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The Design and Success of Shared Services Centres

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THE DESIGN AND SUCCESS OF SHARED SERVICES CENTRES

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Abstract

Organisations are increasingly looking to realise the benefits of shared services yet there is little guidance available as to the best way to proceed. A framework is presented that considers the service provided, the design of the shared services centre and the organisational context it sits within. Case studies that examine the relevance of that framework and assess the performance of eleven shared services as a first step in determining what specific attributes of each dimension are important and how they should be aligned. It is concluded that there appears to be a single, broadly standard pattern of attributes for successful Shared Services Centres (SSCs). As fundamentals the SSC should aim to realise economies of scale by providing a broad range of transaction processing services using a standardised IT platform. Additional factors associated with successful SSCs include the SSC being held accountable for its results and there being an emphasis on managing the cultural change associated with the introduction of shared services. Beyond these core attributes a number of characteristics that potentially inhibit or facilitate the successful operation of SSCs have also been identified.

Keywords: Shared services, alignment, design, IT platform.

1   INTRODUCTION

Why look at shared services? Primarily because while they have been promoted as an emerging area offering enormous potential limited guidance is available to organisations. Bergeron (2003) suggests that approximately 50% of fortune 500 companies have established some form of shared services operation. He also provides the example of Bristol Myers Squib's global business service unit realising annual savings of $1.5billion. Rayner (2006) similarly highlights the cost savings achieved by Reuters while Cecil (2000) gives the example of Ford being able to reduce its finance department staffing from 14,000 to 3,000 through the introduction of shared services. Longwood and Harris (2007) however suggest that success is not guaranteed and that many organisations will fail to achieve their objectives. Furthermore even where implementations are successful Ruggini (2006) suggests that shared services may have disadvantages – such as loss of autonomy or control.

Much of the available advice to organisations appears to largely be provided by consultants – for example Schulman et al (1999) or Quinn, Cooke and Kris (2000) – and is often somewhat anecdotal or Delphic in nature. While an academic literature on shared services is slowly emerging, to date it has generally been unstructured with many of the claims or assertions also unsupported by empirical evidence – see for example, publications by Shah (1998) and Kreklow and Kinney (2007) and their focus on recipes for success. Even where there is an empirical component to papers it is often limited – for example, Janssen and Joha (2006) who conducted a case study of shared services in the public sector.

The objective of the current paper is to begin the process of bringing a more rigorous and systematic analysis to the shared services field. In particular the research focuses on identifying a number of design dimensions, and attributes therein, that are associated as a whole with effective shared services. As such it should provide some of the missing guidance for organisations embarking on shared services initiatives.

The remainder of the paper comprises two sections. The first outlines a set of dimensions along which shared services can be mapped. The second examines shared services in 11 organizations in Australia through the lens of those dimensions, demonstrates their relevance and identifies an alignment associated with success. Before progressing however it is useful to define what will be considered to be shared services here, since definitions vary. Schulman et al (1999) for example define them 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"* (p9)

while Bergeron (2003) suggests

> *"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 promoted efficiency, value generation, costs savings and improved service for the internal customers of the parent corporation"* (p3)

A simpler definition, which will be used here, is provided by Longwood and Harris (2007) and retains the core concept of concentration while avoiding prescriptive requirements to achieve specific objectives or operate in set ways.

> *"Shared services involve the aggregated provision of a business process"* (p6)

2 ALIGNMENT AND SHARED SERVICES PERFORMANCE

The overarching proposition of this paper is that there is an alignment of the dimensions that encapsulate the fundamental essence of a shared service centre (SSC) associated with effective performance. The following section first presents the definition of alignment that will be used here and then puts forward the proposed set of dimensions.

The concept of alignment has been described in a variety of ways – for example as fit (White, 1986) or support (Luftman et al, 1993) or configuration (Mintzberg and Lampel, 1999). Venkatraman (1989a) identified, and defined, six alternative definitions on alignment – as moderation, mediation, matching, gestalts, profile deviation and covariation. Here it is considered as representing an internal coherence among a set of attributes that are associated with effective performance (Etzioni, 1961; Child, 1975; Venkatraman, 1989a; Chan et al, 1997). The approach is closest to Venktraman's (1989a) gestalt definition – in that it emphasizes the whole – but is something of a precursor to it since the empirical work seeks both to establish the relevent dimensions as well as position SSCs relative to them. As such any alignments can only be loosely specified but the ability to compare the profiles of higher and lower performing SSCs is retained (Hambrick, 1983; Miller and Friesen, 1978)

Multiple authors have previously examined the relationship between organisational design and performance. Some have focused on identifying bivariate relations between one dimension of a firm and its strategy (Norburn and Miller, 1981; Schwartz and Davis (1981). Others though have sought to identify a broader set of factors that operate in concert and need to be aligned. Venkatraman (1989b) identified seven key aspects which together determined an organisation's "strategic orientation". Venkatraman's (1989b) focus though appears primarily to have been on ensuring internally consistent strategies rather than considering the relationship between that strategy and other dimensions of an organisation (Miller, 1986). Borman (2007) elaborated on, and synthesised, frameworks developed by Scott-Morton (1991) and Nadler and Tushman (1997) arguing that they often either incorporated or subsumed many of the others available. Scott-Morton (1991) provides a comprehensive and coherent set of dimensions as compared to Chandler (1964) and Nadler and Tushman (1997) who focus on broad concepts and Porter (1991) and Minztberg (1998) who primarily focus on a single domain – the classification of activities and structures respectively[1]. With regard to contextual factors, the resources and history constructs of Nadler and Tushman (1997) more clearly encapsulate that it is past decisions and the ability to utilize an organization's resources than do the age, size and power constructs of Minztberg (1998). The focus of Porter (1991) on competitive advantage when considering the environment also appears rather narrow. Borman (2007) identified and defined eight principal dimensions namely:
- Environmental conditions – the context within which the organization operates,
- Organizational resources – the tangible and intangible assets available to the organisation,
- History – the past choices and developments that influence the current organisation,
- Strategy – the long term goals of an organisation,
- Structure – the operational design chosen by an organisation to deliver on its strategy,
- Management processes – how activities are directed and controlled,
- Individual skills – the competencies required for employees to fulfill their roles,
- Technology – the organisation's underlying approach, or philosophy, towards the use of information technology

While adopting this framework, with the focus on the *activity* of shared services each dimension needs to be mapped down a level such that consideration of the *organisation* becomes that of the *activity*.

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[1] Miles and Snow (1978) and Galbraith (2002) proposed similar frameworks with many common elements but without people or skills in the first instance and technology in the second. The Scott-Morton (1991) framework includes both.

3   METHODOLOGY

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). A multi-case approach was taken for the study with a primary emphasis on maximizing the likely generalisability of the results (Yin, 1981; Herriott and Firestone, 1983) since the ultimate objective was to increase understanding the relationship between SSC design and performance. As such the focus was on the breadth, rather than the depth, of coverage and the number of interviews conducted within each organization was restricted with the primary locus of triangulation being between different organisations (Yin, 1984). Such a situation is not unique and there are numerous instances of other research (for example Applegate and Elam, 1992; Martin, 2003; Watts and Henderson, 2006) where the number of interviews conducted within an organisation has been limited. Furthermore in all cases it was possible to achieve a degree of internal triangulation through the review of documentation. Given the research area of interest was the design of shared services the focus was on the SSC not their clients or customers. A total of 11 SSCs were interviewed across Australia[2] – which is in line with the median number of sites included in multi-site studies as reported by Herriott and Firestone (1983)[3]. Interviews were between one and two hours in duration and a semi-structured interview protocol was followed to introduce a degree of commonality while minimizing the potential for overlooking the unique aspects of each context (Firestone and Herriott, 1982). Details of interviewees are provided in Table 1.

Shared service centre	Interviewees
SSC1	Managing Director (MD)
SSC2	Director Corporate Services (DCS), General Manager Corporate Services (GMCS)
SSC3	General Manager (GM), Finance Director (FD)
SSC4	Manager Shared Services (MSS)
SSC5	Manager Financial Services (MFS), Group Executive Shared Services (GESS)
SSC6	General Manager (GM), Manager Client Services (MCS)
SSC7	General Manager Shared Services (GMSS)
SSC8	General Manager (GM), Project Director (PD)
SSC9	General Manager (GM), Manager Service Delivery (MSD)
SSC10	General Manager (GM), Finance Director (FD)
SSC11	General Manager (GM), Executive Manager (EM)

Table 1.   Interviewee details

While the underlying rationale of the empirical research was purposeful it was deliberately non-directive so as not to preclude the emergence of dimensions not previously considered (Patton, 2002; Eisenharrdt, 1989). With regard to analysis, data was first reviewed and coded in terms of its relationship to the organizational factors identified – an approach in accord with the recommendations of Miles and Huberman (1994) and Yin (1981) who suggest organizing data "around the substantial topics of the case study" (Yin, 1981, p60)[4]. The resultant data display tables represent a crucial link in the chain of evidence between the raw data and the subsequent analysis and development of conclusions (Yin, 1979).

Given the difficulty of determining an appropriate objective measure of success – especially where services are provided by a third party in a long term relationship akin to shared services (Willcocks et

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[2] Australia has been recognised as an early adopter with regard to shared services (Longwood and Harris, 2007)
[3] Case studies were selected to provide a broad range of coverage in the public and private sectors
[4] At the same time a case comparison approach underlay the analysis (Yin, 1981)

al, 2007) – the measure adopted here was the perceived satisfaction of the interviewees regarding the effectiveness of the SSC (Dibbern et al, 2004; Domberger et al (2000). Originally it was intended to have a simple successful/unsuccessful dichotomy. However the interviews made it clear that there were a number of SSCs that classified themselves as partially successful or "on the way but not quite there yet". As such a three point scale was introduced. Three SSCs rated themselves as performing on the bottom point of the scale (Limited success), three at the middle (Moderate success) and five at the top (Successful)[5] – as per Table 2.

SSC	Perception of success	Sample supporting evidence
SSC2	Successful	"we benchmark.. and hit or beat the benchmark in about 80% of cases.. have people from the private sector coming to learn from us" "in two and a half years we've saved $29 million in procurement contracts alone"
SSC4		"we're at arms length.. charge on a per transaction basis largely.. we have our KPIs.. once you move it out the relationship changes.. more finger pointing if you do not hit them.. but we do not get too much of that discussion now"
SSC5		"very visible in terms of data.. users can see how we did and how they did.. see how much they are spending relative to others" "we have a productivity index.. a basket of services.. we have upped productivity 44% since we started"
SSC7		"We do a lot of benchmarking.. we're doing a bit of internal surveying and stuff like that .. positive .. some of the organsiationa had 40 and 50 people doing what we have six people do now" "we've won awards" "Gone from 300 people to 80"
SSC10		"When I first took that group on there were over 400 people, 66 sites we were processing out. It is down to one site .. less than 30 people maximum"
SSC1	Developing success	"forced together .. no metrics.. now put the basics in place.. a service delivery platform.. early days yet only a year in" "starting to get some runs on the board..
SSC8		"on a scale of one to 10, we're probably about three in terms of our level of sophistication. I think we've got a long way to go"
SSC9		"Customer service wasn't great, perception wasn't great of shared services .. the service levels were down and cost was high" "we started off with over 400 staff in1999 now we've got about 270 .. come a long way.. but still got a way to go"
SSC3	Limited success	A lot of systems where they are having difficulties- especially the HR side of it, the payroll and rostering and all of those sorts of things" "It has not been received well by the organisation.. the change was not done very well"
SSC6		"on the horns of a dilemma.. basic thrust is whether the shared services stays or we get folded back into the lines of business. And so maybe for us, the shared services model failed"
SSC11		"its been a slow road.. problematic.. going back 15 years .. a lot of education"

Table 2. Assessment of success of SSCs

4   RESULTS

As outlined in the methodology the results of the case study interviews were codified and collated into data display tables. Here the broad themes of those tables are described in relationship to each dimension. Table 3 illustrates the range of services provided by SSCs. While all included transaction processing some focused on a much narrower range of transactions than others.

While in most cases there was a systematic approach to appraising what should be included in SSCs, and what should not, this was not always fully the case.

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[5] There was no divergence of opinions between interviewees at each SSC

"In terms of the areas, how was it chosen ...I don't think there was any systematic way of doing it. Certainly with HR and finance, like accounts payable.. A lot of efficiencies you can get by lumping them all together and doing all the processing here. These other areas, who did they belong to, you know? ... so they were lumped with us" SSC3-GM

What was included in a SSC was also seen as depending upon the specific context of the organisation.

"Because each business is different and it needs to service its clients differently depending on what its expectations are and what the stakeholder requirements are. So it's horses for courses with a lot of these sorts of things." SSC5-MFS

Often the scope of shared services was somewhat fluid with new activities coming in and some being passed back to the business – often if it was discovered that they could not effectively be decoupled.

The majority of SSCs felt that it was important to take an end-to-end process perspective on the services.

"[With a] split process .. problems on handover and accountability .. restructured to have in one area*"* SSC11-EM

Shared service operations		
Transaction processing	Payroll	Asset management
	Cash management	Banking
	Billing	Cards management
	Accounts Payable	Records Management
	Accounts Receivable	Logistics
	Procurement	Internal mail services
	Recruitment	
IT	IT Operations / Infrastructure	Disaster recovery
	End user support	Projects
	Systems development and management	Data Management
Contact centre	Single point of contact (internal/external)	IT Helpdesk
	Inbound/Outbound sales	
Expert services / Other	Office services	Employee relations (performance management etc)
	Workers Compensation	Training
	Fleet Management	Advisory (HR, Finance, process, project management etc)
	Insurance	Employee services
	Process Improvement	Debt recovery
	Accounting (financial & management)	General administration
	Property management	Credit management
	Reporting	Analysis and reporting

Table 3.   Activities undertaken by SSCs

There were widely divergent views on whether non-transactional services should be included in a SSC. A number of organisations included so-called expert services, for example – often for the potential they brought in developing relationships between clients and the SSC. Others preferred to "stick to their knitting"

"chances are that you're going to do okay there if you keep the operation simple. If you don't add services that make things more complex and difficult to provide, such as value adding [expert] *type services"*SSC7-GMSS

It was recognised though that the categorisation of activities as being transaction based – or not – was not absolute but depended upon definition and perspective.

*"Often difficult to define whether transaction.. you might say that recruitment is transactional .. certainly it would appear to have many transactional elements but HR people would all say no that is core and a professional service"*SSC4-MSS

4.1 Environment

Interviewees widely commented that it was important for the business to realise that immediate benefits and success would not be forthcoming – indeed that the introduction of shared services could be costly initially.

*"often when you're doing this there's a significant up front investment cost. You know, that won't be paid back till about two or three years because you will have to change, radically change systems."*SSC3-FD

The introduction of shared services was seen as an evolutionary process with the focus and approach adopted likely to change over time as the business became more knowledgeable and experienced regarding what was possible and achievable. A number of interviewees were also of the opinion that the evolution could extend ultimately to outsourcing – when you have exhausted all of the benefits you can achieve internally.

"So the decision is do we invest in that technology, or if we've done as much as we possibly can, if I give it to them [ie outsource] we'll also get benefits from it without me having to invest in technology" SSC9-GM

4.2 Resources

Being made accountable for delivering – improvements, cost reductions etc – was seen as focusing the SSC. There were differences with regard to how this accountability was introduced – whether targets were imposed or internally driven.

"They will say … there's a global savings target that all areas have to meet and this is… let's just say it's one per cent or whatever is the operating base and it starts from next year." SSC10-GM

One SSC even advocated the benefits of establishing the centre as a separate business in its own right.

*" Firm believer in the strength of the company model .. Just like any company it's stronger than those individuals inside it, it is the entity that drives it. .. transparent .. Revenue is revenue, borrowings are borrowings, assets are assets, costs are costs.. relies on prices .. prices that are transparent and verifiable .. it gives an identity, it's self-contained."*SSC1-MD

4.3 History

The ability, and willingness, of the corporate centre to effectively impose its desire for shared services on business areas was stressed.

"the culture of the organisation is control, they like to have control, they're very autonomous in decision making and so they like things not to succeed … they've always been told that if you own [an area] *you're autonomous, you make the decisions, you've got the budget, you've got the resources you can manage it."*SSC3-GM

It was also seen as valuable by a number of interviewees if the SSC was a green field site allowing staffing, roles and designs to be refreshed.

> *"we were basically starting from scratch, and in fact we effectively staffed it from scratch. You don't tend to have any of the baggage .. It was a lot easier from that perspective."* SSC7-GMSS

4.4 Strategy

Economies of scale through centralisation, the removal of duplication and being better positioned to secure funds to invest in the latest technology were the most common reasons given for establishing SSCs. Associated with this was a focus on process improvement with effort concentrated on those areas where the greatest potential was felt to lie.

> *"If you look at that as an end to end process, looking at where the exceptions are occurring, rather than just looking at what the exceptions are saying in the billing area or the metering area, looking at it as an end to end process. Allocating resources in preventative areas, you can actually start decreasing those costs and increasing the operational effectiveness"* SSC11-GM

It was suggested that a focus on measurement enabled prior performance levels, and progress from them, to be established and demonstrated.

> *"our problem is twofold. A, we nor the* [business] *knew what it used to cost before they gave it to us. B, at this stage of the game, we are still unable to determine what the cost potentially would have been if the* [areas] *had continued to share work"* SSC8-GM

But the need to be selective in measurement – knowing why something was being measured and how the results would be acted on – was also widely commented on.

> *"An industry in itself and you just don't want to create that overhead again."* SSC1-MD

4.5 Structure

In the majority of cases the use of shared services was mandated – where it was not this was seen as leading to potential problems and a dilution of the benefits achievable.

> *"Yeah, that's mandatory. There are a number of reasons for that. In our model what we really see is we will put structures in place to make our shared services as efficient as anybody else. So we get the pricing right, the service qualities right then you don't go anywhere else. If we can't get the price right and we can't get the service quality right then we'll shut the bloody thing down and you can go anywhere. You don't want to weaken your economies of scale and if you start picking and choosing"* SSC2-DCS

However it was also agreed that even when mandated work needs to be done to demonstrate the benefits and avoid the emergence of work-arounds such as obtaining exemptions

> *"Absolutely mandated .. but having said that, that is* [X] *years on but people – the reality is back on day one if you didn't want to come here you didn't .. It was a transition that I had to manage and from day one .. really be able to demonstrate that you could not go anywhere and get a better process"* SSC10-GM

Standardisation to make sure that all parts of the business were following the same process and ensuring that there was a mechanism to regulate user demand, behaviour and expectations were also seen as key.

> *"it's about standardisation and it's about being able to add value to a process. So unless you can standardise it, you can't get cost savings."* SSC8-GM

"but it became a [free good]*, you keep asking and asking, and we keep delivering... give them some accountability for the volume and the cost to them"* SSC1-MD

4.6   Management

One of the hardest, but most necessary, things to have in place before moving to shared services was seen to be a good understanding of how the impacted processes work (and thus where improvements can be made) and the level of work that can be expected – other wise the SSC will find itself in catch-up mode from the outset.

> *"my initial focus was clearly on understanding the work then understanding the expectations of the customer and delivering to that."* SSC10-GM

It was also often recognised that it was necessary to carefully manage the change for the employees of the SSC and the rest of the organisation.

> *"Certainly there have been great steps to make changes in their hearts and minds as to who they report to and what's their reporting structure. ... It's a big change in terms of people coming into a shared services environment but also their relationship with their [previous home] business unit as well might change."* SSC2-GMCS

Good relationships with the business were generally seen as critical – including establishing a clear allocation of responsibilities.

> *"it's important for all my managers and myself to actually put a lot of time into relationship managing.. we try to be very customer focused.. We try to treat them like a customer, as opposed to an internal part of the organisation"* SSC7-GMSS

> *"when we developed and defined our service lines we also set up responsibility matrices – making it clear who was responsible for which parts of the process, us or the client"* SSC5-MFS

However despite the importance of relationships, developing them did not always receive the necessary attention – either because of the underlying culture of the organisation, other priorities on the part of the SSC or lack of interest from the business.

4.7   Technology

A common IT platform – generally an ERP – was generally seen as essential to shared services.

> *"*[our ERP] *is fundamental, we believe, to our shared services and has made the transition to shared services much easier than it otherwise would have been if we didn't have a very good* [ERP] *platform to help us with that transition to a shared services.."* SSC5-MFS

> *"Can not get* [X]*% improvement from centralisation and standardisation year on year but from automation"* SSC9-GM

As such ensuring an effective working relationship with the IT provider was also seen as key – whether they were part of the SSC, located elsewhere within the business or outsourced.

> *"I think IT with shared services is very compatible.. and if you don't have IT with you, then you need a hell of a strong relationship.. a lot of the processes depends upon IT."* SSC1-MD

4.8   Individual skills

A significant obstacle cited by a number of interviewees with regard to cystallising efficiency improvements into staff and cash savings was the lack of flexibility in staffing arrangements within their organisations

"practically need to get union dispensation from the unions [to employ contractors] *.. we do not have much flexibility"* SSC11-EM

Others though suggested that what you needed to do was to take a long hard look at what you could actually do

"a rough review has shown that even within all the employee frameworks that we have, there's a lot of flexibility that we're not using .. It just simply hasn't been practised. The tradition is not there. No one has put their hand out and said, I'll take the risk and start it. But we have." SSC8-GM

The ability – depending upon how the SSC was structured – to develop generalists was seen as providing an enhanced ability to manage the peaks and troughs of demand.

"provide us with the ability to multi-skill a bit more and actually we tend to get obviously some bits of the shared services are busy at some times ... and we can tend to drag some people from the other areas" SSC7-GMSS

Multi-skilling was also seen as a means of making jobs more interesting – facilitating the recruitment and retention of staff

5   DISCUSSION AND FUTURE RESEARCH

The research highlights a number of attributes – foundations – that could be considered as pre-requisites for success but that also appear to be insufficient in there own right – most of the SSCs with limited success to date had them as well as the more successful ones. Perhaps more interestingly the research also identifies a single, broadly standard pattern of attributes for successful SSCs across the service, contextual and centre design dimensions – see Figure 1.

	Environment	Resources	History	Strategy	Structure	Management	Technology	Individual skills
Potentially inhibiting factors	• Cost cutting emphasis		• Previous initiative			• Limited process and work level understanding • Lack of management expertise for large groups	• Varied IT	• Low skill base
Proposed foundations of success [fundamentals]	• Recognition that evolutionary	• Accountable (bid for resources **or** allocated)	• Strong centre	• Economies of scale • Process improvement • Measurement emphasis	• Standard processes • Compulsory • User pays (cost **or** price)	• Relationships with the business • Cultural change focus	• Standard (enabler **or** solution) • Relationship key (in **or** out)	• Enable flexibility
Potentially facilitating factors	• Core business focus		• Green field site (choice rather than inherit)			• Transparency • Leadership focus	• Largely in situ beforehand	• Exit path into the business

Figure 1.   Classification of SSC features raised in interviews

As well as these core attributes a number of additional characteristics that potentially inhibit or facilitate the successful operation of SSCs have also been identified. The research suggests that some deviation from the identified standard along some dimensions is possible without adverse effect – in

other word that the alignment is a soft rather than a hard one representing tendencies with the impact of variations likely to differ depending upon their degree and potentially be cumulative.

With regard to future research four potential avenues are suggested. Firstly to refine and enumerate the dimensions and extend the sample so that statistical analysis can be used to more precisely specify the alignment and the implications of variations. As it stands, for example, attributes have been characterised largely in terms of absolutes or dichotomies. Further research would enable the possible range for each dimension to be determined, for example between strong central control and autonomy allowing SSCs to be more precisely scored. Secondly the focus could be extended beyond design to incorporate process – for example how central control is put in place and how it is used effectively. Currently the research only looks at what is in place not at how effective it is. For example, as noted, a number of interviewees commented on the difficulties they encountered in developing business relationships or implementing cultural change. Thirdly, performance has been assessed solely in terms of perceptions. The introduction of more objective measures could either confirm the current classification and alignment or perhaps introduce additional granularity. Finally the research focused solely on shared services. It would be valuable to look at other modes of production such as outsourcing so that organisations can gain insight into what is the most appropriate mode as well as how to configure it. Such an approach is especially important given a number of interviewees suggested that organisations may move from one mode of production to another over time as their understanding and situations change.

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