Ulrich, 2002; Han et al., 2006; Ulrich et al., 2008a). More specifically, HRSS are believed to deliver HR services effectively if its employees are competent in the fields of HR technology, HR delivery, personal credibility and strategic contribution (Boselie & Paauwe, 2005; Han et al., 2006; Ulrich et al., 2008a). As Ulrich (2008a) demonstrated, these four human capital elements are the strongest predictors of an effective delivery of HR services when provided by HRSS. Given these findings, we argue that the creation of HRSS value is reliant on the human capital held within HRSS.

Besides that, the value creation for end-users is also believed to be affected by the organizational capital within HRSS. The literature reveals that organizational capital is associated with service performance in general (Reed, Lubatkin, & Srinivasan, 2006; Tuli et al., 2007; K. Walsh, Enz, & Canina, 2008; Youndt & Snell, 2004). For instance, several studies (Hansen, Nohria, & Tierney, 1999; Tuli et al., 2007) provide evidence that service providers document service experiences, summaries of projects, end-user requirements, service outcomes etc. in order to build an organizational memory of both effective and ineffective service provisions. In turn, this documentation is believed to facilitate effective service provision (Tuli et al., 2007). Also, fine-grained processes are believed to facilitate effective service delivery, as experimental failures are reduced (Hansen et al., 1999; J. P.

Walsh & Ungson, 1991). As a general finding that supports these notions, services organizations that put high investments in their organizational capital experience high levels of firm performance (Cabrita & Bontis, 2008; K. Walsh et al., 2008).

Although concrete evidence of the value creation by means of HRSS organizational capital is lacking, there are assumptions that HRSS organizational capital contributes to the creation of value. For instance, as Ulrich (1995) argues, the effectiveness of HRSS depends on the processes it deploys: ‘for shared services to be effective, processes must be created or improved to ensure that shared services result in customer needs being met’ (Ulrich 1995: 13). Therefore, we argue that the organizational capital within HRSS affects positively the creation of HRSS value.

By drawing together the threads of this discussion, we argue that the creation of HRSS value is reliant on the human and organizational capital within HRSS. Therefore, as shown in figure 1 (line A), we propose:

Proposition 1: The creation of HRSS value relies on the human and organizational capital within HRSS.

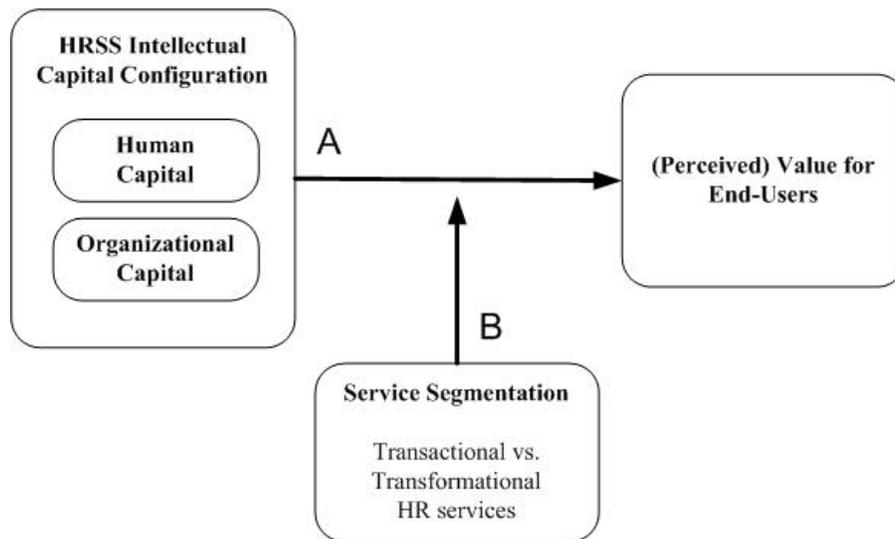


Figure 1: Conceptual framework explaining HRSS value creation

The Contingent Effect of Service Segmentation

As we noted earlier, HRSS bundle intellectual capital in order to deliver two types of HR services: transactional and transformational HR services (Farndale et al., 2009; Ulrich, 1995; Ulrich et al., 2008b). These two types of HR services are distinctive in nature for two reasons. First, both types serve another goal. Transactional HR services are delivered in order to meet the administrative needs of HRSS end-users (Lepak, Bartol, & Erhardt, 2005; Ulrich, 1995).

Examples of transactional HR services include: benefits administration, record-keeping or compensation administration (Carrig, 1997; Ulrich, 1995). In contrast, transformational HR services are delivered to transform the human resources of an organization or to transform the organization itself (Ulrich, 1995). Examples of these transformational HR services include: staffing, development or organizational change. Second, the characteristics of both HR service types are different. For instance, transactional HR services are high-volume, standardized and routine in nature, whereas transformational are low-volume, customized and non-routine in nature (Lepak et al., 2005; Ulrich, 1995).

Such a distinction between types of HR services is also called service segmentation (Batt, 2000; Keltner, 1999). Yet as a result of service segmentation, service organizations employ various configurations of intellectual capital (Reed et al., 2006; Skaggs & Youndt, 2004; K. Walsh et al., 2008). For instance, service organizations that offer high-volume, standardized services employ high levels of organizational capital, whereas service organizations that offer customized services employ high levels of human capital (Reed et al., 2006). Given this, HRSS are also expected to employ a variety of intellectual capital configurations, as they offer HR services that are distinctive in nature. Therefore, as is shown in figure 1 (line B), the value creation for end-users by means of employing intellectual capital is contingent on HR service segmentation (or on the type of HR service that is offered).

To explain the difference in employment of intellectual capital between transactional and transformational HRSS, we will first examine the characteristics of the HR services being offered, as these characteristics cause differences in intellectual capital configurations (Skaggs & Youndt, 2004). In turn, the discussion of differences in HR service characteristics enables us to explain the contingent effect of HR service segmentation on HRSS value creation.

Service Segmentation in HRSS

Three HR service characteristics are distinguished to articulate the service segmentation in HRSS: end-user co-production, end-user contact and service customization. Previous research (Skaggs & Youndt, 2004) demonstrated that these service characteristics affect the level of investment in the knowledge and knowing capabilities employed by service organizations. For instance, service organizations employ higher levels of human capital when end-user contact and service customization are high, and when end-user co-production is low (Skaggs & Youndt, 2004). Given the effect of these three characteristics on the employment of knowledge and knowing capabilities within service organizations, we will examine the level of these service characteristics in transactional and transformational HRSS in order to demonstrate the service segmentation in HRSS.

End-user co-production

End-user co-production refers to the degree of end-user effort in the service process. For instance, service organizations require clients to increasingly execute tasks (e.g. self-service in restaurants), whereas others reduce the effort of clients (e.g. being served by table staff). The adoption of end-user co-production seems to be no exception in the case of HRSS. As previous research has demonstrated, HRSS increasingly deliver HR services by the means of self-service (Farndale et al., 2009). In turn, this increases the efforts undertaken by end-users in order to be 'served' by the HRSS (Cooke, 2006; Farndale et al., 2009; Ulrich et al., 2008b). As Cooke (2006) suggests, end-user co-production is believed to be relatively high when HR services are high in volume and standardized in nature — as is the case with transactional HR services. Evidence for this is offered by Farndale and Paauwe (2008) who demonstrated that transactional HR services are delivered by means of self-service. Yet this does not necessarily imply that end-users do not co-produce when transformational HR services are offered. However, we believe higher levels of co-production are more feasible in the case of transactional HRSS, based on the level of end-user expertise (Auh, Bell, McLeod, & Shih, 2007; Lengnick-Hall, 1996). As Auh et al. (2007) demonstrated, the level of co-production increases when end-users have the necessary expertise. In the case of transformational HRSS we argue that client expertise is relatively low, given that end-users turn to the HRSS for expertise they do not possess (Ulrich, 1995; Ulrich et al., 2008b). In contrast, as transactional HR services are standardized, end-users are guided by (IT) processes in order to co-produce and as a result need little expertise. Therefore, we argue that end-users can easily acquire the necessary expertise to co-produce transactional HR services. As a result, we postulate that end-user co-production is high when transactional HR services are offered, whereas end-user co-production is low when transformational HR services are offered (see Table 2).

End-user contact

Customer contact refers to the degree of interaction between customers and service providers (Skaggs & Youndt, 2004; Tansik, 1990). Service organizations typically increase customer contact when increased amounts of information need to be exchanged (Tansik, 1990). Moreover, an increase in information exchange also results in the injection of variability in the service process, because the service process becomes more exposed to the customer (Skaggs & Youndt, 2004). Therefore, if little information needs to be exchanged in order to serve end-users, service organizations should decouple the customer from the service process so as to ensure efficient service delivery (Tansik, 1990).

In the case of transformational HR services, end-user needs increasingly differ. Therefore, service providers need to evaluate the needs of end-users and select the most relevant

intervention that matches their needs (Ulrich et al., 2008b). As a result, this requires relatively high levels of information exchange on the parts of both the service provider and end-user, in order to verbalize customer needs and reduce uncertainty about the service (Bowen & Ford, 2002). In contrast, in the case of transactional HR services, end-user needs are believed to be quite alike. As a consequence, relatively little information needs to be exchanged between service providers and end-users. Therefore, we argue that HRSS will allow relatively low levels of end-user contact when HR services are transactional in nature, because high levels of end-user contact would be superfluous and so harm efficiency (Tansik, 1990). Yet if transformational HRSS also allow relatively low levels of end-user contact — in order to improve efficiency — they might damage an effective delivery of HR services (Mills & Moberg, 1982).

In addition, levels of end-user contact are also low when transactional HR services are offered, because transactional HR services are delivered by the means of self-service applications. In this respect, end-users mainly interact with remote IT systems (Cooke, 2006) and only have contact with service providers when they experience difficulties with self-service applications in the case of transactional HRSS (Farndale et al., 2009). Therefore, we argue that end-user contact is low when transactional HR services are offered, whereas end-user co-contact is high when transformational HR services are offered (see Table 2).

Service customization

Service customization refers to the degree to which service organizations customize their services to the needs of individual end-users (Skaggs & Youndt, 2004). Whereas some organizations choose to tailor their services to the specific needs of customers (high service customization), others will only offer standardized services that meet generic customer needs (low service customization) (Batt, 2000; Keltner, 1999).

We concur with others (Cooke, 2006; Farndale et al., 2009; Ulrich, 1995; Ulrich et al., 2008b) that transactional HR services tend to be standardized because end-user requirements concerning administrative activities are generally similar. Therefore, offering highly customized transactional HR services will not increase effectiveness and will only reduce efficiency. In contrast, as we have just mentioned, end-user needs for transformational HR services vary. Although transformational HRSS will try to increase efficiency, they can not do so by completely standardizing their transformational HR services, as this would damage effective service delivery. In other words, completely standardized HR services will not meet the varying needs of end-users in the case of transformational HR services. Therefore, as Ulrich (2008b) argues, transactional HR services need to be customized to some extent, because a ‘one-size-fits-all’ approach is not effective in the case of transactional HR services. As a result, we argue that service customization is low when transactional HR services are

offered, whereas service customization is high when transformational HR services are offered (see Table 2).

	End-user co-production	End-user contact	Service customization
Transactional HRSS	High	Low	Low
Transformational HRSS	Low	High	High

Table 2: Characteristics of HRSS

Value Creation within Transactional HRSS

As table 2 demonstrates, transactional HR services are characterized by high levels of co-production, low levels of end-user contact and low levels of customization. As previous research demonstrates, these characteristics lead transactional HRSS to employ high levels of organizational capital and low levels of human capital (Batt, 2000; Reed et al., 2006; Skaggs & Youndt, 2004; K. Walsh et al., 2008). First, given the self-service or high co-production of end-users, service providers are practically not involved in the delivery of transactional HR services themselves (Ulrich, 1995). However, given the need for a standardized and efficient execution of e.g. administrative activities by end-users, we expect HRSS to rely on routinized processes embedded within self-service applications in order to ensure that end-users create as little variability as possible in the service process. Second, we argue that the inquiries as received by first-tier HRSS call agents and administrative assistants are relatively standard — or become standard over time — to a considerable extent, because transactional HRSS offers standardized HR services. In turn, as Hansen et al. (1999) observed, organizations that are confronted with standardized inquiries mainly rely on codified knowledge and knowing capabilities. They demonstrated that these service organizations exchange knowledge internally by means of codified knowledge embedded in databases, protocols and routines. The reuse of codified information is highly desirable because service providers are repeatedly dealing with similar problems in the course of time (Hansen et al., 1999). Batt (2000) also observed that such service organizations employ relatively high levels of organizational capital. Her findings reveal that front-line service providers increasingly relied on knowledge and knowing capabilities embedded in scripted text to respond to customer questions, because standardized services were offered. Therefore, we argue that HRSS increasingly rely on their organizational capital as transactional HR services are offered. Yet this is not to say that human capital is unimportant in the case of standardized services: as standardized services are offered, 47% of customer questions could not be responded to by the use of scripted texts solely (Batt, 2000). However, these findings do show that service providers rely less on

human capital and more on organizational capital in standardized services provision. The notion that levels of human capital are low when transactional HR services are offered is also supported by the fact that end-user contact is low in transactional HR service. As Skaggs and Youndt (2004) found, service organizations employ low levels of human capital when the level of end-user contact is low. They argue that low levels of end-user contact result in the low levels of variability and uncertainty that are generated in service production processes by end-users. As a result, if end-user contact is high, then service providers are expected to need a more extended set of knowledge and knowing capabilities for dealing with such high levels of invariability. Therefore, when service organizations lower the level of end-user contact, then they will to decrease their investments in human capital. This is because service providers do not need to rely on high levels of knowledge and knowing capabilities, because the levels of variability and uncertainty are low (Skaggs & Youndt, 2004). Therefore, we concur with Skaggs and Youndt (2004) that transactional HRSS employ low levels of human capital, because transactional HR services are characterized by low levels of end-user contact.

By drawing together the threads of this discussion, we argue that transactional HRSS mostly rely on their organizational capital, whereas levels of human capital are low. As a general finding that reflects this position, Reed et al. (2006) demonstrated that retail banks – which offer standardized banking services — rely on high levels of organizational capital but low levels of human capital. Therefore, we propose that transactional HRSS mostly rely on their organizational capital rather than human capital, in order to create value.

Proposition 2: When offering transactional HR services, HRSS mostly rely on their organizational capital in order to create value.

Value Creation within Transformational HRSS

Transformational HR services are characterized by high levels of end-user contact and service customization and low levels of co-production. As previous research has demonstrated, these characteristics direct transformational HRSS to employ high levels of human and low levels of organizational capital (Batt, 2000; Reed et al., 2006; Skaggs & Youndt, 2004; K. Walsh et al., 2008). First, as transformational HR services involve high levels of end-user contact and customization, high levels of uncertainty are inserted into the service process by end-users (Lengnick-Hall, 1996; Skaggs & Youndt, 2004). As Skaggs and Youndt (2004) demonstrated, customization and end-user contact is positively associated with human capital, reflecting that service organizations rely on high levels of human capital in order to deal with high levels of uncertainty. Moreover, as Batt (2000) demonstrated, knowledge and knowing capability levels increase as customer services become more customized. Therefore, we expect that

transformational HRSS employ high levels of human capital, as a result of high levels of end-user contact and service customization. Second, lower levels of co-production also direct transformational HRSS to employ higher levels of human capital. As Skaggs and Youndt (2004) demonstrated, service organizations employ high levels of human capital as end-users levels of co-production are low. They argue that service organizations reduce the range of customer needs that must be addressed when co-production increases (Mills & Morris, 1986). Besides that, services are merely standardized when end-users increasingly co-produce services. As a result, increases in co-production make service production processes more routine and result in service providers experiencing little uncertainty and variability. Therefore, service organizations invest little in human capital if levels of co-production are high. So, when levels of co-production decreases, service organizations increasingly invest in human capital in order to enable service providers to respond to increased levels of uncertainty and variability (Skaggs & Youndt, 2004). Therefore, we concur with Skaggs and Youndt (2004) that transformational HRSS incorporate high levels of human capital, because co-production levels are low.

Third, service organizations cannot always rely on standardized service processes when customized services are offered, because existing service processes will not always fully match specific customer needs (Bowen & Ford, 2002). Furthermore, as Batt (2000) demonstrated, fewer than 10% of the service organizations that offer customized services rely on scripted solutions to customer inquiries. Moreover, previous research has revealed that business banks that offer customized services employ lower levels of organizational capital and higher levels of human capital when compared with retail banks that offer standardized banking services (Reed et al., 2006). Therefore, we expect transformational HRSS to employ low levels of organizational capital in the service delivery process. In the end, by drawing together the threads of this discussion, we expect that HRSS that offer transformational HR services will mostly rely on human capital.

Proposition 3: When offering transformational HR services, HRSS mostly rely on human capital in order to create value.

Discussion

In this paper, we have built on the theory of intellectual capital to develop a model that conceptualizes HRSS value creation as perceived by end-users (employees, line managers and HR professionals). The need for this conceptual model was reflected in the fact that previous research did not conceptually explore or empirically demonstrate how HRSS value is created.

We started from the premise that organizations centrally bundle intellectual capital within a single (semi)autonomous organizational unit — called HRSS — in order to deliver HR services. Combined with the fact that the features of these HR services are partially determined by the clients (business units) of HRSS, HRSS are believed to reap the benefits of both centralization and decentralization, while minimizing the drawbacks of both. As a result, HRSS are believed to realize increases in both efficiency and effectiveness in HR service delivery.

We have argued that intellectual capital plays a central role in the creation of HRSS value. As argued by others and demonstrated by empirical findings, intellectual capital — here defined as the aggregate of knowledge and knowing capabilities that an organization is able to leverage with the aim of creating value — is strategically valuable for service organizations and critically affects their performance (Kong, 2008; Reed et al., 2006; K. Walsh et al., 2008). Moreover, the most critical HR resource that is bundled within HRSS is believed to be its knowledge and knowing capabilities (Farndale et al., 2009; Ulrich, 1995). Therefore, we have argued that HRSS employ its intellectual capital – comprising a configuration of human capital and organizational capital – to create HRSS value.

Yet as previous research distinguished between transactional and transformational HR services (Farndale et al., 2009; Ulrich, 1995), lead us to argue that HRSS employ various intellectual capital configurations in order to create value. Transactional HRSS are expected to employ high levels of organizational capital in order to create value, whereas transformational HRSS are expected to employ high levels of human capital. These differences are believed to occur because transactional and transformational HR services are different in nature. We examined how transactional and transformational HRSS differ in terms of end-user co-production, end-user contact and service customization, in order to help explain how HRSS differ in terms of intellectual capital configurations.

Since our conceptual model explains how HRSS employ their intellectual capital in order to create value for its end-users, it opens the way for a future empirical investigation of HRSS value creation. Yet we acknowledge that this paper does not present a description of HRSS value as perceived by end-users. Based on the literature on service management, HRM and intellectual capital, we only described how intellectual capital might create HRSS value by adopting dependent variables that act as surrogates for HRSS value (e.g. service quality or HR performance / effectiveness). Therefore, further research should be conducted to explore how end-users perceive the value of HRSS. In turn, this should offer the opportunity to investigate empirically how intellectual capital leads to HRSS value creation.

Although the various elements of HRSS human capital have been explored in this paper, we have remained silent on how these elements in particular affect HRSS value creation in the specific cases of transactional and transformational HRSS. In this paper, we explained

that human capital is increasingly valuable in the case of transformational HRSS. Therefore, we implicitly perceived all human capital elements to be equally important within both types of HRSS in terms of value creation. Yet the findings of Ulrich et al. (2008a) suggest that transactional and transformational HRSS differ in their ability to leverage firms' human capital to create HRSS value. For instance, the relative impact of the human capital elements of *HR delivery* and *HR technology* on the performance of services providers is stronger in the case of transactional HRSS, whereas the relative impact of *strategic contribution* on the performance of services providers is stronger in the case of transformational HRSS (Ulrich et al., 2008a). Given the findings of Ulrich et al. (2008a), we conclude that future research should examine which human capital elements explain the creation of HRSS value within both transactional and transformational HRSS.

In conclusion, we have established that our conceptual framework gives improved insight into the creation of HRSS value. Yet the concept of *HRSS value creation* is not yet fully clear. This suggests a need for a future empirical investigation that reveals end-users' perceptions of HRSS value. Furthermore, further research should be conducted into the relative impact of the human capital elements when HRSS offer either transactional or transformational HR services.

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