CREATING A METHODOLOGY THAT ENABLES ORGANIZATION SCALABILITY AND ALIGNMENT

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CREATING A METHODOLOGY THAT ENABLES ORGANIZATION SCALABILITY AND ALIGNMENT

A Project

by

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Date

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Student: Gregory Myers

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Abstract

of

CREATING A METHODOLOGY THAT ENABLES ORGANIZATION SCALABILITY AND ALIGNMENT

by

Gregory Myers

In today’s complex business world, a company’s management team is faced with increased pressure to deliver bottom line results. Companies today are finding that to deliver these results they must have an organization that is not only efficient, but also scalable. One option that some of the largest multi-national companies are adopting is a shared service model. The primary output of this model is a company’s ability to gain economies of scale. However, due to this transformation, there is a ripple effect, which impacts the company’s processes and systems. The primary purpose of this paper is to address the realignment of organizational processes and systems once the strategic decision is made to create a shared service model. The secondary purpose is to demonstrate the unattended benefits of this alignment.

Leonardo Legorreta, Ph.D.

Date

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Chapter 1
INTRODUCTION

In today’s business world, the management team is constantly balancing decisions related to the interdependency triangle, which consists of the company’s people, processes, and systems (figure 1). Personnel decisions range from the simple such as headcount requirements to the more complex decisions such as outsourcing internal functions. Meanwhile, system decisions such as when to upgrade and if the applications should be customized, carry both short and long-term implications. Finally, the processes that drive the company can ultimately impact the company’s strategic direction. For example, in the case of Nordstrom’s, processes can be customer based, or in the case of Wal-Mart, can be written in a way to garner efficiencies in the supply chain. What is even more complex are the impacts and dependencies each decision has on the other corners of the triangle. All of this occurring while continuing to deliver a quality product or service to the company’s customer base.

Figure 1- Interdependency Triangle
Many of the decisions that impact the interdependency triangle are made at the highest levels of a company, and must be permeated throughout the entire organization in order to see successful results. This is because when making significant changes, such as a change to the system (e.g. ERP system), there are material cascading effects. For example, when implementing an ERP system it is generally not the technology that causes the project to fail, rather the “company’s failure to reconcile the technological imperatives of the enterprise system with the business needs of the enterprise itself” (Davenport, 1998). In other words, changing one corner of the triangle (e.g. technology) can have dramatic effects, but the larger impact can be the ripple effect the change has on the rest of the interdependency triangle. In an article published by Brown & Vessey, they discuss five critical success factors when implementing an ERP system. The most important is the need for top management to be engaged in the project, not just involved. Unfortunately, many project fail due to the management team’s lack of engagement and thus a lack of understanding how deep within the organization the ripple effect will go. Thus, the change to the system begins a cascading effect that will rip through the process and the people of the organization.

These changes can also originate in other corners of the interdependency triangle. For years, companies have been faced with strategic options and trends as it relates to lowering their cost model for the back office. These trends tend to cycle through each corner of the triangle. For example in the early 1990’s, companies looked at their processes and leveraged tools such as Michael Hammer’s, Business Process Re-
engineering as a way to lower costs. A decade later, the craze was to squeeze costs out of the back office by looking to the technical corner. Thousands of companies spent billions of dollars implementing ERP and CRM systems. Their goal was to either automate away what was previously done manually, or remove duplicate data entry. However, many of these companies failed to reconcile the system functionality with the design of their processes, and had not properly addressed the change management (e.g. training) required to ensure success. Now a decade after the ERP buzz, companies are left with the final corner of the triangle as a way to cut costs, the people. Recently, companies either are looking at options to offshore or outsource back office functions. While we are relatively young in our analysis of these organizational options, we will most certainly begin to see similar papers about the perils of these projects and ways to avoid them.

As seen with ERP projects, the consequences of organizational decisions will cascade throughout the interdependency triangle (i.e. process and systems). The first section of this paper will focus on the benefits and consequences of various organizational structures. The objective in this first section is to assess which organizational model is the strongest for a company to adopt and why. The second section of the paper will focus on the ripple effect caused by changing the organizational structure. Because of this ripple effect, the third section of the paper will discuss the development of a methodology that assists in the realignment of the process, and systems after a material organizational change has been made. Finally, the last section of the paper will examine
how this methodology can be leveraged in other enterprise projects, and some unintended benefits of the methodology.
In the article, “A Resource-Based Theory of the Firm,” Prahalad and Conner conclude that the sum of the performance differences between each part of two competing firms ultimately sums to the performance differences between the two firms themselves. One source of differentiation between two competing firms is “the degree to which each implements the productivity benefits arising from the organization itself.” In other words, the way a firm organizes its authority structure and assets can likely have a differentiating impact on the company, and therefore can ultimately determine competition results between two competing firms.

Figure 2- Market Contracting vs. Firm Contracting (Prahalad/Connor)

As displayed in figure 2 above, Prahalad and Connor demonstrate the two types of organizational structures, red and blue. Each firm is dependent on resources Y/Z and S/T. The firms have two distinct models in which they can follow. The red firm
employees a market-contracting resource base of the firm and the blue company utilizes a firm-based contracting model.

In the red model (market contracting), the control is one of contract. Here terms and conditions lay out the relationship between supplier and customer. In other words, this model is constrained within the context of a contract that stipulates variables such as service levels, volume levels, interaction protocols, and pricing. These contracts are not only clear on the statement of work, but are also very expensive to renegotiate. In addition, the two firms are autonomous entities; each company has their own firm’s interest as the primary concern. In other words, in the end each firm is going to make decisions that they feel are in the best interest of their own-respective company.

Companies may follow a market-contracting model for two primary reasons. First, to bring knowledge and expertise that does not exist in the firm in house. Second, to outsource work that is not in the firm’s set of core competencies, which may lower the firms cost structure. Examples of this model include a company hiring outside consultants to assist with a project or task, or a company outsourcing an entire function to a third party.

In the blue model (firm based), control is one of employer to employee. Here, the relationship is defined more loosely and the employer has lateral flexibility to establish an employee’s particular tasks and areas of responsibility. In other words, without renegotiating a contract, a manager can reformulate previous directions or issue new
ones (Prahalad and Connor, 1996). In addition, while each employee will have their own personal interests in mind, in the end both employee and employer are primarily concerned with the success of the one company. Therefore, there is a higher goal alignment in the firm based model vs. the market-based model. Finally, in a firm-based model, the knowledge of the organization is maintained. This is in contrast to the market-based model where the knowledge base may disappear at the end of the contract.

The downside of the firm-based model and benefits of the market-based model is that rarely is a company able to ensure that each area within their company is operating efficiently. For example, in a market-based model, a third party has a core competency in delivering a service, which allows the employing firm to focus on its core competency. In addition, as these functions are outsourced, costs are generally reduced because the function is turned over to a company that can do it more efficiently. These efficiencies are gained because the company has a specialized team of individuals, and economies of scale are obtained (Oza & Hill, 2007).

The question to a company’s management team is, which model provides the best competitive advantage to the firm, a market model (outsourced), or a firm model (insourced). This is a very complex decision to make and several factors must be looked at when making this determination. First, companies must examine the long-term strategy and determine which model fits best within that strategy. Second, the
management team must assess how the decision will impact the company’s customers.
Third, the team should consider the impact to areas it may consider a core competency.
Finally, a determination would need to be made as to how this would impact the existing infrastructure of the company (e.g. the processes and the systems).

As illustrated, a decision relating to the organizational model is a very complex area, but Prahalad and Connor assume that the options are black and white. Essentially they assume that option one is to insource (firm based), and option two is to outsource (market based). However, there may be a third option that they may be overlooking, a hybrid of the two models. Recently, companies have begun to employ a strategy where the people are employees (e.g. firm based structure), but are in a centralized outsourced location (market-based). Assuming that this third option exists, companies really have a matrix of options when it comes to their firm’s organizational structure. A depiction of these options is displayed in Figure 3 below.

<table>
<thead>
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<th>Control Structure</th>
<th>Organizational Structure</th>
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<td>Centralized</td>
<td>Outsourced (Market Based)</td>
</tr>
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<td>Decentralized</td>
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<tr>
<td>Insourced/Centralized</td>
<td>Outsourced/Centralized</td>
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Figure 3- Matrix of the Organizational and Control Structure of the Firm
In the third option, the benefits of both models previously discussed above are achieved. The company maintains the knowledge base internally, manages the control structures, the employer freely directs the tasks of the employee without contract renegotiation, but achieves economies of scale via centralization. It expunges many of the downfalls seen in the models such as a lack of goal alignment.

One of the most efficient ways companies are achieving this model is using Shared Service Centers (SSC’s). An SSC is a back office model where functions within a company are centralized in order to gain economies of scale. The most typical functions moved to an SSC are finance and accounting, human resources, customer service, information technology, sales and marketing, operations, engineering and development, procurement, real estate and facilities management, and environment, health, and safety operations (Williams. 2003). One of the recent trends in SSC’s has been to leverage an offshore model. For companies pursuing this route, the favorite destinations are India, China, the Philippines, Eastern Europe, Costa Rica, Malaysia, and Mexico, but India is the leading offshore market for white-collar positions, such as customer care, IT development and support, payroll, engineering, and loan/claim processing (Williams, 2003). Therefore, the hybrid model discussed above has several other options to be considered, with offshoring adding a potential fourth dimension.
In the next section of the paper, a deeper review of the shared service center model will be examined. This will include the potential cost savings, suggested structures, and how economies of scale are achieved.
Chapter 3

INTRODUCTION OF THE SHARED SERVICE CONCEPT

An SSC is an environment that delivers services to an enterprise in a centralized manner. This does not necessarily mean the centralization of the organizational structure, but instead a restructuring of areas of responsibility with predefined service levels. Per an article published by Price Waterhouse Coopers (PWC) the cost savings seen through an effective SSC implementation can range from 25-50% depending on the SSC model that is followed. In Figure 4, PWC estimates that if a company sets up at least a country level SSC (scenario 1) that they will see potential savings of up to 25%. If they setup a regional SSC (scenario 2) they have the potential to see upward of 50% in total cost savings.

![Figure 4- Cost Savings Potential When Leveraging the SSC Model (PWC)](image)

Initial cost basis without SSC = 100%
Savings through SSC implementation from 25% to 50% (based on experiences)
Savings are achieved by:
- Efficiency savings (business process optimisation, best practice standardisation, reduction of duplicated activities, bundling of competencies, economies of scale)
- Lower wage/salary costs (e.g. sourcing to lower-cost countries, off-shoring)
- Rise in productivity through structural consolidation
- Technological improvements
As discussed earlier, the services provided by an SSC span the areas of Finance, HR, and Information Technology. At their core, they deliver cost savings by gaining economies of scale. As depicted in Figure 5 below, economies of scale are cost advantages a company can recognize through expansion. Along the X-axis is the amount of output. Along the Y-axis is the average cost of the transaction. As the average output increases from Q₁ to Q₂ the average cost for each of the transactions C₁ to C₂ decreases. The term is often synonymous with factory production, but can also be applied to back office processes. This is because at the core, they are similar. For example, consider the output of a clerk in a non-centralized process. Many times this clerk will be responsible for processing several back office functions including Accounts Receivable, Accounts Payable, and Payroll. In essence, the clerk must be jack-of-all trades, but the master of none. Similar to a factory worker, the clerk will lose time as they retool for the change in processes. In addition, due to the number of disparate processes they will likely not follow best practices for each of their respective areas. As a result, the average cost per transaction increases in a decentralized model.

Figure 5 – Economies of Scale
Similar to the outsource model, in a shared services environment each local office relinquishes the duties that are to be centralized into the SSC environment. A team of clerks specializes in specific processes, which facilitates gaining economies of scale within that particular process. By focusing on a single process, the clerk becomes proficient at the process and is no longer required to retool their system for a process change. As a result, the clerk can process a higher rate of transactions per hour thus allowing the company to recognize economies of scale within those processes that are centralized. However, in an SSC model we lose the downsides of a market-based model while maintaining the benefits of a firm-based model.

Unfortunately, simply taking all of the clerks from a decentralized model and physically putting them into a single building, and calling it an SSC will not capture the economies of scale required to fulfill the benefits of a shared services environment (i.e. cost savings). Recall in the market-based model, the economies of scale are achieved because they follow best practices, which are standardized across the company. Therefore, to see this success the world around the clerks must also be standardized. This includes the policies, the processes, and the systems in which the work is completed. Without this standardization, it would be impossible to gain any economies of scales in the SSC model. This is because, similarly to clerks needing to retool to process other types of transactions, dropping a clerk into an SSC model with disparate processes will result in the clerk retooling in order to accommodate the process for each separate country or business unit. Therefore, it is crucial that before a company embarks
on centralizing its people that the processes and systems be standardized as well. In other words, before an organizational structure such as an SSC is started, the ripple effect that will ultimately impact the systems and processes must be addressed.

Addressing the ripple effect, and realigning the three areas, is paramount to the success of an organization that plans on embarking on an SSC project. However, centralizing and standardizing what was previously done in a decentralized model can in turn have a ripple effect to the organizations that previously relied on this decentralized model. To address this ripple effect, companies have two approaches. First, companies can adopt an authoritarian model in which each business unit adopts a standard process and system. Here, the organizations adopt and receive the service as determinate by a central person or team. Second, the company works within the confines of unautocratic model where all of the teams impacted by the SSC model are allowed and encouraged to provide input as part of the standardization exercise.

In the first model (authoritarian), the process has no legitimacy because there is no representation by the users. Without legitimacy, the power of the process will be lost as well. Therefore, when standardizing a process and implementing a global system it is important that the personnel impacted have the ability to debate and provide input to any processes and systems. In the next section, a methodology will be developed that utilizes this approach to the standardization of the process and systems.
Chapter 4

ESTABLISHING A NETWORK

The establishment of a global process is vital for several reasons. Not only does it facilitate the economies of scale needed for the successful implementation of an SSC environment, but also without it, an SSC management team cannot successfully manage their team. This is because the secondary output of a standardized process and system is the data it produces. Without a global process, it is impossible to compare data of different countries, lines of business, or even personnel within a team. It also makes it difficult to consolidate data at a global level. For example, if an executive wanted to know how many customers the company had. Without a global process to enforce the process of customer creation, it would be difficult to provide this information. In other words, a global process is the critical link that brings together the technical system and the people that utilizes that system in order to gain the economies of scale. It is this model that companies fail to align whenever one of the elements has been changed. A visual depiction of this model has been shown below in Figure 6.

![Figure 6- Standardization Model](image_url)
When developing a global process it requires a network of skills and executive management support. As previously discussed, top management engagement is one of five key success factors when implementing an ERP system. The reality, however, is that this factor is critical in almost all enterprise wide projects including the development of a standard process. Therefore, to standardize a process enterprise wide it is crucial that top management push the project tops down. Without it, there is neither reason nor incentive for disparate sites and regions to adopt a single process. Much like ethnocentrism, one site will continue to believe that their processes are superior to all others.

While top management must support the project, it is not realistic to have top management engaged in the standardization of each process within a company. Nor should a centralized person dictate a standard process. Therefore, the management team should bestow power and legitimacy on to a group of individuals that can own a process from end to end. This group of individuals must understand the goals of the management team and be able to drive the organization to develop a single process that embodies these goals. For example, the management team may look for the process to deliver cost controls, efficiency, customer service, data accuracy, or scalability. These key decisions allow these “process owners” to develop a process in a way that coincides with the strategy of the company. To demonstrate this point, consider a company such as Nordstrom’s. There corporate strategy relies on a process that results in customer service experience that constantly exceeds expectations. Therefore, when developing a
process, Nordstrom’s’ process owners must ensure that costs are not cut out of the process if it would result in a degradation of customer service.

To create a global process it requires an entire community, or network of knowledge owners. These knowledge owners become stakeholders if you assume Freeman’s definition that any individual who can affect, or is affected by the achievement of the organization’s objective is a stakeholder (de Vries, Verheul, Willemse, 2003). The knowledge owners bring specific skills to the network. For example, areas such as process efficiency, accounting requirements, local business requirements, and knowledge of the ERP system would be crucial to the development of any back office processes. Like any team, each member’s unique skills are required to develop the process, with the process owner overseeing all of them. This oversight is to ensure that the corporate priorities are adhered to and to ensure that all stakeholders’ opinions are heard and addressed. Per de Vries, Verheul, Willemse, this step, the composition of a standard committee, is an essential element of the standardization process.

As noted, the process of assembling a standard committee is crucial; however, what is equally important is the network in which they operate. In other words, like the development of legislation, the process and the network of actors involved in the process, is sometimes more important than the result. Much like a dictator determining the laws of a country without representation from the people, without knowledge owner participation, the process would lack legitimacy. Therefore, when developing a standard
process the focus should be on the network adoption of a global process and less on the mechanics of determining the appropriate standard process (e.g. Business Process Re-engineering).

To assist with this focus, Actor Network Theory (ANT) can be employed as a framework to explore the method of standardizing a process enterprise wide. The advantage of choosing ANT over other frameworks is that it argues that knowledge is a social product rather than something generated through the operation of the scientific method (Law, 1992). This knowledge is a result of heterogeneous “bits and pieces” that come together. In this example, the bits and pieces are the information that the knowledge owners possess and bring to the network. In addition, ANT doesn’t require that the players in the network be human, nor classifies any of the actors other than the focal actor. In other words, unlike Stakeholder Theory, ANT doesn’t address the saliency of the other actors. Non-human actors such as local laws, the ERP system, corporate policies, accounting policies (e.g. GAAP), and dependant/related processes, which all affect the creation of a global standard process, are considered as part of the network.

ANT assumes that the network is a verb, and not a noun. The actors come to form a network with the purpose of developing a global process. This network is an entity, but ANT contends that this network as an entity is dynamic. It is constantly regenerating itself through struggles, new understanding, and changes to the environment. Therefore,
paramount to the idea of ANT is the idea of translation, which implies transformation (Law, 1992). In the transformation process, the actors all agree that the network is worth having and defending. In the context of the global process, the network is given power through the direction of top management, but the actors find benefit by developing a standardized process, therefore, as a result provide the network legitimacy. As defined by Michael Callon, there are four moments of transformation; they are problemization, intereseement, enrollment, and mobilization.

The first moment of transformation is the idea of problemization. Here the focal actor seeks to define problems of other actors in their own terms and suggests that the solution to those problems is an obligatory passage point, or an OPP (Brooks, Fitzgerald, and Atkinson, 2008). The focal actor is determined by assessing which actor (human or other) that wields the most power within the network. When developing a global process the focal actor is the executive management team that is driving the project across all process areas. The OPP’s are the solutions that these executives foresee each member of the network completing in order to develop a global process.

The second moment of translation within ANT is the interesseement phase. In this phase, all of the actors look to their standing within the network. The focal actor will work with each actor within the network to establish their role, and convince them that their role is acceptable (Brooks, Fitzgerald, and Atkinson, 2008). Part of this phase is dealing with member’s inability to commit to their role within the network. This lack of
commitment may be related to any number of reasons such as competing priorities, or a political riff where a member’s status is believed to be more powerful than assigned. In these situations, it is the responsibility of the focal actor to overcome these obstacles through any number of strategies including political, and the mobilization of power relationships to persuade and coerce (Brooks, Fitzgerald, and Atkinson, 2008).

In an enterprise wide project such as creating a global process, this phase would seem to garner less concern due to the fact that the members of the network report through one of the executive managers. Under this assumption, the Human Resources (HR) alignment would dictate project alignment, and thus interessement would be easy. However, the alignment to the network via HR hierarchies does not necessarily dictate alignment with the project. This is due to the existence in the network of both formal and informal hierarchies. The formal hierarchies are not always the most powerful. In fact, it is often the informal hierarchies that are more powerful than the formal hierarchies are. “Informal networks of employees are increasingly at the forefront, and the general health and connectivity of these groups can have a significant impact on strategy execution and organizational effectiveness (Cross, Nohria, and Parker, 2002) It is the focal actor’s responsibilities to ensure that both of these hierarchies are recognized and risks associated with traversing the OPP are addressed.

The next phase is the enrollment phase, in this phase actors either sign-up for the role as assigned to them from the focal actor, or establish their own definition of their role.
This may be the most dangerous phase as it is here that the actors may have been coerced into interessement, and therefore establish their own role, or value system within the network. For example, the development of a global process and the establishment of a centralized processing center will result in a loss for the local country employees. In addition, a global process may not address all local country requirements. Both of these will result in the value system of the local country finance teams being attacked. As a result, the local country finance teams will continue to hold on to their value system, and therefore may fail to traverse the OPP as assigned by the focal actor.

The final phase is the mobilization phase. In this phase, the actors not only have determined their role within the network, but also now actively support the network and the focal actor. It is here that the network becomes effective as the entire network has recognized the focal actor as the main voice of the network, and their actions reflect their individual roles. (Brooks, Fitzgerald, and Atkinson, 2008). A summary of the four phases is summarized in Figure 7 below.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Explanation</th>
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<tr>
<td>Problematisation</td>
<td>one focal set of actors seeks to define problems of other actors in their own (focal actors) terms, and suggests that the solution to those problems is an 'obligatory passage point' (a path from problem via single solution to goal) of the focal actors' proposed programme of activities.</td>
</tr>
<tr>
<td>Intéressenment</td>
<td>the focal actors seek to act to lock others into their place in the network proposed within their (focal actors') programme of activities; such action may include the attempt to break competing relations that other actors may have.</td>
</tr>
<tr>
<td>Enrolment</td>
<td>the focal actors seek through physical actions and negotiations to define and coordinate the roles of other actors.</td>
</tr>
<tr>
<td>Mobilisation</td>
<td>the focal actors seek to ensure that the specific representatives of the other actors come to be accepted as representative of those actors; and that they (the focal actors) come to be accepted as the main voice that speaks on behalf of all actors in the network.</td>
</tr>
</tbody>
</table>

Figure 7- The Four Phases of Transformation (Brooks, Fitzgerald, and Atkinson)
As stated earlier, the network of actors is inclusive of both human and non-human actors. In the establishment of a global process, there are several key human actors. These include the executive management team, the global process owner (GPO), the divisional process owners (DPOs), the global application owner (GAO), the divisional application owners (DAOs), the finance directors (FD’s), and the process functional leaders. Figure 8 below has listed out the key human actors and their main areas of responsibility as it relates to the establishment of a global process.

<table>
<thead>
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<th>Position</th>
<th>Area</th>
<th>Main Areas of Responsibility</th>
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<tbody>
<tr>
<td>Executive Mgmt Team</td>
<td>Business/IT</td>
<td>Provide the framework necessary for the establishment, enforcement of an efficient global process that adheres to all local statutory and corporate regulations</td>
</tr>
<tr>
<td>Global Process Owner (GPO)</td>
<td>Business</td>
<td>Establishment and enforcement of an efficient global process that adheres to all local statutory and corporate regulations.</td>
</tr>
<tr>
<td>Divisional Process Owner (DPO)</td>
<td>Business</td>
<td>Regional knowledge owner representing the regional interests in the creation of a global process while assisting the GPO with the regional implementation.</td>
</tr>
<tr>
<td>Divisional Functional Leader (DFL)</td>
<td>Business</td>
<td>Manage the team of analysts that will execute the global process while ensuring process feedback is provided to the DPO for any process improvements or inadequacies.</td>
</tr>
<tr>
<td>Finance Director</td>
<td>Business</td>
<td>One of 70 local country “CFO’s” responsible for ensuring local statutory requirements are filled, while assisting the local sales department with financial guidance.</td>
</tr>
<tr>
<td>Global Application Owner</td>
<td>IT</td>
<td>Establish and enforce globally agreed system configurations while assisting the GPO with the mapping of processes to the ERP systems.</td>
</tr>
<tr>
<td>Divisional Application Owner</td>
<td>IT</td>
<td>Regionally enforce globally agreed system configurations while assist the DPO with the implementation of the global process.</td>
</tr>
</tbody>
</table>

Figure 8- Human Actors and Their Responsibilities

An often-overlooked feature of some theories (e.g. Stakeholder Theory) is the role that non-human actors play in the context of a network. Non-human actors have an enormous effect on projects, especially projects that are directly tied to technology. For
example, if a firm decided to go with a vanilla ERP implementation, or an implementation with no customizations, than the process must wrap around the ERP system. (Noyes, 2003) In other words, instead of the process dictating the system, the system dictates the process. As a result, the ERP system has a material impact to process development, and therefore must be considered an actor within the network. In the establishment of a global process there are several key non-human actors including the ERP system, corporate policies, laws and regulations (e.g. GAAP, Sarbanes-Oxley), and the other-related global processes. In Figure 9 below, the key non-human actors and the role they play in the establishment of a global process is provided.

<table>
<thead>
<tr>
<th>Item</th>
<th>Area</th>
<th>Main Areas of Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP System</td>
<td>IT</td>
<td>Provide the technical framework to support the global process without any customizations.</td>
</tr>
<tr>
<td>Corporate Policies</td>
<td>Business</td>
<td>With oversight of the senior management team, document and guide the company's employees in regards to decisions, controls, and approval requirements.</td>
</tr>
<tr>
<td>Law and Regulations</td>
<td>Business</td>
<td>With oversight of the local governments, determine the requirements for conducting business for the respective country.</td>
</tr>
<tr>
<td>Other Processes</td>
<td>Business</td>
<td>Dictate the processes for that respective area of responsibility, which will influence and be influenced by the other process areas.</td>
</tr>
</tbody>
</table>

Figure 9- Non-Human Actors and Their Responsibilities

The role these actors play is significant, and any underestimation of any one of them can result in the lack of obtaining the OPP as dictated by the focal actor. In the following section, we will review a multinational company that attempted to establish a global process. This case study reviews not only the transformation of the process, but also the impact that this adoption had on the control and power structure of the multinational company. There are two goals of this case study. First, the case study will
demonstrate how ANT operates in the context of a management plan. Second, is how ANT can be leveraged in the creation of a global process, or project by displaying how human and non-human actors can influence an actual project.
Chapter 5

CASE STUDY: IMPLEMENTING A STANDARD PROCESS

The establishment of a global process, SSC, and ERP system may be easier than the process of global adoption. Here, some actors will aggressively sign up for this adoption effort, and traverse the designated OPP. However, other actors may not due to competing priorities, a lack of incentives, or the impact the result has on their value system. This section reviews the implementation effort to establish a global process at a multinational company. A detailed analysis of the original effort is included, which will clearly demonstrate the failure of the focal actor in ensuring that all actors traversed the established OPP. To assist with this analysis a summarization has been provided that leverages a framework originally developed by Sidorova and Sarker. To begin with, some background about the multinational is provided below.

Background

For the multinational company, the processes sat locally in each of the 70 legal entities. Each entity had full control of their systems (e.g. ERP), the people, and the processes. In many of the legal entities, they had custom-built ERP systems that specifically accommodated the process desired and as determined by the local country. However, while efficient for local needs, they were not conducive to the establishment of a global process, or the adoption of a single ERP system. In addition, they were expensive to maintain, and it made it difficult to consolidate data for both financial and management reporting.
Each entity had a local finance director who acted as a country level CFO. They were responsible for directing the priorities of the staff, which included the back-office and the IT organization that supported the processes.

Due to the cost, and ultimately the inability to produce information quickly, the corporate CFO and CIO directed a project that would consolidate the systems, the processes, and the people. The processes would be combined under a global process owner. A new ERP system would be purchased and implemented under the requirement of a single server. The people would be centralized into one of three regional customer service centers, or SSC’s. These SSC’s would deliver centralized services for process areas such as Order to Cash, Procure to Pay, and Accounting to Corporate Reporting. The process owners, the local country finance directors, and IT would come together to establish a network to obtain the goals as established by the CFO and CIO (i.e. focal actor).

In the initial establishment of the centralization effort, there were two camps. The first camp was aligned with the focal actor. Their goal, as dictated by the focal actor, was to establish a global process that was not only efficient, had solid controls, but allowed for a vanilla implementation of a single ERP system. This camp became known as the “corporate” camp. The second camp continued to be advocates of local control. The relinquishment of the process to a regional SSC model while also moving to a global standard process meant handing over the control of the process, systems, and people
that many had established and enjoyed locally. By moving these components out, the local finance director would be held accountable to a team they no longer controlled. Second, moving to an SSC model meant losing local resources. These resources were in direct control by the finance director and provided legitimacy and power. Finally, losing local resources in the context of a vanilla implementation was also seen as causing a conflicting set of priorities for the local finance director. On one side, they would have a significantly smaller team to produce locally required reports. On the other side, due to the vanilla implementation they may be unable to deliver on these local requirements (e.g. statutory reporting) without significant manual intervention. Therefore, moving to a standard process and an SSC model was in direct contradiction to the values of the local country finance director. This second camp became the “regional” camp.

The local finance director was not alone in this second-regional camp; they brought with them the regional functional leaders in the SSC, and the regional process owners. In the initial stages of the project, it was found that regardless of seemingly clear alignment the reality was that geographic alliances and hierarchies proved tighter than company directed hierarchies. The regional functional leaders felt pressure to keep the local finance directors happy and curtail local escalations to corporate. In addition, the finance directors were placing tremendous pressure on the regional functional leaders to deliver the same results that they had previously seen locally. As a result, while the creation of a global process had been completed on paper, the reality is that it wasn’t in use in practice.
In addition to the two camp situation, there was a lack of corporate prioritization. The global process owners were to establish and enforce a global standard process, and the divisional process owners were to establish and enforce that global process at a divisional level. However, in order to cut costs the functional leaders in the regions would wear two hats, one as the functional leader and one as the process owner. With the lack of any true oversight, the functional leader/process owner caved to the pressure of the local country finance director’s requests. In other words, instead of the process owner policing the functional owners for compliance to the global process, the process owner hat took a back seat to the role and reality that the functional leaders were facing from the local country finance directors. As a result, many of the initial global processes were poorly implemented, and seldom (if at all) enforced.

Following a model developed by Sidorova and Sarkar, a table has been provided which displays:

- The network (column 1)
- The actors (column 2)
- Their interests as prescribed by the focal actor (column 3)
- The interests as decided by the actor themselves (column 4)
- The challenges the actors had in traversing the OPP (column 5)
- How the actor responded to interessement (column 6)
- The impact of their response (column 7)
Figure 10 below represents the network of actors that subscribed to the focal actors OPP. In summary, this figure represents a detailed analysis of the challenges the multinational company faced when standardizing the processes from the perspective of the actors that were aligned with the corporate direction. The second figure, Figure 11, is a detailed analysis representing the network of actors that didn’t subscribe to the focal actor’s OPP, and as a result halted the project’s desired results.

| Networks | Actor | Interest as Prescribed by the Focal Actor | Actors Own Interest | Obstacles to Translating the OPP | Intercession Mechanism Actor Pposes
|----------|-------|------------------------------------------|---------------------|---------------------------------|-----------------------------------|
| Executive Planning Team (EPT) | Implement a global process that is efficient and able to predict and maintain a self-implementing center (SIC) | (2) Career advancement (2) more power from the local country leader | (1) Local country and regional resistance to adopt new processes | Self-interested in maintaining their power and influence to resist change in the organization | Objecting to implementing the OPP
| Global Process Owners (GPO) | Same as executive planning team | (2) Career advancement (2) more power from the local country leader | (1) Local country and regional resistance to adopt new processes | Objecting to implementing the OPP | Objecting to implementing the OPP
| Global Application Owners (GAO) | Same as executive planning team | (2) Career advancement (2) more power from the local country leader | (1) Local country and regional resistance to adopt new processes | Objecting to implementing the OPP | Objecting to implementing the OPP
| Corporate Policies | Create a legal environment that ensures the integrity of the company is maintained | (1) Legal environment | Objecting to implementing the OPP | Objecting to implementing the OPP | Objecting to implementing the OPP
| ISD | Obtain/identify and centralize requirements and facilitate their implementation in the process (definition) | (1) Legal environment | Process implementation | Process implementation | Process implementation
| ERP System | Support through automation the company policies and processes without customization | (1) Legal environment | Process implementation | Process implementation | Process implementation
| Other Processes | Implement a global process that is efficient and able to predict and maintain a self-implementing center (SIC) | (1) Local country and regional resistance to adopt new processes | Process implementation | Process implementation | Process implementation

Figure 10- Actors and Their Alignment with the OPP

| Networks | Actor | Interest as Prescribed by the Focal Actor | Actors Own Interest | Obstacles to Translating the OPP | Intercession Mechanism Actor Pposes
|----------|-------|------------------------------------------|---------------------|---------------------------------|-----------------------------------|
| Champion of Local Control (CLC) | Define the process expression through local country leader’s ability to adapt and adopt | (1) Local country leader’s (2) regional leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt
| Operational Leader (OL) | Implement the global process in a regional center | (1) Local country leader’s (2) regional leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt
| Operational Application Owners (OAO) | Implement the global expression and enforcement of global application at a regional level | (1) Local country leader’s (2) regional leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt
| Finance | Implement the global process expression (2) identity in region (2) support for global processes (2) support for regional policies | (1) Local country leader’s (2) regional leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt
| Local Leader | Follow the process but understands that there has not been proper implementation | (1) Local country leader’s (2) regional leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt | Process resistance (1) management alignment (1) local country leader’s ability to adapt and adopt

Figure 11- Actors Not Aligned with the OPP
Overcoming Initial Obstacles

Luckily, the establishment of a global process was a dynamic project that reacted to opportunities and threats. As discussed above, there were several alignment problems in the initial establishment of a global process. First, the process owners were carrying more work than they could bear, which resulted in poor procedures and a lack of enforcement. Second, the finance director’s values were misaligned to the strategy. This resulted in their ability to exploit poorly written and seldom enforced processes. Third, because of a dictate to go vanilla, the process owners had not dealt with the reality of local laws or the impact to the people locally that relied on the process. The result was a process that could not be adopted by many countries. Due to this fact, the functional leaders in the SSC were forced to fill in the gaps, which usually resulted in manual and inefficient processes. In addition, the regional functional leaders and the divisional process owners never spent the time assessing which of these requests were even valid. As a result, more resources were needed locally. Therefore, in addition to the headcount added to create the regional SSC’s, the local headcount remained, and thus the total headcount increased, efficiency dropped, and costs ultimately went up. All of these factors allowed the finance directors to demonstrate to upper management the failings of the centralization project.

Though there were problems with the project, the focal actor did not terminate the project. This was driven not only by the executive team’s belief in the project’s direction, but also because of the passage of Sarbanes-Oxley (SOX). SOX 404 required
that all of a company’s processes had to be documented and auditable. As a result, the project took on a whole new level of legitimacy as the process owners now had the hammer of SOX compliance in their back pocket.

To address the project’s poor results several changes were made to the infrastructure of the project. First, the process owner positions became a full time role and completely separate from any day-to-day responsibilities. Second, the divisional process owners functionally and directly reported to the global process owners. This created an alignment of the priorities within the process area while ensuring regional sign-on to the project. By making the process owner a separate position, it required that the regional functional leader role be created and filled. Third, the global process owners and divisional process owners were required to review, audit, and re-document all of the procedure manuals. Fourth, exceptions were allowed to the processes and the ERP systems, but only after a thorough review and an official approval process. Finally, the global process owners and the finance directors were held accountable to the aggregate headcount number (i.e. local plus SSC), which aligned the priorities of the global process owners and the local finance directors.

These changes had a positive impact of the project. The changes aligned the priorities of the network, and made it difficult to avoid traversing the OPP without dire consequences. It didn’t however; address the misalignment of the value system in the local country. The local country finance team would still lose their power and
legitimacy in the process. However, it made it difficult for the local finance directors to avoid traversing the OPP as assigned by the executive management team because they had lost the power that they once had.

Leveraging the same model utilized earlier, the alignment of the network has been summarized in Figure 12 below.

<table>
<thead>
<tr>
<th>Networks</th>
<th>Actor</th>
<th>Interest as Prescribed by the Focal Actor</th>
<th>Actors Own Interest</th>
<th>Obstacles to Traversing the OPP</th>
<th>Interpersonal Mechanism/Actor Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Management Team (Focal)</td>
<td>Implement a global process that is efficient and offers the opportunity to maintain an umbrella implementation of the OPP</td>
<td>(1) Cost cut: imported shared services (2) Reassign employees</td>
<td>Local country and regional reluctance to adopt the process</td>
<td>Incentive for participation in OPP through increased transparency of local IT &amp; OPP owners</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Global Processes Owner (GPO)</td>
<td>Same as executive management team</td>
<td>(1) Cost cut: inherited processes are deep-seated and slow to change (2) Inadequate OPP power</td>
<td>Local country and regional reluctance to adopt new processes</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Global Application Owner (GAO)</td>
<td>Same as executive management team</td>
<td>(1) Cost cut: built into the existing local IT infrastructure</td>
<td>Local country and regional reluctance to adopt new processes</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Corporate Policies</td>
<td>Create a control structure that ensures that the policies of the company are maintained</td>
<td>Create a control structure</td>
<td>Local owners</td>
<td>Incentive for participation in OPP through increased transparency of local IT &amp; OPP owners</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>IS&amp;G Specifications (GSO)</td>
<td>Ensure accounting and control structures are implemented and maintained in a networked system</td>
<td>Ensure accounting and control structures are implemented and maintained in a networked system</td>
<td>Regional execution of processes</td>
<td>Incentive for participation in OPP through increased transparency of local IT &amp; OPP owners</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>ERP System</td>
<td>Support through automation of the company's inclusive and comprehensive operational design</td>
<td>Support through automation of the company's inclusive and comprehensive operational design</td>
<td>Regional execution of processes</td>
<td>Incentive for participation in OPP through increased transparency of local IT &amp; OPP owners</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Other Processes</td>
<td>Implement a global process that is efficient and offers the opportunity to maintain an umbrella implementation of the OPP</td>
<td>Efficiency of the cost-saving processes</td>
<td>Local country and regional reluctance to adopt new processes</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Operational Processes Owner (OPPO)</td>
<td>Drive the global process towards the local operational process to ensure that the local IT &amp; OPP owners can drive the local operational process</td>
<td>(1) Cost cut: built into the existing local IT &amp; OPP owners</td>
<td>From Local owners to OPP owners</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Operational Functional Leader</td>
<td>Implement the global process in the regional office</td>
<td>(1) Cost cut: built into the existing local IT &amp; OPP owners</td>
<td>From Local owners to OPP owners</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Operational Application Owner (OAO)</td>
<td>Implement the global system setup and enforcement of a self-serve application at the regional level</td>
<td>(1) Cost cut: built into the existing local IT &amp; OPP owners</td>
<td>From Local owners to OPP owners</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Finance Director</td>
<td>(1) Failure to align revenues (2) Failure to align revenue with other departments</td>
<td>(1) Integration of past processes (2) Support global process direction (3) Support regional direction</td>
<td>From Local owners to OPP owners</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
<tr>
<td>Local owners</td>
<td>Follow local business understandings and alignment of other stakeholders</td>
<td>(1) Cost cut: built into the existing local IT &amp; OPP owners</td>
<td>From Local owners to OPP owners</td>
<td>Bridging relationship with the executive leadership and local IT &amp; OPP owners; leverage skills to convene local needs</td>
<td>OSPMP to approve exceptions to processes as administered by local owners</td>
</tr>
</tbody>
</table>

Figure 12- Full Actor Alignment to the OPP

In summary, full actor alignment was primarily achieved by systematically addressing the local concerns of each individual country, and line of business. In fact, the alignment of the regional and corporate direction was largely achieved by this single
change. However, with so many local needs and desires to stay off of vanilla, it is important to understand what exceptions were allowed and which were rejected. Without this systematic approach, the single process would simply be collection of process exceptions instead of the global process with a few exceptions. Therefore, it is important to understand what was allowed in and what was prevented from being included as an exception. In the next section of the paper, a review of this methodology will be completed. The goal is that after this section the reader will understand how the demarcation line was set, and what criteria was leveraged for determining what exceptions passed this line, and which were pushed back for a lack of justification.
Chapter 6
A METHODOLOGY FOR EVALUATING EXCEPTIONS

One of the key variables that led to overcoming the misalignment of the value system between corporate and regional was the ability of the process owner to address local country business practices. The process owner was given the authority to review and then either approve or reject all local country exceptions. The agreed upon approach was to create an “exception document,” which included an overview of the exception request, an explanation as to why the exception was required, and the frequency of the exception. The exceptions document would first be reviewed and approved at a regional level. If approved regionally, then the exception would be submitted as part of a package of country level exceptions to the global level. The global process owner (GPO) would then review the exceptions of each of the respective countries. To assist with the disposition of each process exception (e.g. approved/rejected), the GPO leveraged Stakeholder Theory. Per Mitchell, Stakeholder Theory is a process of analyzing who and what really counts.

Stakeholder Theory analyzes the characteristics of power, legitimacy, and urgency of each person. These people are then classified based upon the perceived amount of each (Mitchell, Agle, and Woods, 1997). When analyzing process exceptions, the GPO followed a similar model. However, instead of analyzing people, the exceptions were analyzed for their respective power, legitimacy, and urgency. In other words, using
Stakeholder Theory the process owner determined which exceptions “really counted” based upon three variables, their power, legitimacy, and urgency.

Stakeholder theory begins with a broad definition of a stakeholder with the aim to ensure that no stakeholder actual or potential is arbitrarily excluded from the analysis (Mitchell, Agle, and Woods, 1997). Once defined, the stakeholders are then put into groups based upon one of three stakeholder theory attributes. The first attribute is power. In stakeholder theory, power is defined as their respective power to influence. In the case of process exceptions, this can be further refined to include the ability to influence the company through either monetary or criminal impacts. For example, in many countries breaking of a local law can result in a fine or the shutdown of the local office, which can cost the company millions of dollars a day.

The second attribute as defined by stakeholder theory is legitimacy. This attribute is often difficult to define due to the linkage with power. In other words, people tend to assume if you have power than you must have legitimacy. However, this is not the case, and as Mitchell, Agle and Woods articulate, those who use power illegitimately tend to lose it. For example, consider the civil rights movement of the 1960’s. Here, the movement had very little power, but had a lot of legitimacy. Eventually, because of the legitimacy, power was obtained. The opposite is also true. For example, consider a dictator who comes to power through illegitimate processes. Frequently they initially have power, but due to the lack the legitimacy, they ultimately will lose the position. In
the context of evaluating a country exception, the evaluation must be made as to whether there is a legitimate business justification for the exception to be fulfilled.

Finally, the last attribute when classifying process exceptions is urgency. Per Mitchell, urgency exists when two variables are met. First, when claims are of a time sensitive nature, and second the relationship or claim is important or critical to the stakeholder. Urgency is important when looking at exceptions, because as with any company the wants of the organization are always greater than the capacity to fulfill them.

As will be explained further in the paper, a request with urgency, power, and legitimacy can and should be placed at the top of the priority queue. In contrast, a customer with power and legitimacy, but no urgency may see their request slip to the bottom. Based upon these three classifications (power, legitimacy, and urgency), the process owner must evaluate each exception request. In summary, if a request fails to meet all three aspects, the request should be rejected. If the request has power and legitimacy, but no urgency it may be approved but for future implementation. Finally, if the request has neither power nor legitimacy, then the request should be rejected. However, it is important to note that this process is dynamic, and these attributes can and will change with time. Therefore, in the next section an evaluation of the potential combinations of each of these variables will be analyzed.
While a process exception must have one of the three (power, urgency, and legitimacy) to be a stakeholder, there are clearly combinations of these three. In Mitchell’s paper, he identified eight separate types of stakeholders. The first are the “latent” stakeholders, which are the stakeholders that have only one of the three attributes. The “moderate stakeholders have two of the three attributes. Mitchell refers to these Stakeholders as the “expectant” stakeholders. Finally, the stakeholders that contain all three are the definitive stakeholders. A diagram of the stakeholders can be found in Figure 13 below. Following this diagram is a more detailed description of the types of stakeholders and their role in process exception approval.

Figure 13- Venn Diagram of Stakeholder Theory (Mitchell)
1. Dormant- Possess power and nothing else. Generally, these entities do not yet have a relationship with the firm or company. Therefore, the power they possess is dormant until such time that a relationship is established.

2. Discretionary- Possess legitimacy only. In the business world, these are customers who have a relationship with the firm, but who do not have a deep relationship and therefore cannot influence exception direction. Small internal departments may also fit into this category.

3. Demanding – Possess urgency only. In the context of a business scenario, these are the customers, whether internal or external, which have a relationship with the area, but have no business justification behind their request or power to demand action.

4. Dominant stakeholders- These stakeholders possess both legitimacy and power, but no urgency. These are the second most powerful set of stakeholders as their requests have business justification (i.e. legitimacy), and they have power for the exception to be heard. However, their claim has no immediate urgency. In other words, there is no immediate impact of delaying its implementation. For example, a government may approve an increase to the VAT percentage at the end of the year. The request has legitimacy, the government has power, but the urgency behind the request is lacking due to the relative nature of time required to implement.
5. Dependant stakeholders- These stakeholders possess legitimacy and urgency, but no power. These stakeholders must rely on their relationships with others who have the power to see their requests fulfilled. For example, a Prius owner in the current day has a legitimate problem that must be urgently fixed. However, until the media and government stepped in they had no power to ensure that the issue was addressed.

6. Dangerous stakeholders- These stakeholders have power and urgency, but no legitimate request. These people are dangerous, because they can utilize whatever means available to draw attention to their cause. However, due to the lack of legitimacy, eventually these customers will lose power, and only be left with urgency.

7. Definitive stakeholders- This is the rare stakeholder that has all three, urgency, power, and legitimacy. In the simplest terms, these customers get what they want.

**Exception Review Process in Practice**

Each exception is reviewed based upon the criteria discussed in Stakeholder Theory. As depicted in Figure 14 below, there is a demarcation line between approved and rejected exceptions. The GPO is responsible to determine which exceptions clear the demarcation line. However, to understand this process it is important to understand the
types of exceptions received. Therefore, in this next section a review of exception origination and the methodology to review those exceptions will be completed.

![Stakeholder Theory and its Impact on Process Exceptions](image)

Figure 14- Stakeholder Theory and its Impact on Process Exceptions

Process exceptions were received from many directions. The most frequent creators of process exceptions were government entities, customers, and internal departments. Requests from government entities usually took one of two forms. First, requirements received to fulfill legal obligations for that specific country in a very short timetable. For example, countries, provinces, and cities make frequent updates to their tax code. When these changes are approved, most governments provide a very short grace time to implement them. Using our stakeholder theory, these types of requests fell into the definitive stakeholder category. This is because the government has power in various forms, their request is given legitimacy not only through the legislation, but also through customers demanding adherence. Finally, there is urgency through the need to comply with the requirement prior to issuing invoices. Exceptions here usually were fast tracked for approval and implementation.
The second type of legal requirement is one where the request must be fulfilled by a certain date. These requests were dominant requests, because they had power via the government reach, the request was provided legitimacy through customer mandating adherence, but the date was in the future, which meant there was no urgency. These exceptions were usually approved, but were put on a list to be addressed later. For example, in the US, with the passage of Sarbanes-Oxley certain controls had to be auditable by a third party auditor. However, companies had two years to prepare for the audit. Therefore, the enhancements required to ensure passage were added to the queue of projects, but due to the lack of urgency, they were added deeper in the queue. It is important to note, while government exceptions were generally approved exceptions, the requests were always vetted with the Legal department to ensure that the legitimacy was validated.

The next category of exceptions received can be best classified as high business mores. In other words, the request was not of a legal nature, but the need to fulfill the request was so frequent from customers that it was elevated as a business more. Here the exception was so predominant that the request had power. For that country, the request would have legitimacy via the standard business practices. Finally, the request would have urgency as the cost of not delivering on the business more, could ultimately result in the loss of a deal, or collection of the cash. For example, in Brazil there is a standard banking system that allows a customer to make a payment to a supplier using any bank. When they make the payment, they include a pay slip known as a “boleto”. A boleto is
a pre-filled out bank slip that the customer includes with their payment. This pay slip allows the bank to provide the supplier (i.e. the recipient of the payment) a file that can be automatically uploaded into their ERP system. The practice of issuing a boleto along with the invoice is common in Brazil and without it collection is extremely difficult. Therefore, exceptions similar to the boleto example were approved as they ultimately made the life of both the customer and local office easier.

While most high business mores were approved, it was not an automatic approval. For example, in Japan it was communicated that every customer expected a hand-written invoice. However, the cost to create a hand written invoice was quite expensive due to the labor costs. Therefore, while the request had legitimacy in the Japanese business setting, and it had urgency. Not every customer had the power to demand it. Therefore, the exception was approved for only the top customers.

In some cases, business mores can evolve. For example, consider the practice of electronic invoicing through the internet (e.g. XML or EDI). In the early stages of the requests, it was cost prohibitive to fulfill the request. In other words, the requests had legitimacy, but lacked the power and urgency to make it a priority. In other words, the risk of the deal could not possibly offset the cost of fulfilling it. Therefore, the exception would be rejected. However, as more customers requested electronic invoicing, it resulted in an increase in collective power. As the power increased so did
the urgency. As a result, the need to approve the exception, and build the infrastructure was required in order to satisfy the now powerful/urgent request.

In summary, each process exception was required to go through a review, which was grounded in Stakeholder Theory. The requests were each evaluated for their power, their legitimacy, and their urgency. Exceptions without legitimacy would automatically be rejected, as it would not make business sense to approve the exception, which would result in added costs to the company. Exceptions that lacked in power would also frequently be rejected, as there was no pressure or impact if the exception was rejected. Exceptions that lacked urgency would generally be approved, but would be added to a long queue of requests. However, the exception process is a dynamic one; therefore, exceptions initially rejected on the basis of power, legitimacy, or urgency, could change over time.

Over the last five chapters, the importance of a centralized model of a company’s personnel has been demonstrated. In addition, a review as to how this centralization can have a ripple effect on the interdependency triangle has been displayed. To contend with this ripple effect and leveraging the Actor Network Theory and Stakeholder Theory, a new model has been developed, which we will call the Scalability and Alignment Model. In summary, this model displays the need to standardize the people and the systems, and to leverage a global process to link the two together. Any
exceptions to this standardization are best handled through the determination of the exceptions power, legitimacy, and urgency. This model is shown in figure 15 below.

Figure 15- Scalability and Alignment Model

While this model was instrumental to the adoption of a global process in a single ERP system, and in a SSC environment, it is possible that this model has other applications as well. In the next section of the paper, a review of alternate applications and further benefits of the model will be explored.
Leveraging the Scalability and Alignment Model when establishing a Shared Service Center (SSC) and centralizing a company’s processes is important to ensuring that ripple effects when changes in the Interdependency Triangle are made. However, there are other benefits of this model other than just managing the ripple effect of changes of organization. In this section, a review of these benefits will be completed.

The primary benefit of the model is its applicability to other projects. One of the most visible applications is the integration of a company following an acquisition. Of the ten sins established by Harvard Business Review, number six is not driving the integration all the way through the financials. Like the centralization of resources and standardization of processes and systems discussed above, the integration of a second company is not intrinsically different. Here, two companies are joined and as a result, they have two of everything. For example, there are now two sales teams, two back-office teams, two processes, and two systems. To address the land of “twos”, the acquiring company can leverage the Scalability and Alignment Model.

To begin this process, it is crucial that the acquiring company introduce the acquired company to the standard process. Analogous to the local country reviewing the standard process, the acquired company should review the process and determine exceptions, or
concerns they may have in adopting it. This step should not be a forceful one; it is done to highlight the differences between the two companies’ processes. What will fall out of this discussion are the exceptions that must be addressed leveraging Stakeholder Theory.

However, unlike the centralization discussed in chapters three through five, successfully merging two companies together have additional challenges. The largest of these challenges is that each company comes to the integration with two corporate cultures. Sin number seven is a failure to address the cultural disconnect that will result when bringing the two companies together. By leveraging the Scalability and Alignment Model these two cultures ultimately become additional actors in our ANT analysis and the focal actor must address these cultural differences. They must then set a vision for integration by specifying the OPP. In addition, by leveraging the Stakeholder theory, the focal actor must determine cultural aspects that fit into the combined company’s new culture, and which cultural differences must ultimately be eliminated. For example, if the company’s culture is to act like a start-up (e.g. lots of freedom), but they are acquired by a company that is established these types of cultural must be systematically eliminated.

There are obviously other significant steps to integrate a company. However, the methodology to integrate them will still follow a similar methodology as when moving countries into an SSC environment as established in the model.
Another benefit of the Scalability and Alignment Model is the byproducts it produces, data. When each country operates in a silo with their own system and processes, it is impossible to ensure data consistency for a company. For example, the CIO at General Motors estimated that worldwide they had over 1,800 systems dedicated to financial applications (Prahalad and Krishnan, 1999). In this situation, it is impossible to ensure that the processes and setups of the system are aligned.

By merging to a single application and technical stack, it can have an enormous benefit to the quality of a company’s data simply by constraining the data entry to a consistent pre-defined set of system setups, or configurations. In addition, the system can help data consistency using data validation tools. Data validation is a system solution to ensure that data complies with desired formats, is complete, or complies with a predetermined set of values. To illustrate how data validation works, reflect on the process when purchasing a book on Amazon.com’s website. The site will not allow the progression of the purchase if the buyer enters an invalid zip code, or leaves their last name blank. The Amazon system also restricts a user’s ability to choose the form of payment, by displaying a predetermined list of payment options.

Second, just as the systems discussed above significantly impact data quality, there are processes that underlie these systems. Processes determine the how, the what, the who, and the when of the tasks required in running a business. The detailed design and
implementation of each process drives and determines data accuracy, completeness, and consistency. To illustrate the impact that processes can have on data quality, consider the data that is entered when creating a customer record for IBM. First, the analyst may or may not choose to look for existing customer records for IBM. In many systems, it may actually be faster to create a new customer record than look for existing customer records. If a new record was created, and if no guidelines had been established in regards to data formats, then the customer could be created as I.B.M, IBM, or International Business Machines. In addition, these decisions could and would vary by analyst. As a result, there would be inconsistencies in data formats, in addition to a large amount of duplicate records.

In summary, by standardizing processes and systems it facilitates the standardization of the data. Data that has allowed companies such as Tesco, Wal-Mart, and Harrah’s to gain insight never before possible about their operations, customers, employees, and suppliers. Unfortunately as discussed in a 2005 Gartner report more than 25% of a company’s critical data is inaccurate or incomplete (Whiting, 2006). Therefore, in order for a company to succeed in today’s competitive market it is crucial that they have insight into their customer’s, but also maintain the efficiency and cost control crucial to maximize margins. By following the model established in this paper, they can get both.
Chapter 8

CONCLUSION

In today’s competitive business environment companies look to the Interdependency Triangle as a way to cut costs out of their back office. They can implement a new ERP system or streamline processes; however, one of the most effective means of cost reduction is through centralizing people into Shares Service Centers (SSC’s). Centralizing resources has numerous cost benefits, but the most significant is the ability to capture economies of scale. Much like a factory, in an SSC environment each process is a cog in the overall production of data. By having teams specialize in their cog, the overall process becomes more efficient. However, as companies begin to leverage centralization projects they fail to identify and address the ripple effect the change can have. This is similar to the lack of appreciation the ripple effect had when implementing an ERP system.

Through the progression of this paper, an examination has been completed in relation to the ways companies can control the ripple effect caused by a centralization project. The first step is to ensure enterprise-wide standardization in the process. When embarking on this phase of the project it is important to realize that the most important aspect is the method in which the process is created. It is crucial that representation exist by all organizations and that representation exist for the non-human actors that will ultimately impact the process. Therefore, it is critical that non-human actors such as the ERP
system be represented by the Information Technology team when the process is designed. Actor Network Theory, or ANT, is a valuable tool that can assist in determining the actors, both human and non-human, in the process. It also assist by highlighting what obstacles exist as those actors traverse the OPP as established by the focal actor.

One of the major obstacles that exist when attempting to standardize a process is that some line of business or geographic locations will have exceptions. These exceptions either will be legally required, impede on business mores, or could jeopardize the strategic direction of the business. Therefore, it is crucial that a methodology exists for exceptions to be highlighted, reviewed, and a final disposition be determined. An excellent methodology for assisting with this determination is Stakeholder Theory. This theory requires that each exception be judged on the merits of power, legitimacy, and urgency. If the exception does not have all three, then the exception should likely be rejected. By ensuring that this exception process exists, and that the exceptions are objectively evaluated on the three merits, it provides legitimacy to the entire standardization process.

The entire framework, as discussed, has long-term benefits to companies that adopt it. The paramount benefit is that it creates a structure that can be leveraged for combining companies during the acquisition integration process. Just like the integration of disparate business areas and geographies, the integration of a company isn’t materially
different. However, it is equally important that differences do exist (e.g. culture) and these differences must be addressed in the ANT analysis. The second benefit is the impact it has on the data of a company. By standardizing the process and the systems, it generates an output in the form of data that is consistent. Data is a critical asset that companies can leverage in improving operations, customer service, or determining business opportunities.

Centralizing and standardizing in a company is a holistic process that pays huge dividends to companies that can do it successfully. These dividends are not only directly seen in the bottom line, but also in the ability to integrate acquisitions, and in the data the process produces. As a result, the back office becomes a source of competitive advantage that a company can leverage for long-term benefit.
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