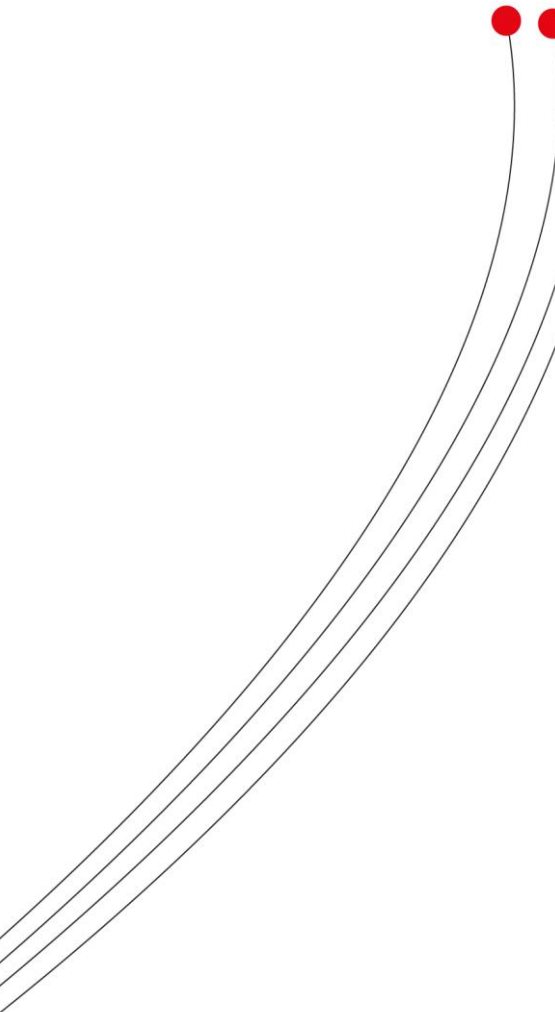


REDEVELOPING THE FINANCIAL
FUNCTION OF MUNICIPALITY
ENSCHDEDE: A CROSS COMPARISON



Qasim Bajwa

FACULTY OF MANAGEMENT AND GOVERNANCE
MASTER OF BUSINESS ADMINISTRATION

Redeveloping the financial function of municipality Enschede: A cross comparison

Master Thesis

Faculty: Management and Governance
Education: Master of Business Administration
Specialization: Financial Management

Author: Qasim Bajwa
Place and date: Enschede, 9 April 2014

University of Twente

UNIVERSITY OF TWENTE.

University of Twente
Drienerlolaan 5
7552 NB Enschede
PO Box 217 7500 AE Enschede

Supervisors:
Ir. Henk Kroon
Dr. Berend Roorda

Municipality Enschede

Gemeente  **Enschede**

Gemeente Enschede
Langestraat 24
7511 HC Enschede
PO Box 20 7500 AA Enschede

Supervisor:
Drs. Alfons de Vries

Acknowledgement

I have written this master thesis in context of my graduation in the Master of Business Administration with Financial Management as specialization. It is written in co-operation with municipality Enschede from September 2013 until March 2014.

The master thesis and the internship are incredible valuable and important moments in student careers. You are still a student but get the opportunity to show that you possess enough capabilities for the big step to the job market. On the threshold between study and practice Municipality Enschede provided me with the ideal environment to apply my knowledge in a challenging and dynamic organization. It has been a pleasure sparring with their professionals who are as passionate and motivated as I am.

Therefore I would like to express my gratitude towards municipality Enschede that offered me the opportunity to write my thesis. I am indebted to a number of people for their help and support, I would like to thank several persons. First of all I would like to thank my external supervisor Alfons de Vries for his guidance and advice and I would like to thank Martin van der Ham, Paul Davina, André Folbert and Suzanne Remmers of the workgroup “Herijking Financiële Functie” for their guidance and comments. Furthermore I would like to thank the employees of municipality Enschede who helped me with this research in one way or another.

I would like to thank the participating municipalities of this research who helped me enormously with the data collection. Without their help this research would not be possible. Therefore, I would like to thank all interviewees for their time and effort.

From the University of Twente I would like to thank my supervisor Henk Kroon for his advice and feedback, he has stimulated and motivated me continuously to develop myself. I also want to thank my second supervisor Berend Roorda for his critical feedback.

Last but not least, I want to thank my family and friends for their support during my entire student period, which comes to an end with this master thesis. I am happy to look back on these years with pleasure.

Finally, I wish all the readers of this master thesis an interesting time.

“All the proof of a pudding, is in the eating”

(William Camden, in *“Remaines of a greater worke, concerning Britaine”*, 1605)

Enschede, April 2014

Qasim Bajwa

Abstract

The Dutch municipalities are in a time of transition due to the occurrence of radical social and financial-economic changes, which require adaptation skills of municipalities and their employees in different areas. External and internal developments such as decentralization of tasks, performing tasks in partnerships and the shrinking of the internal organization require a lot of the municipalities. Not only new tasks are arising, the municipalities are faced with financial cuts of substantial nature. The municipalities have to do more with less capital and therefore have to organize their internal organizations very efficiently. The financial function fulfills a central and strategic role within public administration in order to overcome these challenges. This requires a different way of working and organizing in order to improve the capabilities of the financial function. It is essential to have a financial function that is future-proof, which is capable of adequately dealing with future challenges. Therefore the following main research question has been formulated for this research:

In what way can municipality Enschede redevelop its current arrangement of the financial function?

Within this main research question, it is the financial function's structural integration models and their associated advantages and challenges in which this research is most interested. In order to get an answer to the research questions, a qualitative case study research has been conducted combined with an extensive literature review. This study uses different empirical resources such as qualitative interviews performed internally and externally at different municipalities, literature review and internal document investigation. Since every Dutch municipality is facing more or less the same problems, comparing the financial organizations is a good method in order to find out how they handle the incurred problems. By doing this municipalities can learn from each other and improve their efficiency levels without having to reinvent the wheel everytime. This research investigates the financial functions of municipalities Amersfoort, Enschede, Hengelo, Nijmegen, Tilburg and Zoetermeer.

The results of the case study research performed at five municipalities illustrates a clear tendency for complete centralization of the financial function. Four of the five investigated municipalities centralized the entire financial function in order to overcome the challenges and inefficiencies associated with decentralization. Their previous financial functions experienced a lot of fragmentation and were carried out throughout the entire organization. There was a lack of municipality-wide coordination in the previous financial functions. The municipalities often had a centralized financial administration department but also had many decentralized financial administration units. These different units employed diverse work methods and had dissimilar output qualities. As reported by the municipalities their financial functions were also overstaffed due to fragmentation and overlap in activities. One of the investigated municipalities also mentioned a complete lack of clarity in roles and responsibilities in their previous financial function. One of the municipalities that did not apply a complete centralized model for the financial function is a "regie-organisatie". This means that many executive activities are performed outside the internal organization. Due to outsourcing and or privatizing of executive activities, this municipality has the least number of civil servants per thousand residents and has a small financial function in fte. This municipality employs a so called hybrid model in which the operational activities are adequately centralized in order to achieve economies of scale and improve efficiency although the financial strategic activities are still performed at the local level. Where centralization was the answer for overcoming coordination barriers and municipality-wide operation for other municipalities, this municipality could easily organize since they have a small financial function and therefore much less coordination and fragmentation problems.

This research revealed how and why the investigated municipalities have organized their financial functions in a certain manner. Coupled with literature review, two integration models for the financial function have been identified: the centralized model and the hybrid model.

Since there is no rigid set of blue prints that determine the application of a certain model, the situational context and the advantages and challenges associated with a model can provide direction. Furthermore, several variants of these two models can exist. The analyses of future scenarios that might proof reality for municipality Enschede revealed that the hybrid model best fits the financial function of municipality Enschede.

Therefore, it is recommended to integrate the hybrid model for the financial function.

This recommendation is based on the following set of arguments:

- The hybrid model combines the key advantages of both centralization and decentralization.
- The hybrid model leads to enhanced understanding of local needs and therefore to improved situation-specific advisory. The environment in which municipality Enschede exercises its functions will evolve significantly in the coming years due to the realization of the IBO and the (internal) independency of business units. It is expected from the employees more than before to make the connection with policy and the outside world, which requires strengthening of the understandability of local needs and an increase in advisory skills in order to cope with the intensification of organizational dynamics.
- The hybrid model is essentially a further development of the current financial function. Apart from the couple of inefficiencies, the current financial function works well and is favored by many employees. However the employees also state the need for more uniformity, centralization and more of a concern approach, which can be achieved by integrating the hybrid model.
- The hybrid model leads to more critical power. Since the financial function is not entirely centralized, Concern and the decentralized business control units could function as each others countervailing force. This could lead to higher critical ability for the financial function compared with a complete centralized financial function.

Next to integrating the hybrid model for the financial function, it is strongly recommended to overcome the challenges associated with it. In order to fully take advantage of the hybrid model, it is important to view the following recommendations as important preconditions for successful hybrid model application:

- **Adequate standardization of processes and activities.** The hybrid model has more fragmentation compared with the centralized model; therefore standardization should receive additional attention. Concern should be the leading factor in the financial function and should reinforce standardization and uniformity.
- **Only activities of financial policy nature should be performed in the business control units.** Ideally, a clear distinction is made in the financial activities in the staff offices; financial operational activities should be centralized in department Concern or should be performed in the IBO in order to take advantages of economies of scale.
- **Frequent rotation of employees.** Rotation over time provides variety in work activities and leads to a fresh look at departmental affairs from time to time. Due to rotation employees can learn from each other and apply each other's best practices. This reinforces standardization and uniformity. Thereby, due to rotation employees can take over each other's work if necessary. The establishment of the IBO will enforce the need for frequent rotation of employees since there is the risk of missing crucial organization knowledge due to the increased distance from the primary processes.
- **Applying a network approach.** Due to the fundamentally changing structure in which municipalities operate, it is important more than ever for employees to apply a network approach and think outside their own department and or organization. This approach requires other competences of employees such as customer orientation, goal driven and communication proficiency.

Table of contents

Acknowledgement	3
Abstract	4
List of figures and tables.....	8
1. Introduction	9
1.1 Introduction to municipality Enschede.....	9
1.2 Financial organization.....	10
1.3 Financial formation	12
2. Problem statement: The changing environment of municipalities	17
2.1 Introduction.....	17
2.2 Problem background: External developments	17
2.2.1 <i>Changing role of the financial function</i>	17
2.2.2 <i>Decentralization of government tasks</i>	17
2.3 Problem background: Internal developments	18
2.3.1 <i>Shrinking of the internal organization: Compact and flexible organization</i>	18
2.3.2 <i>Inefficiencies and bottlenecks in the current financial organization</i>	19
2.4 Research goals	20
2.5 Research questions.....	21
2.6 Research methodology: Qualitative case study supported by literature review.....	21
2.6.1 <i>Data collection</i>	22
2.7 Research design	22
3. Literature review.....	24
3.1 Introducing Shared Service Centers.....	24
3.1.1 <i>Motives for establishing Shared Service Centers</i>	25
3.1.2 <i>Challenges of Shared Service Centers</i>	25
3.1.3 <i>Overcoming the challenges of Shared Service Centers</i>	27
3.1.4 <i>Establishing Inter-organizational shared service center</i>	28
3.2 Management control.....	30
3.2.1 <i>The concept of management control</i>	30
3.2.2 <i>The need for management control</i>	30
3.2.3 <i>Controlling in a municipality</i>	31
3.2.4 <i>Arrangement of Control</i>	31
4. Data Analysis.....	35
4.1 Introduction.....	35
4.2 Municipality Hengelo.....	35
4.2.1 <i>Financial Organization</i>	36
4.2.2 <i>Arrangement of information flow</i>	37
4.2.3 <i>Outsourcing or performing financial tasks in an inter-organizational SSC</i>	38
4.2.4 <i>Arrangement of control</i>	38
4.3 Municipality Zoetermeer.....	39
4.3.1 <i>Financial Organization</i>	39
4.3.2 <i>Arrangement of information flow</i>	41
4.3.3 <i>Outsourcing or performing financial tasks in an inter-organizational SSC</i>	42
4.3.4 <i>Arrangement of control</i>	42
4.4 Municipality Tilburg.....	44
4.4.1 <i>Financial Organization</i>	45
4.4.2 <i>Arrangement of information flow</i>	46
4.4.3 <i>Outsourcing or performing financial tasks in an inter-organizational SSC</i>	47
4.4.4 <i>Arrangement of control</i>	47
4.5 Municipality Amersfoort	49
4.5.1 <i>Financial Organization</i>	50

4.5.2	<i>Arrangement of information flow</i>	50
4.5.3	<i>Outsourcing or performing financial tasks in an inter-organizational SSC</i>	51
4.5.4	<i>Arrangement of control</i>	52
4.6	Municipality Nijmegen	53
4.6.1	<i>Financial Organization</i>	54
4.6.2	<i>Arrangement of information flow</i>	57
4.6.3	<i>Outsourcing or performing financial tasks in an inter-organizational SSC</i>	57
4.6.4	<i>Arrangement of control</i>	57
5.	Discussing the integration of financial function models	60
5.1	Introduction.....	60
5.2	Applying the financial function models	60
5.2.1	<i>The centralized model</i>	60
5.2.2	<i>The hybrid model</i>	64
5.3	Recommendations	66
5.4	Dilemmas	68
6.	Conclusion and future research	69
6.1	Answer to the research questions.....	69
6.2	Limitations	73
6.3	Future research directions	74
	References	75
	Appendix	80
	Appendix A: list of interviews conducted	80

List of figures and tables

List of figures:

Figure 1: Organizational diagram of municipality Enschede (Gemeente Enschede, 2012).....	10
Figure 2: Financial organization of municipality Enschede	10
Figure 3: Organizational structure of a program	13
Figure 4: The proportion centralized/decentralized F&C department (Berenschot, 2014).....	15
Figure 5: The relation between centralization and size of F&C department (Berenschot, 2014).....	15
Figure 6: Research diagram.....	23
Figure 7: Example of an inter-organizational SSC (korsten et al., 2004)	29
Figure 8: Organizational diagram of municipality Hengelo (Gemeente Hengelo, 2014)	35
Figure 9: Financial function of municipality Hengelo	36
Figure 10: Organizational diagram of municipality Zoetermeer.....	39
Figure 11: Financial function of municipality Zoetermeer.....	40
Figure 12: Organizational diagram of municipality Tilburg (Gemeente Tilburg, 2014)	44
Figure 13: Financial organization of municipality Tilburg.....	45
Figure 14: Organizational structure of municipality Amersfoort (Gemeente Amersfoort, 2014)	49
Figure 15: Financial organization of municipality Amersfoort.....	50
Figure 16: Organizational structure of municipality Nijmegen (Gemeente Nijmegen, 2014)	53
Figure 17: Financial organization of municipality Nijmegen in 2012.....	55
Figure 18: Financial organization of municipality Nijmegen in 2014.....	56
Figure 19: Centralized model A of the finance function.....	61
Figure 20: Centralized model B of the finance function.....	63
Figure 21: The hybrid model (Leenders & Johnson, 2000)	64
Figure 22: The hybrid structure of municipality Enschede.....	65

List of tables:

Table 1: Formation benchmark of the F&C department (Berenschot, 2014).....	14
Table 2: The four independent sources of value of SSC (Strikwerda, 2003).....	24
Table 3: Control vision of municipality Amersfoort.....	52
Table 4: Financial task and information flow organization of comparable municipalities.....	69
Table 5: Performing financial tasks in inter-organizational shared service centers	70
Table 6: The arrangement of control by comparable municipalities	71
Table 7: The recommendations and arguments summarized.....	73

1. Introduction

This first chapter is devoted to the introduction of municipality Enschede. The first section will provide a comprehensive explanation of the case organization, municipality Enschede and their organizational structure. The following section will provide a thorough description of the arrangement of the current financial function of municipality Enschede. Chapter two explains the origin of the research and elaborates on the methodological part of this paper. An extensive literature overview is presented in chapter three and in chapter four the data analysis is presented in which the financial function of different municipalities is compared. Chapter five discusses and applies the identified financial function models in the case of municipality Enschede. The conclusions and recommendations for future research are presented in chapter six.

1.1 Introduction to municipality Enschede

Municipality Enschede is the eleventh largest municipality in the Netherlands. As of 2012 the municipality has 158.048 citizens (Gemeente Enschede, 2012). Municipality Enschede desires to be a city that has a reputation in Europe as a knowledge city. A city that is the heart of the European regional area that connects network city Twente and the German cities Münster and Osnabrück. A city where everyone has a paid job and/or is otherwise committed to the community. Where the socio-economic differences are smaller than now and where people live, work and recreate in an environment that is inviting, livable, sustainable and green. This gives summarized the ambitions for municipality Enschede for the year 2020. Enschede as a city and as a municipal organization faces a major challenge in order to be able to fulfill these ambitions that are further enlarged due to the economic recession.

To continue to fund and be able to vigorously execute the set of ambitions, the executive board of municipality Enschede commissioned the general director to formulate a proposal on the size and structure of the municipal organization with the aim of a future-proof organization for the coming years in 2010. This has led to the change process “Bouwen aan Versterken en Verbinden (BVV)”. The BVV changed the organizational structure of the municipality from a “Concern-Dienstenmodel” to an “Afdelingen-Programmamodel”.

According to Aardema (2010) 76% of all municipalities have an “afdelingenmodel” in which departments are distinguished via policy content classification such as ruimtelijke ordening, welzijn etc. This is a big difference from the nineties when 70% of all municipalities had a “Dienstenmodel”. At the moment only 22% of the municipalities has a “Dienstenmodel” and 2% of the municipalities uses a different model. Aardema and Korsten (2009) find that the ability to work on policy and strategic level thinking, transcending the level of the “Diensten”, came under severe pressure and identify this as disadvantage of the “Dienstenmodel”. Another disadvantage of the model is that the pyramidal structure of the “Dienstenmodel” is often identified as the impeding factor. The communication lines are long and high level of bureaucracy is experienced. Van Helden, van Kollenburg and van Loon (1997) mention that the “Dienstenmodel” was becoming contra productive since the “Diensten” were gradually involved in policy making, which in other administrative layers led to irritation.

From about the turn of the century many municipalities opted for a flatter model. Hiemstra and Boelens (2002) found that many municipalities saw the same reason for reorganizing the organizational structure. The overlapping bottlenecks that they have identified are that the organization and administration in the “Dienstenmodel” have insufficient orientation to the outside world and that the service tasks are offered fragmented with low quality. Furthermore, the municipalities argue that the strategic level of the municipality in the current organizational structure is too low. These bottlenecks led to a change in the organizational structure of municipalities, the “Diensten” layer went out and the organizational structure was reduced to one layer with the “Afdelingenmodel”. The “Afdelingen-programmamodel” structure of municipality Enschede is presented in figure 1.

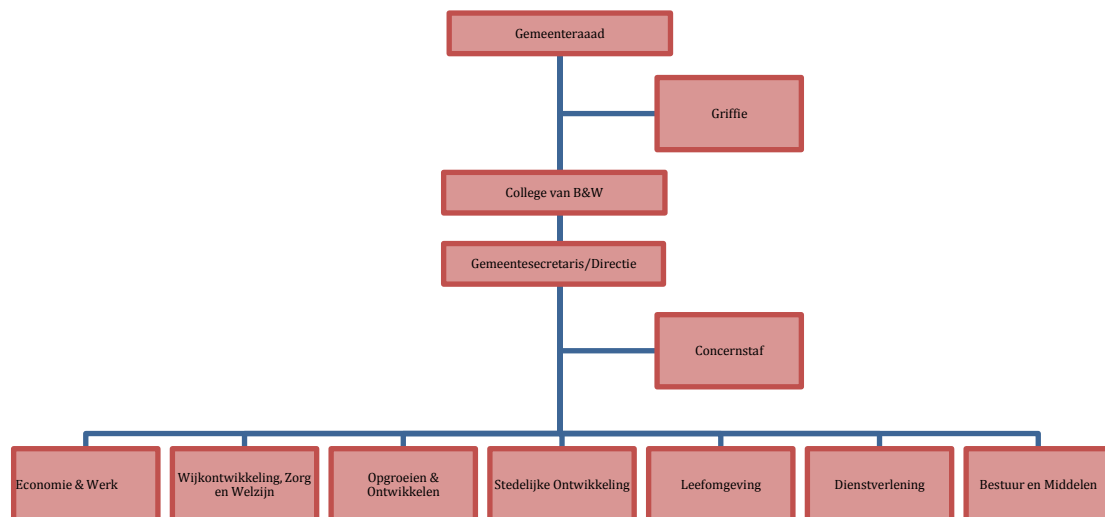


Figure 1: Organizational diagram of municipality Enschede (Gemeente Enschede, 2012)

The municipal organization of Enschede is designed according to the “Afdelingenmodel” from which is worked on municipality-wide policy and operational frameworks. The civil service of municipality Enschede consists of Concernstaf, management support body in which the overhead departments are situated (Bestuur en Middelen) and out of six programs:

- Economie en werk E&W
- Wijkontwikkeing, Zorg en Welzijn WZW
- Opgroeien en Ontwikkelen O&O
- Stedelijke ontwikkeling SO
- Leefomgeving LO
- Dienstverlening DV

The board of directors in which the general manager and the director of operations are situated controls the municipal organization. The board of directors is responsible for vision on the development of the municipality and derived from it the development of the civil service.

1.2 Financial organization

The BVV reorganization has balanced the financial organization of municipality Enschede in the triangle “Concernstaf, Financieel Diensten Centrum and the programs”. With balanced it is meant that financial jobs end up where they can best be exercised and in addition it is important to build sufficient checks and balances so that that triangle has sufficient strength and construction to keep each other in balance and at the same time reinforce each other. In figure 2 the financial triangle is presented.

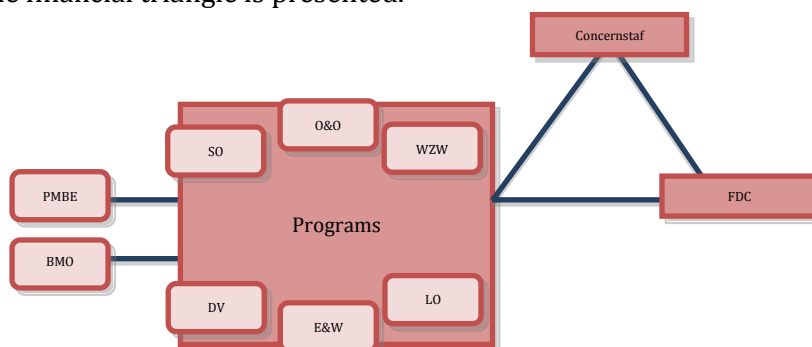


Figure 2: Financial organization of municipality Enschede

Concernstaf

The Concernstaf (CS) assists the board of directors in fulfilling their responsibilities. The board of directors is responsible for the development of vision for the municipality and derived from it, the development of the civil service. Furthermore, the board of directors is seen as the pivot point between the civil service and government. Within the CS the strategic power of the financial function is organized, this formulated strategy marks the main course for the organization in the long tenure. The CS also serves as principal for financial products that have to be made within the organization, like for example Concerncontrol, Integrated planning and control (IPC) products, Risk management and also Effectiveness studies initiated by the town council. For the various IPC-products, the CS in consultation with management and registry draws a schedule on main lines. The programs provide the major part of the content filling in all IPC-products; the CS remains responsible for the direction and analysis. To keep the communication lines short between the CS and the programs, each of the programs has within the CS a liaison officer that is responsible for advisory tasks.

Furthermore, the CS delegates responsibility to FDC for the creation process (Project leadership), preparation of the mandatory section and care for good quality statistical and financial composition and consolidation of IPC-products. For the municipal administrative organization, which is performed by FDC, the CS develops frameworks. The direct involvement of CS is bigger in the creation of political prone products like the “kadernota”; hence the project leadership remains with the CS considering strategical and financial interests. The financial testing of proposals of the executive board of a municipality by CS can be seen in the same light.

BMO

Bedrijfs- en Management Ondersteuning (BMO) is the internal shared service center of municipality Enschede. BMO is the advisory and support body of municipality Enschede where many supporting disciplines like Communication, Housing & Services, ICT, Finance and many more are centralized. BMO is not considered as a program however it has a comparable financial structure. BMO has likewise a director and a controller who is supported by a financial staff including planning and control employees housed in the staff office.

FDC

The Financieel Diensten Centrum (FDC) is the centralized financial organization of municipality Enschede and is a part of BMO. The FDC performs financial administration and financial advisory tasks municipality-wide and has uniformity and simplification as core strategic goal. The municipality-wide tasks performed by the FDC are accounts payable-receivable, ledger, planning and control and accounting services. By centralizing the FDC within BMO the distance to the programs and CS is increased and it is therefore essential and a major challenge for FDC to stay familiar with the internal customers and the business. To stay familiar with the internal customers, the FDC has Financial Administrative Employees (Fammers) that work part-time in the vicinity of programs. Each of the programs has a Fammer that helps them with operational tasks for instance the correct coding of administrative bookings and other administrative tasks. Besides Fammers, each of the programs has within FDC a liaison officer that is responsible for advisory tasks and keeps the communication lines short between the centralized FDC and the decentralized programs. On behalf of the FDC the liaison officer establishes involvement and “feeling” in the primary process and is the discussion and sparring partner in meetings with the programs on various IPC-products for example.

For virtually all financial products and researches FDC fills the role of contractor. The products include IPC-products, audits, treasury, provision of information in the field of business operations, financial administration and budget amendments from the programs. The starting point of all these activities are the frameworks provided by the CS as principal, in addition FDC manifests itself as guardian of these frameworks. FDC has within the framework and guidelines

the freedom to organize its advisory, facilitative and contractor role as they see fit, all in benefit of the primary process.

Programs

Each of the six programs has a program director which has an overall responsibility for the resources used. The director ensures that within its program the coordination of various IPC-products as well as budget amendments and encoding takes place. Each director is self-evidently responsible for its own program control; hence the tasks resulting from program control as well as financial advisory are organized within a control function and a financial staff that includes planning and control employees. Hence each of the programs has a program controller wherein some cases, a controller is responsible for two programs. Programs WZW and O&O have the same program controller and program DV and BMO have also a shared program controller. Other financial tasks like financial administration are centralized within FDC. The Programs can request FDC for support in respect of for example an audit to be carried out within the program or to deliver financial advise and support.

PMBE

Project Management Bureau Enschede (PMBE) is an internal full service municipality-wide operating agency specialized in providing professional all- round process and project management. Most of the projects performed by PMBE are in close co-operation with the program SO in which plan economists and engineers of the municipality are situated. Even though PMBE is not considered as a program, it has a comparable financial structure. PMBE has similarly a director and a controller who is supported by a financial staff including planning and control employees.

1.3 Financial formation

During the BVV reorganization municipality Enschede commissioned Capgemini Consulting (2010) to establish a plan for the concentration and formation of financial services housed all over the organization. The financial services were then divided in three categories:

- Activities that are relatively easy to categorize on the basis of the nature of the work.
- Activities that are possible to concentrate on the basis of the nature of the work. However these activities lie close to the primary process and therefore knowledge of the primary process is essential.
- Activities that do not qualify for concentration.

The above-mentioned activities can be categorized as follows:

- Activities involving handling purchase invoices (DAF-activities) and other operational chores involving financial administrative activities.
- Activities involving financial and administrative monitoring and controls. Planning and control activities of operational nature (preparing budget amendments and reports). Support activities that are not of financial administrative nature (formation management and time recording monitoring).
- Planning and control activities focusing on business unit analysis and or advise. Other activities such as primary process support and management.

To come to a weighted decision on which tasks to concentrate, a number of scenarios were elaborated and discussed in project teams. It emerged that the following clustering of functions is more obvious: Financial administrative, primary supportive, planning and control organization wide and planning and control program oriented. Consequently the premise is that the green and yellow tasks are concentrated on organizational level as much as possible. With as much as possible is meant that there can be exceptions in the tasks based on the content of the work.

Hence, the functions including financial administrative, primary supportive and planning and control organization wide are centralized within FDC. The program oriented planning and control activities are performed decentralized in the programs. For this particular partition is chosen because, from interviews with directors and supervisors has emerged that there is no foundation for complete centralization. It was argued that the connection of planning and control employees with the primary process of the internal customers is considered of paramount importance. Quality can only then be guaranteed. The need for physical proximity of planning and control staff is great and therefore this should be taken into account in the housing of staff.

The organizational structure of a typical program is presented in figure 3. The financial staff is housed locally in the staff office. The program director has overall responsibility for the implementation, employees and resources of the program and is supported by the program controller. The head of the staff office is responsible for staff management; furthermore the program controller is responsible for the integral control of the program and reports to the program director. Some of the programs have another organizational structure; figure 3 makes a distinction between the staff office and the program controller while there are programs in which this distinction is not visible and where the program controller is a part of the staff office.

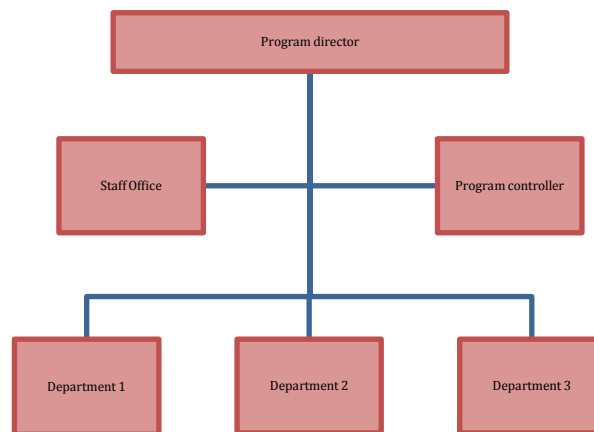


Figure 3: Organizational structure of a program

After the completion of the BVV restructuring, the municipality multiple times commissioned a research into the size of its public service by research bureau Berenschot, the most recent one carried out in 2014. The purpose of the research is providing insights into the volume of the municipal public service in comparison with other municipalities by benchmarking. More than 300 municipalities have participated to the benchmark of Berenschot and the “Kwaliteitsinstituut Nederlandse Gemeenten” has recertified the benchmark in 2010. The municipalities are compared to municipalities of the same size, municipality Enschede falls in the scale 100.000+ populations and is therefore compared with 17 other municipalities in the same scale.

Berenschot (2014) measured and benchmarked the size of the Finance & Control department of municipality Enschede by dividing the department into its main financial tasks:

- (Department) management
- Controlling/policymaking
- Planning and control
- AO/IC internal accountancy

- Salary administration
- Financial administration
- Treasury
- Insurances
- Regularity Audit
- Secretariat

From now on if this paper discusses tasks of the financial department, it is referred to these financial tasks.

The Finance & Control department benchmark expressed the size of the Finance & Control department as a percentage of total public service size. The workload of the department is always highly dependent on the total public service size of the municipality. Therefore this is a superior measure than the number of residents. The results are presented in table 1.

Total public service size							
1590 fte							
Finance & Control department in fte	Centralized		Decentralized		Total		Deviation from average
	Enschede	Average	Enschede	Average	Enschede	Average	
Managers/department-head	4,77	4,77	1,59	1,59	4,77	6,36	-25%
Controllers, policy makers	4,77	12,72	6,36	4,77	11,13	17,49	-36%
Planning and control	20,67	23,85	25,44	4,77	46,11	28,62	61%
AO/IC internal accountant	1,59	4,77	0	1,59	1,59	6,36	-75%
Salary administration	1,59	4,77	0	0	1,59	4,77	-67%
Financial administration	25,44	34,98	6,36	6,36	31,8	39,75	-20%
Treasury	1,59	1,59	0	0	1,59	1,59	0%
Insurances	1,59	1,59	0	0	1,59	1,59	0%
Regularity audit	4,77	1,59	0	0	4,77	1,59	200%
Secretariat	0	1,59	0	0	0	1,59	-100%
Total	65,19	92,22	39,75	19,08	104,94	109,71	-4%

Table 1: Formation benchmark of the F&C department (Berenschot, 2014)

The results show that the total public service size of municipality Enschede consists of 1590 fte in January 2014. The results show that the Finance & Control department has a total of 104,94 fte, which is 6,6% of the total public service size and is about 4,5% smaller than its peers in the same scale. The average group of municipalities has a total of 109,71 fte in the Finance and Control department, which is 6,9% of the total public service size. The results of table 1 show a striking difference in planning and control employees between municipality Enschede and the average group, municipality Enschede has a total number of 46,11 fte compared with the 28,62 fte of the average group. This is a deviation of 61% from the average group. A possible reason for this peculiarity can be found in the financial structure of municipality Enschede. As previously described, the planning and control task is both centralized and decentralized. Planning and control employees are situated in every department of the financial structure, in the CS, FDC, PMBE, BMO as well as the programs. As can be viewed from table 1, 55% of the planning and control employees of municipality Enschede are decentralized. Program directors and controllers gave preference to decentralized planning and control employees due to the needed familiarity with the primary processes. See chapter 2.3.2 for more elaboration on this subject.

On the other hand municipality Enschede has a 20% smaller financial administration department compared with the average group. A possible reason for this could be the centralization of financial tasks. Financial administration is centralized and performed by one organizational structure, FDC. According to van der Linde, Boessenkool and Jooste (2006) a shared service organization not only reduces costs but also head count. Another possible explanation for the difference in financial administration fte is that municipality Enschede also uses Klimopbanen and other social work employment constructions for the financial administration department, which are not counted as fte for the Finance & Control department. Figure 4 shows the proportion of the Finance & Control department that is

centralized/decentralized compared with the average group. Municipality Enschede has centralized 63% of the finance function compared with 84% of the average group. As elaborated in chapter 1.2, municipality Enschede has also decentralized a lot in the financial function. As can be viewed from figure 4, 37% of the finance function of municipality Enschede is decentralized compared with 16% of the average group. Table 1 shows that planning and control employees are much more decentralized positioned compared with the average group.

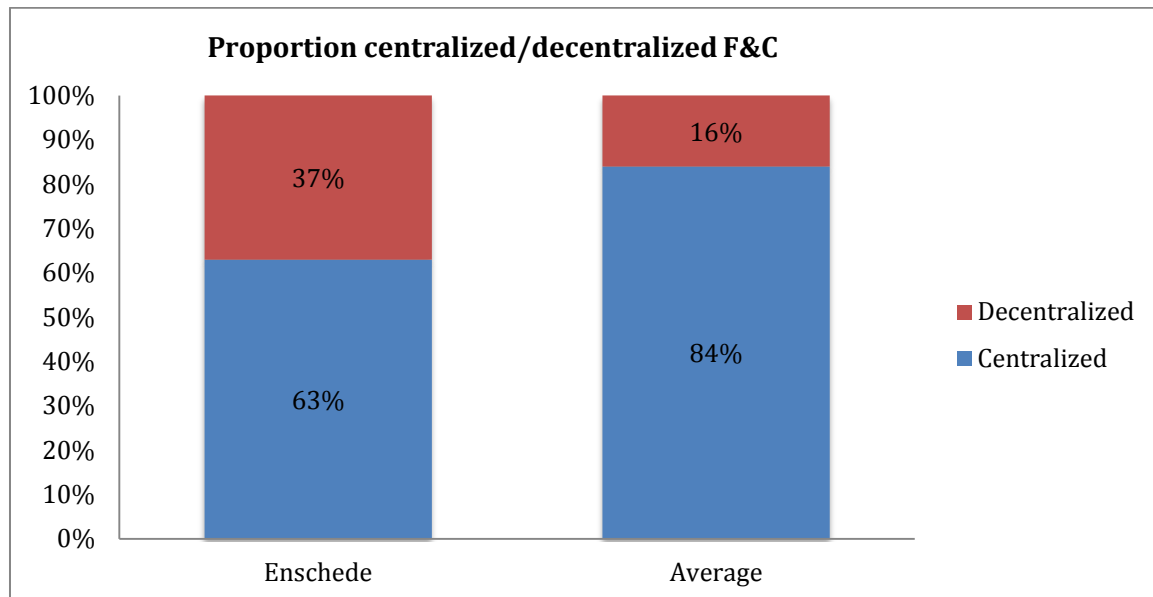


Figure 4: The proportion centralized/decentralized F&C department (Berenschot, 2014)

The benchmark of the Finance & Control department also measured the proportion of centralization of the Finance & Control department in relation with its total formation as a percentage of total public service size (Berenschot, 2014). The results are presented in figure 5.

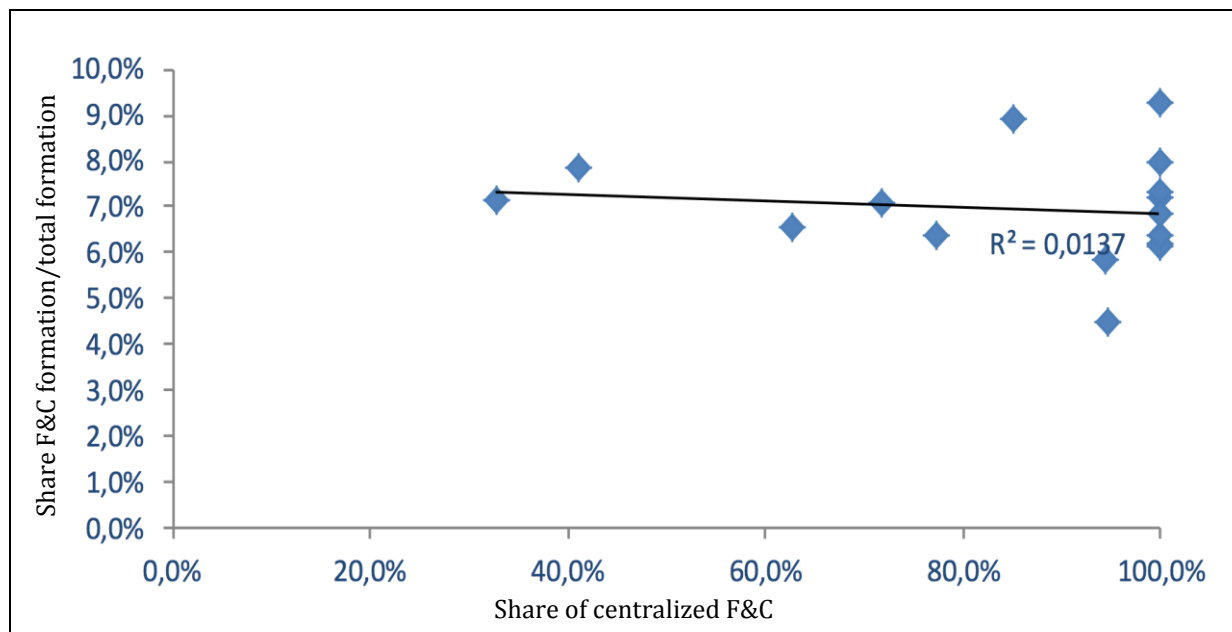


Figure 5: The relation between centralization and size of F&C department (Berenschot, 2014)

The results of figure 5 display that the size of the financial function hardly decreases as it is more centrally positioned. In other words, centralization does not always imply a decrease in fte's and therefore the argument for centralization should not be solely based on a reduction in fte's. On the other hand figure 5 indicates that municipalities which have 100% centralized their financial

function have a high spread in the share of Finance & Control department in relation with the total formation. This suggests that the ability to work with fewer fte's is much greater in a centralized financial function compared with a decentralized one.

This chapter introduced municipality Enschede and discussed the financial structure and financial formation. The following chapter will enlighten the problem statement and problem background and will provide the research goals and research questions. The coming chapter will also elaborate on the research methodology used in this paper.

2. Problem statement: The changing environment of municipalities

Chapter 1 introduced municipality Enschede and elaborated on the financial organization and formation. The purpose of this chapter is to explain the research origin. The first section will present the introduction, the second and third sections of this chapter elaborate on the problem background. The fourth section states the research goals, which are translated into research questions in the fifth section. The sixth section describes the research methodology and this chapter concludes with elaboration on the research design.

2.1 Introduction

As mentioned in the previous chapter, an extensive reorganization of tasks and employees occurred in the financial function in 2010. The aim of the reorganization project was to be a flexible organization that is capable of effectively focusing the energy on the social challenges and to be an organization, which has skills such as flexibility, results and cooperation high on the priority. The reorganization rearranged the financial function in the triangle CS, FDC, PMBE, BMO and the different Programs. Now more than two years later external and internal developments are rising which are changing the environment of municipalities, such as the changing role of the financial department, decentralizations of tasks previously performed by the central government, shrinking of the internal organization and inefficiencies in the current financial function. These developments insinuate the need to examine the current design of the financial function and compare it with other municipalities in order to identify how they handle the occurred problems.

2.2 Problem background: External developments

2.2.1 Changing role of the financial function

The role of the financial function has been on the move in recent years due to various developments within the municipalities, including addition of municipality tasks and substantial cuts on the financial resources (Van der Ploeg, 2005). The finance department was mainly focused on registering and processing data conforming to the *comptabiliteitsvoorschriften*. Furthermore, the financial department was also responsible for the administrative preparation of the yearly budget and budget changes. The financial department was situated more on the sidelines and was usually only involved in the final stage policy preparation. As mentioned before, the addition of municipality tasks and the cuts in financial resources, have led to the reexamination of role and tasks of the financial department. Financial management became a necessity since financial resources are becoming scarcer while the municipality tasks; policies and ambitions did not decrease (Van der Ploeg, 2005).

2.2.2 Decentralization of government tasks

The Dutch central government stated in the administrative agreement of 2011-2015 as a general objective to become a small and more flexible government. In order to overcome this challenge, a more compact and effective government is required. Therefore the central government has decided to decentralize certain tasks to the local governments. In 2014 and 2015 the local governments will become responsible for the *Awbz*, implementation of the *Participatiewet* and become responsible for the *Jeugdzorg*. The main principle of these decentralizations is that citizens are as much as possible supported and encouraged to participate in the society. The local governments are the most appropriate administrative level to achieve this principle and can provide efficiently and effectively the best possible help needed to the citizens. Since the municipalities are the governments closest to the citizens, they are the ideal administrative layer to respond quickly to situations that occur locally and can provide the needed care more effectively, cheaper and with less bureaucracy. The municipalities get the freedom and are responsible for the organization of the decentralizations. In addressing the social issues the municipalities will become one of the parties that can contribute to the solution and are no longer the solely defining party. The municipalities will have to work in coalition with citizens and social partners in the municipality and in the region to overcome the social issues. This means a permanent change in how municipalities operate and organize.

At the request of the Ministry of the Interior and Kingdom Relations (BZK) and the Association of Dutch Municipalities (VNG), the CPB explored the risks of the three decentralizations. The global gross costs associated with the tasks of the Jeugdzorg and the Participatiewet are according to the CPB 9 billion euros in 2015, the costs associated with the Awbz are not specified at the moment. The central government strives to reduce these costs stepwise with approximately 3,5 billion euros by decentralizing. These planned decentralization of tasks in the social domain mean for municipalities a hefty task expansion and an increase in expenditure. The total expenditure of Dutch municipalities in 2012 amounted to about 8½% of GDP, of which one third consisted of expenditures on social services. According to the CPB these expenditures will increase with two to three percent of GDP with the expansion of tasks. Furthermore, the CPB argued that the extra tasks could entail financial risks for individual municipalities by for example inadequate budget allocation models. The possibilities to deal with such setbacks are limited. Due to cuts in funding from the central government and the decentralization of tasks from central government to local authorities, municipality Enschede has to take measures to prevent large budget deficits. In 2015 municipality Enschede will receive about four million euros less from the central government and in 2017 the general realm discount increases to more than €11 million.

Hence, the decentralizations represent a major challenge for municipalities. Not only new tasks are arising, the financial cuts are also of substantial nature. The municipalities have to do more with less capital and should therefore organize everything very efficiently, consequently their own organization likewise.

2.3 Problem background: Internal developments

2.3.1 Shrinking of the internal organization: Compact and flexible organization

Municipality Enschede stands for an enormous task the next few years. The municipality wants and needs to be a compact and flexible organization. Compact means an organization that is smaller in size than the current organization and flexible means that employees become more versatile. With versatility is meant frequently changing working hours, workplace or function. It is even more important for employees to continue to develop in order to meet the changing demands of employment.

On the one hand, the municipality changes out of necessity. Financial cuttings by the central government and the effects of the economic crisis ensure for considerable savings and confirm that there is no capital to keep the current number of jobs in state. The government and thus the municipality have structurally less money to realize ambitions and for the provision of services. This means that municipalities should operate as efficient as possible. On the other hand, municipality Enschede changes from ambition. As a municipality, Enschede is facing major societal challenges that necessitate an increase in the flexibility of the organization because not only the society changes but also the role of the municipality changes. Compact and flexible are characteristics that fit well with the vision that a municipality is no longer the obvious party that accomplishes and finances demands from the society. Municipality Enschede has the ambition to work together more than in the past with citizens, businesses and partners and where possible to release or transfer tasks. The municipality explores partnerships with other municipalities in the region to create economies of scale and cost advantages. The market can also take over tasks of the municipality if they can be more efficient. For the tasks that the municipality continues to perform by itself reckons that it must be possible to quickly respond to financial uncertainties and setbacks. The work processes are redesigned according to the lean principle. This means that the processes are optimized which increases efficiency while decreasing the number of errors and the cost associated with it.

Subsequently, the civil service will shrink in the coming years by release and transfer of tasks and duties as well as by austerity and retrenchment. It is expected that the function of 200 to

300 employees will change, disappear or be executed by external parties at the end of 2014. Moreover, additional financial cuts for 2014 and 2015 lead to further reduction in personnel formation. The municipality imagines that in the course of 2015-2016 the personnel formation will shrink even further.

2.3.2 Inefficiencies and bottlenecks in the current financial organization

As mentioned in chapter 1.2, municipality Enschede centralized the financial administration task in the FDC. Interviews show that the current structure has inefficiencies and bottlenecks in terms of information flow. With information flow is meant how contact between suppliers and consumers of the information is organized. There are doublings experienced with the tasks of the FDC. The FDC for example makes a specification of a suspense account and submits it back to the program for verification while the program already verified it. The same happens for example in the budget amendment, the programs make the budget amendment ready and the FDC checks it before processing it in the system while the program already performed the final check, besides the program is ultimately responsible for errors. The interviews mention a possible reason for this; the FDC is at a distance from the programs and the primary processes and is not aware of the world behind the bills.

Interviews with controllers and planning and control employees indicate another inefficiency in the current financial structure. Municipality Enschede has on the one hand the FDC and on the other the CS, both have their duties and responsibilities in the IPC-cycle. In practice, this leads to confusion among program employees. If the programs have meetings on the IPC-products than they have people of both CS and FDC at the meeting table, both have their responsibilities and sometimes these overlap each other. For the programs often it is unclear whom they can contact if they have additional remarks or questions, considering that multiple employees of the FDC and the CS are involved in the process. There is not a common coordination point. For the programs it is sometimes not clear how the relationship between the two bodies is, in theory the FDC performs the role of contractor, with the CS as principle. Occasionally, the programs experience in practice that the roles overlap each other.

Another bottleneck expressed by the interviewees is that municipality Enschede has a heavy planning and control spread through the financial structure. Planning and control employees can be found throughout the financial function. As displayed in table 1, municipality Enschede has much more planning and control employees then comparable municipalities. FDC performs administration tasks as well as planning and control tasks, in addition there is planning and control in the six programs, in PMBE, in BMO and in the CS. Thus municipality Enschede has a firm control on for example if figures are correct or if all the decisions are processed, according to the interviewees. A possible reason for the high number of planning and control employees can be found in the financial structure of municipality Enschede. The CS draws a main line in the planning of IPC-products, the centralized FDC as contractor addresses this and constructs a uniform and organization wide planning and sends it to the decentralized financial parts, which in turn customize the uniform planning. This requires ultimately much more manpower and demands a lot of the planning and control employees.

The executive boards of municipalities Almelo, Hengelo, Enschede and Losser have commissioned a research to build an inter-organizational shared service center (IBO) that performs tasks by 2015. This concerns the tasks in the area of personnel, information, organization, finance, legal, IT, housing and communications. In the area of finance in first instance it is intended that the financial administration, currently performed by the FDC, be transferred to the new external organization. The financials express concern if the FDC operates at an even greater distance from the primary process. As elaborated above, there are inefficiencies in the information flow between the centralized FDC and the decentralized programs. If the tasks of the FDC are performed externally, how is the information flow organized between the parts that remain in the municipality? The FDC not only performs financial administrative tasks but also advisory task concerning planning and control, the

questions that rises is whether these tasks should also be performed by the new organization? Interviews reveal that support for this is low. The arguments mentioned are that the municipality loses grip if the advisory section is outsourced, another governing body will then decide allocation and priority over the employees. A new field of tension is created since the director of the IBO would control the employees and decide over the priorities, which could be different than the priorities established by the program directors.

2.4 Research goals

A set of goals is formulated based on the problem statement. These goals will act as guidelines during this research. The main goal of this research is to identify how and why other comparable municipalities have arranged their financial function in a certain way and come up with scientific grounded recommendations on how municipality Enschede can redevelop their financial function. If this goal is achieved, it is likely that municipality Enschede will have a financial function that is more future-proof, effective and efficient by minimalizing the inefficiencies and bottlenecks.

To achieve the main goal, the following four underlying sub-goals are formulated:

1. Determine which financial tasks other municipalities have centralized and how the information flow is arranged.

The first sub-goal is to get an extensive understanding on the subject of centralizing financial tasks in shared service centers and the reasoning behind it. If municipalities have centralized certain financial tasks that were heretofore decentralized, what are their findings? It is also interesting to identify how the municipalities arrange the information flow between the centralized and decentralized financial parts of the organization. With information flow is meant in what manner the contact between suppliers and customers is organized. By centralizing the distance between the primary processes and the supporting processes is enlarged, it is important to identify the methods used to keep the centralized processes still close to the primary processes. Interesting questions such as: which tasks are centralized and why? and how the information flow is arranged between the centralized and the decentralized tasks? should be answered.

2. Identify which financial tasks other municipalities have outsourced or are performed in inter-organizational shared service centers and how the information flow is arranged.

The second sub-goal is to find out how to arrange the organization of the financial function if certain financial tasks are performed externally either by partners or by external parties. If financial tasks are performed outside the internal organization, it is interesting to obtain knowledge about how the information flow is organized between financial task that are performed externally and task which are performed internally. If the municipalities are performing all of the financial tasks internally, it is interesting to determine their visions on outsourcing and or performing activities in partnerships.

3. Determine how other municipalities have arranged control throughout the financial function.

The third goal is to find out how a municipality should organize control in its financial function. Insights will be provided on how other municipalities have arranged control in their financial function. Furthermore, Literature will be reviewed to identify factors that determine the arrangement of control within an organization's financial function.

4. Identify and discuss which integration model for the financial function fits municipality Enschede best.

The fourth sub goal is to come up with actions that municipality Enschede should implement in order to redevelop the financial function. Comparing the financial functions of other municipalities underpinned with theoretical research, certain integration models for the

financial function will be identified. This will lead to potential areas of improvement. The potential areas of improvement will then be translated into recommendations and or actions.

Each of these sub-goals is translated into a research question and can be found in the following section.

2.5 Research questions

Based upon the formerly mentioned problem statement and research goals, the following main research question has been formulated:

- **In what way can municipality Enschede redevelop its current arrangement of the financial function?**

Based on the sub-goals, the following sub-research questions are formulated in order to answer the main research question. The sub-questions are:

1. *Which financial tasks do comparable municipalities centralize and how is the information flow organized?*
2. *Which financial tasks have other municipalities outsourced or are performed in inter-organizational shared service centers and how is the information flow organized?*
3. *In which way have other municipalities organized control throughout their financial function?*
4. *Which integration model for the financial function fits municipality Enschede best?*

2.6 Research methodology: Qualitative case study supported by literature review

In order to find answers to the research questions, case study as a research method supported by literature review has been chosen. Since in literature challenges and possible bottlenecks are not always backed up by empirical evidence, the literature review will be supported by case study evidence (Borman, 2010). A case study method is ideal for finding an answer to the research questions since the essence of a case study, the central tendency among all types of case studies, is that it tries to illuminate a decision or set of decisions: why are or why they were taken, how they were implemented and with what result (Schramm, 1971). Case study research is particularly useful in business studies when the phenomenon under investigation is difficult to study outside its natural setting and also when the concepts and variables under study are difficult to quantify (Ghauri & Grønhaug, 2010).

Yin (2008) elaborates that case studies can be performed and even be limited to quantitative or purely qualitative data, in fact any contrasts between quantitative and qualitative evidence does not distinguish the various research methods. This study mainly uses qualitative evidence. It is qualitative since this study concerns an empirical research and examination and interpretation of interviews, meetings, documents/record reviews and observations in the field. Information from interviews provides the primary data for this research. Since most multiple-case designs are stronger than single-case designs and the evidence from multiple cases is often considered more compelling, this study uses multiple cases to address the research questions (Yin, 2008; Herriott & Firestone, 1983). The case study subjects are municipalities Amersfoort, Enschede, Hengelo, Nijmegen, Tilburg and Zoetermeer. Case studies with multiple case study subjects are often stated as comparative case studies, in which the same research questions are studied and compared with each other to draw conclusions.

Even though case studies can have multiple purposes such as descriptive, exploratory and explanatory, the main purpose of this research is of descriptive nature (Yin, 2008; Gerring, 2004; Babbie, 2010). According to Gerring (2004) there is a methodological affinity between a descriptive research orientation and a case study method, the case study format seems less problematic and is often highly informative, furthermore many of the most famous case studies

in anthropology, political science and sociology are primarily of descriptive nature. Many qualitative studies aim primarily at describing situations and events (Babbie, 2010).

The case study will be supported by a literature study in the field of organizing control and how to organize a shared service center as well as the challenges associated with it. As reported by Yin (2008) case study research method effectively forces and requires a preliminary literature study related to the topic prior to the conduct of any data collection. In this study an extensive literature search is performed using backward and forward searching on references (Levy & Ellis, 2006).

2.6.1 Data collection

Case study evidence can come from many sources, such as (internal) documentation, observations, literature and interviews (Yin, 2008; Hartley, 2004). The overriding principle to any data collection effort in case study is the use of multiple sources of evidence, a major strength of case study data collection is the possibility of using multiple sources of evidence (Yin, 2008). Therefore, different sources of evidence will be used to answer the research questions, which fulfills the chain of evidence call of Yin (2008) in order to increase the reliability of the information in a case study.

Besides literature, the first source of evidence used is numerous internal documents such as advisory of the works council, internal notes and policies, annual reports, external reports and the intranet. According to Yin (2008) the use of internal documents has many advantages such as; internal documents are stable and can be reviewed repeatedly, internal documents are unobtrusive since they are not created as a result of the case study and internal documents have a broad coverage. Therefore, internal documents have an overall value and play an important role in this research.

The second source of evidence used is interviews and meetings held with employees who are involved in the financial function or are in the top management. Interviews are the primary data collection technique in qualitative research methodologies (Cooper & Schindler, 2011). Interviews are particularly an important source in this study since they are the ideal method to find out visional insights and opinions behind arranging the financial function in a certain manner. The qualitative interviews will be guided conversations and no standard set of structured queries will be used. A qualitative interview is an interaction between an interviewer and a respondent in which the interviewer had a general plan of inquiry, including the topics to be covered but not a set of questions that must be asked with particular words or order (Yin, 2008; Babbie, 2010). See appendix A for an overview of interviewed employees.

2.7 Research design

This section elaborates on the methodology used to answer each sub-question and summarizes the methodology in a research diagram that can be found in figure 6.

The first three sub-questions will be answered by conducting interviews with employees of municipalities Amersfoort, Hengelo, Nijmegen, Tilburg and Zoetermeer to find an answer for the particular sub-question. Municipalities Amersfoort, Nijmegen and Zoetermeer are selected since they have about the same number of residents as municipality Enschede and are therefore very comparable. Municipality Hengelo is smaller in size and has fewer residents compared with municipality Enschede but is selected due to current and possible future cooperation's. Municipality Tilburg has much more residents than municipality Enschede but also has as textile history, furthermore it is interesting to investigate how a big municipality has arranged its financial function.

The answer to the first three sub-questions is not only limited to interviews but also requires internal documents review and a literature review on the notion of shared service centers and on how to organize the information flow between internal shared service centers and

decentralized departments, how to organize information flow between inter-organizational shared service centers and internal performed primary processes and how to organize control throughout the financial function.

The final sub-question will compare the theoretical framework gained by the literature review and the insights identified through case study research performed at other municipalities with the current arrangement of the financial function at municipality Enschede. This should lead to actions and recommendations in order to redevelop the current financial function and minimize the potential inefficiencies/bottlenecks. Figure 6 summarizes the methodology in a diagram.

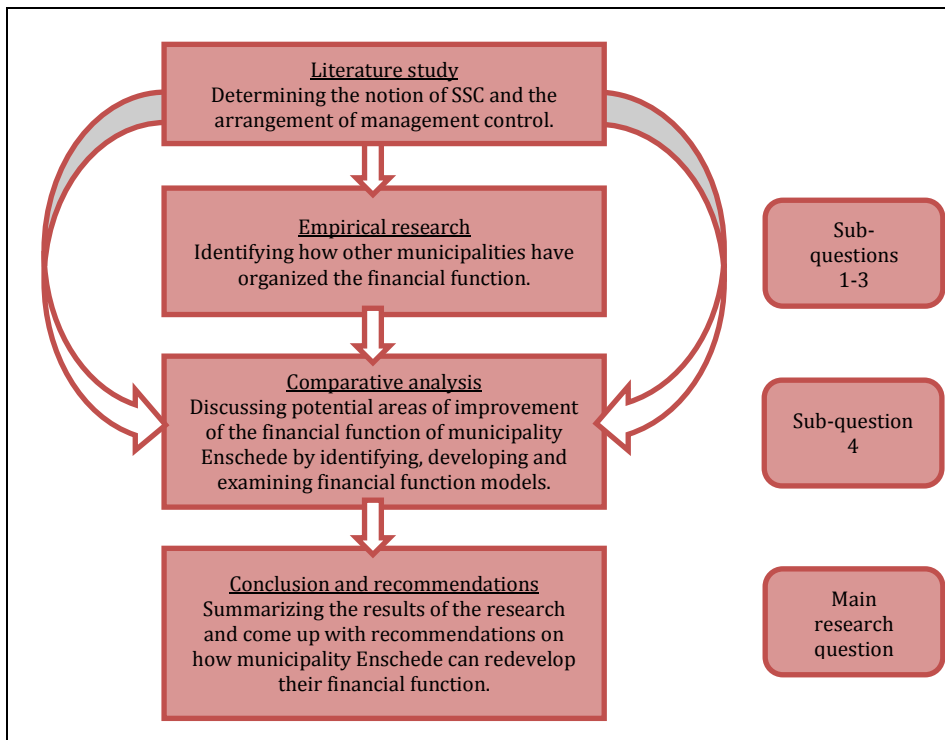


Figure 6: Research diagram

This chapter elaborated on the methodological part of this paper by explaining the problem statement and problem background. This chapter also presented the research questions and research design. The following chapter will present an extensive literature overview.

3. Literature review

In the following section literature will be reviewed on the concept of shared service center and how to effectively overcome the challenges associated with effectively managing a shared service center. A literature overview on the subject of arranging control will be presented in section 3.2.

3.1 Introducing Shared Service Centers

Whether to centralize or to decentralize departments and services is becoming an important subject of debate in public administration. A shared Service Center (SSC) is becoming a widely used method in public administration as a mean to innovate, to reduce cost and to increase the service levels (Janssen, 2005b). Implementation of a SSC is not easy as it often requires several trade-offs and an effective management structure (Janssen, 2005a). In the following section literature will be reviewed to introduce SSCs and the motives for establishing a SSC. As mentioned by Blake (2005) a SSC is essentially a business unit or organizational entity within an organization that provides specialized, value added services across the entire organization. Governments are increasingly establishing shared service organizations in order to consolidate and deliver services to their customer. With SSCs, traditionally separately executed activities are being brought together in one organizational entity with ICT as an important enabler (Swagerman & van Steenis, 1998).

Bergeron (2003) describes SSCs as a particular kind of sourcing arrangement with having a long-term strategic impact. According to the author, a SSC is a mutual strategy in which business functions are concentrated in to a new business unit to promote efficiency, value generation, cost savings and improved service for the internal stakeholders of the organization. Janssen and Joha (2006) describe SSC as a separate unit within an (inter) organizational entity that is used to bundle activities and provide services to the operational units within the (inter) organizational entity. When focusing on the kind of services delivered by the SSC, two types of SSCs can be distinguished, a SSC that deliver services for transaction-oriented processes and a SSC that provides complex, knowledge-based processes.

In line with the theory of the value center, a SSC can have four sources of value categorized on their purpose and risk propensity (Strikwerda, 2003).

Purpose	Business Capability	Service Center	Investment Center
	Operational Efficiency	Cost Center	Profit Center
		Minimize Risk	Maximize Opportunity
		Risk Propensity	

Table 2: The four independent sources of value of SSC (Strikwerda, 2003).

Table 2 presents the four sources of value; the cost center has an operational focus and minimizes risk with focusing on operational efficiency. The service center aims to create a business capability while minimizing risk. An investment center has a long-term focus and aims at maximizing opportunity with focusing on business capabilities. Finally, the profit center is devised to realize incremental revenue in order to maximize opportunity.

According to Janssen and Joha (2006) a SSC is especially suitable for public administrations as in practice each internal stakeholder within a municipality tends to develop and maintain its own systems and services. Strikwerda (2003) discusses that in public administration the SSC and the supporting stakeholders are part of the same organizational entity and therefore the SSC can be viewed as a complete internal arrangement. A SSC can conforming to Strikwerda (2003) be a department within a department providing services to other departments and or a joint venture between municipalities providing services, the former is called an intra-organizational SSC and the latter is termed as an inter-organizational SSC. A SSC arrangement differs from outsourcing since a SSC is positioned closer to the customers and the customers do have a higher degree of ownership over the service delivery (Janssen & Joha, 2006). Willcock and Kern (1998) describe

outsourcing as the contracting out of organizational functions to a third party vendor and describe outsourcing as arrangements addressing the relationship between one client having one or more external vendors, while a SSC arrangement addresses the relationship between many in internal client and one internal vendor belonging to the same organization.

According to Swagerman and van Steenis (1998) the finance function is one of the most resource consuming supporting function within organizations since it is not exceptional for the cost of finance function to add up to 1.5 percent of total revenue. Hence, this makes the finance function potentially one of the most rewarding departments for the SSC. One of the most used SSC concepts for the finance department is the so-called Accounting House (AH) in which general processing activities are centralized. In an AH organization-generic routine activities and services are performed directed towards efficiency and quality enhancement (Swagerman & van Steenis, 1998).

3.1.1 Motives for establishing Shared Service Centers

The SSC model captures the benefit of centralized arrangements; the basic idea behind establishing a SSC is that services provided by one local department can be provided to others with relatively few efforts (Bergeron, 2003). Centralization of activities is characterized by economies of scale and scope since procurement of assets and services is possible within the organization (Hodgkinson, 1996). Bauer (2003) elaborated that centralized activities eliminate redundant functions and provide clarity about strategic alignment with an overall organizational improvement due to a simpler organizational structure. A SSC reduces costs through process standardizations and by preventing process duplication (Davenport, 2005).

The top reasons for establishing a SSC arrangement for the finance and control department are reduction in administrative costs, synergy, grouping of similar tasks, improvement of service and quality, reduce headcount and salary/wages and standardization of services (Bangemann, 2005). By transferring many administrative and transaction-oriented tasks into a SSC, retained functions can take on a more strategic role and focus on more value adding tasks (Quinn, Cooke & Kris, 2000). In the case of finance and control department the retained function can focus on strategy issues, whilst the transaction-oriented tasks such as general accounting, accounts payable- receivable can be carried out in the SSC (Cecil, 2000). CFO Research Services and Cap Gemini Ernst & Young (2002) conducted a study on the progress that large companies in the United States have made in the development of their finance function, the results showed that financial managers improved their finance function by centralizing processes in SSCs. The main advantages realized by centralizing are cost reduction through reduction in staffing and the realization of standardization and centralization of processes. The finance function can be more efficient by realizing economies of scale in SSCs; the role of SSCs in the finance function is expanding by including higher value services such as reporting and analysis through investment in technology and skills development (Cima, 2009).

Janssen and Joha (2006) analyzed which benefits can and cannot be obtained using a SSC with a case study research method in public administration in the Netherlands. They found that motives like an increase in productivity, lower control and synergy are not achieved after establishing a SSC. Interviews show that even though some of the motives were not accomplished, the case study firm did not feel that the SSC failed since other accomplished motives seem to compensate the non-accomplished ones. The motives achieved after setting up a SSC are standardized functionality and processes, higher information security and authorization, higher cost-predictability and reduction of overcapacity.

3.1.2 Challenges of Shared Service Centers

The management of shared services is a complicated endeavor since parts of the processes and activities are executed at the centralized SSC level and parts are executed at the decentralized local level. Hence, there is required interdependency between centralized and decentralized

activities and processes that add complexity to managing the relationship (Janssen & Joha, 2004).

Van Helden et al. (1997) mention two factors that add complexity to the relationship between centralized and decentralized activities. According to the authors many non-profit organizations are adopting the structure of business units, which corresponds in the case of municipalities to the “Afdelingenmodel” mentioned in chapter 1. A unit manager that is fully responsible for the results and the means to be employed leads the business units. If the issue of control of the business units is neglected, it can put great strain on the relationship with the centralized unit and on even the entire organization. The second factor that adds complexity is the failure to realize synergies. The fixation of the unit manager on its own business unit blocks the potential added value that the total could reach. Many SSCs experience a tension between uniformity and customization in their service delivery. Customer satisfaction is achieved by delivering customized products and services that meet the specific needs of the client, at the same time the SSCs try to achieve uniformity in product and service delivery in order to accomplish economies of scale. Leenders & Johnson (2000) mention also several challenges such as lack of business unit requirements, increased distance from users and the lack of environmental adaption. Another disadvantage of SSC's or in other words advantage of the decentralized structure is that decentralization offers business units autonomy and control over key functional activities, which leads to improved understanding of the local needs and therefore higher quality of advisory due to more situational-specific understanding (Leenders & Johnson, 2000). Keuning and Eppink (1990) agree and sketch that a major advantage of staff office structure (decentralization) is that it improves the quality of decision making by specialized advisory, which ultimately saves time for line management. Leenders and Johnson (2000) also mention that a decentralized structure has a higher speed of response, but the authors also agree that some level of centralization is required to benefit from the advantages of decentralization and therefore suggest a hybrid organizational structure.

The hybrid organizational structure permits the benefits of both centralization and decentralization and is mainly used by large organizations. Karré and Ribeiro (2005) claim that the hybrid organizational form is largely present in the Dutch public sector and with success. The authors identified several advantages of the hybrid model through a case study in the Dutch public sector, increased professionalism and a higher speed of change is experienced due to the hybrid model. On the other hand since none of the organizational models are perfect, several challenges associated with the hybrid model should be kept in mind when applying the model. As mentioned by Keuning and Eppink (1990) the decentralized business units (staff offices) could act in the responsibilities of the line management which can cause vagueness and competence friction between line and decentralized units. Furthermore, tensions can arise between the desires of the central unit to coordinate, control and standardize processes and the desire for autonomy and freedom from the decentralized units. These tensions can have negative impact on the functioning and perception of staff units (Kloosterboer & Sterk, 1996).

Furthermore, the challenges of an SSC can be based on four theoretical perspectives embedded in different academic disciplines as reported by Ulrich and Barney (1984) and Grant (1996). The challenges based on the four perspectives are: resource dependence, transaction cost theory and agency/stakeholder theory.

Resource dependence

Pfeffer and Salancik (1978) base the resource dependence theory on the assumption that organizations depend on others and on their internal organization to provide the needed resources in order to maximize their power. Applying the resource dependence theory on the SSC, a struggle for resources and resistance from organizational units can be expected due to a loss of power in the case of establishing a SSC. With the establishment of SSC organizational units are forced to share resources (Knol, Janssen & Sol, 2013). According to Knol et al. (2013) a

power struggle and resistance from stakeholders is recognized, since the creation of SSC demands a new distribution of power. Difficulties can arise in accepting new roles and damages the autonomy of line managers since they are losing human resources or have to share human resources with a new partner. A struggle for the SSC themselves can also be expected since they require and need to maintain human resources with exceptional skills in communication and customer orientation in order to be successful.

Transaction cost theory

The rationale behind sourcing or centralizing is the transaction cost theory of Williamson (1981) and Coase (1937). The theory suggests that organizations aim to reduce their transaction costs and production costs by sourcing or centralizing decisions. Several authors mention standardization as a key factor for SSC in order to be successful (Miskon, Bandara, Gable & Fieft, 2011; Knol et al., 2013). In order to minimize transaction costs standardization challenges arise for the SSC, they are multiple levels of standardization available. Standardization of processes, IT standardization and standardization of human resources. The SSC tends to standardize for example the processes that are dispersed across the organization but might not succeed in satisfying every stakeholder. Several stakeholders that had operated autonomously may resist agreeing to a standardized approach and try to preserve processes specific to their own needs (McIvor, McCracken & McHugh, 2011). It might also be difficult for a SSC to actually achieve the cost reduction since the reality might prove to be different (Strikwerda, 2003). The transaction cost theory can also provide explanation why not many municipalities outsource and/or perform activities in inter-organizational SSC's. Budding, Gradus and Schoute (2014) investigated 400 municipalities in the Netherlands and found that when an activity is associated with higher initial investment costs and when the quality and quantity are difficult to measure, fewer municipalities choose to outsource and/or perform activities in inter-organizational SSC's.

Agency theory

The success of SSC is largely dependent on customer satisfaction, which means that products and services produced by the SSC should not only be of good quality, but should essentially meet customer needs. The SSC should be well aware and understand the needs of the customer. Eisenhardt's (1989) agency theory discusses the relationship between the SSC as an agent and the decentralized organizational units as a principal or stakeholder. According to Eisenhardt (1989) both the agents and principals can have different goals and preferences. The agency theory has a strong link with the stakeholder theory of Freeman (1984) and views the organization as having several stakeholders with their own interests and goals. The SSC should in consonance with these theories look after all the agents/stakeholders, which might be difficult to achieve since organizations do not respond to each stakeholder individually. Organizations rather respond to the interaction of influences from all the stakeholders combined (Rowley, 1997). Looking at the principal-agent relationship, trust, commitment and power are important factors (Janssen & Wagenaar, 2004). The principals might experience a loss of authority and responsibility, especially when trust in the SSC is low. A possible reason for low trust in the SSC experienced by the principals is that SSC operates at a distance to its clients. Case study literature in public management in the Netherlands mentions this as a SSC challenge (Knol et al., 2013).

As elaborated above a successful SSC should address different challenges, primarily dealing with control and synergy, resource dependency/power struggle and Agency theory.

3.1.3 Overcoming the challenges of Shared Service Centers

To overcome the control and synergy challenge mentioned by van Helden et al. (1997), the authors mention the development of integrated performance measurement. The transformation to business units creates the need for integrated tools. In the field of management reporting the need for integral management reporting arises. The traditional financial reporting is supplemented by a report of non-financial performance indicators. This integrated reporting is more in line with the concept of business unit management. It has the ability to monitor the

business units on different objectives and thus contribute to a more effective control and achieving synergy. However, a practical problem that rises is that the overall performance is veiled by the multitude and variety of performance criteria that makes comparison of business units impossible. According to van Helden et al. (1997) it is recommended to translate the different performance indicators to an overall-performance-score, which is called the integrated performance measurement (IPM). The core of IPM is the development of one figure that expresses the overall performance of a business unit.

Furthermore, several studies in the management of SSC indicate communication as a major determining factor whether a SSC is successful or not and to maintain a healthy link with the decentralized organizational parts and ultimately overcoming the challenges of SSCs (Janssen & Joha, 2004; Janssen & Wagenaar, 2004; van der Linde, Boessenkool & Jooste, 2006). Communication is critical towards the business units that are the internal customers of the SSC and towards the members of SSC; therefore SSC should design two sets of communication arrangements that still convey the same information. Besides the formal methods of communication, informal communication is of even importance. Shared activities between the SSC and its customers such as having collective drinks and activities encourage transparency and openness and decrease the barriers. There is a large need to stay close to the customer and therefore the SSC should establish groups consisting of internal customers and the SSC in order to ensure a close relationship. Another method to ensure a close relationship is to establish an account manager function that is responsible for user satisfaction and regular meets to discuss improvement opportunities.

Van der Linde et al. (2006) discuss that the SSC should establish internal performance management techniques and clarify goals to all of the SSC employees. Janssen and Wagenaar (2004) mention regular performance benchmarks with other similar organizations as performance measurement. A third party should perform the benchmarks and the results should be shared among all of the stakeholders as a communication strategy.

Another key factor in order to overcome the challenges of a SSC are the human resources. They will make or break a SSC and therefore the “right” employees should be selected (van der Linde et al., 2006). The desired employees have the ability to easily adapt to new environments, are goal driven, customer focused and service oriented. In order to remain in close contact with the internal customers, the employees should regularly rotate their function between the SSC and its internal customers.

3.1.4 Establishing Inter-organizational shared service center

In the previous section the concept and challenges of SSC are introduced, in this section the inter-organizational SSC will be explored. Many of the concepts elaborated in the previous section are in greater or lesser extent applicable in the case of inter-organizational SSC, but since the executive boards of municipalities Almelo, Enschede and Losser are investigating the possibility to join their operational management activities on a regional level in an inter-organizational SSC (IBO) beginning from January 2015, this chapter explores the concept of inter-organizational SSC. According to Strikwerda (2003) one can draw a parallel with organizations in the for-profit sector. The inter-organizational SSC arrangement is similar to partnerships between (sister) companies, in which a certain, whether a new jointly established company or an already existing company, agrees to deliver certain products/services for a predetermined financial compensation.

Challenges of inter-organizational shared service center

Additional challenges associated with the establishment of inter-organizational SSC compared with the intra-organizational one lay in the area of management and responsibilities. Since intra-organizational SSCs are shared services within a group or organization, the business units have separate contracts with the SSC and there is an overarching governance structure that is ultimately responsible for the whole. Therefore management and responsibilities are relatively easy to arrange (Korsten, Schaepkens & Sonneschein, 2004). In the case of inter-organizational

SSC the situation is fundamentally different. If several independent municipalities share services through a SSC, the question arises to who the shared service manager is accountable. As stated by Korsten et al. (2004) a coordinating body is needed in which the manager of the SSC gives account concerning operational management, in which interests can be balanced against each other and where proposals are developed for strategic management and investment of the SSC. This type of organization is presented in figure 7. Another challenge of (inter-organizational) SSCs is the existence of different cultures, the existence of different cultures in a SSC and largely in an inter-organizational SSC is because they are simultaneously dependent on all their external relations and culture and cannot permit them selves not value one or another, the same applies for hybrid organizational models in which different models exist at the same time in one organization (Karré & Ribeiro, 2005). Karré & Ribeiro (2005) also mention role conflicts as a challenge of inter-organizational SSC's. The role conflicts can arise for member of the supervisory board of the inter-organizational SSC; these members are either local politicians or civil servants who are appointed to guard their municipalities' interests. They are also appointed to guard the interests of the inter-organizational SSC; this could put tension on their loyalty.

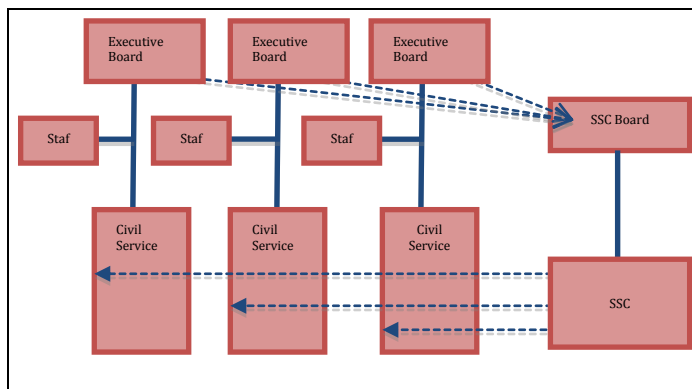


Figure 7: Example of an inter-organizational SSC (korsten et al., 2004)

Overcoming the challenges of inter-organizational shared service centers

According to Korsten et al. (2004) municipalities find a solution for the accountability of management and responsibilities by placing the SSC into a separate entity. The most obvious legal type for the SSC is the Wgr. Since 1984 the Wet gemeenschappelijke regelingen (Wgr) regulates the cooperation between municipalities, provinces and water boards to work closely together on selected institutional areas. The Wgr law offers the collaborating governments the opportunity to transfer the power of regulation and administration (by mandate, etc.) to the new established body. In order to overcome the management accountability and responsibility challenges mentioned by Korsten et al. (2004) and Strikwerda (2003), municipality Enschede and the joining municipalities chose for a similar structure as presented in figure 7 for establishing the IBO. The executive boards of the participating municipalities form the SSC board and function as the meeting of owners. The municipal secretaries/directors form the collective board of network directors in the IBO. The IBO management is governed under the board of network directors and performs the role of contractor. The boards of network directors also ensure the connection of services provided by the IBO with the primary process of the municipalities that are performed locally. To overcome the challenge of role conflict mentioned by Karré & Ribeiro (2005), the authors suggest that local politicians can solve this challenge by choosing to appoint experts as members of the board of supervisors instead of serving as board supervisors themselves. This way they can prevent to take decisions that are perhaps favorable to the inter-organizational SSC and not to their municipality.

3.2 Management control

In this chapter a theoretical framework for analyzing the control function will be reviewed. Therefore it is necessary to have an idea what control actually is and why it is needed. This study examines public control, public means not-for-profit sector. This does not mean that only literature from the public sector will be reviewed, on the contrary, most of the literature on the subject of control is from the for-profit sector. Due to the New Public Management (NPM) many theories and techniques from the private sector are being applied to the public sector.

3.2.1 The concept of management control

Van Helden et al. (1997) define rationality, systematic approach and learning behavior as the essential elements of management control. Every management of an organization is considered to choose such instruments and methods that their deployment is expected to contribute to the realization of the objectives. This implies a systematic approach and rationality. Rationality means that actions on choosing tools and resources are motivated by considerations associated with the objectives, the objectives lead to actions. Systematic approach implies that managers use orderly procedures in preparing and implementing actions. Confronting the planned outcomes with the realized outcomes activates the learning behavior; the outcomes can then be adjusted on basis of this confrontation. This corresponds to the widely used plan-do-check-adjust cycle of Deming (1994).

According to Groot and van Helden (2012) many operational problems in commercial and non-commercial organizations are due to poor control of operations. They define management control as all decisions, structures and procedures that are aimed at effectively and efficiently achieving the predetermined objectives. With efficiency defined as the ratio between the use of resources (input) and products (output), and effectively defined as the relationship between the products (output) and the thereby achieved effects. There are many different types of control systems; Merchant and van der Stede (2011) make a general distinction between management control, operational control and strategic control. Operational control refers to specific implementation guidelines that lead to direct production results in the workplace. Management control on the other hand is considered part of the control system that is the link between planning and the operational control system. The strategic control system aims to ensure that the already chosen strategy is still valid, if not, the system determines how the strategy should be changed to the circumstances. Each of the mentioned control systems has in common that they are engaged with influencing the behavior of the organization in order to efficiently and effectively achieve the organizational goals. Therefore this study does not make a distinction between the control systems and combines them in the term management control.

3.2.2 The need for management control

Every organization is being kept on track by management control systems. If the organizational behavior does not match the organization's objective, management control problems arise. The management control problems are caused by four conditions (Merchant & van der Stede, 2011; van Helden et al., 1997).

- *Indistinctness and ambiguity concerning organizational objectives.* Sometimes it is not clear what the organization expects from its employees. This can occur when work, internal organization and or strategy of the organization changes.
- *Incongruent goals.* Personal objectives often not match organizational goals and can lead to behaviors that have adverse effects on the organization.
- *Organizational restrictions.* The method of decision-making, the structure of organizations and the design of work processes can impede employees from an efficient and effective task performance.
- *Incompetence and insufficient knowledge.* Besides organizational limitations, individuals may also have limitations that prevent a person to perform a specific task.

Control problems can prevent an organization to efficiently and effectively realize the predetermined goals. Hence, the existence of control problems justifies the use of management control.

3.2.3 Controlling in a municipality

Within municipalities the controller has widely made his inaugural. This officer is a heavy function at the level of leadership and is mainly responsible for the financial, operational and managerial policies and the related management information systems (van Helden et al., 1997). According to Schäffer, Weber and Prenzler (2001) a controller has two main goals: disburdening management and enhancing management. The controller disburdens the management by providing some specific organizational services, which create a condition for rational management. They as financial specialists thus relieve the overall management of financial and economic tasks. They support the efficiency of operations and support the establishment of rational management. By providing these activities, a controller has a vertical relationship with the management. The controller enhances the management by acting as a sparring partner and advisor to the management. In this case the controller maintains a horizontal relationship with the management. The controller focuses on control and optimization of internal business processes in order to increase cost optimization, efficiency and effectiveness of actions and is supported by planning and control employees (van Helden et al., 1997). Planning and control comprises four core related steps that are of interest. These are coordinating, managing, justifying and controlling (van der Ploeg, 2005).

A large municipality has a controller at the central level (concern-controller) and a controller at the decentralize level (program-controller). Van Helden et al. (1997) categorize the concern-controller as controller who is responsible for the correct design and correct functioning of the entire financial and economic policy of the municipality. He is responsible for the design and the smooth operation of the planning and control cycle of the municipality and is responsible for the results of all programs both in budget and in interim reports. The concern-controller proposes reliable financial reports for the executive board of a municipality and advises the board on general financial and economic subjects.

Large municipal organizations sometimes choose in terms of efficiency for the decentralization of certain financial responsibilities to departments/programs (van der Ploeg, 2005). The work carried out by a staff office is of financial and managerial nature. As mentioned above, controllers and planning and control employees are often placed in the staff office. Smaller municipal organizations often not establish staff offices and prefer in terms of efficiency for centralization.

3.2.4 Arrangement of Control

The role of the controller

One determining factor in the arrangement of control is the desired role of a controller. As mentioned in the previous section a controller has two main goals: enhancement of management and disburdening of management. These controller goals of Schäffer et al. (2001) can be coupled to the controller responsibilities mentioned by Sathe (1983). In the enhancement of management goal, the controller is responsible for supporting the management-team in the business decision-making process. In the disburdening of management goal, the controller is responsible for the reporting of accurate financial information and practices internal control at the business unit level or concern level (Sathe, 1983). Subsequently, the two goals and the associated controller responsibilities divide the controller in obtaining four ideal type roles: involved controller, independent controller, split controller and strong controller (Sathe, 1983). If the organization lays most emphasis on the enhancement of management role then the ideal role for the controller is the involved controller. In this role the controller is actively involved in the business decision taking process and has low emphasis on the financial reporting and internal control responsibilities. If the organization puts high emphasis on the controller's disburdening of management goal, the controller should ideally adapt the independent controller role. In the split controller role the organization puts equal emphasis on the two main controller goals and therefore divide the roles between controllers, with each having a different goal and responsibility. In the last role, the role of strong controller both of the controller responsibilities are retained in one individual and strong emphasis is place on both.

The research of Burns and Baldvinsdottir (2005) suggests another possible controller role, a hybrid controller. This controller carries out both advisory and audit work (enhancement and disburdening of management). The specific circumstances of the organization determine which role is filled at which time, thus not a strong controller in which both aspects are always important at a time. A hybrid controller has a situational interpretation of his role. But what determines whether controllers have a greater emphasis on the advisory or on independency role? As reported by Cima (2009) the financial crisis of 2008/2009 has led to more attention to the supervisory and independency responsibilities of controllers. On the other hand, it is also arguable that a negative financial situation of the organization (perhaps due to crisis of 2008/2009) and a high degree of dynamics of changing laws and regulations lead to a more advisory oriented controller (Verstegen, de Loo, Mol, Slagter & Geerkens, 2007).

If an organization appreciates the role of involved controller and therefore lays most emphasis on the support of management responsibilities, it is advised to have the controller in close proximity of the management-team. Aardema (2008a) describes that the involved controller needs to be close to the decision makers and on the same wavelength, in order to do its job properly. Maas and Matêjka (2007) support this view; more emphasis on the advisory role (involved controller) is often accompanied by a decentralized positioning of the controller. As a member of the management-team the controller can give meaning to the advisory and due to decentralized positioning, the controller has in-depth knowledge of situation-specific factors that can improve the advisory level. Besides improved advisory, Järvenpää (2007) mentions another advantage of decentralized positioning of business unit controllers. Decentralized positioning reduces information asymmetry between business unit directors and controllers, which can enhance the advisory role of controllers. On the other hand, in the case of the independent controller that should have in-depth knowledge of financial processes and accounting responsibilities and should fairly and objectively report on the economic situation of the business unit, it might be preferable to be positioned further from the business unit. For the reason that it can be wondered whether the independent part of the role has been met when the independent controller is placed in a decentralized department lead by a department-director. Perhaps in that case the role of a strong controller is more suitable. However, the qualitative research study of Maas and Matêjka (2007) reports that decentralized strong controllers perceive their local responsibility (advisory) as more important than their functional responsibility (independency). The authors also found that increasing the emphasis on the functional responsibility puts the decentralized controller under great pressure and increases the ambiguity of their job demands. Essentially, the authors suggest that the strong role might not be suitable for decentralized controllers or in other words business unit controllers. On the other hand, performing well both in the local and functional role of controllers can be ultimately seen as a matter of delicate balancing (Maas & Matêjka, 2007). It requires a special talent on which controllers can specifically be recruited for.

The planning and control cycle

Another determining factor in the arrangement of control is the planning and control cycle. In recent decades, under the influence of the NPM bulky planning and control instruments were established that offered the controllers a driver in order to manage the increasing pressure, but in practice the planning and control instruments are characterized by excessive bureaucracy and a heavily stuffed administrative information cycle (de Jonge & Ballieux, 2011). Each year the planning and control cycle produces a framework document, annual statement of account, annual report, multi-year budget and interspersed with interim reports. In practice if one document of this cycle is being discussed, the production of another one has already started. Aardema (2008b) states that the current abundance of planning and control resides under the efficiency-paradox. Planning and control is used to work more efficiently, but currently the municipalities have more tools, audits and people who use these tools expertly. The conclusion is that it has become less efficient since more resources are needed to achieve the same goals.

Although in recent years much energy has been put into improving the planning and control cycle, de Jonge and Ballieux (2011) still perceive the information generated by the cycle as not sufficiently contributing to the transparency and controllability of the organization. Besides, municipalities are facing substantial cuts in income and therefore the time has come to simplify the planning and control cycle.

As stated by Moerkamp (2012) municipalities have to address few myths in order to address the planning and control overkill. The first one is that the Bbv law demands a lot of paperwork, but in actual the Bbv only prescribes a budget amendment and an annual statement of account. All the intermediary documents are voluntary. The second myth is that municipalities must justify everything in detail at the same level each year while for at least 80% a municipality carries out co-administration functions on which the town council has little financial and administrative influence. The third myth is that the budget amendment and the annual statement of account are by far the financial control and audit instruments and should be stuffed with effect indicators, while in reality these effects are not measurable in a year. De Jonge and Ballieux (2011) advocate for the separation of the financial cycle and the policy cycle. The budget accountability and policy evaluation does not need to be in the planning and control cycle but can take place during the entire administrative period by for example organizing a meeting between the city councilman and a member of the executive board in order to discuss and evaluate the policy. This way the framework document can also be omitted since a continuous policy also provides continuous frameworks within which the budget should be drawn up.

De Jonge and Ballieux (2011) recommend a four yearly planning and control cycle since the term of office of a city council is four years. At the beginning of the term of office, a coalition agreement is made, which is basically the framework constituent piece for the next four years and must be politically controlled. The coalition agreement will have its financial translation in the first multi-year budget amendment. This first multi-year budget amendment should be discussed intensively since it is indicative for the coming years. The budgets of the three years that follow have more the character of annual adjustments. By reorganizing the planning and control cycle municipalities can have a healthy light control on business and put less pressure on means of control such as controllers and planning and control employees and achieve the same amount of control with fewer employees. De Jonge and Ballieux (2011) indicate that the commitment of the executive board and in particular the city council is crucial for the success of achieving simplification of the planning and control cycle. Several factors might block the simplification. The first factor is that the politicization and mistrust in the organization actually leads to more demand for information and control. The second factor is that politicians might not be interested to talk about an abstract subject as managing the planning and control cycle. The final and perhaps the most problematic factor is the difficulty in having the highly fragmented city council on the same line about the subject of management control.

To sum up, SSCs are becoming a widely used method in public administration as a mean to innovate, reduce costs and to increase the service levels. A SSC is essentially a business unit or organizational entity within an organization that provides specialized, value added services across the entire organization. SSCs can be a complete internal arrangement and or a joint venture between municipalities. The latter is called an inter-organizational SSC. Case study research in public administration in the Netherlands found that motives achieved after setting up a SSC are standardized functionality and processes, higher information security, higher cost-predictability and reduction of overcapacity. Literature also mentions challenges associated with SSC; if control of the business units is neglected it can put great strain on the relationship between SSC and business unit. Furthermore, the challenges of SSCs are based on four theoretical perspectives embedded in different academic disciplines: resource dependence, transaction cost theory and agency theory. Several studies indicate communication, establishment of internal performance management techniques and the selection of employees with the "right" skills as major factors in overcoming the challenges associated with SSCs.

Additional challenges associated with the establishment of an inter-organizational SSC lay in the area of management and responsibilities. This chapter also reviewed a theoretical framework on the concept of management control. Management control can be defined as all decisions, structures and procedures that are aimed at effectively and efficiently achieving the predetermined objectives. Every organization is being kept on track by management control systems since organizational behavior not always matches organizational objectives. Within municipalities the controller has widely made his inaugural and functions at the level of leadership. According to literature the controller has two main goals: disburdening management and enhancing management. These goals can be coupled to controller responsibilities which divide the controller in obtaining four ideal type roles and can determine the arrangement of control: involved controller, independent controller, split controller and strong controller. Another determining factor in the arrangement of control can be the planning and control cycle. The bulky planning and control instruments are in practice characterized by excessive bureaucracy and a heavily stuffed administrative information cycle. Several researchers address that municipalities should redevelop their planning and control cycle. It is recommended to think in a four yearly planning and control cycle since the term of office of a city council is also four years.

This chapter reviewed the literature on the notion of (inter) organizational SSCs and on the concept of management control. The following chapter will present the data analysis in which the financial organization of other municipalities is presented. As stated in the methodology chapter interviews, internal documents review and reviews of documents from the Internet are used to analyze the financial function of other municipalities.

4. Data Analysis

This chapter is devoted to analyzing the current financial functions of comparable municipalities. Data from municipalities Hengelo, Zoetermeer, Nijmegen, Tilburg and Amersfoort is used. This chapter answers the first three research questions: *“Which financial tasks do comparable municipalities centralize and how is the information flow organized?”*, *“Which financial tasks have other municipalities outsourced or are performed in inter-organizational shared service centers and how is the information flow organized?”* and *“In which way have other municipalities organized control throughout their financial function?”*. The first section introduces this chapter; sections 4.2 and further introduce the municipalities and their financial organizations.

4.1 Introduction

Every municipality in the Netherlands is facing in more or less extent the same problems. Municipalities have to perform more tasks previously carried out by the central government at the same time they have to cut in expenditures. Therefore municipalities have to organize the additional tasks and their own internal organizations very efficiently. Since municipalities are facing in more or less extent the same problems, comparing the financial functions is a good method in order to find out how they deal with the incurred problems. Municipalities can improve their quality and services by learning from each other and can possibly increase the efficiency at a given quality level. There is no need to re-invent the wheel every time.

4.2 Municipality Hengelo

With nearly 81.000 residents Hengelo is the second largest city of Twente. Hengelo is at the same time in the midst of a period of reduction through spending cuts and building the organization through new tasks and developments. In 2012 Hengelo worked on the effectuation of financial cuts of €15 million in spending. By austerity, innovation and cuts on the internal organization Hengelo tries to achieve the €15 million in cuts. At the moment it is also clear that Hengelo is facing an additional €10 million in cuts. In order to achieve this, the executive board of municipality Hengelo has proposed a package of austerity proposals. Currently the municipal organization of Hengelo is 776 fte, in the coming years the organization will shrink by about 100 fte. This is accomplished by returning empty formation, by not replacing retired employees and by operating efficiently.

The municipal organization of Hengelo is presented in figure 8. The organization consists of seven sectors: Publieksdiensten & Sociale zaken, Personeel & Financiën, Informatie en Faciliteiten, Ruimte, Samenleving, Stedelijk Beheer and Wijkzaken, Veiligheid & Leefomgeving.

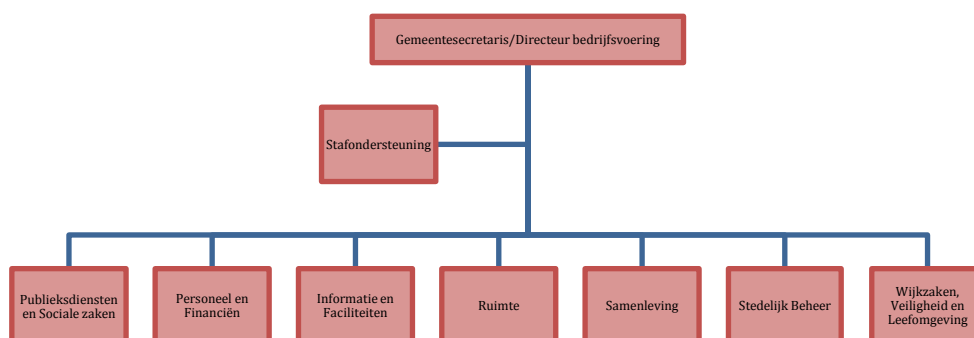
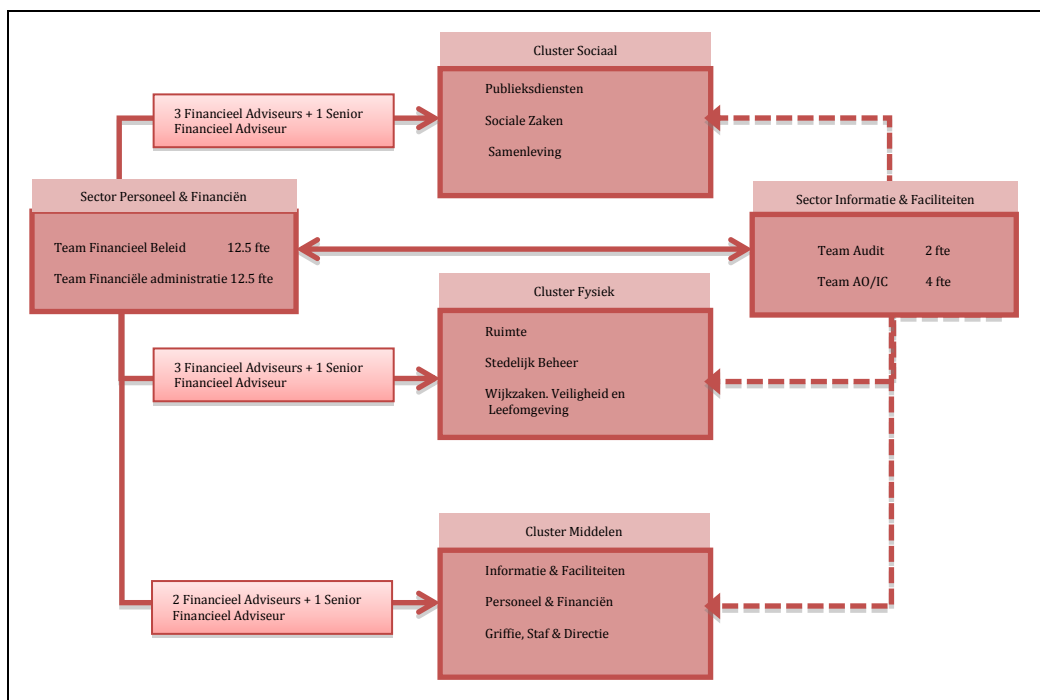


Figure 8: Organizational diagram of municipality Hengelo (Gemeente Hengelo, 2014)

As mentioned in the previous section, the municipal organization of Hengelo comprises seven sectors. Previously, the sector managers had much to tell and the finance department was quite serviceable. Furthermore, a lot of financial activities were carried out in different sectors. For example there was a central financial administration department plus a lot off financial administrative activities were carried out in the sectors. Thus there was a lack of central and municipality-wide coordination in the previous financial arrangement. Due to the financial crisis the external environment transformed which ultimately triggered and enabled the need for organizational change. This has ensured that people in the organization are convinced that the strings should be tightened and that the financial function should operate differently. From the financial function is expected not only to be of serviceable nature but to really advise on group level, guard the mainlines and operate municipality-wide. The executive board, board of directors and the management-team have expressed the need for this. The new financial structure of municipality Hengelo is presented in figure 9.



In the reorganization starting from 2006 municipality Hengelo centralized the financial function in the sector Personeel & Financiën. Hence all of the financial activities such as administration, planning & control, Treasury and Controlling/policymaking are removed from the sectors and centralized in the Personeel & Financiën sector. The AO/IC activities are centralized in the Informatie & Faciliteiten sector. Hengelo has two directors, but with regard to the financial function the director of operations is strongly oriented to the management of it. The Personeel & Financiën sector has therefore a lot of direct contact with the director of operations. The Personeel & Financiën sector consists of two financial departments: financial policy and financial administration and have one department head. The financial administration department deals with everything that comes with financial administration such as creditors, debtors, ledger, and accounting and consists of 12.5 fte. Currently there are no more financial administrative activities or financial administrative personnel in the other sectors. Before the reorganization financial administration activities and personnel were positioned central and could be found at the local level in the different sectors. In the reorganization of 2006 a strong movement from the local level to the central level took place, the organization wanted to operate and think municipality-wide besides central positioning was more efficient. The same counts for the financial advisors/policy makers that were previously positioned at the local level and are now centralized in the financial policy department. This department has likewise 12,5 fte. The

financial policy department is responsible for the coordination of the IPC cycle, financial advisory, treasury, liquidity and in the case of financial cutbacks they are the executors. The financial policy department consists of eight financial advisors and three senior financial advisors. Besides financial advisors, the financial policy department has two financial policy makers that are responsible for the IPC cycle coordination and the entire financial department is lead by one department head. So in total the Personeel & Financiën sector has 25 fte of financial staff.

The stafondersteuning unit provides direct support and maintains a direct link with the executive board. The stafondersteuning delivers an active contribution in austerity debates and is mainly concerned with the content and with the process. The stafondersteuning does not have a financial staff but currently includes legal employees that are ultimately going to be centralized in the Personeel & Financiën sector. Besides the Personeel & Financiën sector there is 6 fte of financial staff positioned in the Informatie & Faciliteiten sector in the Bedrijfsondersteuning department. This department employs 2 fte of auditors that are engaged in internal control, risk-management and accountant services. The bedrijfsondersteuning department also employs 4 fte of AO/IC employees that are engaged with financial process design and financial software management. The auditors are positioned outside the Personeel & Financiën sector since they should operate independently from the finance department and should have a critical view on financial operations. The AO/IC employees are positioned outside the Personeel & Financiën sector since they have a close link with IT and that department is centralized in the Informatie & Faciliteiten sector.

To sum up, the total financial function of municipality Hengelo employs 31 fte, this is pretty flat and tightly organized. The downside of this design is that there is very little room for flexible capacity ordinance, flexible capacity must be externally hired or even be denied. Especially in view of the decentralization of tasks the financial department is concerned how to meet the additional demand since the department already operates at its maximum capacity.

4.2.2 Arrangement of information flow

Since almost all financial tasks, processes and employees are centralized in one department, it is of crucial importance for the employees to be close to the primary processes and the internal customers. In order to be close to the internal processes and customer the financial policy and administration department employs liaison officers to each of the sectors. Apart from the Personeel & Financiën sector there are six sectors plus the cluster middelen, each of these sector has three liaison officers that guard the direct link between the centralized finance department and the specific sector and work part-time in close vicinity of the sector. The sector middelen has two liaison officers. In practice it has been observed that even though the eight liaison officers are part of the centralized financial function, they are pulled into the decentralized sectors. They were becoming sensitive to the substantive arguments from the relevant sectors and their objectivity and municipality-wide coordination and thinking is being questioned. In order to overcome this it is decided to combine the sectors in three clusters: physical, social and middelen. Furthermore three senior financial advisors were appointed to the clusters, one for each. The main job of the senior advisers is to guard and monitor the municipality-wide coordination and thinking. These senior advisors are also responsible for the heavier policy assignments from the clusters and are the sparring partners of the eight liaison officers. For the department head the three senior advisers are the contacts if he needs information about the clusters. In addition, the three senior advisers are also responsible for the uniformity of the eight liaison advisors. The idea is that if a sector manager asks information on the same subject from different financial advisers, he should receive the same information. In practice this construction of (senior) financial advisers provides sufficient counteract from the financial function in order to guard and monitor the municipality-wide orientation and thinking.

Since Hengelo has centralized most of the financial activities and personnel, centralization is experiencing friction between customization and uniformity. The centralized finance

department benefits from uniformity while the sectors demand customization. The finance department responds by starting a healthy discussion in the organization and by setting internal regulation that regulates the power of a sector. These regulations are for the finance department the handles to conclude that it cannot provide customization if the sectors require it. As elaborated above, Hengelo had previously decentralized many financial tasks and currently centralized all of them in two sectors. The sector managers lost a piece of their “kingdom” and had to adjust to the new situation in the beginning. The sectors were accustomed to arranging everything by their self in the case of the financial function; currently they have to do it in close cooperation with the financial sector. Many employees respond with enthusiasm to the new situation since they currently have far more contact with fellow financials and can learn from each other’s best practices.

4.2.3 Outsourcing or performing financial tasks in an inter-organizational SSC

Discussions are being held in the Twente region in the area of partnerships at the regional level. As stated before in this paper municipalities Almelo, Borne and Enschede are considering a regional partnership in which financial tasks are being performed by an inter-organizational SSC. Currently municipality Hengelo is performing all of the financial tasks in-house and decided not join their neighboring municipalities in a joined SSC. However, Hengelo is closely monitoring the discussions considering a joined SSC. According to Hengelo working together should not be a goal on itself but should have a clear added value. Especially for a small municipality the added value can be the insurance of quality and saving money. Besides if financial tasks are performed outside the own organization the distance to the primary processes is enlarged. It is necessary for the financials to be close to primary processes, the SSC should facilitate that. At present, the civil service of municipality Hengelo delivers a fairly constant quality and good service to the rest of organization is guaranteed. This should also be the case in a regional collaboration, with quality being the most important factor.

4.2.4 Arrangement of control

The control function is largely centralized in the Personeel & Financiën sector and in the Information & Faciliteiten sector. The (senior) financial advisors are positioned in the finance sector while the auditors, risk managers and AO/IC employees are positioned in the information sector. Municipality Hengelo employs a strong municipality-wide approach concerning the control function; concern control is the integral responsibilities of the managers. This is the reason why municipality Hengelo does not have a separate concern controller. In the case of the IPC cycle the centralized finance department is the coordinator and constructs a municipality-wide planning. The decentralized departments do not create a planning of their own but they are free to adjust the planning in consonance with the deadlines imposed by the finance department. The IPC planning and deadlines are presented and discussed with the management-team. Municipality Hengelo also employs key groups of staff drawn from different disciplines (HR, Finance, IT, Sector manager). These key groups assess all proposals of the executive board on whether the content complies with procedural agreements and municipality-wide coordination. Subsequently the key groups issue an advise to the municipality secretary concerning the proposal, this advise is publicly accessible. Thus there are key groups that advise on executive board proposals and key groups that give advise on the management report and sector annual plans. This is all done in order to test the integral approach.

The management information is also centrally coordinated. The financial department provides standard formats for all sectors for monthly reporting and are created automatically through financial software. Only in consultation and coordination with the finance department the sectors may add indicators to the standard format. But in general 90% of the indicators are used municipality-wide while 10% are custom made.

4.3 Municipality Zoetermeer

With more than 123.000 residents Zoetermeer is in the top-20 largest cities of the Netherlands and is from origin a residential city mostly for young families. The city wants to excel in that which is necessary for an attractive living environment; good housing, good facilities and good accessibility are therefore key ingredients. On the other hand Zoetermeer is also experiencing the effects of the economic crisis and stands for an enormous challenge in the coming years: making the city attractive with significantly less money. For the period 2010-2017, the municipality prepared €33 million in austerity measures and has achieved nearly €23 million at the moment. One of the desired goals in order to realize the prepared austerity measures is to reduce the number of fte staff; at the end of 2012 the municipality had a total formation of 1.017 fte. This is a decrease in 13 fte since 2011. The decrease in fte can only be achieved if work is organized differently or even not done. Redesigning processes and prioritizing work is an important part of the fte austerity measures.

The current organizational diagram of Zoetermeer is presented in figure 10 and consists of three departments: Bedrijfsvoering, Stad and Inwoners. Each of the three departments has a director. The director of Bedrijfsvoering is at the same time the concern-controller and the hierarchical manager of the department head of Financiën en Control

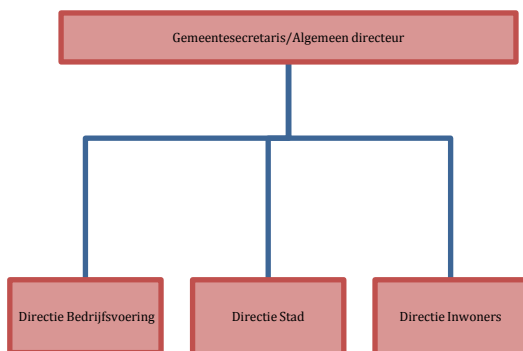


Figure 10: Organizational diagram of municipality Zoetermeer

4.3.1 Financial Organization

Municipality Zoetermeer had a lot of fragmentation in the previous financial function. There was a central financial administration department and there were many decentralized financial administration departments. The financial advisors were also part-time performing financial administration tasks. There was also a lack of central coordination and the organization was experiencing strong compartmentalization in the previous financial function. The decentralized compartments employed different work methods and had different output qualities. Due to the fragmentation and overlap in activities, the previous financial function had a total of 114 fte, which is quite substantial for a municipality with 123.000 citizens. Currently the management of a municipal organization is subject to change due to external and internal developments such as changing role of municipalities, financial constraints and the increasing need for management information. As a result, the finance and control change team advised the concern management-team about the new financial function in January 2012. On basis of this advise, the centralization of financial administration and control departments is designed and a new financial function is created. The new organization of the financial function can be found in figure 11.

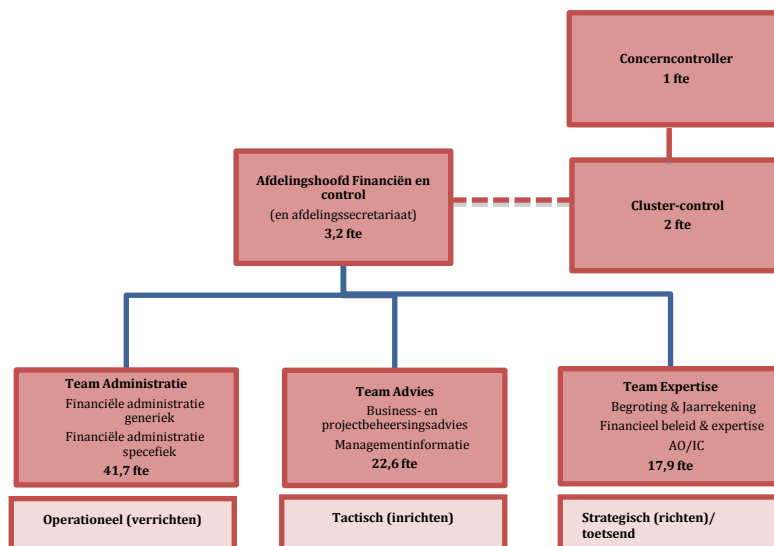


Figure 11: Financial function of municipality Zoetermeer

With the design and implementation of the new financial function is intended that financial administration, support, advise and control be organized in such a way in order to make best use of everyone's knowledge and experience. It is necessary that roles and responsibilities are clearly assigned and encourage more efficient execution of tasks. By this the financial function contributes to the budget cutbacks, by centralizing and efficient execution of tasks the financial function prognosticates savings of €1.9 million by 2015 which means a formation of about 77 fte. The formation of the financial function will shrink due to centralization and reduction in functions and duties will also decrease the formation. Eventually, 82 job descriptions will be reduced to 22 job descriptions. Linked to this are 12 generic job descriptions. Subsequently, formation reduction will be achieved by preventing doublings in activities (same activities being done both locally and centrally), by extensive automation and by standardization of work processes. At the corporate level a number of criteria were developed for the new financial function to meet, the most important criteria are the principles of integral management, performance management and customer-orientation. The organizational structure of the financial function needs to enable optimal support at all levels of the organization. To enable the transmission of a clear vision in the field of finance, the entire finance department has one department head. The department head monitors the overall cooperation between the finance department and the rest of the organization and is hierarchically positioned under the director of operations.

As can be viewed from figure 11 the financial function is divided into three teams: Team administratie, team advies and team expertise. Each team has a team manager that is the functional and staff-oriented leader of the team members. An important development for the financial function is the transformation from financial control to integral control. In the organizational model is therefore chosen to give control a separate position directly under the concern-controller. The cluster control takes an independent position pertaining to the financial function and supports the director of operations. The finance department is divided in to three teams in relation to the span of control of the team managers. Team administratie is the largest team and therefore its size necessitates some extra management for the HRM aspects. The senior staff members in this team have work oriented managerial tasks and therefore occupy an important position in the context of HRM issues. Team administratie is responsible for the generic municipality-wide financial administration and for departmental specific financial administration. Team administration performs activities such as accounts payable-receivable, ledger, project administration, land development administration, salary administration and administration for the real-estate company. Team administration has diverse job responsibilities

and is therefore the biggest team, currently 41,7 fte and in 2015 this will be further reduced to 36,2 fte.

Team advies is responsible for providing advice and support in the area of business operations of the departments and is responsible for project control. In order to this job well management information is of crucial importance and is therefore part of this team. Overall, team advies concerns the activities previously performed by the business controllers and planning and control employees. The objective of team advies is to support and advise the departments around the subject of planning and control, control of projects, establishment of budget/interim reports, financial statements and provision of management information. Currently team advies employs 22,6 fte and this will be reduced to 20 fte in 2015.

Team expertise is responsible for the strategic aspect of policy development in the field of business management and business advice. This team is responsible for developing policy frameworks in the field of financial management and control of the organization. Team expertise has an overall-look at the organization and is oriented on the management-team and the executive board. This team is responsible for the coordination and serves as principle in the creation of IPC products (budget amendments, annual and interim reports). The department heads are the contact points in the IPC cycle, supported by the business advisors of team advies. Besides proactively ensuring strategic advice and coordination of the IPC cycle, team expertise is also responsible for process control in the organization and for internal control (AO/IC). Team expertise currently employs 17,9 fte and this will be reduced to 15 fte in 2015.

The cluster control consists of several employees who support the director of operations in his role as concern controller. This cluster is responsible for independent view on the organization and advises on a strategic level. This cluster advises the management-team and the board of executives on financial regularity issues and on efficiency and effectiveness of the business and policies. In this context, the cluster may submit proposals to the management-team and the board of executives to perform audits and business investigations. To summarize, the objective of cluster control is supporting, advising and monitoring the efficiency, effectiveness and legitimacy of the entire municipal organization. Cluster control employs 2 fte and this remains the same in 2015. There is one exception in the new financial function, department Werk, Zorg en Inkomen (WZI). Their decentralized staff office will be kept in place with a possible regionalization in mind in 2015. However, a close relationship is established with team administration and team advies.

To sum up, before the financial reorganization the financial function of municipality Zoetermeer employed 114 fte, by reorganizing activities and processes the new financial function currently employs 88,4 fte. This will be further reduced to 77,2 fte by 2015.

4.3.2 Arrangement of information flow

Since all of the financial activities and processes are centralized, it is crucial for the employees to be close to the primary processes. From all teams in the financial function is expected to professionally work with partners to whom they provide support. The professionalism is shown by expectation management, role agreement and by actually being supportive. Different types of cooperation are distinguished in the new financial organization: chain collaboration, front-office/back-office collaboration and network collaboration. The chain collaboration is broadly seen as follows: the cluster control identifies certain risks or learning effects, the team expertise develops frameworks, guidelines and policies, team advies applies the developed policies and instructs team administratie to process the correct information. The front-office/back-office collaboration can be viewed as follows: for those activities that require daily coordination with the budget holders, the decentralized departments are adequately supported by front-office administrative staff that work in their vicinity. The front-office staff is linked with the central financial administration back-office. Team advies also employs a same construction and uses team expertise as a back-office. The network collaboration is reflected by regular consultations

in the management-team. The management-team consists of the three managers and the department head; a representative of cluster control is also present in the management-team. The front-office/back-office construction can be viewed as a concept of service provision between for example team advies and the decentralized departments. These departments and especially line managers will appeal to team advies and have a liaison officer in team advies in the form of business adviser/controller which works in close vicinity of the department. Team advies is in this sense the front-office of the decentralized department. The liaison officers are for a long time associated with one or more departments, so that knowledge can be best built on the management of the relevant department. At the same time this construction also ensures that standard procedures of the financial function are followed in the decentralized departments. The liaison officers are rotated over time between the departments to provide a fresh look at departmental affairs. Some of the liaison officers of team advies are senior advisors; they are coupled to directors and advise on cross-departmental issues.

The liaison officers of team advies are beforehand involved in the realization of policy proposals so that they can support and advise the line departments. The policy proposals are subsequently integrally tested at the concern level. The proposals are integrally tested juridical, content-wise and financially by group of three employees. One of the three employees is delegated from team expertise. The integral check has a quality element but more importantly it has a learning effect. The results of the integral check create a learning effect that helps the line in structurally improving the quality.

Employees who previously were situated in decentralized staff offices and are now centralized find this a pleasant contraction. Especially the contact with the rest of the financial function is very pleasant. Now they can learn much more from each other and employ each other's best practices. By centralizing the entire financial function, the employees employ the same methodology and communication becomes a whole lot easier. According to the decentralized departments the financial advisors are still close to the matter and do not lack feeling of the departmental affairs since they are not cut off from the rest of the organization but are rather linked to all departments. Depending on the matter, some of the departments have two advisors and some have one.

4.3.3 Outsourcing or performing financial tasks in an inter-organizational SSC

At the moment municipality Zoetermeer is performing all of the financial tasks internally and is planning to continue to do so. A town the size of Zoetermeer should be capable of performing the financial tasks themselves, in the case of a small town (<30.000 population) a SSC is helpful since small municipalities get the most benefit from a partnership. During the financial reorganization municipality Zoetermeer examined Service.71 (SSC of municipalities Leiden, Leiderdorp, Zoeterwoude and Oegstgeest). The audit report of Service.71 showed that collaboration had coordination and financial issues. According to municipality Zoetermeer performing tasks in an inter-organizational SSC increases the distance to primary process especially if the SSC is placed completely external. Another inter-organizational SSC examined by municipality Zoetermeer during the financial reorganization is the partnership between the Drechtsteden. This partnership seems to work but has had a long lead-time. More importantly, one of the success factors of a partnership between municipalities is the administrative and cultural link between the partners. The Drechtsteden have a close administrative and cultural link with each other, this makes a partnership a lot easier.

4.3.4 Arrangement of control

Previously, municipality Zoetermeer had three major departments who all had their own control departments. Additionally, there was centralized control. Control began to show doublings and control over control was experienced. In the new financial function control is centralized and the move from financial control to integral control is made. In the new financial function five layers are performing control. The departmental heads are performing first-line control and are supported by team advies. In first-line control self-control, product-control and process-control

are important. Team advies deploys business controllers to the decentralized departments and since these controllers are hierarchically members of an independent department, they can operate municipality-wide and have independent view. Second line control examines design and operation of integral (management) control at the board level and examines efficiency and effectiveness of operations and is the responsibility of the board of directors, supported by the business advisors. Second-line control is also responsible for implementation and monitoring of framework propositions. Third-line control is being performed by the concern controller and examines the development, maintenance and enforcement of the control vision. Third-line control also includes the translation of the control vision into coherent frameworks, tools and rules. The concern controller is supported by cluster control. The executive board is performing the fourth-line control while the city council performs fifth-line control.

Within the civil service, municipality Zoetermeer distinguishes an IPC cycle for the city council and one for the management. Management cycle concedes a periodically good conversation between the department head and his supervisor, between a team manager and his supervisor and between a director and his supervisor. The management cycle and the corresponding meetings are primary about planning and control. The vision behind the management cycle is that when departmental affairs are in order, there is less pressure from the city council level, which ultimately reflects in the city council IPC cycle. In the previous financial function of municipality Zoetermeer the city council IPC cycle played the leading role, this was incredibly time consuming. Currently the management cycle is leading and the transition from the management cycle to the city council cycle should become a small effort. Municipality Zoetermeer is looking for IT programs to standardize the entire IPC cycle and in order to have one coordination point for the cycle. By designing a new workflow system the municipality wants to organize the drafting of texts and working with Ms. Office more tightly, the new keywords for designing texts in the IPC cycle are compact and to-the-point.

Municipality Zoetermeer gives preference to the independent role of a controller. The controllers are called business advisors and assist departments in planning and controlling. The business advisors have a supportive and contributory role in counseling but also detect and warn in case of frame overruns.

4.4 Municipality Tilburg

With about 210.000 residents Tilburg is in the top-10 largest cities of the Netherlands and is the second largest city of the province Brabant. In 2013 Tilburg will complete the reorganization Tilburg Tranformeert in which the conditions and frames for internal operations are redeveloped. Important frames are that the internal operations should contribute to the functioning of the entire organization as a group. Furthermore, municipality Tilburg as a leading organization should work efficiently and effectively in the realization of its policy. Tilburg is also experiencing the effects of the economic crisis; to maintain an affordable organization financial cuts in expenses are needed. From 2011 to 2013 Tilburg has achieved almost €35 million in cuts in program costs and operational costs. The formation has been reduced from 1.780 fte in January 2013 to 1.758 fte by January 2014 due to austerity measures. For 2014 an amount of approximately €6.4 million in austerity measures of which approximately €2.5 million in operational costs are in the planning.

Due to the reorganization Tilburg transformed its internal structure into a network organization with a principle of network management. A network organization consists simultaneously of independent and interdependent divisions. There is a recognizable common task and there is appreciation of initiative and self-organization. An important concept in a network organization is that you think and act beyond the boundaries of your own organization (department) and working integrally together with internal and external partners. A network organization demands network management, the responsibility of a network manager is wide and is about influence and concentration of support. Network managers are responsible for achieving (partial) results of their department, for deployment (employees, formation, budgets) that are required. In a network organization maintaining internal and external relations and achieving municipality-wide goals is of crucial importance. The network model of Tilburg is presented in figure 12.

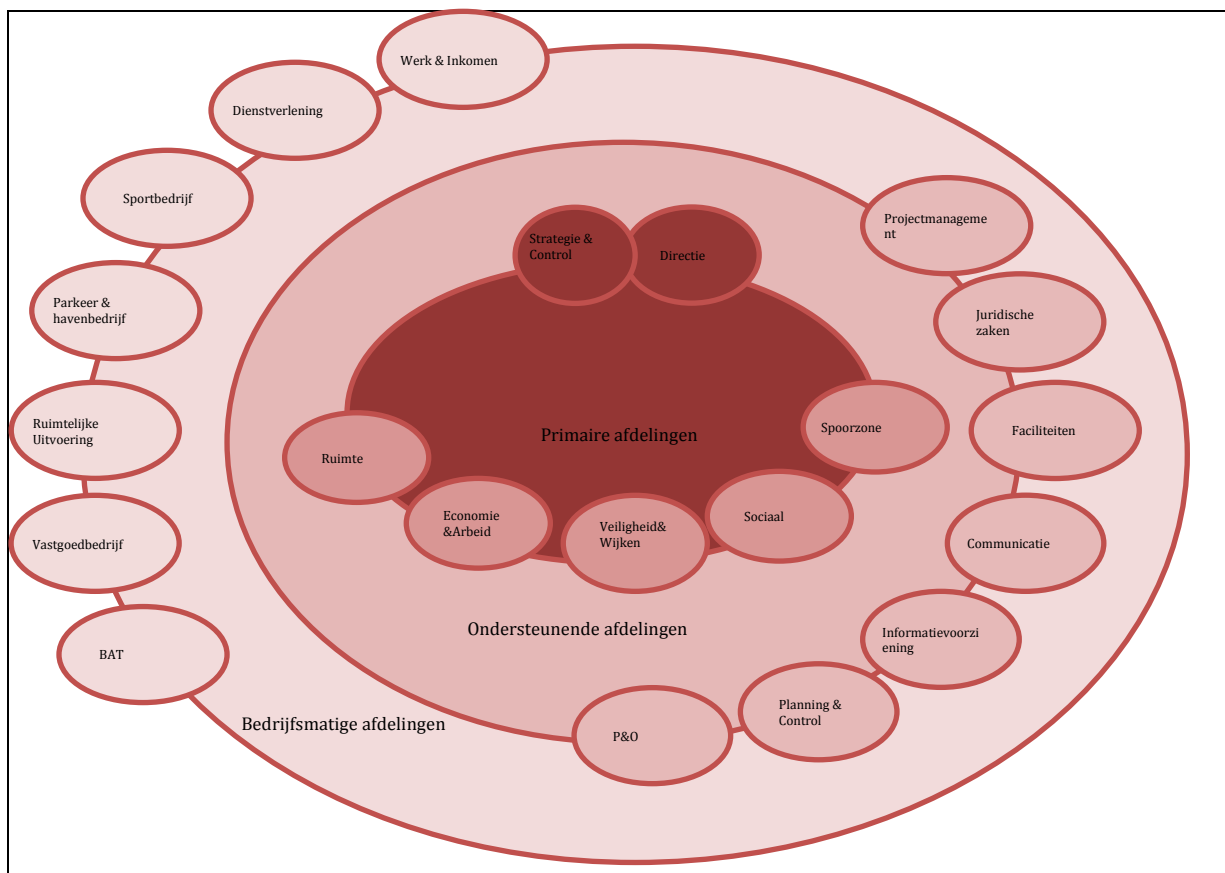


Figure 12: Organizational diagram of municipality Tilburg (Gemeente Tilburg, 2014)

4.4.1 Financial Organization

Previously, Tilburg had centralized and decentralized the financial function. Planning and control was centrally organized but every department also had its own planning and control department. Before the current reorganization Tilburg had a “Dienstenstructuur” with about six “Diensten”. Every department had a staff office where planning and control employees, financial advisors and administrative employees were situated. There was a lot of overlap in functions and activities, there was a lack in municipality-wide coordination and operation and there was a lack of clarity in roles and responsibilities. Due to fragmentation and overlap in activities, the previous financial function had a total of 118 fte. It was necessary to completely reformulate the current structure and redesign operations and activities. The municipal organization agreed upon a complete centralization; the time of decentralization is history. The current municipal and financial structure arose after the reorganization Tilburg Transformeert, which started in 2012. Tilburg went from about six “Diensten” to 20 departments. It was not possible to give all of the 20 departments own staff offices, consequently centralization was necessary. The new financial organization is presented in figure 13.

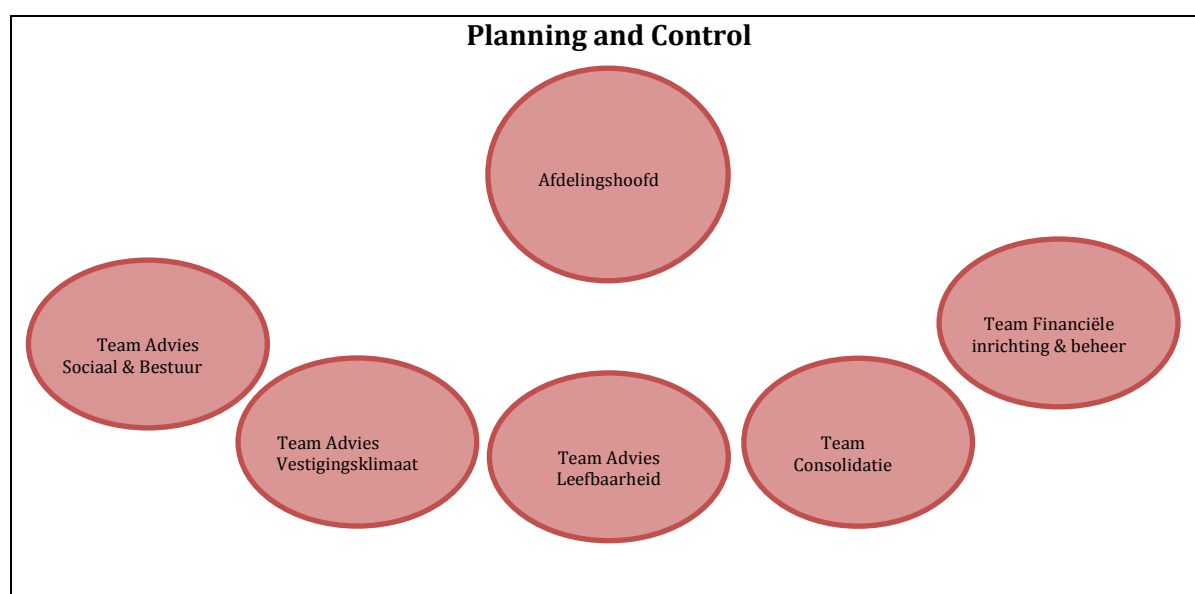


Figure 13: Financial organization of municipality Tilburg

Municipality Tilburg centralized almost the entire financial function into the Planning and Control department; all forms of administration and registrations are centralized in the department Informatie-Voorziening. The Planning and Control department supports the board of executives, directors and departments by providing direction (planning) and by keeping the organization on track (control). Account management will be designed to express support for governance and management. The main tasks of the Planning and Control department are coordinating and compiling planning and control products, advisory and control and as last testing and process improvements. The work processes are standardized, uniform and simplified and there is one administration. The employees of the Planning and Control department facilitate the department heads and the directors; they are customer-oriented, flexible and act proactively and professionally by having a good understanding of the tasks of the department that they support.

The Planning and Control department consists of three advisory teams and two support teams, each team has a team manager. The team managers are responsible for the quality of the staff as well as the products they create. The composition of employees per team is different and is determined by the degree of required necessary expertise. The advisory teams are aligned with administrative objectives Sociaal, Bestuur, Vestigingsklimaat and Leefbaarheid. The following tasks related to financial administrative management are centrally organized by Team Financiële inrichting & beheer: data management, management and establishment of financial

administration, ledger, project administration, budget administration, formation management, asset management and IV3. Department Informatie-Voorziening performs Credit/debit management and bank account management. Team Consolidatie is engaged with the planning and coordination of the IPC products, treasury and AO/IC. The three advisory teams are relating to the content driven by the team managers, which in turn is supported by a senior advisor planning and control. The senior advisor is for a large part responsible for the control activities and is also the replacement for the team manager. In addition to the structural change a number of important preconditions are determined for the proper functioning of the department Planning and Control: competent and proactive employees, effective and efficient processes, effective support (ICT) systems, structural information provision, encouraging awareness of planning and control particularly for department heads and last but not least tight control by the directors. The employees mainly determine the quality of the Planning and Control department, competency and proactivity will be therefore specifically developed or acquired for. Effective and efficient processes are required for the centralized Planning and Control department; the processes are designed as much as possible from the lean principle. Effective ICT systems are the professional basis upon which an organization functions. For optimal support of the primary process, it is important that the information management is in order since the financial advisors depend upon it. Structured and continuous information provision is of great importance in order for the organization to be able to steer the realization of objectives. It is important that the information provision expresses that the organization operates as one concern. The department heads should be aware that the responsibility for the business processes and responsibility for the planning and control products lies with the department. The Planning and Control department has a supervisory and supportive role. Tight control from the directors is required especially in the beginning in order to manage and achieve the preconditions.

As can be viewed from figure 12, municipality Tilburg has also a Strategie & Control department close to the executive board and the board of directors. The exact relationship between the departments Planning and Control and Strategie & Control has yet to be fully developed. Broadly, it can be said that the Planning and Control department should make clear where the municipality currently stands (is the municipality doing the activities they are supposed to do?), the Strategie & Control department employs the question whether the municipality is doing the right activities? In addition, the corporate controller is also part of the Strategie & Control department, the corporate controller deals with the instruments and policies in the field of planning and control. The corporate controller is the only financial in the Strategie & Control department; the department employs furthermore strategic policymakers and the secretary of the executive board. The corporate controller is placed outside the financial department to ensure independence but also to support the executive board.

In total the financial function of Tilburg employs 108,51 fte of which 10 fte controllers, 33 fte planning and control employees, 46,29 fte financial administrative employees, 8 fte AO/IC employees and 6 fte departmental heads.

4.4.2 Arrangement of information flow

All of the planning and control activities, AO/IC, Treasury and (financial) administration are centralized in the Planning and Control department. Financial administration has been split up between the Planning and Control and the Informatievoorziening department. Department Informatievoorziening executes financial administration activities such as credit/debit management and financial bookings. Since the department operates at a distance from the primary processes, it is necessary to be close to the internal customers. Therefore department Informatievoorziening employs order managers that are linked to departments, they are the liaison officers for the departments and ensure accurate bookings and information processing. Department Informatievoorziening performs all sorts of administrative activities for the entire organization except the benefit administration, which is still performed at the local level. Consequently department Informatievoorziening is quite large and employs about 250 fte that perform all sorts of administration activities, in practice this does not work as hoped. For the

department head of Informatievoorziening it is difficult to supervise such an enormous and diverse department. Therefore the financial administration activities such as order management, journal entries and ledger will be transferred to the Planning and Control department and will be performed by Team financiële inrichting & beheer from January 2014. This transfer of tasks is also in line with one of the preconditions of department Planning and Control, it is important for this department to have a structural information provision. Since financial administration has a close link with Planning and Control it is important that the same department also performs the financial administration activities in order to have a closed information chain.

As can be viewed from figure 13 the Planning and Control department has three advise teams that are aligned with administrative objectives. Each team consists of planning and control advisors, senior planning and control advisor (controller) and a team manager. These teams support the primary processes and are often situated physically close to the departments. Because these advisory teams are all centralized under a single department they work uniform, with the same administration and they get regarding the IPC products questions and information from one information point (Team Consolidatie). Because all teams are part of the same department, the team members can learn a lot from each other and apply each other's best practices. Currently, the substitutability of the team members can be improved; a member of Team Leefbaarheid cannot substitute for a member of Team Vestigingsklimaat for example. It takes a lot of time for an advisor to be familiar with the matter.

Every team manager and the departmental head of Planning and Control form a management-team (MT). Every member of the board directors has a liaison officer in the MT and the same counts for every department. The MT is directed at improving the quality and development of the Planning and Control department. In addition, in the MT the necessary coordination of the IPC cycle between the five teams of Planning and Control department and the other departments occurs. The MT has an important role to provide a clear common line to the main players outside the department.

4.4.3 Outsourcing or performing financial tasks in an inter-organizational SSC

Currently, municipality Tilburg performs all of the financial tasks internally. Tilburg investigated a small municipality that outsourced their financial administration tasks in order to find out their experiences. For a small municipality it is a lot easier to outsource or jointly perform activities compared with a large municipality. In practice it is hard to achieve the expected synergy and savings by outsourcing. Nevertheless outsourcing or performing activities with partners will become even more important in the future, especially with regard to the three decentralizations. Here lies an important improvement for municipality Tilburg; they have to shift their focus from internal to external.

4.4.4 Arrangement of control

Municipality Tilburg has centralized control in the departments Planning and Control and Strategie & Control. The controllers have the function of senior advisors planning and control and are part of the three advisory teams. Each advisory team has a team manager and is supported by a senior advisor. The senior advisor is responsible for the more difficult advisory cases and is the right-hand man of the team manager. The senior advisor is furthermore responsible for control of the department he or she is assigned to. It is expected from the controllers that they continuously provide good advise from an independent position; the strong control concept is therefore very appealing. The previous financial function of Tilburg had also a construction of team managers and controllers, but the controllers were decoupled from the advisory work and from the line. The decoupling and misconception in roles and responsibilities between team managers and controllers caused serious difficulties in practice. Roles and responsibilities are clearly formulated in the current financial function, the team managers are responsible for the advisory team and serve as business partners for the directors and are thereby supported by controllers.

Tilburg has also a corporate controller situated in the department Strategie & Control. Corporate control is first and foremost aimed at achieving the administrative goals. It is thus the overall responsibility of the municipal secretary and the board of directors. The corporate controller has not only a independent advisory role, but also provides countervailing power to the board of directors and is responsible for ensuring that the municipality develops such a system in which is expressed that the municipality is in control and will remain in control. Besides a corporate controller, Tilburg has also a Chief Financial Officer (CFO). The main task of the CFO is focused on the financial decisions in achieving administrative goals. The CFO operates as a counter-force that periodically assesses and evaluates the performance of the control system. The task of CFO lies with the director of operations.

The reorganization Tilburg Transformeert not only changed the municipal organization, it was also necessary to redevelop the planning and control vision. The first improvement in planning and control is reinforcing clarity about the course for municipality Tilburg. This helps the city council in realizing their frame developing and controlling role and gives focus to the implementation of policies by the executive board and the civil service. The ambition is that administrative goals related to social issue of the city of Tilburg will be directive for the planning and control information. Clarity about roles is also important in the new planning and control vision, the responsibility for the realization of the administrative priorities will be assigned to line management. Thus the line management supported by planning and control advisors of department Planning and control is responsible for the planning and control information. Moreover the current planning and control instruments will be streamlined in order to increase the functionality and effectiveness, some of the instruments will be merged and some will be terminated. To make the planning and control instruments more accessible and readable the scope of the instruments is limited by making a connection with the administrative goals and by providing background- and in-depth information online. The city council, executive board and the management can view online background information on their own initiative. To get a more demand-oriented planning and control, it is necessary that there is more room for direct informal content-oriented contact between the city council, executive board and the civil service. This increases the effectiveness of the planning and control information and saves time. The contact has the character of explanations and clarification and not of decision-making and justification.

4.5 Municipality Amersfoort

With almost 150.000 citizens municipality Amersfoort is the second largest city of the province Utrecht. Amersfoort is a growth city, the population has doubled in recent decades and growth still continues. Since 1997 Amersfoort has the least number of civil servants per thousand residents and currently employs 777 fte of total civil servants. The choice of small, agile and flexible organization has been a deliberate policy for a long time. Amersfoort is a Regie-organisatie, which means that many executive activities are carried out by other organizations such as ROVA (garbage collection), Eemfors (district maintenance), SRO (sport and educational facilities) and Parkeerservice Amersfoort (Parking services). The Regiemodel is based on a vision of identifying the most important task of the municipality; for Amersfoort the most important task is to govern. The main task of the civil service is to support the municipality in its governing responsibility. All the attention and energy is focused on one goal. A large organization with many executive civil servants forms a risk that implementation issues distract from the core business. The implementation of policy is in Amersfoort therefore certainly not seen as the exclusive domain of the municipality. The belief is that market participants are often better equipped and are able to deliver the same quality for less money. Amersfoort views executive activities as activities organized with external parties based on business contracts. The municipality predetermines the conditions. Should certain executive activities still be done by civil servants, the same business dimension will be applied as much as possible.

Amersfoort is also experiencing the effects of the economic crisis, in 2011 €20 million in budget austerity measures were developed and its implementation has left significant traces in 2012. €14 million was cut on tasks and activities in the city and €6 million in the municipal organization. The further implementation of the budget austerity measures will require much commitment in the coming years. Due to the austerity measures municipality Amersfoort changed their organizational structure, from January 2012 the organizational structure consists of the sectors Maatschappelijke Ontwikkeling (MO), Stedelijke Ontwikkeling en Beheer (SOB) en Concernmiddelen. The staff departments of municipality Amersfoort are housed in Concernmiddelen. The municipal management-team, municipal secretary and the executive board are advised and supported in the area of strategy by department Strategie & Bestuur. The organizational structure can be found in figure 14.

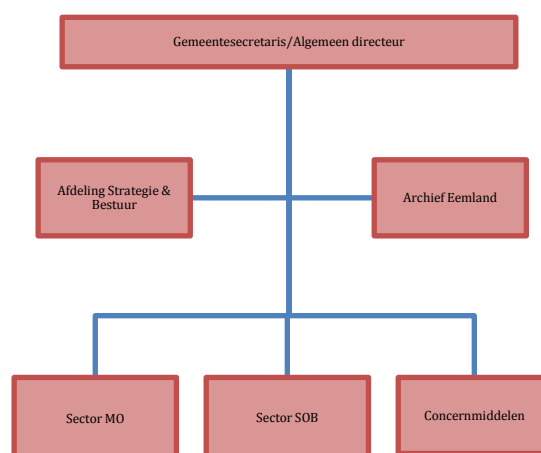


Figure 14: Organizational structure of municipality Amersfoort (Gemeente Amersfoort, 2014)

4.5.1 Financial Organization

Amersfoort comes from a situation in which they had a separate Concernstaf hierarchically placed under the municipal secretary. The Concernstaf was responsible for the municipality-wide coordination of the IPC products. Before 2011 each sector had its own financial administration department however in 2011 the municipality centralized the financial administration departments. In 2011 municipality Amersfoort likewise centralized the coordination of the IPC products previously carried out by the Concernstaf in sector Concernmiddelen, the department Strategie & Bestuur only employs strategic employees and supports the executive board. The financial function of municipality Amersfoort can be viewed in figure 15.

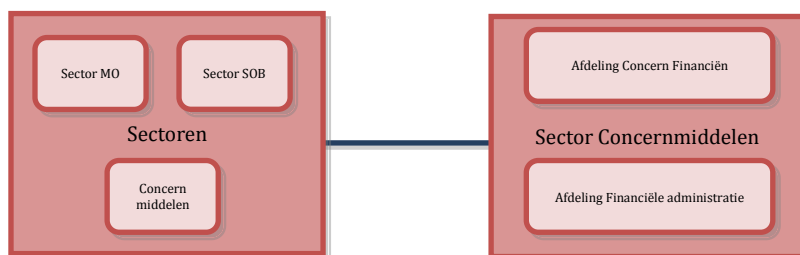


Figure 15: Financial organization of municipality Amersfoort

Each of the three sectors MO, SOB and Concernmiddelen has a sector controller and a staff office in which planning and control employees and AO/IC employees are situated. The sectors MO and SOB have each 10 fte of financials and the sector Concernmiddelen has 5 fte of financials. The sector Concernmiddelen has a sector controller and a staff office that controls operational management of the sector Concernmiddelen in which departments such as HR, ICT, Facility management and Finance are situated; on the other hand sector Concernmiddelen also employs the departments Concern Financiën and Financiële administratie that operate municipality-wide. Department Concern Financiën is responsible for the municipality-wide coordination of the IPC products, risk management, AO/IC (municipality-wide), advisory on shareholding and the municipality-wide purchasing; in total Concern Financiën employs 5 fte. Department Financiële administratie is responsible for the municipality-wide financial administration such as accounts payable- receivable and ledger. Department Financiële administratie employs 10 fte. Thus in total the financial function of municipality Amersfoort consists of 40 fte.

4.5.2 Arrangement of information flow

Municipality Amersfoort centralized the financial administration and the municipality-wide coordination of the IPC products, AO/IC and risk management in the sector Concernmiddelen. Hence Amersfoort only centralized 15 fte of the financial function, one reason for not complete centralization is that Amersfoort has less coordination problems because there are only three sectors and a very small civil service and correspondingly a small financial function. Where centralization is the answer to overcoming coordination barriers and municipality-wide operation, Amersfoort can easily organize through coordination meetings with the three sectors. Since most of the coordination meetings only involve three or four participants there is much more room for municipality-wide coordination and customization.

Presently Amersfoort is making the movement from a sectoren model to a directie model. One of the benefits of the sectoren model is that it is a beneficial coordination mechanism. Municipality-wide coordination in a sectoren model is quite clear and easy to organize. In each sector there is a contact person that is responsible for municipality-wide coordination and organizes its own department in a predetermined way. In an organization with much more departments municipality-wide coordination is more difficult since more people are involved and there is less space for uniformity. On the other hand Amersfoort is considering a reorganization of the organizational structure and the structure of the financial function. There are vulnerable elements in the current financial function such as AO/IC. This team is quite small and therefore

fragile; in case a member is not able to perform help must be externally hired. Because the mutual substitutability of employees is low in the current financial function since most of the financial function is placed decentralized in individual units (sectors). The purchasing team is also a vulnerable group since there are only 4 fte of purchasers municipality-wide. Due to these fragile elements municipality Amersfoort is also considering a further centralization of the financial function currently placed in the three sectors.


To ensure that the centralized financial administration department still operates at a close distant from the sectors, each sector has a liaison officer that operates as a contact point within the financial administration department. The liaison officer often operates in close vicinity of the sector controller. Occasionally there is friction between the sectors and the liaison officer as there are sometimes other interests involved. The important notion in cooperation is that alignment should be organized in an early stage by for example meetings even though there is not much to discuss. It is essential to have consultations on a regular base in which mutual bottlenecks are discussed. Amersfoort also experience tensions between uniformity and customization, this should be extra organized. Amersfoort comes from a situation of strong sectors and each sector designed their own financial function. Hence previously there was only 20% uniformity and 80% customization; due to the financial crisis and a partial centralization of the financial function Amersfoort has made the movement to 80% uniformity and 20% customization. This reversion in uniformity and customization can also allocated to the improvement in ICT application. For example fifteen years ago, each sector had its own chart of account, through substantial investments in ICT every sector works with the same chart of account.

4.5.3 Outsourcing or performing financial tasks in an inter-organizational SSC

Following a discussion on core municipal tasks in the period 1996/1997, the municipality Amersfoort chose Regie as a method of governance. The essence of a Regie method of governance is that the municipality develops management frameworks and external parties implement the policy on the basis of contracts. A municipality should perform executive activities as little as possible; these activities should be performed as independently as possible in forms of contract-management. Another method is to outsource or privatize the executive activities; the municipality then usually operates as a shareholder of the company or as a partner. Privatization of municipal tasks started in the eighties to achieve efficiency gains, in 1996 the city council decided on corporatization, privatization and outsourcing of a large number of executive activities such as sport- and pool accommodations, district- and road maintenance and parking services. Thus Amersfoort outsourced and or privatized a lot of primary processes but the supporting processes such as finance are still completely performed internally. Amersfoort has therefore a relatively high overhead rate of 43,1% compared with the 31% overhead rate of municipality Enschede. In 1996 municipality Amersfoort mainly discussed to outsource and or privatize the primary processes. The business units that were outsourced and or privatized were autonomous divisions in the organization. They operated independently from the rest of the organization, which made the outsourcing and or privatizing relatively easy. Supporting processes such as finance are much more intertwined with the organization, which makes it hard to disengage from the organization in order to outsource and or privatize. On the other hand Amersfoort does not preclude the outsourcing and or privatizing of components of the financial function such as financial administration in the future. Nevertheless the establishment of joint inter-organizational SSCs is in an early stage in the Amersfoort region compared with the Twente region. Cultural interconnection between cooperating municipalities is an important precondition for a successful cooperation as stated by Amersfoort; Twente is culturally much more interconnected compared to the Amersfoort region.

4.5.4 Arrangement of control

Municipality Amersfoort is currently in a period of recalibration of the control function due to a significant budget encroachment some time ago. One of the preconditions for the new control function is that it is not allowed for a director to also have the role of controller, there is much opposition to the idea that butchers should inspect their own meat. Couple of years ago Amersfoort reassessed the IPC cycle in which it was decided to have fewer checks and balances, on the other hand due to budget encroachment there is more voice from the organization to establish the control tower again. Another precondition for the new control function is the shift in roles of controllers. A controller that operates close to the management has a high advisory task but on the other hand has low independence. A controller that has a relatively low management advisory task and operates at a high independence plays much more the role of auditor. A controller that has a low advisory level and operates at a low independence level is not desirable. The ideal structure is the strong controller, which puts equal emphasis on its high advisory role and at the same time operates at a healthy independence level. This new control vision of municipality Amersfoort is summarized in table 3.



High advisory	Management advisor	Strong controller
Low advisory	X	Auditor
	Low independence	High independence
Advisory Level	Independence Level	

Table 3: Control vision of municipality Amersfoort

The controllers of Amersfoort were previously too focused on the management advising role while the new vision requires a focus also on risk assessment and audits. It is important for the controllers to find a balance between these two roles. The director of Concernmiddelen was previously also the concern controller; this is no longer the case and this person currently has the role of CFO with the department head of finance as his right hand man. Presently the controller of Concernmiddelen has the role of strong controller while the concern controller and the department head of finance take up the role of financial strategists. Hence the role of business control and corporate control are split. Financial advisors of department concern financiën support the departments and if this support has resulted in policy proposals for the executive board, the head of the financial administration department then operates as a controller in order to fulfill the independent precondition of a controller. Thus the department head of financial administration has the right to critically question the advisors of department concern financiën in case of policy proposals, the advisors are accountable for the work they have delivered. This construction expresses the new control vision of municipality Amersfoort.

As mentioned previously, Amersfoort wants to make the transition from a sectoren model to a directie model; this transition will self-evidently have consequences for the arrangement of control. Currently each sector has its own control function, if the sectors no longer exist how must then the control function be organized? Another question that arises is that if you organized control centrally how do you ensure support from the departments? Since the controllers are the link between the business units and the centralized concern financiën. The transition in organizational structure will also have effect on the organization of business control and corporate control. Business control can be seen as support to the business units and corporate control can be seen as a unit that controls and monitors municipality-wide financial frameworks. Due to the beforehand mentioned budget encroachment it became clear for Amersfoort that the distinction between business control and corporate control needs to be distinctly formulated. It must not be expected from employees to acquire both roles at the same time since tension between business control and corporate control needs to exist in order to create balance. By establishing a new control vision Amersfoort separated both roles but with the forthcoming organizational structure change in mind, Amersfoort needs to discuss and think hard about how to organize control in the new structure the coming year.

4.6 Municipality Nijmegen

With 165.000 residents Nijmegen is the biggest city of the province Gelderland and is the tenth largest city of the Netherlands. The economic crisis that began in 2008 continues to be widely felt by municipalities. Nijmegen has to absorb even greater setbacks that had been provided at the beginning of the coalition period in 2010. The central government's spending cuts continue and involve more tasks but much less income for the municipality. Furthermore the stalled housing market will result in major setbacks to the land development. Nijmegen is therefore engaged with sizeable cutbacks and austerity measures. In 2012 the actual realization of the cutbacks and austerity measures went well for Nijmegen, 98% of the planned savings of more than €9 million have been realized. In addition the land development took a loss of €18.3 million, this amount is deducted from the operating reserve. The austerity measures have also effect on the municipal formation; the total formation has been reduced to 1.805 fte at the end of 2012. This is a reduction of more then 101 fte due to savings and austerity measures. For the coming years further reductions in total formation are in the planning.

The coalition agreement of Nijmegen is based on a sustainable, socially and economically strong Nijmegen, a city in which it is pleasant to live and work, where the municipality helps people on the road to self-sufficiency and pays attention to people with fewer opportunities. These ambitions set high demands on the professionalism of the municipal organization; an organization that is effective, efficient, transparent and accessible. Therefore Nijmegen further developed the organization; in 2012 Nijmegen continued the transition from a directie model to a network organization in which the business operations are centralized and the directies are removed. The goal of organizational change is to have a modern network organization by 2014, which is flexible and works from outside to inside and in which the wishes and needs of the people who live, work and do business in Nijmegen are central to everything the organization does. The network organizational model of Nijmegen can be viewed in figure 16.

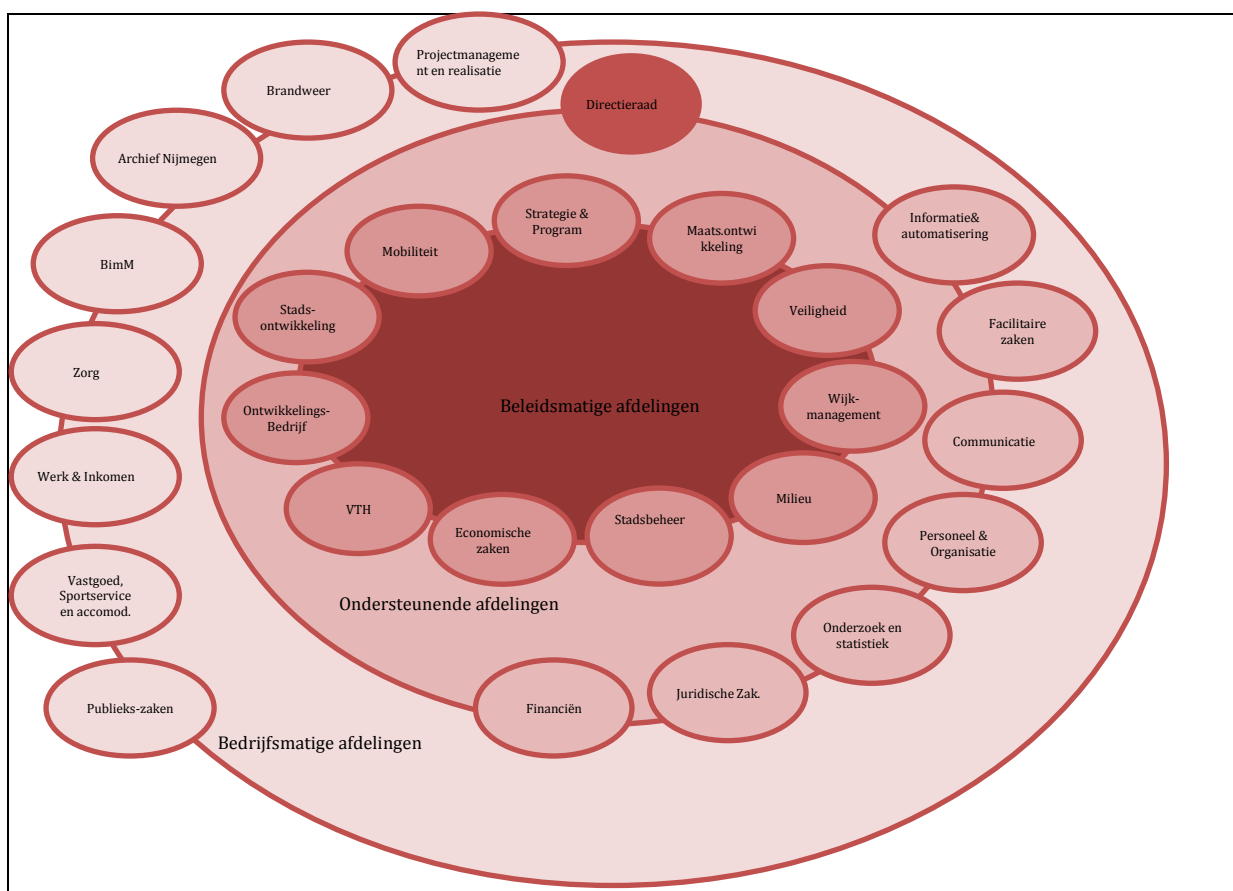


Figure 16: Organizational structure of municipality Nijmegen (Gemeente Nijmegen, 2014)

4.6.1 Financial Organization

The organizational structure of figure 16 took effect on January 2012. Previously Nijmegen operated in a directie model; in total there were five directies. The directies were reasonably independent units; the directie Inwoners was completely independent. It had its own finance, administration, ICT and personnel departments, thus they could operate autonomously from the rest of the organization. The other directies were smaller and each directie had its own controller in 2004. The directies also partially used centralized units such as unit control for municipality-wide AO/IC activities. Unit control was responsible for all of the AO/IC activities in the organization. In addition, each directie had its own controller and a financial department; some of the departments inside a directie had also their own financial department. There was also a city controller. This structure had been in operation since 2004 and actually worked well. The organization had about eight years of experience with this structure and was experiencing a number of limits of this model that needed to be solved in order for the organization to be future-proof. The main reason for redesigning the organization for municipality Nijmegen is the changing environment in which municipalities operate. The organization required a new structure that could handle future challenges and had more of an integrality approach to issues. One of the limits of the previous structure was the hierarchy; Nijmegen has always had a strong hierarchy in their structure. If something needed to be done in the directie than it must go through the director. Some programs in the directies were working together but due to the hierarchy it was very difficult to perceive what other programs were doing. Another limit was that there were many financial departments spread out through the organization; Nijmegen had about 25 managers in the financial function that made the formation of a management-team hard. Furthermore, the current organizational structure was not efficient; many duplicate financial processes were taking place in the organization. In total the financial function of municipality Nijmegen employed 130 fte. Many in the organization were viewing centralization of processes as an answer to prevent the duplication of processes; moreover economies of scale can be achieved by adding organization activities together.

The organization decided on a new organizational model in which departments were formed around each other with no more rigid hierarchical lines. The departments need to operate in close cooperation with each other without any hierarchy. Cost awareness, professionalism and cooperation are the keywords for the new organizational structure. Thus the organization made the transition to a network organization. The support departments were centralized; there is one financial department instead of several previously. The same counts for personnel departments and ICT for example. The centralization of the finance departments also resulted in a sharp decline in the number of financial managers. The directies were dissolved which also resulted in a cut in the number of directors; Nijmegen went from six directors to four including the municipal secretary. Naturally the reorganization demanded a new work culture. It is important that there is no longer compartmentalized thinking and operating; it is essential to think and operate outside your own department in order to fulfill your objective.

In 2012 the centralized Afdeling Financiën consisted of five departments: Concernfinanciën, Bedrijfsadministratie, Adviseurs Fysiek, Adviseurs Sociaal and Control & Audit. The financial function is presented in figure 17.

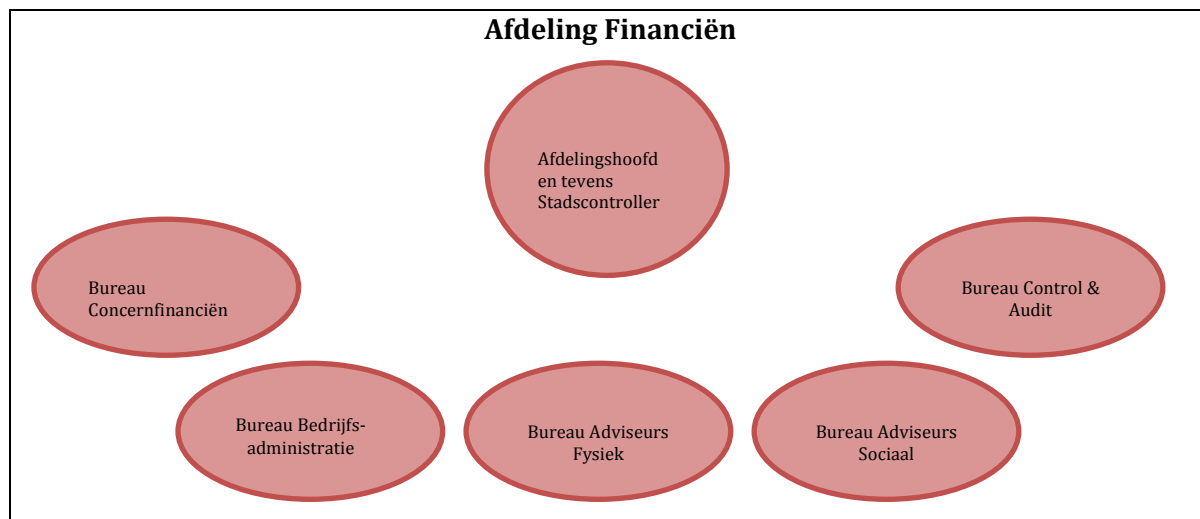


Figure 17: Financial organization of municipality Nijmegen in 2012

Bureau Concernfinanciën is responsible for the coordination of the IPC products, Bureau Bedrijfsadministratie performs administrative activities such as accounts payable-receivable and insurances, Bureau Adviseurs fysiek employs the liaison officers for departments such as urban development and district management, Bureau Adviseurs sociaal employs liaison officers for departments such as social development and mobility and Bureau Control & Audit performs AO/IC and 213a Gemeentewet activities municipality-wide. The positioning of the control and audit department is always a point of discussion; do you position it under the executive board or under the department finance? If the department is positioned too independently, the chances are that they will operate as an ivory tower that stands out from the rest of the organization. On the other hand the department cannot be positioned in the line for the reason of independency. Nijmegen decided to make department control & audit visible as an independent department but as a part of the centralized financial department.

Meanwhile Municipality Nijmegen has two years experience with this structure of the financial function and is facing some limitations and extra cost reductions. The financial structure in 2012 had two departments with liaison officers (Fysiek en Sociaal) and a department Concernfinanciën. In practice it was not clear which liaison officer belonged to which group and on the other hand there were misconceptions that the liaison officers belonged to a program manager and the advisors of Concernfinanciën belonged to the executive board. Since the executive board and the program managers could have different interests, it was possible that the liaison officers and department Concernfinanciën could have conflicting priorities. Hence there was some friction between these departments that has its origins mainly from the old hierarchical management structure. Furthermore, it was in practice unclear which financial advisor is concerned with a certain subject. Besides this confusion, municipality Nijmegen is faced with more cutbacks and austerity measures that made redeveloping the financial function necessary. It was decided that a Bureau should have at least 25 fte and an Afdeling should have at least 50 fte, which made the merging of Bureau's and Afdelingen necessary. Municipality Nijmegen also wanted to have fewer management positions.

Therefore municipality Nijmegen decided to change the structure of the centralized Afdeling Financiën to a new structure that is presented in figure 18. This new structure will be in operation from April 2014.

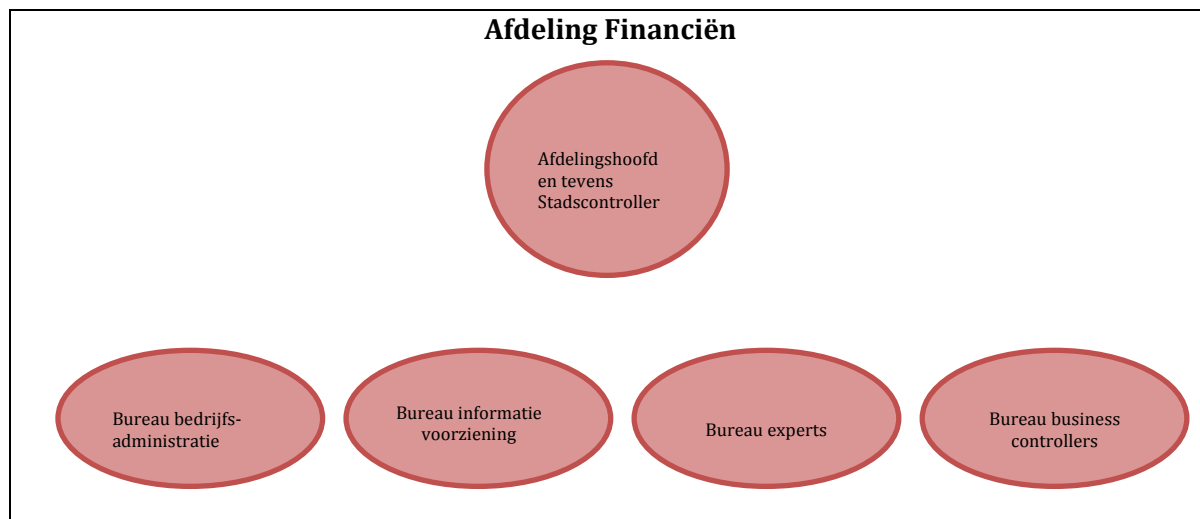


Figure 18: Financial organization of municipality Nijmegen in 2014

Bureau bedrijfsadministratie still performs the same administrative activities as in the previous financial organization with one extra activity; currently Bureau bedrijfsadministratie also employs advisors that perform AO/IC activities municipality-wide which were previously performed by Bureau control & audit. The reason that Bureau bedrijfsadministratie also performs AO/IC activities is that each department must be a full-fledged department; Bureau bedrijfsadministratie is not only responsible for the book-keeping but also for ensuring that the numbers are checked against the legality principle and are correct. They perform the first check and balances. Subsequently Bureau informatievoorziening retrieves the information from Bureau bedrijfsadministratie and does not perform a check on the correctness of the information. Bureau informatievoorziening is responsible for the coordination of the IPC products and for management information. Bureau experts employs senior advisors that are financial strategists and financial experts on several areas such as tax, purchasing, procurement and municipal funding. Bureau experts also develops frameworks for the municipality-wide AO/IC activities. In addition, Bureau business controllers provides the program managers and departments heads with advisors/controllers, they are liaison officers for the departments. In practice there is a lot of collaboration between business controllers and experts, the expert should maintain knowledge in his field of expertise and accompanies the business controller when needed. As can be viewed from figures 17 and 18, municipality Nijmegen went from five Bureaus to four. The cuts and austerity measures made municipality Nijmegen decide that each department should employ at least 50 fte and each Bureau should have at least 25 fte, the Bureau control & audit of the previous financial function only had 10 fte which made aggregation in another Bureau necessary. This provided additional savings in management; Afdeling Financiën has presently four team managers and a department manager, which is still the Stadscontroller.

Before 2012 the financial function of municipality Nijmegen consisted of 130 fte, currently it employs 105 fte. This is achieved by redesigning processes and activities from lean principles and by eliminating doublings and overlaps in activities, which were present in the previous financial function. In order to overcome the challenges of the previous financial function, municipality Nijmegen chose for centralization. There was however resistance to centralization in the beginning, on the other hand employees got new opportunities due to the centralization. The municipality proposed frameworks on how a particular task should be performed; the employees have subsequently the freedom to design the tasks in order to give meaning to the frameworks. Own responsibility is very important in the new financial function; each employee is provided with the opportunity to perform a different task in the new structure. The executive board and the municipal secretary have also played a very important role in order to overcome the resistance, the centralization has been well communicated right from the beginning and regular staff meetings have been held to discuss the centralization with the entire organization.

4.6.2 Arrangement of information flow

It is very important for the centralized financial function to be close to the primary processes, the business controllers are the primary link between the decentralized departments and the Afdeling Financiën. A business controller is the liaison officer and the right hand man for the departments. The business controllers are situated where they are required for the correct executions of their duties, Nijmegen completely switched to the flex-working concept and created flex workspaces in all of their buildings. In the beginning of the transition process to the new financial function, the financial administration employees and the financial advisors were clustered together and operated from another building. This did not work in practice since they were not visible to the program managers, currently the financial advisors and the program managers are situated close to each other. The business controllers are the first contact points for the department managers and if needed they can establish virtual teams in which employees from different Bureaus of Afdeling Financiën are situated. Thus the business controllers are the essential link between Afdeling Financiën and the department managers, the business controllers ensure a uniform working method and municipality-wide coordination. The budget holders are in the current financial function responsible for correct bookings and control of supply, they can request the liaison officers of Bureau bedrijfsadministratie for assistance when required. It is important in the flex-work method for employees to be aware what other colleagues are doing and which colleague is good at what, therefore Nijmegen developed a tool that downloads LinkedIn profile information and uploads it on intranet. Thus all (previous) work experiences of employees are available internally for all colleagues.

The previous financial function of municipality Nijmegen was quite serviceable due to fragmentation, the decentralized departments asked and the financial function delivered. Supported by the new organizational form, the financial function has a leading role presently. Standardization is taking place as much as possible in for example budget statements and information available for the decentralized departments; there is some room for customization in close cooperation with Afdeling Financiën.

4.6.3 Outsourcing or performing financial tasks in an inter-organizational SSC

Currently Municipality Nijmegen performs all financial tasks internally but recognizes that performing tasks in partnerships will become important in the future. Outsourcing and or performing financial tasks in partnerships is currently a step too far for Nijmegen, first of all it is crucial that the municipality has the internal organization in order before even thinking about outsourcing or partnerships. Secondly it also depends on what external circumstances the municipalities have to face in the future, if the municipalities are faced with even more cuts and austerity measures thenceforth they will have more incentive for collaborating. Another important notion for outsourcing and or partnerships in the financial function is that a collaborating municipality should never lose policy influence. Whether the financial administration is performed internally or externally that should not matter, nevertheless it is important for a municipality to have control over the policy makers.

4.6.4 Arrangement of control

Municipality Nijmegen centralized control and it is among others performed by the business controllers. The business controllers were the sector controllers before the centralization. The current financial function Nijmegen has made vast leap forward in the area of expertise, beforehand if the subject of risk management came to discussion many employees from different departments were involved. In practice it was unclear which employee is the contact point for questions concerning for example risk management. Several employees were involved and gave occasionally different advises or even contradicting advises. As mentioned before, the business controllers are the liaison officers (right-hand man) for the departments and they must provide a clear and uniform advice. The business controllers should feel responsible for the advice and should have personal capabilities to operate at a distance and still be close to the matter. Their role as critical reflective partners of the departments is performed from an independent position. Being able to handle the stress that this combination of task and position

possibly entails belongs to the core competences of each business controller. Thus in practice the business controller play an prominent role in the new financial function, there is much expected from them in particular in the field of personal capacities.

In terms of controller roles Nijmegen finds on the one hand independency very important since a controller should be critical and should dare to speak his mind. On the other hand it is the art of still being close to processes in order to give good advise. There needs to be a healthy balance. The department should not experience the business controllers as threat but as added value. In 2003 before the financial reorganization, the employees who performed AO/IC were always located in a separate room disconnected from the rest of the organization. This did not work in practice since the departments experienced the AO/IC as a threat and not as added value. The key is to be visible and present from the front, to take initiative and come up with solutions. It is crucial in the new structure to be involved and give good advise but also at certain time to take distance and ensure independency. Therefore the concept of strong control is very appealing. This new control vision originates from a new way of working at municipality Nijmegen and is supported by the new structure of organization as well as the new structure of the financial function. One of the advantages of a network organization is the absence of hierarchy, it is easy to cooperate with departments and use each other's knowledge and best practices. The new way of working also required different employee skills; to some extent Nijmegen filled the financial vacancies by attracting employees from the accounting domain. The experience with this is that these employees bring a different way of working and thinking. It is also important in the new way of working in Nijmegen that employees rotate between functions.

In 2012 Nijmegen decided to authorize the function of Stadscontroller to the department head of Afdeling Financiën. The department head in the function of Stadscontroller is responsible for the entire municipal organization except the Afdeling Financiën. To ensure the independent position of the Stadscontroller, the accountant of municipality Nijmegen suggested that another employee should be empowered with an independent supervision function. Hence at the moment that the department head of Afdeling Financiën also has the jurisdiction of Stadscontroller, another employee of Afdeling Financiën is designated to guarantee independence. This power is given to the department head of Bureau Control & Audit; this officer has the authority to directly address the municipal secretary or the executive board in case of irregularities. In practice this means that the Stadscontroller is formerly the controller and the empowered department head of Bureau Control & Audit is the operational controller. According to Nijmegen the risk associated with the confluence of power is significantly covered by this construction. In the new financial function, which will be operational from April 2014, there is no Bureau Control & Audit as can be viewed from figure 18. The officer that was previously the department head of Bureau Control & Audit will still employ a management position in the new financial function and therefore the previous Stadscontroller construction will remain operational.

In the coming year municipality Nijmegen intends to improve the IPC products, the maraps (management reports), spring- and autumn note, municipal budget, and the financial statements will remain intact in the new financial function. In case of maraps Nijmegen wants to develop an integral information dashboard for control and accountability purposes that will be used municipality-wide. The framework document (Perspectief nota) of municipality Nijmegen is quite compact (50 pages), nevertheless it still covers everything. On the other hand the municipal budget (284 pages) and the annual statement of account (206 pages) are a huge pack of papers, here lies certain room for improvement. One of the improvements municipality Nijmegen wants to make in the annual statement of account is to justify only at program level, there will be no more comments on the numbers except in the case of large deviations.

This chapter explored the financial function of comparable municipalities by discussing the bottlenecks and inefficiencies experienced by the municipalities. Furthermore, this chapter also

identified financial function models and the reasoning behind the implementation of the models by the municipalities in order to overcome the bottlenecks and inefficiencies of the previous financial functions. The next chapter will elaborate and discuss how municipality Enschede can apply the financial function models.

5. Discussing the integration of financial function models

This chapter will discuss the integration of the financial function models identified in the previous chapter. It distinguishes which model fits municipality Enschede best in a certain scenario to manage their desired, efficient, professional and future-proof financial function. Thereby this chapter answers the last sub-question: *“Which integration model for the financial function fits municipality Enschede best?”* The first section introduces this chapter. Section 5.2 will elaborate on the models that fit municipality Enschede best in a certain scenario while it consecutively elaborates each model's main advantages and challenges identified by literature review and interviews. Section 5.3 will present the recommendations and the final section will elaborate on the dilemmas.

5.1 Introduction

As stated by Schilder, van Dam, van Blijderveen, Valkhoff and Remmen (2011) the financial function of municipalities is in a time of transition due to the occurrence of radical social and financial-economic changes. These changes require a lot of the employees in the financial function: how to deal with financial setbacks and uncertainties on the one hand and the often undiminished administrative and social aspirations and challenges on the other hand? One of the major challenges faced by the municipalities the coming years is how to deal with the financial consequences of the expensive decentralization operations. The financial function within public administration fulfills a central and strategic role in order to overcome the challenges. As reported by Schilder et al. (2011) this requires a different way of working and thinking and hence different knowledge and skills to support policy choices that have to be made with scarce resources. The authors agree that what can help is to perceive the current time as a time of transition. Transition because it is essential to let the old situation go and construct a new situation with new opportunities to improve the capabilities of the financial function. The financial crisis has increased urgency to do something new and has opened doors that recently were taboo. Inherent to these developments, four of the five municipalities examined in this case study constructed a new situation by redeveloping the model for their financial function. The next paragraph will apply these developments in the case of municipality Enschede.

5.2 Applying the financial function models

This case study identified different models for the financial function applied by comparable municipalities. Within these models the question that rises is “What are the most important considerations to decide on a particular model?” Consequently this section elaborates on the models and enlightens the advantages and challenges that should be taken into consideration identified by literature review and mentioned by the case study subjects of this research. Since every model has its advantages and disadvantages organizations have to make a comprise when selecting a model. Therefore organizations should view the disadvantages as challenges and view them as opportunities to make a model even more successful, instead of viewing them as rigid disadvantages. The ability how an organization responds and deals with the faced challenges ultimately determines whether the integration of a model is successful or not.

5.2.1 The centralized model

The first variant of the centralized model

Centralization is one model to structurally design and coordinate the financial function. In this context centralization signifies that for the most part the financial function activities are performed at a central position in the organization. The activities are performed at concern level, which means that the centralized financial function strategically and functionally operates municipality-wide. Hierarchically they might be part of the support departments. To apply this model for municipality Enschede certain assumptions need to be established. The first assumption is that all of the financial function activities are performed internally, thus the establishment of IBO has not (yet) taken place. The second assumption is that outsourcing and or privatization of executive activities has also not (yet) taken place and the municipal organization is therefore still the same size. Figure 19 presents the centralized model for municipality Enschede.

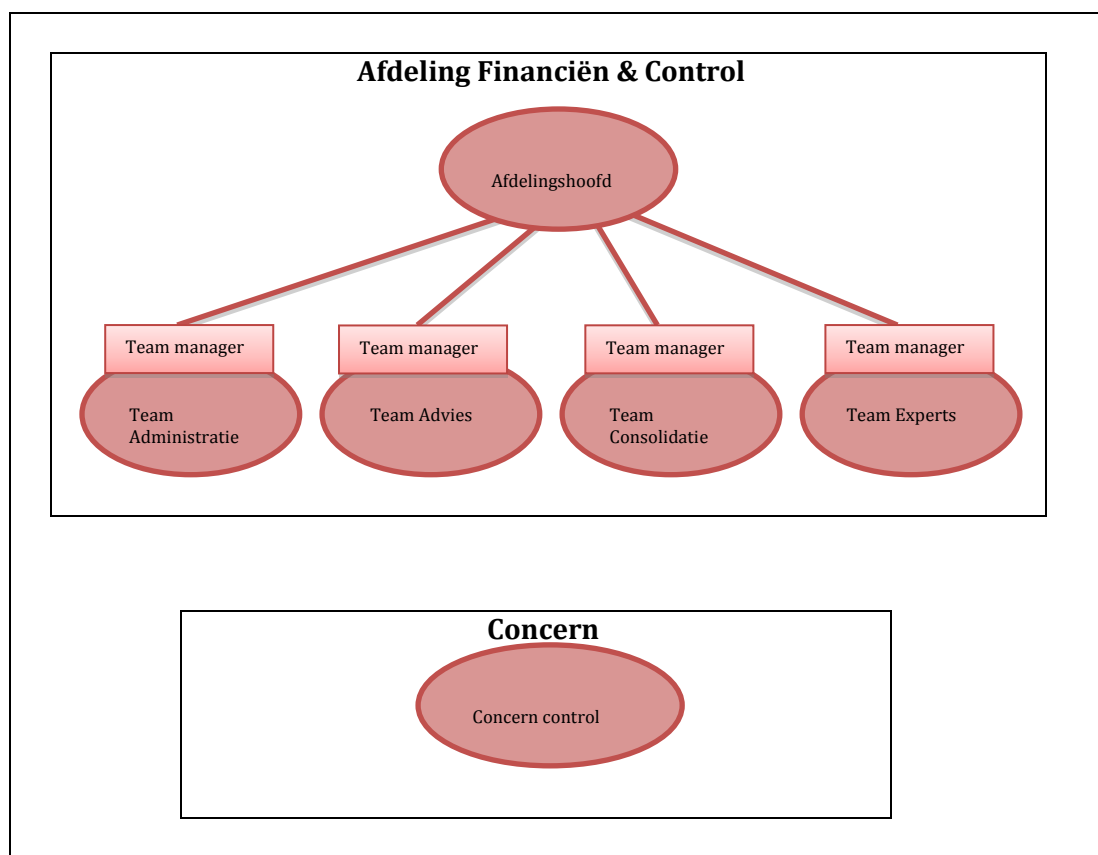


Figure 19: Centralized model A of the finance function

In the centralized model the objective of Team Administratie is to set up, manage and register financial administration and the closely related administrations within the municipality. Team Administratie performs executive activities such as accounts payable-receivable, ledger and financial administrative support (FAM). The objective of Team Advies is to support and advise the departments around the subjects of planning and control and the management of projects. The advisors of Team Advies (liaison officers) are actively involved in the development of policy proposals and executive board recommendations. They also support the management cycle and are responsible for management information. The senior advisors of Team Advies perform business control and advise on department transcending issues, they advise on board level. The objective of Team Consolidatie is to proactively ensure the coordination and development of the planning and control products. They are responsible for the guidelines and formats for the planning and control cycle and for the consolidation of the products. Team Consolidatie is also responsible for internal control, 213A GW and risk management. Internal control and audit has been placed with Team Consolidatie to ensure the independent position and segregation of functions in relation to the administration and business advisors. The objective of Team Experts is proactively ensuring strategic advice in the field of business economics and financial issues. Team Experts employs financial strategists and experts on several areas such as municipal funding, VAT and subsidies. The concern controller is placed outside the centralized Financiën & Control department and is positioned in the Concern department (previously Concernstaf). The objective of the concern controller is to support, advise and monitor the efficiency, effectiveness and legitimacy of the municipal organization. Apart from the concern controller, department Concern does not employ any financial. Department Concern employs strategists and advisors/liaison officers for the municipal executive board.

Since all of the financial activities are centralized including the staff offices and controllers, it is crucial for the employees to think outside their teams and apply a network approach. It is expected from all teams to professionally work with partners whom they provide support and advise. The advisers/ controllers are required to be situated where they can correct execute

their duties. They are hierarchically centralized but might often be physically situated close to the departments. The liaison officers are rotated over time between the departments to provide a fresh look at departmental affairs.

Advantages

The centralized financial function can provide several advantages to the organization (see chapter 3).

- **Economies of scale by bundling activities:** Centralization of activities is characterized by economies of scale and scope since procurement of assets and services is possible within the organization. Centralization provides the ability to consolidate assets from different parts of the organization to create economies of scale advantage. Centralization provides higher cost-predictability (Hodgkinson, 1996; Cima, 2009; Janssen & Joha, 2006).
- **Economies of processes:** Centralization reduces costs through process standardization and by preventing process duplication. One of the top reasons for centralization is to secure a common way of working. Organization wide the same process and activity procedures will be applied (Davenport, 2005; Bangemann, 2005).
- **Economies of personnel:** Centralization reduces headcount and salary/wages due to grouping of similar tasks and standardization of processes. One of the motives achieved after centralization in public administration in the Netherlands is reduction in overcapacity (Bangemann, 2005; CFO Research Services and Capgemini Ernst & Young, 2002; Janssen & Joha, 2006).
- **Simpler organizational structures:** Centralizing activities eliminates redundant departments and provides an overall organizational improvement due to a simpler organizational structure (Bauer, 2003).

Challenges

Centralizing the financial function can also have several challenges as identified by literature review:

- **Failure in realizing synergies:** The fixation of the unit manager or the fixation of manager of the centralized department on their own business blocks the potential added value that could reach by centralizing. The centralized business units could have different work cultures that make the achievement of synergies difficult (Van Helden et al., 1997).
- **Lack of business unit focus:** Centralization tends to focus on corporate requirements and not on business unit strategic requirements (Leenders & Johnson, 2000).
- **Distance from users:** Centralization increases the distance to the primary users (Leenders & Johnson, 2000).

Almost all of the case study subjects mention a lack in central and municipality-wide coordination in their previous decentralized financial functions. There was also a lot of overlap in functions and activities due to the fragmentation of the financial function. Since there were many financial departments spread out through the organization that suffered from duplication of processes, the case studies had too many management positions and a large financial functions in fte. By centralizing processes and activities the case subjects significantly improved the municipality-wide coordination, uniformity and reduced the number of personnel. The financial advisors and controllers are still often physically closely situated at the decentralized units in the case of centralization. One of the case subjects mentioned that organizations should be careful when applying the centralized model for the tendency that the liaison officers might get too involved with the decentralized units and become prone to their arguments since they are mostly situated close to the departments. Thus if an organization decides to establish fewer checks and balances since all of the employees are centralized, they might be deceived by this phenomenon. In a decentralized organization in which employees are positioned hierarchically

at the decentralized departments, the organization knows that they are prone to the arguments in favor of their department and can establish checks and balances accordingly.

The second variant of the centralized model

The program controllers of the current financial function of municipality Enschede are centralized in Team Advies as can be viewed from figure 19. In the function of senior advisors, the controllers are coupled to directors and advise on department transcending (cross-departmental) issues. It is arguable to suggest that ambiguity of their job demands might increase if they are centralized. Literature suggests that controllers find their local decision-making as their primary responsibility (see chapter 3.2); therefore decentralized positioning of a controller can enhance the advisory level, which is essential in a difficult financial situation and a high level of dynamics. It is also plausible to suggest that a decentralized positioning of a controller might reduce the information asymmetry between the director and his right hand man, the controller. Therefore figure 20 presents a second variant of the centralized model.

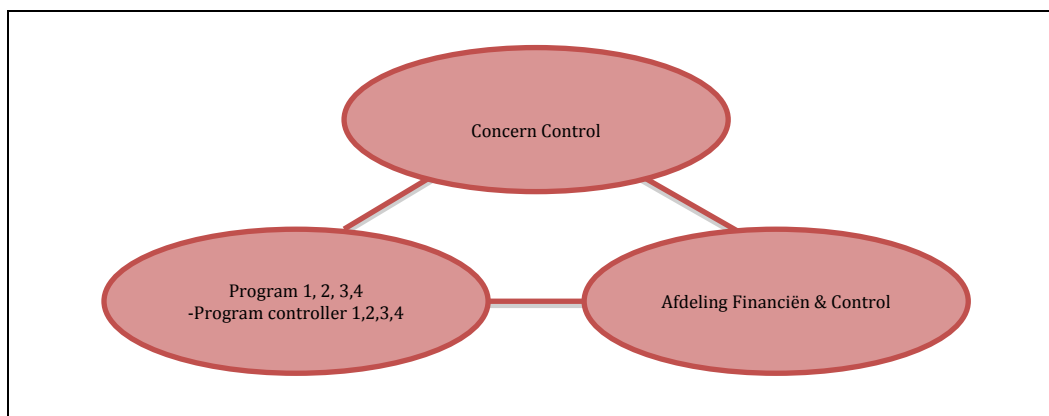


Figure 20: Centralized model B of the finance function

In this variant of the centralized model, Concern Control is the same as in figure 19. Afdeling Financiën & Control is also mostly the same except that Team Advies does not include the senior advisors (controllers). The controllers are positioned decentralized in the programs; each of the four programs has a program controller.

Advantages

The decentralized positioning of controllers can provide several advantages mentioned by literature review:

- **Enhanced advisory level:** Decentralized positioning of controllers might result in enhanced advisory level since field research showed that controllers find their local decision-making (advisory) as their primary responsibility (Maas & Matêjka, 2009).
- **Less information asymmetry:** Decentralized positioning of controllers reduces information asymmetry between program directors and controllers. The controllers are close to the directors from which they get the asset and the best information that makes supporting the business easier (Järvenpää, 2007).

Challenges

Besides not fully utilizing the advantages of a centralized model, the challenge associated with the decentralization of controllers is:

- **Strong controller role not suitable:** Decentralized strong controllers perceive their advisory as more important than their functional responsibility (Maas & Matêjka, 2007).

Even though literature has a slight preference for decentralized positioning of business unit controllers, it is ultimately a matter of right execution and the possession of the right core competences that can even make a centralized positioning successful. It is justified to expect from controllers the ability to find an ultimate balance between their local decision making

support from a centralized positioning. Almost all of the case study subjects of this research chose a model more or less similar to figure 19 in which the controllers are centralized and are part of the advisory team. The advantages obtained by the fully centralized model outweigh the argument of for example information asymmetry. This argument can be dissolved by centralized positioning and decentralized execution by controllers. One of the case study subjects mentioned that even though the business unit controllers are centralized, they still physically operate at the same department as the business unit directors. Furthermore, the case study subjects expressed strong preference for the strong role of business unit controllers, which is as can be viewed from the literature review, more suitable from a centralized position.

5.2.2 The hybrid model

The hybrid model is a combination of centralization and decentralization; the primary benefit of the implementation of the hybrid model approach is that it provides the prospect of combining the advantages of both centralization and decentralization as can be viewed from figure 21 (Leenders & Johnson, 2000). According to the authors the hybrid structure is the most commonly used structure within large organizations.

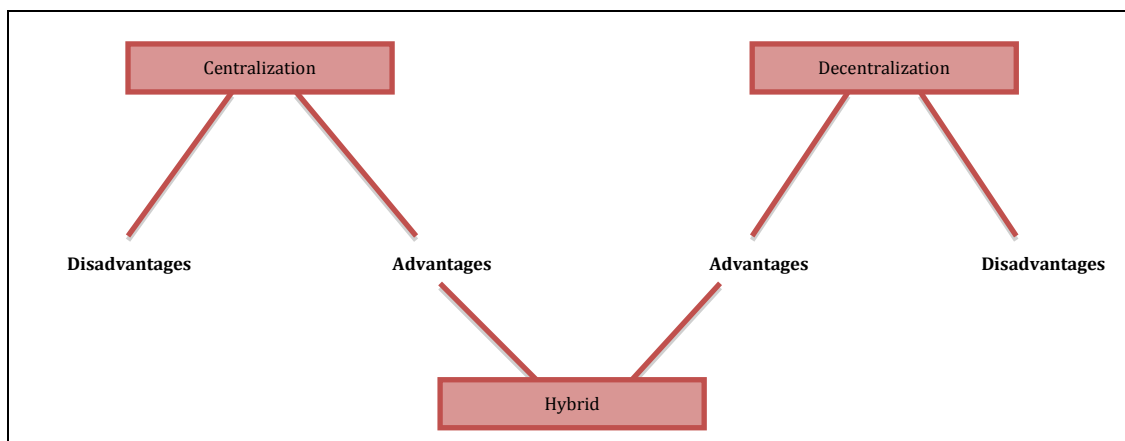


Figure 21: The hybrid model (Leenders & Johnson, 2000)

To apply this model for municipality Enschede certain assumptions need to be established. The first assumption is that due to the IBO many executive activities such as financial administration are being performed in an inter-organizational SSC. Furthermore, due to outsourcing and or privatization of executive activities such as Onderhoud Enschede, municipality Enschede becomes a small, agile and flexible organization (Regie-organisatie). Since many organizational activities are being performed externally, municipality Enschede significantly reduced the number of employees to approximately 800 fte. The outsourcing and or privatization of activities has also a significant effect on the number of employees in the financial function, this number has been reduced predominantly due to the IBO to approximately 60 fte. Figure 22 applies the hybrid model in the case of municipality Enschede.

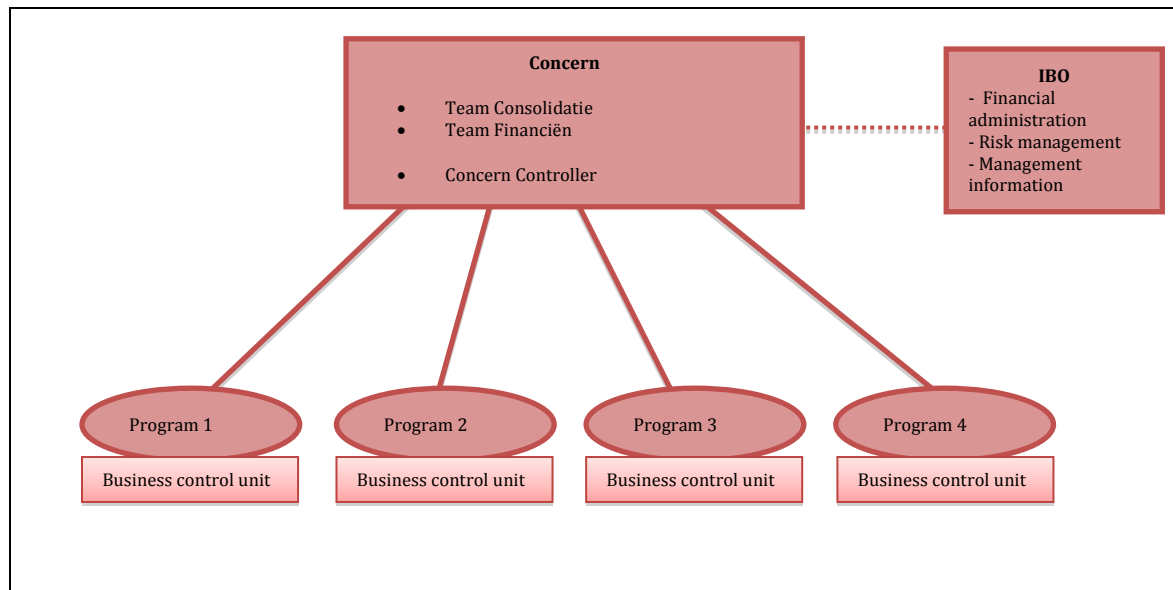


Figure 22: The hybrid structure of municipality Enschede

In the hybrid model financial administration will be performed externally by the IBO, they will perform executive activities such as accounts payable-receivable, ledger and financial administration support (FAM). The IBO is also responsible for risk management, audits, 213A GW and management information. The IBO has a close link with Concern since Concern is the contractor and they perform shareholder ship. Each of the four programs has a business control unit in which planning and control employees and the controller are situated. The business control units are responsible for financial advisory and control on primary processes of the program; no financial administrative activities are present in the programs. Furthermore, a distinction based on the nature of financial activities is being made in the business control units. Only activities of financial policy nature are performed in the business control units, for these activities it is crucial to be close to the primary processes. Activities of financial operational nature are not performed in the business control units but are centralized in department Concern or are performed in the IBO. Preferably, the business control unit consists of one controller supported by a couple of financials. Team Consolidation, which is part of Concern, ensures the coordination and development of planning and control products. Team Consolidation is solely responsible for the guidelines, formats and for the consolidation of the planning and control products. Financial strategists, financial policy employees and treasurers are part of Team Financiën. Team Financiën is also responsible for advisory on shareholdings and contract ship towards the IBO and the outsourced/privatized business units. Team Financiën also performs an integral check of board proposals. The concern controller is also positioned in Concern but functions as an autonomous authority. The task of the concern controller is to support, advise and monitor the efficiency, effectiveness and legitimacy of the municipal organization.

Advantages

The hybrid model can provide advantages of both centralization and decentralization:

- **Enhanced understanding of local needs:** The hybrid model offers business unit autonomy and control over key functional activities, which leads to enhanced understanding of local needs and therefore to more situation-specific advisory. The quality of decision-making is improved due to the specialized advisory (Leenders & Johnson, 2000; Keuning & Eppink, 1990).
- **Increased professionalism:** The hybrid organizational model is especially suitable as a model in case of externalization and detachment of business units. The influence of politics shrinks which gives the externalized business units the space to run their unit like a normal business, which has a positive effect on the professionalism (Karré & Ribeiro, 2005).

- **Higher speed of change:** Technological and societal changes occur with indefinite speed, the hybrid model allows the organization to act quickly due to enhanced understanding of local needs, which guarantees the quality of services (Leenders & Johnson, 2000; Karré & Ribeiro, 2005).

Challenges

The hybrid model has also several challenges that should be kept in mind in case of implementation of the hybrid model:

- **Competence friction between line and decentralized units:** The decentralized units (staff offices) can cause competence friction by acting in the responsibilities of the line management that can cause vagueness and competence friction between the decentralized unit and central unit (Keuning & Eppink, 1990).
- **Tensions between central unit and decentralized units:** The central unit has the desire to control, coordinate and standardize processes; this can conflict with the desire for autonomy and freedom of the decentralized units. These tensions can have negative impact on the functioning and perception of decentralized units (Kloosterboer & Sterk, 1996).

One of the investigated case study subjects of this research applies the hybrid model for the financial function. This municipality is pre-eminently a Regie-organisatie, which means that they have outsourced and or privatized many executive activities. Consequently, they have a small civil service size of about 777 fte in total and 40 fte in the financial function. Where the other case study subjects chose centralization as a mean to solve the coordination and overlap in activities problem, the municipality with the hybrid model can prevent this kind of problems since they have a small and agile civil service in which there is less room for coordination problems. As mentioned in the advantages the hybrid model leads to enhanced understanding of local needs and therefore leads to more situation-specific advisory. Which is especially needed since the programs and the business control units fulfill a commissioning role towards the outsourced and or privatized business units. On the other hand the hybrid model municipality also recognizes that standardization must be extra organized since the hybrid model has more fragmentation compared with the centralized model. However, organizing standardization is much easier in a small organization where is less need for customization compared with a large organization. This financial function model has also vulnerable elements; the substitution of employees is much less compared with a centralized model. In a centralized model employees can replace each other much easier in case of sickness for example.

5.3 Recommendations

This chapter has been devoted to describing how municipality Enschede could apply the financial function models. Literature review and case study research identified two different models to integrate the financial function: the centralized model and the hybrid model. These two models provide the opportunity to create several variants since there is no permanent set of blue prints that determines which models should be selected. More importantly, the integration of the financial function models has a situational context as elaborated in the assumptions in the previous sub sections. The analysis in the previous sub section indicates that the centralized and the hybrid model can both fit municipality Enschede in a certain scenario. The scenario sketched for the hybrid model could prove to be a more realistic scenario since municipality Enschede and the joining municipalities are formerly discussing and researching the establishment of the IBO, which would have a major influence on the financial function. Furthermore, the executive board of municipality Enschede has decided on the internal independence of Onderhoud Enschede. In other words, Onderhoud Enschede will remain part of municipality Enschede however they will have their own (financial) operational management. By gaining sufficient experience with this method, a development towards an independent organization would ideally be the next step. Besides, the hybrid model is essentially a further development of the current financial function with much more emphasis on Concern.

Therefore, it is recommended to integrate the hybrid model for the financial function. This recommendation is based on the following arguments:

- The hybrid model combines the key advantages of both centralization and decentralization.
- The hybrid model leads to enhanced understanding of local needs and therefore to more situation-specific advisory. The environment in which municipality Enschede exercises its functions will evolve significantly in the coming years due to the realization of the IBO and the (internal) independency of business units. It is expected from the employees more than before to make the connection with policy and the outside world, which requires strengthening of the understandability of local needs and an increase in advisory skills. The enhanced understanding of local needs will also lead to improved situation-specific advisory which will be required in order to cope with the intensification of organizational dynamics.
- The hybrid model is principally a further development of the current financial function. Apart from the couple of inefficiencies, the current financial function works well and is favored by many employees. However the employees also state the need for more uniformity, centralization and more of a concern approach, which can be achieved by integrating the hybrid model.
- The hybrid model leads to more critical power. Since the financial function is not entirely centralized, Concern and the decentralized business control units could function as each others countervailing force. This could lead to higher critical ability for the financial function compared with a complete centralized financial function.

Following the recommendation to apply the hybrid model, it is strongly advised to overcome the challenges associated with the hybrid model mentioned by literature review and case study research. The following recommendations are made in order to take fully advantage of the hybrid model and can be perceived as important preconditions for successful hybrid model integration:

- **Adequate standardization of processes and activities.** The hybrid model has more fragmentation compared the centralized model; therefore standardization should receive additional attention. Concern should be the leading factor in the financial function and should reinforce standardization and uniformity.
- **Only activities of financial policy nature should be performed in the business control units.** Ideally, a clear distinction is made in the financial activities in the staff offices; financial operational activities should be centralized in department Concern or should be performed in the IBO in order to take advantages of economies of scale.
- **Frequent rotation of employees.** Rotation over time provides variety in work activities and leads to a fresh look at departmental affairs from time to time. Due to rotation employees can learn from each other and apply each other's best practices. This reinforces standardization and uniformity. Thereby, due to rotation employees can take over each other's work if necessary. The establishment of the IBO will enforce the need for frequent rotation of employees since there is the risk of missing crucial organization knowledge due to the increased distance from the primary processes. Thus frequent rotation will have an important bearing due to the recommendation of applying the hybrid model.
- **Applying a network approach.** Due to the fundamentally changing structure in which municipalities operate, it is important more than ever for employees to apply a network approach and think outside their own department and or organization. The establishment of the IBO and the future outplacements of business units will require of the municipal organization to work with core teams surrounded by an extensive network of colleagues from in- and outside the organization who do the jobs together. This approach requires other competences of employees such as customer orientation, goal driven and communication proficiency.

5.4 Dilemmas

As mentioned before, besides the models and variants enlightened in the previous section several other possible variants can be designed. At their cores, the models craft situations in which difficult choices have to be made between two or more alternatives. These dilemmas especially rise when incorporating the IBO into the models. There are several possibilities to look at the IBO from different angles and viewpoints. First of all, the municipalities can decide to only transfer financial administration activities to the IBO, thus the IBO will only perform operational and executive activities. The possibility of achieving economies of scale and economies of personnel will certainly rise, whether financial administration activities are performed in one municipality or in another does not differentiate that much. There is even the opportunity to increase the service level by learning and applying each other's best practices. Hence, it can be an organizational choice to only transfer the executive activities to the IBO. On the other hand if only executive activities are performed in the IBO, only employees with competences that are needed for executing the operational activities will be transferred to the IBO. Whereas the municipalities will be keen to retain the high potential employees in their own organizations. Whilst it is crucial for the success of IBO to also have high potential employees with core competences such as creative problem solving, flexibility and customer focus. These employees ultimately have to make the connection from the IBO to the internal processes of the participating municipalities. In order to attract and challenge these high potential employees the IBO should have more body. This can be achieved by performing higher order activities such as internal control, risk management and management information.

Another option to strengthen the IBO even further is to transfer the creation of the planning and control products (Team Consolidatie) to the IBO. Once again the possibility of achieving economies of scale will definitely arise, the realization of for example the annual statement of account will not defer that much between the municipalities. On the contrary, there are some planning and control products such as the municipal budget that require much more reconciliation from the executive board and board of directors. Especially in difficult financial-economic times. Another factor that might complicate the transfer of higher order activities to outside the own organization is politicization. This can be clarified by taking a factory as example. A factory uses raw materials as inputs and develops them via a clear and rigid set of processes into an end product. A municipality also has certain sets of processes in which inputs are transferred to an end product, but the main difference is that politics can run throughout all of those processes and can change the input as well as the output at every level of the development process. Thus organizational dynamics are entirely different in a political organization, which might require from the planning and control products to be as flexible as possible and therefore be close to the primary processes. Thus these dilemmas will exist and the joining municipalities have to make a weighted decision. It is going to be crucial for the success of the IBO to have the ability to challenge high potential employees. Therefore the IBO should be positioned as an elite group of people that perform activities across municipalities. Future employees should perceive it as a unique opportunity of which they really want to be a part of.

This chapter described which integration model for the financial function fits best for municipality Enschede by answering the last research question "*Which integration model for the financial function fits municipality Enschede best*". By reviewing literature and conducting case study research two mechanisms to structurally integrate the financial function were identified: centralized- and hybrid model. Both of these models have their own advantages and challenges that should be taken into consideration when applying the models. The next chapter will be dedicated to the overall conclusion of this research and thereby answering the main research question.

6. Conclusion and future research

Chapter 1 described the case organization, their financial organization and formation. Chapter 2 elaborated on the problem background and on the methodological part of this paper while chapter 3 established base for this research by a thorough literature review. Chapter 4 answered the first three research questions whereas chapter 5 answered the last research question. This concluding chapter is devoted to the overall conclusion of this research and thereby answers the main research question. The sub-questions are answered in the first section. Based on these answers, the first section states a summarizing answer to the main research question. Section 6.2 presents a discussion on the limitations of this case study research while section 6.3 concludes this paper with identification of future research directions.

6.1 Answer to the research questions

First sub-question: *“Which financial tasks do comparable municipalities centralize and how is the information flow organized?”* The first sub-question is answered in table 4.

Municipality	Financial organization	Information flow
Hengelo Citizens: 81.000 Fte in financial function: 31 fte	<ul style="list-style-type: none"> • Complete centralization. • Financial administration, planning and control, treasury, controlling and policymaking are centralized in sector Personeel & Financiën. • Internal control, risk management and audits are centralized in sector Informatie & Faciliteiten. 	<ul style="list-style-type: none"> • The centralized finance department employs liaison officers to each of the decentralized departments. • The liaison officers are financial advisors that operate in close vicinity of the decentralized departments. • Senior liaison officers are responsible for municipality-wide coordination.
Zoetermeer Citizens: 123.000 Fte in financial function: 88,4 fte	<ul style="list-style-type: none"> • Complete centralization. • The financial function is divided in three teams and cluster control. • Team administratie performs financial administrative activities. • Planning and control employees and controllers are centralized in Team advies. • Financial policy makers, treasury and AO/IC employees are centralized in team Expertise. • Cluster control placed under the concern controller is responsible for the independent view on the organization and advises on a strategic level 	<ul style="list-style-type: none"> • From all teams is expected to professionally work in close vicinity of the decentralized departments. • A network approach and collaboration is applied. • Each of the decentralized departments has liaison officers in team advies that work close to the departments.
Tilburg Citizens: 210.000 Fte in financial function: 108,51 fte	<ul style="list-style-type: none"> • Complete centralization. • Three financial advisory teams coupled to administrative goals. • Planning and control employees and controllers are centralized in the three financial advisory teams. • Financial administration is centralized in team Financiële inrichting & beheer and in department Informatie voorziening. • Accounts payable/receivable are performed in department Informatie voorziening. • Treasury, internal control and audits are centralized in team Consolidatie. 	<ul style="list-style-type: none"> • The three advisory teams support the primary processes and are often situated physically close to the departments. • Because these advisory teams are all centralized they work uniform and apply best practices. • Every team manager of the centralized financial function and the departmental head of Planning & Control form a management-team. • Every decentralized department and director has a liaison officer in the management-team. • Network approach applied in organization.
Amersfoort Citizens: 150.000 Fte in financial function: 40 fte	<ul style="list-style-type: none"> • Hybrid model. • Financial administration, risk management, internal control municipality-wide is centralized. • Planning, coordination and consolidation of the planning and control products is centralized. • Controllers, planning and control employees, AO/IC employees are decentralized in the three sectors. 	<ul style="list-style-type: none"> • Due to a small organization less coordination problems. • Each sector has a liaison officer within the centralized departments such as financial administration.
Nijmegen Citizens: 165.000 Fte in financial function: 105 fte	<ul style="list-style-type: none"> • Complete centralization. • Financial administration, internal control and audit are performed by bureau bedrijfs-administratie. • Planning and control advisors and controllers are centralized in bureau business controllers. • Financial policy makers are centralized in bureau experts. 	<ul style="list-style-type: none"> • A network approach is applied in the organization. • The business advisors and controllers are situated physically close to the departments. • Business controllers are the liaison officers for the decentralized departments.

Table 4: Financial task and information flow organization of comparable municipalities

Second sub-question: ***"Which financial tasks have other municipalities outsourced or are performed in inter-organizational shared service centers and how is the information flow organized?"*** The second sub-question is answered in table 5.

Municipality	Outsourcing and or performing financial tasks in inter-organizational SSC's
Hengelo Citizens: 81.000 Fte in financial function: 31 fte	<ul style="list-style-type: none"> • All of the financial tasks are performed internally. • The municipality is closely monitoring the discussions held about the IBO. • According to municipality Hengelo, a partnership should have a clear added value and a constant quality. • An inter-organizational SSC should facilitate for the employees to be still close to the primary process.
Zoetermeer Citizens: 123.000 Fte in financial function: 88,4 fte	<ul style="list-style-type: none"> • All of the financial tasks are performed internally. • According to the municipality, a town the size of Zoetermeer should be capable of performing financial tasks in house. • An inter-organizational SSC is helpful for a small municipality since small municipalities get the most benefit from a partnership. • It takes a lot of time for an inter-organizational SSC to operate properly, especially if the organizational cultures are different. • Performing tasks outside the organization increases distances, which must be facilitated by a partnership.
Tilburg Citizens: 210.000 Fte in financial function: 108,51 fte	<ul style="list-style-type: none"> • All of the financial tasks are performed internally. • It is a lot easier for small municipalities to outsource and or jointly perform activities. • For a large organization it is hard to achieve the prospected synergies and savings. • Performing activities in partnership will ultimately become more important in the future, especially with regard to the three decentralizations.
Amersfoort Citizens: 150.000 Fte in financial function: 40 fte	<ul style="list-style-type: none"> • All of the financial tasks are performed internally. • It is easier to outsource and or privatize the primary processes compared with the supporting processes. • Supporting processes are much more intertwined with the organization, which make outsourcing harder. • Outsourcing and or performing activities with partners will become more important in the future. • Before municipalities can work together on activities they must have cultural interconnection. • Cultural interconnection is less in the Amersfoort region compared with the Twente region.
Nijmegen Citizens: 165.000 Fte in financial function: 105 fte	<ul style="list-style-type: none"> • All of the financial tasks are performed internally. • Performing tasks in partnerships is currently a step too far for municipality Nijmegen. • Before performing partnerships municipalities should first of all have their internal organization in order. • The municipality recognizes that performing activities will become more important in the future. If municipalities are face with even more cuts and austerity measures, they will have more incentive for collaborating. • A municipality should never loose policy influence when performing task in partnerships. Whether the financials administration is performed internally or externally should not matter. Nevertheless it is important for a municipality to have control over the policy makers.

Table 5: Performing financial tasks in inter-organizational shared service centers

Third sub-question: *“In which way have other municipalities organized control throughout their financial function?”* The third sub-question is answered in table 6.

Municipality	Arrangement of control
Hengelo Citizens: 81.000 Fte in financial function: 31 fte	<ul style="list-style-type: none"> Centralized control function in sector Personeel & Financiën and in sector Information & Faciliteiten. Auditors, risk managers and internal controllers positioned in sector Information & Faciliteiten to ensure an independent position. Independent position of control is preferred. No concern controller, concern control is integral responsibility of management. Key groups of staff from different disciplines (HR, Finance, IT, Sector manager) assess executive board proposals. Strong municipality-wide approach concerning management information, 90% standardization, 10% customization.
Zoetermeer Citizens: 123.000 Fte in financial function: 88,4 fte	<ul style="list-style-type: none"> Centralized control Move from financial control to integral control. Department head performs first line control assisted by the business controller of team advies. Board directors perform second line control (examination of efficiency and effectiveness of operations). Cluster control including the concern controller performs third line control (examination of the development, maintenance, and enforcement of the control vision). Fourth and fifth line control performed by executive board and city council. The management cycle is playing the leading role in the IPC cycle; from the management cycle to the city council cycle is a small effort. Independent role of controller is preferred; controllers are called senior business advisors and support the departments in planning and controlling issues from an independent position.
Tilburg Citizens: 210.000 Fte in financial function: 108,51 fte	<ul style="list-style-type: none"> Centralized control in departments Planning & Control and Strategie & Control. Controllers have the function of senior advisors planning and control and are part of the three advisory teams. The corporate controller is positioned in department Strategie & Control and is the only financial. The controllers are responsible for the more difficult advisory cases. Strong role of controllers is preferred. It is expected from the controllers to continuously provide good advice from an independent position. Corporate control is aimed at achieving the administrative goals and to provide a countervailing power to the board of directors. Director of operations is the CFO, the CFO operates as a countervailing force that periodically assesses and evaluates the performance of the control system. Planning and control products are merged when possible or even terminated to increase accessibility and readability. Background information is provided online for the planning and control products. There is direct informal contact between city council and civil service, which benefits hugely for the planning and control products.
Amersfoort Citizens: 150.000 Fte in financial function: 40 fte	<ul style="list-style-type: none"> The municipality is in a period of recalibration of the control function. Directors are not allowed any more to fulfill the role of controller. Few years ago Amersfoort reassessed the IPC cycle in which fewer checks and balances are established. Currently there is more voice from the organization to reestablish the control “tower”. A shift from involved controller role to strong controller role is desired. Currently the controllers are too involved in the advisory role and have low independence, in the new control vision the controllers need to find a healthy balance between advisory and independence. How to rearrange controllers in the organization in order to fulfill these desires is not yet clear, the organization has to think hard how to do it in the coming year. There needs to be a clear distinction between business control and corporate control, it must not be expected from employees to acquire both roles at the same time. By establishing a new control vision Amersfoort hopes to separate these two roles.
Nijmegen Citizens: 165.000 Fte in financial function: 105 fte	<ul style="list-style-type: none"> Centralized control in Afdeling Financiën and is among others performed by the business controllers. Due to team experts, it is clear which employee is involved in for example risk management. Beforehand there where several employees involved which caused confusion and contradiction. The business controllers are the liaison officers for the decentralized departments and operate from an independent position with a strong role. To give good advice from an independent position is one of the core competences of business controllers. Business controllers play a prominent role in the new financial function and should be visible for the decentralized departments. They often work physically close to the business unit directors. The department head of Afdeling Financiën performs the function of Stadscontroller. In practice this means that the Stadscontroller is formerly the controller and the department head of Bureau Control & Audit is the operational controller. This construction is designed to ensure the independent position of the Stadscontroller. Municipality Nijmegen wants to improve the IPC products by increasing the readability. One of the improvements is to only justify at program level and no comments will be made on the numbers except in the case of large deviations.

Table 6: The arrangement of control by comparable municipalities

Fourth sub-question: ***“Which integration model for the financial function fits municipality Enschede best?”***

Literature review and case study research identified two main mechanisms to integrate the financial function: centralized or hybrid. Each model has its own set of advantages and challenges that should be taken into consideration when applying the model. These two models provide the opportunity to create several variants since there is no permanent set of blue prints that determine which model should be selected. The choice for a certain integration model for the financial function has more importantly a situational context. The situational context for the hybrid model elaborated in chapter 5 could prove to be a more realistic scenario for municipality Enschede in the future. **Therefore it is concluded that the hybrid model fits municipality Enschede best**, this is anticipated because:

- The model provides the opportunity to combine the key advantages of a centralized and decentralized financial function.
- It leads to enhanced understanding of local needs and therefore to more situation-specific advisory. Due to the realization of municipal partnerships in the IBO and the independency of business units, it is expected from the employees more then ever to make the connection with governmental policy from the internal organization towards the partnerships and the independent business units. This will require far more understandability of local needs and an increase in advisory skills.
- It is more in line with the current financial function. The current financial function works well and is favored by many employees; therefore it is likely that the hybrid model will face fewer problems during implementation. The hybrid model is principally a further development of the current financial function with much more emphasis on uniformity, centralization of processes and more of a concern approach.
- It leads to more critical power. The hybrid model not entirely centralizes the financial function; therefore the decentralized business control units and the centralized Concern unit can operate as each others countervailing power. This could lead to improved critical abilities. The current financial function also has high critical power due to the countervailing force between the staff offices, Concerstaf and FDC.

Main research question

The answers to the sub-questions elaborated above provided the required information to answer the main research question of this research. The main research question is formulated as follows: ***“In what way can municipality Enschede redevelop its current arrangement of the financial function?”***

The theoretical framework and case study research conducted at several municipalities compared with Municipality Enschede’s current financial function identified potential areas to improve the current financial function. The analyses, recommendations and conclusions presented in chapter 5 and in the previous section, indicate that municipality Enschede can improve the financial function by redeveloping it towards a hybrid model. The recommendations are summarized in table 7.

Recommendations	Arguments
Integrate the hybrid model for the financial function	<ul style="list-style-type: none"> Hybrid model provides the key advantages of both centralization and decentralization. Hybrid model enhances understanding of local needs and leads to more situation-specific advisory. The hybrid model is further development of current financial function, which is preferred by many employees. Hybrid model has more critical power compared with complete centralized model.
Adequate standardization of processes and activities	<ul style="list-style-type: none"> The hybrid model requires more standardization due to fragmentation. More standardization is necessary in order to fully benefit from the advantage of economies of scale provided by the hybrid model.
Only activities of financial policy nature should be performed in the business control units	<ul style="list-style-type: none"> In order to take advantages of economies of scale, efficiency and flexibility provided by the hybrid model only financial strategical activities should be performed in the business control units.
Frequent rotation of employees	<ul style="list-style-type: none"> Frequent rotation provides variety in work activities and leads to fresh look at departmental affairs. Frequent rotation reinforces standardization and uniformity. Due to the establishment of the IBO, the risk of missing crucial organizational knowledge will increase, which will reinforce frequent rotation of employees.
Applying a network approach	<ul style="list-style-type: none"> It will be important more than ever for employees to think and work outside their own department and or organization due to the fundamentally changing structure in which municipalities operate.

Table 7: The recommendations and arguments summarized

The hybrid model is deemed to fit by the future endeavors of municipality Enschede. Taking together the recommendations, it is important to keep the preconditions for a successful hybrid model implementation in mind. It is recommended to adequately standardize processes and activities and to only perform activities of financial policy nature in the business control units. Frequent rotation of employees can also reinforce standardization and uniform work processes. It is going to be crucial in the future with the establishment of partnerships and independency of business units to apply a network approach. Employees have to think outside their own department and or organization. “We-Them” manner of thinking is way out of order, in order to make a network approach successful only “We” manner of thinking will suffice.

6.2 Limitations

Since every research has its limitations and restrictions this section will discuss the limitations of this research.

Firstly, researcher or experimenter’s bias is one of the limitations of this research. The opinions of the employees could have influenced this research since the researcher was active within the organization. The employees could have influenced this research by responding differently in interviews and conversations since the results of this research can have direct or indirect consequences on their job activities. This could harm the internal validity of this research. Working independently and comparing the opinions of different employees throughout the entire organization have reduced this limitation. Furthermore, checking raw data with the interviewees to reduce misunderstanding and misinterpretation has also improved the internal validity of this research.

Secondly, another limitation of this research is that due to time restriction case study research has been performed at five municipalities. It is recommended to investigate more municipalities in order to develop a more comprehensive understanding of the different financial function arrangements and integration models that have been applied by the municipalities and to improve the external validity.

Thirdly, this research also compared the size of the financial functions of the case study municipalities. It is hard to compare the size of the financial function since it is possible that different definitions for the financial function have been used because there is no rigid definition of what the financial function actually consists of. This obviously could have influenced the stated sizes of the financial functions.

Fourthly, three of the five investigated municipalities in this research have recently redeveloped their financial function and do not have that much experience with their new financial functions. However, they did have a lot of experience with their previous financial functions and knew exactly where the limitation and bottlenecks were that needed to be solved by the new financial functions. Nevertheless, as stated by William Camden *"All the proof of a pudding is in the eating"*. Thus their experiences with the new financial functions are of huge importance in order to determine whether the implementation of a certain financial function model has been successful or not.

6.3 Future research directions

Partially based on the aforementioned limitations, this research recommends further research on the topic of this paper.

Firstly, it is possible that an organization can fall back to old habits in the case of reorganization due to insufficient support by the management and or employees. It is worth to investigate the social factors and the organizational dynamics that can influence and determine the success or failure of reorganization in order to determine the situational factors that can be applied in reorganizations.

Secondly, it is worth to reinvestigate the municipalities about a period of time in order to identify their experiences, success and failure factors for their new financial functions. It is recommended to perform the research at a wide variety of municipalities in order to improve the external validity.

Thirdly, performing partnerships and outsourcing/privatizing is going to be even more important in the future for municipalities. It is certainly worth to investigate whether a collaboration and or externalization of business units actually achieve the prospected synergy benefits for Dutch municipalities. It is important to understand the relationship between the initial investment costs and the quantity and quality of partnerships and or externalizations. This can be a hugely interesting topic for a future graduating internship.

References

- Aardema, H. (2010). Naar een spinnenwebconcept. *TPC: Tijdschrift voor Public Governance, Audit & Control*, 4, 4-11.
- Aardema, H. (2008a). De dag van de Public Controller. *TPC: Tijdschrift voor Public Governance, Audit & Control*.
- Aardema, H. (2008b). Overgang naar een nieuw tijdperk voor planning and control. *TPC: Tijdschrift voor Public Governance, Audit & Control*.
- Aardema, H. & Korsten, A. (2009). Gemeentelijke organisatiemodellen. *Raad voor het openbaar bestuur*.
- Babbie, E. R. (2010). *Introduction to Social Research*. Belmont: Wadsworth Cengage learning.
- Bangemann, T. O. (2005). *Shared Services in Finance and Accounting*. Burlington, USA: Gower Publishing Company.
- Bauer, B. T. (2003). Is a Centralized or Decentralized IT Organization Better? *Darwin Magazine*.
- Berenschot. (2014). *Benchmark Financiële Functie: Terugkoppeling resultaten Enschede*. Enschede: Berenschot Benchmarking.
- Bergeron, B. (2003). *Essentials of Shared Services*. Hoboken, NJ: Wiley.
- Blake, P. (2005). In quest of shared services. *Journal of Sourcing Leadership* (2).
- Borman, M. (2010). Characteristics of a successful shared services centre in the Australian public sector. *Transforming Government: People, Process and Policy*, 4(3), 220-231.
- Budding, T., Gradus, R., & Schoute, M. (2014). Waarom gemeenten zo weinig uitbesteden. *TPC: Tijdschrift voor Public Governance, Audit & Control* (4).
- Burns, J. & Baldvinsdottir, G. (2005). An institutional perspective of accountants' new roles- the interplay of contradiction and praxis. *European Accounting Review*, 14(4), 725-757.
- Capgemini Consulting. (2010). *(Verdere) concentratie van de financiële functie: Eindrapportage analyse en aanpak*. Enschede: Capgemini.
- Cecil, B. (2000). Shared services moving beyond succes. *Strategic Finance*, 81(10), 64-68.
- CFO Research Services and Cap Gemini Ernst & Young, (2002). CFOs: Driving finance transformation for the 21st century. *CFO Publishing Corporation*.
- Cima, (2009). Improving decision making in organisations; the opportunity to reinvent finance business partners. *Chartered Institute of Management Accountants Publishing*.
- Coase, R. (1937). The Nature of the firm . *Economia* , 4, 386-405.
- Cooper, D. R. & Schindler P. S. (2011). *Business research methods*. McGraw-Hill Higher Education.
- Davenport, T. (2005). The coming commoditization of processes. *Harvard Business Review*, 100-108.

- De Jonge, D. & Ballieux, M. (2011). Terug naar de essentie van planning en control. *Tijdschrift B&G*, 9.
- Deming, W. E. (1994). *The New Economics For Industry, Government, Education*. Cambridge: Massachusetts Institute of Technology.
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57-74.
- Freeman, R. E. (1984). *Stakeholder Management: A stakeholder approach*. Marchfield, MA: Pitman Publishing.
- Gemeente Amersfoort. (2014). Organigram. Retrieved from <http://www.amersfoort.nl/4/organisatie/Organigram.html>
- Gemeente Enschede. (2012). Gemeenterekening. Retrieved from http://koers053.enschede.nl/documenten/gemeenterekening/dir_00001/Gemeentrekening_2012.pdf/
- Gemeente Hengelo. (2014). Organogram. Retrieved from http://www.hengelo.nl/Pdf/Onzeorganisatie/Organogram_feb2014.pdf
- Gemeente Nijmegen. (2014). De gemeentelijke organisatie. Retrieved from <http://www2.nijmegen.nl/gemeente/Organisatie>
- Gemeente Tilburg. (2014). Organogram gemeentelijke organisatie. Retrieved from <http://www.tilburg.nl/fileadmin/files/actueel/organogram-gem-organisatie-maart2014.pdf>
- Gerring, J. (2004). What Is a Case Study and What Is It Good for? *American Political Science Review*, 98.
- Ghauri, P. & Grønhaug, K. (2010). *Research Methods in Business Studies* (pp. 103-137). Prentice Hall Education.
- Goold, M., Pettifer, D. & Young, D. (2001). Redesigning the corporate centre. *European Management Journal*, 19 (1), 83-91.
- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17(Winter Special Issue), 109-122.
- Groot, T. L. & van Helden, G. J. (2012), *Financieel management van non-profit organisaties*. Groningen: Noordhoff Uitgevers.
- Hartley, J. (2004). Case Study Research. In C. Cassell, & G. Symon, *Essential Guide to Qualitative Methods in Organizational Research* (pp. 323-329). Thousand Oaks, California: SAGE Inc.
- Herriott, R. E. & Firestone, W. A. (1983). Multisite qualitative policy research: Optimizing description and generalizability. *Educational Researcher*, 12, 14-19.

- Hiemstra, J. & Boelens, J. (2002). Nieuwe organisatiestructuren in gemeenten. *Openbaar bestuur* (1).
- Hodgkinson, S. L. (1996). The role of the corporate IT function in the federal IT organization. In M. J. Earl, *Information management: The organizational dimension* (pp. 247-269). Oxford, UK: Oxford University Press.
- Janssen, M. (2005b). Managing the development of shared service centers: stakeholder considerations. *Proceedings of the 7th international conference on Electronic commerce*, (pp. 564-570). New York.
- Janssen, M. (2005a). Centralized or decentralized organization? *Proceedings of the 2005 national conference on Digital government research*, (pp. 247-248). Hawaii.
- Janssen, M. & Joha, A. (2006). Motives for establishing shared service centres in public administrations. *Information and Management*, 26, 102-115.
- Janssen, M. & Joha, A. (2004). Issues in relationship management for obtaining the benefits of a shared service center. In *Proceedings of the 6th international conference on Electronic commerce* (pp. 219-228).
- Janssen, M. & Wagenaar, R. (2004). An analysis of a shared services centre in e-government. *Proceedings of the 37th Annual Hawaii International Conference on System Sciences*, (pp. 10).
- Järvenpää, M. (2007). Making Business Partners: A Case Study on how Management Accounting Culture was Changed. *European Accounting Review*, 16(1), 99-142.
- Karré, P. M. & Ribeiro, T. C. (2005). The "Social" Profit of Hybrid Service Delivery. *Paper prepared for EGPA-conference*. Berne, Switzerland.
- Keuning, D. & Eppink, D. J. (1990). *Management en organisatie, theorie en toepassing*. Leiden: Stenfert Kroese.
- Kloosterboer, P. & Sterk, R. (1996). Tussen centraal en decentraal, dilemma's en strategieën voor stafeenheden. *Tijdschrift voor organisatiekunde en sociaal beleid*.
- Knol, A., Janssen, M. & Sol, H. (2013). A taxonomy of management challenges for developing shared services arrangements. *European Management Journal*.
- Korsten, A. F., Schaepkens, L. & Sonnenschein, L. J. (2004). Shared services- Nieuwe vormen van krachtenbundeling bij gemeenten. *Axis*.
- Leenders, M. R. & Johnson, P. F. (2000). Major Structural Changes in Supply Organizations. *CAPS Research*.
- Levy, Y. & Ellis, T. J. (2006). A systems approach to conduct an effective literature review in support of information systems research. *Informing Science Journal*, 9, 181-212.
- McIvor, R., McCracken, M. & McHugh, M. (2011). Creating outsourced shared services arrangements: Lessons from the public sector. *European Management Journal*, 29(6), 448-461.

- Maas, V. S. & Matejka, M. (2007). Balancing the Dual Responsibilities of Business Unit Controllers: Field and Survey Evidence. *Accounting Review: American Accounting Association*, 1233-1253.
- Merchant, K. A. & van der Stede, W. A. (2011). *Management Control Systems*. Harlow: Prentice Hall.
- Miskon, S., Bandara, W., Gable, G. & Fielt, E. (2011). Succes and failure factors of Shared Services: An IS literature analysis. *International Conference on Research and Innovation in Information Systems*, (pp. 1-6).
- Moerkamp, J. (2012). Overkill aan planning & control. *Binnenlands Bestuur*.
- Pfeffer, J. & Salancik, G. (1978). *The external control of organizations: A Resource dependence perspective*. New York: Harper and Row
- Quinn, B., Cooke, R. & Kris, A. (2000). *Shared services: Mining for corporate gold*. Harlow: Pearson Education.
- Rowley, T. (1997). Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences. *The Academy of Management Review*, 22 (4), 887-910.
- Sathe, V. (1983). The controller's role in management. *Organizational Dynamics*, 11(3), 31-48.
- Schäffer, U., Weber, J. & Prenzler, C. (2001). Characterising and developing controller tasks- a German perspective. *Paper presented at the 5th Management Control Systems Conference*.
- Schilder, N. A. C., van Dam, A., van Blijderveen, I., Valkhoff, W.F. & Remmen, B. J. A. (2011). *De toekomst van de financiële functie: Verkenning via scenario's*. Alphen aan den Rijn: Kluwer
- Schramm, W. (1971). Notes on case studies of instructional media projects. *Working paper for the Academy for Educational Development*.
- Strikwerda, J. (2003). *Shared Service center: Van kostenbesparing naar waarde creatie*. Amsterdam, The Netherlands: Koninklijke Van Gorcum.
- Swagerman, D. M. & van Steenis, J. (1998). Shared services in accounting and finance. *Paper presented at the Seminar of the University of Bern*.
- Ulrich, D. & Barney, J. B. (1984). Perspectives in organizations: Resource dependence, efficiency, and population. *The Academy of Management Review*, 9(3), 471-481.
- Van der Linde, T. N., Boessenkool, A. L. & Jooste, C. J. (2006). Key Succes Factors for the Management of a Shared Services Business Unit. *Acta Commercii*, 205-212.
- Van der Ploeg, A. J. (2005). *Financieel beleid en beheer bij gemeenten en provincies*. Utrecht: LEMMA BV.
- Van Helden, G. J., van Kollenburg, J. C. & van Loon, P. J. (1997). Integral Performance Measurement. In G. J. van Helden, J. C. van Kollenburg, & P. J. van Loon, *Finance*

Aspecten van Non-Profit Management (pp. 97-106). Alpen aan den Rijn: Samson Bedrijfsinformatie.

Verstegen, B. H. J, de Loo, I., Mol, P., Slagter, K. & Geerkens, H. (2007). Classifying controllers by activities: an exploratory study. *Journal of Applied Management Accounting Research* , 5(2), 9-31.

Willcocks, L. P. & Kern, T. (1998). IT Outsourcing as strategic partnering: The case of UK inland revenue. *European Journal of Information Systems*, 7(1), 29-45.

Williamson, O. E. (1975). *Market and Hierarchies, Analysis and Antitrust Implications: A study in the economics of internal organization*. New York: Macmillan.

Yin, R. K. (2008). *Case Study Research: Design and Methods* (pp. 24-65). USA: SAGE Inc.

Appendix

Appendix A: list of interviews conducted

Interviewed persons within municipality Enschede

Name	Function	Duration	Date(s)
Paul Davina	Concern Controller	1,5 hrs	31-07-2013
Martin van der Ham	Hoofd FDC	1 hrs	19-08-2013
Rick Lammertink	Controller BMO+DV	1 hrs	02-9-2013
Edwin Heeremans	Controller SO	1 hrs	04-09-2013
Jacco Hakman	Controller E&W	1 hrs	09-09-2013
Ralph Wulff	Controller O&O + WZW	1 hrs	11-09-2013
André Kransen	Controller LO	1 hrs	11-09-2013
Alfons de Vries	Hoofd Strategie & Control	1 hrs	13-09-2013
Monique Jansen-Temmink	Controller PMBE	1hrs	18-09-2013
Linda Klatten- te Winkel	Senior Adviseur Planning & Control	1,5 hrs	19-09-2013
Nicol Oude Luttikhuis	Senior Beleidsmedewerker	1,5 hrs	19-09-2013

Interviewed persons for case study comparison

Municipality	Name	Function	Duration	Date
Hengelo	Gijs Tiebot	Afdelingshoofd financieel beleid	1,5 hrs	26-11-2013
Zoetermeer	Eveline Kokx	Team manager ruimtelijk beleid	1,5 hrs	2-12-2013
Zoetermeer	Mark van Lier	Team manager advies financiën & control	1,5 hrs	2-12-2013
Tilburg	Aad Scheepers	Hoofd Planning & Control	1,5 hrs	18-12-2013
Tilburg	Luc Hendriks	Controller	1,5 hrs	18-12-2013
Amersfoort	Erwin Ormel	Hoofd Concern Financiën	1,5 hrs	20-12-2013
Nijmegen	Danny Eederveen	Hoofd Control & Audit	1,5 hrs	7-01-2014
Nijmegen	Henk Jan van Doorn	Senior Adviseur Control & Audit	1,5 hrs	7-01-2014