

CHARTING THE PATH: A THOROUGH LITERATURE REVIEW ON THE DYNAMICS OF SHARED SERVICES

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Abstract

The organizational structures of shared services have garnered significant attention within academic circles, particularly within the realm of research. This comprehensive review draws from a collection of articles authored by practitioners and a select number of books dedicated to shared services, stemming from the insights derived from an in-depth doctoral study on this subject. The synthesis of this literature aims to provide a valuable resource for scholars actively engaged in shared services research. By consolidating insights from both practical experiences and scholarly endeavors, this review not only offers a comprehensive understanding of existing knowledge but also identifies avenues for further exploration in the dynamic domain of shared services organizational structures. Scholars and practitioners alike will find this contribution instrumental in advancing their understanding of the intricacies surrounding shared services, thereby fostering future developments in this critical area of organizational management.

INTRODUCTION

Shared services organisational structures have become a point of interest to academics especially in the field of research. This review is developed from a number of articles written by practitioners and a limited number of books on shared services that has been provoked by a doctoral study on shared services. This contribution will assist scholars engaged in shared services research. Alvarez et al. (1999) describe the evolution of shared services as an organisation that gained currency in the 1990s when many corporations recognised that escalating overhead costs and redundant support service operations did not enhance shareholder value. By creating the shared services business unit and laying down business-oriented principles, many organisations realized huge gains in efficiency, professionalism and productivity of support services. Shared services centres have thus become a “silver bullet” of sorts for many corporations. The shared services concept, as explained by Ulrich (2006), is still a relatively new concept with the understanding that shared services is basically about optimising corporate resources and processes into a new organisational entity and that its definition still remains unclear. The attractiveness of this concept lies in the need for cost reduction, improving service quality, process simplification, sharing best practices,

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knowledge transfer and greater alignment to business requirements (Redman et al., 2007). In other words, it is a structure that should increase the bottom line. Shared services refers to the practice of business units, operating companies and organisations deciding to share a common set of services rather than having a series of duplicated services (Quinn et al., 2000). These common services are normally administrative functions that are combined jointly or cooperatively in some way for the improvement of the services, obtaining better economies of scale and getting all participating parties to be accountable in the sharing transactions. The circles represent the different business units and the inner rectangle represents a shared services centre Figure 1. A shared services centre houses services that can be provided to one or more business units within the same organisation. For example, if payroll is a shared services function, it then means that one or more of the business units can request their payroll functions to be provided by the shared services centre. The shared services centre will interact with the various business units regarding the provisioning of services to them. In this relationship, the shared service resources are termed “providers” and the consumers of the products and

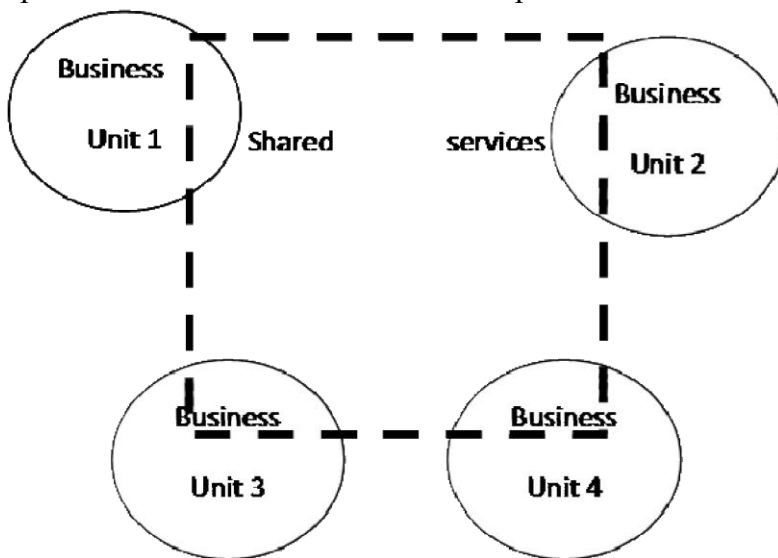


Figure 1. An organisation with a shared services structure (source: own).

Services of these resources are termed “internal customers”. These internal customers are the people employed in the business units and involved with the core business functions. The resources provided are used to satisfy the service demands of the different business units. These resources can have different forms such as people, equipment, data, best practices, equipment, standards, and enabling technologies such as enterprise resource planning systems. Ramphal (2011a) reports that the most common services provided to business units include human resources services, financial services, information technology, computer services, procurement and supply chain services.

WHAT IS A SHARED SERVICE?

The Collins English dictionary and thesaurus (2006) defines “shared” as the “use or benefit jointly with others”- hence a shared service is a service that is used for joint benefits with others. The others referred to in this case are other business units in a particular organisation. It is a service that is made available to all business units, with contractual agreements with each business unit specifying how the service should be rendered. These types of services may be transaction based and/or advisory based. Transactional services are administrative and repetitive, while advisory services are used to provide a consultancy service. Various authors such as (Mercer, 2008; Grant et al, 2007; Webster, 2007; Bergeron, 2003; Schulman et al.,1999) have provided definitions of shared services which is summarised by Ramphal (2011a) as firstly, as a collection and concentration of duplicated noncore and

nonvalue-adding activities from the various business units of an organisation into a separate business unit (shared services centre) whose task is to provide and manage these services as value-adding activities and after consolidation and concentration of these activities, the relative processes can be standardised and optimised in order to promote efficiencies, cost reduction, quality improvement and value in the multiple business units. Some of the key benefits of shared services are cost reduction, improving service quality, process simplification, sharing best practices, knowledge transfer, increased productivity, better economies of scale, leveraged technology, improved span of control, and greater alignment to business requirements (Redman et al., 2007; Schulman et al., 1999). In other words, it is a structure that should increase the bottom line. Intangible benefits include enhanced customer satisfaction, standardised processes, a more focused approach on value adding and improved accuracy of information and better leverage of the learning curve (Schulman et al., 1999).

Characteristics of shared services

Ulrich (2006) discusses the following characteristics of shared services:

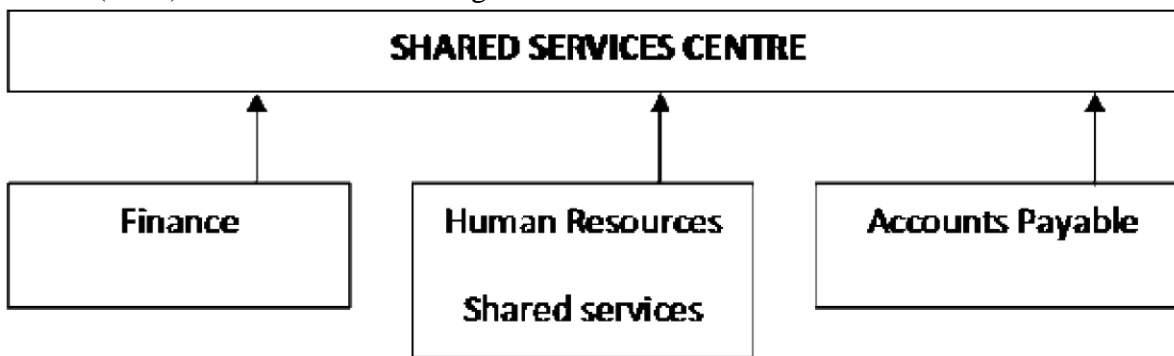


Figure 2.

Shared service departments in larger shared service centre. Shared services operate as a stand-alone unit and in most cases is an independent entity. They should run as a business and should be considered an internal outsourcing partner. They help to create a flatter organisational structure, a step towards globalisation and towards outsourcing.

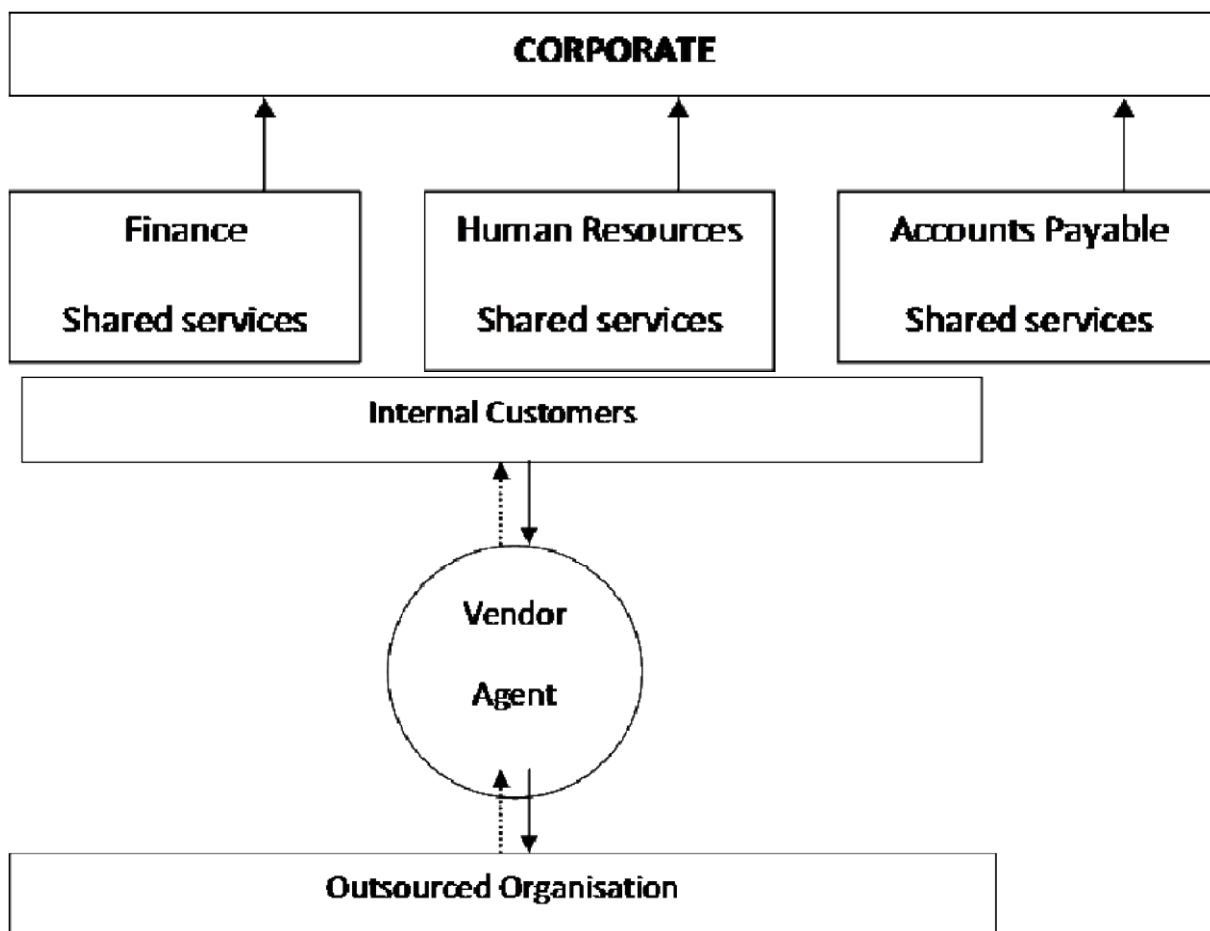
1. They can be geographically separated from head- quarters by virtue of having adequate information and communication technology.
2. Shared services are process oriented and focus on specific activities that are nonstrategic and business supporting.
3. They are driven by market competitiveness, with the services as the organisation's "product." These services should be provided at a low cost by virtue of concentrated efforts and economies of scale. The relatively lower service costs and higher quality levels should be such that it is more attractive option than to seek services from the shared services centre than from external providers.
4. Shared services leverage technological investments and because of their concentration can demand better prices and discounts. Shared services can justify the purchase of enabling technology. Typically, a business unit will not be able to afford leading-edge technology by itself. By pooling resources with other divisions, the purchase of technology such as enterprise resource software programs can be justified in terms of cost.
5. They focus on services and support to business units which go beyond even the traditional notion of customer service or client support. The basis is the creation of an increased level of internal supplier-internal customer service relationships driven towards partnerships.
6. They focus on continuous improvement.

Shared services configurations

There are three popular configurations of shared services as indicated in the Corporate Leadership Council Report (2006). Figure 2 shows a shared services department housed in a larger group of many other service departments (shared services centre), which ensures greater cost efficiency benefits because all policies and instructions stem from one source. Figure 3 shows a free-standing shared services department. This structure promotes more autonomy between the various shared services centres and each can optimise its strategy individually and independently. However, this structure may be more expensive and less efficient if the sharing of resources and technology between centres is problematic. Figure 4 represents an outsourced shared services centre. In this structure, the services are provided by an external organisation. Requests from internal customers and services to internal customers are channelled through a vendor agent. A case in point would be the outsourcing of payroll administration. Any requests from internal customers would be forwarded to the vendor agent who, in turn, will forward them to the appropriate outsourced party. Feedback from the outsourced party will go back to the vendor agent, who will subsequently communicate such feedback to the internal customer.

Advantages of a shared service structure

The advantages of shared services are summarised as follows in the Corporate Leadership Council Report (2006) and an article by Ulrich (2006):



There is a reduction in administrative expenses and improvement of efficiency by capitalising on economies of scale, consolidation, standardisation and automation of processes while improving service quality.

1. More time is created for staff and senior management from the business units to focus and direct their attention to strategic issues and the needs of their customers.

2. A critical mass of services is created, that can be used to justify technological improvements and service staff development. This critical mass also facilitates services engaging in strategic goals. For example, a human resources shared services centre can focus on improving services by concentrating on strategically improving organisational performance.

3. There is an accumulation of intellectual and capital

Figure 4. Outsourced shared service centre.

assets, which facilitates a large number of affordable experts on hand to deal with complex issues.

4. There is an opportunity to deploy new technology which can be afforded through cost sharing by the multiple business units, thus decreasing unit costs.

5. It is possible to do work more quickly and efficiently because experts and specialists engage in a narrow and more focused spread of work.

KEY SUCCESS FACTORS

Key success factors are those ingredients necessary for the success of shared services. These include general predictors, shared service employees, communication, governance, performance management and service flexibility. These are discussed below.

Governance

Bergeron (2003) suggests that effective leadership comprises of senior managers with entrepreneurial spirit, positive outlook, excellent communication skills, flexibility, tolerance for ambiguity, clarity of purpose, an ability to clearly articulate a vision for the company, competence with analytical tools and experience with change management. Strong governance in shared services is essential. It includes having a strong mandate from senior management, having adequate resources, appointing experienced change agents, having stakeholder management plans, clear demonstrations of urgency and importance and having clear escalation routes, clear decision-making processes and strong communication (Shared Services Advisory Group, 2006). According to Janssen et al. (2007), there should be a common vision about shared services among all stakeholders.

Shared services employees

Bergeron (2003:244) suggests that the availability of highly skilled workers, supportive business culture, high level of employee morale and open employee communications are necessary for a shared services environment. A “people management strategy” which documents the road map to developing and enhancing an efficient and effective shared services structure is necessary (Shared Services Advisory Group, 2006). This takes into account consultation, training, development, redeployment and recruitment. The further employees who have moved into shared services may feel that their roles have changed from a player in a large corporation to a second-class citizen now working for employees of that corporation (Bergeron, 2003). These employees have to accept a flatter organisation with fewer promotional prospects (Shah, 1998). This behaviour may cause resistance to change, and it would sometimes be better to replace them with others who can embrace the requirements of a shared services philosophy. A shared services environment typically requires a transformation of people (Shah, 1998). In a traditional organisation, employees have a departmental relationship with other business units. In shared services environments, employees must develop a customer-service or business-partner relationship with other business units. The employees rendering services in the shared services unit need to become customer focused and responsive to the needs of the business unit (Bergeron, 2003). These employees should have the freedom to respond to the business unit instead of being tightly controlled by the parent corporation. They should also receive training in the quality of customer service principles. Because shared services employees have limited scope for promotion, they need to be retained and motivated with other intangible rewards such as informal and formalised career paths, flexible work arrangements and nonmonetary recognition and reward programmes (Deloitte and Touche, 2005).

Enhancing the creativity of employees who provide shared services can improve the quality of services and thus also customer satisfaction (Reponen, 2003). Couto et al. (2000) indicate the roles of shared services managers and shared services business unit representatives shown in table 1. Key client relationship roles should be established and defined, effective communication should flow and customer expectations should be managed accordingly.

Communication

Colman (2006) indicates that developing two-way communication between service provider and user is an essential driver of shared services. Communication in a shared services environment means keeping all stakeholders informed about service implementation, soliciting feedback on new ideas, and alerting them when things change (Galeb, 2008). Some methods of communication include newsletters, discussion forums, meetings and the use of the intranet. According to the Amherst Group Limited (1997), the understanding and importance of shared services are contingent upon the degree of effective communication by all levels of management to their respective employees.

Operating model

The operating model should be clearly explored during the vision and feasibility stage, which should encompass the shared services framework. Each service should have a functional operating model identifying the mix and use of employee self-service and services centres (Shared Services Advisory Group, 2006). There should be a strong culture of performance management that ensures efficiency, effectiveness and continuous improvement and encourages the delivery of service level agreements, service contracts, resource planning and performance reporting processes. It is necessary to have a set of metrics to measure the benefits of shared services. People manage what they can measure and what they are measured against, and the company needs to know what to improve and how to measure whether or not improvement is taking place (Schulman et al., 1999). Hence appropriate metrics are an essential ingredient of an effective and efficient shared services environment. All investment should be supported by cost-benefit analyses and have clear timelines, milestones and supporting benchmarking data (Shared Services Advisory Group, 2006). Service costs should be visibly reduced. These reductions should be measured and reported to the organisation. Triplett and Sheumann (2000) indicate the following three cost-related questions to promote an understanding of costs and its impact:

1. What causes cost and how can it be managed?
2. How are charges to customers determined for the services provided to them?
3. How does the cost compare with that of outside providers?

In addition, after conducting research, David (2005) concluded that the users of shared services desire transparency on how service pricing is determined and reviewing the financial statements of shared services. Bergeron (2003) also indicates that a model should promote operational excellence with superior technology.

Problem areas in shared services

The following problem areas have been identified from the literature review on shared services:

1. Lack of top management attention. Despite their importance, shared services in most companies receive much less senior executive attention than business units because of the logic: “business units generate profits, and that is where top management should focus its time” (Mergy and Records, 2001). This implies that problems and complaints of quality, cost and performance that occur in shared services lack top management attention, and shared services managers formulate their own set of objectives that do not always support the objectives of business units.
2. Lack of focus on improvement. It is rare for internal service providers to spend time focusing on improvements in service quality to customers. They spend more time on the processes and the functional expertise relative to their own service unit (Acumen Alliance, 2001).

3. Technology. Over-reliance on technology may not only be expensive in capital investment, but may lead to depersonalised services that disconcert internal customers. For example, human resources may eradicate the “human touch” from its distinctive functions if it believes in being completely technology driven (Reilly, 2000). Reilly (2007) also reports that this may be overcome by means of continual appropriate restructuring of services.
4. Lack of costing systems. There is much disparity and inequities in the way charge-backs are calculated, essentially because of the lack of effective cost accounting systems in shared services (David, 2005).
5. Measurement of success. Schulman et al. (1999) indicate that it is extremely difficult to measure the success of shared services for the following reasons:
6. Shared services are an integral part of the organisation but are not necessarily considered a strategic operation.
7. The relationship between the shared services organisation and business units should be a partnership and not a customer-supplier relationship.
8. Appropriate metrics are traditionally functional based as opposed to process based.
9. Continuous improvement is not always seen as a natural embedded process.
10. Kearney (2005) indicates that ineffectual leadership, lofty visions, poor scope, ineffective communication and training and unstable technology are common problem areas in shared services.
11. Ulrich (2006) indicates that business relations and location are still major issues. In terms of business relations, employees who used to work in the business units may not adjust to a services culture if they are transferred to the shared services centre. The shared services centre itself has to decide what is good for the business unit and at the same time implement what would work for the corporate. Location is an issue prevalent in multinational corporations where there are a large number of alternatives for locating shared services centres, that is, locally, regionally or globally, and the selected location may still not be suitable for the business.

Quality Performance criteria

Recent published research (Ramphal, 2011b) asserts that the quality of shared service centres depends on the quality of service level agreements, quality of the contact centres, quality of the communication between the shared service centers and the business units, quality of the shared service products offered, quality of the shared service employees and quality of the provision of services. Further it is discussed that to embed quality in a shared services centre the following ingredients are required; a good culture of quality, a system of documents and procedures, support from the shared services employees, leadership and commitment from the shared services senior staff, customer focused, quality incorporating frequent audits and programs for continual quality improvement and high quality service processes.

CONCLUSION

The shared services approach has been spreading quite rapidly since the late 1990s and has become a popular organisational change approach to managers who are dissatisfied with their current organisational performance. The reported success of these structures has generated curiosity by academic scholars. Presently shared services are moving into the arena of academic interest and literature sources in this field are sparse and limited. Hence, the intention of the author is to provide a one stop source and insight into shared services for academic researchers, practitioners and senior staff of organisations. This article contributes to the field of organisational management with literature on defining, describing configurations, advantages, key success factors, current problems and quality criteria for the understanding of shared services.

There are many challenges in shared services that can provoke interesting research on such topics on the perception of shared services employees, the personal profiles of shared services managers and costing structures of shared services.

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