AN INSTITUTIONAL PERSPECTIVE ON THE ACCOUNTING PRACTICES IN A FINANCE SHARED SERVICE CENTRE ORGANIZATION

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF DIAGRAM

LIST OF CHART

ABBREVIATIONS

AP	-	Accounts Payable
BSC	-	Balanced scorecard
BCP	-	Business Contingency Plan
CEO	-	Chief Executive Officer
CFO	-	Chief Financial Officer
GAAP	-	Generally Accepted Accounting Principles
IC	-	Improvement Champion
IFRS	-	International Financial Reporting Standards
OM	-	Ortega Malaysia
OFM	-	Ortega Finance Malaysia
OSSC	-	Ortega Share Service Centre
SSC	-	Shared Service Centre
SLA	-	Service Level Agreement
PMC	-	Process Management Committee
PO	-	Purchase Order

ABSTRAK

Kajian ini bertujuan untuk mendapatkan kefahaman and penjelasan mengenai proses penginstitutionalan amalan perakaunan dalam satu organisasi perakaunan yang sedang mengalami transformasi daripada jabatan perakaunan tradisional kepada "shared service centre" (SSC) di dalam sebuah syarikat multinasional di Malaysia. Fokus kajian ini tertumpu kepada amalan perakaunan yang spesifik di dalam SSC. Ianya cuba mengaitkan institusi lama dengan yang semasai untuk menunjukkan pertalian di antara kedua-dua insitutasi tersebut mempunyai impak ke atas implementasi amalan perakaunan SSC.

"Explanatory case study" digunakan sebagai cara kajian dan analisis adalah berdasarkan maklumat yang dikumpul melalui temuduga, dokumen syarikat, perbualan tidak formal dengan kakitangan syarikat dan pemerhatian. Analisis data menunjukkan amalan perakaunan SSC di dalam organisasi yang baru tidak sangat berbeza daripada organisasi perakaunan yang lama. Pegangan kepada nilai and perlakuan yang asas daripada institusi yang lama berlanjutan ke organisasi SSC yang terkini. Oleh it, para kakitangan tidak memberikan tentangan yang signifikan dalam proses penerimaan amalan perakaunan SSC and memberikan sokongan kepada model organisasi yang berbeza.

Hasil kajian menunjukkan terdapatnya perubahan di dalam institusi SSC di mana amalan perakaunan dipertingkatkan kepada taraf yang lebih mendalam and sensitif dengan sokongan pengurusan perakaunan. Ini mendorong para kakitangan untuk mengubah perangai mereka terhadap pemberian lebih keutamaan kepada amalan perakaunan SSC, seperti pencapaian sasaran organisasi, pemberian servis yang lebih baik kepada pelanggan, menjadi lebih sensitif terhadap pengurangan kos dan usaha untuk menyumbang lebih daripada sekadar melengkapkan kerja berunsur

transaksi. Bagainmanapun begitu, amalan seperti ini telah wujud dalam organisasi perakaunan lama sebelum implementasi SSC, tetapi tidak diberikan sebanyak tumpuan sepertimana yang diberikan hari ini. Perubahan dalam amalan perakaunan menpunyai impak yang kecil terhadap perlakuan atau "routines" dalam institusi semasa. Oleh itu, perubahan ini dikelaskan sebagai perubahan berunsur evolusi.

Kajian ini menyokong anggapan bahawa usaha untuk menginstitutasikan amalan yang baru adalah lebih mudah secara relatif apabila amalan itu tidak jauh berbeza daripada nilai asas dan kebiasaan perlakuan dalam sebuah institusi yang telah sedia ada. Pertentangan terhadap sebarang perubahan masih wujud tetapi boleh diatasi dengan penyelesaian yang kurang kompleks.

ABSTRACT

The intention of this research is to explain the process of institutionalization of the accounting practices in an accounting organization which went through a transformation from being a traditional accounting department to a finance shared service centre in a multinational company located in Malaysia. The study focused on specific elements of the accounting practices of a shared service centre (SSC). This study also aims to link the past and the present institutions to show that the connections have an impact on the implementation of the SSC accounting practices.

The method used is an explanatory case study and analysis was made based on the data collected through interviews, document reviews, informal conversations and observations. An analysis of the data showed that the SSC accounting practices in the new organization is not fundamentally different from the prior accounting group. The underlying values and behaviours of the previous institution still lives on in the current SSC organization. As a result of this, there was no significant resistance among the employees in receiving the SSC accounting practices and supporting the business model.

There were changes in the SSC institution whereby there the accounting practices were enhanced to a more detailed and sensitive manner with the support of the accounting management. This drove the employees to change their behavior towards placing more importance over accounting practices such as meeting indicator targets, being more customer orientated and cost conscious, and striving to contribute beyond executing transaction work. These accounting practices were in existence in prior accounting organization before the SSC was implemented, but did not receive as much focus as they do today. These were considered minor changes to existing

routines and institutions, which was one of the main reasons that led to the conclusion that the organization experienced an evolutionary change.

This study lends support to the assumption that the effort to institutionalize a new practice is relatively easier when the new practice mirrors the fundamental values and norms of an existing institution. The tendency to resist will still be there whenever there is a change but may be overcome through less complex solutions.

Chapter 1

INTRODUCTION

This thesis begins with Chapter 1 introducing the background and objectives of the research. A detail discussion of cost reduction pressure across the globe impacting support groups is provided to demonstrate the need and urgency for different ways of carrying out business in a more efficient manner. As a result of the cost reductions and efficiency quests, the shared service centre became an option besides outsourcing financial services.

1.1 Background of the Study

Management paradigms today are experiencing a shift. Globalization efforts by companies led to mergers, acquisitions and divestitures, which are initiatives that could increase businesses competitive advantage and build greater shareholder value (Schulman et .al., 2005). Organizations are likely to fail unless they are able to re-engineer themselves to adapt to shifting demands or situations as a result of extensive paradigmatic environmental change seen in today's world (Euske et al, 1993 ; Hames , 1994 ; Marquardt and Reynolds , 1994). It is not an option for organizations to thrive in a world where only chaos and surprises reign but a requirement. (Marquardt and Reynolds , 1994). The organizations which survive are those which match their capabilities to the evolving needs of the market and shareholders (Otley , 1994) .

While cutting costs used to be a good strategy in stable times, it is no longer suitable in today's dynamic competition. Kim & Mauborgne (2005), the authors of Blue Ocean Strategy, contend that while most companies compete in (hostile) 'Red Oceans', strategies focusing on cost cutting to improve competitiveness are not the most effective strategy anymore. Cost cuttings strategies are increasingly unlikely to create profitable growth in the future. Kanter (1983, cited by Mezias & Glynn, 1993) argued that organizations cannot survive without investing in and creating innovation. Innovation is a key factor to survival and competitiveness which propels the firm to the top.

With the increasing competitive environment faced by organizations, companies have tried to find all ways possible to stay ahead of the race, whether through cost reduction, cultural synergy or innovative learning. In the manufacturing environment, terms such as total quality management, six sigma, etc are all at its core aimed at achieving higher cost efficiency but it is only possible if the organization is able to learn the concept and cohesiveness of team work exists. Cost reduction comes in all forms, disguised in fancy terms such as lean manufacturing, restructuring, outsourcing, and the latest popular term of "shared service centre" (referred to as SSC hereafter).

In a manufacturing organization, the operations department is considered direct cost groups while the indirect cost groups consist of, namely, HR (Human Resources), Finance and Marketing departments. In a world where cost reduction is essential in every part of the organization, these indirect cost groups, also known as support groups, are not spared from being thoroughly scrutinized for cost reduction opportunities.

Interviews with HR professionals and outsourcing literature reviews by Greer et al. (1999) produced an identification of five competitive forces that are driving more companies to outsource some or all of their HR activities. These forces are downsizing, rapid growth or decline, globalization, increased competition, and restructuring. Over the past decade, these forces have significantly altered the strategy and structure of many firms. During this time, firms have attempted to refocus their businesses, lower their costs while increasing service, and improve capabilities to respond to future business challenges.

Transactional work is in its own way a form of commodification of the accounting function, even more so when it concerns specific functions such as Accounts Payable and General Accounting. Commodification is akin to making services become a commodity which, if compared to a product, is something easily available in the market at low costs. Commodification has even reached the professional field of accounting whereby it touched the traditional work of external certified public accounting firms and their expansion into the jurisdictional domain of internal auditors using a dramaturgy of ‘‘world-class services’’. This was a major inflection point in inter-organizational power relations in the professional arena (Covaleski et al, 2003) and involved a study on integration of sociology of professions, institutional theory and outsourcing literatures. This change was revolved around a contested transformation of the professional field of accounting that was intended to be global in its reach, which was the outsourcing of internal audit services to external public accountants, and in particular the Big Five international public accounting firms.

The traditional model of services activities in business divisions has gradually but surely been replace by outsourced models. These changes were especially obvious in the last 20 years (Seal and Herbert, 2007). Outsourcing, argued by proponents for it, allowed business divisions to focus on important core activities and harness the expertise and scale of an organization that is an expert in those areas. This is aligned with the philosophy of increasing the competitive edge of what the firm excels in, while decreasing its non value added work.

Besides the outsourcing model, there is another relatively neglected alternative which is the Shared Service Centre (SSC). It is assumed to carry the same meaning as "shared solutions" and "shared resources", among the other many names coined by various organizations.

1.1.1 Finance Shared Service Centre (SSC)

The pressure on finance organization to add value to the business is increasing in the face of global competition. It is no longer sufficient for finance to balance the account books and act as a data provider to management at decision making levels. As 80 percent of traditional finance organization activities do not add value to the business (Schulman et al., 1999), one of the two key tasks given to Chief Financial Officers (CFOs) and their finance organizations in the 21st century is to turn around the finance contributions towards ensuring 80 percent of the activities do add value. The other key task is to reduce cost of the finance organization as a percentage of corporate revenues. In order to do this, CFOs were asked to reallocate their resources away from simple transaction processing and controls, and to build those resources into becoming a full business partner with operations and corporate leadership by providing consultancy and business case analysis.

According to KeyMark Consultancy (2009), since SSC inception in the 1980s, many diverse companies have converted to a shared services model with mixed reviews. Systematic and thorough planning with proper technology assessment, ability to influence enterprise-wide employees' support and a complete understanding of business needs before any form of implementation take place impact the outcome of the conversion. Many companies, which did not experience a positive conversion failed to carry out proper consultation or seek the support of management integration partners.

In 2009, Deloitte & Touche (2009) conducted a survey that included 265 shared services leaders representing 702 individual with organizations distributed across all major industry groups. The annual revenue of these companies ranged from less than US$1 billion to more than $100 billon with a median annual revenue of US$10.5 billion. Of the total respondents, 16 percent and 12% percent were in the manufacturing and financial industry respectively. It was found that SSC model has matured to the point where most organizations have a solid grasp of the basic principles of achieving cost and service quality effectiveness in their operations. Deloitte & Touche (2009) identified the widespread pursuit of a number of well-established shared services improvement strategies. These included the increasing placement of advisory services in a shared environment, the ongoing adjustments to many SSC geographical footprints, and the continuing emphasis on cost reduction and process improvement.

Many of the respondents in the Deloitte & Touche (2009) survey have established a productive linkage between shared services strategy and business strategy in a number of areas such as data transparency, enterprise growth, and talent development. This could be an indication that business leaders today are increasingly coming to recognize and systematically exploit the value of shared services as a strategic enabler. Deloitte & Touche anticipated that as more executives realize and appreciate shared services' potential contribution to these and other strategic goals, a wider range of variations on the basic shared services theme will emerge. Organizations that pursue shared services approaches may choose to customize the

SSC approach or model to their unique business needs while maintaining the basic shared services principles.

In short, the Deloitte & Touche (2009) survey provided a glimpse of a robust shared services community for which the recession represents a growth opportunity rather than a setback in progress towards the attainment of organizational goals. The current and future task for shared services leaders is to leverage on past gains and plan future initiatives in a way that not only helps organizations weather the downturn, but prepares the stage for creating strategic value.

Besides Deloitte & Touche (2009), other consultancy firms which explored the adaptation of SSC and its consequences also reported positive results. Consultancy firm reports are relevant to this study as SSC is a cost reduction business solution for profit making organizations and is still being actively pursued by various companies. Consultancy firms generally make it a requirement for its staff to be well versed with the kind of business models which interest firms. Therefore, consultancy firms would tend to produce relevant and practical reports of business models success or failure such as SSC in order to either meet their clients' requests or market their competencies in these areas through surveys. A few more consultancy firm survey results are added here to explain the supporting reasons in moving to SSC and its effectiveness.

Optim 2 Consultancy (2009) is a financial consulting company based in Sydney, Australia and its core focus is on Financial Operations. It reported that the top three reasons for moving to finance SSC are sustainable cost reduction, improved career opportunities for finance employees and reduced errors in processing. It supported its claim of cost savings by citing a 2004 study by JP Morgan on global shared service centers which identified the following realized cost saving:

Table 1.1 **SSC Cost Savings**

(Adapted from Optim2 – Finance Shared Service, 2009)

Invoicing Customers	40%
Accounts Payable	40%
Accounts Receivable	50%
General Accounting	75%

A report by Birrell of Monash University (2006) in November 2006 made on behalf of CPA Australia highlighted that the demand for qualified finance professionals was outstripping the number of new graduates. While the global financial crisis at that time may provide some relief in that the demand scaled down slightly, it was predicted not to be a lasting situation. The report expected employers to feel the strain of shortage of qualified finance professionals when the economy picked up again. The SSC is a consolidated business function and therefore would provide a relief in the high demand of qualified finance professionals, which would have continued on if firms operate based on the traditional model.

Many organizations have silo based Finance operations, resulting in pyramid hierarchies and do not provide sufficient opportunities for career advancement besides limiting the sharing of resources within divisions (Birrell, 2006). Furthermore, pyramid hierarchies affect the amount of specific staff development, global initiatives, staff retention and attraction or retention of talent in a debilitating manner due to lack of critical mass. Implementation of shared services, on the other hand, provides an opportunity to develop a structured career model for finance professionals.

Based on the evidence of the process and years it took for a chosen MNC in Malaysia to set up its finance SSC in Penang, the implementation of a SSC is a challenging journey. The finance department of this MNC is the core focus of this study, which intends to understand the changes and challenges faced by the group. In order to keep its anonymity, this company will be referred to as Ortega Corporation while the Malaysia's plant will be called Ortega Malaysia (OM) and the finance department is referred to as Ortega Finance Department (OFM) from here on.

1.1.2 SSC Implementation in Ortega

In early 2003, OFM initiated an Ortega Malaysia Shared Service Center (OSSC) program built on the premise of improved productivity, customer service, quality, control, and cost savings while providing a great place to work for its staff. Through this program, it centralized the accounting and accounts payable operations from around the world into OSSC. This initiative, which began with a total of 40 people serving only local operations now employs more than 130 staff providing world-class service to customers in Malaysia, countries in Asia Pacific such as Singapore, Philippines, Taiwan, Korea), China, Japan, Ireland, Europe, the Middle East, Africa and India.

OSSC provides various services and support in general accounting, fixed assets accounting, entity accounting (local statutory), inter-company accounting, accounts payable, SSC operations in business process management or improvements and technical accounting. It started with only the local operations in Malaysia in 2002 but grew via six phases of transfers which moved mainly accounting and account payable operations from sites around the Asia and Europe region between year 2003 to 2009.

The current main challenge faced by the OSSC is to grow the organization by increasing activities that added more value in the face of increasing costs and onslaught of challenges to outsource the OSSC operations. Ortega Corporations is in the same situation as many other MNCs in the world whereby they are always looking out for cost reduction opportunities. It is an expectation, whether implied or not, that OSSC has to perform better every year for the same amount of resources given by Ortega Corporations. Assuming everything else remains *ceteris paribus*, a higher level of performance for the same amount of investment will produce a higher return on investment.

The OSSC leadership faced the challenge described above by growing the SSC's scope to include more value added activities and increasing efficiencies via process improvements. The original charter of OSSC was on an intense focus on ensuring it is free of any error in all of its high volume transaction. In order to meet an error free goal, OSSC had to emphasize on quality execution of its routine transactions. This exercise included making available all routine problem solving manuals and training to OSSC employees. OSSC employees usually had to concentrate on daily process maintenance work and therefore there was little room for creativity or innovation growth. Customer service management was a key indicator of OSSC performance and scores or feedback from customers were given a lot of consideration and evaluation.

The original charter of OSSC was typical of most organizations that deal with transactional work whereby little design or development on creativity was emphasized. In the eyes of Ortega Corporation, it was not sufficient to only excel in daily recurring transactional work. Transactional work is often associated with routine work and it is true in most organizations unless it chooses to pull itself out of the stereotype perception, which was exactly what OSSC did.

Ortega Corporation is a company that stays ahead of its competitors through rapid innovations and excellent breakthroughs. The same expectation is put upon OSSC by Ortega Corporation, which was to continue to contribute exceptionally well to the operations of the company, especially now that OSSC has a large group of finance employees. The OFM finance controller expanded the charter of the group by including responsibilities that add strategic value to the organizations besides being excellent at transaction work. As a result of that, OSSC started to assume the additional scope as depicted by the diagram above, on the right. From a global perspective, the additional responsibilities assumed covers standardization of policies, controls alignment and compliance, as well as running global programs which are coherent and complement each other.

In a large company, the effort to standardize and align all aspects of the business especially in accounting is extremely difficult and yet crucial. This is because large MNC companies are often under the watchful eyes of the Security Commissions and various enforcement arms of the US or even Europe. OSSC stepped up to play a key role in ensuring process management and standards are aligned as much as possible and it is not unusual to find that almost every procedure has a desktop manual to support its operational execution.

Ortega Corporations in general believes in ensuring continuity of operations without disruptions internally or externally on customers. This is why it has various backup programs. Backup programs are created based on the premise that in case any unfortunate events were to take place, such as a natural disaster, there will always be a backup plan or a backup site or a backup system in place to ensure the continuity of its business functions affected by those unforeseen events. There is also a list of conditions that needs to be met before the manager in charge of the site triggers the execution of backup programs.

Quality and controls assurance is more than just quality execution in such as way that the former requires close monitoring of key performance indicators and putting in place processes that would reasonably assure controls are in place. One could perceive the additional scope of quality and controls assurance to be a preventive controls measure in place and not just a measurement of quality execution which would fall under a detective control arena.

Ortega is a company that views compliance to corporate and country legal laws very seriously. As clear evidence of its stand on legal compliances is the huge investment it made in consultation and deployment of its Finance resources when the Sarbarnes-Oxley Act was first introduced by the US government. In its 2004 Information Technology Annual Performance Report, it was stated that to comply with Sarbanes-Oxley certification requirements, Ortega transitioned the majority of it legacy system to a worldwide solution which was based on an e-system. This required millions of dollars of investment which reinforces the seriousness of Ortega to ensure it is always in compliance with the legal requirements of the country.

With regards to OSSC compliance, it is mostly related to statutory reporting such as income tax and company taxes and local regulatory compliances such as methods of accounting prescribed by certain countries laws as opposed to General Accepted Accounting Principle. As a SSC, it not only looks to meeting internal customers needs but also external customers which are mainly the government departments. Furthermore, as OSSC provides support to various countries, it must also be familiar and comply with various countries' rules and regulations related to accounting standards and reporting or statutory compliance. This is beyond its original and more narrow scope of perfect service execution, as the additional scope now comprehends doing business within appropriate legal context.

1.1.3 Potential Organizational Change Drive by SSC

Organizational change is such a prevalent phrase lately, mainly because the pace of changes taking place every minute is so fast that if an organization does not change in tune to the various mechanics working around it, it will fall behind other competitors with such a large lag that it would take almost a miracle to catch up. Various changes bring a myriad of impacts to an organization or a group of people within the organization .

The way people behave and what they are empowered to do is affected by globalization which changes the business practices and rules (Covaleski et al, 2003). Organizations may still be responsible for organizing people but it is impacted by the external changes in the market place. On all these dimensions, the changes amount to expansion of an employee's values and approach towards his job that organizations can and must deal with. This describes OSSC's journey of change due to Ortega's decision to set up a SSC in Malaysia.

There is a limited number of academic works exploring SSC in Malaysia and little is known about the transition of the changes that took place during the implementation of SSC. There were articles and books written about the concept and advantages of SSC (Cecil, 2000; Funk, 2000; Schulman et al, 1999; Quinn et al, 2000), and what steps or factors should be considered before a SSC is established. There have also been studies on HR SSC (Cooke, 2006) and outsourcing of both HR and Finance (Greer et al, 1999; Cooke et al, 2005; Shen, 2005), but a bit closer to this study are articles that appeared in the Financial Times (Cassell, 1997; Lester, 2001) which were not in-depth research but rather, business articles about Finance SSC.

The researcher's study differs from the above as it will try to understand the change process of a Finance SSC actual set up in a multinational (MNC) company based in Malaysia and how the new management accounting system is institutionalized within the finance organization. This study would further investigate whether the prior culture of the organization (pre-SSC) had an overarching influence on the changes in the organization. These changes, as explained in future chapters, may potentially became institutionalized within the SSC group whereby it became the "way things are done here". This study would include elements that explains why and how employees embrace or resist the changes based on the researcher's interpretation of the responses provided through interviews and observation of the working mechanism of the SSC establishment.

In order to achieve the intention of this study as stated above, the researcher will employ a case study approach to explain and interpret the types of changes within the Finance SSC organization and the employees different (or similar) reaction to the changes that took place over a period of six years, which was from the time the SSC was established and subsequently took on more responsibilities covering more countries over time. The researcher will also leverage on the use of the Old Institutional Economics (OIE) theory and the processual approach advocated by Burns and Scapens (2003) as she attempts to interpret the actions and interactions of the actors with the institution through the rules and routines affected by management accounting change.

SSC may be perceived as a new establishment to the finance organization in Ortega Malaysia and would require a mixture of old and new skills from the employees. The old skills are important to retain because they provide the foundation or the "back-bone" of the organization which have made it successful thus far to be selected as the site for a SSC set up. In this aspect, the culture in Ortega Finance Malaysia (OFM) seemed to be the strength of the organization which the managers should capitalize on.

As much as the old skills are treasured, implementing a new establishment such as the SSC calls for new skills as well. The way "things used to be done here" need to change and whether it's a small or a significant change, it depends on the scope of the SSC. One has to keep in mind that, as in any new projects, management is only able to provide a picture of the general scope but not the daily details until actual execution take place. Both the strategic scope and the operational details would impact the employees' reaction to change due to the complexities, among many other things, that they have to cope with.

1.2 Problem Statements

The adoption and implementation of SSC in OFM was not without a lot of hard work, coordination, support from top management and compromises made by employees from all levels to accommodate the changes. Although the end results, such as smooth monthly transactions executions and clinching a widely recognized award are apparent to the outsiders, little is known about the experiences of employees along the journey towards the establishment of SSC model within Finance. An outsider of the company could easily assume that the road was smooth and easy as what is "seen" is the perceived successful landing of SSC in Malaysia.

The top management's perspective of success and the working level employees' perspective of success could be different. By understanding the type of challenges and conflicts, if any, faced by both managers and employees, Ortega Corporation could address those issues encountered, such as resistance or significant change in work culture. An improved comprehension of these elements of change could assist management to help the employees to be better prepared for future similar project undertaking. Currently only Finance and HR in Ortega have embraced the concept of SSC.

There lie the opportunities for other functional groups to do the same, namely Information Technology and Sales & Marketing. By learning about the right steps and avoiding mistakes made by OSSC, future SSC undertaking could be completed over a shorter time period with potentially lesser difficulties.

The implementation of SSC was a major change in OM. During every change that takes place in an organization, there will be significant challenges, especially with on how employees react to the job or environment change. Organization leaders and level-one (direct) managers need to know what to anticipate and be prepared to deal with the expected and unexpected situation. There has not been a systematic study done on what the elements of change were and how or why they affected OSSC, the challenges faced by the management and lessons learnt. There could potentially be some level of advantages Malaysia has that can be leveraged on or marketed to attract other companies in setting up a Finance SSC in Malaysia.

As such, in the event of employees' turnover and over time, the learning and experience may be forgotten. Groups within the company or external organizations that could have benefited from OSSC experience would not be able to track the history and may have to go through the cycle of making similar mistakes all over again.

In short, the problem to be investigated in this study is that, although OSSC seemed to have been established successfully, no systematic study or recording were made to ascertain why and how the change processes were managed, whether the organizational cultural aspect was impacted and why or how the employees either resisted or embraced the change brough about by a SSC set up.

1.3 Research Objectives and Questions

The implementation of OSSC started in 2003 and it is still an ongoing process. The roles and responsibilities were undertaken from other countries in phases that spread over many years of its processual initiatives. The main management employees who drove this effort are currently still working in the same capacity. Therefore, it is now timely to perform a research on the decisions behind why Malaysia was selected as one of the two sites to set up Finance SSC and more importantly, the journey that its staff went through.

The objective of the study is to understand and explain the change process and why or how the key contents of the changes encountered by managers and employees affect the establishment of OSSC. Furthermore, the study attempts to provide an insight as to why the managers and employees support or resist the establishment of OSSC, and how they managed the institutionalization of the management accounting process and systems change within the Finance organization. As such, the research questions would be as follows :

(1) What was the prevailing institution in OFM accounting group before the SSC was established?

   a. What were the major elements of institution in the prior accounting group ?

b. What was the rules and routines of the prevailing institution before the SSC set up?

(2) Why was SSC introduced into OFM ?

(3) How was the new SSC accounting elements and processes institutionalized in OSSC?

a. How were the key elements of the new SSC accounting practices compared to the prior-SSC accounting practices?

b. In what way were the new OSSC rules and routines institutionalized within OFM?

(4) How did managers and employees handle the changes brought by the establishment of the OSSC ?

a. What were the notable experiences and challenges faced by the OSSC managers and employees ?

b. Why did employees either resist or embrace the set up of a SSC in OFM ?

(5) To what extent did the establishment of SSC lead to organizational change in OFM ?

a. How was the adaptation of a new mechanism of change accepted or rejected by the existing establishment, through which a new behavior or culture could be incorporated? For example, was it (i) formal or informal, (ii) evolutionary or revolutionary, and (iii) progressive versus regressive?

These objectives will be achieved by firstly examining the prior accounting process and systems before OSSC was established. Secondly, the researcher will document the birth to cradle cycle of the SSC setup through interviews with managers and employees involved. Within the research effort of documenting the SSC set up process, the researcher will also capture the challenges faced by the employees, and the process and systems differences or similarities between the pre-SSC and SSC organization. Finally, the inputs by the subjects and analysis by the researcher will be documented for future improvement of a SSC establishment in Ortega or other organizations.

1.4 Significance of the study

This research attempts to provide an understanding and explanation of the process of change brought upon Ortega as a result of the SSC's establishment, and to also explore the how and why the employees were able to embrace or resist the change. This study is not directly related to management accounting change. However, setting up finance SSC has a direct implication on finance employees and the way things were done in the accounting and accounts payable groups. To a larger extent, the process of setting up a finance SSC also affected the larger community of the overall finance department which included Operations Finance. Due to the reasons mentioned above, it is reasonable for this study to ride on the theories and researches previously done on management accounting change. This study also attempts to provide additional support to the theory of management accounting change. There are three main areas that this study will focus on.

The first area is on the establishment of a Finance SSC in Malaysia by a MNC. There has been limited or no prior study centered around this subject to date. SSC is a relatively new organization and as more companies try to reduce costs while improving efficiency, this has of late become a much desired option. However, one must not mistaken the challenges of a SSC to be the same as an IT (Information

Technology) call centre as the former involves legal compliances and statutory reporting which differs from one country to another, and the operating model differs in its context and complexity.

In the second focus area, the researcher would attempt to apply the theoretical concept of institutional framework as advocated by Burns and Scapens (2000). It is within this context that the researcher will try to interpret the process and changes experienced by OM employees, and further application of theories of institutionalism will be applied to provide a relatively more holistic picture.

In relation to the third area, due to the unique position of the researcher working as an employee in Ortega, this research was carried out with the use of participatory action research methodology. Besides contributions to the academic world, this research also intends to help Ortega management by providing a different aspect of inputs solicited from the employees at ground level who may open up to the researcher in a different manner than to their own supervisors or managers, and influencing management o make better decisions on SSC and other related Finance organization changes in the future.

At the Ortega's corporate level, this study would help to document the long and tedious process as well as the hurdles that the Finance organization went through to ensure the SSC was established without major show-stoppers. By uncovering the undercurrent of the employees' relations and experiences, senior management could use the information to improve their planning and make better decisions when setting up other potential SSC models in the future.

As this study include interviews with middle level managers and employees who were closer to the ground work, it would reveal the challenges and perhaps even conflicts faced by them that management at the higher level were not aware of.

Specifically, the results of this research would equip them with several data point such as the type of conflicts faced by the employees and their managers. Having this information would help senior management to be more prepared and if necessary, assign more resources to handle those conflicts.

There have been an increasing number of researches carried out on shared service centre for HR functions, especially in payroll. However, little has been studied on Finance SSC, and especially on whether there are any unique Malaysian factors that could contribute to a better success rate of implementing it as compared to countries like India and China. This study is important to Malaysia in positioning the focus as a potential yardstick for MNCs' SSC, similar in content with the factors utilized by people to equate India to the world's call centre and China to the world's factory. Malaysia could potentially have a special unique environment that may not have been adequately capitalized on, and has the ability to make shared service centre as a business attraction.

An integrated study and documentation of the process and the type of challenges a company faces in implementing Finance SSC that includes the impact felt by employers and the type of conflicts faced, and identifying if there are any unique Malaysian factors that could be leveraged on to position Malaysia as a more desired location for Finance SSC would all be significant contributors of this research.

1.5 Organization of the Report

Chapter 1 provides an introduction to the research starting with the background of the study, problem statement, research objectives, research questions and the significance of the study. In Chapter 2 a detail discussion on relevant literature review topics is presented. Chapter 3 is designed to provide an understanding of the research methodology. The case study of Ortega SSC is elucidated in Chapter 4, followed by an analysis of it in Chapter 5 using OIE and institutional theory in an interpretive approach towards the research. Finally Chapter 6 concludes the research with limitations recognized and recommendation for future researches.

Chapter 2

LITERATURE REVIEW

This chapter attempts to address the development of SSC in companies over the past two decades, and differentiate it from outsourcing organization and the concepts of decentralization and centralization through the use of various practical definitions. It also explores the support systems required to make it a successful venture as well as the anticipated problems that comes with it such as resistance to change. Both use of cultural synergy and organizational learning will significantly help an organization to overcome barriers in setting up a SSC.

Following on to the above, the theoretical framework employed in the study which is mainly based on the institutional framework context as proposed by Burns and Scapens (2000) for management accounting is discussed in tandem with the institutionalization process in relation to organizational change as a result of setting up a SSC.

2.1 Introduction to Shared Service Centre (SSC)

The origin of the shared services term and concept is somewhat unclear as there is no one single consensus on its origin. As early as 1986, General Electric in the US had a group called Client Business Services, which reflects the shared service model that we recognize today as a shared service centre (Quinn et al, 2000).

According to Quinn et al (2000), Gunn of the consulting firm Gunn Partners believed the term was coined when he led a best practice study at A.T. Kearney in 1990 that included companies such as Ford, Johnson and Johnson, IBM, AT&T, Nynex, Digital, Dupont, Hewlett-Packard Alcoa and Shell. It would appear that consultants who were a part of the A.T. Kearney study have a legitimate claim to discovering or at least naming the idea of shared services. In addition to that, the CEO of the Amherst Group by the name of Dr Leland Forst sees himself as one of the founders of the shared services strategy. Forst was also from A.T Kearney.

The demand for and creation of SSCs are increasing because it is has received multiple assertion that it is an optimal solution for reducing the cost and improving the performance of core staff services, such as finance, human resources, legal, and facilities support (Funk, 2000). Continuous improvement is an essential element in any effective global business strategy. Core processes have had many years of concentration from companies to make them more efficient, leading to cost reduction. Lately, more focus is placed on support services such as Finance, HR and IT whereby they undergo many contemporary change projects.

One of the main values shared services offer is economies of scale. Due to this nature, shared services are not usually found in small companies. Shared services are most often seen in complex organizations with revenues over US$2 billion in revenue and with multiple business units (Schulman et al, 1999). This category of companies is more likely to draw benefits from SSC through extensive improvement in its support processes and structures (Kagelmann, 2000, cited in Ulbrich, 2006; Schulman et al, 1999). Improvements in support processes and structures are often neglected by managers because they take up less financial resources than core processes. Managers seem to relate the importance of carrying out improvements with the costs associated with them.

Duplicate support processes and non-strategic activities are potential areas for optimization and realization of economies of scale (Ulbrich, 2006), and it can be achieved through reorganizing them into shared services. Authors of business press have called on shared services as an alternative for larger organizations (Cassell, 1997; Lester, 2001) which provides a huge benefit in return for the financial and other resources investments. This is in addition to other business models which may also produce positive cost-benefits outcome such as outsourcing, decentralization, centralization and consolidation.

With reference to the resource-based view, also known as RBV (Barney 1991; Ulrich 1996), a firm is more likely to achieve sustained competitive advantage if its resources are valuable, rare, and not easily imitable or substitutable. RBV also stated that a firm should focus on its core competencies and outsource those not valuable, and imitable or substitutable resources. Although SSC is not the same as outsourcing, it hinges upon the concept of consolidating non-core competencies. Consolidation of activities provides an advantage of freeing up time and resources for other parts of the organization to focus on its core competencies. One of the value propositions of SSC is that it enables a firm to free up resources to focus on core competencies of the firm. From this perspective, SSC business model seems to fit in well with RBV's proposal.

2.1.1 Insights from Prior Empirical Researches

Although the number of research related to SSC is not in abundance, there were insights revealed from empirical research in this area. The motives behind the introduction of a SSC are cost and service improvement related (Janssen and Joha, 2006) but not every company could claim those benefits were reaped eventually. In a way, SSC is about localizing globalization and yet supposed to reap the benefits of globalization in terms of cost, talent and efficiency. Employees of SSC, from a globalization perspective, have the potential to be positioned as the guardian of operating global values and systems (Brewster et al, 2005).