Shared service centres and management control
structure change: exploring the scope and
limitations of a transaction cost economics
approach

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Abstract

**Purpose** - The paper aims to explore management control structure change related to the development of an SSC.

**Design/methodology/approach** – The paper explores a transaction costs economics perspective (TCE-perspective) on management control structure change related to the development of an SSC. Particularly, it explores and challenges the scope of such a perspective both in terms of contents (i.e. the nature of management control related to the dimensions of transactions) and process (i.e. the way change is effectuated). It does so by theorizing as well as empirically investigating management control structure change through a case study at PCM (a Dutch newspaper publisher)

**Findings** – Our theoretical analysis broadens existing frameworks of management control structures by particularly pointing to the possibility of including governance structures for internal transactions and exit threats (connected to a market mechanism) in the management control structure of an organization. However, our empirical investigations challenge the broader framework: the possibility of an exit threat was not explicitly considered by top management (‘the designer’ of management control). More profoundly, empirical investigations challenge the calculative approach of the change and show that the change in management control is to a large extent a drifting process.

**Research limitations/implications** - An instrumental calculative approach towards SSC-related management control change should be complemented with a relational perspective on such change, in order to further explore its drifting character.

**Practical implications** – A transaction costs economics approach to change in management control might provide practitioners with insights into the efficiency of specific management control structures.

**Originality/value** - The paper contributes to the extant knowledge by both exploring and challenging a TCE-perspective on SSC-related changes in management control.

**Keywords** management control, exit threat, shared service centre, transaction cost economics

**Paper type** Case study
1. Introduction

An organizational construct that became popular during the mid nineties is that of a shared service centre (SSC) in which non-core activities of business units are concentrated. These activities thus become services that are delivered to the business units by a service unit. In this paper the impact of the development of an SSC on the management control structure in an organization is examined. The focus is on why and how the management control structure within a specific organization changes as a consequence of a further development of an SSC.

As the development of an SSC is accompanied by the creation of horizontal intra-firm client-supplier relationships it connects the concept of a management control structure to that of a governance structure. The latter is a broader concept than the former, because it starts from the position of rather autonomous human actors instead of an organization, and because it explicitly takes divergence of economic interests between human actors into account (e.g., Nooteboom, 2004; Van der Meer-Kooistra and Scapens, 2008). A theory used to study governance structures is transaction cost economics (TCE). It views a governance structure as an “institutional framework within which transactions are negotiated and executed” (Williamson, 1979, p. 239), thus placing ‘transactions’ at the basis of the analysis. Such transactions concern goods or services that can be transferred across a technologically separable interface and that may be governed by a market, a hierarchy or a hybrid form between a market and a hierarchy. Markets, hierarchies and hybrids are thus conceived of as alternative generic governance structures, each having its own transaction costs. In a specific situation, a governance structure is considered to be the result of a purposeful choice by rational human actors who are efficiency-seeking (Vosselman and Van der Meer-Kooistra, 2006).

Our analysis starts from the position of an existing organization, where in TCE-terms transactions are governed by a hierarchy. One of the key features of a hierarchy is that it includes management control aiming at influencing members of the organization to implement the organization’s strategy (Anthony, 1988; Vosselman, 1995). Management control is an important feature of a hierarchy and includes the evaluation and rewarding of performance (e.g. Zimmerman, 2011).
In this paper we demonstrate how the development of an SSC opens up possibilities to influence the behaviour of managers by introducing market-like controls. By doing this the hierarchy is implicitly pulled into the direction of a hybrid governance structure, thereby realigning the notion of management control with that of governance. Because the introduction of an SSC opens up possibilities for the blurring of organizational boundaries, it calls for a broader concept of management control that includes both hierarchical and market mechanisms. Based on TCE-reasoning we theorize that the blurring of boundaries and the introduction of market-like controls depends on certain dimensions of the transactions at hand. We investigate whether our theorizing is consistent with the developments that emerge in a newspaper publisher (PCM). This enables us to gain a deeper insight in the scope of TCE in explaining management control change and governance change related to the development of an SSC. In order to further increase our insights in the scope of TCE for understanding management control change, we also investigate whether the development in management control is indeed the result of purposive choice and (re)design. We relate the presence or absence of purposive choice behaviour to the presence or absence of ‘drifting’ (Andon et al., 2007; Quattrone and Hopper, 2001) in the development of management control.

The paper’s main contribution is twofold. First, in order to fully accommodate for management control of an SSC the paper aims to make a case for a broader concept of management control. Such concept allows for the incorporation of a market mechanism in influencing SSC managers, thus extending extant management control frameworks as for instance developed by Anthony (1965, 1988), Zimmerman (2011) and Simons (1995) and further contributing to a line of research that was set out by Speklé (2001) and Vosselman (2002). Second, it explores the scope of TCE in explaining changes in management control that are related to the development of an SSC, both in terms of contents (i.e. the nature of management control related to the dimensions of transactions) and process (i.e. the way change is effectuated). With regard to contents, this paper particularly builds on the horizontalization of management control as explained in the context of facilities services in a university (Vosselman, 2002). With regard to process, it explores the extent to which change in the management control structure is a simple result of a top management decision followed by guided change. In particular, it
questions whether the change process is unproblematic and linear, thereby linking up with extant literature on change as a drift (Andon et al., 2007; Quattrone and Hopper, 2001).

Thus, the paper’s overall research question is how management control structure change relates to the development of an SSC. This question has theoretical as well as empirical aspects. The theoretical aspects addressed in this paper are connected with the TCE-perspective on alternative management control structures and the factors that influence an optimal choice between the alternatives, as well as theoretical perspectives on the processes of change. The empirical aspects concern the degree to which the calculative choice perspective that TCE suggests is recognizable in practice and the real-life processes through which a change in management control is effectuated. In order to obtain empirical insights into the research issues a case study is performed. We deliberately opted for a case (PCM) where top management adopted the construct of an SSC, but where the precise nature and degree of concentration of services and corresponding management control structures were still in the making. The paper demonstrates how the development of the SSC is linked with the horizontalization of management control, and with both hierarchical and market controls. The case study proves to challenge the instrumental efficiency perspective inherent in the TCE approach and it suggests how an efficiency perspective may be bridged with a relational perspective that reveals the drifting character of the change process.

The remainder of this paper is organized as follows. Subsequently, section 2 and 3 address the nature of SSCs (section 2), and both the distinctiveness and interconnectedness of governance and management control (section 3). In section 4, a TCE-based model on management control change related to the development of an SSC is presented. Section 5 challenges a TCE-approach to management control change and discusses the rather unproblematic nature of change as it is conceptualised in TCE. It presents alternative approaches that for instance take into account the potential drifting character of change in management control. In section 6 we account for our research methods and start with a description of the case company in section 7; a Dutch newspaper publisher called PCM, that faces significant changes in its management control structure and the governance of services. Section 8 confronts the management control change with
our TCE analysis. Section 9 contains overall conclusions and interprets and discusses the findings of the study against the background of our theorizing.

2. The nature of Shared Service Centres

One of the key concepts of this paper is the SSC. In this section we explain what an SSC is and how it is related to governance and management control.

An SSC is a rather independent organizational unit that provides services to various other organizational units. This concept solves the problem that each business unit is engaged in tasks that do not belong to its core business, such as HRM, IT and Accounting and Finance. Because of improved ICT, it is now possible to concentrate these kinds of tasks in a separate service unit and to realize economies of scale. By introducing an SSC, the benefits of a divisional business organization are kept, but without the cost disadvantages (Strikwerda, 2005). Non-commercial organizations, such as ministries, municipalities, hospitals and universities, have also started to embrace the concept and set up SSCs for supporting tasks (Janssen and Joha, 2006).

The main motives to establish an SSC are cost reductions and service improvement (Bergeron, 2003; Fahy et al., 2002; Janssen and Joha, 2006; Strikwerda, 2005). Other reasons can be: focus on core business, more control and transparency of costs, better performance of staff, elimination of redundant functions (Janssen and Joha, 2006). Also, IT developments can make market transactions more efficient and can develop SSCs into an essential part of the infrastructure of businesses (Strikwerda, 2005).

Case studies conducted by Strikwerda (2005) show that there are many ways organizations can adapt their organizational structures to the construct of an SSC and that there are different types of SSCs. For instance, as Fahy et al. (2002) describe for financial shared services, dislocated service staff may be concentrated in a single low-cost tax location somewhere in the world. But also smaller organizations can just bring services together in a single service department providing supporting services to several other internal departments. Strikwerda distinguishes six different types of SSC’s that range
from SSC’s in the form of a central staff department to Business Process Outsourcing (Strikwerda, 2005, p.75).

Jansen and Joha (2006) use a more narrow definition and make a strict distinction between a central staff department, an SSC and outsourcing. A central staff department (centralized model) provides top management with relatively much influence and does not entail the creation of internal client-supplier relationships, whereas outsourcing implies a client-supplier relationship between business units and external market parties based on formal contracts (e.g., Bergeron, 2003). In practice, the choice for a complete outsourcing of a service may very well be a final stage in a process. The process may start with the introduction of an SSC with internal client-supplier relationships, after which an external buy-out may take place. Eventually, business units may get the freedom to structurally opt for alternative suppliers. The latter resembles the free market situation (Koene and Van der Pijl, 2005). An SSC, however, is standing close to the internal customers (the business units); the internal customers have a degree of ownership over the service. Based on Janssen en Joha (2006, p.103) this distinction can be depicted as in figure 1. The dotted line defines the boundary of the organization at large.

[Take in figure 1]

By creating lateral internal client-supplier relationships top management horizontalises management control. As a consequence of such horizontalizing, the task of influencing SSC-management so that the SSC performs effectively and efficiently is, at least partly, delegated to business unit managers. This has the potential to economize on the transaction costs connected to the governance structure of the hierarchy. It even opens up possibilities to introduce a market mechanism in the management control of the organization, thus moving into the direction of a governance structure that is a hybrid between hierarchy and market.
3. Shared Service Centres, governance and management control

3.1 Governance and management control

As we stated in the introductory session, the concepts of governance and management control should be treated distinctively. The starting point of the analysis’ is the transaction. Governance is related to transactions and is a generic solution meant for coping with coordination requirements and appropriation concerns (Dekker, 2004; Gulati and Singh, 1998), while management control is related to one of the available generic solutions: a hierarchy. Within the hierarchy (the organization) management control copes with more specific coordination problems and motivational problems.

Governance structures are directly related to the notion that parties enter into transactions in pursuit of self-interest. As interests diverge, in the course of the relationship opportunistic behaviour may occur; a party seeks self-interest, sometimes even at the expense of other parties. Parties can make promises, knowing that they will break them when the benefits exceed the costs. Out of the pursuit of self-interest they may even be willing to lie and cheat and harm the other. Against this background formal governance structures act as vehicles for safeguarding and as a deterrence, thus (partly) compensating for potential opportunistic behaviour. A governance structure includes controls that limit the range of parties’ actions and entail monitoring, sanctioning and incentivizing. They can take different forms, such as responsibility accounting, performance management systems, financial incentive systems and open book accounting (Dekker, 2004; Van der Meer-Kooistra and Vosselman, 2000).

One of the possible governance structures as generic solutions for coping with coordination requirements and appropriation concerns is the hierarchy (or unified governance). Management control structures have traditionally been located within such hierarchy (or ‘unified governance’). Within the hierarchy there is decentralisation of decision rights and responsibilities, a performance management system and a (financial) incentive system. To organizational economists, this ‘stool with three legs’ (Zimmerman, 2011) reflects the management control structure. This structure aims to influence managers at various levels of the organization to reach the organization’s objectives in an
effective and efficient way. The ‘stool’ is a management control structure that accommodates the process of management control as defined by the Godfather of management control, Robert Anthony (1965; 1988). He defines management control as “a process by which managers influence other members of the organization to implement the organization’s strategies” (Anthony and Govindarajan, 2004, p. 7) and views responsibility accounting to be at its core. Simons (1995), however, has convincingly demonstrated that influencing the behaviour of managers and other members of the organization may also take place through interactive face to face meetings that discuss potential strategic risks and opportunities, and through boundary systems and belief systems that respectively restrict and inspire certain behaviour.

Management control as described above is subordinate to governance in the sense that it only comes in place after a choice for a hierarchy as a generic governance structure is made. The choice for an organization in the sense of a hierarchy, is a generic response to coordination requirements and appropriation concerns regarding transactions. The organization as a hierarchy (at large) itself is a governance structure. As such, it is an alternative to a market, or to a hybrid form between a market and a hierarchy. Conversely, management control structures design traditionally takes place within the contours of a hierarchy; the choice for a hierarchy precedes the design or choice of management control structures. Conversely, the ‘stool with three legs’ is a subsequent economic design within a hierarchy.
3.2 Management control and governance

Management control in a hierarchy is (re)aligned with governance of transactions whenever top management decides to create internal client-supplier relationships. These relationships concern transactions of goods or services that take place within the broader governance structure of the hierarchy. This is for instance the case when a SSC is instituted in the organization as an internal service unit that considers the business units to be its clients. Provided that the proper incentives are in place, business unit managers effectively exercise the management control of the service unit (the SSC) that formerly was a unit controlled by top management (as a staff department) or that formerly was non-existent as a separate unit because the business units performed the services themselves. As long as the transactions remain strictly within the boundaries of the hierarchy (the organization at large), to exercise management control over the service unit, business unit management has to be incentivized by management controls that are in place between top management and business unit management. The management control they exercise over the SSC may then be instituted in a governance structure that governs the internal transactions. Such a governance structure may take the form of an internal contract or a service level agreement. Here, the governance structure is subordinate to an overall management control structure in the organization at large, that, in turn, is subordinate to the hierarchy. However, the hierarchy as a generic governance structure may move further into the direction of a hybrid between a hierarchy and a market whenever top management decides that business unit management is also allowed to buy services from external parties and/or that SSC-management is allowed to sell to external clients. To be sure, this would also be a design choice in the management control structure of the hierarchy by top management. At core, top management then decides to introduce a market mechanism in the management control of the SSC, thus creating more distance for itself towards the SSC and putting itself even more in a position of exercising ‘arms length control’ (a control archetype distinguished by Speklé, 2001). This implies the introduction of an exit threat in the management control of the service unit. Again, provided that the right incentives for business unit managers are in place, whenever the price-quality ratio of the services is below the expectations of the internal clients, the
SSC- management runs the risk that the business unit managers decide to buy from an outside company. Business units thus put market pressure on SSC-management. As soon as business unit managers decide to opt for external transactions, they are in need of negotiating a contract (a governance structure) with the external supplier. This form of market control is, however, still subordinate to the management control system of the organization the business unit manager belong to.

3.3 Subsequent theoretical and empirical questions

We may conclude that the development of an SSC within an organization opens up further possibilities for top management to economize on management control by delegating control activities to business units. Business unit managers then feel the need to draw up governance structures for the transactions with the SSC, structures that are subordinate to the management control system of the organization at large. In addition to the incentives towards business unit managers as incorporated in the management control structures between top management and business unit managers, for management control purposes towards SSC-management top management may decide to draw upon a market mechanism (particularly the exit threat). Governance structures and exit threats are then subordinate to the management control system of the organization at large.

As a consequence, interesting questions emerge. In the first place there is a subsequent theoretical question: in what circumstances may we expect top management to make a decision to introduce such exit threats? This is a question that, drawing on TCE-reasoning, is answered in the next section. But there also are interesting empirical questions. In practice, is top management really purposefully considering the alternatives in the management control structure we have outlined above? Is an SSC with captive buying and selling (implying internal transactions without exit threats) really an explicit alternative to a staff department, or to a deconcentration of services in business units? And is an SSC with free buying and selling (implying internal transactions with exit threats) really an explicit alternative to an SSC with captive buying and selling? If yes, are top management’s considerations compatible with TCE-reasoning? If no, how does management control structure change relate to the development of an SSC then?
In order to get some first insights into these questions, the results of a case study will be presented in section 5.

4. Changes in the management control structure for SSCs: a TCE approach

As was explained above, a management control structure for an SSC includes the governance of transactions, particularly internal transactions between business units and the SSC. This opens up possibilities to further draw upon TCE in explaining management control structure change related to the development of an SSC. In extant control research, TCE as to a large extent developed by Williamson (1979, 1993a, 1996, 2000, 2002) has particularly been informative in the area of interfirm transactions, that is transactions between separate firms. It offers an appropriate base for research into governance structure choice in such interfirm relations (e.g., Caglio and Ditillo, 2008; Cäker, 2008; Cuganesan, 2007; Dekker, 2004; Hakansson and Lind, 2004; Jacobsen, 2010; Lamminmaki, 2005; 2008; Langfield-Smith and Smith, 2003; Meira et al., 2010; Nicholson et al., 2006; Ryan and Delgado-Sanchez, 2010; Van der Meer-Kooistra and Vosselman, 2000; 2006). However, it was also drawn upon for studies regarding governance structure choices within organizations (Speklé, 2001; Speklé et al., 2007; Vosselman, 2002). In both intrafirm and interfirm transactional relationships there are coordination requirements, and moreover, depending on the degree of autonomy and profit responsibility of the units, appropriation concerns may rise. TCE offers an ex ante ‘calculative choice’ perspective on the structuring of governance in such transactional relationships. It suggests that the relationships are governed by contracts incorporating control structures (e.g. performance management, incentives, open book accounting) that provide solutions for coordination problems and anticipated opportunism.

An essential management control choice regarding the governance of intrafirm transactional relationships regards the possible introduction of a market mechanism in the form of an exit threat. Such a threat has the power to discipline the internal supplier. The credibility of an exit threat increases as there are more potential other market parties available where business managers could switch to. Exit threats are therefore enacted as a
consequence of competitive pressures in the market in which the transactional relations are embedded. The stronger the competition, the more switching possibilities a party has. Also in case of a decision that goes beyond the creation of internal transactions, namely a top management decision to structurally outsource the services to external parties, the effectiveness of market-based controls (exit threats) increases as there are more potential alternative suppliers business unit managers could switch to. Hence, a choice by top management for free buying and selling or for structural external outsourcing gets more effective (and efficient) as the chances of a so-called small number situation decrease. If there is a situation of a small number of competitors, parties become vulnerable for opportunistic behaviour, because they get dependent on each other. They will try and compensate for such vulnerability by writing contracts incorporating safeguards and/or by staying within the hierarchy.

Consistent with Vosselmann’s (2002; see table 2, p. 144) TCE-reasoning we assume that choices in management control structures depend on dimensions of transactions. Following Williamson (1979) three of such dimensions can be distinguished: the nature of the services, the frequency and volume of the transactions, and the uncertainty and complexity of the transactions. More concrete, on the basis of TCE we claim that top management’s choices for both the creation of lateral transactions between the SSC and business units and the introduction of a market mechanism (exit threats) depend on the nature of the transactions, the frequency and volume of the transactions and the uncertainty and complexity regarding the transactions. Our model is depicted in figure 2:

First, the degree of standardisation is a measure of the nature of the transactions (the first dimension). The degree of standardization of transactions is important because it heavily influences both the efficiency of the distance between the providers and the users of services, and the degree to which a market mechanism in transactions might be efficient. A shorter distance becomes more efficient as the services get more specialised (i.e. more idiosyncratic) because the knowledge required for their provision is more strongly located in the business unit in need of such services, thus making the alternative of
deconcentration of service providing in the business unit more efficient. So, for specialised and idiosyncratic services the efficient choice will be deconcentration of services. This is particularly a valid and efficient option if the business unit has a recurring and high volume need for the services. Where the need for highly specialised services is occasional, we claim that the choice for either deconcentration or a distanced service provision without a market mechanism (an SSC with captive buying and selling) depends on the level of uncertainty and complexity, the third dimension of the transactions. As complexity and uncertainty rise, the choice for deconcentration will become more efficient because of lower information asymmetry.

Conversely, a longer distance between service providers and users becomes efficient as services get more standardised. Concentration of services in an SSC with accompanying transactions with business units then, is not only efficient from the perspective of economies of scale, but also from a governance (and, thus, transaction costs) point of view. The more standardised the services are, the more an introduction of an exit threat (with probably future external transactions) gets efficient because there will be less problems with ‘small numbers’ and, thus, there will be switching possibilities. It is proposed, then, that standardised services (that will automatically be relatively certain and simple), regardless of their volume/frequency, will be concentrated in an SSC and that the internal transactions will also be governed by market-like controls (exit threats). In other words: an SSC with free buying and selling is the efficient option then. We propose that this is also true for more customized services that are only needed at an occasional basis, because the vulnerability to potential opportunistic behaviour is relatively small, and does not outweigh the potential economies of scale connected to a concentration of service provision. As the frequency and volume of customized services rise, the vulnerability to opportunistic behaviour of potential external suppliers may rise, thus making the option for an SSC with captive buying and selling more efficient. In case of a recurring customized need for services that are highly complex and/or uncertain, top management may even opt for deconcentration in the business units.
5. The limitations of a TCE-approach to management control structure change

A TCE approach perceives change in itself as relatively unproblematic (e.g., Vosselman and Van der Meer-Kooistra, 2006). Essentially, change is viewed as the result of a decision taken by a farsighted individual. The idea lying behind a TCE-approach to management control structure change is that a rational top manager takes a decision on an efficient change in the structure and that the decision is then implemented almost automatically. At best, change is conceived of as guided action based on farsighted decision making. The notion of ‘farsightedness’ enables access to “one of the most important ‘tricks’ in the economist’s bag, namely the assumption that economic actors have the ability to look ahead, to discern problems and prospects, and factor these back into organizational/ contractual design” (Williamson, 1993b, p. 129).

Critiques have challenged the notion of farsightedness in two ways. First, it is argued how both cognitive and institutional constraints impact on farsighted decision making. For instance, Roberts and Greenwood (1997) integrate a transaction cost economics approach and institutional approaches into a unified constrained-efficiency framework for the adoption of certain management control structures. They state that, indeed, decision makers are driven by efficiency-seeking behaviour, forced by competition or institutional pressure of powerful actors. However, the cognitive and institutional constraints often result in design choices that are not efficient. In some cases not all design choices regarding management control structures are taken in consideration, while in yet other cases a management control structure is simply copied for legitimacy reasons. Second, the very idea of farsighted decision making and the subsequent change as a more or less automatically guided consequence of such decision making (the instrumental efficiency perspective) is challenged.

According to Quattrone and Hopper change has the characteristics of a ‘drift’, it is ‘an incomplete attempt of organizing’ (Quattrone and Hopper, 2001, p. 482). The notion of a drift reflects that in the process of reaching desired ends the decision maker is not able to control all contextual factors. They contend that entities (such as for instance management control structures) attain their form ‘performatively’ in, by and through ties
of varying strength and durability in networks of human and non-human elements” (Law, 1999, p. 278). Andon, Baxter and Chua (2007) extend the notion of ‘drifting’ to ‘relational drifting’. By focusing on ‘interconnectedness’ of (human and non-human) entities the relational quality of a drift is stressed. Also Burns and Scapens (2000) state that conventional economics-based approaches such as TCE-approaches do not study the real processes of change, but focus on equilibrium and optimal solutions. They argue that although such approaches might be useful in analyzing why a certain management control structure is rational, they will not explain the real-life processes that bring about this structure. However, we contend that by analysing why a certain management control is rational, a TCE-approach has the potential to guide management in rational behaviour.

Another critique of TCE is the absence of the dimension of trust. According to Williamson (1993a, 1996) the choice for a governance structure is based on calculated risks and trust does not add anything to that analysis. However, other authors argue that trust should play an important role in theorizing about governance and management control (De Man and Roijakkers, 2009; Nooteboom, 1996, 2004; Van der Meer-Kooistra and Scapens, 2008; Van der Meer-Kooistra and Vosselman, 2000; Vosselman and Van der Meer-Kooistra, 2006).

6. Research methods

In order to get a deeper insight in the change of management control structures related to the development of an SSC we conducted a case study. We aimed at getting answers to the empirical questions we formulated in section 3. Is top management really purposefully considering the alternatives in the management control structure we have outlined above? Is the possible introduction of a market mechanism (an exit threat) really an option for top management, does it really consider this? If yes, is the reasoning consistent with the instrumental efficiency perspective as it stems from TCE? And is the change the result of a guided process, or is it a process that may be characterised as (relational) drifting? Or has it perhaps characteristics of both a guided process and a drift?
We did not intend to come up with generalised conclusions, but sought to get a first empirical insight in management control structure change related to the development of an SSC. We tried to be clear about the research question at the outset, while recognizing that these questions can only be tentative at this stage of enquiry (Eisenhardt, 1989).

Data were collected using a qualitative research method. This method is appropriate since we want to know how and why a certain management control structure comes into place. Data consist of descriptions and accounts provided by participants in the research site and is collected over a one year period. In this way it is possible to make rich descriptions of the change process at our case company (Baarda et al., 2005; Miles and Huberman, 1994; Silverman, 2005).

The case study started in October 2007 and concerned PCM. This organization was an appropriate site for the study since they were in the middle of a reorganisation towards decentralization and a rearrangement of their supporting services. Furthermore, because of family ties of a researcher with one of the participants, accessibility was good.

PCM is a publisher of daily newspapers and of books. The financial data and headcount over 2006, 2007 and 2008 are depicted in table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (x €1,000)</th>
<th>Net Profit (x €1,000)</th>
<th>Employees (fte)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>670,989</td>
<td>6,369</td>
<td>2,907</td>
</tr>
<tr>
<td>2007</td>
<td>644,287</td>
<td>23,991</td>
<td>2,645</td>
</tr>
<tr>
<td>2008</td>
<td>629,499</td>
<td>(180,041)</td>
<td>2,423</td>
</tr>
</tbody>
</table>

Table 1. Data PCM Publishers

In the case study we focussed on the main newspaper divisions of PCM, i.e. de Volkskrant, NRC Media (with the papers NRC-Handelsblad and nrc.next) and Trouw, and on the SSC division called PCM-Media. The SSC is responsible for the

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2 After we finished our case study, many things changed at PCM. In the spring of 2009 PCM was sold to a Belgian publisher called De Persgroep. PCM continued as ‘De Persgroep Nederland’ and is the largest
advertisements revenues. Each newspaper is processed in a separate business unit. The core activities of the business units are the gathering and reporting of news, and the selling of the newspaper. The most important sources of income are the revenues from selling the paper, and the revenues from selling advertisement space.

From October 2007 till November 2008, data was collected. The researchers started with a meeting with the CEO of PCM and the director of PCM-Media (the SSC). After that ten semi-structured interviews were conducted with several people, among others the CEO, the financial director, two successive directors of PCM Media, publishers of the newspapers and other persons who were closely involved with the change in the management control structure (see Appendix 1). In addition, many documents were collected, such as annual reports and other financial data, service level agreements, emails, minutes of meetings and proceedings of the new governance structure and new management regulations. We were fortunate to have access to some highly confidential documents.

The interviews were centred around issues concerning changes in the governance regarding advertisements within PCM. The open questions particularly (but not exclusively) focused on ‘in house’-activities (i.e. within the business units) and (internal) transactions and on the way these activities and transactions were controlled. We investigated challenges and problems and solutions regarding the governance of advertisements and focused on the role of the interviewees. We deliberate did not use TCE terminology, to avoid triggering them to ex post rationalize their choices in this economic frame. The aim was to explore if in the reasoning of the interviewees TCE reasoning was used.

The interviews lasted approximately between 40 and 90 minutes and have been recorded and completely transcribed³. We used ATLAS.ti for coding and analyzing the interviews and documents. The reading of relevant theoretical work, discussions with colleagues, several presentations of earlier drafts of this paper and feedback of reviewers have produced the paper in its present form.

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³ The quotes are translated from Dutch
7. Case narrative: changing the management control structure at PCM

The desire to share services is the main reason why PCM was founded. In 1968, two newspapers in Amsterdam thought it was efficient to share their presses. In this way, they thought that they could make a more adequate use of the presses’ capacity. The ‘Press Combination’ was born. After purchasing the publisher ‘Meulenhoff’ in 1994, the organization continued under the name PCM. Since its foundation, more and more services got shared, e.g. distribution, graphics and finally advertisements sales. The advertisements sales organisation is now a separate service unit, called PCM-Media. PCM-Media is the focal unit of our analysis.

In the year 2007, a committee consisting of selected executives prepared a plan for a further decentralization within PCM. An important reason for this was that due to increasing competition by other media such as television and internet, revenues from advertisements decreased. Business unit management was thus faced with a decrease in profits and felt dissatisfied with this. Business unit management was of the opinion that PCM-Media was underperforming. Moreover, they felt that the board of PCM was failing in their responsibilities:

When I go back in the past, I see that cooperation between the newspaper business units and PCM-Media was far from optimal. I think that this was partly due to PCM-Media’s assignment. It was able to operate independent from the business units. There wasn’t much accountability. During three years there was no accountability at all. You could see many frictions between the business units and PCM-Media, because when sales dropped they immediately blamed PCM-Media. But the real source was the lack of well prepared plans. How much effort can we expect and at which clients? How are we going to do that and also how are we being held accountable; what was the performance in comparison with the original plans? (CEO)

The old structure can be depicted as in figure 3.
In this structure the newspapers operated as departments that were only responsible for making the newspaper and for consumer marketing. Other business processes such as sales, HRM and strategic planning were centrally controlled. The sale of advertisements was organized in a separate department (PCM-Media), that, from the point of view of the newspaper business units, was seen as a centrally controlled unit rather than as a business partner that delivered services (as an SSC would do). Apparently, based on the definition of Jansen & Joha (2006) business unit management perceived PCM-Media to be a central department (see figure 1).

The main reason to change this structure into the direction of an SSC was that the executives of the newspapers were held responsible for their profits, but couldn’t control the advertisements revenues and costs. PCM-Media operated very independently and cooperation with the newspapers was rather poor:

It was captive buying and we did not had anything to say. When you came with a question, the SSC simply refused to answer that. They kept the ranks closed and you had to break through those ranks. (Publisher)

The key players within the newspaper divisions were strong enough to stand on their own feet. They didn’t need an extra hierarchical layer between them and the board. This change was a natural move in the direction the organization already operated. (Head of change committee)

The newspaper executives wanted their profits of course to be as high as possible and, therefore, aimed at an increase of their parts of the revenues gathered by PCM-Media:

I don’t want to share with the other paper. I want more than them! (Publisher)

For that reason, PCM-Media and the newspapers tried to make budget agreements regarding the revenues at the beginning of the year. However, such agreements were in fact only to a limited extent brought forward. And even when management succeeded in making an agreement, there was no instrument for the business units to enforce the agreements. Moreover, the costs PCM-Media charged to the business units were not negotiated, but were simply calculated and allocated by the financial department of PCM. This increased the perception that PCM-Media was just a central department; there was
definitely no clear client-supplier relationship between the newspaper business units and PCM-Media. Service Level Agreements (SLA’s) were made, but were of no significance to the players in the field:

In the past we also made SLA’s, but we didn’t do much with them. They remained in the drawer. We have the intention to change that in 2008 and onwards, and make better business agreements. (Director SSC)

Under the old management control structure, PCM-Media was responsible to top management for everything that was connected to advertisements sales; from making contacts with clients to back office activities. Advertisements space was sold via media agencies, or directly to organizations. The back office was responsible for invoicing and other administrative services.

The relation between the various constituencies can be depicted as in figure 4.

[Take in Figure 4]

The publishers were not happy with this arrangement. They agreed that PCM-Media could sell advertisements to big clients, but the overall feeling with the newspaper managers was that a direct and personal approach of the smaller clients could generate more sales for their divisions. Another problem was the feeling that they didn’t receive complete information from PCM-Media. They felt a need for more transparency:

We as publishers didn’t have direct contacts with the market. PCM-media was in between as an intermediary. And that’s okay as long as the information coming from the marked is correct and accurate, but that was definitely not the case. (Publisher)

Why can’t I see the books of PCM-Media? That is not possible. Don’t they trust me? The answer is no. (Publisher)

Even the director of PCM-Media understood that this structure was probably not ideal and he acknowledged that one couldn’t ignore the opinions of the publishers. However, he still believed that is was best for the clients and for the profitability of his unit to keep all advertisement sales centralized:
A disadvantage of this model, at least that is the perception, is that you only approach the big clients and that you forget about the small clients who are specifically interested in one of the newspapers. [...] But if I had to decide, I would choose for a centralized model. (Director SSC)

On the basis of the committee’s advice a change process towards a new structure in which functional tasks and services were de-concentrated in the newspaper business units was initiated. This change process was not always easy. The project leader (the change agent) communicated about this:

It is changing, but some time ago we hired a consulting agency and they spoke with all the big chiefs and wrote: ‘PCM bashing is a sport, even now’. (Head of change committee)

This quote indicates that PCM had a culture of resistance to everything that came from PCM’s board. Also the phrase “the ministry of newspapers” was often heard during the interviews.

Although the change process is still unfolding, at the end of 2008 the contours of a more permanent structure became visible. The organizational layer ‘Newspapers’ was removed and the newspaper units were transformed from mere departments to autonomous units with profit and loss responsibilities. The new structure is reflected in figure 5.

[Take in Figure 5]

In this new structure PCM is functioning as a financial holding, further distancing itself from the activities of the newspaper divisions (business units). The business units are controlled by a two-headed management, a publisher and an editor. The publisher is responsible for the business decisions of the business unit. The relationship between the business units and PCM Media also changed. The business units are now unmistakably responsible for profits and gained more freedom to realize their ambitions. This opened up the possibility to carry out advertisement sales themselves and to develop a better and more equal business relation with PCM-Media:
This eventually led to a new structure of advertisement sales, enabling business unit management to indeed accomplish a part of the sales activities themselves. In the PCM-strategic plan for 2008 it is described as follows:

Advertisements sales will become a commercial core activity for the business units, instead of a supportive activity, and the organization has to be structured accordingly. The director/publisher is responsible for advertisements sales in a model that is based on autonomy for the separate business units. (Strategic plan 2008)

The newspaper business units and PCM-Media made a classification in their advertising clients’ data base. In 2008’s SLA it was agreed that PCM-Media would stay responsible for the largest part of sales, namely the sales to the 1,500 biggest clients of PCM. It was agreed that the remaining smaller clients could also be approached by the business units. The future aim and wish of the business units is to reduce the exclusive sales rights of PCM-Media to the two hundred biggest clients. However, PCM-Media will continue to perform the back office activities for all business units. These activities inter alia include accounting, billing and page layout. The business units will establish ‘unit-sales’ teams who will approach the other small customers themselves. This will, according to business unit management, create an improved alignment between the themes in their newspapers and the interests of the clients:

We have our own story and are better equipped to sell that. Also towards the business market, so they understand what unique market share they purchase, because that is what counts. You reach a unique audience. (Publisher)

The new structure can be depicted as follows (figure 6).

[Take in Figure 6]

The SLA-terms include a clause that the business units are not allowed to outsource the advertisements sales to outside parties. So, at least for the short term, there is captive buying and selling. From PCM’s strategic plan it is not clear whether this will continue to be the case in the future. Quotes, such as “it is not specifically forbidden” (Publisher),
“maybe in the future” or “we did not look into that yet” (CEO), indicate that it is not an option at the moment. For the moment it proves that the business units have no other choice than to rely on PCM-Media for the ‘big clients’ advertisements sales and back office activities. In turn, the director of PCM-Media is not free to work for other external parties. But this was not a problem as ‘going outside’ was not really an issue for the publishers. They mainly wanted to have a completely free choice in deciding which client they would approach themselves. So, difficult discussions started about the identities of the ‘big’ clients (who were they?):

At some point the publishers said: ‘We don’t want a restriction in accounts, all accounts are free, except maybe the biggest 50 or 100 accounts we all agree on. Those are for PCM-Media. The rest is for us. (Head of change committee)

The director of PCM-Media thought this was a very bad idea:

The big risk is that five different account managers are chasing the same client. You will get a lot of internal competition and you need a lot more coordination. (Director SSC)

Finally, all parties agreed on a list of 200 big clients, who were exclusively for PCM-Media. These clients represents approximately 80% of sales. The other, approximately 13,000 clients can be approached by all parties. The new director of PCM-Media foresees a lot of problems:

No one is coordinating this, so this could become a battlefield. Our biggest challenge to manage this as PCM-Media. A lot of new sales people are hired as a result of this change, but it is not really generating more revenues. (New director SSC)

In sum we may conclude that PCM’s management control structure changed from concentrating the sales of advertisements in a central department with relatively little influence by internal customers towards a structure that implies a (partial) freedom of business units to sell advertisements ‘in house’ (i.e. in the business unit) or they can choose to make agreements with the SSC (PCM-Media) about the sales of advertisements. Up till now, publishers are not allowed to approach external agencies for the sales of advertisements. So, for advertisement sales, the management control structure

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is based on captive buying and selling. The next section confronts this change with our theoretical model developed in the previous sections.

8. Confronting management control change with the dimensions of the transactions: a TCE-analysis

This section confronts the management control change within PCM with the dimensions of the service transactions as described in the theoretical TCE model.

The first question is whether the services, each business unit needs are standardized, customized or highly specialized. The services that PCM-Media provides include sales of advertisement space (front office) and administration (back office). A large part of the advertisements sales is corporation wide, which means that the ads can be sold for all business units, i.e. for all newspapers. Therefore, this service is relatively standard. Although they acknowledge that PCM-Media has the best competences to sell the bigger accounts, publishers also think they can find other outside agencies who have these competencies as well. However, some asset specificity, in terms of knowledge or experience is characterizing the advertisements sales.

A smaller part is customized; for instance when advertisers have to be found for a specific theme in one of the newspapers. This is for instance the case for special weekly newspaper sections of de Volkskrant, for instance about health or travelling. For customized ads, more knowledge about the contents of the theme is required, and, therefore, more specific agreements have to be made. It is however not a highly specialized task. The back office activities do not need any customization towards specific business units and can therefore be characterized as standardized services.

Secondly the frequency and volume have to be considered. All advertisement services needed by the business units are of a recurring nature and of high volumes as it represents a major part of revenues. The corporation wide advertisements sales and back office activities are daily transactions. The specific ads sales for campaigns or weekend newspapers do occur less frequently, but many of them are nevertheless recurring.
The third characteristic is the degree of uncertainty/complexity. Uncertainty is not a consideration of the interviewees, but the degree of complexity depends on the advertisers’ demands. The more specific the advertisement has to be, the more complex it will become. As complexity increases, more internal coordination is needed regarding the advertisement strategy in specific media or campaigns. The interviews, however, reveal that the sale of specific ads is in themselves not seen as very complex. It just calls for a specific professional focus at PCM-Media.

By confronting the dimensions of the service transactions with the expected management control structure (figure 2), expectations about choices in management control structure can be formulated. These expectations are depicted in figure 7.

[Take in figure 7]

In the new structure the relatively standardized ads are sold by an SSC (PCM-Media). Our model indicates that concentration of these services in an SSC rather than deconcentration of the sales activities in the three business units is an efficient choice. This enables a more efficient use of resources, and, thus, minimizes production costs and incurs economies of scale. It does so without incurring relatively high coordination costs and/or (opportunity) costs related to potential opportunistic behaviour. So, the decision to opt for an SSC is consistent with our modelling. However, the decision to introduce the concept of an SSC is accompanied by captiveness between the business units and PCM-Media. In other words, there will be no free buying and selling. Yet, our model indicates that an SSC without captive buying or selling, and therefore, a further shift into the direction of market-based control, would also be an option. Abolishing captive buying and selling is efficient whenever services are standardized, because the risk of a lock-in effect is minimal and there is no ‘small number bargaining’. This would enable the business units to switch to other suppliers in case of relatively bad performance and, thus, would introduce an exit threat in the management control of services. As a consequence, business unit management would be further empowered to control the price-quality ratio of the services and would get more controllability on its economic results. On the other
hand, as a consequence of increased market control PCM-Media would be incentivized to be more competitive:

The question is always if you have to buy services from an SSC or if you have to go to the free market [...] make it a profit centre because then you can start a commercial relationship. Otherwise you can just as well do it yourself. What is the added value of the fact that you [internally] outsource? Yes, economies of scale, but I wonder if that is really the case. (Publisher)

Apparently, this publisher (the business unit manager) clearly asks for the freedom to make his own choices regarding the sales of advertisements and he doesn’t want to be confined to the SSC only, as is in line with our model.

The sales activities of specific advertisements are located within the business units and are the responsibility of so called unit-teams. The interviewees state that PCM-Media eventually will only serve a few hundred of their largest clients, and that the other thousands of ‘smaller’ clients will be approached by the business units themselves. In the terms of our modelling this would be labelled deconcentration. Is this an efficient choice? If ads sales is customized, it is still a relatively simple job. In terms of the theoretical model, customized and relatively simple services would imply a management control structure based on an SSC with captive buying and selling. In case the services are hardly customized, the sales will be efficiently governed by a market based structure. Particularly since PCM already has an SSC running for the corporation wide ads sales, it makes a concentration of the sales of advertisements to smaller customers in the SSC even more efficient. deconcentration and the freedom this entails for the business units have led to a structure incorporating both an SSC and unit-teams within the business units. A potential disadvantage is that diseconomies of scale might result, as different sales persons start approaching the same customers.

The back office activities could be labelled a standardized service. In terms of our theoretical model the efficient management control structure would be an SSC with free buying and selling. This would lead to the lowest production and transaction costs. However, until now PCM chooses to concentrate these activities in an SSC with captive buying and selling. The option of free buying and selling is not explicitly considered.
In the final section a reflection on these findings will be given and some discussion is raised.

9. Discussion and conclusion

A TCE-perspective on management control structure change related to the development of an SSC broadens existing frameworks of management control by particularly pointing to the possibility of including governance structures for internal transactions and exit threats (connected to a market mechanism) in the management control structure of an organization. From a theoretical TCE-stance, the management control structure of an organization at large may be the result of purposive choice behaviour by top management. In TCE-terms, such an organization is in itself a hierarchical governance structure for transactions that was negotiated and chosen by autonomous human actors. Thus, management control structure choice comes after the choice for a hierarchy as a governance structure; the management control structure is subordinate to the governance structure. Given the hierarchy as a governance structure, management control structure choice as it relates to the development of an SSC may include the creation of horizontal client-supplier relationships between internal buyers and the SSC. Provided the right incentives (for instance in the context of responsibility accounting through which lower management levels are held accountable by top management) are in place, these internal buyers and seller will negotiate proper governance structures for the internal transactions. Such governance structures are thus subordinate to the management control structure of the organization at large and may take the form of internal contracts or service level agreements. Depending on the nature of transactions, the volume and frequency of the transactions, and the levels of uncertainty and complexity, top management may moreover decide to introduce a market mechanism in the governance of the internal transactions. In such cases, exit threats put additional pressure on the management of the SSC to further improve the price-quality ratio of the services. Alternatively, depending on the above mentioned dimensions of transactions, top management may decide to place certain services outside the SSC and to de-concentrate them in the various business units. The services are then produced ‘in-house’, thus bringing the distance between these
services and the primary processes of the business units to a minimum. In this case, the management control structure of the organization at large does not include governance structures of internal transactions.

The empirical part of our research gives evidence that related to the development of an SSC there is no straightforward rational choice behaviour in management control structure change by top management of PCM. Although a team was appointed to come up with a proposal regarding a new structure, not all the alternatives stemming from a TCE-approach were explicitly taken into account. Particularly, the possibility of the introduction of an exit threat was not explicitly in the mind of the team and the CEO. Moreover, there was no explicit connection with TCE reasoning. To the extent that there is economic reasoning behind the concentration of services in an SSC (for instance back-office activities and selling of advertisements to larger customers), it is reasoning regarding economies of scale and not reasoning regarding transaction costs connected to specific management control structures. However, from a contents point of view, this does not make a TCE-approach to management control structure change invalid. Researchers may demonstrate this approach to practitioners and, in doing so, may enhance rational economic reasoning concerning management control structure change in practice. In a sense this implies that they contribute to the ‘performativity’ (e.g., Callon, 2007) of transaction cost economics, that is that they help bringing the theory into life. For, as researchers have convincingly argued, a strict distinction between ‘positive’ and ‘normative’ theories is untenable (e.g., Ferraro et al., 2005).

Furthermore, the change process at PCM was not straightforwardly of a guided nature. Although a committee was appointed with an assignment to make a new design of the management control structure, the decision to appoint such a committee initiated a change process that was not characterized by complete order. It was not guided action based on clear decisions, not an identifiable movement between origins and an outcome (Quattrone and Hopper, 2001). There was no strict guided change based on rational (efficiency) arguments. Although our case study gives evidence that there was some purposeful action aimed at the construction of a new management control structure, it proved to be an ‘incomplete attempt of organizing’ (Quattrone and Hopper, 2001, p. 482). The change proves to have some characteristics of a drift. In our case, it is the
interconnected actions of top management, newspaper business units management and SSC management that result in a changing management control structure that is relatively fluid. Moreover, the search for overall efficiency apparently is not the dominant force for developing a relatively stable structure. Although it may very well be that future interactions, through which divergent interests are levelled out, pull the management control structure further into the direction as predicted by our TCE-based model, it would be through relational drifting that such a stable situation is reached. Divergent interests, the search for autonomy and power positions seems to be very influential in such drifting. In order to further explore these change processes we would suggest longitudinal case studies that enable to study the changes of management control structures in the long run.

An TCE-approach is an instrumental approach that may be contrasted with a relational approach. It presupposes that a farsighted individual (i.e. a top manager) has a priori intentions: intentions that are not formed by his or her ‘interconnectedness’ with other entities in the network. He or she is outside the network that he or she seeks to farsightedly instrumentalize as an ‘economic man’: ‘man’ that is rationally acting out of economic interest. In concrete terms, top management perceives the management control structure as an instrument to cope with coordination requirements and motivational problems.

In a relational approach, parties are considered to be sense making individuals who form a posteriori intentions. The intentions stem from the inside of the network, from the interconnectedness with other entities. They are not only the intentions of the economic man, but may also stem from power positions, from commitment to the network, or from intrinsic motivation for the tasks at hand. In a network, management control structures gradually emerge as a consequence of day-to-day interaction in the network. They are not the results of purposeful decision making by an actor outside the network, but of purposeful interaction within the network. Management control structures, then, are not primarily instruments in the hands of top management, but are non-human actors that are in a constant state of flux.

We claim that a relational approach to changes in management control might also open up possibilities to incorporate the notion of trust in the analysis. In the process of studying the PCM-case we observed that there was a certain absence of trust and even
distrust toward the board of PCM and the SSC. The publishers did not always believe that PCM-Media was working in their best interest, and they thought that higher profits could be achieved by keeping the services ‘in house’, i.e. within the business unit.

We suggest that a relational approach could provide additional insights into the change of management control related to the development of SSC’s.

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Appendix 1 Meeting and interviews

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<th>Duration</th>
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<tr>
<td>01-10-2007</td>
<td>Initial meeting researchers with CEO and Director PCM-Media(^4)</td>
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<tr>
<td>26-11-2007</td>
<td>Director PCM-Media</td>
<td>64 minutes</td>
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<td>26-11-2007</td>
<td>Financial director PCM</td>
<td>70 minutes</td>
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<td>26-3-2008</td>
<td>Chair of change committee</td>
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<td>4-9-2008</td>
<td>CEO</td>
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<td>New director PCM-Media</td>
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<td>12-9-2008</td>
<td>Marketing director PCM-Media</td>
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<td>16-09-2008</td>
<td>Director PCM-Media(^5)</td>
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<td>25-9-2008</td>
<td>Publisher paper division</td>
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<td>Vice-publisher paper division</td>
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<td>4-11-2008</td>
<td>Publisher paper division</td>
<td>59 minutes</td>
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\(^4\) This meeting was not recorded. Notes were taken during the meeting

\(^5\) This interview was carried out by telephone. Notes were taken
Figure 1. Positioning an SSC (Jansen and Joha, 2006, p. 103)
<table>
<thead>
<tr>
<th>Characteristics of the services</th>
<th>Frequency and volume</th>
<th>Degree of uncertainty/complexity</th>
<th>Management control structure choices</th>
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<td>Recurring</td>
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Fig. 2. Management control structure choices for service transactions (Based on Vosselman, 2002)

⁶ b/s = buying and selling. Free b/s implies also the possibility to outsource the service.
Figure 3. Old structure of PCM

Figure 4. Old structure sales of advertisements
Figure 5. New structure PCM

Figure 6. New structure advertisements sales
<table>
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<tr>
<th>Services of PCM-Media</th>
<th>Characteristics of the services</th>
<th>Frequency and volume</th>
<th>Degree of uncertainty/complexity</th>
<th>Management control structure choice</th>
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Figure 7. Services of PCM-Media, nature of transactions and management control structure