

**EFFECTS OF A SHARED SERVICES STRATEGY ON COST REDUCTION
A CASE STUDY OF EAST AFRICAN BREWERIES LIMITED**

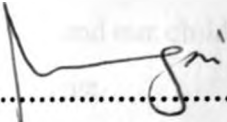
MBUGUA, MICHAEL M

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS OF THE DEGREE OF
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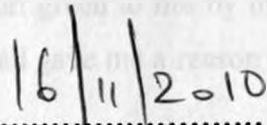
DECLARATION

This research project is my original work and has not been presented for a degree in any other university.



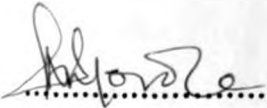
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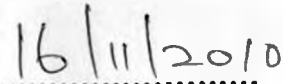
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This research project has been submitted with my approval as the university supervisor.



.....
Mrs Mary Kinoti

School of Business, University of Nairobi.



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Date

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Sincere thanks to my supervisor Mrs Mary Kinoti for her inspiration, enabling guidance, support, and personal interest in the progress of this study. I would also like to thank all my lecturers who taught me course work in the School of Business.

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ABSTRACT

Moving to a shared service method of operation entails a huge culture change for an organization. The entire business context must be changed. It takes time, effort and vast amounts of management energy to move from a mindset of purely decentralized management of support activities within each business unit or centralized management of support activities at the corporate level to a mindset of partnership between business units and the consolidated, shared service organization. Together with this, shared service units, despite their importance, receive much less senior executive attention than business units in most companies. The logic for this is that business divisions generate profits, and that is where top management often focuses its time. There is therefore a risk that an organization can lose its focus on shared services if the method is not shown to result in tangible benefits.

East African Breweries Limited (EABL) has moved to a shared services environment but no studies have been conducted to show whether this has in any way contributed to the growth of the organization. This study addressed itself to this problem. The purpose of the study was to establish the extent to which shared services strategy affect Cost reduction efforts of East African Breweries Limited.

The objectives of the study were to establish whether there has been a reduction of transactional costs at EABL as a result of moving to a shared service environment; determine the extent to which the shared service strategy resulted in reduction in employee headcount and overheads; find out how shared service strategy led to improvement in inventory management; and establish how shared service strategy at EABL has impacted on procurement costs.

The study employed the case study design, targeting all the departmental heads working at EABL's shared services centre. Purposive sampling was used to select 10 respondents, among them nine departmental heads from IT, finance, procurement, HR, EABL Kenya Demand, EABL Kenya Supply, CGI, EAML, and UDV; and one top management representative. Data was collected from the participants using a semi-structured questionnaire and an interview schedule.

Qualitative and quantitative techniques were employed in data analysis. Qualitative techniques involved giving a detailed account of the impact of moving to a shared services strategy on

EABL's cost reduction efforts. Quantitative data was analyzed using descriptive statistics including percentages and frequency counts.

The study established that moving to a shared services environment has led to significant cost reduction efforts of East African Breweries Limited. Shared services led to reduction in procurement costs, reduction in employee headcount and overheads, improvement in inventory management, and reduction of transactional costs. As such, companies running their different functions as disparate competing entities should be encouraged to adopt shared services strategy to cut costs and operate more efficiently.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

As competition in the world of business increases, and demand for quality products and services from a more informed clientele rises, businesses are moving at a frantic pace to develop and capitalize on the competitive advantage that sets them apart from the competition. Additionally, companies have stepped up their globalization efforts to take advantage of opportunities in emerging markets throughout the world. As a result, we have seen a rush of mergers, acquisitions, and divestitures, as well as downsizing, rightsizing, and restructuring, all in an effort to position businesses to leverage their competitive advantage and build greater shareholder value (Forst, 2001).

Strategic positioning in a competitive environment is of paramount importance. In order to maintain a competitive advantage while embracing growth and expansion, organizations need to contain costs while maintaining best practice and world-class standards and processes. When championing penetration into geographically dispersed new markets, the need to ensure that best practice processes and standards are in place and continually improved becomes a basic survival tool for rapidly growing organizations (Porter, 1985).

One of the ways companies are looking for competitive advantage in this frenetic environment is through the reengineering or redesign of their core business processes, the end-to-end processes that touch customers and through which a company can make strategic changes. Another way is through the use of a tactical technique called shared services. In a shared service environment, a company pulls activities that support core business processes out of each business unit and consolidates them into a separate operating unit that runs these supporting processes as its core business process (Schulman et al., 1999).

Organizations and industries all over the world are under pressure to make business processes more efficient, eliminate unnecessary administrative support activity cost, and to banish duplication of effort and resources (Van Denburg & Cagna, 2000). Porter (1985) also identified support service as an area in the organizational structure where a competitive advantage may be

gained by stating that the ability to share activities is a potent basis for corporate strategy because sharing enhances comprehensive advantages by lowering differentiation costs.

1.1.1 The Concept of Shared Services

According to Gunn, et al. (1993) shared services is a new management concept to address these issues. Van Denburgh & Cagna (2000) state that shared services is the concentration of common internal transactions in a new business unit to serve internal customers through the standardization of practices. Forst (2001) is of the opinion that shared services provides business leaders with a resource for accessing quality services that is within the organization, knows the organization and its leaders, shares its culture, and is accountable for providing cost effective services that meet customer requirements as well as or better than outside suppliers.

There are a number of reasons companies turn to the shared service model. One underlying reason why companies embark on shared services is to create more of a “one company” mindset among often disparate business units. In today’s global village, this desire to show a consistent face to clients and customers, vendors and suppliers, shareholders and potential shareholders is becoming of paramount importance. Acting as one company provides increased flexibility to all of the business’s operations. It allows corporate leaders to maintain a global perspective while at the same time allowing regional and country-specific business unit leaders to take strong, local customer-focused actions.

The Shared Service Centers (SSC) provide a strong backbone for organizations undergoing expansion by ensuring that such expansion is done within a background of cost-containment and assurance of maintaining world class standards, practice and processes in all markets advanced into regardless of their geographical disparity. The East African Breweries Limited (EABL) provides a strong case for a shared service Center. As the largest capitalized corporate entity within East and Central Africa, EABL has passionately embraced the SSC approach in leveraging its entry into new and diverse markets. Empirical data shows that performance of EABL has generally grown over the years Growth in the last 5 years is as shown in the table below.

Table 1.1 EABL's 2003 - 2008 financial highlights

Financial Year	Net Sales (Kshs Millions)	Profit Before Tax (Kshs Millions)
2003	15,321	3,641
2004	16,592	7,042
2005	19,186	8,223
2006	20,907	8,577
2007	25,871	10,636
2008	32,488	12,316

Source: EABL (2007). Annual report and financial statements 2007

1.1.2 Overview of East African Breweries Limited (EABL)

East African Breweries Ltd is East Africa's leading branded alcohol beverage business and has an outstanding collection of beer and spirits brands. With breweries, distilleries, support industries and a distribution network across the region, the group's diversity is an important factor in delivering the highest quality brands to East African consumers and long-term value to East African investors.

EABL has an annual turnover of Kshs 30 Billion and it has the largest share of the beer industry in the region. EABL has been awarded the accolade of the "Most Respected Company in East Africa", five years in a row (2000, 2001, 2002, 2003 & 2004) in a survey conducted by Pricewaterhouse Coopers and the Nation Media Group.

The Group Companies

Kenya Breweries Ltd

Produces both alcoholic and non-alcoholic brands. Its core brands include the country's leading brand - Tusker the flagship brand and Kenyan icon. Others include: Tusker Malt, Tusker Export, Pilsner, Pilsner Ice, White Cap, White Cap Light, Senator, Guinness, AllSopps and Smirnoff Ice. Its Non alcoholic brands include Malta Guinness and Alvaro. It is the dominant brewer in Kenya

since it began operations in 1922 and is located in Ruaraka, Nairobi. It has a total brewing capacity of 2,500,000 hectolitres per year.

Uganda Breweries Limited

Bell Lager is the company's flagship brand. Its other core brands Pilsner Ice, Pilsner Extra and Guinness. In addition UBL is the leading spirits distiller in Uganda with Waragi as its main brand.

It has been the dominant brewer in Uganda since it began operations in 1946. It has a total brewing capacity of 750,000 hectolitres per year

Central Glass Industries

CGI is the leading container glass manufacturer in the East African region. It currently produces 100 million glass containers, in 73 different shapes and sizes, each year. These include: Alcoholic beverage bottles (beer and spirits), Carbonated Soft Drink bottles, Health Drink and Squash bottles, Pharmaceutical bottles, Jars (used for food, shoe creams, beauty products) and Tumblers (used as drinking glasses). It was established in 1987 by EABL to produce glass containers. The CGI plant is a modern, fully integrated container glass manufacturing plant with additional printing facilities for bottle labeling.

East Africa Maltings Limited (EAML)

Produces the finest quality barley malt, a vital ingredient in beer manufacturing. EAML produces barley for the Kenyan market and it also exports to the Seychelles, Uganda and Tanzania.

United Distillers and Vintners - U.D.V Ltd

UDV (Kenya) Ltd distills and produces a range of the finest quality spirit brands for the local and export markets. In addition, the company imports a range of premium Diageo spirit brands for both the domestic and duty-free markets. The UDV (K) operations are based at Tusker House, Ruaraka, Nairobi. There the business carries out its distilling, blending, packaging and warehousing operations. The company produces a range of International and regional Vodkas, Gins, Blended Brandies and Whiskies, Liqueurs, Cane Spirits, which are packaged both in glass, and PET. Among the company's manufactured products are the following: - Smirnoff ® Vodka, Popov ® Vodka. Gilbey's ® Gin, Chelsea ® Gin, Richot ® Brandy, Three Barrels ® Brandy,

Leroux ® Brandy, Kenya Cane ®; Kane Extra®; Kenya Gold Liqueur®; Smirnoff® Ice; Smirnoff Black Ice®

The goal of the study is to find out whether moving to a shared service environment has had a significant impact on this growth. A number of studies have been conducted on shared services, revealing that moving to a shared services strategy gives positive results for organizations. A study in the United States, Connell (1996) found that shared service operations in many firms combine the efficiency and leverage of centralization with the superior customer service usually associated with decentralization. However Osterloh et al. (2002) showed that switching to a shared services model involves layoffs and major workforce restructuring. Further, new levels and kinds of cooperation are needed. All members of the new shared services unit are expected to interact and be interactive. This requires naturally requires new skills and demands from employees.

1.2 Statement of the Problem

Moving to a shared service method of operation entails a huge culture change for an organization. The entire business context must be changed. It takes time, effort and vast amounts of management energy to move from a mindset of purely decentralized management of support activities within each business unit or centralized management of support activities at the corporate level to a mindset of partnership between business units and the consolidated, shared service organization. Together with this, shared service units, despite their importance, receive much less senior executive attention than business units in most companies. The logic for this is that business divisions generate profits, and that is where top management often focuses its time. There is therefore a risk that an organization can lose its focus on shared services if the method is not shown to result in tangible benefits. EABL moved to a shared services environment in 2001 but no studies have been conducted to show whether this has in any way contributed to the growth of the organization. In 2001, Kirui Stanley undertook a study on competitive advantage through outsourcing of Non –core logistics activities within the supply chain of British American Tobacco Kenya. No study had, to the best knowledge of the researcher, been undertaken on the extent to which sharing of non core services impacts on cost control efforts of corporate entities, this study will address itself to this problem.

1.3 Main objective of the Study

The purpose of the study was to establish the extent to which shared services strategy affect Cost reduction efforts of East African Breweries Limited.

1.3.1 Specific Objectives

The specific objectives of the study were:

- i. Establish whether there been a reduction of transactional costs at EABL as a result of moving to a shared service environment.
- ii. Determine the extent to which the shared service strategy resulted in reduction in employee headcount and overheads.
- iii. Find out how shared service strategy led to improvement in inventory management.
- iv. Establish how shared service strategy at EABL has impacted on procurement costs.

1.4 Research Questions

- i. Has there been reduction of transaction processing costs at EABL as a result of moving to a shared service environment?
- ii. To what extent has the shared service strategy resulted to reduction in targeted headcount and overheads?
- iii. In which ways has shared service strategy led to improvement in inventory management?
- iv. To what extent has shared service strategy at EABL led to reduction in procurement costs?

1.5 Significance of the Study

When a new technology, or any change for that matter, has been effected in an organization, it is always important to keep evaluating the impact this has to the organization. This study could be of the following significance:

- a) Provide EABL with data on the impact that shared services strategy has had on the cost reduction efforts of the company.

- b) The study will also point to any areas that require more attention in order to make the strategy work for the organization.
- c) The study will add to the body of knowledge since not much research has been done on shared services strategy in Kenya.
- d) The findings will act as a reference point for other companies intending to move to a shared service environment.

1.6 Scope and Limitations

The study aimed at finding out the extent to which a shared services strategy has affects cost reduction efforts. There are many other factors that may influence performance of the company, but which were not looked into. The study relied heavily on secondary data sources, though a few employees were interviewed. The study was limited in that due to time and financial resources only one company was studied. This means that findings of the study may not apply to other organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature related to the study on the extent to which shared services strategy has affected the cost reduction efforts of East African Breweries Limited. A definition of shared services is first given, and this is followed by a presentation of the theoretical background of shared services. Then, literature is presented on the various reasons why organizations move to a shared services environment, and this is followed by an analysis of the benefits attributed to a shared services model. Finally, literature is presented on critical success factors for shared services models, after which the conceptual framework of the study is presented.

2.2 Definition of Shared Services

Shared services is a collaborative strategy whereby the staff functions of a firm are concentrated in a semi-autonomous organization and managed like a business unit competing in the open market to promote greater efficiency, value generation and improved service for internal customers. This strategy facilitates organizational flexibility and horizontal integration with good vertical control. Cost reduction, better service, best practices in delivering internal services to users are some positive outcomes of this application, as internal services now need to be delivered with a service-oriented approach to all users within the firm (Rao, 2006).

In the mature form, the shared services unit functions as an independent business unit exposed to external competition. In the preliminary stages, some shared service outfits adopt performance metrics to evaluate customer satisfaction and the quality of the service rendered. Workflow services, support services, and evaluation or audit services are some identified classes of internal services. However, orienting internal services towards the external customer is not easy (Stauss, 1995).

Nevertheless, the common infrastructure and processes developed for the shared services unit can offer flexibility to the firm, to selectively procure the services from external partners. Key responsibilities such as services supporting the firm's core activities might be better managed under a shared services model for long-term advantage while routine services might be

outsourced for cost reasons (Kakabadse and Kakabadse, 2000). Earlier applications of the shared services concept have been to exploit the economies of scale in performing transaction-related routine tasks. This concept has since extended to the professional services sector, for example specialized financial services, HR advisory services, business process development, and IT application consultancy services. Some firms with shared services have also included competency centers in their shared services centers (Rao, 2006).

For most firms, switching to a shared services model inadvertently involves layoffs and major workforce restructuring. Further, new levels and kinds of cooperation are needed. All members of the new shared services unit are expected to interact and be interactive. This naturally requires new skills and demands from employees (Victor and Stephens, 1994). Having common business processes and common IT applications are important to justify the migration to a shared services model.

Schulman et al. (1999) suggest that three important levels of change are needed for this migration: defining responsibilities, that is, governance, accountability and measures to create accountability; focusing on efficiency, that is, processes, systems and economies of scale; and focusing on effectiveness, that is, skills, delivery system and organization. To develop the shared services organization in a phased manner, firms should gradually shift from being the service provider to being customer driven, and finally to being the business partner leveraging on the success achieved at each phase.

Depending on the nature of the service, sourcing strategies and application focus, the models and approaches applied for the migration of services can be different. For instance, on application focus, possible approaches include an accounting approach with cost as the primary focus, or an organizational approach with a cost and communication focus, or an operational approach for cost, communication and efficiency, and a market driven approach for cost, communication, efficiency and users as focus areas (Vandermerwe and Gilbert, 1999).

The primary focus of shared services has been the concentration of transaction-orientated services that are repetitive and are much the same for each business unit. Generally, the types of services included in a shared services model include financial services including accounts payable and accounts receivable; procurement; human resources including payroll; property and facilities management; and information technology operations.

2.3 Theoretical Background

According to Schulman et al. (1999) the decision to create a shared services business environment is a strategic decision and should be undertaken as a part of an organization's overall strategic vision. Shared services per se is "tactical" (Schulman *et al.*, 1999), and in this way the operations of a shared services provides a key factor in the organization ability to reach its strategic goals. Quinn, et al. (2000) identified four models that can be used to explain where a given organization is in the journey towards shared services. These are, the basic model, the market place model, the advanced marketplace model, and the independent business model.

2.3.1 The Basic Model

At its most basic the move to shared services involves the consolidation of transactional processing and administrative work. At this point the predominant drivers are cost reduction through economies of scale, standardization of processes, and a focus on customer service. The focus on customer service differentiates shared services from consolidation of transactional services. Shared services must start from the customer vision asking what benefits will accrue to the customer and levels of service will satisfy them. The basic transactional model is also a mandatory service as all business units and companies must use this service within an organization, and are not allowed to go outside and source that particular service. An example of such a basic mandatory service is services such as payroll and accounts payable. Moving to a basic model creates value at two levels. First, operating costs are lower with a positive effect on the bottom line. Secondly, corporate functions and business units reduce human resources at transactional level, which can be re-positioned at tactical and strategic level (Quinn *et al.*, 2000:27).

2.3.2 The marketplace model

The next step in the shared services journey is a move to the marketplace model. These services are voluntary in that clients will have a choice in using them or not. The difference between the marketplace model and the basic model is the inclusion of professional and advisory services, as well as the separation of governance related activities. The professional and advisory services operate on a principle of an internal consulting service. According to Quinn *et al.* (2000) the separation of governance activities from the delivery of services is "the move to a real internal marketplace".

2.3.3 The Advanced Marketplace Model

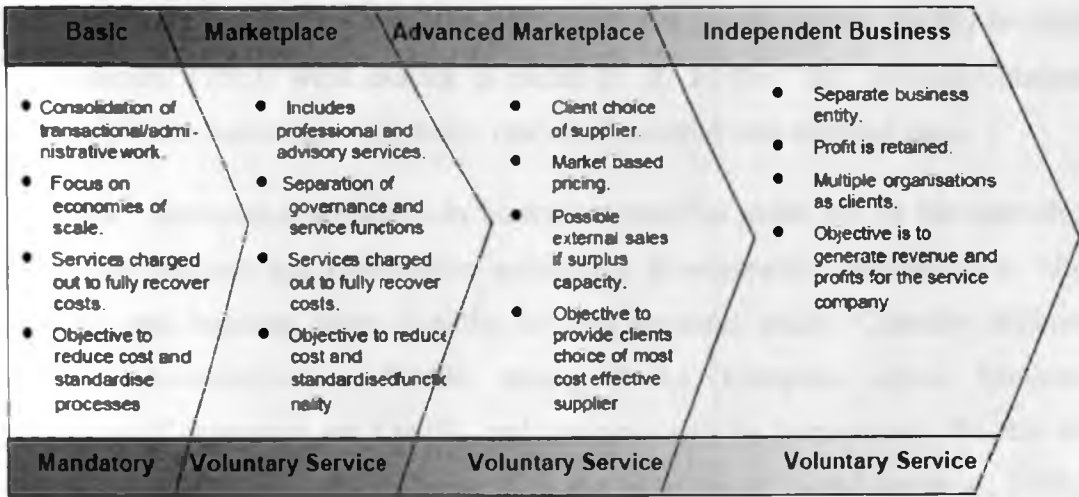
The advanced marketplace model takes the total service approach further by bundling functional competencies (human resources, finance, information technology) with cross-functional synergies (people, knowledge, systems) to create a total service solution. This total service solution also implies that the shared services business unit is not protected any more and the internal customer can purchase the service from outside. In the advanced marketplace model pricing is based on market prices. The shared services business unit must compete for the internal customers business, not only on pricing but also on offering, efficiency and effectiveness. In the basic and marketplace models, the shared services business unit is protected from outside competitors as business units are prohibited from using outside service providers for a period of up to two years. This is to give the business unit time to establish itself (Van Denburgh & Cagna, 2000). During this period senior management can see if the shared services business unit supports the overall business strategy, or if it should be outsourced.

In the advanced marketplace model the shared services product offering can respond to changing market and customer needs quickly and efficiently, due to flexibility. In the advanced marketplace model the shared services move into the realm of supporting the organization's vision by being supplier of choice, and by supporting cross functional strategies. Performance measures should focus on achieving the organization's vision, market based pricing and possible external sales of the function and related activities.

2.3.4 The Independent Business Model

In this model the idea for shared services is to operate as a separate business entity where profits are retained. It does not only have internal customers as clients, but also serve multiple organizations. Few shared service business units are in the ambit of independent business units. According to Gunn et Al. (1993), only 17% of today's shared services are separate legal entities. They are also of the opinion that "commercializing" the shared services business unit will lead to a higher performance of the shared services business unit (Gunn Partners, 2001). In the independent business model the shared services will have its own vision to guide its mission and performance measures. The foundation on which these performance measures are built will still be the transformation of people, business processes, technology and customers. Figure 2.1 presents a summary of the four different models.

Figure 2.1: The four shared services models



Source: Adapted from Quinn *et al.* (2000:36)

2.4 Reasons for Moving to a Shared Services Environment

According to Schulman *et al.* (1999) the compelling reason for moving to a shared services environment is simple: “Customers and the business environment are demanding it”. The compelling reasons for moving to a shared services business environment are:

Globalization: Organizations must combine information from multiple business entities across the globe. According to Schulman *et al.* (1999:28) the European Community (EU) is the trend setter in a borderless global society where there is a single currency, no tariff barriers and goods are moving freely between countries. Transactional efficiency and support process effectiveness are increasingly important in the global environment as practiced by global corporations. IBM’s human resource centre services 305,000 employees from three service centers (Theaker, 2001).

Complex organizational arrangements: “Global alliances, acquisitions, joint ventures and competitors have resulted in companies being simultaneously customers, vendors, competitors and distributors” (Uhlrich, 1995). To meet these demands, the shared services organization offers both application (technical and other functional knowledge) and specialization (business knowledge).

Flexible and dynamic organizations: In traditional organizations (centralized or decentralized) separate staffing departments find it difficult to shift resources quickly to meet disparate resource needs. With a shared services staff function, resources can be shifted quickly to meet business needs (Uhrich, 1995). What exactly is meant by it? In the “old” economy businesses were fragmented. Most businesses were built, marketed and sold on a national basis.

In the “new” economy time delays in business across the globe fall by the wayside: With the event of the internet and information technology developments business is a “click” away. Consumers and business shop globally for best purchase prices. Currency differentials will influence cost effectiveness. Within trading blocks (European Union, Southern African Development Community etc.) tariffs and tax rates will be harmonised. “In this new world, customer profitability analysis will have to have a wider focus” (Schulman *et al.*, 1999:28).

Measuring what matters through shared services: As investors require more information and transparency, performance measures become more important. Through shared services reliable performance measures can be communicated to shareholders and the investment community (Shah, 1998).

2.5 Benefits Attributed to a Shared Services Model

Organizations that have implemented shared services are constantly reaping benefits that go beyond cost cutting and head count. These benefits are both tangible and intangible in nature. Organizations that have implemented shared services are constantly reaping tangible and intangible benefits. Tangible benefits are summarized below.

Cost savings: Cost savings through shared services centers can be in the order of 30%, sometimes more, depending on how far-reaching the objectives are (Lester, 2001). Van der Linde (2002) reported that all of the respondents interviewed place “cost savings” as the major reason for implementing shared services. Cost savings must go together with an increase in performance, effectiveness and efficiency (Quinn *et al.*, 2000).

Creating working capital improvements: According to Schulman *et al.* (1999) working capital improvements are gained from standardizing, concentrating and netting treasury activities, operating receivables, payables, and inventory management in a centre of excellence. This creates economies of scale, improves control and decreases expenses.

Shared services increase productivity: This means doing more with the same or less. Alcoa Business Support Services had been processing 7 000 envelopes per month with twelve employees. The addition of Alumax raised the total of processed envelopes to 11 000 per month with the addition of one employee (Forst, 2001).

Corporate governance and professional services: Shared services business units liberate governance functions from transactional functions, as well as professional staff from transactional processes. This means they can focus on what they are supposed to do – provide professional services to the organization and executive team (Quinn *et al.*, 2000).

Shared services enhance corporate value: Through process re-engineering, benchmarking and the use of best practices, cost savings are achieved that add value to the organization.

Consolidate the transactions of common customers and vendors who deal with more than one company or business unit: According to Schulman *et al.* (1999) economies of scale are achieved through the standardization of processes that are experienced by customers.

Shared services create motivated teams to provide consistent, reliable and cost effective support: Quinn *et al.* (2000:124) are of the opinion that because shared services rely on a team principle and the empowerment of employees to take decisions, it creates motivated teams that provide a consistent reliable cost effective service.

Shared services conduct relationships with (originally) internal and external customers: Technology as well as qualified and multilingual staff enables a shared services business unit to conduct relationships with local, regional and global entities such as banks, governments and suppliers (Shah, 1998).

Promoting the “one company” approach: According to Schulman *et al.* (1999), this can be observed internally by employees that feel if they are members of one organization, and externally by customers that see the organization as a single entity.

Shared services drives transformation more easily: According to Uhrich (1995) employees still have a boundary mindset about functions and functionality. These boundaries create hurdles in service delivery. Shared services remove these boundaries by creating a common goal – From doing a “job” to “add value”.

Shared services enhance knowledge management: Members in a shared services team share expertise (knowledge management), solve problems and add value through process re-engineering. This enhances team knowledge and according to Uhlrich (1995) it creates a new set of competencies and roles within the organization.

Some organizations jump onto the shared services bandwagon because it is “faddish”. According to Schulman *et al* (1999:17) these organization will achieve some of the intangible benefits, but not really any of the tangible benefits. The reasons and benefits, both tangible and intangible, provide ample reason for organizations to pursue a shared service business environment and use it as a business model to add value, and not merely to be “faddish”.

2.6 Critical Success Factors for Shared Services Models

Researchers investigating private sector approaches to shared services models have identified a number of consistent themes in discussions of critical success factors (Forst, 2001). Generally, these success factors can be categorized in terms of those associated with the implementation of the model and those associated with the ongoing operations of shared service centres. One of the key issues identified throughout the literature on shared services within the business sector is the importance of handling the implementation of a move to shared services in the most contextually appropriate way.

Broadly, six key factors are consistently identified with the implementation of a shared services model: The need for top management support and leadership; determining which services to move into a shared services arrangement; people management issues; ensuring there is an effective governance arrangement in place; balancing business process redesign and reshaping of roles and technology; and building a new culture.

In terms of the ongoing operations for a share services model, there are four key success factors: a) monitoring and managing costs; b) accountability issues; c) use of service level agreements; and d) performance accountability. Each of these factors related to implementation of the ongoing operations of shared services arrangements are discussed below.

2.6.1 Factors relating to implementation

Management support and leadership: Executive management support and leadership is crucial because success means crossing functional borders – “for best results, shared services should

report to top management (CEO)” (Cecil, 2000). Basically, the need for leadership in implementing a shared services provider rests on the same arguments for the need for leadership in any major organizational change initiative. The essential idea is that “a leader creates a vision and drives it deep into the fabric of the organization” (Schulman et al, 1999: 236). Here the assumption within the literature focusing on implementing shared services in the private sector is that this change will occur within a single organization that has a clear hierarchical structure. Similarly, within the public sector, there is an emphasis on the importance of leadership and involvement of departmental CEOs in leadership and management of implementing a shared services arrangement (Cecil, 2000). The need for strong leadership and executive involvement has implications for governance of these initiatives and how staff and others can have input.

Determining which services to include in shared services: Aguirre and colleagues (1998) argue it is critical that, in order to determine the services to be consolidated into a shared services model, each staff function needs to be pulled apart into the discrete services it provides and these services “need to run the gauntlet of the burden of proof test”. They have developed a “decision tree” as a tool for determining which services should be retained centrally (the “global core”), which services should be retained in individual business units (or possibly co-located) and which could be included in a shared services entity. They also make a distinction between services that are transaction-based, expertise-based and strategy-based as being suitable for shared service arrangements. However, the primary focus is on transaction-based services.

People management issues: Within the literature there is a strong emphasis on the need to effectively manage the implications and changes involved for all stakeholders, particularly staff, in moving to a shared services model. There are two key issues involved with this – staffing issues and the need for a strong communication program with stakeholders. In terms of staffing issues, the literature focusing on the private sector experience tends to emphasize the need to recruit new staff, or at least to have a mix of new staff with existing staff transitioned from previous roles. As with any change process, good communication is critical with both those who are to become the centre employees and with those business units who are to become customers (Walsh, McGregor & Cameron, 2006).

Governance arrangements: There is also a strong emphasis on the need for an effective governance arrangement for implementing shared services models. Generally, governance arrangements will involve establishing a number of groups or teams (Schulman et al, 1999). For

instance, one such group includes an overall steering committee made up of senior-level stakeholders who have a vested interest in the activities to be consolidated into the shared services operation. This group has a strategic role focusing not on the operational detail, but on the key business problems to be solved and ensuring progress. Another group is the implementation team which is a small group of individuals who work full time and are accountable for the initiative. Lastly, project teams are established, representing cross-functional groups drawn from experts in particular areas and who have line responsibility for particular activities (Walsh, McGregor & Cameron, 2006)

Balancing business process redesign and reshaping roles and technology: Within the literature there is an emphasis on the need to balance redesigning business processes while also reshaping roles and technology to support the redesign (Cecil, 2000; Forst, 2001; Shah, 1998). Process redesign is a requirement at some point in the implementation of a shared services model. Essentially, process redesign involves changing strategic business processes, usually through standardizing processes and removing unnecessary steps, in order to optimize productivity and flow of work. However, this necessarily impacts on roles and usually has implications for the technology needed to support these processes. Whilst there appears to be some consensus that redesign and restructure should be pursued concurrently, it is also acknowledged that this increases the complexity of the overall change process.

Culture change: One of the consistent themes in the literature is the need to establish a new culture when implementing a shared services model (Aguirre et al., 1998; Forst, 2001; Schulman et al., 1999). This culture has a strong focus on service excellence and continuous improvement. In particular, business units using the shared services provider are seen as partners rather than necessarily customers. This is because the relationship within a company between those who perform a task and those for whom the task is performed is not a simple transactional relationship. It is an interdependent relationship that is vital to achieving the company's goals (Forst, 2001).

2.6.2 Factors relating to ongoing operation

Overall, a number of factors can be identified when considering the predictors of ongoing, successful shared services operations. For instance, these include monitoring and managing costs, accountability issues, the use of service level agreements, and performance management.

Triplett and Scheumann (2000) argue that critical to the success of any shared service centre is a thorough understanding of costs and the ability to impact those costs. Regardless of services provided, all shared service centres are faced with three key costs questions including (1) what causes costs in our operations and how can these be managed, (2) how much is the charge for each customer for services provided, and (3) how do our costs compare to those of others. In order to deal with these questions, shared service centres should adopt an activity based management framework in order to be successful (Triplett & Scheumann, 2000).

Essentially, an activity-based management framework focuses on drivers of costs (both internal and external drivers) associated with different activities undertaken by the centre: "It is absolutely necessary for managers to identify which activities are required to provide specific services and to understand the drivers of Shared Services Costs" (Triplett and Scheumann, 2000: 43). Internal drivers might include things like the number of internal levels of approval required for a particular transaction. An external driver is likely to be those factors controlled by customers.

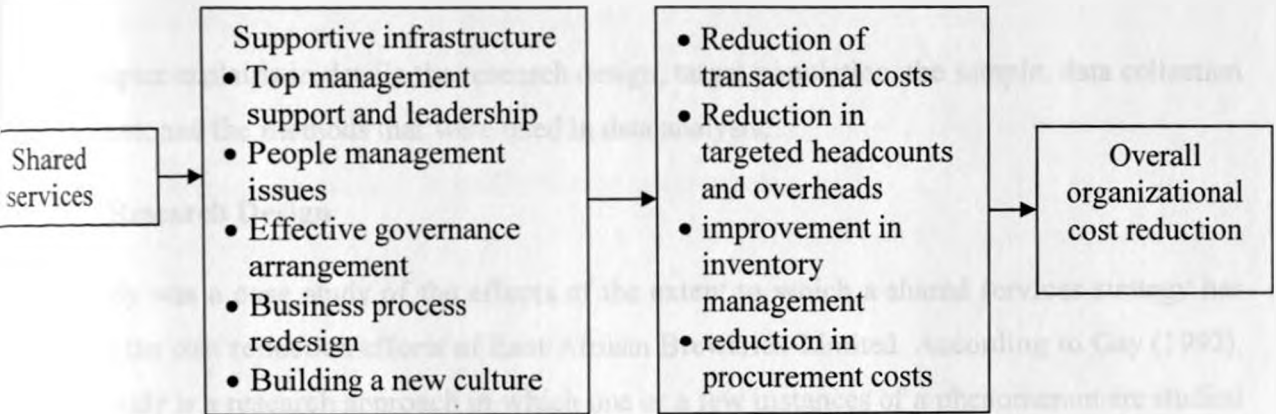
One of the key issues to be clear about in a shared services environment is that of maintaining accountability. Schulman et al (1999) point out that just because business units hand over the operations of activities to a shared service organization does not mean that the management of the business unit abdicates ultimate responsibility and accountability for the performance of those activities. Rather, management responsibility shifts from directly managing actual activities and individuals to managing the relationship with a business service partner, along similar lines to managing the relationship with a consultant.

The use of service level agreements is also an important component in the operations of shared services centers. It becomes a tool for establishing dialogue between the shared service provider and those using their services. These agreements primarily identify services to be provided at agreed levels and costs. They also spell out expectations, priorities and improvement plans and include performance measures and standards. It provides a means for price transparency describing the fee-for-service cost basis. Lastly, a strong theme in terms of the operation of shared services providers is the need or having good cost control management and monitoring systems. This provides a basis for continuous improvement and the adoption of best practice approaches in the delivery of shared services (Walsh, McGregor & Cameron, 2006).

2.7 Conceptual Framework

The figure below presents the conceptual framework of the study.

Figure 2.2: Conceptual framework



Source: Researcher (2008)

Independent variables

Dependent variables

The study will find out whether shared services strategy, and existence of supportive infrastructure for success and growth of the shared services centre (the independent variables), have had an impact on cost reduction efforts of East African Breweries in terms of reduction of transactional costs, reduction in targeted headcounts and overheads, improvement in inventory management, and reduction in procurement costs (the dependent variables).

2.8 Summary

This chapter has presented literature related to the study. It has emerged that shared services business model has both tangible and intangible benefits, and that there are a number of reasons for organizations moving to a shared services environment. All the studies reviewed are from other countries, notably developed countries. No literature was identified on the outcomes of shared services in Kenyan organizations. This study therefore was set to find out the extent to which a shared services strategy had affected the cost reduction efforts of East African Breweries Limited.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains in details the research design, target population, the sample, data collection techniques, and the methods that were used in data analysis.

3.2 Research Design

The study was a case study of the effects of the extent to which a shared services strategy has affected the cost reduction efforts of East African Breweries Limited. According to Gay (1992), a case study is a research approach in which one or a few instances of a phenomenon are studied in depth. The main advantage of a case study is that it enables researchers to study a given case in depth. Case studies are particularly useful in depicting a holistic portrayal of a client's experiences and results regarding a program. Since the interest of this study was to understand the benefits of shared services to an organization, case study was considered the best approach.

3.3 The Population of the study

The target population is the aggregate of all cases that conform to some designated set of specifications (Chave, 1996). For the purpose of this study, the target population was all the functional heads of departments working at EABL's SSC and the MDs of the Kenyan based companies; viz KBL(2), UDV, CGI EAML. The organization has a total of 798 employees. Being a case study, the study involved functional heads of the following departments, which are represented in the Shared Services Centre: procurement, IT, finance, HR and MDs of the Kenyan based companies. As such, nine respondents will be selected.

3.4 Data Collection Methods

The study used both primary and secondary data sources. Primary data was collected from the respondents using a semi-structured questionnaire designed by the researcher. This was a questionnaire consisting of both open-ended and closed questions. It provides greater depth than is possible with a totally structured questionnaire. It often offers the following advantages:

- i. The central advantage of questionnaires over interviews is that they allow for the collection of information relatively inexpensively. The savings result from the reduced need for staff and, possibly, travel expenses.
- ii. Another advantage of questionnaires in comparison to interviews is that they contribute to reliability by promoting greater consistency. This is achieved through eliminating the variation in questioning that can occur when a number of different interviewers are used.
- iii. They also reduce the introduction of bias by eliminating the ability of interviewers to influence answers either intentionally or inadvertently.

Secondary data sources included reports such as the financial reports and cost centre from EABL. An interview guide was used to collect in-depth information from the top management on the impact of Shared services on cost reduction..

3.5 Reliability and Validity

Reliability is defined as a measure of the degree to which a research instrument yields consistent results or data after repeated trial. Before the actual data collection, piloting of questionnaires was conducted among five employees of EABL's shared services centre, who were not selected to participate in the actual study. Piloting enabled the researcher to test the reliability of the instruments.

Validity is defined as the accuracy and meaningfulness of inferences, which are based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. Cozby (1993) defines validity as the degree to which a test measures what it purports to measure. The pilot study helped to improve face validity of the instruments. According to Chaves (1996), content validity of an instrument is improved through expert judgment. As such, the researcher removed any bias in the research instruments by constructing them in line with the objectives of the study, and by seeking expert opinion from his supervisor.

3.6 Data Analysis Methods

After all data is collected, the researcher organized it into themes as guided by the objectives of the study. Since qualitative and quantitative data was obtained, both qualitative and quantitative data analysis techniques were employed. Qualitative techniques involved giving a detailed account of the effects that moving to a shared services strategy has had for EABL's Cost

reduction. **Quantitative data was analyzed using descriptive statistics including percentages and frequency counts. The results of data analysis were presented in frequency tables, bar charts and pie charts.**

...analysis data analysis and discussion of the study findings. The specific objectives of the study are to establish whether there has been a reduction of transactional costs in EABL as a result of a shared service environment, to determine the extent to which the shared service model has resulted in cost savings in employee salaries and benefits, to find out how costs (salaries, and the employment of temporary staff) are distributed, and to establish why the shared service model has resulted in cost savings.

It is expected that this research will provide useful information concerning the objectives of the study.

Impact of Shared Services on Transactional Costs

Objective of the study was to establish whether there has been a reduction of transactional costs in EABL as a result of moving to a shared service environment.

In all of departments were visited to find out the impact of moving to a shared service environment. According to the data that was collected, 70% of the departments have not reported any cost savings, while 30% of the departments have reported cost savings. The departments that reported cost savings reported that they had reduced the number of employees and that they had reduced the number of temporary staff. The shared service environment had greatly reduced transactional costs.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter covers data analysis and discussion of the study findings. The specific objectives of the study were: to establish whether there been a reduction of transactional costs at EABL as a result of moving to a shared service environment, to determine the extent to which the shared service strategy resulted in reduction in employee headcount and overheads, to find out how shared service strategy led to improvement in inventory management, and to establish how shared service strategy at EABL has impacted on procurement costs.

The chapter is organized into four sections, with each section covering one objective of the study.

4.2 Effects of Shared Services on Transactional Costs

The first objective of the study was to establish whether there had been a reduction of transactional costs at EABL as a result of moving to a shared service environment.

The nine heads of departments were asked to rate the impact of moving to a shared services strategy on transactional processing on a four point scale ranging from excellent to poor. Their responses are captured in Figure 4.1, which shows that 22.2% of the departmental heads rated transactional processing to be excellent, while 77.8% rated transactional processing to be good. None of the departmental heads reported that transactional processing was fair or poor, indicating that the shared service environment had greatly improved transactional processing.

Figure 4.1: Ratings of transactional processing after moving to SSC

Department	Excellent	Good
Procurement		1
IT	1	
Finance	1	
HR		1
Kenya Demand		1
Kenya supply		1
CGI		1
EAML		1
UDV		1
Total	2	7
%	22%	78%

Source: Research data

The 22.2% departmental heads who rated transactional processing as excellent were in Information Technology (IT) and finance departments, while the 77.8% who rated transactional processing as good were in procurement, human resources (HR), Kenya Demand, Kenya Supply, Central Glass Industries(CGI), East African Maltings Limited (EAML), and United Distillers and Vintners (UDV)

Table 4.1 shows the number of transactions processed at the organization in the year 2000 before moving to a shared services strategy and the year 2009 (after moving to a shared services strategy).

Table 4.1: Transaction processing indicators for the period before and after moving to a shared services environment

Item	Year 2000 (before moving to shared services)	Year 2009 (After moving to shared services)	% Change
Average number of manual journal vouchers raised in a month	200	60	70%
Average number of invoices processed?	1600	900	44%
Average number of days taken to produce monthly accounts	7	2	57%
Average number of days taken before an invoice is finally paid.	90	60	33%

Source: Research data

Table 4.1 shows that in the year 2000 (before SSC), the average number of manual journal vouchers raised in a month organization reduced by about 70%. The average number of invoices processed reduced by 44%.The average number of days taken to produce monthly accounts reduced by 57%, infact the accounts are today produced by the 2nd working day. The average number of days taken to fully process and pay an invoice reduced by an admirable 33%.All this has come through as a result of process re-engineering and knowledge sharing.

4.3 Impact of the Shared Services Centre on Employee Headcount and Overheads

The second study objective was to determine the extent to which the shared service strategy resulted in reduction in employee headcount and overheads.

Table 4.2 shows the number of employees working in each of the nine departments for the year 2000 before moving to a shared services strategy and the year 2009 after moving to a shared services strategy.

Table 4.2: Number of employees per department before and after moving to a shared services environment

Department	Number of employees in 2000 (Before SSC)	Number of employees in 2009 (After SSC)	% Change
Procurement	25	12	52%
IT	20	13	35%
Finance	55	35	36%
HR	20	5	75%
Kenya Demand	185	165	11%
Kenya supply	260	238	8%
CGI	175	148	15%
EAML	138	122	12%
UDV	135	60	56%
Total	1,013	798	21%

Source: Research data

Table 4.2 shows that in all the nine departments, year 2000 had more employees than year 2009. This is an indication that moving to a shared services strategy led to overall reduction of 21% in number of employees. Based on the fact that reports from EABL show that the organization has recorded growth in performance over the last four years, it can be concluded that reduction in the number of employees did not result in other factors like decline in business or effects of recession, but from efficiency as a result of shared services.

Table 4.3 shows the annual overheads on salaries and wages for years 2000 (before SSC) and 2009 (after SSC).

Table 4.3: Annual overheads on salaries and wages per department

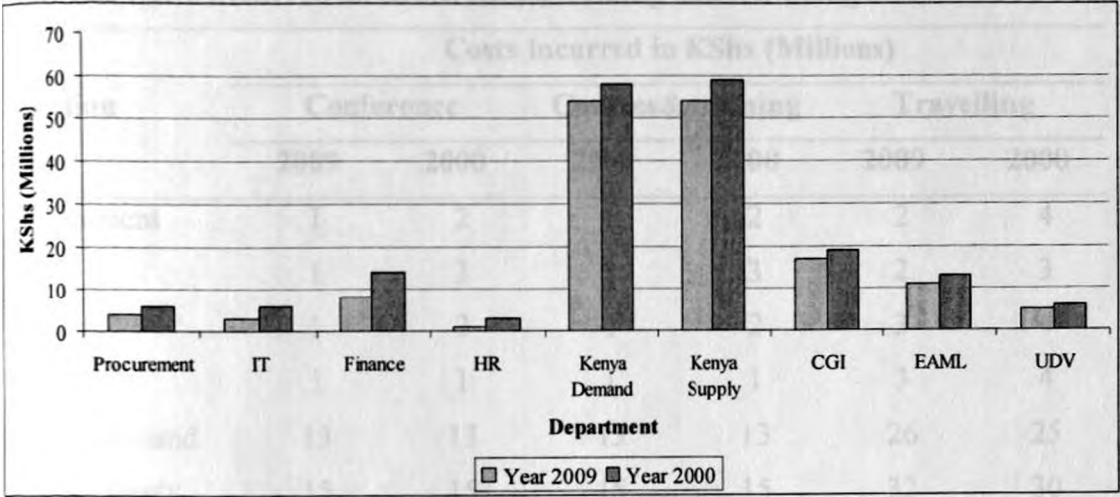
Function	Salaries & Wages (Millions)		
	Year 2000	Year 2009	% change
Procurement	19	10	47%
IT	21	15	29%
Finance	58	40	31%
HR	9	3	66%
Kenya Demand	288	282	2%
Kenya Supply	394	393	0%
CGI	192	178	7%
EAML	144	140	2%
UDV	67	33	51%
Total	1,191	1,094	8%

Source: Research data

As shown in Table 4.3, annual overheads for salaries and wages in all departments were lower in year 2009 than in 2000 by about 8% despite the general annual inflation and cost of living adjustments on the salaries. It therefore emerges that moving to a shared services environment availed a better control on the salaries and wages costs.

Figure 4.2 shows the costs incurred on overtime for the years 2000 and 2009.

Figure 4.2: Costs incurred on overtime



Source: Research data

Figure 4.2 shows that for all the departments, the costs incurred on overtime were higher in year 2000 (before SSC) than in year 2009 (after SSC). In total, overhead cost for year 2000 was KShs 184 million, as compared to KShs 156 million in 2009, a decrease of 15%.

Table 4.4 shows the costs incurred for conferences, training and travelling for the years 2000 and 2009.

Table 4.4: Costs incurred on conferences, training and travelling

Function	Costs incurred in KShs (Millions)					
	Conference		Courses & training		Travelling	
	2009	2000	2009	2000	2009	2000
Procurement	1	2	1	2	2	4
IT	1	3	1	3	2	3
Finance	1	2	1	2	3	4
HR	1	1	1	1	3	4
Kenya Demand	13	13	13	13	26	25
Kenya Supply	15	15	15	15	32	30
CGI	4	6	4	4	7	5
EAML	2	3	2	2	6	5
UDV	2	3	2	2	2	5
Total	40	48	40	44	82	85
Change	-17%		9%		-3.5%	

Source: Research data

Table 4.4 shows that the costs incurred for conferences, training, and travelling were higher in 2000 than in 2009. This is an indication that moving to a shared services strategy led to a reduction on these costs. This can largely be attributed to the fact that as a result of concentration of these activities, there was no need for travelling and holding conferences. The employees also became experts in their fields as a result of shared knowledge rather than operating like competing entities.

Table 4.5 shows the costs incurred for telephone, medical and stationery for the years 2000 and 2009.

Table 4.5: Costs incurred on telephone, medical and stationery

Function	Costs incurred in KShs (Millions)					
	Telephone		Medical		Stationery	
	2009	2000	2009	2000	2009	2000
Procurement	0.25	1	3	5	1	3
IT	0.25	1	3	4	1	2
Finance	0.25	1	8	11	4	6
HR	0.25	1	1	4	1	2
Kenya Demand	14	12	36	37	26	24
Kenya Supply	12	10	52	52	10	8
CGI	6	5	33	35	11	18
EAML	5	4	27	28	6	14
UDV	1	5	13	27	2	14
Total	39	40	176	203	62	89

	┌──────────┐	┌──────────┐	┌──────────┐
	└──────────┘	└──────────┘	└──────────┘
Change	-2.5%	-13%	-30%

Source: Research data

Table 4.5 shows that all of telephone, medical and stationery expenses declined after the organization moved to a shared services strategy.

4.4 Impact of Shared Services Strategy on Inventory Management

The third objective of the study was to find out how shared service strategy led to improvement in inventory management.

All the nine (100%) departmental heads agreed that since moving to a shared services environment, inventory management had improved. Table 4.6 presents the indicators to show the extent to which inventory management had changed.

Table 4.6: Inventory management indicators

Item	Year 2009	Year 2000	Variance
Stockholding Level (Billions)	2.6	2.4	+8%
Stocktaking costs (Millions)	3	4.5	-33%
Stock loss due to pilferage (Millions)	4	14.5	-69%
Stock loss due to stock obsolescence (Millions)	72	154	-53%
Insurance costs for stocks (Millions)	10	15	-33%

Source: Research data

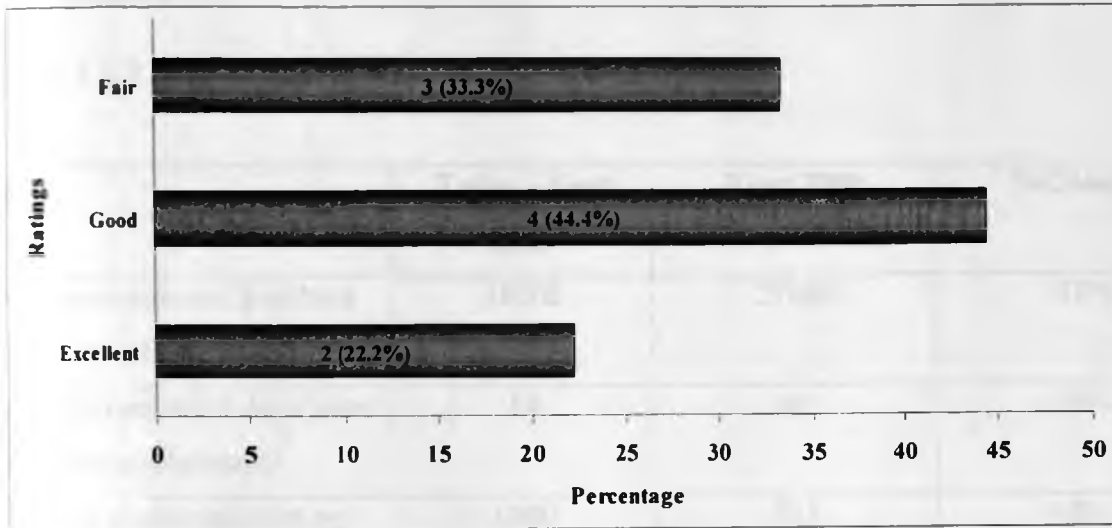
Table 4.6 shows that stockholding level was at KShs 2.4 billion in year 2000 and this rose to KShs 2.6 billion in year 2009, meaning that moving to a shared services strategy led to rise in stockholding level by 8% despite the impressive growth in turnover and production level. After moving to a shared services strategy, stocktaking costs reduced from KShs 4.5 million in 2000 to 3 million in 2009 reflecting a 33% improvement in stockholding costs. Stock loss due to pilferage reduced by a massive 69%, loss due to stock obsolescence reduced by 53%, while insurance costs reduced by 33% between year 2000 (before SSC) and 2009 (after SSC).

4.5 Impact of Shared Services Strategy on Procurement Costs

The fourth research objective was to establish how shared service strategy at EABL has impacted on procurement costs.

The nine heads of departments were asked to rate the impact of moving to a shared services strategy on procurement costs on a four point scale ranging from excellent to poor. Their responses are presented in Figure 4.3 below.

Figure 4.3: Ratings of procurement costs after moving to SSC



Source: Research data

Figure 4.3 shows that 4 (44.4%) of the departmental heads rated procurement costs as good, 3 (33.3%) rated them fair, while 2 (22.2%) of the departmental heads rated procurement costs as excellent.

Table 4.7 shows the impact of moving a shared services environment on various procurement cost indicators.

Table 4.7: Effects of shared services on procurement costs

Item	Today –Year 2009	Year 2000	%Change
Average number of purchase orders raised (Annually)	18000	27000	-33%
Average number of days taken to conclude a contract	14	60	-76%
Average production cost per Hectolitre (KShs)	1000	925	+8%
Average cost of completing a purchase order in terms of stationary, printing etc (KShs)	0.85	2	-63%
Average period of having a purchase order fulfilled (days)	30	60	-50%

Source: Research data

Table 4.7 shows that before moving to a shared services strategy, about 27,000 purchase orders were raised annually, while after moving to a shared services strategy this reduced by 33% to 18,000 orders. The average number of days taken to conclude a contract reduced by an impressive 67% after SSC. The table also shows that the average production cost per hectolitre rose nominally by about 8% over the 8-year period. This is attributable largely to external factors such as the global economic meltdown, inflation, electricity and fuel costs etc all beyond the control of the company. Moving to a shared services environment also led to reduction in cost of completing a purchase order (stationery, printing etc), and period of having a purchase order fulfilled.

4.6 Qualitative Analysis

The top management at EABL indicated that before 2001 when the company started operating the shared services centre, procurement, HR management, inventory management and financial

reporting were operated as disparate competing entities. Comparing the period before and after moving to shared services, the top management indicated that:

- Procurement has become much more efficient and lean,
- HR management has become more responsive to the staff needs
- As a support department, IT management serves its clients much more faster,
- Pilferage, stockholding levels, and insurance costs have all come down, meaning that inventory management has improved.

The top management also noted that moving to a shared services strategy has led to cost reduction at EABL, noting that as a result of shared processes and knowledge, processes have become simpler, better and faster resulting into better visibility of the cost drivers. As a result it is much easier to apply curative measures on the overhead costs and management of the same.

On inventory management, the top management reported that just-in-time (JIT) procurement processes have become possible. Consequently despite recorded growth in turnover and production level, the stockholding level has had just a nominal growth resulting in reduction in stockholding costs. Besides, application of similar procedures and policies across the group has resulted in better stock control methods and hence reduced pilferage. Better controls and just-in-time procurement has led to reduced insurance costs and thus overall reduction in stockholding costs.

Another advantaged of SSC as reported by the top management is that as a result of group procurement, synergies have arisen particularly in the area of contract negotiations, resulting in higher discounts being negotiated. Besides, where each entity would have raised a separate order for each of the common raw material, this now is done just as one order. Thus procurement costs (the process, printing, staff numbers etc) have significantly come down.

The top management argued that the benefits of a shared services strategy are enormous ranging from running a much leaner and efficient organization, having a better visibility of the business processes, to simply being able to manage business overheads.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers a summary of the key study findings, conclusions and recommendations. The chapter also highlights some areas of further studies that could be conducted by researchers in the future.

5.2 Summary

The purpose of this study was to establish the extent to which shared services strategy has affected the Cost reduction efforts of East African Breweries Limited. Data for the study was collected from nine heads of the various departments at EABL using questionnaires and an interview with one representative of the top management. Given below are the key study findings.

The study established that in the year 2000 (before SSC), the organization raised an average of 200 manual journal vouchers per month, and this reduced to 60 in the year 2009 (after moving to a shared service environment). In year 2000, EABL processed an average of 1600 invoices, while in 2009 about 900 invoices were processed. Before moving to SSC, it took seven days on average to produce monthly accounts, but after moving to SSC it took about two days to achieve the same. An invoice was paid after about 90 days before moving to SSC, but this took about 60 days after moving to SSC. This shows that transactional processing improved significantly with the adoption of a shared services strategy.

In all the nine departments (IT, finance, procurement, HR, Kenya Demand, Kenya Supply, CGI, EAML, and UDV), year 2000 had more employees than year 2009. This is an indication that moving to a shared services strategy led to reduction in number of employees. The study further established that annual overheads for salaries and wages in all departments were lower in year 2009 than in 2000.

For all the departments, the costs incurred on overtime were higher in year 2000 (before SSC) than in year 2009 (after SSC). In total, overhead cost for year 2000 was KShs 184 million, as compared to KShs 156 million in 2009. Further, the costs incurred for conferences, training,

travelling, telephone, medical and stationery expenses were higher in 2000 than in 2009. This is an indication that moving to a shared services strategy led to a reduction on these costs.

All the nine (100%) departmental heads agreed that since moving to a shared services environment, inventory management had improved. Stockholding level was at KShs 2.4 billion in year 2000 and this rose to KShs 2.6 billion in year 2009, meaning that moving to a shared services strategy led to rise in stockholding level. After moving to a shared services strategy, stocktaking costs reduced from KShs 4.5 million in 2000 to 3 million in 2009. Stock loss due to pilferage reduced by KShs 10.5 million, loss due to stock obsolescence reduced by KShs 82 million, while insurance costs reduced by KShs 5 million between year 2000 (before SSC) and 2009 (after SSC).

On procurement costs, the study established that before moving to a shared services strategy, about 27,000 purchase orders were raised annually, while after moving to a shared services strategy this reduced to 18,000 orders. The average number of days taken to conclude a contract reduced from 60 days before SSC to 14 days after SSC. The table also shows that the average production cost per hectolitre rose by KShs 125.00. Moving to a shared services environment also led to reduction in cost of completing a purchase order (stationery, printing etc), and period of having a purchase order fulfilled.

5.3 Conclusion

Based on the findings presented above, it can be concluded that moving to a shared services environment has led to significant cost reduction efforts of East African Breweries Limited. Shared services led to reduction in procurement costs, reduction in employee headcount and overheads, improvement in inventory management, and reduction of transactional costs. Besides, business processes have been harmonised and EABL is able to present a common face to all its customers

5.4 Recommendations

EABL as part of the wider Diageo group should look further to consolidating the processes within the wider Diageo group.

Companies running their different functions as disparate competing entities should be encouraged to adopt shared services strategy to cut costs and operate more efficiently.

5.5 Suggestions for Further Research

Since this study was conducted in only one organization, findings may not be generalized to other organizations. It is therefore important to study other organizations employing the shared services strategy to find out the impact the strategy has had in the organizations.

A study on the challenges experienced by organizations in the process of moving to a shared services environment and the strategies employed to counter such challenges.

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TO WHOM IT MAY CONCERN

Date: October 23, 2009

I am a Master of Business Administration (MBA) student of the University of Nairobi.

As part of my coursework assessment, I am required to submit a research project on a management problem based on real problems facing firms in Kenya. My intended management research project proposal is on the effects of a shared services strategy on Cost reduction - A case study of East African Breweries Limited. I am requesting for your assistance in collecting data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to your organization on request.

Thank you,

Michael Mbugua

APPENDIX A

QUESTIONNAIRE FOR DEPARTMENTAL HEADS

PART A - Respondent Profile.

Name:.....

Designation:.....

1) Gender:

M		F	
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2) How long have you worked for EABL?

- a) Less than 1 year []
- b) 1 to 5 Years []
- c) Over 5 Years []

3) How long have you been in your current position?

- a) Less than 1 year []
- b) 1 to 5 Years []
- c) Over 5 Years []

4) How would you rate the following EABL processes on a scale of 1-4 (1-Excellent;2-Good;3-Fair;4-Poor)?

a) Transaction Processing

1	2	3	4
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b) Cost Control

1	2	3	4
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c) Inventory Control

1	2	3	4
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Part B: Study Objectives

I. Establish the Impact of operating a shared service centre on EABL's transaction processing costs

Item	Today –Year 2009	Year 2000
Average number of staff employed in your department.		
Average number of manual		

journal vouchers raised in a month		
Average number of invoices processed?		
Average number of days taken to produce monthly accounts		
Average number of days taken before an invoice is finally paid.		

How would you rate SSC in terms of:

i. Knowledge transfer and sharing

1	2	3	4
---	---	---	---

ii. Customer satisfaction (as in lack of complaints as a result of delayed processes)

1	2	3	4
---	---	---	---

II. Employee Headcount and associated overheads

Please indicate the levels of the following overhead accounts as they are today and as they were in year 2000

Item	Today –Year 2009	Year 2000
Salaries and wages.		
Overtime costs		
Conference costs		
Courses and training		
Traveling costs		
Telephone expenses		
Medical costs		
Stationery		

III. Inventory Management

Item	Today –Year 2009	Year 2000
Stockholding Level		
Stocktaking costs		
Stock loss due to pilferage		
Stock loss due to stock obsolescence		
Insurance costs for stocks		

IV. Procurement costs

Item	Today –Year 2009	Year 2000
Average number of purchase orders raised		
Average number of days taken to conclude a contract		
Average production cost per Hectolitre		
Average cost of completing a purchase order in terms of stationary, printing etc		
Average period of having a purchase order fulfilled		

What synergies would you say arise as a result of bulk/shared procurement process for EABL group?.....

.....

.....

.....

.....

.....

APPENDIX B

INTERVIEW GUIDE FOR TOP MANAGEMENT

NAME:.....

DESIGNATION:.....

1. When did EABL start operating the shared services centre?
2. prior to SSC, how was EABL operating her:
 - a. Procurement
 - b. HR management
 - c. Inventory management
 - d. Financial Reporting
3. How do you compare the period before and after moving to shared services in terms of performance on:
 - a. Procurement
 - b. HR management
 - c. IT management
 - d. Inventory management
4. In which ways has moving to a shared services strategy affected Cost reduction efforts of EABL?
5. In which ways has shared service strategy led to improvement in inventory management?
6. To what extent has shared service strategy at EABL led to reduction in procurement costs?
7. If you were to do it allover again would you still adopt an SSC model? Would you recommend it to executives of other companies?