



Research Article

Transformation Journey of IT Shared Centre to Competence Centre: Importance of HR Role

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Abstract

In today's world, an enormous number of challenges emerged that are closely linked to the accelerated and disruptive expansion of new technologies, along with the COVID-19 crisis. As information technologies (IT) have become an integral part of the new world, they impact all segments of life. Yet, paradoxically to a certain extent, IT constantly challenged itself, as a function, it continuously transformed to the next development phase - reinventing itself and its potential to change, while simultaneously keeping the business continuity. Under such circumstances, employees in the IT sector are significantly affected and, thus, it is of utmost importance to explore the role of the human resources (HR) department in the transformation journey of internal IT. This paper aims to present a case study of such a transitioning model - going from established IT shared service to transforming it into an IT competence centre. As it impacts employees, the paper presents a portfolio of practical initiatives and discusses how HR could facilitate this journey, including employer branding. Particular emphasis is placed on a number of proposals and recommendations on how to support the transformation from a shared service centre to a competence centre. In addition, the paper outlines the impact of such a transformation on business, from an investment perspective, as well as through return on investments (ROI) via init synergizing, freeing and reallocating the resources.

Keywords: digital transformation, IT shared service, IT competence center, HR, employer branding

Introduction

Today's leaders are under pressure to run businesses with high performance and low-cost operating models in a highly violent world (Horney, Pasmore, & O'Shea, T, 2010). These circumstances driven by the accelerated development of new technologies became even more dramatic with the onset of the pandemic of Covid 19 with severe challenges that are put on employees. Suddenly millions of employees are switching to fully remote or hybrid work (Leonardi P.M., 2020). Many industries benefit as knowledge workers learn to operate virtually, work from home, and use cloud services to process and store files. A prerequisite for remote or hybrid work is the wider acceptance of online services by people and diverse types of industries during this pandemic according to He, Zhang and Li, (2021). All these requests set expectations from internal IT departments to become change agents and cope with implementing new solutions at an increased pace. According to insights from Garner (2020), IT needs to move from a more traditional role and furthermore work on three streams in parallel. Firstly, to start running IT as a business as described by Overby (2004). The second stream is about finding the way to form a business partnership and thirdly act as an advisor to stakeholders.

However, internal IT departments within large international companies have different models based on the level of maturity and strategy implemented. Depending on the maturity of the organization, we can track different topics that are in focus as described in Gartner research (2021) starting from cost optimisation and operating model, going further to shared services and architecture to external service providers and customer experience. Yet, regardless of internal IT maturity, strategy and other important aspects, the global Covid19 pandemic put internal IT teams and each employee within in front of a challenge to keep business continuity and simultaneously transform to the next development phase.

In the article presented below, authors were interested to explore the role of HR on a transformation journey of internal IT, going from positioning IT initially as a shared service to establishing it as a competence centre of an international company. This paper aimed to present a case study of such transitioning model which on the one hand impacts employees and how this could be navigated and facilitated by HR. On the other hand, the paper presents how such a transformation impacts the business, in terms of investments but more importantly through return on investments (ROI) via synergizing, freeing and reallocating the resources.

In this way, practical activities, their operation, as well as key learning, are considered.

Theoretical background

In the last two decades, Shared Service Center (SSC) has become an important topic. Based on the research of Richter and Brühl (2017), more than 75% of Fortune 500 list of companies have established models of shared services intending to gain superior performance by cost savings and service enhancements.

However, there are various views and consequently definitions of SSC. One of the most comprehensive, based on the analysis of the research of relevant literature, states that "An SSC consolidates processes within a concern to reduce redundancies; it delivers support processes; it is a separate organizational unit within the group; it is aligned with external customers; cost-cutting is a major driver for implementation; it is focused on internal customers, and it is operated as a business." (Schulz et al. 2009).

Another complexity comes from the notion related to a variety of centres that emerged, like the centre of excellence (CoE) and competence centre (CC), and how they should be defined. Marciniak (2014) argued that in CoE employees are having extensive capabilities and experience to deal with the

most complex and unique problems while in CC employees are solving current problems as quickly as possible by using explicit knowledge. On the contrary, there is a perspective that CoE and CC are synonyms (“Competences Centers and Centers of Excellence”, 2012), and in this paper, they will be used interchangeably. In essence, CC or CoE is defined by three key elements:

- Focus on a specific domain of expertise with a dedicated team of highly skilled people
- Authority for its domain, and provides process, methods and governance with building awareness in the markets, how best practice can be applied
- Wide perspective of an entire company to be able to identify commonalities

Additional challenge comes from the point of segregation between SSC and CoE. For instance, according to Tracy (2012), CoE could be seen as a variation or form of the shared service. Yet, Sakshi and Simonson (2012) argued that the conception of CoE emerged jointly with the shared service model. According to the same author, in comparison to SSC, CoE puts a strong emphasis on abilities and professional knowledge. In their view, CoE could be seen as a next step forward for SSC. The research of Marciniak (2014) supports the notion of differentiation between SSC and CoE.

Finally, in the IT field, it is common to use different models based on proximity as located onshore, near-shore and off-shore activities. In addition, their activities could be divided based on company borders as insource and outsource. Outsourcing and offshoring are two of “the media-friendly terms being bandied about in recent times” as stated by Shakraborty (2006). These terminologies are often vaguely differentiated and misunderstood as stated in the paper aiming to capture different strategies companies implement (Shakraborty, 2006). On top, companies

have identified digitalization as a tool to elevate decision making and manage performance and cost, especially in the manufacturing area. According to Albukhitan (2020), there are five steps to follow in digital transformation starting from Creation of Digital Transformation Vision and Objectives, second Assess the Organizations Digital Transformation Capability, followed by Design the End User and Employee Experience and ending with Review and Select Solutions and Vendors, and Creation of Implementation Roadmap. Although the HR role is involved in all steps mentioned during transformation, still the strongest involvement is expected in topics directly linked to employees. For this reason, the focus of this study is on HR's role during the internal IT transformational journey with emphasis on steps related to employee capabilities and employee experience. More specifically, in the presented article, the HR role was primarily discussed from the three following perspectives: 1. closing the gap in terms of competences acquiring via buying (through external hiring) as well as internally developing them 2. compensation increase associated to closing the competence gap 3. and employer branding as targeted and long-term strategy aimed at creating awareness of the company and managing the perception of employees, potential employees and all other parties engaged (Sullivan, 2004).

In the presented case study below, some proposals and recommendations about how to support the transformation from SSC to CC are outlined and discussed in detail.

Research Methodology

The study covers the ST company (the name is fictitious and known to the authors) with over 130 employees that operate as a part of a global company F and focused only on providing IT services to the global company F. It covers different functions, including business solutions, infrastructure, cyber security and other business-specific IT functions. Secondary, data from ST company were used as a source of information i.e. existing official reports and documents, including previous activities,

their types and number, number of participants, evaluation/survey forms and other existing relevant records. From the perspective of the methodology used, this research is a descriptive-analytical study. Namely, as Veal (Young-Thelin & Boluk, 2012) highlighted, deeper understanding could be generated via qualitative research. Thus, the chosen qualitative method is considered to be the best fit for achieving the objective of this study.

This research focuses on how the organization in the transformation manages human resource, with emphasis not only on employees but also on business itself. Therefore, on the one hand, the research considers the training that was conducted, whether they are related to the strategic direction of the company, and what effects they had on employees. On the other hand, it outlines the business impact it had on the overall results of the company in the period from 2019 to 2021 in the given geographical location of South-East Europe.

Case Study of ST Company

The ST company is located in South-East Europe but with a global footprint. Established as a separate legal entity almost ten years ago, internal IT was representing partially SSC covering global services and partially dealing with local IT needs. At the time, global company decided to start centralization of processes and it was perceived that IT could be not only a support function but an engine for the change. Digitalization was recognized as one of the key strategic initiatives of company F. Therefore, it was brought as one of the primary goals of company ST.

Having in mind the steps of digital transformation, Albuksitan (2020) outlined, in previous pages, company ST performed analysis accordingly. Namely, these steps are used as a base methodology which was adjusted to company needs and specificity. The tool used in action planning was taken from Gartner (2019) and modified to fit the needs of the ST company. Upon leadership discussion, it was agreed to focus on the areas such as transition reducing cost and mainly repeatable simple

tasks to delivering better value and focusing on complex tasks in design and IT architecture field. From HR point of view it was important to map the change between high attrition and low cost labor to actions planned to reduce attrition and attract highly skilled workforce. Namely, as a base for the discussions, the table created by Hogan (2011) and insights from Gartner (2019) were used. By using above mentioned resources created by Hogan (2011) and Gartner (2019) company was able in addition to indicate desired change in organisational culture and start to develop open and speak up culture. Considering the length of the journey, there was constant attention to keep the right course. For this reason, the following actions were implemented and measures collected:

1. In order to measure the success in executing transformational steps, the level of satisfaction of internal customers was measured via net promoter score (NPS). As stated by Reich (2011), companies could use NPS “..to make sure they are meeting customer-relationship goals” (pp. x). Following Reicheld F’s (2003) methodology, NPS is defined as the ratio between promoters and detractors and calculated based on responses from 1 to 10 scale. Results could varie from -100% to +100% as at the initial stage, NPS was 0% based on 227 responses, and this was benchmarked to peer industry group obtained from Garner insights. The highest score that could be reached by “world-class loyalty receive net-promoter scores of 75% to more than 80%” based on the benchmark described by Reicheld F. (2003). Based on the analysis of these data, key pain points were collected. They included an overload of projects, a complex operating model and tech landscape, and missing capabilities as well as the right organisational structure and mindset. Upon the diagnostic done and the key pain points identified, the company started a transformation journey with the major objective - to evolve from local/regional IT SSC to

global CC to accelerate centralisation of expertise and know-how in the company F as a fundament for digitalisation. Following three years of the transformation journey, the NPS score was obtained with the same population again in 2021. In line with prediction, the score significantly increased i.e. NPS=54%.

2. In addition to the above-stated, focus areas for HR were primary to address competence building, compensation and employer branding in the company. Therefore, the following was implemented:

- Change of core leadership and upskilling resulted in 47 employees exiting the company and 66 new employees joining the company (table 1). The starting

point of analysis in 2019 showed 30% of subject matter expert positions, while data with a cut over at the end of 2021 showed 50% of subject matter expert positions. Company identified a gap between competences of current employees and skills needed for the future in order to create value for the company in line with internal IT strategy. This gap was closed by upskilling of the current employees and, on the other hand, by acquiring right talents and expert from the external market. Such accelerated upskilling of the organisation created ROI of approximately 880kEUR p.a. in savings simply by internalising subject matter experts' positions instead of engaging external support.

Table 1. ST company number of new jointers and leavers

	Total Joiners	Total Leavers	AVG HC	Total TurnOver
2019	16	12	112	11%
2020	30	16	125	13%
2021	20	19	131	14%

- A budget increase of 39,7% for people costs in the period 2019-2021 as one of the measures due to the limited supply of highly skilled candidates, combined with high workforce mobility, was actually the result of considerable hiring, training, and developing costs. Past studies confirmed such notions (Dabirian, Paschen, and Kietzmann, 2019).

- Training needs were mapped to address key strategic IT pillars and competencies for the future. Competency building resulted in 63.504 training hours and investment 2019 vs 2021 into external training tripled.

3. In addition, all efforts were followed by internal and external employer branding campaigns. For the purpose of external employer branding campaign, steps of design thinking in creating personas (Dan and Siang, 2019) were used. Following these steps, two personas were created to target the most important attractiveness factors for IT candidates in the region. The aim was defined as bringing authentic IT stories connected to ST values to candidates and employees through owned social media and internal branding.

- An illustrative example is a sponsored article on industry-specific portals which gained 811

CPI (Content Performance Index) out of a maximum of 1000. CPI is the most important parameter and measures the overall performance of the text compared to other texts on the portal. It consists of three main parts: exposure, engagement and loyalty as per metrics provided by the portal. Exposure and engagement are metrics that look at the reach and interaction of the text with the audience, and loyalty shows that the text was read by people who otherwise read the portal. Article reads show how many times the text has been read, and data obtained showed that in this case the targeted score was nearly double overperformed.

4. Along with the employer branding campaign, the company piloted an internship program intending to understand feasibility as well as the pro and con of building a talent pipeline from within. Over 90% of interns got the position of junior with a permanent contract. Although these results are promising, still further follow up and longitudinal measurements are needed to collect relevant data and gain credible conclusions.

Conclusion

In recent years, the accelerated trend in the development of technologies allowed the creation of geographically remote service centres. This opens a possibility to take full advantage of the benefits of outsourcing functions and further benefit from cost savings and process efficiency increases (Gorodilov, Oborin and Mikryukov, 2021).

Example presented in a case study shows that transforming SSC into a CC could be a win-win transformational path. Yet, as the study outlines, several challenges could come up during operationalizing an attempt of transforming SSC into a successful CC. It seems that companies that aim to establish CC should make a comprehensive long term business plan to define and forecast what could transform a profit centre from a cost

centre. In the presented case, the entire transformation is not seen in isolation. Rather, it is placed in a larger context and included employees, the impact it created on employees, as well as the role of HR in the entire journey. The particular emphasis is placed on closing the competence gap on transformational journey and the controversy it could bring. Namely, it required a bold decision on the internal development of the new competences needed while at the same time acquiring them through intensive external hiring. The ambiguity and perhaps biggest challenge is that it required in parallel to constantly separate with those employees that are not able to stay on the path of transformation. The study also outlines some additional aspects linked to such a journey such as cost associated to closing the competence gap as well as employer branding. The authors of the article strongly believe that the case study presented serves as a good illustration of what the potential path transformational journey of SSC could look like. It outlines unconventional approaches with an emphasis on human resources and provides some useful insights for those who would like to exercise this path regarding how organizations can ensure a smooth transition as well as what the key investments and benefits are.

This case shows clearly that there is a huge potential in a center of excellence i.e. competence centre. For all those companies that are using shared service centres for supporting functions, this alternative path could be a good option for further progress.

The limitation of the study certainly lies in basing the findings on one case data, and future studies should focus their efforts in the direction of obtaining more detailed data on this topic through primary data, using either a small number of in-depth interviews or by distributing questionnaires to employees. Additionally, further studies will have to continue to explore transformation from shared center to competence center using longitudinal studies and multiple cases to investigate the models used and the results achieved compared to the case presented in this study.

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