

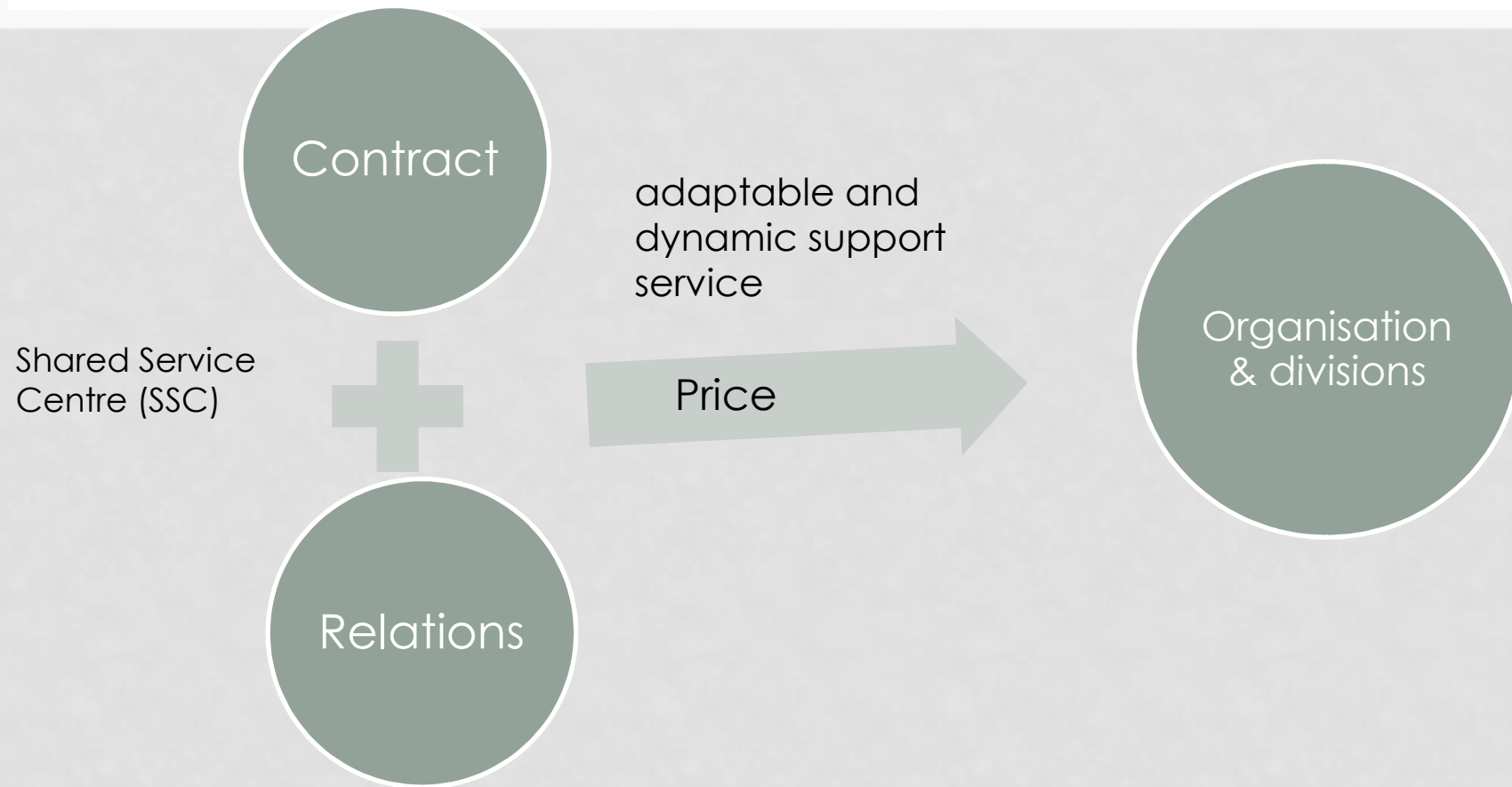


Support service transformation Towards a framework for governance & pricing

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RESEARCH QUESTION



STRUCTURE

- Introduction
- How a hybrid (contractual and relational) governance framework can be designed to deliver lean, responsive and adaptable service
- Potential role of transfer pricing
- Conclusion

INTRODUCTION

- Service externalization (SSO or BPO)

Market minded + management control
Reduce costs
Enhance functionality



- Good implementation



Contractual 'hard' points
+ Informal relationship

- Progressive move towards pricing?

UNDERSTANDING HOW IT WORKS

-----THE SSC

- Supply-chain management issue (SCM)
- Inter-Organizational Cost Management (IOCM)
- Institutional theory

CONTRACTUAL APPROACH

- “written contractual and management initiated mechanism”
- Direct/Guide human behaviours
- Assumptions
 - 1) Quantifiable attributes
 - 2) A predictable environment
 - 3) Relatively homogeneous products
 - 4) An open market

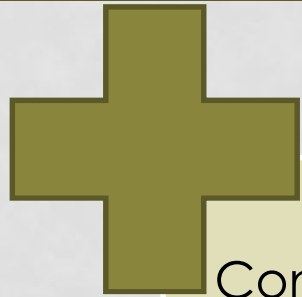


RELATIONAL GOVERNANCE

- Guide “social norms”
 - 1) Information sharing
 - 2) Cooperation
 - 3) Mutual adaptation to uncertainties----flexible
- E.g. Just-in-time



COMPLEMENTS OR SUBSTITUTES?



Contracts are incomplete
(Lazzrini et al. 2002)

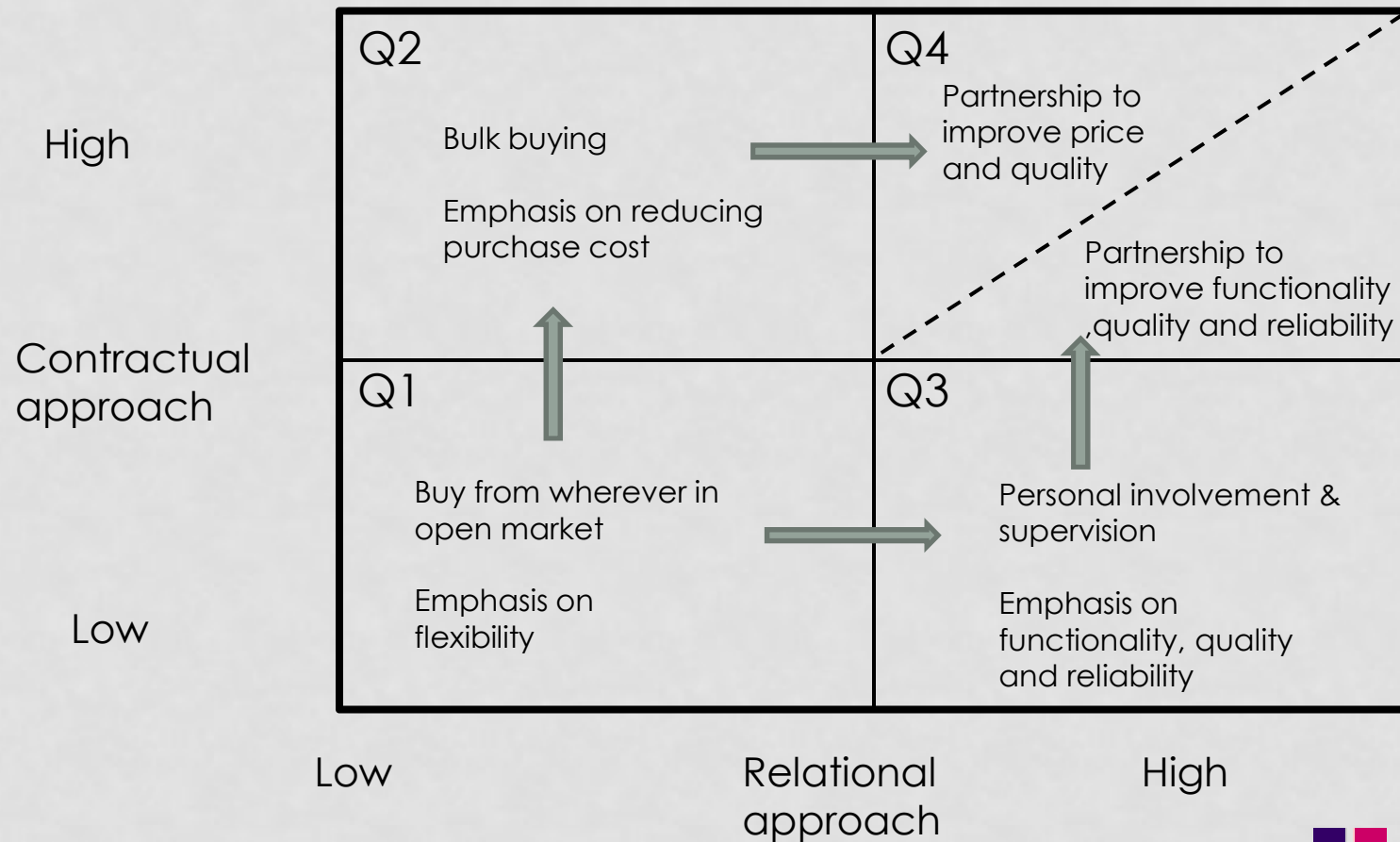
When change or conflicts
arise, relational
governance solves the
adaptive problem of
formal contracts
(Macneil, 1978)

One governance obviates
the other (Larson 1992)

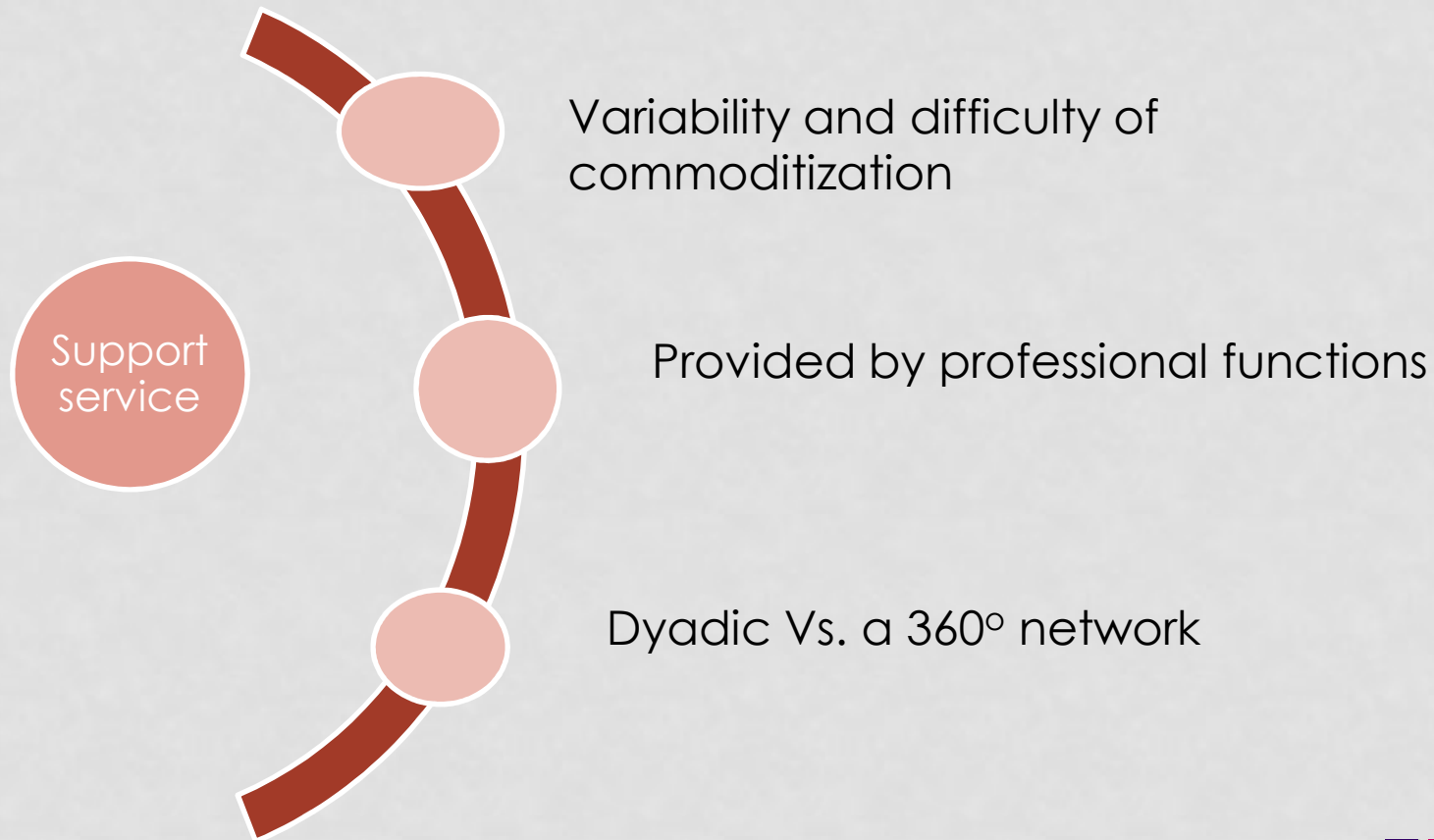
Formal contracts
undermine trust
(Ghoshal and Moran 1996)

TRADING GOVERNANCE

FUNCTION, QUALITY, RELIABILITY PRICE TRADE-OFF



WHY AN ENLIGHTENED APPROACH TO GOVERNANCE IS NEEDED FOR SUPPORT SERVICES?



HORSES FOR COURSES



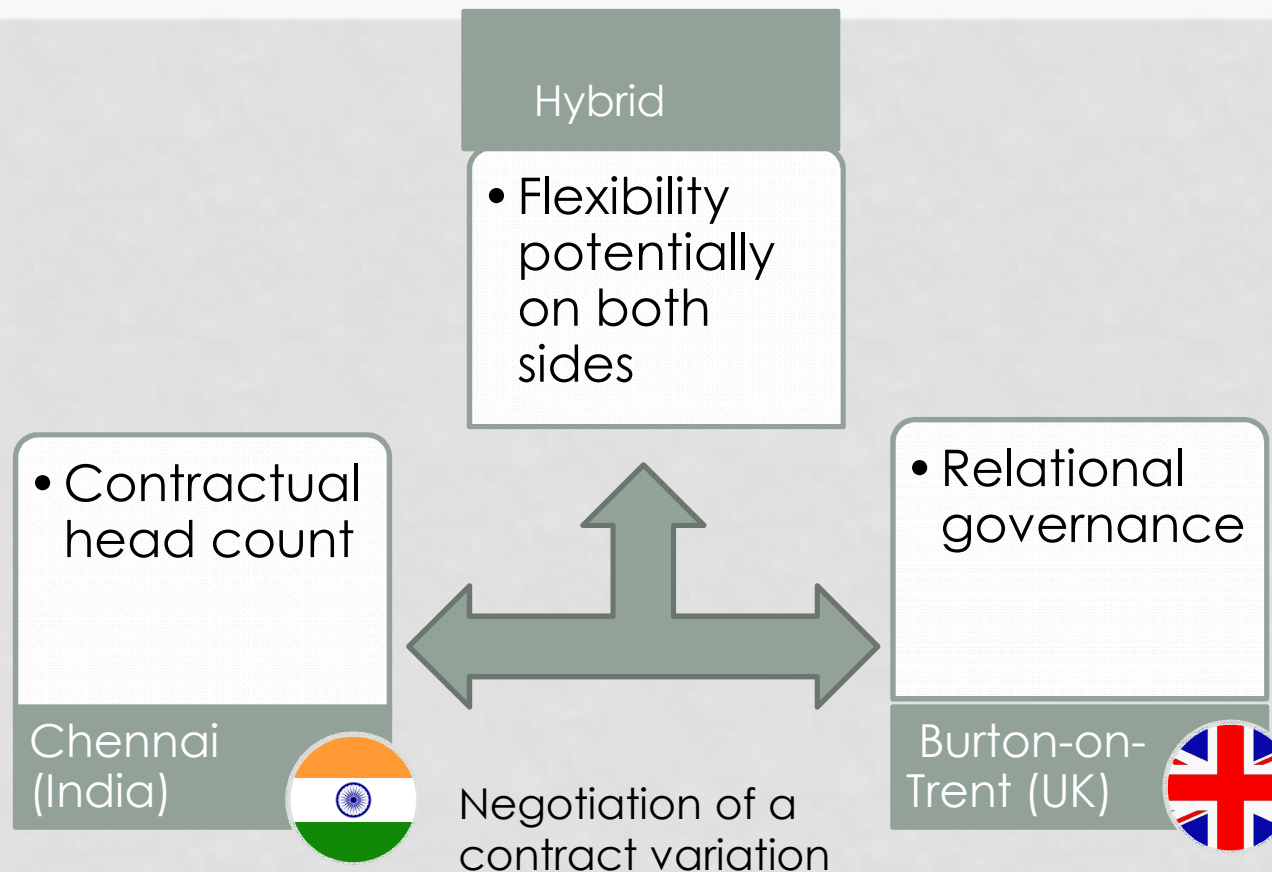
Race horse

Vs.

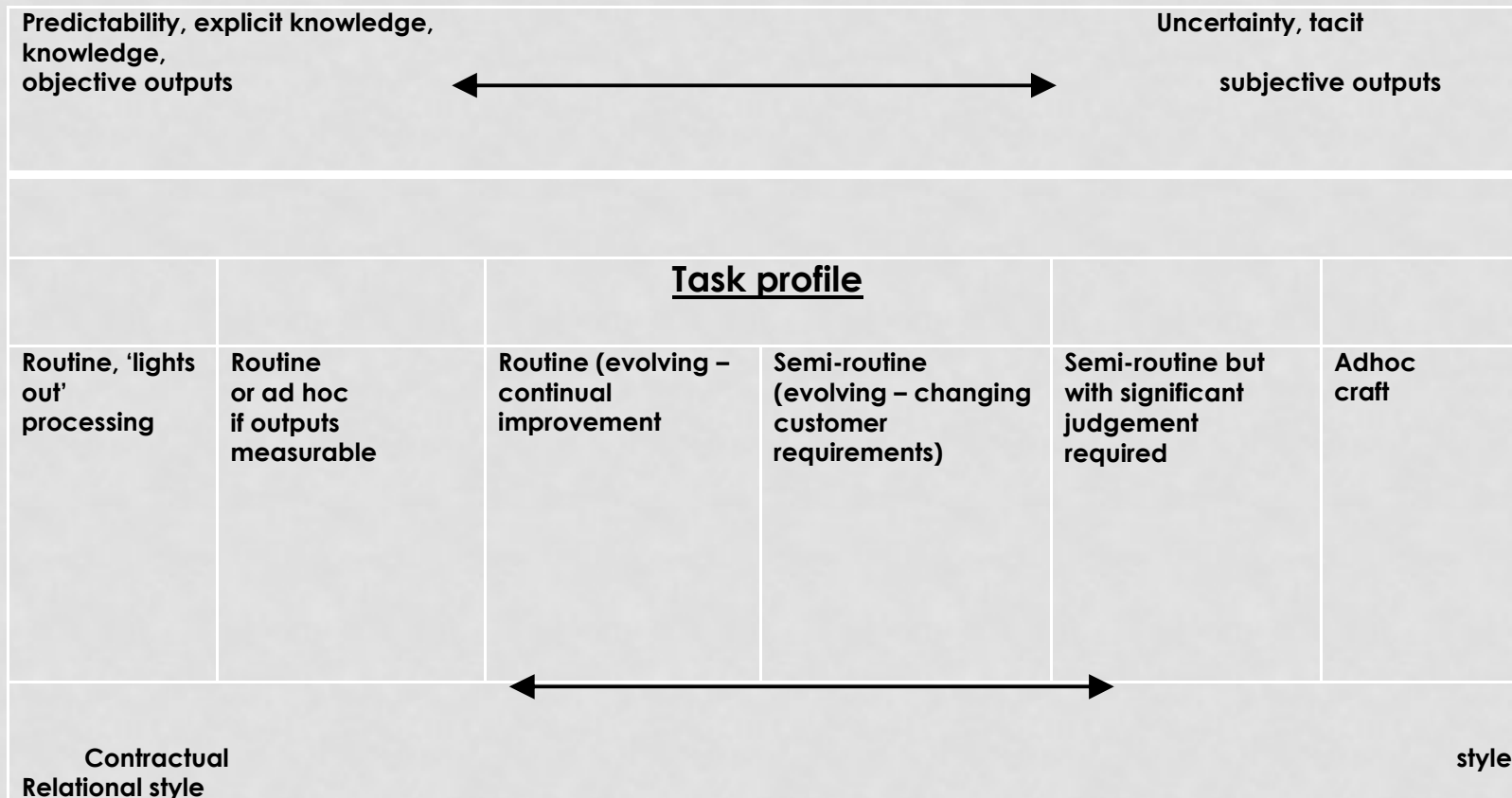
Shire horse



CASE STUDY OF MOLSON COORS



CONTINUUM OF GOVERNANCE FORMS



TRANSACTION ORIENTATION

- Market Vs. Management

Human factors

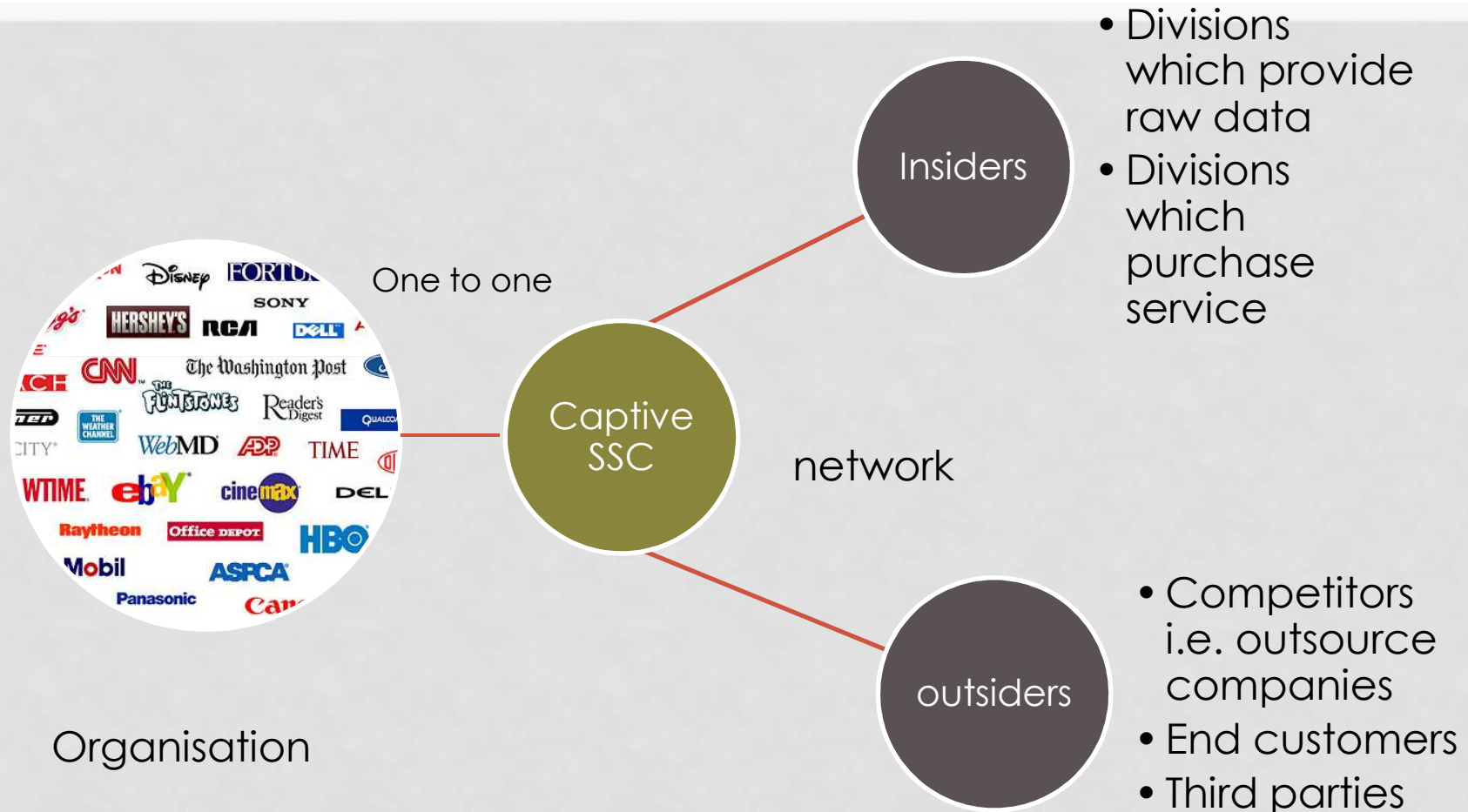


Suboptimal performance

(Williamson 1975)

Shared service centre (SSC)-----semi-autonomous division within the hierarchy

PEOPLE ORIENTATION



PROCESS ORIENTATION

- Western organization---Push policy

Goods are produced with long batch

Production is based on predicted demand

Marketing/sales department persuade customer to accept the price

- Eastern (Japanese)---Pull policy

Customers pull the demand

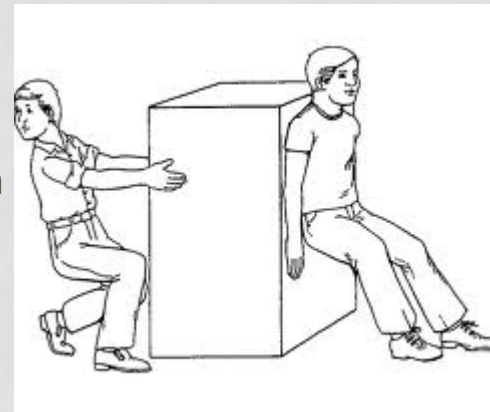
Continuous improvement e.g. Kaizen (Monden 1995)

Just-In-Time

- SSC---hybrid

'push' divisions towards standardisation

'pull' for flexibility and adaptability



Governance imperatives

Transaction Orientation
Market vs. Management

People Orientation
One-to-one vs. Network

Process Orientation
Push vs. Pull

Shared
service
centre

Operational factors

Business context
Predictable vs. Uncertainty
(Static vs. Dynamic capability)

Task profile
Complex vs. Routine
(Tacit vs. Explicit Knowledge)

Outputs
Measurability
(Objective vs. Subjective)

MAKE IT WORK---SLA

Soft parts

Hard points

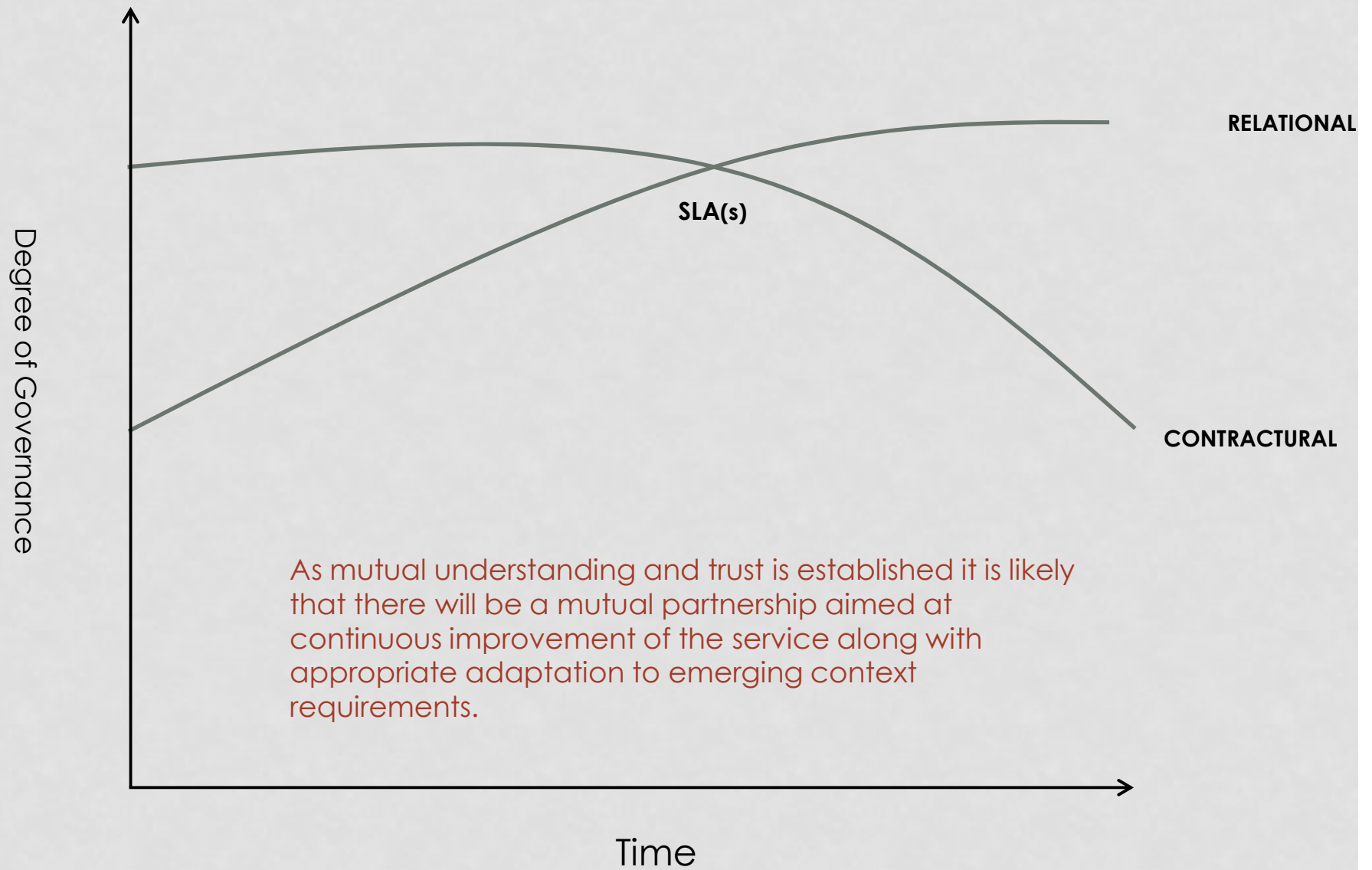
Adaptation to
changing environment
or customer
requirements

Learning and
improvement of
service level

The nature and
volume of activities

Agreed performance
standards and quality
assurance mechanism

How the costs of the
SSC will be recovered



As mutual understanding and trust is established it is likely that there will be a mutual partnership aimed at continuous improvement of the service along with appropriate adaptation to emerging context requirements.

CASE STUDY (PRESSCO)

- **Background:**
- *Pressco* (named changed) had enjoyed a long tradition in newspaper publishing.
- Its two main divisions, *Provincial* and *National* publish a range of paid (and increasingly free) newspapers.
- A third division, *Miscellaneous*, comprises various new digital media and overseas ventures.
- The SSC was set up in 2003 to relocate various finance transaction processes from across the 30 or so *Provincial* business units to a city in the middle of the UK.
- **SLA**
- The managers at the SSC had spent a considerable amount of time working with business managers to draft service level agreements (SLAs) based around key performance indicators to govern relationships with divisions.

“We tried to write a SLA and originally they [the business managers] said they wanted a fairly detailed document. and when they saw it they realised it involved them having to do things, and they suddenly weren't interested in such a detailed one. [They] just wanted one page, just one page that says what we [the SSC] are going to do. “ (LF – Head of Continuous Improvement).

CRITICAL ROLE OF TRANSFER PRICING

- Price is still the way the score is kept
- Balance the business customers' needs for volume flexibility and process adaptability
- Balance a control-driven, contractual approach and a more evolutionary, relational approach.
- Price drive behaviours within the governance framework.



• Transfer pricing issues

- Objectives: ensuring divisional autonomy, measuring performance, achieving goal congruence. (Drury 2005)
- Conflict between measuring performance based on divisional profitability and protecting the interests of the whole organization. (Eccles 1983)
- Charge back method/transfer pricing policy of shared service center is important because it should
 - 1) cover the total costs of operating the SSC well
 - 2) fairly reflects the value added by the SSC and not seen as disadvantageous to the buying division
 - 3) motivate SSC staff to further efforts
 - 4) provide transparent information to other divisions
 - 5) being competitive compared to outsource companies

CONCLUSION

- How a hybrid governance framework based upon the most appropriate elements of a contract v. relational outlook can deliver adaptable and dynamic support services from three dimensions.
 - transaction orientation
 - people orientation
 - process orientation
- Appropriate price which drives the right behaviours, measures the financial performance and acts as the benchmark for head office to rationally allocate resources is the key element to ensure that support services are efficient and fit for purpose.