Successful Conversion of a Cost Center to a Profit Center: A Case Study of a United Arab Emirates Company’s Experience

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Introduction
Traditionally, organizations create sub-units (SBUs), often arranged by activities, functions, or geography, to achieve various strategic objectives that align with the corporate strategy (Samli and Shaw, 2002). These sub-units, known as responsibility centres, serve as a simple way to analyse and monitor the effectiveness of a segment of a complex business. Importantly, developing the right type of responsibility centre in an organization can be an effective motivator for managers that drives long term, sustainable results for an organization (Govindarajan, 1994). However, a one dimensional viewpoint of organizations can divide these responsibility centres into strict cost and revenue centres. What organisations fail to realize is that cost centres may have revenue potential and can be transformed into profit centers.

This paper examines the case of a United Arab Emirates (UAE) based company which successfully transformed a cost center into a profit center and explores the experiences of actors who were intimately connected with the conversion process. Since conversion of cost centers into profit centers does not always lead to positive results and may in fact cannibalize on the efficiency of internal processes, the main purposes of this paper are to tease out key factors which resulted in the successful implementation of a cost center being converted into a profit center; and to what extent this is a special or more general case. Specifically, this paper explores the experiences of the actors who were intimately connected with the conversion process, and provides insights across five key processes: i) establishing the corporate structure that might aid the conversion; ii) obtaining employee buy-in through the process; iii) transitioning employees in the process; iv) redefining the corporate environment; and v) performance management. The remainder of this paper is organized as follows. Section 2 discusses the theoretical background. Section 3 presents the case methodology for action research. Section 4 presents the case analysis, and Section 5 presents a brief conclusion with insights that guide future research on cost center conversion.

Theoretical Background
The theoretical underpinnings of the case are divided into responsibility and profit centers; responsibility centers was assumed to be the necessary condition for profit centers as is demonstrated by the UAE case.

Responsibility Centers
In order to achieve their strategic objectives, businesses can subdivide and assign objectives to sub-units whereby unit objectives end up contributing to overall corporate strategy. A responsibility center is an organizational unit which is responsible for a specific set of usually related activities or functions. A company, thus, becomes a collection of responsibility centres with its strategic goals translated into objectives and assigned to responsibility centres. Responsibility centers are believed to be a cost effective mechanism which exposes management efficiency and provides information for the decision making process (Atiah, 1988). They also lend themselves to subjective and objective evaluation of operational and financial performance (Jensen 1998).

Responsibility centers are normally classified as cost centers, revenue centers, profit centers and investment centers. Managers of cost centers are primarily held responsible for costs or expense. Revenue Centers hold managers responsible for generating revenues and are best illustrated by a sales depart-
ment where the manager does not have authority to set prices in order to affect volume. Profit centers managers are responsible for profit which is a measure of the difference between revenues and costs.

Research has shown that businesses use responsibility centers for several reasons. Managers believe that subunit managers are usually more highly motivated when they can exercise greater individual initiative. Thus responsibility centers can serve as powerful motivators (Neal and Lynn, 1995). As business segments compete among themselves for allocation of corporate resources (inputs) for their future growth, corporations need a measure of effectiveness. Responsibility centers serve as a simple way to analyse and monitor the effectiveness of a segment of a complex business (Al-shomaly, 1993). They help sharpen focus of managers by defining and assigning responsibilities. They also create a pool of experienced management talent by aiding management development and learning. It should be noted that benefits of the use of responsibility centers can only be achieved if sufficient autonomy is provided to the subunit together with goals that are congruent with the goal of the parent business.

### Profit Centers

Revenue and expense centers are particularly susceptible to control and performance measurement issues making it difficult to determine their effectiveness and efficiency. In both revenue and expense centers control tends to be one dimensional which means that either output or input is not measured or cannot be translated into comparable terms. For example, in an expense center with a responsibility to advise and service, it is almost impossible to quantify much less evaluate the output. In a typical revenue center output is measured in monetary terms but there is no formal attempt to relate input to output. The lack of a clear relationship between input and output in these cases can also result in goal incongruity. This problem is especially serious for larger businesses where it is difficult for senior management to possibly know much less evaluate all staff activities. One dimensional nature of revenue and expense centers and the significance of profits in an organisational context have made profit centers more popular. The concept of profit centers originated in the late 1970s and early 1980s when contribution of individual units to corporate profitability started attracting attention resulting in elimination of many organisational units at a much faster pace. Although more recent research on prevalence of profit centers is scant, a survey conducted in the late 1970s, of 684 manufacturing companies, found that 83% firms had two or more profit or investment centers. Another survey of 1000 Fortune 500 companies in 1994 found that 93% of companies used two or more profit centers (Govindarajan, 1994).

### Advantages and Disadvantages of Profit Centers

Profit centers in general hold several advantages over cost and revenue centers. Since unit managers are responsible for both cost and revenue, in the absence of head office approvals, more decisions are made at a unit level resulting in quicker decision making. Profit-centers enhance employee morale, initiative, and professionalism (Merchant, 1989). It plays an educational role by bringing managers into closer contact with the overall profit objectives of the company. They serve as a training ground and provides opportunities for managers to exercise and display their initiative and imagination. Ready information on unit profitability alerts head office earlier and facilitates quicker remedial actions and inter and intra-company comparison (Andreas, 2002).

It is generally believed that the use of profit centers is limited by circumstances. While it is true, organisation can improvise to reap the benefits of profit centers as compared to cost and revenue centers, non-profit organisations are also using the concept of profit centers to enhance controls and performance issues. Profit centers do not have a precise structure and, depending on control environment, can be organised in different ways and can be classified into autonomous, quasi, pseudo or micro profit centers. Autonomous Profit Centers are treated as separate autonomous units, usually without the ability to raise funds but, with the freedom to sell setting price, choose supply sources and serve internal and external customers. Although, ideally, profit centers should be autonomous, organisations tend to lose the advantages of economies of scale and synergy.

Autonomous profit centers may also adversely affect overall strategic directions of an organisations and sacrifice uniformity. Thus, management may opt to place constraints on the degree of autonomy in a profit center. These responsibility centers are called Quasi Profit Centers. As distinguished from Quasi Profit Centers, Pseudo Profit Centers capture the advantages of profit centers in an environment where profit centers seemingly, are not possible. They are typically suited for situations when a meaningful estimate of either revenue or cost is difficult. Micro-Profit center is a technique where large responsibility centres are converted into much smaller profit centers. Depending on the viability and circumstances a micro-profit centre can be autonomous, quasi or pseudo profit center.

Profit centers come with their own set of problems and some companies, including Banc One Corp., Weyerhaeuser Co. and Kimberly-Clark Corp., have tried and abandoned some of their profit centers for various reasons (Alter, 1995). It is argued that since decentralisation relates to the degree of autonomy that a department has for decision making it is possible for a department to be centralized and still be a profit centre. However, establishment of a profit center usually accompanies a drive for decentralisation. Profit centers, thus, usually share problems associated with decentralisation which include loss of control at corporate level and quality of strategic management decisions.

Profit centers facilitate independence and inter-departmental comparison; rivalry within departments may increase resulting in friction, duplication of activities, zero-sum gamesmanship and tendency among departments to avoid information sharing (Alter, 1995). It has been noted that profit center managers tend to get engaged in short term profitability objectives rather than long term profitability. Thus expenses which benefit organisations in the long run, like research and development, training and maintenance, may not receive due consideration. While unit managers have an incentive to increase unit profitability there are no systems which can ensure that
unit optimisation also results in optimising corporate profitability. The Unit may end up making decisions which benefit units at the expense of the overall organisation.

Despite these limitations, profit centers remain an attractive and preferred responsibility center. Organisations often fail to realize that cost centres have revenue potential and can be transformed into profit centres. This paper examines the case of a United Arab Emirates (UAE) based company which successfully transformed a cost center into a profit center. Accordingly, the next section discusses the background of the Company that is analysed.

Company background

Company X was first founded in 2002, in the United Arab Emirates, as a Public Joint Stock Company. With an investment portfolio valued at approximately USD 70 billion, the organisation has diverse investments in 13 industries. Initially, each of these investments had dedicated departmental units managing them (e.g., the real estate unit to managed property investments). Many of these units had grown so far in capacity over time that they had branched out to separate sister organisations for more effective management. As of 2014, the organisation has a total of 16 departmental units including foundational units such as Legal and Compliance, Human Resources, Enterprise Solutions and IT, etc. Total employment in the head office alone was 1,000.

In 2002, when Company X was first founded, their purchases were easily managed by a five man procurement team. The Procurement Department was used for purchases of equipment and services to be used by other departments, as well as internally. The Procurement department was also responsible for competitive bidding, sourcing, and contracting. As the organisation grew and branched into various industries, the Procurement Department also expanded and branched into sub-sections based on which department they were serving. They were eventually renamed as Corporate Support Services (CSS).

An expansion of the services led the CSS to become ultimately responsible for establishing and providing the physical foundation for the organisation and its departments. The services provided by CSS had a set schedule consistent through all the departments within the organisation and involved very little involvement from the internal department itself because many of the core services were provided at an agreed companywide standard and did not have room for customisation from department to department, beyond quantity adjustments according to each department's size.

These standard internal services included the provision of:
- Furniture, maintenance, relocation, restructuring, and fit-outs
- Kitchen services (including food, guest hospitality, kitchen equipment and machinery)
- Logistic services (warehousing, inventory management, storage and packaging)
- Maintenance of all current services, premises, and equipment
- Services that had more leeway in terms of departmental customisation included:
  - Guest reception and meeting services
  - Travel (guest and employee parking and driver services)
  - Partially, inventory and logistic services.

The initial idea for shared services occurred to the Department's director in 2009 when, one of Company X's sister companies had requested assistance in creating a similar internal services format for their organisation. The director had also noticed that in the past many of Company X's subsidiaries and partnering companies have requested advice on the suppliers used, pricing expectations and negotiations, necessary contacts, and purchasing. Based on these external forces, the Director embarked on a project to convert CSS from a cost centre to a profit centre, by leveraging the use of its services to external organisations.

The Conversion Process

The services were performed through informal channels, made more prominent due to a lack of help desk and work log in systems. Each department would communicate their service request to their department assistant, who would then directly phone or email the service coordinator in charge within the CSS. These requests were not recorded formally and had no tracking system for either parties. Timelines were provided through word of mouth and the requesting department's assistant would have to follow up on the progress of the service accordingly. The service coordinator would then seek the approvals necessary from their manager, and enlist the appropriate third party channel. In case of an additional product, the coordinator would go through appropriate procurement and Local Purchase Order (LPO) procedures to acquire the requested product. In case of an additional service, the coordinator would enlist a third party service provider or one of the organisation's own service providers (depending on the request). The coordinator would then monitor the service deployment and then request feedback via set email template. This email template required the requesting department's assistant to fill out details such as satisfaction with the timing, quality of service provided, quality of communication with the coordinator, etc. Performance of the coordinators and services were mainly monitored through this feedback process as well as the manager's own monitoring of his employees. As a cost centre, the CSS department did not make any profit from the provision of these services. Company X budgeted these costs every year for each of its department based on projections of capacity and usage. Therefore, CSS's services fell as a budgeted cost within each department, including itself.

Figure 1 highlights the work processes that were adopted by the CSS before conversion.

Figure 2 (page 62) highlights the work processes that were adopted by CSS upon conversion.
Figure 1: Initial Work Process
Figure 2: Conversion Work Process
**External Organisations**

When a new client organisation is acquired, the sales team who are in primary contact with the representatives from the client organisation gather all relevant information. This information includes the service requirements of the organisation, budgetary constraints, timeline requirements, and floor plans and modification requirements.

The client organisation is provided monitoring KPI’s, a rate card for all the services, helpdesk and maintenance terms, and a timeline for service completion prior to the creation of the service contract. These are usually pre-established based on prior experience and existing contracts with third party suppliers; and needs minor modification when presented to the client organisation.

Once the contract has been signed, all service requirements are logged on to the departmental helpdesk, who is responsible for assigning each of the services to the relevant coordinators. Based on the services, the department had teams of five to seven service providers who were managed by a team coordinator. The coordinator is then responsible for any scheduling site visits, purchasing, training, and/or recruitment that need to be done. Any changes or addition to the service or project extensions require approval from the primary contract manager, both internally and within the client organisation.

In the event that maintenance of a service clause is included within the contract, the service is considered on-going. A project coordinator is assigned to the client organisation to monitor and maintain the current services. Any issues or additional services that may arise, must be requested through the central helpdesk.

Profit is earned by two primary methods. First, prices included a mark-up. Individual services were all charged to the external organisations with a 10% mark-up on the original third party contracting price with the CSS department. In addition, a management fee was added to certain grouped services which required constant monitoring and handling. Secondly, costs were minimised due to pre-existing processes, use of excess capacity, and mass contracting. Through relationships maintained with various contracting/service companies that eased communication of requirements; standardised bidding processes; and competitive pricing, CSS was able to reduce overall transaction costs usually associated with the services offered. This is further discussed in detail in the upcoming sections.

**Internal Organisations**

Unlike client organisations, the internal process is much less complicated. As CSS is already a part of Company X; it already has a predetermined set of responsibilities that it must follow in relation to its services. For any additional service requests or issues, internal units must contact the CSS help desk, who will then log in the request and inform the relevant service coordinator accordingly. It then goes through a similar process of seeking approvals and sourcing, before the deployment and maintenance of service. For internal organisations, the department maintained the old structure of having costs budgeted for by department. It did not make any profit from the provision of services. However, the Director did mention that in the future, CSS may look to branch out as an independent sister organisation upon which they will be contracting their services for a profit, not dissimilar to external organisations. However, this decision is circumstantial and depends on the direction the organisation may choose to go in the future.

**The Case Study**

Data for the case was primarily collected through semi-structured telephonic/online interviews and email exchanges consisting of open and closed ended questions. Since one of the authors was directly involved in the implementation process, personal observations were also used. During the interviews/emails efforts were made to focus on the critical elements of the implementation process.

Interviews were held with internal and external customers as well as the employees involved in the conversion process of the department. Twenty of the department’s employees were interviewed, of whom 16 were present from the very beginning of the conversion process and played a participative hand. These employees range from coordinators, to junior and senior officers, help desk, and assistant managers. Seven internal customers were interviewed, each from a different organisational department. Each is an assistant or coordinator in his/her department and thus directly responsible for coordinating services provided by the CSS in their respective units. Five separate external organisations were also interviewed to provide insight into the service. From each organisation, a minimum of three or more officers were interviewed who were or are directly involved in the provision and coordination of services. The respondents were chosen because they were directly involved in the process and were familiar with both before and after situations. The open-ended nature of the semi-structured interview questions assisted authors in teasing out details and personal account of the actors from their unique vintage points. Interviews also made it possible for the authors to follow up and focus on interesting leads, modify line of enquiry and investigate further if underlying motives were detected.

**Themes Identified**

Our analysis of interviews and email responses of individuals involved in the implementation process yielded five identifiable steps in the process of converting the cost center to a profit center. The five process steps are as follows:

1. Identification of Opportunity and Change Champion
2. Establishing a viable corporate structure for the profit center;
3. Process reengineering;
4. Managing employee transition and buy-in;
5. Redefining the corporate environment; and
6. Restructuring performance measurement mechanisms.

The following is a discussion of each of the steps in the processes. Each section provides insights and best practices on how each step was managed in order to achieve success.
Step 1: Identification of Opportunity and Change Champion

The initial idea for shared services occurred to the Department's Director in 2009 when one of the sister companies of Company X had requested assistance in creating a similar internal services format be applied to their organisation. He had also noticed that in the past many of Company X's subsidiaries and partnering companies have requested advice on the suppliers used, pricing expectations and negotiations, necessary contacts, and purchasing. He took a leading role in crystallising the idea and selling it to management. He also put together a team of individuals who were receptive to his idea and greatly assisted in later implementation. To no-one's surprise the Director later became Chairman of the new Corporate Services entity.

Step 2: Establishing a viable entity

Initial challenges arose as the idea of a profit oriented CSS took hold. The very first challenge was the status of the new entity. While the unit provided services internally under the CSS department, extending services to external customers could not be possible under the current structure. CSS had to operate as a separate entity in order to facilitate the transition.

Company X opposed hosting it directly under the same organisation, since it clashed with its core business. The organisation's primary purpose was ownership and investment in new or existing businesses in various fields that held profit potential, and did not conduct any of the operations associated with it on its own. Therefore, Company X offered to have the new setup under a 100% owned, and already existing sister organization that dealt with real estate and business property management, Company Y. In 2011, this became a reality and the Director of CSS became the chairman of Company Y.

Company Y turned out to be a good choice to host the new corporate services unit. Firstly, it was comparatively newer with only six months existence. Secondly, it specialised in leasing commercial properties. By and large, CSS and Company Y's target markets were the same: organisations that were looking to move and settle into new offices. Thirdly, Company Y was able to leverage the CSS services as a strong and unique competitive advantage by offering to bundle these services with the sold property. It would also now be able to reach a new target market of organisations that already had existing property, but were looking to outsource the management of the property itself.

A detailed business plan was prepared under which among other things, included a package deal system, where organisations could purchase services individually or as a silver, gold, or platinum package. Based on the existing service/supply contracts that Company X had with external suppliers, Company Y was able to create a rate card to offer to potential customers. The rates varied according to the package chosen. For instance, individual services were provided at a 10% mark-up, whereas in the platinum package, certain services were provided on market rate but with an additional management fee added to the total bill.

Step 3: Process Reengineering

As a start-up organisation, Company Y had limited reach and very little experience. In addition, the concept of one-window shared services on the scale they were offering was revolutionary to the market. Shared services were mostly being offered as only one or two contract based related services (e.g. Equipment Maintenance and Office Supplies) with minimum to no management. Outsourcing almost all office services, which were considered part of basic infrastructure of a company, was rare.

Thus, Company Y not only had to reach out to new customers but also create a market for the services they were offering. Company Y decided to leverage its strongest asset: its relationship with its parent organisation, Company X.

- **Creating Awareness**: A large scale six month company road show was launched to reach out to all the subsidiaries of Company X, as well as all internal departments. Such road shows targeted the decision influencers and upper management. Decision influencers were assistants or coordinators who were responsible for creating proposals and suggesting business solutions. In short, they were gateways. Upper management, such as departmental directors or vice presidents were often also business owners or investors and thus, potential customers.

- **Message Reinforcement**: A drawback of the whole campaign was that the road show only happened once. Company Y did not invest in message reinforcement, so a lot of the information shared was forgotten or disregarded over time. In addition, any new employees joining the organisation were unaware of the new procedures and often frustrated when dealing with the department. This is especially true because the processes adopted by the converted department were very different from the norms in other organisations.

- **Finding a Competitive Advantage**: Company Y’s bundling services were not competitively priced and targeted medium to large organizations. Many questioned why anyone would want to purchase a service bundle from Company Y when the very same could be done internally. Thus, Company Y added an additional segment to their road show highlighting the following arguments in support of their offerings:
  a. As part of Company X, they highlighted the “Who better to know you than your family” attitude. They had existing intimate knowledge of how each sister company functioned; were familiar with the settings and floor plan of the organisations; and also knew many of the employees working in each organisation through mutual or direct contact. This made them knowledgeable of exactly what each organisation needed without having to spend months collecting data, gathering floor plans, or conducting lengthy meetings about every detail of the set up.
  b. Company Y also made projections of possible savings from the decrease of transaction costs. For instance, if a company were looking to hire cleaning staff to maintain the premises. Transaction costs of this requirement would include:
While individually, the rates charged may look higher, Company Y reasoned that the savings in transaction costs would offset this expense, since they would be managing and bearing all the processes/costs for each transaction. For Company Y, they were able to minimise their costs by maximising efficiency and using the excess capacity they already had. For instance, costs (1) and (5) were minimised due to relationships maintained with various contracting/service companies that can ease communication of requirements; standardised bidding processes, and competitive pricing. Costs (3), (4), and (7) were standardised due to regularity of occurrence. Costs (2), (6) and (8) are again minimised due to availability of back-ups and specialised staff hired for specific services that can work along various shared service contracts rather than just one.

c. By outsourcing their office services through Company Y, organisations would be able to focus on their core business. Instead of wasting time and resources in administrative jargon, these efforts could be redirected towards more production efficiency. Company Y offered to take full responsibility of the management and maintenance of the service provided.

Step 4: Managing Employee Transition and Buy-in

One of the foremost changes that had to be dealt with was transitioning employees from serving internally to providing services across multiple external organisations. The key to maintaining cost effectiveness and efficiency in the start-up phase was to use the same capacity of employees CSS currently had to serve more organisations. This meant that employees would face an increased workload. Foreseeing this problem, the company employed the following strategies to ensure a smooth transition:

- **Communication:** Communicating the vision and venture of extending shared services in the initial stages. This ensured that the employees knew and were prepared for the changes that were likely to happen.

- **Direct Involvement:** Getting the employees involved in the process. The Director and his team held meetings with each of the employees to gather their input on the rate card, job scheduling and timeline management, contracting, potential challenges, and so on. Employees were referred to as specialists in each of the service processes. They were also involved in creating the processes for service deployment. Representative employees from each service team were also included in the roadshow to answer questions and present each service in detail. This not only created a sense of entitlement, but also of ownership where employees felt personally vested in the project.

- **Training:** Training employees in time and people management and customer service was also a key link to change management. When working for the internal organisation, the Director noticed that most staff members could complete their daily tasks within the first four hours of the work day since office services was not a labour intensive job and often varied on a day to day basis. Employees were accustomed to their work loads and often spaced out their tasks to a comfortable pace over a period of nine hours. Training was mandatory in order to break that habit without having the employees feel pressured.

- **Incentives:** Promoting employees, both by pay and title were also motivating factors to make staff members accept the change. Staff were selected based on performance and how much increase in work load they were likely to handle. This promotion came with an understanding that job responsibilities would also increase.

Yet, despite all these measures taken, employees still faced a large amount of stress borne from multiple reasons. The first and foremost was the increased workload. While training had been provided in time and customer management, employees saw this as only an additional burden to their work schedules. The conversion also meant employees had the added responsibility of managing multiple timelines, as each customer had a different service routine assigned to it based on its requirements.

Secondly, employees were required to adapt to very different organisational settings. Internally, employees followed a strict routine of services that they had become accustomed to providing efficiently at the right time and place. Shifts in service standards also indicated process change. Employees were trained in new software and certain procedures were put into place to make service delivery much more efficient. Despite being given prior knowledge of these process changes, many employees reverted to the old way of doing things as they found the new methods time consuming and frustratingly complex. Employees had also grown accustomed to the colleagues they worked with in each serviced department and thus shared a good personal rapport with all internal customers. However, sourcing to external customers meant adjusting to different and multiple organisational needs, as well as working with new people they were mostly unfamiliar with, except on a professional basis.

Thirdly, employees experienced a significant shift in management style. Before the conversion, management style of the department had been laid back, as time and service delivery pressures had not been so stringent. With new external customers in place, management had to pay more attention to monitoring performance and putting deadlines in place, in order to maintain service standards. Performance measures were no longer qualitative and based on supervisory observation. Employees now had to focus on numbers, which not only tracked their own performance but also the performance of the department itself.
Employees experienced the highest amount of frustration during the transitioning phase of each implemented change. One of the instances would be when management decided to route all inquiries through the helpdesk rather than contacting the employee responsible directly. During this process of switching, employees were left with an added task of informing all their current customers of the change, changing their contact address and business cards, and often having to deal with customers complaining about the new lengthier and more impersonal process. What added to the frustration were multiple attempts to change a single process. Management involved described this as a trial and error method, where the organisation was learning from its mistakes and adapting its processes accordingly. They reasoned that due to its unique offering, management did not have sufficient benchmarks to guide them through the conversion process. This constant change irked many of the employees who constantly had to relearn their jobs and often adapt the situation to any errors they may face in the process in order to avoid having it affect any customers. In addition to frustration and stress, employees also experienced a loss of enthusiasm and scepticism in the entire conversion from cost to profit centre.

While eventually, the organisation was able to transition its employees successfully into the process change, it was not without hardship. Due to the inconsistencies in certain processes and fast paced change in operations, employees were not able to manage performance expectations as efficiently as management anticipated initially. It took nearly a year, longer than projected by management, for employees to adjust to the change. This negatively affected performance in terms of how quickly and effectively a service was delivered, though not significantly.

Step 5: Redefining the Environment

Coping with Expansion

As the number of external customers grew, management of both internal and external services simultaneously became difficult. To avoid loss of efficiency, it was crucial to expand the work team. Company Y calculated which of its services were most requested and how much increase in work load it was going to see for upcoming contracted projects. For services that were more popular, such as hospitality services, Company Y decided not only to recruit more employees but also to divide the team into two parts. One part would serve internally within Company X, while the other would serve external customers/organisations. For services like Logistics, the same format was maintained as earlier. This avoided cannibalisation where focus on the more profitable external customers decreased the quality and efficiency being delivered to internal customers.

This avoided having to prioritise between internal and external customers, and keep focus on the task itself. Another strategy included hiring personnel from outside the organisation who had experience in service industry rather than training individuals from within the organisation itself.

Managing Suppliers and Logistics

Since company X already had long term purchase contracts with established suppliers, company Y decided to leverage its position by continuing to use the same contracts and all procurement processes were routed through Company X. It was later found that this arrangement may not be possible because of accounting issues that arose. This meant that new contracts would have to be re-established under Company Y. This was a major threat primarily because creating new contracts meant re-tendering and re-negotiating rates with all existing suppliers. This was not only time consuming but also meant that there was a possibility that suppliers would not be willing to contract for the same rates. There was a possibility of loss in profit, since company Y had by then already signed service contracts with many customer organisations.

In order to tackle this problem, Company Y requested a six month waiver within which it could continue to use Company X for procurement. Within these four months, the team went through a rigorous mass retendering process. To make the process easier and faster, it requested the involvement of Company X’s procurement department for bigger suppliers, whose total purchases by the company amassed over AED 350,000 per month.

In addition to retendering, Company Y made sure to get the same or better rates by having negotiations through employees who had strong and long term relationships with existing suppliers. This meant having the internal team also involved. While intensive, the re-contracting process was completed successfully with significant backing from Company X.

However, a primary drawback experienced during this re-contracting process was reluctance from the suppliers themselves. This was especially the case for suppliers who were local or small to medium sized companies. An initial problem faced with suppliers was the additional logistics. When dealing with internal customers alone, suppliers only had one order and one route to fulfil. However, with the addition of multiple customers, all under Company Y, suppliers also had to restructure their logistics to adjust to the sudden mass of new orders and different timelines. While larger companies had the capacity to cope with these changes, smaller scale suppliers suffered.

Company Y had to again switch five of its suppliers due to errors and backlog experienced due to the supplier’s lack of capacity to fulfil orders. This was critical as it directly affected Company Y’s service to its external and internal customers, and meant that they would have to deal with dissatisfaction and complaints. This was a similar case during Company Y’s retendering and re-contracting process. Participating in a tender was not only time consuming, but also involved a lot of complicated documentation, attendance in meetings, and presentation creation. A common complaint from smaller, local suppliers was that they were unable to complete the RFP/RQF issued by Company Y due to its complexity. Small proprietorships simply did not have the resources or education to complete the tender. They felt that Company Y should have assigned them a representative to explain and guide them through the process. In addition, they also expressed frustration and betrayal over
being retendered. As companies who had been supplying to the organisation for many years, they did not understand the necessity of retendering or switching suppliers for the exact same products/services.

**Adjusting to Consumer Demands**

One of the most common customer complaints that the team received was the lack of a point of contact within the premises itself. Internally, the department had a coordinator for each of the services in order to monitor and maintain the quality of service provided. This coordinator was also responsible for reporting and taking immediate action against any issues that may arise. A lack of coordinator in the customer organisation’s premises meant that the quality of service and speed of follow up/maintenance was not up to par to the internal services.

Again, Company Y evaluated the additional costs of having a full time coordinator in place for each customer organisation. It set a range based on the quantity of services provided and the total monetary worth of the contract. For instance, organisations that had the platinum package were given full time coordinators to liaise with the core team. For customers that were on the lower side of the range, frequent site visits were scheduled based on the type of service provided and the attention it required.

One of the mistakes that Company Y made during transition was not keeping their leads and contacts confidential from their customers. After a few years, external customers became extremely familiar with the suppliers and contractors and were able to directly contact suppliers and negotiate better rates. The Company lost approximately three customers because of this.

**Step 6: Restructuring Performance Measurement Mechanisms**

Prior to conversion, a key change in performance measures was the switch from qualitative to quantitative measures upon conversion. Initially, the CSS department’s measure was on the quality of the service provided. This was determined by a short survey, embedded into an email template, which was sent out to internal customers upon completion of service. In addition to this, performance was also monitored by the manager in charge of the service team and adjustments were made accordingly. This was largely possible due to the small interpersonal nature of the team, as well as low task load wherein the only customers were those within the organisation.

Post conversion, performance was measured on two distinct levels; at the individual and corporate levels.

**Individual Level**

More quantitative measures were put in place in order to monitor and track employee performance. While, management’s focus on an individual level was still on the quality of the service provided, the expansion in customer base and team size meant that more rigid controls needed to be put in place. This was done through the use of Company’s Y’s pre-existing helpdesk, which was created to take in calls for property requests.

Thus, this helpdesk was simply expanded to also take in service requests. In addition, it was further automated to record the details of each request which were directly correlated to measures of performance. Examples of these details included type of job, date requested, officer in charge of service provision, and date completed. This was then benchmarked against established KPIs; for instance, the date of start and completion would be mapped against service timeline. Calls were also monitored by an automated switchboard system, called ARC, to track the number of requests/complaints, the number of calls dropped or unanswered, and the duration of each call.

However, a major challenge they faced when this helpdesk was put in place was again, change management. Customers were used to contacting the officer in charge directly for any services they may want, and found the helpdesk process tedious, time consuming, and impersonal. The team handled this issue by persevering and employees were asked to politely re-route any customers who called them directly to the helpdesk. The key was to get customers accustomed to using the helpdesk. As mentioned previously, employees initially did tend to revert back to old methods of handling customer inquiries because of their reluctance to change. However, connecting performance measures to the information logs in the helpdesk system meant that the employees’ performance measurement were dependant on their adherence to the formal system of handling inquiries. The employees were educated on how the helpdesk worked in order to drive home this point, and were also shown how rerouting their calls through a helpdesk would reduce their workload and stress.

**Corporate Level**

At the corporate level, there was a sharper focus on profitability and cost reduction. This reflected on the management team’s processes, when designing service packages for their customers and conducting negotiations. In addition, the procurement templates, evaluation matrices, and standardised negotiation procedures set in place for employees to use with supplier, were designed to keep costs minimal without compromising the standards of quality set for each service. Individual employees, however, were not measured by their profit potential, but with their service potential. This was because management believed that the profitability of shared services were largely dependent on the quality and efficiency with which service was provided, especially at the initial stage where they were trying to establish a corporate image for themselves. This strategy was especially relevant since Company Y’s high end pricing strategy ensured that customer organisations contracted were more concerned with qualitative value of services than with costs.

**Conclusion**

Not all cases of transformation from a cost center to a profit center become viable or proceed smoothly. In this particular case the initiative was largely successful. We identified several themes that this successful transformation entailed and lessons that can be learned. We found that turning a cost center into a profit center is largely a matter of establishing a clear status for the new profit center based on a clear plan, getting the buy-in from both internal and external customers, a readi-
ness to revise processes, policies, and structures to align with
the changes, redefining the new environment and a willin-
gess to put new performance management systems in place.

In regards to establishing a suitable corporate structure, it is
important that organisations are clear about the objective
and the type of new structure required of the center once
the conversion is fully implemented. Establishing a viable and
recognisble status for the new profit center imparts legiti-
macy in the eyes of both internal managers and employees
and external suppliers and customers. The creation of a de-
tailed strategic business plan that includes restructuring for
the proposed profit center might also demonstrate a reason-
able growth goal and thus be expected to be important to the
process of establishing the appropriate corporate structure.
Also what might be important is aligning all processes to the
new strategy and structure.

Process reengineering at the United Emirates focused on three
key aspects: creating awareness, message reinforcement, and
identifying a competitive advantage. Awareness was created
through a six month road show to reach out to potential cli-
ents. Message reinforcement occurred as the road show took
the form of a one-time blitz. Accordingly, smaller marketing ef-
forts were undertaken to continue the message after the road
show. Finding a competitive advantage required the organi-
zation to look internally at its key strengths and externally to
market opportunities.

Employees also required some guidance in transitioning from
a cost center to a profit center. It was considered important
that patience is exercised so employees could acclimatize to
the new environment and performance management systems.
This process is facilitated if employees are involved earlier in
the process and any changes to their workload and working
environment should be communicated earlier. Reorganisation
also led to a comprehensive review (i.e. “lessons learned”) of
the implementation at regular intervals, seeking to identify
what works and what has not worked. An effective strategy
to obtain employee buy-in was to identify a champion to dis-
seminate information to the internal teams as to how and why
employees should operate in a profit center.

Redefining the corporate environment was also a key process.
Corporate leaders had to explain how the new set-up will re-
define relationships with suppliers. Organisation would iden-
tify distinctive competencies, based on service and price just
like other independent businesses. A strategy for attracting
new external customers was developed by being grounded
in competences and available resources. Metrics were estab-
lished to measure results.

This all suggests that organisations must be aware of their
cost structure which allows them to develop value pricing for
both internal and external customers. It further suggests that
organisations should establish benchmarks for costs and per-
formance and should go beyond profitability. Current financial
and operational systems should also be evaluated in terms of
integration with the new environment. Lastly, profit center
performance measures should include qualitative metrics,
such as customer satisfaction rate and employee engagement

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