

# **The HR SSC in 2020: innovating traditional activities.**

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**ABSTRACT, within literature HR SSCs are expected to move towards transformational activities and innovating activities. This research investigates this expectancy within a timeframe of 5 years and includes the influence of the type of responsibility centre. By conducting a Delphi study and a short self-completion questionnaire among 11 HR SSCs managers in the Netherlands, this study has found that in absolute quantities all type of (support) activities are forecasted to increase and hence the HR SSC is expected to grow. However, in relative terms, this research has shown that the future HR SSC is predicted to increase the quantity of traditional instead of transformational activities and is expected to innovate activities to a larger extent. When the HR SSC is structured as a profit centre the average expected direction of movement concerning the type of activity is found to be intensified, while when structured as a discretionary expense centre this average expected direction of movement turns out to be weakened. Regarding the scope of support activities, discretionary expense HR SSCs are expected to innovate as much HR activities as average, while profit HR SSCs are forecasted to innovate less HR activities than average. Several contributions to literature have been made by this study: exploring the future – instead of the past or current – of HR SSCs, investigating the influence of type of responsibility centre and improving the knowledge of the scope of support activities. For managerial purposes the findings of this study can be applied to improve the allocation and investment in organizational resources.**

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## **Keywords**

Human Resource Shared Service Centres, transactional activities, traditional activities, transformational activities, scope of support activities, responsibility centres, discretionary expense centres, profit centres.

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## 1. INTRODUCTION

Since three decades, companies increasingly adopt shared service centres (SSCs) as a delivery channel for their Human Resource Management (Cooke, 2006). Consequently, the HR shared service centre has become an important component of the contemporary HR function. The distinctive feature of HR SSCs is that they centralize HR activities and resources, while simultaneously being controlled by and being responsive to the business units (Farndale, Paauwe & Hoeksema, 2009; Meijerink & Bondarouk, 2013a). HR SSCs therefore combine decentralization models by localizing decision making power to the clients of an HR SSC (i.e. business units) with centralization models through centrally bundling HRM activities. In doing so, organizations anticipate to reap the benefits of both models, such as improved efficiency and better HRM service quality (Janssen & Joha, 2006). Therefore, in this paper, HR SSCs are defined as a delivery channel, where HR activities and resources are centralized in a central organizational unit (i.e. the SSC) which is controlled by the local business units (Meijerink & Bondarouk 2013a).

Zooming in on the HR activities of HR SSCs, HR SSCs can be seen as a means of both in-sourcing as bundling of corporate activities, instead of out-sourcing or the scattering of activities (Farndale et al., 2009). However, not all HR activities within a corporation need to be executed by the HR SSCs, because the HR function consists of more than one delivery channel, including the HR department, line management, senior management, self-service and external HR agencies who also perform HR activities (Ulrich, Younger & Brockbank, 2008; Valverde, Ryan & Soler, 2006). Much research has been conducted to investigate which HR activities are assigned to the HR SSCs in relation to the overall HR activity portfolio. In order to research this topic, the classification of Wright and Dyer (2000) regarding transactional, traditional and transformational activities is frequently used. During the existence of the HR SSCs, a development of HR activities performed can be detected. In the 80s and 90s the shared service centres devoted most of their time to transactional activities (Lepak & Snell, 1998), which according to Farndale et al. (2009) made sense as more time could be dedicated to transformational activities by the HR manager of the business unit. However, in 2005 Ulrich and Brockbank found that HR SSCs were then moving towards executing transformational HRM, while increasingly addressing the transactional activities through outsourcing and employee self-service (Ulrich et al., 2008). Soon afterwards the new dimension 'innovation versus operational' was added to the classification of HR activities (Meijerink, Bondarouk & Maatman, 2013b), revealing that the HR SSCs also started to dedicate time to improving and developing of HR processes and policies. The HR activities performed by the shared service centres can therefore be said to have always been subject to change, which gives reason to believe that this will continue in the future. Following this trend, it can be expected that the centres will dedicate even more time to transformational activities and innovating HR activities.

The future portfolio of HRM activities, however, is not expected to be consistent across HR SSCs since SSCs differ in responsibilities. In fact, HR SSCs differ along whether they are organized as costs or profit centres (Anthony, Govindarajan, Hartman, Kraus & Nilsson, 2014). A difference in defining the responsibility centre, could lead to a difference in activities performed by the HR SSCs, as the attractiveness of the same activity can differ due to the focus on either costs or profits.

Investigating whether the type of responsibility centre has an influence on the future development of HR SSCs regarding HR activities performed, would therefore be interesting to take into consideration. Especially since the HR department is increasingly held responsible for the contribution to organizational performance (Klaas, McClendon & Gainey, 1999), and therefore clarifying the responsibilities and thus its contribution to organizational performance of each HR delivery channel gains importance as well.

In order to obtain a better view of the future of HR SSC activities, this paper will investigate the expectation that HR SSC managers have about the activities which their HR SSC will perform within five years from now. There are three reasons that motivate this research. Firstly, this research will explore the expected future – instead of the current and past - HR activities performed by the HR SSCs and the influence of the type of responsibility centres on this expectation, which both have been neglected in research so far. Knowledge about these two matters will help explain why the HR function will have a certain HR activity division among its delivery channels, how the HR SSC continues to generate value for the organization and how the formulation of responsibilities affects the delivery of HR activities. Secondly, since the provision of different HR activities requires different organizational resources (Maatman, Bondarouk & Looise, 2010; Meijerink et al., 2013b) an outlook into the future of HR SSC activities helps managers to make decisions on how to best allocate and invest their organizational resources. Lastly, knowing what the influence of the type of responsibility centre is on the activities performed by the HR SSC, can help managers to correctly formulate the responsibilities of the SSCs so its contribution to organizational performance is maximized. To realize these contributions, this study will answer to following research question: 'Which activities are expected to be performed by the HR shared services centres within 5 years in the Netherlands and how does the expectation differ between HR SSCs' defined as cost centres and profit centres?'

## 2. THEORY

### 2.1 HRSSCs: explaining the concept

The shared service center (SSC) is a relatively new phenomenon in the corporate world and has been gaining importance ever since its birth in the 1990s (Maatman et al. 2010). The SSC principle has been applied to various staff functions, including HR (Ulrich et al., 2008). HR SSCs have arisen due to pressures of outsourcing, redesigning and downsizing (Farndale et al. 2009). Moreover, the need to cut costs, increase flexibility and improve quality has also contributed to the existence of HR SSCs (Meijerink et al., 2013b).

The HR SSC is commonly described as a delivery channel, where HR activities and resources are centralized while control is decentralized to the business units (Farndale et al., 2009; Maatman et al., 2010; Meijerink & Bondarouk, 2013a). Shared service centres therefore combine both decentralization and centralization models, while benefiting from the advantages and reducing the drawbacks of both models (Janssen & Joha, 2006). More explicitly, the duplication of functions is reduced and the transparency and consistency are improved, while the flexibility and responsiveness to local business needs are remained (Maatman et al. 2010; Ulrich et al. 2008).

The HR SSC insources and centrally bundles HRM activities as opposed to the outsourcing to third parties and the scattering of these activities (Farndale et al., 2009; Maatman et al., 2010). The

HR SSC is a (semi)-autonomous organizational unit (Farndale et al., 2009; Maatman et al., 2010) and therefore the managers of HR SSCs can and will be assigned responsibilities regarding the delivery of their HR activities (Anthony et al., 2014). HR SSCs are not the only delivery channels of HR activities, because the HR function consists of multiple delivery channels (Ulrich et al., 2008; Valverde et al., 2006). Like the HR SSC, each delivery channel of HR activities has specific characteristics and is therefore more inclined to deliver certain type of HR activities. With the result that the HR function maintains a division of the HR activities among its delivery channels. Which types of HR activities exist and which of these types the HR SSC is more probable to deliver, will be discussed in the next section.

## 2.2 HR activities and their classification

The HR function consists of multiple delivery channels, including the HR SSC, and delivers a wide range of HR activities. In this study a HR activity is defined as the product of a conversion of limited inputs to HRM related outputs. Wright and Dyer (2000) have developed a classification in order to organize these HR activities. These authors make a distinction between transactional, traditional and transformational activities. The transactional activities, also called administrative activities, are for example benefits management, payroll, employee records and pensions (Adler, 2003; Wright & Dyer, 2000). Transactional activities also comprise provision of information on collective agreements and labor regulation and back-office administration tasks (Meijerink et al., 2013b). Traditional activities are described as managing workers and the work context by acquiring, supporting, guiding and rewarding the actions of workers (Lepak, Bartol & Erhardt, 2005). Recruitment, selection, training and performance management fall into this category (Wright & Dyer, 2000). Transformational activities are those focused on contributing toward strategic or more macro organizational goals such as strategic HRM, change management and knowledge management (Lepak et al. 2005; Wright & Dyer, 2000).

Meijerink et al. (2013b) add another dimension to this categorization of transactional, traditional and transformational activities: operational versus innovation. Operational refers to executing the transactional, traditional and transformational HR activities, whereas innovation is about improving and developing these activities. In other words, the operational – innovation dichotomy regarding the scope of support activities enriches the analysis of the HR activity portfolio. The two dimensions of HR activities performed by the HR SSC, which are the transactional, traditional and transformational dimension and the operational and innovation dimension, are depicted in table 1. Three types of HR innovation activities have been discovered: HR process improvement, policymaking and policymaking support. The first type mentioned develops existing HR processes, while policymaking develops policies in cooperation with business units. Policymaking support provides expertise in order to support policy improvements.

Farndale et al. (2009) argued that HR SSCs should perform transactional activities, as standardization will prevent inconsistencies and inefficiencies. This will give the local HR business unit manager the possibility to focus on transformational activities, which require a more flexible, customized and local responsive approach. Reilly and Williams (2003) agree by stating that shared services can prevent administrative tasks crowding out strategic change by performing transactional tasks, which allows both HR business unit managers as the corporate centre to concentrate on the other activities. In contrast, Meijerink et al. (2013b) state that HR SSCs also have started to perform transformational and

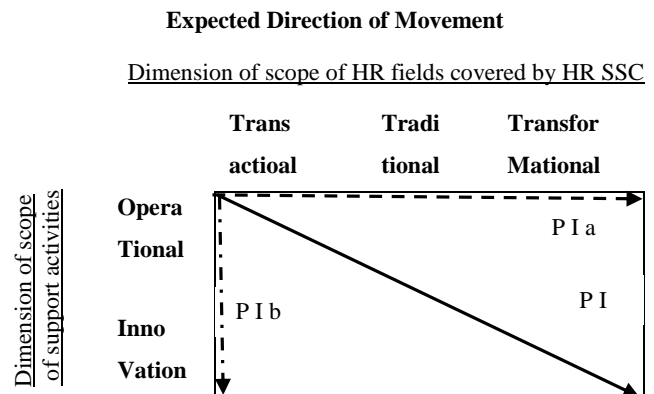
traditional activities. These authors also propose that a shared service centre expands its type of activities executed during its lifetime, in other words a growth model is being followed. The transition of time dedication to transformational activities by the shared services has also been found by Ulrich and Brockbank (2005). This change can be explained by the statement that technology, self-service mechanisms and outsourcing possibilities have freed up time for the entire HR function concerning transactional activities (Wright and Dyer, 2000). Given that the influence of these substitutions for transactional activities are still increasing (Adler, 2003; Huang & Martin-Taylor, 2013; Lee & Lee, 2009; Lin, 2011), it can be expected that the HR SSCs will move even more towards performing transformational activities. This expected direction of movement from transactional to transformational activities is depicted in figure 1 and can be formulated as:

Proposition I a: *“HR SSCs are expected to perform relatively more transformational activities within 5 years in the Netherlands than currently is the case.”*

Furthermore, the contribution of the HR function towards organizational performance is gaining importance (Bowen & Ostroff, 2004). In order to have a positive influence on the organizational performance, the activities performed by the HR function need to be aligned with the interests and goals of the overall organization. Therefore, adjusting, improving and developing these activities is required to achieve this alignment. In other words, the innovation dimension becomes more relevant. In particular the HR SSCs are expected to innovate their activities in order to meet organizational alignment, because they are responsive to and controlled by their internal clients (Farndale et al., 2009; Meijerink et al., 2013b), which makes the service centres more prone to the alignment pressures. Forst (1997) also acknowledges that the HR SSC is condemned to be innovative, because of its inability to replace lost clients and to pass along the costs to other clients in case of losing clients. Hence, the entire HR function, but especially the HR SSCs, are expected to move towards innovating HR activities. The expected direction of movement regarding the scope of support activities is depicted in figure 1 and can be formulated as:

Proposition I b: *“HR SSCs are expected to innovate relatively more HR activities within 5 years in the Netherlands than currently is the case.”*

Combining both propositions leads to the total expected direction of both the movement from transactional to transformational activities as the movement from solely operating to also innovating HR activities, which is depicted in figure 1.



**Figure 1:** presents Proposition I in a figure: the expected direction of development of the HR activities performed by the HR SSCs in

the upcoming 5 years is indicated by the vectors. Vector 'P I a' presents proposition I a and indicates the expected direction of movement from transactional to transformational activities. Vector 'P I b' represents proposition I b and shows the expected direction from operational to innovation regarding the scope of support activities. Vector 'P I' is the combined vector of P I a and P I b and therefore shows the combined or total expected direction of HR activities performed by the HR SSCs in the upcoming 5 years.

## 2.3 Responsibility centres

Responsibility centre is 'an organizational unit that is headed by a manager who is responsible for its activities' (Anthony et al., 2014, p.214). Each centre has inputs, measured by expenses, and outputs, measured by value calculation, and depending on the type of centre, the manager is either responsible for the inputs, outputs or both. The goal of a responsibility centre is to be efficient, i.e. optimal ratio of outputs to inputs, and effective, i.e. aligning its output with organizational goals (Anthony et al., 2014).

The two appropriate possibilities for responsibility centres for HR SSCs are: expense and profit centres. Firstly, expense centres are organizational units where managers are responsible for the inputs, which can be measured in monetary terms and are controlled by budgets. Two types of expense centres exist: engineered and discretionary, which differ in the type of expense. For engineered expense centres the optimal amount of input to produce one unit of output can be estimated, while for discretionary expense centres this is not possible (Anthony et al., 2014). This impossibility is caused by the inability to measure output in physical terms and the difficulty to reliably appraise the relationship between output to input. With discretionary expense centres, the amount of spending is subjective and determined by management's judgement of appropriateness. When speaking of expense centres, the HR SSC belongs to the discretionary expense type, because this is the case for all administrative and support units and, more specifically, for the entire HR function (Anthony et al., 2014).

Secondly, profit centres are organizational units where the manager is responsible for both revenues and expenses (Anthony et al., 2014). A profit centre is said to be means of decentralization, because decision-making power regarding expense/revenue trade-offs is devolved to lower levels (Eccles & White, 1988). These type of centres offer their services to (internal or external) customers, with the financial objective to match expenses with revenues. When the HR SSC is designed as a profit centre, the value of its output is no longer regarded as difficult to estimate, because it is determined by the price the client is willing to pay for the activity. In other words, the output is valued according to internal (or market) pricing (Anthony et al., 2014; Marian, 2008).

Depending on the type of responsibility centre, the HR SSC can be cost or profit focused and therefore differ in whether the revenues are taken into account. Different HR activities have different costs and revenues, which makes the attractiveness to perform activities dependent on the type of responsibility centre. According to Wright & Dyer (2000) the highest value added activities are the transformational ones and it can therefore be suggested that for these activities a higher price can be charged. This higher price is only interesting to a profit centre, which leads to the expectation that these activities are higher valued and therefore more performed by HR SSCs structured as profit centres. In contrast, Lepak and Snell (1998) state on the basis of the Resource Based View that transactional activities are low in uniqueness, while often also low in value. The low uniqueness is caused by the standard or routine based nature of these

activities, which – when delivering at high volume - provides the opportunity to benefit from economies of scale and hence produce the activities in a cheaply manner (Ulrich, 1995). In addition, the low value of transactional activities is due to its administrative nature and hence its little contribution to organizational goals. In other words, transactional activities are relatively cheap to execute, but have low value and therefore do not generate high revenues, which increases its attractiveness for expense centres but not for profit centres. Therefore, the following propositions can be formulated:

Proposition II a: 'HR SSCs designed as discretionary expense centres are expected to perform relatively less transformational activities within 5 years in the Netherlands than average.'

Proposition II b: 'HR SSCs designed as profit centres are expected to perform relatively more transformational activities within 5 years in the Netherlands than average.'

Furthermore, innovating means investing resources in the short run in order to benefit from these investments in the long run. For HR shared service centres designed as profit centres, the manager is responsible for both the costs as the revenues and therefore in the end benefits from the investments made (Anthony et al., 2014). Hence, the profit HR SSCs are expected to value, support and execute innovation activities more than average. In contrast, for HR SSCs formulated as expense centres, the manager is only responsible for the costs and thus only benefits from the investments when they concern cost savings (Anthony et al., 2014). Forst (1997) acknowledges that newly developed, innovative activities of the HR SSC get rejected because of budget constraints, which shows that a pure expense focus inhibits innovating HR activities. The expense HR SSCs are therefore expected to value, support and execute innovation activities to a lesser extent than average. This line of reasoning can be presented in the following propositions:

Proposition III a: 'HR SSCs designed as discretionary expense centres are expected to innovate relatively less HR activities within 5 years in the Netherlands than average.'

Proposition III b: 'HR SSCs designed as profit centres are expected to innovate relatively more HR activities within 5 years in the Netherlands than average.'

## 3. METHODOLOGY

In order to answer the proposed research questions and investigate the formulated propositions, the Delphi method and a questionnaire have been chosen as research methods.

### 3.1 Delphi Method

The Delphi method aims to build consensus based on convergence opinions of experts of a certain domain in order to, for example, predict the occurrence of future events (Hsu & Sandford, 2007). The technique is executed by using a series of questionnaires in order to facilitate a group communication process and continuously iterate until consensus about a specific issue is reached (Hsu & Sandford, 2007). According to Skulmoski, Hartman and Krahn (2007) the Delphi method is suitable for investigations with incomplete knowledge and forecasting. As this paper forecasts the occurrence of future performed HR activities by the shared service centres, the Delphi method is suited for this research. The steps of the Delphi process consist of selecting the experts and the multiple questionnaire rounds.

Firstly, the experts chosen are managers of a HR SSC, because of their knowledge of the HR SSC and their power to decide which HR activities to perform. The managers selected are those who were willing to cooperate in earlier research to HR SSCs in the Netherlands by Meijerink et al. (2013b). A total of

11 firms, which possess an operational HR shared service centre, have forwarded managers of these centres to conduct the research with. In order to increase the representativeness of the sample, the firms sampled are operating in various sectors, including logistic, public, chemical and private health care.

Secondly, due to time limitations the Delphi process conducted only consists of two questionnaire rounds. During the first round, which aims at divergence of information (Bradley & Stewart, 2002; Dalkey & Helmer, 1963;), semi open-ended questions have been asked via email in order to collect the knowledge about current versus future expected HR activities performed by the HR SSCs. The questions address which activities are currently delivered and/or innovated, which activities are expected to be added in the upcoming 5 years and which activities are expected to no longer be delivered and/or innovated in the upcoming 5 years by the HR SSC. With these questions, the influence of the independent variable time on the dependent variable type of activities can be explored. In order to increase the probability of holistic and complete answers, each question contains the list of HR activities of Bondarouk, Maatman and Meijerink (2010) and the field 'other' to name activities not part of this list. Subsequently, the interviewee can select for each activity whether it is only executed, only innovated or both. This option of choice enables this research to investigate the influence of the independent variable time on the dependent variable scope of support activities. All with the result that the questioning is semi open-ended, because the interviewee can add activities, while the output of this first round is quantitative, because the interviewee has only three structured options to select from. Furthermore, an open question about the general expectancy of the future development of the HR SSC (i.e. not specified to the activities performed), has been added to possibly discover phenomena or variables relevant to the relation of HR SSCs and activities performed.

After the first round, the duplications of the filled in HR activities in the field 'other' have been eliminated and activities listed, which did not comply with the definition of activities, have been taken out. Resulting in an extension of the list of Bondarouk et al. (2010) from 12 to 22 activities, which have been presented to the employee in the second round, which aims at convergence of information (Bradley, & Stewart, 2002; Dalkey & Helmer, 1963). The questions of the second round also addressed which activities are currently delivered and/or innovated, which activities are expected to be added in the upcoming 5 years and which activities are expected to no longer be delivered and/or innovated in the upcoming 5 years by the HR SSC. However, this time the experts have been asked to rank the presented HR activities according to perceived probability of delivery and/or innovation. With each question, the interviewee has 44 options to choose from, as each activity can either be executed or innovated, and is asked to only rank the top 10 most probable ones. Therefore, the remaining 34 options do not get ranked. This way of questioning gives insight in the relative expected occurrence of both the dependent variables type of activity and scope of support activities with the influence of the independent variable time.

In order to analyze the data from the first and second round, all 22 activities have been coded for a type of activity. For this coding the classification of Wright and Dyer (2000) of transactional, traditional and transformational activities has been used. In order to guarantee the inter-coder reliability, four persons have coded in order to investigate the consistency among coders (Potter & Levine-Donnerstein, 1999). Besides myself, the coding has been done by two other bachelor thesis students, who also investigate the future of the HR SSC, and my bachelor thesis supervisor. The coders were asked to write down for each HR

activity whether the activity belonged to transactional, traditional, transformational or 'other' types of activities, while the definitions and some examples of these classifications were given. By doing so, the coding gave the opportunity to both inductively as deductively code for the type of activity, as the coder could choose for 'other' if the activity did not meet the description of the types transactional, traditional or transformational. As only two activities have been ranked once as other, consensus about the necessity of another type of activity lacked and therefore the outcome of the coding is solely deductive. The inter-coder reliability is sufficient (Bryman & Bell, 2015), because total consensus among the coders is achieved for 59% of the 22 HR activities, 75 per cent consensus is achieved for 23%, 50 per cent consensus is achieved for 18% and no activity received less than 50 per cent consensus. The outcome of the coding is presented in table 1.

**Overview Type of Activities After Coding**

<u>Transactional</u>	<u>Traditional</u>	<u>Transformational</u>
Outflow / pension (Labor) legislation / legal services	Recruitment & Selection Throughflow	HR Strategy Change Management
Labour agreements Functional system/process management* Cost administration* leave and absenteeism* Subsidy processes* Identity Management* Time Management / Scheduling* Digitization (of papers)*	/ mobility Training Talent Development Management Development Compensation & Benefits Onboarding* Support employees abroad*	Knowledge Management HR control / monitoring*

**Table 1:**

*presents the outcome of the coding for the type of activity. The activities, which have been added by the interviewees in the first round of the Delphi study to the list of Bondarouk et al. (2010), have been marked by an asterisk.*

With the output of the first round of the Delphi study, consensus can be examined concerning both the absolute (i.e. not related to other activities) as the relative (i.e. compared to other activities) expectancy of provided (support) activities. This output will be analyzed by descriptive statistics, as the sample size is rather small to use inferential statistics. With the output of the second round, based on ranking, the consensus regarding solely the relative expectancy of the provided activities can be investigated. The output of ranking is in most studies analyzed by the non-parametric statistical test Kendall's W (Schmidt, 1997). However, in this study 34 out of 44 type of (support) activities are systematically not ranked, which makes an analysis by Kendall's W meaningless. Therefore, the output of the second round will also be analyzed by descriptive statistics. The results of these analyses will be discussed in the findings section.

### 3.2 Survey

The second technique adopted is the survey. In order to measure the contingency factor 'responsibility centre' a short self-completion questionnaire has been attached to the first round of the Delphi study. The managers of the HR SSCs are suitable interviewees for this questionnaire as well, because they are the ones who are responsible for the HR SSC. The questionnaire

consists of four questions and aims to find out whether the specific HR SSC is a discretionary expense or a profit centre. Each question requires the interviewee to choose which of the two statements is most applicable to their HR SSC, while one statement embodies an operationalization of the concept profit centre and the other statement of the concept discretionary expense centre. In other words, 'responsibility centre' is treated as a dichotomous variable and this research method gives the interviewee no chance to answer the question differently, which makes the survey an appropriate research method.

No existing scale existed to measure the type of responsibility centre. The four questions are therefore based on the definitions (Anthony et al., 2014) and the internal transfer price characteristics (Marian, 2008) of both types of responsibility centres. The survey has been attached to the appendix. The questions are about whether the HR SSC manager is responsible for either costs or for both costs and revenues, whether the decision to deliver an activity is based on its costs or on both its costs as the price the customer is willing to pay and whether the internal transfer price is known and if so, whether this is based on the costs or on both the costs as a profit margin. Although the type of responsibility centre could have been determined by only asking about the responsibility of either costs or both costs and revenues, four questions are designed to increase the internal reliability. The question concerning the rationale of the decision to deliver an activity is important to raise, because this is the foundation of the propositions II and III: the type of responsibility centre influences the decision to perform and/or innovate certain HR activities. The two questions concerning the transfer price are essential for profit centres: a profit centre can only take the revenues into account when the transfer price is known and per definition this price should also be based on a profit margin (Marian, 2008). The transfer price is less essential for expense centres, because this type of responsibility centre only takes the costs of the activities into account, which would also be known without the transfer price (Anthony et al., 2014). Nevertheless, if the answers indicate a discretionary expense centre and the transfer price is said to be known, this price cannot per definition incorporate a profit margin (Marian, 2008). The questions concerning transfer prices therefore also provide an additional check for the expense centres. Only when all answered questions indicate the same type of responsibility centre, i.e. internal consistency, the outcomes are taken into account for the investigation of propositions II and III. This investigation is conducted by analyzing the difference in the descriptive statistics of the second Delphi round, when the subjects are split into discretionary cost and profit centres. The results of this analysis are also presented in the findings section.

## 4. FINDINGS

### 4.1 Type of activities and responsibility centres

The output of the first Delphi round showed that the total amount of activities executed and/or innovated are expected to increase with 48.3% (Table 2), because the average HR SSC is expected to increase the variety of activities performed from 11 to 16 activities. This suggests a broadening of activities performed by the HR SSC and possibly the growth of the HR SSC.

The results from the second Delphi round also show a forecasted growth in activities executed and/or innovated, because the total mean of rankings is positive (Table 3). All the means of rankings are calculated by subtracting the rankings of 'activities expected to be no longer executed and/or innovated' from 'activities expected to be added', with the result that when the mean is positive, more activities are expected to be added

instead of subtracted. Normally this total mean of rankings would equal zero, because the expected added and subtracted activities would receive the same amount of rankings. However, in this study, not all subjects ranked from 10 till 1, but instead ranked less than ten types of activities or did not rank at all. In order to explain their limited or absent ranking, several subjects wrote down that less than ten or no type of (support) activities were expected to be added or subtracted. As the output of the second Delphi round should represent relative quantities and not absolute quantities, the total mean of rankings has been subtracted from all other means of rankings in order to retrieve the relative means of rankings (Table 3). In other words, the limited or absent rankings have been corrected for and therefore the means of rankings are not biased by absolute quantities of HR activities performed and/or innovated.

### Output First Delphi Round

Calculation	Transactional	Traditional	Transformational	Operational	Innovation	Total
Now	51	49	20	74	46	120
Now <sub>mean</sub>	5	4	2	7	4	11
+ New in future	21	35	4	29	31	60
- Absent in future	1	1	0	1	1	2
Future	71	83	24	102	76	178
Future <sub>mean</sub>	6	8	2	9	7	16
Future – now	20	34	4	28	30	58
Future / now	139.2%	169.4%	120.0%	137.8%	165.2%	148.3%
Now / total <sub>now</sub> = (1)	42.5%	40.8%	16.7%	61.7%	38.3%	n.a.
Future / total <sub>future</sub> = (2)	39.9%	46.6%	13.5%	57.3%	42.7%	n.a.
(2) – (1)	-2.6%	5.8%	-3.2%	-4.4%	4.4%	n.a.

Table 2:

presents the output and its further calculation of Delphi Round 1. 'N.a.' refers to not applicable.

#### 4.1.1 Transactional Activities and Responsibility centres

When examining the results of the first round of the Delphi Study, the amount of transactional activities performed and/or innovated are currently the most frequent type of activity and have been estimated to increase with 39.2% when the present is compared to the future (Table 2). However, when the transactional activities are taken into consideration as part of the total amount of all three types of activities, the proportionally change of the future versus the present is negative and equals -2.6% (Table 2). In other words, the amount of transactional activities performed and/or innovated are expected to decline

relative to the total amount of activities performed/innovated. Furthermore, transactional activities are expected to drop from the first to the second most frequent type of activity performed and/or innovated within the upcoming 5 years (Table 2).

**Output Second Delphi Round**

<u>(Corrected)</u> <u>means of</u> <u>ranking</u>	<u>Total</u>  $n = 10$	<u>Dis.expen</u> <u>se centre</u>  $n = 5$	<u>Profit</u>  <u>centre</u>  $n = 1$
$\bar{y}_{total}$	0.873	1.07	0.773
$\bar{y}_{total(c)}$	0	0	0
$\bar{y}_{transactional}$	0.68	0.91	0
$\bar{y}_{transactional(c)}$	-0.193	-0.16	-0.773
$\bar{y}_{traditional}$	1.14	1.26	2.13
$\bar{y}_{traditional(c)}$	0.267	0.19	1.36
$\bar{y}_{transformational}$	0.813	1.08	0
$\bar{y}_{transformational(c)}$	-0.060	0.01	-0.773
$\bar{y}_{operational}$	0.814	1.01	1.55
$\bar{y}_{operational(c)}$	-0.059	-0.06	0.77
$\bar{y}_{innovation}$	0.932	1.13	0
$\bar{y}_{innovation(c)}$	0.059	0.06	-0.773

**Table 3:**

presents the output of Delphi Round 2. 'Dis' is an abbreviation for discretionary. 'n' is the amount of subjects, which fall into the category, with the total sample being 10. (c) indicates the corrected mean of rankings and is calculated by subtracting the total mean from the specific mean of rankings.

The output of the second round of the Delphi study also indicate an expected growth of transactional activities due to its positive mean of rankings of 0.68 (Table 3). However, the corrected mean of all rankings of transactional activities of -0.193 is negative and is the lowest of all (corrected) means of rankings of types of activities. Therefore, just as the first Delphi round, the transactional activities are expected to increase in absolute terms, but are expected to decrease in relative terms.

For HR SSCs structured as discretionary expense centres, this forecasted relative decrease of transactional activities performed and/or innovated also applies, but to a lesser extent, because its corrected transactional mean of rankings of -0.16 is less negative than the average of -0.193 (Table 3). In contrast to the profit HR SSC, which has a lower corrected transactional mean of rankings than average and is therefore expected to have a higher relative decrease of transactional activities (Table 3). Remarkably, for HR SSCs designed as profit centres, also no absolute increase in the performing and/or innovating of transactional activities is expected, because its transactional mean of rankings is zero (Table 3).

#### 4.1.2 Traditional Activities and Responsibility centres

Regarding the first round of the Delphi study, the traditional activities are perceived as the second most frequent type of activity performed and/or innovated at the moment and its estimated increase of frequency is 69.4% (Table 2). Moreover, the total amount of traditional activities are expected to increase with 4.6% relative to the total amount of activities performed and/or innovated (Table 2). With the result that this type of activity is expected to become the first most frequent type of

activity performed and/or innovated by the HR SSC within the upcoming 5 years (Table 2).

The results from the second round of the Delphi study confirm the absolute and relative increase of traditional activities. The total mean of rankings of traditional activities is 1.14, which is positive and therefore indicates a forecasted absolute increase (Table 3). Moreover this mean is higher than the mean of all rankings of 0.873 and is the highest of the means of rankings of all types of activities (Table 3), which implies that the execution and/or innovation of traditional activities are also expected to increase in proportion to the other types of activities.

For the discretionary expense HR SSC this expected relative increase of traditional activities is lower than average, because its corrected mean of traditional activities of 0.19 is less positive than the average of 0.267 (Table 3). As opposed to the HR SSCs structured as profit centres, which has the substantially higher corrected mean of traditional activities of 1.36, which indicates a higher relative increase of this type of activity than average.

#### 4.1.3 Transformational Activities and Responsibility centres

Referring to the output of the first round of the Delphi Study, the transformational activities are said to currently be the least frequent type of activity performed and/or innovated (Table 2). This type of activity is expected to increase in the upcoming 5 years, but with 20%, which is the lowest expected growth rate of all type of activities (Table 2). In addition, the amount of transformational activities performed are forecasted to decrease with 3.2% relative to the total amount of activities performed and/or executed, when the present is compared to the future (Table 2). This type of activity therefore is expected to remain the least frequent type of activity (Table 2).

The results of the second round of the Delphi Study also support an absolute increase in transformational activities, because its mean of rankings of 0.813 is positive (Table 3). Moreover, just as in the first round, the transformational activities executed and/or innovated are expected to decrease in proportion due its negative corrected mean of rankings of -0.060 (Table 3). However, unlike the first round, this expected relative decrease is estimated to be smaller than the one of transactional activities (Table 3).

For discretionary expense HR SSCs the relative expected change of transformational activities performed and/or innovated within the upcoming five years, turns out to be an increase instead of a decrease, because its corrected mean of rankings of 0.01 is positive (Table 3). Contrary to the expectancy for the HR SSCs structured as profit centres, which predicts a higher relative decrease in transformational activities than average, proven by its negative and lower than average corrected mean of rankings of -0.773 (Table 3).

## 4.2 Scope of support activities and responsibility centres

### 4.2.1 Operational support activities and responsibility centres

When looking at the output of the first Delphi round, the average HR SSC is expected to increase the operational support activities from 7 to 9 activities in the upcoming 5 years, which is an increase of 35.1% (table 2). However, when this increase is compared to the total of both support activities, the relative difference appears to be an expected decrease of 4.4% (table 2). The operational support activities are expected to remain the most frequent ones, however, with a lesser proportion (table 2).

The findings of the second Delphi Round confirm the absolute increase of operational support activities, because the operational mean of all rankings of 0.814 is positive (Table 3). Moreover, the relative decrease is also found in the second round, as the corrected operational mean of all rankings of -0.059 is negative (Table 3).

For the HR SSC structured as a discretionary expense centre the relative decrease of operational support activities is expected to be proximately the same, because the corrected operational mean of rankings is -0.06 (Table 3). However, surprisingly, the occurrence of operational support activities is forecasted to relatively increase for profit HR SSCs, shown by the positive corrected mean of rankings of 0.77 (Table 3).

#### 4.2.2 Innovation support activities and responsibility centres

Concerning the first Delphi round, the innovation support activities are expected to increase with 65.2% in the upcoming five years, which is almost double the expected relative increase of the operational support activities (table 2). The average HR SSC is forecasted to innovate 7 instead of the current 4 activities, which is also almost a duplication (table 2). Furthermore, relative to the total amount of activities, the innovation support activities are expected to increase with 4.4% (table 2). Nevertheless, this type of support activities is still predicted to be the least frequent one, although with a lesser proportion than currently is the case.

The results of the second Delphi round confirm the absolute increase of innovating activities, because its mean of ranking of 0.932 is positive (Table 3). Moreover, the innovating of HR activities are also expected to relatively increase, proven by its positive corrected mean of rankings of 0.059 (Table 3).

For HR SSCs structured as discretionary expense centres this relative expected increase in the innovating support activities is roughly the same as average, because its corrected mean of rankings is 0.06 (Table 3). Profit HR SSCs are expected to decrease the innovating of HR activities relative to the overall support activities, because its corrected mean of rankings of -0.773 is negative (Table 3).

### 4.3 General expectancy of future HR SSC

The answers to the open question of the first Delphi round concerning the general expectancy of the future of HR SSC, revealed four consensus relevant to this research. As the answers of the interviewee were not guided, a consensus is here defined as 'the mentioning of a certain expectancy by two or more subjects, while the expectancy is not contradicted by other subjects.'

Firstly, as is also confirmed by the quantitative output of the first and second Delphi Round (table 2 and 3), the HR SSC is forecasted to grow in the upcoming five years:

*" (...) expansion of HR services."*

*" (...) will grow"*

Secondly, the activities performed are expected to become more complex and will require more expertise. One subject explicitly mentions that these more complex activities are the opposite of transactional activities, which would indicate a predicted movement towards traditional and/or transformational activities:

*" More expert work to the Shared area"*

*" The SSC increasingly develops from transactional activities to knowledge-intensive / expertise activities"*

Thirdly, the HR SSC will not only execute or innovate HR activities, but is also expected to move towards controlling and monitoring the performance of HR activities:

*" The future role of shared services. (...) where the work will change from implementation to management, control and reporting"*

*" For the HR SSC this means that the role will especially become monitoring (...) employees and managers."*

Lastly, beside executing, innovating and controlling, the HR SSCs are also forecasted to give advice about and support for the execution of HR activities:

*" Becoming more HR Business Partners, who - when needed by managers - may consult for advice / support."*

*" For the HR SSC this means that the role will especially become (...) taking care of the (content-related) support of employees and managers."*

## 5. DISCUSSION

This paper investigates the expected developments of the type of the HR activities and the scope of HR support activities of the HR SSC within the upcoming 5 years and the influence of the type of responsibility centre on these expected developments. Both Delphi rounds generate exactly the same outputs regarding both the quantitative as relative predicted movement of HR (support) activities. This research confirms the literature advocated relative increase of innovating HR activities, but indicates a movement towards traditional instead of transformational activities. In addition, the type of responsibility centre influences these outcomes entirely different than expected and therefore the second and third propositions are refuted. These findings have both implications for practice as for research, which will be discussed below.

### 5.1 The type of HR activities

The findings of this paper acknowledge the earlier reported expected decrease in transactional activities performed and/or innovated. However, the findings contradict the proposed expectancy of movement towards transformational activities and instead indicate a forecasted increase of traditional activities. The findings even suggest that the transformational activities are also expected to decrease in the upcoming five years. This contrast can be explained by the fact top management still performs most strategic HR activities (Valverde et al., 2006) and that the main expected role of corporate HR is to align HRM to business goals (Ulrich et al., 2008). In other words, transformational activities are performed by the HR delivery channels with higher positions within the organizational hierarchy. Hence, the other type of activities, being traditional and transactional, are more performed by the other, lower levelled HR delivery channels. More lower level HR delivery channels exist than higher level ones, because otherwise the organizational hierarchy would not make sense, and therefore more HR delivery channels need to perform transactional and traditional activities than transformational activities. As mentioned earlier, the transactional activities are increasingly substituted for technology, self-service and outsourcing, with the result that especially traditional activities still need to be performed by the majority of HR delivery channels. The HR delivery channels are the internal clients of the HR SSC. Hence, as the HR SSC is expected to increase its capacity, which is shown by the findings of this study, more internal clients will request traditional activities to be performed and/or innovated than transformational ones. Therefore, in proportion, the amount of traditional added to the current HR activity portfolio of the HR SSC is likely to gain in size at the expense of the other two types of activities.



The practical implication of this finding is that the HR SSC manager has to increase the resources of its HR SSC in order to cope with the expected increase of all type of HR activities performed and/or innovated. As this increase will mainly concern traditional activities, the skills and competences of the HR SSC employees of acquiring, supporting, guiding and rewarding the actions of workers are mostly advised to invest in. For research, these findings could implicate that the HR SSCs of organic organizations, which are less hierarchically structured (Burns & Stalker, 1961), would be expected to perform and/or innovate more transformational activities and less traditional activities than HR SSCs of mechanistic organizations, which are more hierarchically structured (Burns & Stalker, 1961). This implication can be explained by the line of reasoning that the level of hierarchy influences the division of HR activities among the HR delivery channels. In other words, at organic organizations the transformational activities would be delegated more to lower levelled HR delivery channels and therefore more internal clients of the HR SSC would request this type of activity to be performed.

## 5.2 The scope of HR support activities

This research has confirmed the proposition that HR SSCs are expected to innovate relatively more HR activities within 5 years in the Netherlands than currently is the case. As innovating requires other skills and roles than solely operating HR activities (Meijerink et al. 2013b), the practical implication of this expectation for the HR managers of the HR SSCs is the revealed necessity to prepare their staff for these different skills and roles. These skills or competences are the ability to analyze (the performance of) HR activities, to identify their shortcomings and to maximize their potential. Moreover, these roles are the Transformer roles described by Meijerink et al. (2013b), which concentrate on the redesigning and developing of processes and policies. For research, these findings could implicate that HR SSC is taking a leading role in innovating the entire HR function, which enables the other HR delivery channels to focus more on the operational support activities.

Nevertheless, the results of this paper reveal that an addition can be made to the dimension of HR support activities. This dimension has earlier been reported as a dichotomy of operational and innovation support activities (Meijerink et al. 2013b), but can be extended with the nominal variables 'advising/supporting' and 'controlling/monitoring'. These additional support activities are indirect instead of direct like the two original ones, because the HR SSC employees do not perform and/or innovate the HR activities themselves, but advise or control other employees and managers who do so. For example, the HR SSC employee can innovate the HR activity 'Recruitment & Selection' him/herself or can advise another employee from outside the HR SSC how to best innovate this HR activity. Therefore, in general, 'direct' refers to supporting the activities yourself, while 'indirect' refers to supporting others to support the activities. The new dimension of HR support activities and the direct/indirect distinction are depicted in figure 2.

The practical implication for the addition of advice and control to the dimension is that both HR SSC managers as employees should become aware about these expected new support activities. Besides awareness, the HR SSC staff also need to be prepared in order to fulfil this expectancy by investing in advising and monitoring knowledge and skills. Moreover, the theoretical implication is the obscuring of who controls who, because the HR SSC is said by its definition to be controlled by its internal clients, but these findings show that the HR SSC is also expected to control its internal clients.

Therefore, the question appears which HR delivery channel performs which type of control and how this division of control will be changed by the expected possibility of the HR SSC performing control as well.

### New Classification of HR Support Activities

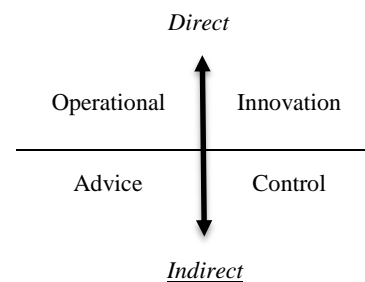


Figure 2:

Presents the new scope of HR support activities classification: the addition of the variables 'advice' and 'control' and the distinction between direct and indirect support activities.

## 5.3 The influence of the type of responsibility centres

First of all, concerning the type of activities, the exact opposite from what was expected, turns out to be true: profit HR SSCs are expected to perform and/or innovate relatively less HR transformational activities than average, while discretionary HR SSC are forecasted to execute and/or innovate relatively more HR transformational activities than average. Therefore, propositions IIa and IIb are refuted by this study. However, like expected, the transactional activities are forecasted to be performed and/or innovated less than average by the profit HR SSC while more than average by the discretionary expense HR SSC. In addition, the expectation regarding the traditional activities for HR SSCs structured as profit centres is to be increased more than average, while for discretionary expense HR SSCs to be increased less than average. In other words, remarkably, a pattern can be detected for the type of responsibility centres concerning the type of activities: the profit centre structuring intensifies the average movement of direction, while the discretionary expense structuring weakens this average movement. The findings regarding the profit HR SSC can be explained by the reasoning that only the traditional activities are relatively more worth paying a profit margin for than other type of activities. As the word 'traditional' already implies, perhaps for this type of activities the most core HR competences are needed, which can best be found at the resource bundled HR SSC and which is thus worth paying the profit margin for. The findings concerning the discretionary expense HR SSC can be clarified by the reasoning that when the internal clients know for certain only the costs of the HR activity are charged, all type of activities become more equally attractive to be executed and/or performed by the HR SSC. This line of reasoning is confirmed by the data from this study: discretionary expense HR SSCs are expected to grow more than average, while profit HR SSCs are expected to grow less than average. Thus, when only the costs of a HR activity are charged, the HR SSC is asked to perform and/or innovate more HR activities, than when a profit margin is charged. The practical implication of this finding is that HR SSC managers could structure their HR SSC as a discretionary expense centre, if they would like to fulfil a more strategic role as HR SSC. On the contrast, if the HR SSC manager or the HR function would like to increase the expected extent to which the HR SSC supports traditional HR activities, the HR SSC could be structured as a profit centre. The theoretical implication of these

findings could be that structuring HR units as profit centres would match a differentiation strategy and structuring HR units as discretionary expense centres would help pursuing a cost-leadership strategy (Porter, 1991). With the idea that HR units structured as profit centres, will intend to increase their value addition so their internal clients are willing to pay a profit margin, while discretionary expense HR units, will try to keep their costs as low as possible so their internal clients are more willing to delegate HR activities to them.

Secondly, the type of responsibility centre also appears to influence the scope of support activities differently than the expectancy formulated as proposition IIIa and IIIb. The HR SSC structured as a discretionary expense centre is expected to innovate HR activities approximately as much as average, while the profit HR SSC is predicted to innovate relatively less HR activities than average. This finding can be explained by the reasoning that when a HR activity gets innovated, not only the HR delivery channel who requests and pays for this innovation will benefit, but also all clients who request the execution of the HR activity. Due to this free rider problem, requesting the innovation of a HR activity becomes less attractive. This attractiveness decreases even more in case of a profit HR SSC, because besides the costs the client also has to pay a profit margin, resulting in an even higher free rider effect. As an effect is found for profit HR SSCs regarding the scope of support activities, but not for discretionary expense HR SSCs, the HR SSCs which did not match a certain responsibility centre, are expected to innovate more than average. This can be explained by the fact that when the type of responsibility centre is unclear, the internal pricing system is unclear as well (Anthony et al., 2014), making the free rider problem less evident for the clients. When the free rider problem is less evident, the request for innovating HR activities also becomes less unattractive and therefore the HR SSC, without a clear responsibility centre, will be expected to innovate more than average. The practical implication for the HR SSC managers is to think about how to spread out the costs of innovating HR activities more equally among its clients, in order to stop the free rider problem from occurring and to make requesting innovating HR activities more attractive. Moreover, for research, these findings implicate that the innovativeness of all HR delivery channels can partially be influenced by their type of responsibility centre.

Thirdly, the low internal consistency of the answers of the survey regarding the type of responsibility centre, indicates a difference between theory and practice. Only with 6 out of 10 HR SSCs interviewed, the answers consistently indicated either a profit or discretionary expense centre. In practice, the responsibility centres are therefore apparently not always set up as purely and optimally as described in theory. The reason could be that the HR SSC managers install certain responsibility centre mechanisms, without being aware of the existence of the (control management) concept 'the responsibility centre'. In other words, for HR SSC managers it is difficult or even impossible to perfectly align the responsibility centre mechanisms for them to be congruent with either a profit or discretionary expense centre, when the manager does not know something like a responsibility centre exists. The practical implication is that for HR SSC managers it can be recommended to choose consciously for a certain type of responsibility centre and fully implement this centre, as this will increase the efficiency and effectiveness of the HR SSC (Anthony et al., 2014). For research, the implication could be that pure forms of responsibilities centres are not perceived as desirable in practice.

## 6. CONCLUSION

This study has investigated which activities are expected to be performed by the HR shared services centres within 5 years in the Netherlands and how this expectation differs between HR SSCs' defined as discretionary expense centres and profit centres. The findings have shown that in absolute quantities all type of (support) activities are forecasted to increase and hence the HR SSC is expected to grow. However, in relative terms, the expected movement of type of HR activity performed and/or innovated by the HR SSC within the upcoming 5 years is found to be towards traditional activities instead of the in literature advocated transformational activities. Moreover, this paper has confirmed the expected increase in innovating HR activities by HR SSCs. The structure of a profit centre has revealed to magnify the average expected movement of direction of the type of HR activities performed and/or innovated by the HR SSC, while the structure of a discretionary expense is found to weaken this average movement of direction. Concerning the scope of support activities, the HR SSC structured as a discretionary expense centre appears to be forecasted to innovate approximately as much as average, while the profit HR SSC is found to be predicted to innovate less than average. Furthermore, this research has added the two expected future nominal variables 'control' and 'advice' to the scope of support activities and has outlined the distinction between direct and indirect support of this scope.

Evidently, this paper has several limitations. First of all, the Delphi study conducted only consisted of two rounds, while normally three up to five rounds are advised (Hsu & Sandford, 2007; Ludwig, 1997), with the risk that the rankings are not meaningful (Schmidt, 1997). Therefore, for further research, it can be suggested to replicate this study with the recommended amount of Delphi rounds conducted in order to research whether the same findings are obtained. Secondly, the use of descriptive statistics instead of inferential statistics to analyze the data in combination with the absence of complete lists and descriptions of HR SSCs (Meijerink & Bondarouk, 2013a), makes it unclear whether the findings can be generalized to the overall (global) population of HR SSCs. However, all HR SSCs investigated meet the theoretical definition of a HR SSC (Meijerink et al. 2013b) and only HR SSCs with a pure type of responsibility centre have been taken into consideration to investigate the influence of this contingency factor. Therefore, as the HR SSCs and type of responsibility centres investigated are congruent with theory, this study – at minimum – strengthens the analytical knowledge about these concepts and supports theoretical generalization of the findings. Thirdly, as only one HR SSC could be classified as profit centre, the findings related to this matter are less likely to be empirically representative. Lastly, this research has investigated the expected occurrence of the type of activities and scope of support activities in terms of quantity, instead of the expected amount of time dedicated to these variables. Without knowing the latter, the researched movement of type of activity and scope of support activities could be less meaningful and therefore distort the conclusions drawn about this movement. Hence, it can be recommended for further research to investigate the expected time dedication to the HR activities supported. Another suggestion for new studies is to further explore the influence of the type of responsibility centre on for example the performance of the HR SSC or the control of the end-users on the HR SSC. Moreover, further research could usefully investigate what the added support activities 'advice' and 'control' exactly involve and what their (expected) occurrence in relation to the other support activities is.

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## **9. APPENDIX**

### **9.1 Designed survey for determining the type of responsibility centre**

In this part of the questionnaire you will be asked about the responsibilities of your HR SSC. Two statements will be presented and you are requested to mark the statement, which is most suitable.

1. Are you as a manager of the HR SSC responsible for:

- the costs made by the HR SSC,
- both the costs made as the generated revenues by the HR SSC.

2. The price, which the employees of your organization are paying for the HR SSC offered services, is:

- Known
- Unknown

3. If the price, which the employees of your organization are paying for the HR SSC offered services, is known, it is based on:

- The costs of the service
- Both the costs of the service, as a profit margin.

4. When determining which services will be performed by the HR SSC of your organization, the following is considered:

- How much the service costs to execute
- Both how much the service costs to execute as how much the client is willing to pay for the service.