Shared Services Within The Context Of International Human Resource Management

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INTRODUCTION

Within today's turbulent and quickly changing market environment and considering the ongoing financial crisis, organizations have to develop strategies which help them to overcome and prepare them for the future after this crisis is over. As **Quinn, Cooke and Kris (2000)** point out, the overhead or support functions such as Human Resources (HR), which is the key subject of the present paper, are representing the last frontier for major cost savings. In 2007, the Boston Consulting Group focused their study, *"The Future of HR in Europe - Key Challenges Through 2015"*, on the efficiency and effectiveness of the HR function. Within their study, they polled 1,335 executives from 27 countries in Europe and the results indicate that HR executives should consider outsourcing partners or the use of shared services for service and administrative functions in order to increase efficiency and effectiveness **(Strack, Caye, et.al., 2007)**. Following the latter and with special focus on Shared Services, the main objective of the present paper is to answer the following questions: ***What is the Shared Services concept and how does it influence International Human Resource Management?***

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

According to **Torrington, Hall and Taylor (2007)**, Human Resource Management (HRM) can be described as a series of activities which, firstly enables working people and the organization which uses their skills to agree about the objectives and nature of their working relationship and secondly, ensures that the agreement is fulfilled. According to their definition, HR comprises the following core functions: organization, resourcing, performance, development, employee relations and pay.

❀ As a consequence of the globalization process, the number and size of multinational organizations is increasing and hence, the HR function has to accommodate this development. Following **Dowling, Welch and Schuler (2007)**, the complexity of operating in different countries and employing different national categories is a key variable of International Human Resource Management (IHRM), which in broad terms involves the same functions as domestic HRM. As a consequence of the aforementioned traits, in order to define IHRM, the previous definition of HRM by **Torrington et. al.** could simply be translated into an international context and lead to the following, extended definition: *International Human Resource Management can be described as a series of activities within an international context and environment which: first enables working people and the organisations which uses their skills to agree about the objectives and nature of their working relationship and secondly, ensures that the agreement is fulfilled. However, there is one constraint with regard to the functions of IHRM. Anything involving employment law, respectively that has to do with employee relations, procedures governing dismissal and contracts is problematic as they are by definition and their essence country focused* **(Industrial Relations Services, 1999a)**.

❀ **Shared Services:** The shared services approach is very often positioned as a new trend or a tool for the optimization of the back-office, respectively support functions **(A.T.Kearney, 2006)** of an organization. But, as pointed out by **Dressler (2007)**, the general approach of shared services is not new, and while it is now-a-days classified as an approach for optimization, its basic principles and roots go back to the first ideas regarding division of labour.

In broad terms, shared services can be defined as *"(...) a collaborative strategy in which a subset of existing business functions are concentrated into a new, semi-autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent*

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corporation, like a business competing in the open market" **(Bergeron, 2003)**.

That the shared service concept had achieved prominence over the last years within the international business practice and especially in HRM is shown by the results of the following studies:

❀ In late 2003, Harris Interactive started an empirical study on behalf of A. T. Kearney (2006). In this study, Harris Interactive interviewed 140 executives in the United States, Canada, the United Kingdom, France and Germany about the shared service concept. The main results were, that 67% of the participants in the survey achieved their (mainly) cost objectives and performance improvements by using shared services. The most common mentioned effective ways were associated with a shared service centre, where the HR function, information technologies, finance and procurement are mentioned.

❀ **Hollich, Otter and Scheuermann (2008)** highlighted the HR function as the second most prevalent function used for shared services after finance, increasingly applied by multinational corporations. According to their information, over 90% of the European Top 500 are considering some form of shared services and nameable organizations from all industrial areas, such as IBM, Siemens, Gillette, SAP, Ford, Hewlett-Packard, Procter & Gamble, Henkel, BP, Shell, Nestle and many others have already applied the HR shared services concept.

HR SHARED SERVICES WITHIN THE CONTEXT OF IHRM

HR shared services are on the one hand part of HRM, respectively IHRM, in so far as they describe one organizational form in which, mainly administrative tasks could be performed in order to increase the effectiveness and efficiency of the HR function. On the other hand, HR shared services are transforming and shaping the HR function by adding new dimensions to it. Through HR shared services, respectively, the international context in which they are placed (e.g. nearshoring, offshoring), the HR function itself becomes international. In the following, the drivers and application areas of HR shared services are explored and a future HR organization following the *"Ulrich-Model"* will be described.

DRIVERS AND ENABLERS OF HR SHARED SERVICES

With regard to Peter Reilly, Director of the HR research and consultancy at the Institute for Employment Studies (2000), there are three principal drivers and one enabler to the introduction of HR shared services, namely costs, quality and organisation as drivers and technology as enabler , which can in turn briefly be described as :

❀ **Cost Reasons:** Within the economic environment, characterised by tough competition between the market participants, organizations cannot afford to have duplicate HR departments **(Ulrich, 2007)**. Because of the latter, 80.4% of the organizations applying the shared services concept have the objective, respectively the expectation to reduce their costs, being the most important reason for the introduction **(Hentschel, 2008)**. Cost savings by using shared services can be achieved by cutting headcount and reducing rents and accommodation charges, for example, by pulling together a number of separate administrative departments into one place. Some organizations even moved to other areas where rents and accommodation costs were less expensive or even to other countries in order to save money. Dependent on the distance from the headquarter, respectively to the mother-company, near-shoring and off-shoring can be differentiated. Furthermore, costs can be reduced by increasing the efficiency and effectiveness of the service provision, for example, by streamlining and simplifying the service on offer, being clearer on service provisions and standards **(Reilly, 2000)** and by a consolidation of the overall know-how available within an organization.

❀ **Quality Reasons:** Besides cost reduction, which can be seen as the most important driver for the implementation of shared services, 32.1% of the organizations aimed to increase the quality of the services offered and 21.4% of the organizations aimed to improve the service level **(Hentsche, 2008)**. **Reilly (2000)** mentions that from the standpoint of quality development, there was a desire for the HR function to be more professional in the services done, achieve greater consistency and accuracy and to be more aware of best practices internally and externally. In order to achieve these goals, HR shared services strived for customer orientation by being more customer driven instead of focusing too much on the products they have offered, becoming more accessible to their customers - by offering 24/7 services, improving the supply of information and operating user-friendly services, e.g. by establishing an internet or intranet platform with important information, allowing self-services and/or giving better quality support. As **Ulrich** already

mentioned in 1995, a key success factor for shared services is to unlearn traditional channels of delivery or as **Reilly (2000)** highlighted, a change in attitude is required.

❈ **Organizational Reasons:** As HR focus (2007) reports, shared services are also aimed to improve strategic thinking at the parent company level, or in the words of **Reilly (2000)**, the implementation of shared services support the re-positioning of HR, trying to become more strategic and less bogged-down in administrative activities. Hence, the implementation of HR shared services, has in many cases, been driven by the participation in wider organizational change **(Hollich, Otter and Scheuermann (2008))**, in which the HR function should, according to **Reilly (2000)**, move from a short-term to a long-term orientation, a purely operational to a more strategic role, a reactive tendency to a more proactive orientation, a policeman of rules to an advisor to the line, an upholder of tradition to a facilitator of change and from an employee welfare service to a business support function.

❈ **Technology:** Apart from the aforementioned drivers to the implementation of shared services, technology is perhaps the main driving force regarding the creation and development of shared services. As **Mullins (2007)** highlights, the impact of information technology on the structure, management and functions of most organizations is both significant and more demanding new patterns of work organizations, or in the words of **Gordon E. Moore**, the co-founder of Intel Corp.: *"Technology intensifies the law of change"* **(Bergeron. 2003)**. Whereas, the development of the Personal Computer *"only"* enabled organizations to move parts of their administrative activities from paper into digital format, the breakthrough and most considerable enabler regarding shared services had been the development of Enterprise Resource Planning (ERP) systems **(Dressler, 2007)**. Following **Schulman, Dunleavy, Harmer and Lusk (1999)**, a sophisticated ERP software is an integrated system in which transactions, such as the booking of an order, only have to be entered once and the software is recording this transaction in all concerned modules, such as invoicing, logistics, etc. Hence, the software is interlinking activities throughout an organization's record keeping. Furthermore, ERP systems heavily contributed to the harmonization and integration of data, such as material master or customer master data. For both **Kagelmann (2000)** and **Dressler (2007)**, the internet in addition to modern communication techniques, enable organizations to share information in an easy way by using intra- or extranet solutions. The transfer of data now-a-days is very cheap and can take place from and to whatever continent and country in the world and at whatever time without restrictions. Video, telephone, computer or conference calls decrease space and time restrictions and allow people to communicate over long distances in a cheap way. As such, technology plays a dominant and outstanding role in the implementation and successful running of shared services.

APPLICATION AREAS OF HR SHARED SERVICES

The application areas of HR shared services will be discussed from different angles, such as the activities that have to be performed, the type of organizations which predominantly use the concept, as well as linked to the latter, the geographic regions where the shared services are established.

Following **Ulrich (1995)**, the application areas of HR shared services can be divided into transaction- and transformation-based services. Transaction-based services deal with the processes and activities relating to meeting the administrative requirements of employees, such as benefit related activities, compensation / pay activities, development and learning activities, etc. In contract to the latter, transformation based services consist of non-routine and non-administrative activities, which are primarily designed to transform an organization and include staffing, development, organizational design and effectiveness.

Hence, when **Ulrich (1995, 2007), and Arkin (2007)**, refer to the scope of shared services, what is implicated is transaction-based services to be performed in service centres and transformation-based services to be performed in centres of excellence. For **Ulrich (2007)**, the concept of HR shared services always had two elements. First, administrative service centres, designed to streamline transactional HR work by leveraging technology and standardizing routine tasks and secondly, centres of expertise focused on specialized HR knowledge, such as learning, reward, recruiting and organizational design.

According to the *"Kienbaum-HR-Strategy-Study 2006"* among 200 German-speaking HR experts, the following HR-activities are predominantly carried out by means of HR Shared Service Centres:

Payroll administration:	83.9%
Travel and entertainment expenses:	60.7%
HR Administration	55.4%
HR Information Systems	51.8%
Recruitment	39.3%
Operation of HR Portals for Self-Services	30.4%
Operation of HR-Call-Centres	19.6%
Other HR Activities	25.0%

From the results shown above, it can be concluded that there are multiple application areas where the shared services concept has been applied, but there are also some *"white spots"* which can be developed in order to exploit the complete potential of shared services. From different studies, such as the IOMA's and HRfocus' 2007 *"Outsourcing and Shared Services Survey"*, it can be taken that larger organizations are more likely to use shared services than smaller organizations. According to **Reilly (2007)**, 66.7 % of the firms employ 5,000 or more people, but only 17.0% of those with 250-1,000 employees make use of shared service centres. Hence, shared services can be classified as a large organization phenomenon. The *"Kienbaum-HR-Strategy-Study 2006"* found out that already 14.3% of the organizations using HR shared services offer and perform them for other, external companies as well and that 12.5% of the organizations were planning to do so. Hence, the HR shared services concept can also become more interesting for an organization with less than 5,000 employees in the form of an outsourcing option.

Hand in hand with the size of the organization, making use of the shared services concept, goes the question in which area of the world the concept going to be applied. The 2006 study of the Offshoring Institute at the FHTW Berlin **(Dressler, 2007)** among 79 German multinational organizations had shown that these organizations established in a total 146 shared service centres, out of which 47.0% were located in Germany, 31.0% within the closer environment of Europe (so-called *"Nearshoring"*) and the remaining 22.0% were located in other regions of the world (so-called *"Offshoring"*). The trend towards *"Near-"* and *"Offshoring"* is supported, as different countries are analyzed as potential locations for shared service centres with regard to advantages and disadvantages they offer to large-scale enterprises. Apart from India, as a traditional offshore country (see **Carmel and Abbott, 2007 or Mohan and Witt, 2006)**, Eastern European countries such as Czech Republic have been analyzed (see **Honsová, 2006 or Sochor, 2007**). Concerning the different aspects and viewpoints on the application areas of shared services, one can also be referred to the Mercer publication: *"Finding your place on the HR shared services continuum"*, where the results of numerous surveys are combined with the experiences from Mercers consulting work. The author of this paper concluded that the HR shared services model will continue to evolve in the future and adapt to the requirements and the environment in

Figure 1: The HR Organization Of The Future (Author's Illustration)
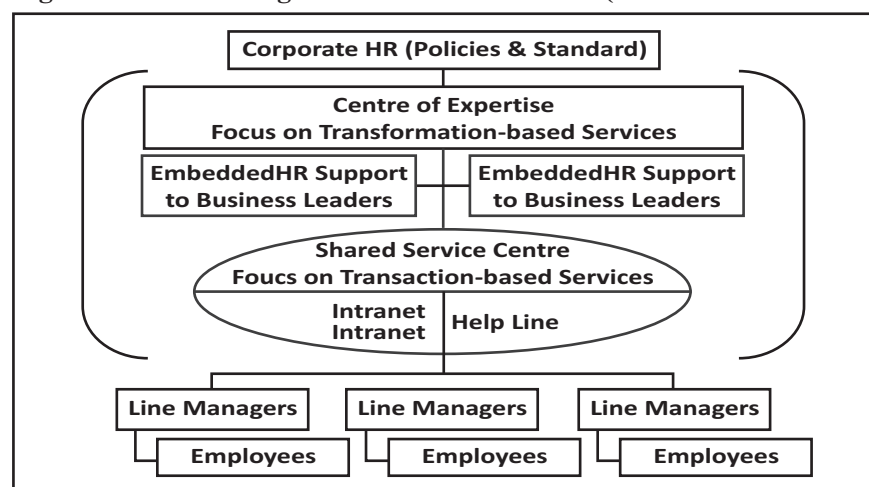
which it has to operate.

THE HR ORGANIZATION OF THE FUTURE

The information provided in the previous parts of the paper already demonstrated that the HR organization of the future will most likely include HR shared services by some means or others. Referring to the so-called *"Ulrich Model"*, named after the US-American HR guru, Dave Ulrich, School of Business at the University of Michigan, a possible future HR organization comprises of the following elements **(Arkin, 2007)**:

❋ Corporate HR, which oversees the whole function, implementing organisation-wide initiatives and working with top business leaders.

❋ Centres of Expertise providing specialist advice.

❋ Embedded HR working directly with business leaders.

❋ Transactional HR carrying out administrative work through service centres.

Under consideration of the elements included within the *"Ulrich Model"* and on the basis of Reilly's idealistic picture of the most typical structure of the HR Shared Services, the HR organization of the future might look like illustrated in Figure 1.

CONCLUSION

The paper had shown that HR shared services became a part of current HR, as the concept describes an organizational form of the HR function aimed to increase effectiveness and efficiency. On the other hand, HR shared services are transforming and shaping the HR function by adding new dimensions to it. Furthermore, by providing HR services through HR shared service centers in whatever place in the world to the parent company and its subsidiaries, the HR function itself becomes international.Following the results of the different research studies presented in this paper, it can be concluded that if the restructuring of the HR function is achieved efficiently ,HR shared services can deliver a better quality, more cost-effective services and help the HR function to play a more business-focused and strategic role. With regard to **Reilly (2000)**, most of the development in shared services is likely to come about through technological change as being the most important enabler of HR shared services. However, he also mentions that the future of HR shared services will be determined by the speed in which the culture in general, as well as the culture the respective corporation adopts.

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