Implementing Centers of Excellence: A Case Study

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Implementing Centers of Excellence: A Case Study

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ABSTRACT
This paper explores the implementation of shared services, and in particular centers of excellence, in Swedish government agencies. It investigates how context shapes the translation of general guidelines on how to implement this type of back-offices. The study shows that the homogeneous picture drawn up in the management literature is not met in reality. Instead, different translations take place based on how context influences the implementation. This clearly shows that it does not exist one common approach as suggested in the literature. It proves that general guidelines cannot simply be applied by organizations, but that they rather need to be translated to fit an organization’s specific preconditions and demands. It also proves that the literature takes a too simple view on implementing shared services centers.

Keywords
Adoption, government agencies, IT-enabled organizational change, shared services, translation

INTRODUCTION
ICT-enabled transformational government puts citizens in the center of attention. As a consequence, many countries work towards providing single points of contacts and making government transparent to citizens and businesses (Dhillon, Weerakkody and Dwivedi, 2008). While governments set course on transforming public-sector organizations to meet these new demands, government agencies are increasingly asked to focus on their specific core tasks. To enable these agencies to concentrate on such core tasks, back-office processes and information systems, which are not considered crucial to manage core tasks, are increasingly transferred to shared services centers (Janssen and Joha, 2006; Janssen and Wagenaar, 2004; Ulbrich, 2003).

Shared services centers are commonly described as independent organizational entities that provide well-defined services for more than one unit within an organization (Moller, 1997). In these shared services centers, organization-wide resources are concentrated to provide services at low costs and with a high service level (Schulman, Dunleavy, Harmer and Lusk, 1999; Ulbrich, 2008). Because many of these shared services centers provide services through networked computer systems to customers in remote locations, they massively depend on modern ICT. It is, however, not the modern technology per se that is important to successfully operate shared services centers. Rather it is important to understand how the technology can be utilized to make a difference in service provision (Keen, 1981; Peppard and Ward, 2004).

Making a difference in service provision in this case means utilizing modern technology to reduce costs and improve quality. One way of doing so is to use technology to provide organization-wide services from one or few centers in which core competence can be gathered. Such shared services centers are so-called centers of excellence.

Setting up such centers of excellence is frequently described as a fairly easy task in popular management literature. Management literature means both special sections on management in newspapers and business magazines, such as clippings from the Financial Times or articles in the Harvard Business Review or Business Week as well as books written or edited by practitioners for practitioners. This kind of literature is often accompanied by normative rules and guidelines that promise an easy implementation on an organizational level (Furusten, 1999; Ulbrich, 2006a, 2006b). Usually, these guidelines give the impression of being straightforward and easy to follow. They almost portray management ideas as “black boxes,” where one only has to provide some input, following the presented approach, and then getting the expected output, which often is pictured as enhanced service quality and reduced costs (Bergeron, 2003; Schulman et al., 1999; Quinn, Cooke and Kris, 2000).
Accomplishing enhanced service quality and reduced costs for support tasks at the same time as gathering an organization’s expertise in centers of excellence are—without doubt—desirable for public-sector organizations. Hence, governments and government agencies tend to follow promising black-box approaches when adopting the shared services idea. The black-box metaphor, which has been discussed extensively by sociologists such as Latour (1987), helps organizations to adopt a specific idea. It is borrowed from cybernetics denoting a piece of machinery that runs by itself. When a series of instructions are too complicated to be repeated all the time, a black box is drawn around it, allowing it to function only by giving it some defined input and then receiving some defined output.

However, in the case of implementing organizational change it has frequently been proven that the black-box metaphor does not work adequately and that general ideas need to be translated to make them fit to individual preconditions in organizations (Weick, 1979; Røvik, 1998). Several studies (for example, Bada, 2002; Käll, 2005; Sturdy, 2004; Ulbrich, 2006a) have shown that organizations need to consider their individual preconditions and demands when implementing management ideas such as shared services. Hence, the real management challenge is to translate general ideas and guidelines into specific actions for implementation (Czarniawska and Joerges, 1996).

In order to shed some new light into the management challenge of translating the general shared services idea and its guidelines, the present paper studies how various Swedish government agencies have implemented centers of excellence.

Government Agencies in Sweden

The public sector in Sweden, which represents the context of this study, is divided into three levels of governing institutions: national, regional, and local. At the national level, the state bodies are the Swedish cabinet, ministries, and government agencies. Political power rests with the cabinet. The ministries are political organs, whose main task is the preparation of government bills. They are usually not concerned with details of administration. In fact, ministries are usually prohibited from initiating and executing administrative action. Administration is entrusted to the government agencies. Using the concept of management by objectives and results it makes government agencies in most cases acting independently from the ministries in their operative work tasks.

Government agencies are not completely free in choosing how to accomplish their duties though. The cabinet and ministries, as well as other politicians and citizens, express their opinions on how agencies should operate. They all demand an efficient and effective administration and wish the Swedish government agencies to be part of a modern and service-oriented administration.

In the 1980s, however, a point was reached where large segments of the public perceived public administration as too slow, too rigid, too centralized, too large and too bureaucratic (Forssell, 2002). Therefore, many government agencies have undergone a number of change activities since then. In 1982 the Ministry of Public Administration (Civildepartementet) was advised to address the problem of being too bureaucratic. The organizational solution to all problems became the so-called three Ds: decentralization, de-regulation and delegation/devolution. They were repeated over and over again like a mantra until the ministry was abolished in 1994 (Forssell, 2002).

Many of the change activities in the 1990s can be formulated as the transition from public to private, plan to market economy, and monopoly to competition. This anticipated convergence of the public and private sectors also led to an increasing adoption of management ideas in the public sector (Boyne, 2002). Many of the change activities, however, were perceived as too much talk and too little action. Because of the semi-independence of government agencies, a much less coherent reform program has been carried out in Sweden compared to the Anglo-Saxon countries, and, consequently, less dramatic effects have been reported (Pollitt and Bouckaert, 2000; Sahlin-Andersson, 2002). But the talk shaped a common understanding that decentralization, de-regulation and delegation/devolution should be aimed at when implementing organizational change.

Recently, first signs could be recognized that the common ideals from the 1980s and 1990s are gradually realized. A first sign is the increasing adoption of the popular shared services idea in government agencies (Ulbrich, 2003, 2006a, 2008). This idea advocates a consolidation of administrative tasks, which is against the old perception of decentralized organizations.

Centers of Excellence

Gathering an organization’s core competence in so-called centers of excellence is part of the contemporary shared services idea (Ulbrich, 2008). The shared services idea originated in the United States in the 1980s. From the United States the idea was exported to other parts of the world, including Europe, which was a number of years behind the United States in adopting this new way of providing internal support services. Different regulations, currencies and cultures—especially in Europe and Asia—made it a bit more complicated to implement shared services in other parts of the world (Schulman et al.,
A common perception expressed in management literature is that shared services is a hybrid of already established organizational forms. The idea aims at combining the pros of decentralization, centralization and outsourcing while at the same time avoiding their cons. Basically, the shared services idea advocates the concentration of organization-wide resources into one or a limited number of service centers to cut out costly duplication in administration and to achieve economies of scale (Cassell, 1997; Jackson, 1997; Lester, 2001).

Common tasks—such as accounts payable or accounts receivable—are outsourced from all organizational units and organized in a new shared services center. This center becomes the service provider quite similar to an external outsourcing partner, which is why shared services are sometimes called internal outsourcing. These shared services are often bundled in independent legal entities—shared services centers. The new shared services centers establish relations with all organizational units to provide some selected services to them. Thanks to modern ICT, these centers can actually operate independent of space and can virtually be located anywhere. Usually they are geographically separated from headquarters to indicate their operative independence.

Beyond geographical independence, the use of modern ICT also enables changes in business practices, processes and the organizational form. Hence, the shared services idea is an excellent opportunity for studying IT-enabled organizational change on an applicable level (cf. Kling and Tillquist, 2000).

The implementation of shared services comprises various aspects. It covers—among others—the establishing of centers of excellence and centers of scale, choosing a location and legal form, focusing on processes, and designing pricing and service level agreements. It would go far beyond the scope of this paper to describe every aspect of shared services implementation in detail. Therefore, in this paper only one aspect has been selected—namely the setup of centers of excellence.

It is often claimed that through concentration on core competencies in centers of excellence, output quality can be enhanced at the same time as cost can be reduced (Bergeron, 2003; Kagelmnn, 2001; Quinn et al., 2000; Schulman et al., 1999). In the management literature it is suggested to build up centers of excellence through moving existing specialists from decentralized units into one common center for service provision (Bergeron, 2003; Quinn et al., 2000; Schulman et al., 1999). Through this type of concentration, the employees’ competencies can better be utilized and anchored in the organization, which contributes to improved knowledge management. At the same time, the employees become more satisfied as they feel that their knowledge is appreciated more. This positive impact is important when creating a new level of internal customer-supplier relationship or business partnership where a new service minded attitude is needed.

This paper focuses on whether the in-the-management-literature-advocated way to set up centers of excellence has been followed by various Swedish government agencies that adopted the shared services idea.

**METHODOLOGY**

To research how various Swedish government agencies have implemented centers of excellence, a multiple case-study strategy (Walsham, 1993; Klein and Myers, 1999) was employed. This strategy was chosen because it promised to offer insights from various organizations. These insights might eventually shed new light on what comprised shared services and the way in which organizations dealt with the translation of this particular management idea into organizational practice.

The data were collected at six organizations from three types of sources. First, data were collected through individual and group interviews (Table 1). Individual interviews followed an open, semi-structured interview guide. The interview guide covered a variety of areas, such as the interviewee’s position and responsibilities, the historical development of the shared services center, problems that occurred and how those problems were solved. Most interviewees were interviewed several times. In addition, the preliminary research findings were discussed in seven group interviews. The group interviewees were a subset of the individual interviews. Their input from the group interview generated additional feedback from a more dynamic setup.

Second, data were collected through documents. Documents ranged from early investigations and evaluations on setting up a shared services center, to glossy brochures and service level agreements, which the centers used to contact their clients.

Third, participant observation was used to collect supplementary data. Participant observation usually took place before and after individual interviews and involved short exchanges with employees. It was also possible to observe the employees performing their daily work tasks. An additional eighteen hours were spent at Agency Two to observe group discussions and workshops, which anchored the organizational decision to set up a common shared services center. Moreover, external presentations about the shared services centers were observed at three organizations (Table 1). Attending these presentations...
enhanced understanding of how the organizations described their implementations of shared services, problems they had faced and how they solved them.

Table 1. Interviews and Observed Presentations

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* Multiple contacts for data collection

RESULTS

From researching how various Swedish government agencies implemented centers of excellence it became evident that the government agencies used different approaches on how to set up centers of excellence. In the popular management literature it was suggested to move existing specialists from decentralized units into common centers for service provision (Bergeron, 2003; Quinn et al., 2000; Schulman et al., 1999). This particular approach, however, could not be observed in any of the six cases. Instead they used different approaches. The approaches focused on (1) keeping competence, (2) building up new competence, and (3) prioritizing closeness to business.

Keeping Competence

Gathering competence at one location, as presented in the management literature, did not take place as one would predict. Only at one government agency it appeared at first glance that they had gathered core competencies at one location. It was at Agency One, a medium-sized government agency that provided various administrative services to other government agencies. Agency One’s clients were usually small to medium-sized agencies that could not afford to build up their own administration or did not have the competence to do so in their own organizations.

According to the person responsible for the new shared services center at Agency One, many clients represented very small agencies, often with less than 40 employees. At the same time the demands to provide professional administrative services within these small agencies were exactly as numerous as at a larger agency. Whether this was suitable had been a hot topic for discussion and investigations on a national level for many years, but still all agencies had to live up to the same regulations on, for example, financial management. This contrasts with small businesses in the private sector that do not have to live up to as many regulations as, for example, large multi-national corporations such as Volvo or Ericsson.

Against this background, small government agencies with limited resources could not afford to build up large independent administrative units to maintain a certain level of competence in all areas of finance and human resources. Therefore, it was extremely important for these smaller agencies to find a service provider where core competence was gathered and where this competence became accessible. Access to core competence was important both in daily business and in more complex individual cases an agency might need help with. Such individual cases could vary in volume and if a problem turned out to require more resources, the concentration of core competencies showed its next advantage. The head of administrative services stressed the importance of being able to flexibly reacting to such demands.
If I have 15 people working with certain tasks, it is easier for me to assign one or two of them to a special project or investigation than if I had only ten employees. Thus, I can be much more flexible and provide better service to customers, thanks to a concentration of core competencies in one center.

Such flexibility and response time were also reflected in the way of working at the shared services center. It was an advantage to have so much core competence gathered in one unit. The head of the shared services unit said,

One of the main advantages of having core competence in one center is that it is right there next door. If someone needs to ask a question we can almost always find the answer in-house. It is very seldom that we need to consult a third party, which both shows how competent we are and how fast we can respond to a client’s question or request.

And as core competence was important to the daily business of Agency One, it was important to keep this competence. However, experts were always attractive on the labor market and both respondents expressed the need to create an interesting and stimulating environment. The head of administrative services believed that he had succeeded with it. One statement he gave explains this view.

I do not know many workplaces where several chief financial officers get together every morning, have a cup of coffee and can discuss news in a relaxed environment. They feel very comfortable and enjoy working together with other experts. They are also aware that this is a very special situation and when they, for example, come back from an external mission, they emphasize how important it is for them to work together with the other experts.

Gathering these people to provide expert competence to the clients also has, however, a disadvantage. The head of administrative services identified one disadvantage in the difficulty to take in new personnel. Because of the attractiveness of the workplace, employee turnover was very low. This made it difficult to internalize new ideas and new competencies. On the other hand, it meant that all development of competencies needed to be achieved within the organization.

Building up new Competence

At Agencies Two, Three, and Four the approaches of gathering competence differed noticeably from the literature. All three agencies were large organizations with thousands of employees. Their headquarters were all located in the greater Stockholm area, but they all operated all over the country. Agencies Two and Three were represented in almost all municipalities whereas Agency Four was concentrated to fewer locations but organized in larger organizational units.

Agencies Two and Three built up one national shared services centers for financial services each. At Agency Three also human resources were included into this center. Agency Four started with five different services centers for financial services and human resources. Their five centers provided similar services and served the organizational units in different geographical areas.

When the centers were established, personnel that earlier handled tasks at the old locations were offered a permanent position at the new shared services center. If they had accepted, it would have been easy to keep their knowledge in the organization and to concentrate their core competence in the new shared services centers. However, over 80 percent decided not to move to the new locations. One respondent from Agency Four explained it with a family factor,

Many of the employees who work with administrative tasks in our organization are women. They are often married to someone who is employed in our core business. The husband often has the better salary, they have children who go to the local schools and have bought or built a house and established themselves in the local community. It is not easy to motivate them to move to a new location and to live on the wife’s lower salary.

Even Agencies Two and Three felt the problem of motivating employees to move to their new shared services centers. The fact that the employees did not move to the new centers significantly affected the organizations’ knowledge transfer. Competencies about the core business were difficult to keep in-house. However, the head of the shared services center at Agency Two did not perceive this as problematic. According to her, core competence could be build up in the new center,

The tasks in the center are supportive administrative tasks. They are not that special and difficult. It is more important to know rules, laws and regulations in your field than local variations in core business.
This more pragmatic view was common for all three agencies, even if Agency Two expressed it most directly. Hence, the need to build up new competence from scratch was not perceived as all bad. Of course, some tacit knowledge might be lost in the process, but on the other hand it appeared quite easy to build up a new competent unit. As one respondent expressed it,

If you are unlucky you might end up with many employees who know the business well but who might not be the experts. If the subsidiaries were small, the employees might not have a chance to build up expert knowledge. Then it is better not to have too many old employees, but to dare to take a new step.

The respondents of all three agencies agreed that it was more important to have well educated personnel to handle difficult questions than having knowledge of the customers’ local core businesses. Hence, they felt that competence could be easily built up again. After all, the offered services were often standardized support services.

Prioritizing Closeness to Business

In contrast to the arguments put forward by Agencies Two, Three, and Four, Agencies Five and Six came to different conclusions when considering whether to implement centers of excellence or not.

Agency Five was a large agency whereas Agency Six was a medium-sized agency. Both agencies were characterized by a strong administrative decentralization and they both found that their organizations’ high degree of decentralization would make it impossible to advocate a concentration of administrative tasks into a common shared services center.

Despite the apprehensions about implementing the shared services idea, the chief financial officer at Agency Five would have liked to gather core competencies in a common center. But he did not know how to take back something that once had been decentralized.

The organization is not ready for this kind of change. All units are so independent, and we cannot take back responsibilities that we once decentralized. […] I believe that we can only change it if we had a decision from top management and could force the units to follow this directive. […] They would never agree to it on a voluntary basis.

The chief financial officer also said that he is not willing to take up a fight for better administration when everyone obviously is against it. It would be a suicidal action and it is better to let sleeping dogs lie.

At Agency Six’s the arguments not to concentrate core competencies were almost similar. As long as they did not have the pressure to conduct this kind of change, they would not suggest it to top management. And at the moment of investigation, a fresh benchmarking study showed that their decentralized administration neither perform worse nor cost more than those of similar agencies. For Agency Six, this was good enough and there was no immediate need to change the policy to have administrative tasks located close to the business units.

DISCUSSION

As seen in the description of different translations to set up centers of excellence, none of the studied government agencies followed the approach advocated in the popular shared services management literature to move existing specialists from decentralized units into common centers for service provision (Bergeron, 2003; Quinn et al., 2000; Schulman et al., 1999).

Agency One seems to be closest to the advocated approach. When taking a closer look at Agency One it shows, however, that this was the result of predominate circumstances rather than strategic planning. Agency One was already established and had its employees gathered at one location prior to setting up the center of excellence. Hence, Agency One did not go through a transition from decentralization to consolidation of its core competence in one location. In other words, Agency One did not gather but just kept its competence in one common location. It only needed to modify its organizational form to create a shared services center. Hence, gathering—or rather keeping—core competencies was not an especially difficult task for them as the transformation started from an already centralized organizational form.

Agencies Two, Three, and Four chose to translate the idea of setting up centers of excellence differently. They certainly wanted to gather core competence in their shared services centers, but they simply did not succeed in relocating competencies to the new centers. They did not succeed in motivating their employees to move to a new location. It had been argued that this depends on family issues, but when comparing to Swedish organizations in the private sector, this argumentation is hard to follow. In the private sector the relocation rate is inverted, meaning that about 80 percent of the employees were relocated to the new shared services centers whereas in the public sector more than 80 percent were not. A real reason might instead be that employees in the public sector felt a special job security, which did not exist in the private sector. Because government
agencies usually were considered a secure employer, employees felt that they could stay in the organization and get new tasks assigned. Hence, the contextual setting influenced the translation of the management idea.

Agencies Two, Three, and Four did choose to implement shared services despite the fact that they could not relocate personnel to the new shared services centers. They translated the concept of centers of excellence in a way that gathering expert competencies rather refers to the application of regulations and laws than to knowledge about the organizations’ core businesses. Therefore, they decided to go ahead with their shared services centers without gathering knowledge on the core business in the new centers.

A third type of translation was chosen by Agencies Five and Six. They remained to embody the old ideals of a Swedish government agency. They had decentralized organizations, which were completely in line with the ideals built up since the 1980s and 1990s. Decentralization was an important ingredient for decades and Agencies Five and Six perceived that their organizations were organized appropriately in the context of the public sector. None of the agencies experienced any immediate need to enhance their business performance or external pressure to adopt a new organizational form. Thus they waited to see whether the common values and ideals would change or not.

As discussed above, the implementation of centers of excellence in government agencies differed from the general guidelines in the popular management literature. Instead of one common way to implement centers of excellence, three different translations emerged. The agencies were influenced by their context when translating the implementation guidelines from the management literature (cf. Figure 1).

The different ways to implement centers of excellence in government agencies were influenced by values, ideals, and rules from the public sector. Job security, decentralization, and regulations were examples for how context had an impact on the different translations. These values, ideals, and rules from the public sector context were not always concordant with those from the private sector, where the shared services concept originally comes from and has generated guidelines for implementation. Therefore, the government agencies had to balance the importance of these matters in their processes to translate the aspect of gathering core competence in a shared services center. This resulted into a wide range of different interpretations and centers of excellence.

CONCLUSION

This paper demonstrated that the implementation of shared services is less homogeneous in reality than suggested in popular management literature. The existing heterogeneity in implementing shared services originates from different interpretations on how to translate a rather general idea and accompanying guidelines into specific actions.

Studying different government agencies’ attempt to gather their competences in so-called centers of excellence, unveiled that implementation did not unreserved follow recommendations from the management literature. Instead it had a very broad distribution in terms of what kind of expertise was organized and how. This—rather wide—range in translating the same idea shows that centers of excellence had many different meanings to the government agencies. The agencies made their own translations of the idea with regard to their specific demands. These translations were influenced by the agencies’ environmental context and resulted in different priorities and choices on how to implement centers of excellence.
Hence, it can be concluded that the popular management literature takes a too simple view on implementing shared services. It does not sufficiently take into consideration that the implementation of shared services into a new context embraces a translation process. It lacks suggestions on how to adopt common guidelines from the management literature to reflect the influences of an organization’s context. The black-box approach, hence, is not working for government agencies that want to implement shared services. This view is also supported in previous studies in other fields (for example, Bada, 2002; Käll, 2005; Rovik, 1998; Sturdy, 2004; Weick, 1979).

For practitioners it means that they need to be alert for how context influences the implementation of centers of excellence or other concepts from the shared services idea. Considering an organization’s context can make them aware of how an actual implementation can differ from the original concept. Understanding the difference between estimated outcomes based on an original concept versus a translated one should enable them to better estimate the benefits of adopting a specific concept.

As already indicated it is believed that the findings of this paper can be applied to other aspects of the shared services idea than setting up centers of excellence. To empirical prove this, other researchers are invited to contribute with their insights on how the shared services idea is translated by public sector organizations.

ACKNOWLEDGMENTS

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