Sourcing Strategies for the Transnational Organization[1]

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"[The] most abundant, the least expensive, the most underutilized and constantly abused capacity in the world is human ingenuity. The source of that abuse is mechanistic, industrial-age organizations and the management practices they spawn."

Dee Hock, Founder/Chairman Emeritus, VISA

INTRODUCTION

In the age of increased global mobility, falling trade barriers, and explosive growth in international business, global expansion is on the agenda of most large enterprises. The question on every global company's mind is (or should be) how can they best organize themselves for international operations. Can you do business around the world the same way you do business around the corner? Or are substantially different organizational and management approaches required to meet the demands of global business? When the company as a whole faces such questions, the HR organization needs to anticipate emergent human capital needs in order to meet the challenges created by the company's globalization goals.

An effective organizational response to the complexities of globalization must satisfy a number of competing demands emanating from many different directions. In a competitive world, businesses require centralized controls to maintain standards and preserve a common vision, achieve economies of scale and reduce costs, and ensure legal/financial compliance and mitigate risk. At the same time, functioning effectively on the global stage demands sensitivity to local market conditions, adaptability under changing circumstances, and responsiveness to new opportunities — which could appear at a local, regional, or global level, or involve arbitrage across many different markets and businesses. Finally, a key factor in creating a competitive edge in the "information age" is the ability to rapidly leverage and disseminate knowledge and innovation across the organization. But how can a company organize itself to do all of these things simultaneously?

The ways that organizations have responded to these seemingly conflicting demands in the past have tended to favor some goals at the expense of others. A highly centralized, top-down organization, for example, may be very effective at preserving corporate standards and achieving economies of scale, yet be insensitive to local market conditions, cumbersome in changing direction, and unable to leverage knowledge and innovations developed in the local businesses. At the other extreme, a highly decentralized enterprise may foster the effective and rapid adaptation to a variety of local business situations, while foregoing economies of scale and inhibiting the dissemination of knowledge throughout the organization. The challenge for the widely dispersed, global organization lies in establishing the right balance between these two extremes: an equilibrium that promotes effective interaction and control from the center to the periphery and back, cultivating valuable connections among peripheral business units. Thus, the organizational question becomes: Is there any way to do it all — to have the best of all worlds?

One organizational response to these ostensibly conflicting demands, particularly in a global environment, is through the establishment of an effective program of outsourcing and shared services. These strategies seek to locate certain business functions, such as HR or payroll, at a centralized site where standards can be maintained, efficiencies can be achieved, and knowledge and innovation related to that function can be leveraged. The central site is linked widely (in operations and governance) to other units in the organization that draw on that function, which fosters local responsiveness and enables the dissemination of knowledge throughout the enterprise. Furthermore, centralizing responsibility for repetitive, high-volume, low-value administrative functions frees local resources to focus on delivering higher value and improved services in the core business, more effectively leveraging key competencies in the local business units. Offloading responsibility for back-office functions to a shared service center (SSC) or outsource provider allows the local business units to act more nimbly and effectively in their primary functions of sales and service delivery, which enhances the company's competitiveness in local markets and its ability to innovate and respond to the local environment. Moreover, such organizational approaches facilitate the company's ability to expand into new geographical locations, develop new lines of business, and pursue acquisitions, since the new operations can leverage the shared and outsourced functions, thereby easing integration and set-up challenges for the new businesses.

On a broader organizational level, a strategy for resolving this apparent paradox of "trying to do it all" can be found in the *Transnational* model, as described in the work by Bartlett and Ghoshal (1989) on the organizational structures of international enterprises. They identify four organizational models — *Multinational* (ultimately localized), *Global* (highly centralized), *International* (focused on sharing), and *Transnational* (highly networked) — which differ according to their management structures, external approach to the market, and internal lines of communication and reporting. The *Transnational* model reconciles the competing demands on global organizations by achieving an optimal balance between centralized control and decentralized autonomy and by maximizing innovation and knowledge sharing through a distributed communication network across the enterprise.

Within this framework, this article evaluates different shared service and outsourcing strategies based on a company's global organizational development and proposes a method for assessing the evolution of a company's global organizational structure — the Beaman-Guy Efficiency-Innovation Model (EIM) (2003). We present the results of two global studies that demonstrate the fundamental relevance of the *Transnational* structure for the development of a global HR organization.

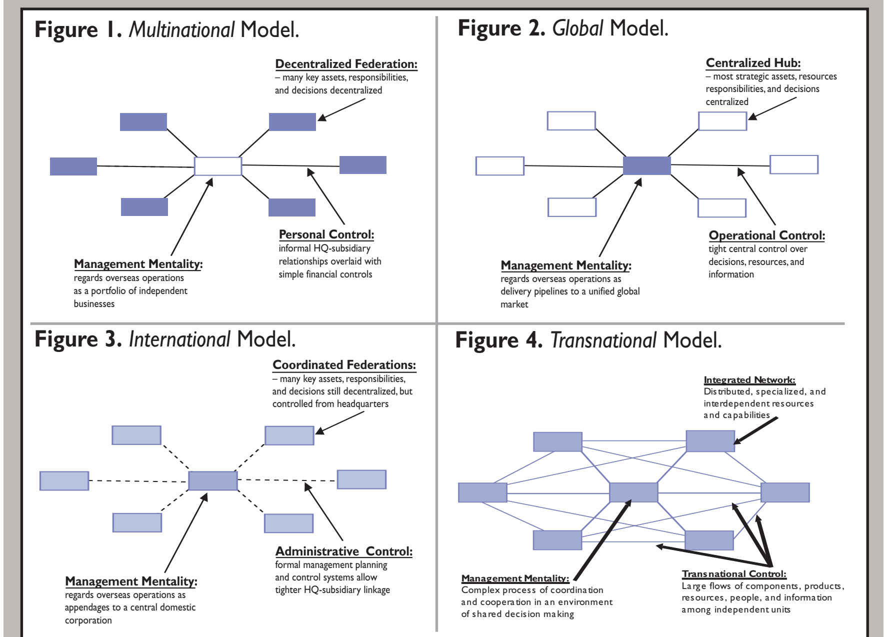
GLOBAL ORGANIZATIONAL DEVELOPMENT

In their seminal book, *Managing Across Borders: The Transnational Solution*, Bartlett and Ghoshal (1989) define four basic structures or models that organizations manifest in their global development:

- ➤ *Multinational,*
- ➤ *Global,*
- ➤ *International, and*
- ➤ *Transnational.*

A *Multinational* organization is one that is highly decentralized, consisting of numerous independent local business units with minimal controls at the center — generally not much more than financial oversight (see Figure 1). Central control over the enterprise is intrinsically limited by the fact that most of the power is concentrated in the local business units. The principle concerns of this type of company are the needs of the local market, sensitivity to regional differences, and autonomy for the individual business units. While this model may appear inefficient, it can be very appropriate for certain kinds of companies during certain periods of their development. In particular, this structure works well for companies that have a core focus on local markets needs, those highly affected by differing national rules and regulations, and those that have grown largely through acquisitions.

Figures 1 - 4. Global Organizational Development.



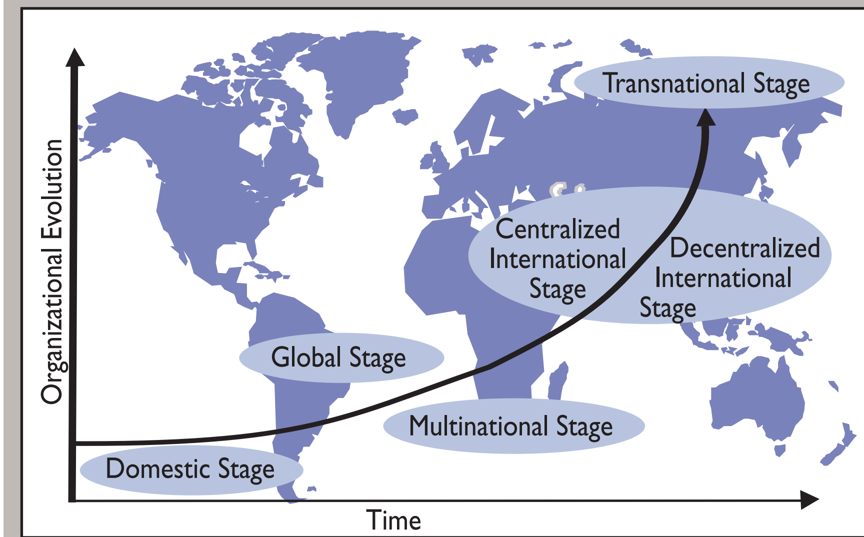
Source: Bartlett and Ghoshal, 1989

A *Global* organization is one that is highly centralized and standardized and that minimizes the needs of the local business units in favor of one single, uniform operating environment — the "one-size-fits-all" approach (see Figure 2). In contrast to the *Multinational* model, the head office in the Global organization has a great deal of power and control over the individual business units and puts a strong emphasis on global standardization and operating efficiency, striving to create one single "ideal" solution controlled by the head office. This type of organization became common in 1990s with the emergence of enterprise resource planning (ERP) systems, such as Oracle, PeopleSoft, and SAP, and can be appropriate for companies that have a uniform product offering and a single set of standards worldwide or for those with a core focus on operating efficiencies.

An *International* organization pursues a learning and sharing approach within the organization by seeking to leverage knowledge, adopt innovations, and disseminate best practices across the enterprise (see Figure 3). It strives to identify knowledge and innovations in the local businesses, integrate them into the corporate business model, and roll them back out throughout the organization. Sensitivity to the needs of the local business units is achieved through an exchange of key competencies between headquarters and the regions, and through a culture of sharing in which the various businesses and functions in the company cooperate and learn from each other, disseminating knowledge, innovations, and best practices through the head office.

The *Transnational* organization synthesizes the essential features of the other three models: it is flexible and sensitive to local conditions like a *Multinational* company, competitive and efficient like a *Global* company, and, at the same time, attentive to leveraging learning and sharing knowledge across the local business units as in an *International* company (see Figure 4). The *Transnational* organization is a federated network structure with no centralized "controlling" unit *per se*, but with a well-defined set of centralized "coordinating" and "cooperative" processes that govern how the organization functions. The distinctive characteristic of this type of enterprise is the de-

Figure 5. Organizational Development Curve.



Source: Adapted from Beaman & Walker, 2000

velopment of strong multilateral communication networks and interconnections between business units, in which communication does not necessarily need to pass through the center. Each unit learns from the other, spreading innovations via an intense, fluid, distributed network. This type of company masters the paradox, since it does well in all three critical organizational aspects — global efficiency, local sensitivity and worldwide innovation. It is an "enabling" and "self-organizing" structure — exemplifying effectiveness without being controlling and coercive.

As companies develop internationally, their organizational structures must evolve as well. Beaman and Walker (2000) postulated that organizations evolve from a purely domestic stage through the *Multinational* and *Global* stages, then to the *International* stage, and ultimately to the *Transnational* stage (see Figure 5). This natural evolutionary development is stimulated by an intrinsic need to seek out best practices and develop standards and operating efficiencies that can assist the organization in dealing effectively with the mounting complexity of the global business environment — survival of the fittest! Yet, it is important to keep in mind that "best practices" are relative and can only be understood, appreciated, and implemented in the appropriate setting: what may be good for one company at one point in its development may not be good for another company, or even for the same company at a different point in its development.

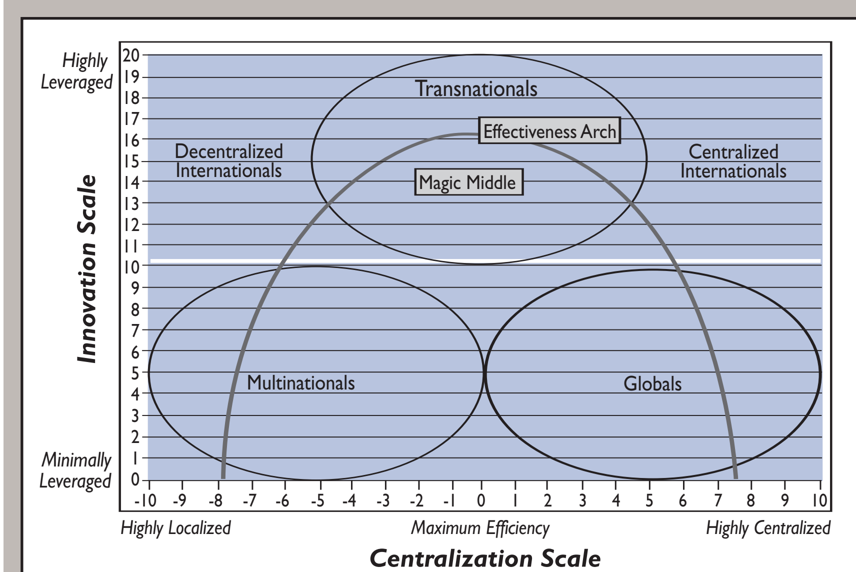
Therefore, in order to fully comprehend an organization's current structure according to the Bartlett and Ghoshal framework, consideration must be given to the administrative heritage and corporate culture of the organization. For example, if the company has largely grown through an acquisition strategy, the *Multinational* model may prevail. If the company has grown primarily through an organic, green fields approach, then the *Global* model may be more prevalent. The challenge for all organizations is to move in the direction of the *Transnational* structure along the organizational development curve. To affect this change, it is critical to first understand where the company currently is in its development and then to uncover what practices can be employed that can best influence the necessary changes.

THE EFFICIENCY-INNOVATION MODEL (EIM)

In order to operationalize Bartlett and Ghoshal's thesis and create a method for evaluating where a company currently is in its evolutionary path of organizational development, Beaman and Guy (2003) developed the *Efficiency-Innovation Model* (EIM) (see Figure 6), based on the two dimensions most critical to the *Transnational* organization:

- **Efficiency** — the degree of centralization/decentralization, with the goal of providing optimal balance between central control and local independence (the horizontal axis in Figure 6), and
- **Innovation** — the degree to which innovation is supported and leveraged, with the goal of fostering innovation and knowledge sharing across

Figure 6. Efficiency-Innovation Model (EIM).



Source: Adapted from Beaman & Guy, 2003

the organization (the vertical axis in Figure 6).

The basic tenet of the EIM is that an effective organization must achieve the right balance between centralization and decentralization in order to maximize innovation; overly decentralized organizations lack formal mechanisms for disseminating innovations throughout the company, while overly centralized enterprises allow innovations to languish in the field through the arrogance and/or ignorance of corporate headquarters the so-called "not-invented-here" or "head-in-sand" syndromes.

EFFICIENCY PARAMETERS

To assess the HR organization along the Efficiency dimension, we created five measures that reflect different aspects of the company's degree of centralization/decentralization. Each company is assigned an "efficiency" score using the following criteria:

- The first two measures address the company's internal information technology (IT):
  - A single HR system for all operations worldwide is considered centralized, while the use of multiple systems is considered decentralized; and,
  - A single data warehouse for all HR information worldwide is an indicator of centralization, while no data warehouse indicates decentralization.
- The third measure is the number of company functions out of a list of 10 (such as HR, payroll, finance, R&D, manufacturing, customer relationship management) that are administered centrally.
- The fourth measure is a scale that assesses the degree of standardization of HR plans and policies across the company's local business units, ranging from minimum to maximum standardization in five steps.
- The fifth measure addresses how the company sets its financial objectives, ranging from globally for the whole organization (maximally centralizing), to regionally or line of business, to locally (maximally decentralizing).

These measures are assigned different weights in the composite efficiency scale according to our view of their importance as diagnostics of corporate structure and process. The composite scale is based on a total of 20 points. The first two measures are weighted so as to jointly account for one-fourth of the total, i.e., 5 out of 20, or 2.5 points for each indicator of centralization. The third measure accounts for another 25 percent (computed as follows: the number of centralized functions, from zero to 10, is divided by two, to generate a maximum score of 5 out of 20 on the composite scale). The fourth measure is assigned a weight of 40 percent (computed as follows: the five steps on the scale are assigned even number scores from zero to eight). The fifth measure is weighted at 10 percent (a maximum of two points for global goal setting, one for regional goal setting, and zero if goals are set locally).

Totaling these scores yields a centralization measure for the Efficiency dimension of EIM, which ranges from zero to 20. For purposes of graphical representation and discussion, we centered the scale on zero by subtracting 10 from the overall score to emphasize that neither over-centralization nor over-decentralization is structurally advantageous. The adjusted scale yields an overall efficiency parameter for the company, with scores falling on a scale ranging from -10 to +10, where +10 indicates a highly centralized organizational structure and -10 indicates a highly decentralized structure. Zero, the central point, represents ideal efficiency, signaling that the company has achieved an optimal balance in locating functions appropriately between the central headquarters and local business units (see Figure 6).

INNOVATION PARAMETERS

To assess the second dimension of the EIM, Innovation, we used four measures that represent the HR organization's capacity to leverage information and adopt best practices across the organization. Each company is assigned an "innovation" score using the following criteria:

- The degree of involvement of local HR in the company's overall business planning, on a five-step scale from minimal to maximal involvement;
- The frequency at which modifications and improvements in HR policies are adopted as a result of interaction between line management and the HR department, on a five-step scale from minimal to maximal frequency of adoption;
- The frequency at which global HR meetings are held, on a scale ranging from never (indicating minimum opportunity for the dissemination of best practices) to monthly (providing considerable opportunity); and,
- The frequency of globally adopting best practices developed in local business units, on a five-step scale ranging from never to always.

These four scales are weighted as follows: the second measure, deemed the most vital to the *Transnational* model, is given a 40 percent weight on the composite scale (up to a maximum of eight points); the remaining measures are each assigned a 20 percent weight (zero to four points each out of a total of 20). Hence the total score on the Innovation dimension falls on a scale ranging from zero (minimum innovation) to 20 (maximum innovation); companies with a strong focus on innovation are indicated by a score above 10 on our scale (see Figure 6).

ORGANIZATIONAL ASSESSMENT

Graphing these two dimensions, with Innovation on the vertical axis and Efficiency on the horizontal axis, Bartlett and Ghoshal's four organizational structures fall into four corresponding regions of the EIM (see Figure 6). In the lower left quadrant are the *Multinational* companies. These companies are decentralized with a high degree of local autonomy and little attention paid to sharing innovations across business units. In the lower right are the *Global* companies — these are highly centralized, clearly focused on standardization, but also low on leveraging innovations throughout the company.

Above 10 on the Innovation scale are the *International* companies: to the left are the *Decentralized International* companies and to the right are the *Centralized International* companies. These companies exploit innovation and sharing of best practices across business units to the greatest extent that their structures can support. Finally, in the upper middle of the EIM, with a maximal level of innovation and with an appropriate balance between centralized and distributed functions, are the *Transnational* companies. These are the companies best positioned for competitive advantage through their ability to leverage innovation by sharing best practices, achieve operating efficiencies through standardization, and exhibit sensitivity to local conditions — reconciling the paradox.

EFFECTIVENESS ARCH AND MAGIC MIDDLE

Companies are distributed by the EIM in an arch-shaped pattern — the "Effectiveness Arch" (see Figure 6). The EIM hypothesizes that the leveraging of innovation is facilitated by an efficient distribution of responsibilities between central headquarters and local business units. Companies that improve efficiencies and foster innovation move along the Effectiveness Arch from either a *Multinational* or *Global* structure toward the *International* and *Transnational* structures. It is important to note that an essential facet of this model is that organizations can skip intermediate stages in their development, jumping from one stage to another, in a "punctuated equilibrium" approach (Robert Stambaugh, personal communication).

The shape of the Effectiveness Arch results from the fact that extreme values on the centralization/decentralization scale prevent diffusion of best practices and inhibit a company's organizational development, while a more effective balance promotes leveraging of innovation and worldwide learning. Hence, the EIM predicts that it is not possible for companies to rise to the upper right or left corners of the graph, i.e., to exhibit both high degrees of innovation and extreme centralization or decentralization (and indeed the results of the two studies conducted to date show no companies located in these corners). Companies that are excessively centralized or decentralized are inefficient in diffusing best practices along the innovation scale for one of two reasons:

- If the company is too centralized, the head office seeks to control and standardize practice in the local units thereby suppressing local innovation;
- If the company is too decentralized, innovations are not recognized or disseminated, and so are left to languish on the periphery.

The EIM hypothesizes that maximum leverage can be obtained when companies have an efficiency score between -4 and +4. Companies in this region of the chart, the *Transnationals*, have an average innovation score of 14, which defines the "Magic Middle" of the arch. The companies in the Magic Middle are the ones best positioned to take advantage of maximum innovation, local differentiation, and ideal efficiency — thereby best positioning themselves for competitive advantage.

GLOBAL SOURCING PRACTICES

The Hypothesis

It is our thesis that outsourcing and shared services represent effective organizational strategies for balancing the competing demands of control, responsiveness, and the leveraging of information and innovation. This is, in many respects, the same type of strategy that underlies the organizational structure of the *Transnational* enterprise. Consequently, we hypothesize that companies with a *Transnational* structure are industry leaders in the adoption of outsourcing and shared services.

The organizational properties of outsourcing and shared services are similar in many respects. Both centralize the operations that support some function while distributing widely the output of that function, i.e., the product being provided or the service being performed. Both seek to achieve global economies of scale, while maintaining responsiveness to the local field operations. The principal difference between them is in their management of the operation: whether it is done inhouse (shared services) or by an external provider (outsourcing). In fact, as Dell & Davidson (2003) and Dell & Tsaplina (see their chapter in *Out of Site: An Inside Look at HR Outsourcing*, IHRIM Press, 2004) have found, shared services can be a "gateway" or "enabler" for outsourcing.

The Study

In order to evaluate sourcing practices in global enterprises, we undertook a study to assess the level and types of shared services and outsourcing according to the EIM. The data for this study have been drawn from a larger research project being conducted by collaborators from four organizations: the authors of the current study, Karen Beaman from ADP Employer Services and Gregory Guy from New York University, and Al Walker from Towers Perrin and Charles Fay from Rutgers University. The project is being co-sponsored by the Association for International Human Resource Information Management (IHRIM) and has the goal to uncover best practices in global HR technology and business practice in the Global Fortune 500. Forty percent of the respondents in the current study came through the IHRIM members' listserv, and the remaining 60 percent through personal contacts of the researchers.

The Population

The population for the current study was obtained through surveys sent via e-mail in Autumn 2003 to 141 companies: 39 completed surveys were returned for a 28 percent response rate; six surveys were rejected as the companies were either too small or not global; four companies declined to participate. Figure 7 shows the population demographics for both the current study (Study 2) and the previous one (Study 1) conducted in 2002. Both studies are comparable in size (40-50 participating companies), are predominately U.S.-based organizations (72 percent), and cover a wide range of company sizes (from just over 1,000 employees to over 300,000 employees). Both studies show a fairly even distribution across Bartlett and Ghoshal's four organizational models, although the current study shows fewer *Internationals* (four versus 10). We believe that this is the result of normal fluctuation in the makeup of the samples as the difference in distribution is not statistically significant; also the previous study included more very large companies, which may affect the distribution of organizational types: 44 percent of the companies in the first study had over 50,000 employees, whereas the current study is more

Figure 7. Demographics of Survey Participants.

Study 1 (2002)

Countries	Count	Percent
United States	36	72%
United Kingdom	3	6%
France	2	4%
Germany	2	4%
Australia	1	2%
Canada	3	6%
Singapore	2	4%
Japan	1	2%
Total	**50**	**100%**

Organization Type	Count	Percent
Multinationals	16	32%
Globals	11	22%
Internationals	10	20%
Transnationals	13	26%
Total	**50**	**100%**

Company Size (EEs)	Count	Percent
Very Large (>50,000)	22	44%
Large (25-50,000)	8	16%
Medium (5-25,000)	14	28%
Small (<5,000)	6	12%
Total	**50**	**100%**

	Min	Max	Mean
No. of Employees	1,200	300,000	66,149

Study 2 (2003)

Countries	Count	Percent
United States	28	72%
United Kingdom	1	3%
France	2	5%
Germany	2	5%
Australia	3	8%
Brazil	1	3%
China	1	3%
Sweden	1	3%
Total	**39**	**100%**

Organization Type	Count	Percent
Multinationals	15	38%
Globals	12	31%
Internationals	4	10%
Transnationals	8	21%
Total	**39**	**100%**

Company Size (EEs)	Count	Percent
Very Large (>50,000)	11	28%
Large (25-50,000)	9	23%
Medium (5-25,000)	10	26%
Small (<5,000)	9	23%
Total	**39**	**100%**

	Min	Max	Mean
No. of Employees	1,600	365,000	75,707

Source: Beaman, Fay, Guy & Walker, 2003

evenly distributed in company size.

Looking at the types of shared services in use, Figure 8 shows that 61 percent of companies in this study have some sort of shared service center for HR (23% local SSC, 33% regional, and 5% global), and 65 percent have a shared service center for payroll (26% local, 36% regional, and 3% global). Across all functions, the implementation of a global service center is significantly less (3% to 8%) than a regional (21% to 38%) or local center (5% to 26%), highlighting that regional shared service centers are the more popular model. Looking at what companies think they "should" have with regard to shared services, on average 30 to 40 percent of respondents believe that shared service is an effective sourcing strategy, again with the regional model being the most popular.

Figure 9 shows the types of systems that organizations in the survey currently have in place. Ninety percent of respondents in the survey use a vendor software product as their domestic HR system, and 74 percent use a vendor-supplied payroll system, domestically. Internationally, these numbers drop to 79 percent for HR and 54 percent for payroll. When it comes to outsourcing, three percent of companies (one company) outsource their HR system and 18 percent outsource payroll, domestically. In contrast to vendor-supplied software, the percent of companies that outsource internationally increases to five percent for HR and 33 percent for payroll (seven companies) and there are also several respondents that have a hybrid strategy with multiple vendors, outsourced and custom systems in place. Thus, it is apparent that a larger number of companies outsource payroll over HR (consistent with numerous other studies), and that companies are also more likely to outsource payroll internationally than domestically.

The Companies

Now let us consider where the companies in the current sample are in their global evolutionary development. Locating the companies according to the EIM reveals the results in Figure 10. We have 15 *Multinational* and 12 *Global* companies, both with low average innovation scores (7.3 and 7.5, respectively, see Figure 11,

Figure 8. Types of Shared Services in Use – Study 2.

Study 2 (2003)

Have Shared Service Centers	HR System		Payroll System		Finance System	
	Count	Percent	Count	Percent	Count	Percent
None	15	38%	13	33%	13	33%
Local	9	23%	10	26%	5	13%
Regional	13	33%	14	36%	15	38%
Global	2	5%	1	3%	3	8%
No Answer	0	0%	1	3%	3	8%
Total	**39**	**100%**	**39**	**100%**	**39**	**100%**

Should Have Shared Service Centers	HR System		Payroll System		Finance System	
	Count	Percent	Count	Percent	Count	Percent
Local >=3	16	27%	19	37%	17	28%
Regional >=3	25	42%	25	48%	22	37%
Gobal >=3	18	31%	8	15%	21	35%
Total*	**59**	**100%**	**52**	**100%**	**60**	**100%**

*Totals are greater than total number of companies in the sample as respondents selected multiple options

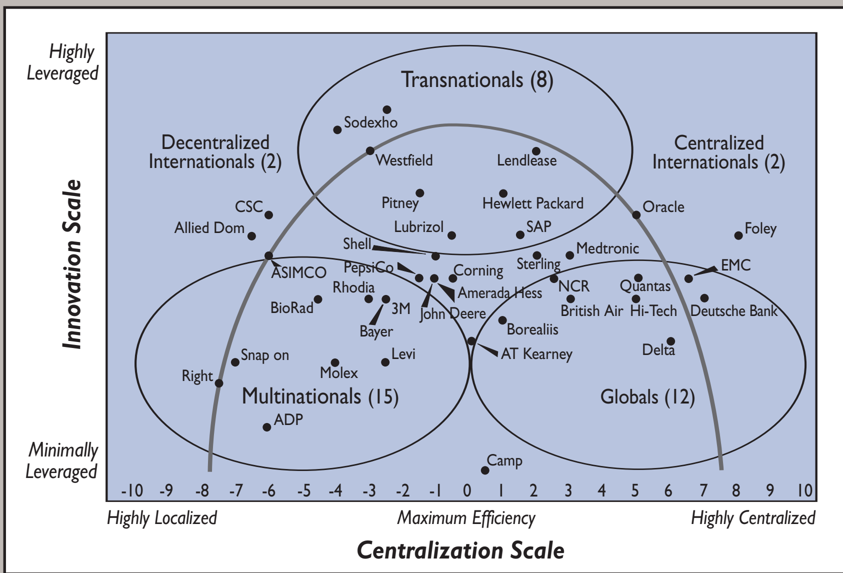
Figure 9. Types of Systems Currently in Place – Study 2.

Study 2 (2003)

Home Systems	HR System		Payroll System		Finance System	
	Count	Percent	Count	Percent	Count	Percent
None	1	3%	0	0%	0	0%
Custom	0	0%	1	3%	2	5%
Vendor	35	90%	29	74%	34	87%
Outsourced	1	3%	7	18%	1	3%
Multiple (C, V, O)	2	5%	1	3%	1	3%
No Answer	0	0%	1	3%	1	3%
Total	**39**	**100%**	**39**	**100%**	**39**	**100%**

International Systems	HR System		Payroll System		Finance System	
	Count	Percent	Count	Percent	Count	Percent
None	1	3%	1	3%	1	3%
Custom	2	5%	1	3%	3	8%
Vendor	31	79%	21	54%	31	79%
Outsourced	2	5%	13	33%	1	3%
Multiple (C, V, O)	3	8%	2	5%	1	3%
No Answer	0	0%	1	3%	2	5%
Total	**39**	**100%**	**39**	**100%**	**39**	**100%**

Figure 10. Effiency-Innovation Model(EIM) — Study 2.



Study 2). Following the definition of the EIM, *Multinationals* have decentralized efficiency scores (a mean of -3.4) while the *Globals* scored higher on centralization (a mean of +3.5). The companies scoring in the top half of the Innovation scale include the Internationals, scattered on both sides of the efficiency scale but showing a mean innovation score of 11.5, and finally the *Transnationals*, with a mean score of 13.9. The *Transnationals* are positioned at ideal efficiency on our scale (average of -0.9) and, most importantly, achieve by far the highest innovation scores (average of 13.9), placing them directly in the "magic middle" of the EIM (see Figure 10). This confirms the basic assumption of the EIM: the greatest ability to leverage innovation occurs when there is an appropriate balance between centralizing and decentralizing organizational practices.

The Findings

As substantiated by our earlier study (Beaman & Guy 2003), the EIM can be used as a method to uncover and predict best practices with respect to organizational structure; in the present study, the practices being evaluated are shared services and outsourcing. In this section we begin by examining the overall rates of shared services in use, the effect of company size on the choice of strategy, the association between organizational structure and the use of shared services, and the right-placing of shared services in the organization. We then look at outsourcing practices with respect to the organizational model and evaluate the drivers that appear to be influencing an organization's choice of strategy.

Shared Services as Standard Practice — Let us first consider the overall usage of shared services across the two studies. In both studies, the majority of companies have some type of shared service center in place for HR, Payroll, or Finance, whether operating at a global, regional, or country level — 66.7 percent of companies for Study 1 and 74.4 percent for Study 2 (see Figure 12) — confirming the fact that shared service is now standard business practice. In the current study (Study 2), regional shared service centers are the most common (56.4%), followed by local centers (36.9%, number not shown on figure), and then global centers (10.3%). The lower number of global centers in Study 2 is most likely a result of having fewer very large companies in the sample (11 in Study 2 versus 22 in Study 1) and the relatively greater difficulty in implementing a global center over a regional or local one. However, as we will see in the following sections, adoption of the shared service model is not a uniform practice for all types of businesses; rather, it is associated with several other characteristics of the enterprise.

Shared Services and Company Size — Use of shared services is clearly a function of the size of the company: not surprisingly, the larger the company, the more likely they are to have implemented a shared services approach. In fact, in the current study, 78 percent of companies over 5,000 employees have some type of SSC. Only one-third of the smaller companies (those less than 5,000 employees) are found to have any shared services functions at all (33.3 percent). This finding is congruent with the fact that larger businesses have greater efficiencies to be achieved through the establishment of an SSC that serves a larger customer base.

Figure 11. Efficiency and Innovation Scores.

Study 1 (2002)

		Average Efficiency
Multinationals	16	-7.1
Globals	11	3.6
Internationals	10	-0.9
Transnationals	13	0.5
Total	50	-1.0

		Average Innovation
Multinationals	16	7.0
Globals	11	4.6
Internationals	10	14.5
Transnationals	13	16.3
Total	50	10.6

Study 2 (2003)

		Average Efficiency
Multinationals	15	-3.4
Globals	12	3.5
Internationals	4	0.1
Transnationals	8	-0.9
Total	39	-0.2

		Average Innovation
Multinationals	15	7.3
Globals	12	7.5
Internationals	4	11.5
Transnationals	8	13.9
Total	39	10.0

Figure 12. Shared Services by Organizational Model.

Study 1 (2002)

Shared Service Centers	Have Global SSC Count	Have Global SSC Percent	Have Regional SSC Count	Have Regional SSC Percent	Should Have SSC Count	Should Have SSC Percent
Multinationals	3	42.9%	1	14.3%	5	71.4%
Globals	1	20.0%	3	60.0%	5	100.0%
Internationals	5	62.5%	5	62.5%	4	50.0%
Transnationals	6	60.0%	6	60.0%	8	80.0%
Total	15	50.0%	15	50.0%	22	73.3%

Study 2 (2003)

Shared Service Centers	Have Global SSC Count	Have Global SSC Percent	Have Regional SSC Count	Have Regional SSC Percent	Should Have SSC Count	Should Have SSC Percent
Multinationals	0	0.0%	9	60.0%	11	73.3%
Globals	2	16.7%	7	58.3%	10	83.3%
Internationals	0	0.0%	2	50.0%	4	100.0%
Transnationals	2	25.0%	4	50.0%	7	87.5%
Total	4	10.3%	22	56.4%	32	82.1%

Shared Services and Organizational Model — Beyond the effect of company size, the organizational structure of a business also affects its use of shared services. The data show that, compared with the other organizational models, *Transnational* corporations have more functions organized into SSCs. The *Transnationals* in our study have 75 percent of their HR, Payroll, and Finance operations functioning in shared service centers versus 58 percent for the other organizational types, making them 30 percent more likely to use shared services than all other companies (see Figure 13). The other models do not differ much among themselves in their use of shared services, although collectively they lag the *Transnationals* by an appreciable amount. This is consistent with the view that the *Transnational* organization and a shared services approach both pursue the same ends: mastering the paradox of achieving both enhanced services and economies of scale.

Shared Services and Right-placing — However, it should not be concluded that all shared service is an unqualified superior strategy to pursue. It is unlikely that all functions for all companies under all circumstances can be effectively conducted via a shared services approach. Indeed, there is much current discussion in the business press of companies that have moved too far into shared services and perhaps lost some of their responsiveness and competitiveness, and thus are now bringing functions back to the line organizations. Hence, one important task for the global company lies in the "right-placing" of business functions: identifying which ones can operate most effectively through the shared services model and which ones require a local or completely different delivery model.

In our earlier study (Beaman & Guy 2003), we found a difference between companies' actual practices and their future aspirations with respect to SSCs across the four types of organizations. When we examined what companies thought they needed with regard to SSCs in comparison with what they actually had (see Figure 12, Study 1), we found that less than half of *Multinational* (43%) and Global (40%) companies had a SSC, yet the majority thought they should have them (71% and 100%, respectively). For International companies, the situation was reversed: all of the companies had SSCs, yet only half of them thought that they should have them! Only the *Transnational* companies actually had SSCs at the level they believed to be appropriate — 70 percent had them compared to 80 percent that thought they needed them. We suggest that these results indicate that not all shared services are equal: the effectiveness of a SSC depends largely on placing the appropriate functions in the right location. Generally, *Transnationals* appear to be more in tune with their own needs — our concept of "right-placing" — as evidenced by greater agreement between what they have and what they think they should have. This finding is confirmed in the current sample where the figure for the *Transnationals* having shared service centers is identical to the figure for those that thought they should have them, 87.5 percent (see Figure 12, Study 2).

Figure 13. Shared Services as a Transnational Practice.

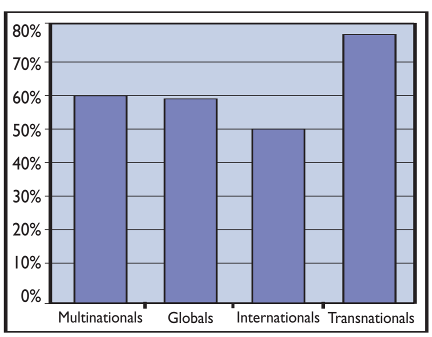
Study 2

Organizational Model	Percent SSCs	Number of Functions
Multinationals	60.0%	45
Globals	58.3%	36
Internationals	50.0%	12
Transnationals	75.0%	24
Total	61.5%	117

p = 0.438

Organizational Model	Percent SSCs	Number of Functions
Transnationals	75.0%	24
Others	58.1%	93
Total	61.5%	117

p = 0.128



Outsourcing as an Emerging Practice — Turning to outsourcing, we saw earlier that fewer companies outsource than adopt a shared services approach. Also, as mentioned earlier, more companies outsource payroll (18% domestically and 33% internationally) over HR (3% domestically and 5% internationally) and more outsource internationally than domestically, in line with many other studies in this area. Outsourcing, unlike shared services, does not appear to be associated significantly with company size; however, it is associated with industry leadership, as the next sections elucidate.

Outsourcing and Organizational Model — Given the lead that *Transnationals* exhibit in shared services and given Dell and Davidson's (2003) claim that shared services can be a gateway to outsourcing, the question arises as to whether *Transnationals* also lead in out-

Figure 14. Outsourcing as a Transnational Practice.

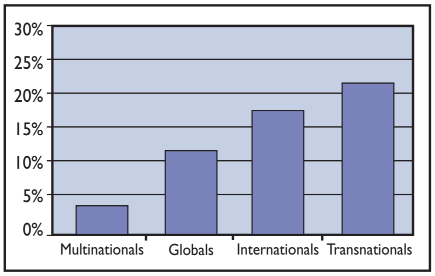
Study 2

Organizational Model	Percent Outsourcing	Number of Functions
Multinationals	3.3%	90
Globals	11.1%	72
Internationals	16.7%	24
Transnationals	20.8%	48
Total	10.7%	234

p = 0.011

Organizational Model	Percent Outsourcing	Number of Functions
Transnationals	20.8%	48
Others	8.1%	186
Total	10.7%	234

p = 0.011



sourcing strategies. The results of our study confirm that, in fact, the *Transnationals* do show a striking lead in the use of outsourcing: they are two and half times more likely than all other organizational types to outsource (see Figure 14). Furthermore, there is a systematic increase in the use of outsourcing as companies progress along the organizational development curve from *Multinational* (3.3%) to Global (11.1%) to International (16.7%) to *Transnational* (20.8%). A chi-square test shows that these results are significant at the .011 level, indicating that organizational structure is a robust predictor of the use of outsourcing.

These results are revealing on several points. First, they confirm the innovative nature of outsourcing — it is markedly more prevalent in more innovation-friendly organizations (*Transnationals* and Internationals). Second, they confirm the impact of organizational structure on corporate practice: for example, the marked lag by Multinationals in the use of outsourcing (they outsource only one-fifth as much as other companies) is entirely understandable given their diffusion of functions and lack of a central authority to organize or impose strategies on the local business units. Third, the results are consistent with the argument of Dell and his associates that shared services acts as a gateway to outsourcing: the *Transnationals* lead in both, and all companies have more shared services than outsourced functions. Finally, these results confirm the strategic similarity between a *Transnational* structure and the practice of outsourcing that we hypothesize. Both approaches simultaneously pursue efficiency through centralization, responsiveness through local differentiation, communication through a multilateral network, and innovation through leveraging of best practices. Outsourcing is clearly a strategy that is most at home in a *Transnational* setting, making *Transnational* organizations the industry leaders in outsourcing.

Sourcing Strategies and Innovation — As we have seen, *Transnationals* are defined by the EIM in terms of their greater ability to leverage innovation, as well as by their optimal efficiency on the centralization dimension. It turns out that the association between innovation and the use of shared services and outsourcing is not restricted only to the *Transnationals*. In the data as a whole, the use of both outsourcing and shared services is associated significantly with the Innovation dimension of the EIM. The correlations between a company's score on the EIM Innovation scale and its use of shared services and outsourcing internationally are highly significant ($r = .266$ and $r = .259$, respectively, $p < .05$; $N = 39$). Hence, we conclude that the more innovative companies are using shared services and outsourcing as strategies to help them move their attention away from the administrative, back-office functions in order to focus on core competencies and the more critical areas of growing the business.

Conclusion

Both the structure and operations of an organization must be designed so as to facilitate the goals of the enterprise; for most corporations today, these goals include achieving economic efficiency and maintaining a competitive advantage. Since the world is not static, to stay competitive requires innovation, and in the global information age, sharing information and enhancing internal communications within the company are essential to promoting innovation.

In the pursuit of efficiency, innovation, and competitiveness, the *Transnational* organizational model offers many advantages. Perhaps its most important characteristic is the right-placing of functions: some activities are better performed centrally, others regionally, and yet others are intensely local. A single strategy of centralization or decentralization misses this critical fact of business life. An effective enterprise needs to recognize and accommodate to this.

Accompanying the issue of right-placing is the ability to leverage innovation. For the growth and future competitiveness of the enterprise, a company needs mechanisms to identify innovations and spread them broadly across the organization. This is rarely done well from the top down, and rarely done at all in organizations without effective channels of internal communications. Rather, the dissemination of innovations occurs better when it proceeds organically, so that each unit that has a need can seek solutions and advice from any unit that may possess relevant — and innovative — experience or knowledge. *Transnational* and *International* organizations strive to do this, which is the essential element that makes them more effective at leveraging innovation.

Outsourcing and shared services are operational strategies for conducting the daily business of the enterprise in a way that is both efficient and effective. They also facilitate the right-placing of functions and the leveraging of innovation: since the operation is centrally located, a novel approach can be effectively implemented throughout the worldwide operation. Assuming such strategies are implemented correctly, with suitable governance models that ensure their responsiveness to local needs, they can communicate with and serve the local units in their region of responsibility. If not done correctly, they are effectively not what they purport to be: a shared service that is not responsive is not "shared," and an outsourced provider that needs backup in the local units is not truly "out" sourced.

The relationship between organizational structure and daily operations emerges from the data in our studies. *Transnational* corporations lead in the use of shared services and outsourcing. They are also the most effective in right-placing their sourcing strategies. Most importantly, the organizational model of a corporation turns out to be the best predictor of outsourcing: as companies move along the global development curve and ascend the effectiveness arch, they use more shared services and outsourcing.

Of course, changing organizational structure and implementing new sourcing strategies cannot be done over night — organizational evolution is a journey that must be nurtured and managed over time with sensitivity to where the business is starting from — its corporate culture and history — as well as the demands it faces from the markets it is operating in. The fundamental message in this research is that no organization can succeed today with a relatively unidimensional strategy, emphasizing mainly efficiency or focusing primarily on local needs or leveraging merely the parent company's capabilities. To be competitive, we have to become masters of the paradox and be all three things simultaneously: globally efficient, sensitive to the needs of local business units, and, at the same time, able to leverage innovation and worldwide learning across the enterprise.

"Out of clutter, find Simplicity.
From discord, find Harmony. In the
middle of difficulty lies Opportunity."
— Albert Einstein, Three Rules of Work

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ENDNOTES

1 The present study is based on previous work by Karen Beaman and Al Walker (2000), which postulated the evolutionary model for global organizational development, and on previous work by the current authors (Beaman & Guy 2003), which developed the concept of the Efficiency-Innovation Model (EIM).

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