Everyone Is Different! Exploring the Issues and Problems with ERP Enabled Shared Service Initiatives

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1. ABSTRACT

In today's increasingly competitive environment, there is constant pressure for corporate leaders to add value to their organizations. These contemporary organizations are increasingly moving into business models that attempt to reduce duplicate supporting processes and staff by streamlining processes that are not central to the organization's operations and concentrating on strategies on strategic or core, business processes. This concept, known as Shared Services, attempts to bundle some of the supporting processes and non-strategic activities into a separate organization, which in turn treats those processes and activities as the core of its own business. Shared services consolidate and support redundant functions, such as accounts payable and procurement, for disparate business units. By leveraging economies of scale from a common IT infrastructure, such a group is able to market specific services to business units. Many organizations are employing Enterprise Resource Planning (ERP) systems, for example SAP, to facilitate shared service initiatives by aggregating backroom functionality across departments.

2. INTRODUCTION

Shared Services is defined as a 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 (Schulman et al. 1999). In a Shared Services, the disparate activities and operations (such as finance, human resources, payroll, and marketing) that have been seen by business executives as back office and secondary to the core business processes are treated as if they themselves were the core processes. A Shared Services Initiative typically expects tangible benefits such as expense reduction, increased productivity and economies of scale and skill. Intangible benefits range from enhanced customer service to standardized business process and consolidation of Information Technology.

Increasingly, organizations utilize ERP systems to facilitate Shared Services Initiatives by leveraging on such features like (i) process standardization, (ii) common information systems platform, (iii) common databases, (iv) process automation and (v) ERP workflow (Markus et al. 2003). Many such organizations are creating '*shared service centres*' that perform administrative transactions for numerous divisions or subsidiaries of the same company, rather than having those transactions conducted in every division or subsidiary. The shared services centres enable organizations to use ERP systems to retain control of core functions while maximizing cost efficiencies. The concept is simple bring-together functions that are frequently duplicated across divisions, subsidiaries or operating units and offer these services more efficiently and at a lower cost.

This study is motivated by the disparate reports on the success of shared services initiatives and the lack of discussion in academic literature. With the limited trade press reports it is clear that despite the positive objectives, evidence of shared services initiatives has been mixed with some organizations showing positive impacts to the organization, while others have shown nil or detrimental impacts. This paper specifically investigates the issues and problems of shared services initiatives from the point-of-view of ERP systems. The preliminary study results are derived secondary data from fourteen (14) private sector and five (5) public sector case studies published in trade press. The paper begins with a synopsis of objectives of shared services initiatives and the details the role of ERP systems in a shared services initiative. Next, the paper introduces key activities of an ERP enabled shared services initiative. The final section seeks to demonstrate the issues and problems with an ERP enabled shared services initiative.

3. OBJECTIVES OF SHARED SERVICES INITIATIVE

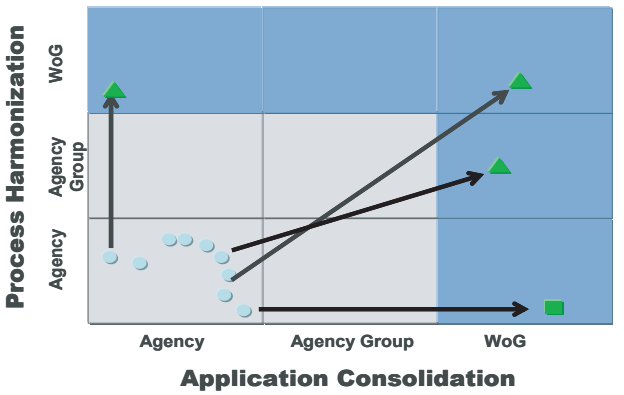
The overarching objective of a Shared Services initiative is to re-direct savings (and potential savings) to direct service delivery and also to better focus on the main business processes with an organization. Moreover, in a group of organizations – especially in public sector, where there are many organizations providing services to the community – shared services facilitate greater consistency of services. Similarly, shared services increase the transparency in costs of services between the organizations. It is believed that greater transparency increase healthy competitiveness within fellow organizations. Furthermore, a number of organizations embarking on a similar business processes for shared services facilitate better environment for skill development, training and career enhancement. From an information system viewpoint, shared services enable organizations to consolidate information technology assets. Especially, in relation to the ERP systems, shared services organizations could engage in shared maintenance of the system and other cost consolidation activities.

4. THE ROLE OF ERP SYSTEM IN A SHARED SERVICE INITIATIVE

Provision of adequate Information Technology infrastructure across the shared services organizations is one of the important aspects of a contemporary shared services initiative. An ERP system not just provides the necessary technical backbone, but also provides an environment with standardized business processes across many organizations. To get maximum benefit out of shared services, all the Information Technology operations in an organization need to have a common system platform so that the supporting business activities and processes are consolidated and standardized. ERP systems present an opportunity to do this from the technical perspective. Since an ERP system provides an integrated suite of applications which provide transaction processing and management information systems for the common core of business processes, consolidation becomes easier. Moreover, ERP systems provide comprehensive administrative systems and help to automate and streamline business processes. It is argued that ERP systems facilitate organizations to combine information from multiple, but disparate business entities to achieve a unified system and business processes.

According to a recent survey conducted by Accenture, '*having an ERP system*' has been regarded as the key enabler for successful shared services implementation. This is evident in recent examples of shared services initiatives in large number of *Fortune 500* companies, including Microsoft, Chevron Texaco, and HP. According to a survey conducted by the National University of Ireland, 30% of the companies surveyed identified '*lack of a common system*' as the biggest obstacle to facilitate functionality of a shared service center. Usage of an ERP system allows management of massive amounts of transactional information rapidly with minimum human interference and standardization of transaction data processing. This allows organizations to develop better contractual agreements with suppliers and consistent service to customers. Not having an ERP system to facilitate

Figure 1. The key activities of an ERP system enabled shared services initiative



a shared service initiative may require organizations to integrate a number of disparate systems and to consolidate data into a standard format.

5. KEY ACTIVITIES OF A SHARED SERVICES INITIATIVE

Using the ERP system as an enabler, the case organizations attempt to 'Harmonize' the business processes from the organization level to a 'Whole-of-Enterprise (WoE)' level. Similarly, the case organizations attempt to 'Consolidate' the applications from the organization level to a 'whole-of-Enterprise' level (See Figure 1)

The intended outcomes of process harmonization include: (i) reduce process variability across organizations, (ii) greater consistency of information across all organizations, (iii) economies of scale and skill, (iv) greater transparency in costs and services, and (v) promoting efficiency in internal business processes. The application consolidation attempts to achieve (i) permits infrastructure and support consolidation, (ii) economies of scale and skill in application maintenance and upgrade, and (iii) cost effective implementation of new technology.

6. KEY FINDINGS

Though the move towards shared services centers using Process Harmonization and Application Consolidation tends yield aforementioned benefits, it tends to compromise the individual needs of each organization. It is expected that for both the Shared Service Centers and the individual organizations require a major change management exercise to cope with the transformations in business processes and information technology. The importance of achieving the common business requirements for a range of organizations that engage in a range of different (organization specific) business objective has been identified as one of the key issues. Furthermore, the move towards application consolidation compromises the in-house applications that many organizations had developed to cater for the 'out-of-scope' SAP functionality.

7. ISSUES AND PROBLEMS WITH SHARED SERVICES

The preliminary findings identified several issues and problems that may hinder the potential benefits of shared services initiative. One of the main challenges of a shared services initiative is the amount of changes made to the business processes and systems. Since many organizations attempt embarking on shared services when the ERP applications in each organization are at the mature stage of the ERP lifecycle, converting 'intra-organizational' standardized applications to 'inter-organizational' standardized applications is harder. Secondly, as a result of achieving a common business practice, many compromises are made against organizational specific business requirements. In organizations where many ERP modules from many versions of the same ERP application are being used, it is debatable which version to consolidate the applications to and which modules to consolidate. Similarly, different hardware and operating platforms provide similar issues for shared services organizations. In many instances, organizations decide to upgrade into a higher version of the ERP application through the shared services initiative. Another issue that shared services organizations face is the out of scope functionality in the ERP software. With the introduction of 'common functionality' to facilitate shared services, many organizations reported 'out of scope functionality' in the ERP software as an issue for many specific functionality. Timing considerations were also reported as a problem in a shared services initiative. Many organizations have reported lengthy time delays in introducing shared services. A commonly stated issue in shared services was the difficulty of managing change within the organizations. With many specific system features and business processes compromised, tasks and roles changed for employees, shared services initiatives undergo intense resistance.

8. REFERENCES

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