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Preventing the Gradual Decline of Shared Service Centers

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ABSTRACT
Numerous papers have been written extolling the virtues of shared services and providing examples of over the last decades. Cost reduction and quality improvement are amongst the main motives for public-sector organizations to form shared service centers. Process standardization plays a prominent role in strategies to deliver those benefits. This paper reviews previous research on process standardization and shared services to predict how unbalanced process standardization causes shared service centers to transition into less effective adapted service delivery modes. Depending on the levels of service consolidation and external service receivers, this transition is likely to follow one of four distinct trajectories: (1) centralized shared services, (2) outsourced shared services, (3) collaborative shared services, and (4) decentralized shared services. Each of these trajectories negatively impacts on an organization’s ability to achieve its original goals. Hence, shared service centers moving toward these trajectories lose momentum and gradually decline. In this paper, four propositions are developed to prevent this from happening.

Keywords
Centralization, collaboration, decentralization, shared services, standardization, outsourcing.

INTRODUCTION
In response to shrinking budgets, public-sector organizations have utilized various service delivery modes to effectively and efficiently utilize scarce resources. Shared services is one such mode, promising these organizations the simultaneous realization of synergies and high levels of services quality (Janssen, Joha and Zuurmond, 2009). To accomplish these goals, repeating non-core business processes are consolidated and improved in dedicated organizational entities: the shared services centers (Bergeron, 2003; Wang and Wang, 2007; Wißkirchen and Mertens, 1999). These centers usually rely on information and communication technologies as an enabler to deliver services, encompassing a range of processes from one or several business functions such as Finance and Accounting, Human Resources, Procurement, Facility Management, or Information Systems (McIvor, McCracken and McHugh, 2011; Wegener, 2007). Shared service centers have traditionally focused on internal service delivery, though centralized, outsourced, collaborative, and decentralized shared service modes have become prevalent lately. The emergence of these four modes, it is argued, is the result of the traditional shared service centers’ gradual decline caused by unbalanced process standardization, jeopardizing the achievement of shared service centers’ original goals.

This paper forecasts natural trajectories of shared services when process standardization becomes unbalanced, leading to one of the four adapted service delivery modes. Specific ways are discussed to prevent shared service centers from unintentionally declining into these modes. Propositions are suggested for shared service centers to consider, primarily addressing strategic decision takers and heads of shared service centers. These propositions also expand the body of knowledge by synthesizing previous research and, through this, contributing to gaining a deeper understanding of different trajectories of organizational development over time.

The reminder of the paper is organized as follows. The following section examines process standardization as an integral part of the shared service delivery mode. Thereafter the natural trajectories caused by process standardization are expounded, resulting in specific propositions on how to prevent shared service centers from losing momentum and being atrophied into other adapted service delivery modes. The final section concludes this paper by highlighting the four natural trajectories, stating theoretical implications, and recommending directions for future research.
PROCESS STANDARDIZATION AND SHARED SERVICES

Shared service centers face an enduring challenge of improving and standardizing processes (Hesketh, 2008). Process standardization is concerned with reviewing and identifying commonalities of a range of processes in order to design and implement best practices; i.e., processes are optimized to be provided at the lowest possible cost (Wang and Wang, 2007). Creating such single, uniform processes has often been seen as a main contribution of a shared service center in order to achieve its goals of realizing synergies and achieving high levels of services quality (Bergeron, 2003; Cecil, 2000; Schulman, Harmer, Dunleavy and Lusk, 1999; Triplett and Scheumann, 2000).

The positive role of process standardization is confirmed through many case studies (Becker, Niehaves and Krause, 2009a, 2009b; Borman, 2010a, 2010b; Janssen and Joha, 2006a; Janssen, Joha and Weerakkody, 2007; Janssen and Wagenaar, 2004; Miskon, Bandara, Fielt and Gable, 2009; Tomasino, 2011; Ulbrich, 2009, 2010a, 2010b; Wagenaar, 2006). For example, Davis, Fawcett and Dodimead (2007) report that the Cabinet Office in the UK estimates a possible 20 percent cost saving on central and local government Finance and Accounting and Human Resources services by implementing shared services; and Turle (2010, p. 184) states, “Whether it’s sharing the process of council tax collection or using a single IT system for payroll, shared services provide the greater efficiency that comes through economies of scale, and the greater effectiveness that comes from adopting best practice processes,” confirming the wide focus on best practices and process standardization.

Further evidence for the importance of process standardization is provided by Tomkinson (2007) who shows that by better understanding the purchase-to-order process, Basingstoke and Deane Borough Council in the UK were able to improve the necessary activities their staff performed, reducing the cost per transaction from £92 to £11 in their shared service center. This type of process standardization is driven by process optimization but also by supporting information technologies. It has frequently been noted that information technologies enable many shared service centers. One such technology, Enterprise Resource Planning systems, for example, supports service delivery in shared service centers through consolidation, standardization, and automation (Sedera and Dey, 2007). Many of these systems are available to organizations already equipped with a wide range of standard processes, building on best practices, and, therefore, impacting the design of processes and service delivery of shared service centers (Lacity and Fox, 2008).

Process standardization, however, might not be as simple as it seems. It has been noted several times before that no one universal approach exists to gaining benefits through shared services (Aksin and Masini, 2008; Ulbrich, 2006, 2008). Processes, for example, cannot always be placed within the constraints of an Enterprise Resource Planning system. Instead, process improvement needs to focus on organizational peculiarities and on optimizing the internal client experience (Schulz and Brenner, 2010). The general management literature confirms this view and provides plenty of examples in which a too high level of, i.e., excessive, process standardization impedes organizations from reaching their goals. Hall and Johnson (2009, p. 60) note, for example, that “Ironically, process standardization can undermine the very performance it’s meant to optimize.” They provide examples where process standardization has failed and argue that a balance needs to be found between standardized and less rigidly controlled processes.

The appropriate level of standardization, therefore, might vary between organizations based on their specifics needs. This view of a more balanced level of process standardization contradicts previous research, which almost exclusively has favored the concept of relatively high levels of process standardization (Kagelmann, 2001), being the desirable goal in order to improve services (Bergeron, 2003; Janssen and Joha, 2006b). However, too much process standardization might be counterproductive and negatively impact on a shared service center’s ability to reach its original goals. For that reason, this paper focuses on predicting the natural trajectory of shared services when process standardization becomes unbalanced and on what shared service centers need to consider to prevent a gradual decline toward adapted service delivery modes.

NATURAL TRAJECTORIES LINKED TO PROCESS STANDARDIZATION

Before predicting the natural trajectories, assumptions regarding the point of origin for these trajectories are made explicit. First, it is assumed that organizations have an established shared service center in its traditional sense, i.e. being an organizational entity, servicing internal clients, providing a range of service based on standardized and optimized processes that have been consolidated in the shared service center. This assumption is considered reasonable because many public-sector organizations have progressed along this line when forming their shared service centers. It is acknowledged that this transition might not always have been smooth (Day and Norris, 2006; Grant and Ulbrich, 2010) and that variations in the level of process standardization exist. Divisional autonomy is one reason that might have impeded the implementation of uniform processes (Sako, 2010).
Second, it is assumed that shared service centers in a public-sector context are the result of efforts to address existing overly decentralized service delivery. This assumption is reasonable because of the widespread adoption of New Public Management ideas in the 1990s. This led to an extensive adoption of management principles, including decentralization, deregulation, and delegation/devolution (Arellano-Gault, 2000; Klausen, 1997). One of the central ideas was that service provision could be performed best locally to fully meet local demands. Decentralization in the 1990s led to low process standardization and dispersed service provision, i.e. a low level of consolidation. Both assumptions are visualized in Figure 1, illustrating the origin of shared service centers.

Figure 1 shows also the four natural trajectories that occur when process standardization becomes unbalanced. The natural trajectories indicate predicated transitions linked to changes in the levels of consolidation and external service receivers. The level of consolidation indicates the proportion of an organization’s repeating services that are located in the service providing entity, whereas the level of external service receivers indicates the proportion of service receivers that are not organizationally linked to the service providing entity, i.e. that are external.

The reverse trajectories, on the other hand, indicate a shared service center’s freedom of action to not transition toward one of the four adapted service delivery modes, and form the basis of propositions to be considered before allowing a shared service center to move along one of the natural trajectories. These propositions are provided to avoid shared service centers from being unintentionally pulled into a non-optimal trajectory.

Each of the four possible trajectories is discussed in detail in the following subsections.

**Centralized Shared Services**

The first natural trajectory indicates a development toward a higher level of process standardization. In this trajectory the level of consolidation increases while a low level of external service receivers is maintained. The increased level of consolidation usually coincides with further streamlining of processes and prescribing their compulsory use. This trajectory leads to centralized shared services.
Centralized shared services allow the achievement of higher economies of scale. Consequently, a reason for moving toward this mode may be seeking to better achieve the shared service center’s original goal of realizing synergies, i.e. cost reduction. Previous studies have shown that the realized cost reduction in traditional shared service centers is commonly less high than expected (A.T. Kearney, 2004). Though it appears to be possible to achieve higher economies of scale through further streamlining processes, i.e. aiming for a higher level of standardization, and prescribing the mandatory use of these services across the organization. Such service provision is similar to traditional centralization (Kagelmann, 2001), although organizations keep referring to it as shared services because centralization is usually considered an inadequate concept in terms of New Public Management ideas. Besides, the move toward decentralization took place rather recently in many public-sector organizations, making it difficult to argue for returning to an old mode, which had been deemed ineffective only a couple of years before (Ulbrich, 2006).

Centralized shared services are less focused on clients than traditional shared service centers. Instead they focus on economies of scale, striving for offering the most efficient and effective ways to deliver services. This rational thought goes far back to ideas of scientific management (Taylor, 1911), driving process standardization even further. This form of excessive process standardization no longer puts the client in focus. It is purely about making the service center perform more efficiently, better contributing toward achieving synergies. As a consequence, the client–service provider dialogue usually diminishes and clients feel less well served than before, reducing the clients’ perceived service quality, contrary to the original goal of achieving a high level of service quality.

Centralized shared services, hence, seem to be too much focused on their own performance. Driven by rationality they primarily focus on tangible costs and benefits. Cost reduction, for example, is easily measured in monetary terms. A high level of service quality, however, is rather intangible and shared service centers appear to have difficulties in evaluating intangible costs and benefits. When not considering the intangible costs and benefits, they do not apply a holistic view to realize how their service provision feeds into their clients’ service delivery and, ultimately, the public. Hence, moving toward centralized shared services might be driven by short-term goals of cost reduction rather than a sustainable focus.

A shared service center should therefore carefully evaluate intangible costs and benefits in its equation of determining the most beneficial service delivery mode. Special consideration needs to be given to one of the main reasons for having shared services in the first place, i.e. the level of service quality. Too much process standardization might negatively impact on the perceived service quality (Hall and Johnson, 2009). It is therefore proposed that, if an organization’s strategic intention with shared services is the realization of synergies and service quality;

**Proposition 1:** A shared service center needs to first focus on its clients’ service needs, carefully evaluate both intangible and tangible costs and benefits before allowing the center to transition toward centralized shared services.

**Outsourced Shared Services**

The second natural trajectory indicates a development toward a higher level of process standardization. In this trajectory the level of consolidation increases at the same time as the level of external service receivers increases, i.e., organizations turn over their service delivery to an external vendor. When moving service delivery to an external vendor, the level of external service receivers is at its highest. This trajectory leads to outsourced shared services.

Outsourced shared services allow organizations to take advantage of specialist capabilities that are not available in-house for providing high-quality services. This position needs to be contrasted with the original idea of shared service centers on gathering an organization’s expertise in one single entity. Following the reasoning of the latter, it is suggested that shared service centers already possess capabilities similar to external vendors and that the often-mentioned advantage of getting access to specialist capabilities is overrated. However, organizations might not succeed in actually consolidating their capabilities because of transitional problems. Then an external vendor could provide such access. However, this would probably mean that the organization will lose even more capabilities (Gospel and Sako, 2010; Utterback and Abernathy, 1975), exposing it even more to external service providers. It would mean that an internal problem is solved by moving it to a vendor instead of focusing on how to facilitate change and develop essential capabilities internally (Day and Norris, 2006). Hence, the contribution of outsourced shared services toward achieving higher levels of service quality is questionable.

Outsourced shared services are also seen as a means of delivering higher levels of cost reduction. McIvor et al. (2011, p. 448) note that, “Organizations have been increasingly turning to vendors to implement and manage outsourced shared services . . . to drive standardization and performance improvement.” The underlying belief that outsourced shared services contribute positively to a higher level of cost reduction stems from the ability to compare, or benchmark, the original shared service center’s performance with the one of an external vendor. Such benchmarking has often become possible through process standardization, which has greatly increased transparency. Such transparency facilitates assessing the efficiency of any
service delivery mode, which is why internal streamlining often precedes outsourcing (Sako, 2010). This streamlining might go so far that process standardization becomes excessive, completely focused on achieve higher levels of cost reduction, however, – similar to centralized shared services – negatively impacting on service quality because of the lost ability to respond to local business needs (Janssen and Joha, 2006b).

Outsourced shared services can also facilitate organizational redesign. Modern organizations constantly restructure to align structure to strategy (Chandler, 1969; Kim and Mauborgne, 2009). In public-sector organizations this is often evident when major paradigm shifts or political changes occur. An example is that public-sector organizations are asked to focus on their core business. All services consolidated in a shared service center are per definition support services, and it could be argued that the organization should not deal with them. If such restructuring of the internal corporate hierarchy is a goal per se, outsourced shared services might be a mean to accomplishing it. However, new skills are then required to manage the dependencies rather than the service center (Borman and Ulbrich, 2011; McIvor et al., 2011).

A shared service center should carefully assess all risks associated with outsourced shared services to determine the most beneficial service delivery mode. Special consideration should be given to contractual hazards that might impede the achievement of the original goals. In particular the level of service quality might suffer when processes are excessively standardized and changes are, because of existing contracts, too costly to implement. This leads to too many standardized processes and this imbalance in process standardization might negatively impact the clients’ perceived level of service quality. Through this a shared service center loses momentum, not being able to achieve a high level of service quality. It is therefore proposed that, if an organization’s strategic intention with shared services is an increased level of the realization of synergies and service quality;

Proposition 2: A shared service center needs to first gather and utilize competence in its center, carefully evaluate both intangible and tangible costs and benefits before allowing the center to transition toward outsourced shared services.

Collaborative Shared Services

The third natural trajectory indicates a development toward a somewhat higher level of process standardization. In this trajectory the level of consolidation might slightly increase and the level of external service receivers increases significantly; i.e., service delivery is aimed at providing services to clients inside and outside the organization. Depending on the homogeneity or heterogeneity of the service receivers, service standardization might be perceived as balanced rather than excessive. Because of its nature, i.e. organizations collaborating in service delivery and/or service utilization, this trajectory leads to collaborative shared services.

Collaborative shared services allow organizations to share their expertise beyond organizational boundaries with other organizations. In the public-sector setting, sharing expertise with one another is not unusual. This has led to various collaborative arrangements over the years, including shared services (Janssen et al., 2009). The advantage of such arrangements is that organizations can share “best practice and problems so as to avoid ‘re-inventing the wheel’” (Murray, Rentell and Geere, 2008, p. 550). As a consequence, collaborative shared services have emerged in many countries. Murray et al. (2008), for example, report on collaborative shared services in district councils in close vicinity in the UK. Similar arrangements have also been reported from German municipalities by Becker et al. (2009b) and Niehaves and Krause (2010), referring to them as shared service networks and shared service partnerships. Other forms of collaboration include shared service organizations, which are popular forms in, for example, Canada (Grant, McKnight, Uruthirapathy and Brown, 2007 and the US (Tomasino, 2011).

Collaborative shared services allow several public-sector organizations to collaboratively achieve higher levels of service quality and cost reductions than they could achieve on their own. Therefore these organizations agree on a collaborative mode for delivering services to all partners in the collaboration. This usually implies that processes are further standardized, which often is seen as positive as indicated by the best practice example above.

Collaborative shared services, however, can also be perceived as having a negative impact on service quality. Especially when services have been delivered quite differently prior to the collaboration, process standardization can be perceived as rather excessive, forcing service receiving entities to significantly change their work process, negatively impacting on the perception of service quality. In this case a participating organization might want the service center to adopt its specific process to be used as standard process. It is likely, though, that the organization that “wins” over others is the one that is most powerful in the collaboration. It is therefore important to understand the dependencies in collaborative shared services (Borman and Ulbrich, 2011; Ulbrich and Borman, 2012) and assess all associate risks with this type of service delivery. One
such risk is that the collaboration is not stable, usually because of the selected cost allocation model, which might lead to its disintegration (Beimborn, 2012).

A shared service center therefore should carefully assess all risks associated with collaborative shared services. If process standardization leads to perceived lower service quality, the organization loses momentum if opting for this trajectory. It is therefore proposed that, if an organization’s strategic intention with shared services is an increased level of the realization of synergies and service quality;

*Proposition 3:* A shared service center needs to assess the risks of collaboration before allowing the center to transition toward collaborative shared services.

**Decentralized Shared Services**

The fourth natural trajectory indicates a development toward a lower level of process standardization. In this trajectory the level of consolidation decreases although the level of external service receivers might increase slightly. Lower process standardization results in a more diversified range of services offered to clients and expert competence that might occasionally be made available to clients outside the organization. This leads to decentralized shared services.

Decentralized shared services allow organizations to better focus on clients’ individual needs. An example of this trajectory is given by Farndale, Paauwe and Hoeksema (2009) who describe the move from highly standardized to highly customized processes. Using Human Resources as an example, they find that service development might need to develop to highly customized processes to truly focus on clients. They explain that only through individually servicing each client, can client focus be achieved, creating the necessary foundation for clients to perceive delivered services as being of high quality. Not completely unsurprisingly, Farndale et al. (2009) find that only about 25 percent of organizations find process standardization and control of Human Resources processes important goals when implementing shared service centers.

Decentralized shared services are not to be mistaken for the pure decentralization originally associated with New Public Management. They still distinguish themselves from the traditional service delivery mode in gathering and utilizing an organization’s expert competence. This competence is accumulated in the center, allowing all clients to access it. Occasionally, clients may come from outside the organization. As a result, expert competence is available to at least the whole organization rather than to a few specific entities only.

Decentralized shared services, on the other hand, cannot match the synergies of the original shared service ideal. Lower process standardization inevitably results in lower economies of scale. This seems to be accepted by organizations moving toward decentralized shared service. Such move, however, might be premature because the literature suggests that, even within Human Resources, processes can be standardized to a wide extent and can be provided through a traditional shared service center, potentially achieving cost and quality benefits (Ulrich, 1995; Wang and Wang, 2007).

A shared service center therefore should utilize its expert competence to design more versatile services that can be delivered to various entities in the organization and positively contribute to achieving cost benefits. Such cost benefits are unlikely to be achieved in decentralized shared services. Hence, moving toward decentralized shared services hazards losing momentum. It is therefore proposed that, if an organization’s strategic intention is increased levels of realizing synergies and service quality;

*Proposition 4:* A shared service center needs to first utilize its expert competence to explore possibilities to improving processes that meet the requirements of several clients before allowing the center to transition toward decentralized shared services.

**CONCLUSION**

This paper has reviewed previous research on shared services to predict natural trajectories for shared service centers. Four such trajectories have been identified, namely (1) centralized shared services, (2) outsourced shared services, (3) collaborative shared services, and (4) decentralized shared services. The advantages and disadvantages of these four trajectories have been discussed, including possible reasons for moving in each direction. Propositions have been developed to assist decision takers and heads of shared service centers in identifying the most beneficial trajectory based on their peculiarities and strategies. In doing so, the paper expands the body of knowledge by synthesizing previous research and, through this, contributing to gaining a deeper understanding of different trajectories of organizational development over time. Future empirical validation of the forecasted trajectories is suggested to make the findings more robust.
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