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The Formation of Shared Services Partnerships in Local Government to Manage Resource Dependencies

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ABSTRACT

It is suggested that a motivation for the formation of shared services partnerships (SSPs) in local government is to manage dependencies on other levels of government. A framework that links the composition of a shared services partnership, its effectiveness and dependency management is proposed. A case study of an SSP between four local councils in Australia is examined through the lens of that framework. The results suggest that while the specified objective of the SSP was to improve efficiency the impetus for its implementation was indeed to manage a dependency. Interestingly that dependency appears to have been managed despite the SSP failing to deliver significant efficiency gains. The case also highlights that the components of the framework are more complex and multifaceted than thought. In particular it appears while an SSP may be an effective vehicle to manage a dependency it also creates new dependencies – between the SSP participants themselves.

Keywords

Shared services, resource dependency, local government.

INTRODUCTION

The European Commission sees one of the central pillars of eGovernment as being the use of Information and Communication Technologies (ICTs) to improve the provision of public services. The local or municipal level of government is increasingly being made responsible for the delivery of such services (Sorrentino and Ferro, 2008) while also being pressured to improve its operational management or risk reform (Dollery et al, 2005a). Often local governments have seen a variety of forms of partnership as the way forward (Entwistle et al, 2007; Huxham, 1996). Janssen and Joha (2006) and Becker et al (2009) have suggested that shared service partnerships (SSPs) are an option worthy of consideration while Sorrentino and Ferro (2008) see such partnerships as a key plank of eGovernment initiatives. At a broad level the concept of shared services is the aggregated provision of back-office services (Quinn et al, 2000; Ulbrich, 2006; Longwood and Harris, 2007) typically underpinned by ICTs (Hagel and Seely Brown, 2001).

The focus of this paper is on improving understanding of shared services adoption by local government. The perspective taken is that it would be useful to consider not only the potential operational improvements a SSP might provide but also why those benefits are required. Specifically it is suggested that one potential impetus is a desire on the part of local government to manage dependency on other levels of government.

The next section of the paper introduces resource dependency theory and suggests that the composition of a SSP will influence its effectiveness and thus its ability to manage a dependency. Subsequently a case study of an SSP in the State of New South Wales in Australia is described and analysed using the proposed framework.

RESOURCE DEPENDENCY THEORY AND SHARED SERVICES

Building upon earlier work in social exchange theory (Emerson, 1962; Thibault and Kelly, 1959) the central proposition of resource dependency theory is that an organisation’s survival is influenced by its surrounding social, political and task environment and hinges on its ability to procure critical resources from that environment. Such resources can be tangible or intangible and include capital resources, information and institutional legitimacy (Oliver, 1991). To secure the flow of needed resources, organisations try to restructure their dependencies and exchange relationships by establishing links with other organisations (Ulrich and Barney, 1984) that seek to deliberately increase the extent of coordination (Heide, 1994; Cyert and March, 1963). Such links do not need to be solely with the controller of the resource of interest – they can be between a group of organisations with similar dependencies intended to establish a countervailing locus of power (Pfeffer and Salancik, 1978).
It is suggested here that a resource dependency perspective may be useful in understanding the creation of SSPs at the local government level. Local government is often weakly placed relative to other levels of government which consequently have a significant influence on its role, funding and even existence (Sorrentino and Ferro, 2008; Dollery et al, 2005a). It is proposed that the establishment of an effective SSP at the local government level can help participants manage their dependencies on other levels of government. Furthermore the effectiveness of the SSP is influenced by its composition, in terms of the resources it provides and the relationships established for its operation. Each component of the framework is briefly outlined below.

Resources

Pfeffer and Salancik (1978) suggest that dependency is determined in regard to specific resources and relates to the importance of a resource to the organisation and the available sourcing options. Specifically it is a function of the relative magnitude of the contribution of the resource to the organisation, the ability of the organisation to continue functioning in its absence and the power balance between the controller of the resource and the organisation. If an SSP is to successfully assist in dependency management it would appear necessary that it embraces resources of significance.

Relationships

Pfeffer and Salancik (1978) suggest that the most complete method for controlling dependency is to take over the source – either through merger or acquisition. However they recognise that this is neither always possible nor desirable. An alternative is to manage the dependency indirectly by entering into a collaborative arrangement – in this case the formation of an SSP. However as recognized by Sobrebro and Schrader (1998) under the broad umbrella term of collaboration there exist many different types of coordination mechanism – and these mechanisms do not always function effectively. The relationship structure chosen for the SSP and whether it is appropriate and functions effectively is therefore critical.

Effectiveness

Resource dependency theory assesses success from an effectiveness perspective and simply considers that “the effectiveness of an organisation is its ability to create acceptable outcomes and actions” (Pfeffer and Salancik, 1978). As such it is non-prescriptive in terms of requiring specific goals. From the current perspective assessment of the effectiveness of an SSP simply relates to the extent to which it delivers the goals assigned to it.

Dependency management

As suggested earlier a primary objective of organisations is to adopt strategies to manage the dependencies they face (Pfeffer and Salancik, 1978). The dependency of specific interest here is the impact of an effective SSP on the dependency between local government and other levels of government.

METHODOLOGY

Having outlined the basic framework empirical research was conducted to determine whether it is useful in enhancing understanding of the motivation for SSPs in local government and the composition of those SSPs if they are to be effective.

Given that little research has been conducted on shared services, a case study based approach was determined to be appropriate (Benbasat et al, 1987; Straus and Corbin, 1990). Australia was seen as an appropriate location for study as it has long been suggested that shared services are an appropriate option for local government to improve efficiency (HRSCEFPA, 2003). While the specific locus of study was the New England Strategic Alliance of Councils (NESAC) the perspective from which dependency was assessed was that of each of the four councils participating in the alliance. As such interviews were conducted with the General Manager of each council, each being between one and two hours in duration. A semi-structured interview protocol was followed to introduce a degree of commonality while minimising the potential for overlooking any unique aspects (Firestone and Herriott, 1982). Between one and three follow up interviews were subsequently conducted with each interviewee. Interviews were also supplemented by a review of publicly available, and interviewee provided, documentation to enhance the ability to triangulate data and corroborate the perspectives provided (Yin, 2003). With regard to analysis, data was first reviewed and coded in terms of its relationship to the dimensions identified – an approach in accord with the recommendations of Miles and Huberman (1994) and Yin (1981) who suggests organising data “around the substantial topics of the case study” (Yin, 1981, p60).

NESAC was selected as the focus of study on the basis that it had been previously promoted as a successful example of a shared services partnership in local government (Donnelly et al, 2005b). As such it was felt to be an appropriate starting point.
for examining if dependency management is a motivation for the formation of SSPs, whether an effective one helps manage that dependency and how the composition of the SSP contributes to effectiveness.

RESULTS

History

In 2004 the Department of Local Government (DLG) moved to amalgamate the councils of Armidale-Dumaresq, Uralla, Guyra and Walcha in the Australian State of New South Wales. In response the councils proposed a strategic alliance – NESAC – to develop and provide shared services as an alternative. Based on the principles of efficiency, performance and autonomy it was proposed that NESAC would:

- Identify one-off savings of $1.3m and subsequent annual savings and benefits of at least $1.7m across fourteen identified functional areas of focus.
- Implement a performance management system to measure increased service levels, new services provision and implement a sustainable approach to asset management.
- Protect local employment and economic activity
- Retain local autonomy and representation

After strong lobbying by the councils and the local parliamentary representative the DLG agreed to defer amalgamation with the condition that NESAC was implemented successfully.

NESAC was established under charter for an initial four year period and structured such that the General Manager of each council had a portfolio responsibility for the delivery of specific shared services. Those services were to be supplied by the host council and sold to the other councils. In addition each General Manager would retain responsibility for the delivery of services outside the remit of NESAC to their local council. At the outset shared service provision was proposed for fourteen functional areas and a business case was prepared for each one. After realising benefits from the initial reorganisation recurrent benefits were expected to be realised principally through reduced duplication, increased productivity and streamlined council functions. An advisory committee comprised of the Mayor and Deputy Mayors of each council was also established with each member having equal voting rights. Resolutions passed by the advisory committee have also to be ratified by the individual councils.

Combined the four councils serve a population of over 40,000 across an area of 18,140 sq km with a budget of $75 million. Out of a total of 649 staff approximately 90 work in shared service teams. From the outset it was specified that there would be no forced redundancies and no forced relocations of staff.

In February 2009 Walcha council withdrew from NESAC. Subsequently two of the remaining councils determined to not extend their involvement beyond the renewal date of October 2009.

Resources

Shared services has been put in place by NESAC for two distinct types of activities – routine and expert. Routine activities are those that are highly standardised and often transaction based. Examples include payroll processing, accounting transactions and the provision of IT services. Expert services by contrast are highly specialised and typically require high levels of skill and judgement. An example would include engineering. From a dependency perspective both are major components of a council’s operations. A shared service approach potentially allows councils to realise economies of scale, reducing their cost base and allowing them to provide improved levels of service.

Interviewees suggested a number of fundamental issues arising from the implementation of shared services. There were disagreements regarding which activities should be included and what level of service would be appropriate. Some interviewees suggested a broad range of services should be delivered via shared services to maximise the economies of scale. Others however argued for a narrower range and suggested that for some services NESAC might not be the most appropriate delivery vehicle as there could be benefits in either increasing or decreasing the number of councils involved.

“We all agreed to go to one IT system because it was obvious from day one that you had to have that as the crucial platform on which to operate. You had to have common systems, processes, all those sort of things” Council B

1 The New England Weeds Authority was also included as a member of NESAC
“they wished everything to be shared services right across the board .. and we said we didn’t want everything. Some services we wanted to be delivered locally” Council D

“What has happened is that the smaller councils have chosen to, not cherry pick, but to not take some services that we have available now” Council A

“Each service has a different footprint” Council B

There was also a concern that the implementation approach was too ambitious

“Far too ambitious. We didn’t start incrementally, we started saying we want to do all of this and then nothing got done. Could have set up nice simple systems and then built on those .. [but] tried to build on very complex things very quickly” Council C

Some councils also believed that they were paying for a level of service that they did not require.

“They have an accounts guy who’s on a contract of $140,000 plus on costs, $180,000. I can buy half a dozen people for that. I don’t need...It’s kind of a Rolls Royce when you don’t require...” Council D

Relationships

With regard to the relationships put in place to manage the operation of NESAC, interviews confirmed the importance of putting an appropriate structure in place.

It was also recognised though that the relationships put in place to govern the provision of shared services are shaped and constrained by the cultures and modus operandi of the various councils

“one general manager had a very tight definition of what was policy and what was operational. He kept his mayor and councillors out of operational. So therefore made a determination of what was policy and what was available to the councillors [with regard to shared services]. We had a different view but when [our councilors] tried to get the same level of information from the shared services team there was a shutter up.” Council B

Furthermore differences in size can have an impact – with one of the councils viewed as an 800 kilogram gorilla relative to the others.

“It may have been that one large council and three smaller councils was never going to work because the large council always saw that it was giving away its rights. ” Council B

“Because we’ve been such a leader in this change, because we’ve had more staff and more skilled staff, it’s been sort of seen as what we want. It’s all for us” Council A

It was also suggested that it is necessary to assess relationships at multiple levels – there may be good relationships in parts and not so good in others – and from multiple perspectives – each partner may have a different view of their efficacy.

“The general managers may not get along to well but underneath them people can still work well together” Council C

Perhaps surprisingly interviewees emphasised the need to formally agree and document relationships – and in particular the rights and responsibilities associated with them. From the outset there were differences of opinion as to the best way to proceed and these were never resolved. The formal NESAC charter which sought to accommodate the varying perspectives was seen as ineffective – for example various interviewees commented that it was open to interpretation and drift and that any decision taken by it’s advisory board required subsequent approval by the all individual councils

“Every time somebody said I don’t like that their, I don’t know, desires were accommodated...which makes everything weaker because you try and do everything for everyone and you do nothing for no-one.” Council A

“formalise the arrangements a lot more stringent” Council D

“It shouldn’t be personality based... because then you inherit - that’s your position when you take the job that you inherit. You can’t open it all up again. That’s your role to deliver that, end of story” Council C

Effectiveness

Interviews suggested that effectiveness – or acceptable outcomes – needs to be assessed in a number of ways and from a number of perspectives. The primary formal objective of NESAC was to deliver efficiencies. To date its success is open to
question. While some benefits are widely acknowledged – such as economies of scale enabling the appointment of specialist experts – the merits of large scale operational initiatives – such as the introduction of a common IT platform – are questioned.

“Payroll works but despite what they say the IT system never really delivered. What kept on happening is they’ve kept running into problems with their system”  Council C

Some complained that they could obtain the services they required at a lower cost than could be provided by the alliance.

“We’ve now basically got exactly the same type of service that we were getting out of NESAC at a lower price. How can that be?”  Council D

Interviewees though also acknowledged a change of mindset with a recognition of the benefits of obtaining services and guidance from outside their home organisation and a recognition of the existence and benefits of adopting best practice. Furthermore NESAC is held to have fostered the development of working relationships between councils such that despite the collapse of NESAC the withdrawing partners still intend to source or provide a number of services collectively.

“What did we get out of it, we got out of it awareness that we have to provide the services to our community at the best possible solution”  Council D

“But one of the good things that has happened out of the regularly meeting with people, the trust has been built, everyone gets on very, very well”  Council B

“after a time I think there’s also a realisation amongst many of them that the processes that have been changed have been good at the end, after they’ve got over the change.”  Council C

“When we pulled off, we didn’t have any preconceived ideas that we would cover all the service delivery from the alliance. We thought we’d still purchase some services from the alliance and enter into some cooperative arrangements and we just did that.”  Council D

“We weren’t close to any of the councils, to tell you the truth. So there’s lots of benefits that have come out of that. The fact that we are close now that we still have a reasonable working relationship with…”  Council B

However without the economies of scale generated by the alliance there is the possibility that that the “core” large council will need to scale back its operations and will not be in a position to continue to provide the others with specialist services – or indeed any other services. It is also possible that over time the achievements of NESAC in streamlining and standardising activities coupled with its ultimate collapse could make amalgamation easier.

“What [the largest council] can provide us may be limited ‘cause they just won’t have the capacity”  Council B

“If anyone come along tomorrow and said youse are all amalgamated, it would take very limited time to actually bed it down because all the work’s been done.”  Council A

Dependency management

NESAC was an initiative to address a dependency of the councils involved on the State government – the DLG – by improving operational performance and thus mitigating the threat of amalgamation. In the short term at least NESAC appears to have been successful in this regard.

“amalgamation is now off the agenda [of the DLG]”  Council C

However the interviews also suggest that there is a second dependency that has been created by NESAC – between the councils themselves – and that the management of this has been much more problematic. Not all of the councils have been fully prepared to accept a dependency on one another – indeed there has been an underlying desire in some cases to preserve autonomy.

“I think mainly because they could see an erosion of their power and influence to go any further than that and certainly wasn’t supported at a political level because they wanted to keep autonomy.”  Council A

Examples of attempts to limit dependency include efforts by several of the councils to restrict the scope of NESAC, maintain local staff and service delivery and enter into collaborations with other councils.

“I still had all the staff that I had before I went in”  Council B
A number of interviewees also suggested that one of the principal factors undermining NESAC was the forced nature of the alliance. Councils tended to hold back – since they were not fully committed to the concept and an imposed implementation timetable that caused initial problems tended to reinforce that reluctance.

“The shared services team, finances and IT had lots of integration problems – let’s not hide the fact. It was rushed, there was an imperative, despite the fact the department will never say it was but the minister basically said you’ve got a time limit you’ve got to get this up, I want to see results. This is April 2004, I want to see results by October 2006.” Council C

“We have a split community of interest .. not want to be bound up totally in one venture .. look beyond the boundaries” Council D

CONCLUSION

The NESAC case suggests a resource dependency perspective can be useful in understanding the emergence of an SSP. Such a perspective brings into focus not only the objectives of an SSP but also why those objectives are important. Furthermore examining the composition of an SSP – in terms of the resources it focuses on and the relationships established – appears to provide insight into influences on the effectiveness of the SSP and dependency management.

It is also clear that the concepts of resource, relationship, dependency and effectiveness are complex and multifaceted. As a result the case suggests that it is pivotal that organisations entering into a shared service arrangement at the outset, surface, agree upon, and formally document, their understanding. The experience of NESAC suggests that without it there can be ongoing and potentially unresolvable problems as the various parties adhere to their own, differing, interpretations.

Examining each concept in turn. With regard to resources, the case confirms that an SSP should focus on those that are significant to an organisation’s operations but also highlights both that resources are not homogeneous in nature – for interviewees in the NESAC case the principal axis of differentiation appeared to be between routine and expert activities – and that there will not necessarily be clear agreement as to which should be included in the SSP. Indeed it is clearly necessary to look beyond simply ensuring that an SSP embraces resources of significance to also considering what characteristics of the resources within that set make them more or less appropriate for inclusion. Turning to relationships, the case suggests that an SSP will not necessarily be a greenfield and that the relationship structure that can be put in place will be shaped by characteristics – such as culture and size – of the parties involved. The case also suggests that there may be benefits to formally documenting the nature, scope and operation of proposed relationships such that they become organisationally embedded rather than dependent upon the personalities of individuals. In terms of effectiveness it is clear that there are both different perspectives and different measures. For example while not universally seen as successful from the prime objective of cost reduction NESAC has delivered a recognition of the merits or working together and a shift away from the view that all activities need to be provided internally. With dependency, the case suggests that while shared services can be a means of managing a dependency – in this case relating to the DLG and the threat to amalgamate councils – they also introduce another – between the shared service participants.

The research contributes to the literature in a number of ways. From a research dependency perspective the research suggests that organisations may not seek to manage all of their critical dependencies all of the time – that in some circumstances there may need to be an impetus. In the NESAC case the dependency between the councils and the DLG was long standing and it was only when there was a change – the threat of amalgamation – that the councils sought to manage it. Specifically it could be argued that the creation of NESAC was an attempt by the councils to alter the balance with regard to the control dimension. Developing an efficient shared services operation makes it difficult for the DLG to institute amalgamation – demonstrating its control of the distribution and use of resources such as finance by their reallocation – on the basis that the councils can not provide services economically. The case also suggests that dependency management needs to be considered from a holistic perspective – given that efforts to manage one dependency may potentially introduce or increase another. Furthermore, the research is interesting from the perspective of an example of how an initiative can be subverted and yield a different outcome – perhaps even the opposite one – to the intended one. In this case the DLG thought that an SSP would yield efficiency benefits and allowed it as an alternative to an amalgamation of councils to deliver those benefits. The outcome at this stage though appears to be that the NESAC councils have avoided amalgamation without substantially delivering any efficiency benefits! Finally, and most generally, the case adds support to the perspective that shared services are an appropriate focus for eGovernment research highlighting that information systems are a key foundation for their delivery. Extending eGovernment research to include an examination of how new business arrangements, activities and processes such as shared services interact with information systems will help maximise its contribution.
For future research, there is an obvious need to conduct additional case studies to see if the framework can assist our understanding of other SSP initiatives in local government – and potentially beyond. It would also be valuable to explore in more detail the dependencies that are created between the parties establishing the SSP. For example with NESAC there were clear differences in the proclivity to give up autonomy. How can such dependencies be identified, assessed and managed to the satisfaction of all participants? More fundamentally it would be valuable to consider the role of dependency management relative to other possible motivations for SSPs. It is a relatively rare or subsidiary driver or can it provide an umbrella explanation – independent of the specific objective such as economies of scale – as to why organizations creating SSPs do so at a particular point of time.

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