

# Governance and Design Issues of Shared Service Centers

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## INTRODUCTION

In the current economic climate, public administrations are looking for ways to improve their service provision and to increase their efficiency. A great long-term public sector concern is the need for restructuring structures and processes to improve efficiency and effectiveness (Beynon-Davies & Williams, 2003). Shared service centers (SSCs) are gaining importance in public administration as a means to innovate, reduce costs, and increase service levels (Janssen & Joha, 2004b). The SSC is a business model in which selected functions are concentrated into a semi-autonomous business unit with management structures that promote efficiency, value generation, and cost savings in a manner akin to companies competing in an open market (Bergeron, 2002). By unbundling and centralizing activities, the basic premise for a SSC seems to be that services provided by one department or agency can be provided to others with relatively few efforts. Within public agencies there is a debate about which kind of services are suitable to share, how to obtain the expected benefits and how to organize SSCs. Currently, SSC implementations include several, relatively easy-to-standardize, functions like the concentration of administrative processes for handling human resources and procurement for all ministries, and the maintenance and control of information systems of several local agencies in a SSC (e.g., <http://www.sharedservicesbijdeoverheid.nl/>).

Clearly, there is no one-size-fits-all business model that incorporates all benefits and has no negative aspects. The *goal* of this research is to explore the concept of shared service centers and to present an overview of critical research issues with respect to its governance and design.

The structure of the article is as follows. In the following section, we discuss the theoretical background. Thereafter we present the main drivers for shared service centers. Section four provides an overview of the critical research issues and in section five we present future trends. Finally in section six, conclusions are drawn.

## BACKGROUND

There are many theories underpinning the sourcing, an overview of the various theories is shown in Table 1. The basic idea of outsourcing is based on the *transaction cost theory* (Coase, 1937; Williamson, 1975). Transaction costs result from the transfer of property rights between parties and exist because of friction in economic systems. A firm will tend to expand until the cost of organizing an extra transaction within the firm becomes equal to the costs of carrying out the same transaction on the open market. The use of communication networks and integration technology will decrease the transaction costs enabling organizations to source functions and to focus on their core competencies.

*Principal-agent theory* deals with the relationship between the principal and agent based on the division of labor, information asymmetry and environment and partner behavior (Jensen & Meckling, 1976). Both the transactions cost and principal-agent theory are based on rationality, an efficiency criterion is used for explaining outsourcing structures.

*Political organizational theories* are used for explaining organizational arrangements and include social, coordination, risk, and strategic management theories. These view actors as political entities having different degrees of power. Political theory, especially *resource dependency theory* (Roy & Aubert, 2002), is used to explain motives for outsourcing. Both resource dependency theory and *core competency theory* explain that companies should retain core capabilities, but non-core capabilities do not have to be owned or controlled. *Social contracting theory* addresses the view that moral and/or political obligations are dependent upon a contract or agreement. *Coordination theory* is about the management of interdependencies between organizational business processes (Malone & Crowston, 1994).

There are specific differences between sourcing and shared service center arrangements (Janssen & Joha, 2004a, 2006), which also have consequences for the way

Table 1. Driving theories behind sourcing issues (based on Lee, Huynh, Kwok, & Pi, 2003)

Sourcing issues		Driving Theory	Driving Motto
From	To		
Make-or-Buy	Motivation	Resource-based theory Core competencies theory	Activities should be performed either in-house or by suppliers.
Motivation	Scope (options)	Resource dependency theory Transaction cost theory	Achieving efficiency depends on balancing the risks and benefits.
Scope (options)	Performance	Coordination theory	No one can assure an effective performance regardless of selected options.
Performance	Insourcing/ Outsourcing	Transaction cost and Principal-agent theory Power-political theory	How do we know an outside vendor is more efficient than internal functions?
Insourcing/ Outsourcing	Contract	Principal-agent theory Social contract theory	We no longer produce for ourselves everything we need to thrive.
Contract	Partnership	Social exchange theory Coordination theory	The acquisition of services or products is through continuous interactions between the parties based on mutual benefit.

a SSC has to be embedded within the organization. The design of SSC business models is influenced by the services and characteristics of public agencies and people involved. The governance of the SSC is dependent on a large number of aspects, including the type of services, the primary motives to implement the SSC, the frequency of change and adoption, and the type of relationship.

## DRIVERS FOR SHARED SERVICE CENTERS

The rationale for shared service centers can be explained by combining two emerging trends: (1) the technological evolution and (2) globalization and the focus towards standardization. Organizations are always attempting to find the ideal organizational structure, certainly in times of economical pressures and global competition.

During the 70s, the centralized structure was the common way of organizing companies. Centralized operations are characterized by substantial economies of scale, as procurement of products and services is possible on the broadest scale within the organization. Moreover, a unified approach to architecture and standards reduces integration difficulties and costs for new applications. However, the disadvantage is that centralized decision-making results in a slow response time and is not flexible since each business unit often has different or conflicting needs.

This explained the trend towards decentralization during the early 80s, where the business units were able to anticipate faster and more flexible to (new) market developments. The main disadvantage associated with

decentralization is the fact that the company as a whole will have higher total procurement and operations costs due to inefficiencies related to the duplication of data centers and of multiple independent procurement and multiple suppliers.

The drawbacks, which initiated the decentralization phase in the 80s, have been overcome using modern information and communication technology. Information can be transferred and received very quickly and from every single place and most processes can be standardized, as they require limited business specific knowledge. This has resulted in a different organizational arrangement, which already started during the mid 90s, but is now attracting full attention: shared service centers. The selected government services supporting the business processes of local, decentralized, agencies are centralized into a semi-autonomous business unit or organization.

SSCs should provide the best elements of a centralized and decentralized world to accomplish efficiency and simultaneously increasing the customer-orientation (Janssen & Joha, 2006). Figure 1 shows the different characteristics of centralized and decentralized operations in terms of advantages and disadvantages.

Obtaining all the advantages of both centralization and decentralization is extremely difficult (Janssen & Wagenaar, 2004) and requires at least an effective management structure addressing a number of critical success factors (Janssen & Joha, 2004a). A lot of efforts are necessary to adapt and adopt the new organizational arrangements, coordination mechanisms, new processes, and the allocation of responsibilities. Motives to implement a SSC are to some degree conflicting and therefore difficult to combine in practice (Janssen & Joha, 2004b).

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