Practices and Problems: Fixing Loose Ends of Shared Services
Governance

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Abstract
This paper is based on a study of nine business units in the Council for Scientific and Industrial Research (CSIR), South Africa focusing on their governance relationship with shared services department. In particular, the focus of the paper was on determining the extent to which collaboration through governance practices involving partnering with customers influences three separate aspects of firm performance: structure, amplitude and delays. This paper develops a conceptual model: Shared Services – Customer Integrated System (SSCIS) with hybrid top-down strategy. We seek to investigate the critical success factors in shared services. The SSCIS conceptual model provides managerial insights to shared services organisations/centers to achieve their objectives as well as to improve customer relationship. Through an appropriate governance design, it is envisaged that the CSIR might be able to control critical factors, performance indices to maintain flexibility and robustness, and plan their governance based on the characteristic of the business. We’ve found that shared services are most effective when they are serious about governance and incorporate critical elements such as service level agreements, customer service liaisons, and governance committees or boards. Sustainable shared services governance is more than just service level agreements. This paper concludes by recommending getting governance right as an essential tool for shared services survival and growth.

1. Introduction

In preparing this paper, the research included a review of a wide range of articles regarding the management relationships of shared services from the public and private sector, academic and other popular press articles. The issues discussed and recommendations proposed can be broadly categorized into two areas — governance structures and key elements. The relationship between business units’ and shared services department and their collaborative partner relationships has been an important research theme in the shared services organisations literature. Shared services department must satisfy their customers by improving the speed of service, business flexibility and response capability. At a broad level the concept of shared services is that instead of similar back-office services being provided at the level of individual business functions, or units, they are aggregated within a single area and provided across the entire organisation (Quinn, Cooke and Kris (2000), Ulbrich (2006) & Longwood and Harris (2007)). In fact, the dynamics of shared services governance important implication seem to be the potential role that collaboration could play in mitigating the problems. The three causes that can be isolated – structure (the way the shared services department is constructed), amplitude (over reaction by decision makers) and delays (separation between cause and effect in both time and space) – can be identified as being linked to disconnects between decision makers within the shared services organisations relationship’s.

The most common blind spot is governance. The reality we see is that most organisations need to set up a number of explicitly defined governance mechanisms with clearly defined roles and responsibilities to enable productive communication and collaboration among the shared services and the customers. Dyer and Singh (1998), examined the factors which increased the ties between an OEM and its partners. They identified four sources of sustainable competitive advantage in inter-organizational partnerships: (1) relation-specific investment, (2) knowledge sharing routines, (3) complementary capabilities, and (4) effective governance mechanisms. Generally the nature of the relationship with customers can be expected to be one where the focus on providing service acts as a form of governance (Power, 2008). By governance, the paper intends to express the procedures of engagement by which decisions related to shared services are made and the organisational mechanisms to enforce those decisions. This includes processes to set and clarify expectations between the shared services and those with whom it interacts, the business units’.

The paper establishes the construction of effective governance mechanisms to keep the shared services department and the business units’ working together smoothly in an effort to implement processes to keep all parties in alignment, and that it be one of the most challenging aspects of a shared services continuous improvement area. Governance mechanisms don’t usually grow organically over time; they must be deliberately installed.
Ineffective governance has put shared services department initiatives at risk due to fundamental differences in opinion about the shared services strategy and goals. There are many instances in which, for example, shared services department management decided that their strategy was to be a low-cost transactional service provider to the rest of the organisation. To execute on that strategy, the common approach had been that of hiring low-cost resources with well-developed technical skills but without a broader business background. You find some of the customers wanting the shared services to act more as a strategic partner whose people could understand the business units’ issues (such as materiality differences among other business units) on a more detailed level. The solution is to champion to better align expectations and develop a mutually satisfactory solution by bringing together the representatives of business-unit and the shared services.

An effective governance system is aimed at establishing accountability for each party, defining the ways in which the parties interact with each other, and to help keep all parties’ strategies and goals aligned with each other. Finally, the focus of this paper is to discern the optimal governance structure for improving the shared services in the South African public sector context and then to analyse the key, substantiated elements and considerations of a shared services governance structure and where these fit or reside in the selected structure.

2. Literature Review

Stakeholder theory originated in strategic management and concerns the viewing of an organisation as a having a broad range of stakeholders, all having their own interests and goals (Freeman, 1984). According to these theory organisations should look after all stakeholders’ interests and benefits. Stakeholders’ goals, interests and perception might change over time. A stakeholder can be an individual person or collective, like an organisation or an institute (March, 1988). Rowley (1997) tied stakeholder theory to social network analysis. He argued that firms do not simply respond to each stakeholder individually; they respond rather to the interaction of multiple influences from the entire stakeholder set. Stakeholders have multiple and conflicting objectives and interests and within a network there is often more than one participant with power to influence the outcomes.

Research into the benefits of collaboration between shared services department and business units’ highlights the nature of the problem of who benefits and why. The case for caution in terms of universally applying the collaborative model is one that recurs through both early and more recent studies (New and Burnes, 1998; Vereecke and Muylle, 2006; Kersten et al., 2004; Stuart, 1997). The notion that collaboration results in “win-win” outcomes in particular has been questioned (New and Burnes, 1998), while the potential for broader adoption has by others been said to have been over-estimated (Zajac and Olsen, 1993). A recent European study found evidence for a relationship between collaboration and higher levels of performance, but no clear link suggesting that collaboration was the cause (Vereecke and Muylle, 2006). Further, in an international supply chain context it has been shown that cultural, infrastructure and geographical issues serve to modify the ability for trading partners to realize the potential of collaboration (Dyer et al., 1998; Dyer and Singh, 1998; Fernie, 1995). Mitchell, Agle and Wood (1997) propose that power, legitimacy and urgency are attributes that can be used to identify stakeholders, as they should possess at least one of these attributes.

It is important that the Shared Services department is an operational unit in its own right, ideally reporting to the Board of Directors through its own Executive Director. This provides assurance to customers that the unit delivering the Shared Services is highly focussed on that specific task. If a shared service department is a unit within existing business units of the organisation, such as HR or Finance, it can become difficult to separate out the role of provider of services from customer of services, so there may be an implicit conflict of interest. As the potential pool of customers expands, then this conflict can challenge the objectivity of decisions.

For the business units’ heads of departments, transfer to the shared services department of delivery of elements of their shared services represents a risk which must be carefully assessed. Under shared services, the heads of departments must still be accountable for service performance and, as with any contract with an external service provider; they need to have a clear plan of how they manage this risk with clearly designated accountability to appropriate roles. For example, during the service transition phase they had to be satisfied that the end to end processes, business controls and reporting framework are fit for purpose and clearly defined in the service level agreement. On an on-going basis, data security and budgetary controls were also the significant concerns. Transaction cost economics emphasizes the importance of developing appropriate governance mechanisms for the regulation of trading partner interactions (Williamson, 1975; Williamson, 1985).
Through an efficient governance structure, highly integrated organisation can reduce the transaction cost significantly. The reduction of the transaction cost, subsequently leads in reduction in the business units services costs. Therefore, the organisation may improve its financial performance. Hence, we hypothesise:

Hypothesis 1: A high degree of customer integration has a positive impact on business governance.

Hypothesis 2: A high degree of internal integration has a positive impact on business governance.

3. Case Study

3.1. Research method and data collection

The case method was used to study the phenomenon of business unit’s-shared services department relationship in the public center context. The study is thus an embedded single-case study with multiple units of analysis. The main argument in favour of the method (Yin, 2003) here is that the research problem is complex in nature because it includes many variables and concepts that are not easily grasped in a quantitative study. Furthermore, because the empirical research context is a contemporary event, there are multiple sources of evidence. The case study method was chosen because of the nature of the research topic and context. Given the purpose of the study to achieve a deeper understanding of governance and collaboration, it was considered the most appropriate option.

Yin (2003) suggests that multiple sources of evidence should be used to establish validity and reliability, and according to Dubois and Araujo (2007), the use of multiple respondents makes it possible to capture a variety of perceptions and meanings, which is vital to the understanding of complex relationships. Furthermore, having numerous and highly knowledgeable informants who view the phenomena from diverse perspectives limits the interview bias (Eisenhardt & Graebner, 2007). Hence, several informants, data from different sources and investigator triangulation were used in this study. The study comprises 19 semi-structured interviews conducted with the case business units’ personnel. Data on call center calls register was used in combination with the interview data. The research informants were selected based on their active involvement in customer–supplier relationships. The interviewees from the business units mostly represented the customer side (research group leaders, competency area managers and functional managers), whereas those in shared services department (supervisors and line managers) represented departments of SS in the supplier role. In order to obtain additional information and complementary perspectives, interviews were conducted with informants from business unit management team levels and in other positions (unit directors, finance managers, human resources managers).

A total of 16 interviews were conducted in the business units and 6 with the informants. The point at which new interviews did not provide new evidence was reached with a smaller number of interviews in the business units. The interview questions covered the roles and capabilities of the shared services department personnel, their powers of responsibility and customer satisfaction, relationships and information sharing. Notes were taken and the interviews were audio-recorded. The recordings were transcribed literally, producing 37 pages of data. The resulting qualitative data was coded based on interview themes, and subjected to classification and qualitative content analysis. The coding and analyses were done manually by the author. The similarities and differences between the cases were compared by using cross-case analysis. Finally, the data was compared with the theoretical study and interfaces were sought.

3.2. Research findings

In order for the governance structures to deliver the key aims of accountability, transparency and a sense of fairness, it is important that several key processes are defined within the governance approach and owned by the appropriate individual or function.

Governance/executive board should be responsible for the audit and quality assurance arrangements and should be defined and agreed between the provider and customer. The performance management metrics, processes and procedures need to be defined and agreed between the provider and customer. The dispute resolution procedure needs to be defined and agreed between the provider and customer.

With regard to the business design authority, the ownership of processes and data between the shared services department and the retained customer processes within the business units must be clearly defined and documented. The shared services department should be seen as a custodian of customer data which is owned by the business units.
Management operations group must lead the change management processes enabling customers to transition to the shared services governance model and to facilitate continuous improvement and the extension of the shared service to a new customer.

Governance/executive board with input from customer board must develop service planning and the investment appraisal process – what investments will be made and when.

Business design authority should be responsible for the evaluation of requests for process changes.

The findings yielded through the investigations found the following possible models employed depending on the approach at specific instances:

- No specific allocation to business units, with costs recorded without the operating margin.
- Flat rate based upon one metric (for example, revenue or headcount). The metric being not necessarily the driver for the cost.
- Budgeted rate based upon a metric that approximates the distribution of cost.
- Activity based costing that is based on per unit pricing of services developed for aggregation of associated costs (labour, systems, overhead, etc.).
- Full direct charging directly identified at time of use and specifically charged to each business units per transaction.
- Market rate based allocation where costs are defined for service time and actual volumes.

Evidence shows that gaps in the relationship between shared services department and the business units manifested the two to work at cross-purposes with each other on a more granular level. The following were the common statements from customers:

- Now that the shared services have been set up we have lots more to do. The shared services has increased the work load rather than reduced it.
- Everything worked in the good old days when we did it ourselves.
- There is no connection between the shared services and the customers.
- My views on how to improve aren’t taken into account.
- They keep referring to the SLA rather than doing what we really need.
- The process might work for the shared services but not for the rest of us.
- Are they really aligned to the vision of the organisation?
- I call and call but never get an answer from them.
- I’m not sure I really trust the shared services data.
- They seem so far away.

The relationship of the shared services unit and business units could not provide evidence of essential ingredient of effective joint working to ensure that the governance structures enable the organisation to discharge its duties in relation to best value and be a good steward of the organisation’s resources.

There was no evidence of a framework of relationships and accountabilities that members of shared services unit and customers can understand what is expected of them. This was particularly so when joint working involved appointing representatives to some sort of a committee. The business units did not set criteria for determining who the business units’ representative should be and procedures for making those appointments which accord with the organisations goals and mandate.

Reporting to the business units management team was often found to be a neglected area. Some senior managers have a practice of appointing a “lead officer” in relation to most of their areas shared services functions accountabilities, as a point of reference within the business units from whom they can obtain support and a filter for feedback. Arrangements for the committees to ask questions of members who are appointed as “lead officers” is also not made and defined. The under used area of overview and scrutiny is also an area where reviewing the work of shared services bodies was not appropriate.

The importance of partnership governance was recognised in commending the development of joint working, its key findings were that partnerships bring risks, complexity and ambiguity that can generate confusion and weaken accountability. The business units needed assurance that organisations money is spent wisely.
Committees are not asking searching questions about those they are engaged in and there’s no clear accountability between partners.

The desired cost visibility was found to be using various chargeback methodologies based on two principles: the primary objective of the chargeback model and the one based on opportunities to incentivise the business to change behaviours.

4. Critical Success Factors

4.1. Analysis of results

Sixteen questions have been found significant in shared services governance. They are classified into five phase in this section. This analysis tests the significant improvement between internal integration and customer integration. There are significant differences between customer integration approach in quality improvement ($t=3.065$, $p = 0.003$), cost improvement ($t=2.505$, $p = 0.013$) and flexibly ($t=2.626$, $p = 0.010$). Significant differences are also found in internal integration approach ($t=2.341$, $p = 0.021$).

As regards the customer satisfaction, customer integration approach is better than internal integration approach. We can conclude that those business units applying customer integration systems result in better performance than internal integration system.

Table 1: Regression analysis of customer satisfaction

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficients</th>
<th>Coef. Std. Error</th>
<th>t</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>On time delivery, $X_1$</td>
<td>0.232</td>
<td>0.233</td>
<td>3.648</td>
<td>0.000**</td>
</tr>
<tr>
<td>Quality improvement, $X_2$</td>
<td>0.209</td>
<td>0.207</td>
<td>3.181</td>
<td>0.002**</td>
</tr>
<tr>
<td>Fulfilling customer need, $X_3$</td>
<td>0.202</td>
<td>0.203</td>
<td>2.800</td>
<td>0.006**</td>
</tr>
<tr>
<td>Product changing flexibly, $X_4$</td>
<td>0.194</td>
<td>0.192</td>
<td>2.623</td>
<td>0.010**</td>
</tr>
<tr>
<td>Lower stock cost, $X_5$</td>
<td>0.174</td>
<td>0.165</td>
<td>2.855</td>
<td>0.005**</td>
</tr>
</tbody>
</table>

Based on how management performances influences the customer satisfaction, we assume a linear relation between customer satisfaction and the seven factors (on time delivery, $X_1$; quality improvement, $X_2$; fulfilling customer need, $X_3$; product changing flexibly, $X_4$; lower stock cost, $X_5$; shorten delivery time, $X_6$; flexible capability, $X_7$). After the first and the second regression analysis and eliminating the insignificant factors, we keep five significant performances. Since $R^2=0.987$, the formula below shows 98.7% of the customer satisfaction ($Y$):

$$Y = 0.232 X_1 + 0.209 X_2 + 0.202 X_3 + 0.194 X_4 + 0.174 X_5$$

On time delivery and quality are the key factors that affect customer satisfaction. Other crucial factors are fulfilling customer need, flexibly and lower transaction cost. These results provide managerial insights to industry in shared services governance.

We also show that a good customer relationship is very important in the internal integration and customer integration systems. “On time delivery” and “quality” are the top 2 key factors affecting customer satisfaction. The customer satisfaction regression equation shows that in order to achieve a better customer relationship, an enterprise must provide delivery on time, offer good quality products, product flexibly and efficient stock control. This gives managerial insights to organisations in what to focus.
4.2. The development of governance model

The nomenclature of governance terms describing the relationships, control, and accountabilities of shared services organisations is diverse. In this paper, the term governance structure is intended to outline the hierarchy of committees, boards, bodies, or forums that must execute the management of, and oversee the delivery of, the products and/or services of the shared services to meet the key success factors addressed in section 4.1. The structure has also been referred to as a control architecture (Turnbull, 2005), organisational design (Clarke, Cavanaugh, Brown, & Sambamurthy, 1997), SSO structure (Blake, 2005), governance archetype (Weill & Woodham, 2002), governance design structure (Rau, 2004), and governance structure (Kearney, 2004), to name a few.

The governance model we developed was determined to some degree by the delivery approaches employed. However whichever approach used, effective governance requires clearly allocated roles and responsibilities which are documented and communicated. Clear decision rights, governance structures, defined roles and responsibilities, and issue resolution processes are needed from the start (Blake, 2005). Input and decision rights on matters such as the business model for cost recovery and long term organisational funding, costing, and pricing mechanisms and SS department growth strategies are additional components that should be clearly documented in the initial charter of the shared services department. There are several governance structures advocated to oversee shared services department. The governance structure suggests how many levels or layers of committees there can be and outlines each of their primary roles. The roles, accountabilities, and responsibilities assigned to the levels and committees of the shared services department may differ based on how some of the core processes of the organisation are implemented.

Outlined below are suggested key roles and responsibilities for each area:

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**Figure 1: Proposed model by authors**

The key responsibilities of the head of shared services departments must include: identification and development of shared services strategies; manage day-to-day operations of the shared services department; lead definition of services and associated service level agreement; build effective relationships with key stakeholders. The responsibilities of business design authority must encompass ownership of the end-to-end shared services department solution. Evaluate the impact of new developments on existing design. Recommend policy and process changes to the customer board. Manage the change control process. Manage the release management process for new functionality.

The governing body must execute the following responsibilities: define strategy, including growth and commercial model; prioritise investment; secure resources; deliver shared services department business plans; monitor operational performance; resolve escalated issues. One of the common points that emerge is that the head of the executive or top level oversight board should be a person with experience in leading shared services
i (Accenture, 2005; UK SSDN, 2002). Others take the point further stating that an external head with experience in implementing or running shared services in the private sector may be of value (Conference Board of Canada, 2005).

The management operations group should be responsible for the day-to-day operational management. The function should include performance, headcount, account management, service levels, etc... Finally, manage the end-to-end shared services solution (process, technology, documentation, etc.). Account management team must also deal with day-to-day contact and issue resolution with existing customers. Manage take-on process for new needs and floor expectations. The customer board must provide the “voice of the customer” into shared services strategy. Provide a forum for the debate of new services and common approaches. Support the shared services department in their responsibility to manage their budget, SLA’s, risk and compliance targets. Furthermore, the account management must pitch at both the management operations group and governing body levels across the governing structure.

5. Discussion

In all cases these latter studies provide evidence suggesting that the benefits of collaboration are at the same time elusive and attractive. They also show that they come at a cost, and that the trade-off between cost and benefit is possibly explained through the interaction of these two theoretical perspectives seeking to make sense of the collaboration dilemma. The benefit of greater knowledge sharing carries the risk of transparency and potential for opportunistic behaviour. The risk associated with not sharing knowledge is one of economic and technological isolation in a world where trading networks are becoming more commonplace. The relationship between costs of coordination and the costs relating to risk of opportunism can be mitigated by partnering with those you can trust, but trust is a rare commodity in competitive market based economies.

Whatever the motivation for collaboration, it is important to bear in mind that in any system whereby multiple partners pursue joint strategies, that it is unlikely that all will share equally in the benefits that accrue (Stephen and Coote, 2005; van Donk and van der Vaart, 2005). Further, the conditions under which firms can expect to realize these benefits are at best poorly understood, with some empirical studies indicating that outcomes appear to be often based in the context of the industry or the dispositions of the trading partners themselves (Wuyts and Geyskens, 2005). This study examines how vendors perceive they benefit from collaboration with customers both in terms of capability (internet based technological links), and practice (actual collaborative practice).

The net result is that collaborative practice, and the benefits that accrue, is an important area for continuing research. In particular, it is important to look at the issues from the perspective of different players in the supply chain as a firm’s perspective on the benefits of collaboration can be expected to differ based on who that firm collaborates with. For example, in simple terms it is likely that the perceived value of collaboration will differ based on the nature of the trading relationship – whether you are dealing with customers or suppliers. Generally the nature of the relationship with customers can be expected to be one where the focus on providing service acts as a form of governance. As such, it could be that many vendors are involved in collaboration because they believe it will help grow their revenues, create a stronger competitive position, or because their customers have mandated it. It is in this context that this paper finds its focus by seeking to study the perceptions of vendors of the benefits they accrue from collaboration with customers. In other words, it is assumed in many studies that vendors become involved in collaborative arrangements with customers expecting there to be a benefit for them, either direct or indirect. As the preceding discussion has shown, these benefits may or may not be realized. Further, the nature of the relationship with the customer may be such that potential benefits may not be the object, rather that collaboration is seen to be governed by the need vendors have to be connected to customers.

The key considerations when defining the governance arrangements for an operational shared service should include governance processes are responsible for ensuring that the shared services department’s delivers services in an effective, efficient and ethical way, and determine the decision making processes which will be applied in a range of different circumstances. In particular, this should address the impact of moving from providing shared services for an individual customer to providing services to a number of additional customers. Good governance will then depend upon well-defined principles, organisation structures, policies and processes. Clearly defined roles should be assigned the authority to complete designated tasks to specific outcomes. In the case discussed of shared services, it is also important to identify clear boundaries between customers as end-to-end processes will span both providers and customers.

This solution represents one, and only one, of the governance policies. Other solutions could exist and should have been studied. Our model enables to design for agile strategies of governance (efficiency, responsiveness
and flexibility), thereby offering different solutions. Each strategy corresponds to a particular balance of the conflicting objectives of the value chain. All the solutions can therefore be compared in order to select the most effective with regards to operational constraints. Improving governance really makes a difference to your efficiency, effectiveness and customer satisfaction. The paper expresses that unlocking value through improving governance is easier (and much less expensive) than improving processes or systems. There is a great opportunity for many organisations to improve through considering each of the five components of governance. Leveraging and building upon the existing governance infrastructure. Building awareness of governance needs at Executive levels and when it comes to SLAs, often the process of getting there (e.g. the interaction with the customers to create an SLA) is worth as much as the end results. Finally, It is only through effective governance that the continued success of the shared services department can be secured and the shared services department can become a real and strategic partner to the business units.

6. Discussion

The results of this study provide further evidence supporting the contention that the benefits from customer and internal integration in the shared services organisation are not as widespread or as clearly identifiable when viewed from the perspective of the shared services department. The respondents in this study were shared services key stakeholders, i.e. Research Group Leaders, Competency Area Managers and Functional Managers, representing the different business units that are expected to benefit fully from shared services – customer interfaces or from partnering with customers. An important theme in the shared services management literature is that the shared services organisation’s is particularly vulnerable to the problems associated with governance dynamics. Integration with customers at both the technological and process level is held to be an important strategy to mitigate these problems.

There is evidence, however, that integration outcomes can be linked to improvements in operational and customer service quality performance. The implication is that the real integration benefits of collaboration may exist for shared services, but that they are unable to clearly see them as the direct link is not apparent. As well, the results show that customer integration is a stronger determinant of performance for shared services department than is internal integration and that for some areas of performance (e.g. quality) it is not just a stronger determinant, but can be seen to be a primary determinant.

The Governance approach should: Be driven by the chosen delivery model for the shared services. Cater for the different requirements and services consumed by various customers; be as simple as possible, to avoid becoming unwieldy and costly to administer; Be transparent and open to ensure that all relevant parties can be assured that the shared services are being governed appropriately; Support customers in demonstrating the value for money of the services they receive; Support the shared services in both on-going businesses; Provide different forums to reflect the different interest groups, including strategy, business development and user experience. Each forum will need clear terms of reference; and provide the mechanism for brokering decisions and resolving disputes between the various parties involved.

Bibliography


