Northumbria Research Link

Introducing a Research Project on
Shared Services in Governmental Agencies

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Abstract

Organizations around the world have realized that retaining duplicate support processes and non-strategic activities in each business unit has often become an unaffordable luxury. To get this situation under control, many organizations consider some organizational change. Thereby, shared services are often implemented to bundle some of the support processes and non-strategic activities into a separate organization.

How shared services can successfully be adopted by governmental agencies is the focus of the here suggested research project. From the applied information management perspective, the project seeks to describe how persons, processes and activities, information use, information systems, and the underlying infrastructure for information processing and communication are managed when shared services are put into effect in public organizations.

Such a description contributes to a better understanding of how to successfully adopt shared services to public organizations through increased knowledge about how to plan, organize, and control the five levels of information handling.

1 Introduction

The ambition to improve business goes far back in time. Some early classic scientific works tried to find answers on how to optimize organizations. Adam Smith (1776), Frederick Winslow Taylor (1911) and Max Weber (in Baumgarten, 1964) were some of those who were inspired by the idea of improving business. Among others, they strived for optimization through division of labor, specialization, and standardization. But the past has shown that all approaches had to be adjusted to organizations and their specific requirements. Thus, generally accepted operations or best ways could not be given.

However, the idea of finding the best way of organizing business still keeps many researchers and practitioners busy. Today's counterpart of the approaches are the much-lauded best business practices. They can be used as a source of inspiration by other organizations. By studying best business practices, usually, valuable insight can be gained. These insights can, then, be applied to a new organizational context.

For a long time some best business practices have been focused on core business processes (cf. e. g. Davenport, 1993, Hammer and Champy, 1993, Kaplan and Murdock, 1991). In such descriptions, process improvement is often concerned with cutting costs while maintaining or improving an organization's products and services in terms of quality and flexibility (cf. Toffler, 1985, Volberda, 1998).

After years of work with core process, a point has been reached where core processes often have not much potential left for improvement. However, support processes, that earlier have often been neglect by managers, still have potential for extensive improvements (Kagelmann, 2000, Schulman et al., 1999). Many times duplicate support processes and non-strategic activities have been performed in organizations, indicating a tremendous theoretical potential for optimization and extensive economies. Such duplication has often become an unaffordable luxury for organizations (Quinn et al., 2000) — both in the private and public sector. Hence, support processes have come into the spotlight of many change projects.

These change projects started in the late 1980s to bundle support processes and non-strategic activities in separate support organizations. The basic idea behind this, is to put all duplicate activities and processes in one organizational unit, which in turn treats those processes and activities as the core of its own business (Schulman et al., 1999). Many organizations followed these examples and the shared service phenomenon was born.

2   Shared Services at a Glance

Shared services have been acclaimed by the business press (cf. e. g. Cassell, 1997, Jackson, 1997, Lester, 2001) as *the* alternative for larger organizations to cut costs through cutting out costly duplication and achieving economies of scale.

In the following subsections shared services are briefly described. The description is mainly based on Kagelmann's Ph. D. thesis (2000) and management literature by Bergeron (2003), Schulman et al. (1999), and Quinn et al. (2000).

2.1   A Short History

Some people think that General Electric's financial services, which were founded in 1984, was the first type of shared service (cf. Kagelmann, 2000). However, another source mentioned Jim Bryant as father to the shared service term, when he implemented one at Baxter Healthcare in the late 1980s (Moller, 1997). And Quinn et al. (2000) write, that Bob Gunn believes the term was coined when he led a best practice study at A. T. Kearney in 1990. Consequently, it is unclear who coined the shared service term and when this happened.

However, regardless of who coined the shared service term, it appears that it is has its origin in the US. A legal orientation towards corporations in the US in the 1980s was responsible for the development of shared services and put shared services on the map. At that time, all projects started with the finance function.

From the US the concept was exported to other parts in the world. Among these were also Europe, which was a number of years behind the US in adopting this new way of providing internal support services. Europe is currently catching up (Moller, 1997) and e. g. in Sweden the concept is already implemented or under implementation in many large organizations (Ulbrich and Nilsson, 2002). The very fast diffusion of shared services depends probably on its unreserved praise in management literature and business press.

2.2   Some Definitions

So far, definitions on what shared services are do not differ much. Common for the following definitions is that they all focus on optimizing corporate resources and processes in a new organizational entity.

Schulman et al. (1999, p. 9) e. g. define shared services as: "The concentration of company resources performing like activities, typically spread across the organization, in order to service multiple internal partners at

lower cost and with higher service levels, with the common goal of delighting external customers and enhancing corporate value."

In Bergeron (2003, p. 3) it can be found that: "Shared services is a collaborative strategy in which a subset of existing business functions are concentrated into a new, semi-autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in the open market."

Moller (1997) identifies the following characteristics: "A shared service centre (SSC, my annotation) is an independent organisational entity which provides well defined services for more than one unit (which may be a division or business unit) within an organisation. The SSC is responsible for managing its costs and the quality and timeliness of the services it provides to its internal customers. It has its own dedicated resources and typically will have informal or formal contractual arrangements, often called service level agreements, with its customers."

And finally, Quinn et al. (2000, p. 7) give a short despriction that: "Shared services at a simple level refers to the practice of business units, operating companies and organizations deciding to share a common set of services rather than have a series of duplicate staff functions."

2.3 Characteristics of Shared Services

From the definitions above some characteristics can already be identified. In his research, Kagelmann (2000) went further in identifying more specific characteristics, which partly are rendered in this subsection.

Shared services are often bundled in *independent legal entities*. They are usually *geographically separated* from the headquarter. Thanks to modern information and communication technology, they are independent of space. This means that shared services can be located anywhere. However, how such a location is selected should not be left to chance. Schulman et al. (cf. chapter 10 in Schulman et al., 1999) describe 15 specific selection criteria.

Tasks that should be gathered in shared services should not be critical tasks from a competition point of view. Neither should customer contacts or sales points be put into shared services to retain their interconnection to the core business (cf. Schulman et al., 1999). Thus, only support process and non-strategic activities[1] should be bundled in shared services. To be able to take over processes and activities some adjustments are likely to be necessary. Earlier, different units could have handled things differently, but in order to achieve economies of scale, such processes and activities need to be streamlined. "Although *process reengineering* is *not a requirement* of

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[1]My definition of processes and activities is formed by Hammer and Champy (1993, p. 35) that processes are a collection of activities that takes one or more kinds of input and creates an output.

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engaging in shared services, *process redesign* is a requirement at some point in the journey to a fully operational shared service organization" (Schulman et al., 1999, p. 69).[2]

One goal with shared services is to set up a *center of scale* (cf. Kagelmann, 2000). Moller (1997) describes that "by moving many small groups of administrative and clerical staff into a single location, considerable economies of scale can be achieved, peaks and troughs of work load can be better managed and the spans of control of supervisors to clerics can be increased considerably."

Besides economies of scale due to concentration in a separate organization, an acquired power can help to *negotiate better terms and prices* which can cut even more costs due to e. g. volume discounts.

Additionally, *extra revenues* can be generated when opening shared services to others. Besides improving the organizations working capital, also *financial risk management* can benefit from external revenues (cf. Kagelmann, 2000, pp. 75–76).

Establishing a center of expertise is another expressed goal. Through concentration on core competencies, *output quality can be enhanced* at the same time as *cycle time is reduced* (cf. Kagelmann, 2000, pp. 76–77).

Employees are more satisfied and their competencies can be better utilized and anchored in the organization, which contributes to *improved knowledge management* (cf. Kagelmann, 2000, pp. 77–78). By feeling that their knowledge is more appreciated, employees can also contribute to a new service minded attitude, which is important when creating a new level of internal customer-supplier relationship or business partnership.[3]

Creating shared services helps to *create a platform for business growth*, *flatten organizational structure*, and *support of general group strategy*. It is often a *step towards globalization*, an *enabler for cultural organizational change*, or a *step towards external outsourcing* (cf. Kagelmann, 2000, pp. 79–81).

3 Organizational Alternatives

Besides shared services, different kinds of concentration can be achieved by some organizational alternatives. Shared services are often said to combine

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[2]Redesigning processes and activities usually runs the risk of inadequate considerations regarding the demands to interface between the shared service organization and its business partners. Especially, when planning on a higher level, details might first become visible in the implementation phase, which lead to additional costs in the implementation process (cf. Kagelmann, 2000, p. 176).

[3]On the other hand, establishing shared services can carry along problems especially when moving to a new place. Motivation can decrease due to work overload in the beginning, which can lead to larger labor turnover. This implies a lost of know-how, and new personnel have to be employed. The new employees lack an understanding for business transactions.

the best from centralization, decentralization, and outsourcing (Kagelmann, 2000). Therefore, I shortly describe the three alternatives and in which aspects they differ from shared services.

3.1 Centralization

A classic alternative to shared services is to centralize support processes. According to Quinn et al. (2000) it is an unarguably cheap alternative. However, centralization "often suffers from its sordid history of a bureaucratic center with no idea of service or the real world" (Quinn et al., 2000, p. 7).

The distance to business services is also symbolized through an orientation towards the headquarter, whereas shared services are typically outward oriented towards their internal customers with an expressed customer/supplier relationship (Moller, 1997).

Outward orientation in shared services is also expressed by process thinking, which puts the customer or business partner in the middle, whereas centralized units are often characterized by a functionally oriented design.

Another sign for outward orientation in shared services, is how to treat customers or business partners. While a medium to high customer orientation can be observed in shared services, customer orientation with centralization is rather low (Kagelmann, 2000).

A centralized unit is part of a legal entity and is controlled through budgets with limited awareness of costs and service levels. Shared services, however, are often organized as cost-centers.

3.2 Decentralization

Another classic place to put support processes are local departments. There exists an unique knowledge about the business, which can directly be used in the departments.

Per definition processes and activities are not gathered in a separate legal entity. They are a part of the local department, which distinguishes them from a shared service organization, which is often owned to 100% by the corporate group.

In principle, departments are locally located and support processes and non-strategic activities are performed at the same place with a responsibility for the local organization only. In contrast, shared service centers serve also entities at other locations. They are not locally connected and there is no association to one entity, as shared service centers are organized in autonomous entities.

Another distinguishing feature is pricing. Shared services often use transfer prices, whereas local departments can only have some local cost apportionment.

Precisely as centralized entities, decentralized units have rather a functional structure than a process-oriented one, which can be observed in shared services.

Synergy and professional competence have lower potential in specialized units. Quantities tend to be too low so that resources cannot efficiently be used. This carries along the risk that no special competence can be built up. Shared services, on the other hand, offer the possibility to achieve economies of scale as quantities go up. Higher quantities also allow for specialization and core competence can be achieved.

Achieving economies of scale, however, is connected to more standardization. Consequently, shared services tend to be more standardized and less flexible to meet an individual entity's demands than a decentralized unit. Thus, decentralized solutions offer more flexibility and adaptability.

3.3 Outsourcing

Outsourcing has become a popular alternative since the mid 1980s (Knolmayer et al., 2003). It is the use of external resources after previously having used internal resources.

There is an important difference between outsourcing and shared services in the legal body. The outsourcing alternative is provided by a third party legally independent from the corporate group, whereas a shared service organization is owned by the corporate group. Thus, the outsourcing organization is a legal entity outside the corporation (Moller, 1997).

The degree of dependency is higher than in alternatives owned by the corporate group. This can be extremely critical when business critical processes and activities are outsourced. Therefore, corporations usually keep such processes and activities in-house (cf. e.g. Lacity and Willcocks, 1998, 2000, 2003, Lacity et al., 1996, Willcocks and Lacity, 2000).

Handing over support processes and non-strategic activities to a third party implies that no professional competence can be built up at the corporation. Often, existing competence becomes even lower after a while, as tasks are not performed in-house any longer. Consequently, knowledge about them decline constantly.

Pricing is based on negotiable market prices, whereas shared services often use transfer prices and only seldom market prices (Kagelmann, 2000).

3.4 Distinguishing Features

Having discussed shared services and its organizational alternatives, the distinguishing features between shared services and centralization, decentralization, and outsourcing are summarized in Table 1.

Table 1: Distinguishing features based on (Kagelmann, 2000, pp. 135–142)

Feature	Centalization	Decentral-ization	Outsourcing	Shared Services
Legal Structure	No legal entity	No legal entity	Not specified	Predominantly legal entity
Owner Structure	Corporate	Corporate	Third party	Corporate
Economic Structure	Cost-center	Cost-center	Not specified	Cost-center
Location	Headquarters	Department	Not specified	Separate
Internal Structure	Functional orientation	Functional orientation	Not specified	Process orientation
Pricing	Cost apportionment	Local cost apportionment	Market prices	Transfer prices
Standard-ization	Middle	Low	Middle-high	High
Economies of Scale	High	Low	Middle-high	High
Flexibility	Low	High	Low-middle	Low
Professional Competence	High	Low-middle	Not specified	High
Customer Orientation	Low	Middle-high	High	Middle-high

4   An Information Management Perspective

Information management concerns the interrelation between business administration and computer science. When information needs to be handled with support of modern computer systems, a dialog between organization and management doctrine on one side, and computer science on the other side, becomes necessary (Schmid, 1997). Wollnik (1988) developed a three-level model (cf. Figure 1) which can help to understand computer-supported information handling.

Wollnik (1988) states that information is needed to reach goals and to perform tasks in an organization. Thus, a goal and task adequate information use is important. In respect to shared services, this means that

information is requested[4] when handling support-process and non-strategic activities. This can e. g. be financial information. Information use represents the top level of information handling in Wollnik's model. The use of information even constitutes how processes and activities are organized. Organizing means here to express them as regulated procedures.

Processes and activities that use information often demand some computer-based assistance. Here applications, programs, and systems — or in short information systems — are needed. They cover information processing and communication activities and are of more data processing nature. Information systems require functional, organized, and regulated procedures based on data flows. Surprisingly, even modern information systems are still based on logical small steps as Taylor (1911) suggested in scientific management (cf. Schmid, 1997). Information systems represent the middle level of information handling in Wollnik's model.

The bottom level in Wollnik's model of computer-supported information handling is represented by an infrastructure for information processing and communication. This infrastructure supports the different information systems.
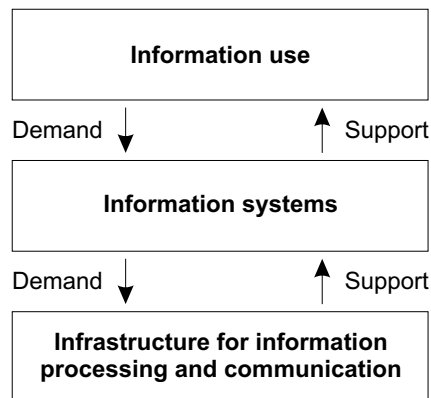

Figure 1: Wollnik's three-level model shows the context in computer-supported information handling (Wollnik, 1988, p. 38)

Wollnik's top level in the three-level model addresses information use. The use of information is influenced by overlying processes and activities, which represent the execution of an organization's attempt to achieve its goals. Thus, processes and activities demand underlying information, and information use supports processes and activities. Hence, processes and activities can be placed as a new level above information use.

Processes and activities, however, are influenced by persons in organizations. It has become common to account for persons and their behaviors in

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[4]Cf. e. g. Schwarze (1998) who points out the importance of an information request as trigger for processes and activities within information management.

information management studies (cf. e. g. Lundeberg, 1993, Sampler, 1996). To include persons in this study another level is added to Wollnik's model.

Having discussed information handling from Wollnik's initial three levels and the two complementary levels of persons, processes and applications, we should look at how information handling is managed. According to Wollnik, managing means to plan, organize, and control the usage of resources and execution of processes and activities.

In this sense, information management means planning, organizing, and controlling persons, processes and activities, information use, information systems, and infrastructure for information processing and communication in an institution/organization (Wollnik, 1988, p. 39). Figure 2 pictures this context. The figure is inspired by the level models of Wollnik (1988, p. 39) and Krcmar (2003, p. 46) and expanded with the two levels of persons, and processes and applications.
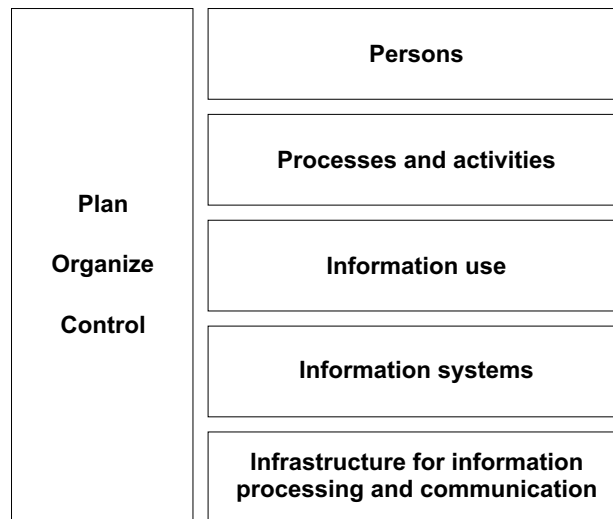

Figure 2: Key aspects of information management.

To sum up, applying an information management perspective on shared services means to investigate how the five levels (in Figure 2) of information handling are managed.

5   Research Question

The overall research question for the proposed research project is *how shared services can successfully be adopted by governmental agencies.*

Based on the assumption that an information management perspective can contribute to a better understanding on how a successful adoption process can be shaped, the research project seeks *to describe how persons, pro-*

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cesses and activities, information use, information systems, and the underlying infrastructure for information processing and communication are planned, organized, and controlled when shared services are put into effect in public organizations.

5.1 Limitations

Management concepts from the private sector are increasingly adopted also by public organizations as a consequence of the new public management movement. Due to the researcher's interest in public organizations, a focus is put on public organizations when studying shared services.

Further, for practical reasons, the study is limited to the finance function and within the finance function to accounting. This means that all levels in the five-level model are only considering support processes and non-strategic activities within accounting in governmental agencies.

Since the shared service phenomenon is the focus of this study, the decision to adopt shared services is not questioned with respect to the described three organizational alternatives. Neither are political or legal questions considered.

As the project unfolds, the research question and design can be further revised according to unexpected observations, limitations and/or opportunities.

5.2 Contributions

Through a rich description on how persons, processes and activities, information use, information systems, and the underlying infrastructure for information processing and communication are managed when shared services are adopted in public organizations, it is expected to expand current knowledge on shared service adoption with an information management perspective.

Acknowledgement

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