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Creating outsourced shared services arrangements: Lessons from the public sector

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Summary Shared services arrangements have been viewed as a strategy for achieving efficiencies and improved service in back-office functions such as finance and accounting, human resource, and procurement. Organisations have been increasingly turning to vendors to implement and manage outsourced shared services arrangements. Analysing the experiences of a public sector organisation, this paper provides a detailed understanding of the issues involved in creating outsourced shared services arrangements. The findings have the highlighted the importance of strong governance to drive standardisation and performance improvement, and relationship building both internally with the staff affected by the changes and externally with vendors. Failure to implement a standardised approach will hinder an organisation from fully leveraging the specialist capabilities of external vendors.
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Introduction and conceptual background

Shared services arrangements have been increasing in prominence in both the private and public sectors, encompassing a range of back-office functions such as finance and accounting (F&A), human resource (HR), procurement, information technology (IT), and facilities management. Shared services involve consolidating and standardising common tasks associated with a business function across different parts of the organisation into a single services centre (Bergeron, 2003). These services are then provided by the service centre to other parts of the organisation. Shared services centres can be owned and operated by the organisation, or outsourced to independent vendors. Although many services provided by back-office functions are not visible to customers, they have a major impact on service quality, particularly when they are not performing properly. Shared services has been viewed as a strategy for achieving both efficiencies and improved service performance levels, as organisations have strived to reduce costs and enhance performance in back-office functions (Davis, 2005). The Cabinet Office in the UK has estimated that there is scope for saving 20% from the £7 billion expenditure on central and local government F&A and HR services by implementing shared services (Davis, Fawcett, & Dodimead, 2007).

Unfortunately, the pace of shared service developments in practice has not been matched by that of academic inquiry, particularly in the case of outsourced shared services (Redman, Snape, Wass, & Hamilton, 2007). Organisations are increasingly turning to vendors to implement and manage shared services, as they lack the necessary internal skills and experience. Although the drivers and motives for outsourced shared services are well established in the

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literature (Lepak, Bartol, & Erhardt, 2005; Woodall, Scott-Jackson, Newham, & Gurney, 2009) there are few studies providing detailed insights into the issues involved in planning and implementing such changes. Shared services arrangements involve complex issues such as specifying the shared services delivery model, managing the expectations of stakeholders, redesigning business processes, implementing standard processes, and driving and sustaining change (Lacity & Fox, 2008). The aim of this paper is to develop a detailed understanding of the issues involved in creating outsourced shared services arrangements, and provide lessons for managers considering such arrangements. In particular, the paper highlights the challenges of shared services, and potential strategies for dealing with these challenges.

This paper analyses the experiences of a UK public sector organisation (referred to as 'the organisation' throughout the paper to ensure anonymity) that established an outsourced HR shared services arrangement. The shared services arrangement involved transforming the HR function across eleven government departments, replacing outdated IT systems, modernising payroll and HR processes, and providing centralised administrative HR services from an outsourced shared services centre. This was a highly complex, large scale outsourced shared services arrangement involving almost 30,000 users of HR services ranging from senior management to clerical officer level. In line with much of the recent writing on the role of the HR function, the underlying philosophy behind the transformation was to create a shared services centre to handle routine queries and transactions which would allow the retained HR function in the departments to focus on more strategic HR activities (Lepak et al., 2005; Ulrich, Younger, & Brockbank, 2008).

Following this brief introduction, a review of the literature on why and how shared services centres have emerged as a potential strategy for the delivery of organisational functional services is presented. In the next section, the case study organisation, which formed the arena for the data collection and research approach taken, is discussed. The findings section, structured around the research questions proposed at the end of the literature review, outlines how the organisation created the outsourced shared services arrangement. In the discussion section the implications for organisations moving towards such shared services arrangements are discussed. Lessons for managers are then proposed. Finally, in the conclusions section the contribution and limitations of the research are outlined.

Shared services

Shared services arrangements allow organisations to reduce costs through process standardisation, and economies of scale. Standardisation reduces process duplication, and economies of scale are achieved through combining processes previously carried out independently (Davenport, 2005). A shared services centre can specialise in a functional area, which then allows it to provide better service levels to users in the organisation. Through transferring many administrative and transaction-oriented tasks into shared services centres, retained functions can take on a more strategic role and focus on more value-adding tasks (Quinn, Cooke, & Kris, 2000; Truss, 2008). For example, in the case of F&A the retained function can focus on strategy issues, whilst the transaction-oriented tasks such as general accounting, accounts receivable, and tax processing can be carried out in the shared services centre (Cecil, 2000). Continuous improvement is another important feature of shared services where specialisation allows the operator of the shared services centre to drive improvements in both efficiency and service levels (Forst, 2001).

Outsourced shared services arrangements have become more prominent as organisations seek to leverage the capabilities of specialist vendors (Lacity & Fox, 2008; Maatman, Bondarouk, & Looise, 2010). Although outsourcing offers attractive features including vendor continuous improvement capabilities, better technology utilisation and cost savings through scale economies, it exposes organisations to contractual hazards such as excessive dependence on a single vendor, knowledge loss, performance measurement difficulties, and vendor opportunism (Currie, Michell, & Abanishe, 2008; Feeny, Lacity, & Willcocks, 2005; Williamson, 1985). These contractual hazards increase where requirements are difficult to specify, and there are frequent changes required to the contract. Organisations attempt to pre-empt contractual hazards by adopting relational contracting arrangements such as partnerships and joint ventures which are characterised by trust, joint problem-solving, and information sharing (McIvor, 2008).

Much of the existing literature on shared services has focused on internal shared services implementations (Cooke, 2006; Farndale, Paauwe, & Hoeksema, 2009; Janssen & Joha, 2006; Zeynep & Masini, 2008) with limited attention given to outsourced shared services. Although there has been a burgeoning interest in outsourcing, authors such as Sako (2010) have called for more research to explore what organisations need to consider when opting for the outsourced option. Organisations have traditionally been inclined to improve process performance internally by creating a shared services operation before outsourcing the ownership and management of the shared service operation (Sako & Tierney, 2007; Woodall et al., 2009). Increasingly organisations are opting for the outsourced approach, which involves working with a vendor to create a shared services operation and transform the performance of the affected function. However, this option leads to a greater dependence on the vendor, and the need for additional skills to manage the contract to ensure performance improvements are delivered. Furthermore, these types of arrangements can be often difficult to develop and sustain over the long-term (Mani, Barua, & Whinston, 2006).

A further challenge involves redesigning and standardising processes that are dispersed across different business units and locations (Hesketh, 2008). Creating shared services often impact back office functions with thousands of employees, and involve major organisational upheaval in the form of changes to complex functional structures and processes. The tightly integrated nature of an organisation's information technology (IT) infrastructure with business processes further compounds these challenges (Hagel & Brown, 2005). Standardising processes with links to tightly coupled systems can be extremely time consuming and expensive (Tanriverdi, Konana, & Ge, 2007). Moreover, organisations face considerable challenges in enhancing the strategic value of the retained function (Lacity & Fox,

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