Chapter L
The Strategic Determinants of Shared Services

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INTRODUCTION

Stimulated by recent advances in information and communication technology, and in their continuous pursuit for ways to reduce costs while at the same time improving customer orientation, public agencies have started to share services. By unbundling services of multiple public agencies, standardizing these services, and concentrating them in a separate organization, the basic premise of shared services seems to be that services provided by one local department or agency can be provided to others with relatively few efforts, potentially resulting in both cost savings and service quality improvements (Bergeron, 2003). Public agencies share their role as service provider by joint development, operation, control, and governance of services. As such, the sharing of services can be viewed as a particular type of sourcing arrangement. Services remain within public administration, and public agencies control and govern the shared-service arrangement.

In many countries the promising benefits of sharing services resulted in the establishment of a new type of electronic intermediary (e-intermediary) named shared-service centers (SSCs). E-intermediaries are autonomous organizations supporting organizations to improve the coordination of their activities. The basic premise of SSCs is that services operated by the intermediary organization can be used by the other organizations with relatively few efforts. The SSC provides services to many users. A number of U.S., Canadian, and Australian states, as well as Ireland and the Netherlands, have adopted shared services to support and hasten e-government developments (e.g., Accenture, 2005). The choice for sharing services is a major decision having a long-term and strategic impact, which often competes with outsourcing arrangements (Janssen & Joha, 2006b).

Just like in outsourcing arrangements (Baldwin, Irani, & Love, 2001; Fowler & Jeffs, 1998), the intended benefits are often not met and there are many strategic determinants affecting decision making concerning the use and implementation of shared services.

The goal of the research presented in this chapter is to analyze the strategic determinants influencing the decision making for using and implementing shared services. The structure of the chapter is as follows. In the following section we discuss the historical and theoretical background of shared services. In the section thereafter, we provide an overview of the strategic determinants influencing the shared-services decision. Next, future trends are presented, and finally, conclusions are drawn.

BACKGROUND

History shows various cycles of the centralization and decentralization of computing power, functionality, and organization structure. The mainframe area has resulted in the centralization of large systems in so-called data centers, whereas the introduction of personal computers resulted in a major decentralization of computing power, functionality, and control. With the advent of the Internet, it has become possible to combine aspects of centralized and decentralized models. These kinds of mixed models are often aimed at capturing the best elements of centralized and decentralized models. A SSC is an example of such a mixed model. The selected government services supporting the business processes of local, decentralized agencies are unbundled and concentrated into a shared-service center, whereas service provisioning of the service remains the responsibility of the local agencies.

SSCs are a particular type of sourcing arrangement, where resources and services are retained in-house. A SSC differs from outsourcing arrangements as the SSC is a complete internal arrangement that is founded and governed by the initiators, who are often also the users; outsourcing is externally oriented as it is about the relationship with external parties. In an SSC arrangement, there are relationships between many users and one provider, whereas outsourcing generally addresses the relationship between one user and one or more providers. Janssen and Joha (2006b) pointed out that these specific differences also have consequences for the decision-making processes and risks involved.

There are many theories underpinning sourcing theory and its decision-making process. Lee, Huynh, Kwok, and Pi (2003) and Jayatilaka, Schwarz, and Hirschheim (2003) provide an overview of sourcing theories and the strategic determinants influencing these decisions. We adopt their process-driven decision approach and use four major decision categories for implementing shared services: (a) make-or-buy decision, (b) scope and type of shared-service arrangement, (c) cost benefits and risks assessment, and (d) implementation choice and change management strategy. These categories are shown in the left column of Table 1. In general, the process starts when politicians and/or public managers decide whether to develop services in-house, share them with others, or buy them on the market. Next, the scope and type of the shared-service arrangement should be decided on, which will result in the identification of various options available to share services. Thereafter, the cost benefits and risks of the identified options should be assessed and the decision to implement one arrangement should be taken. Finally, the shared-service arrangement should be implemented using a change management strategy. In the following paragraphs, we discuss these four categories in detail.

The make-or-buy decision for sourcing is largely determined by resource-based theory and core competency theory, which explain that organizations should retain core capabilities in-house and that noncore capabilities do not have to be owned.

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