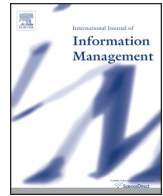




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An integrative literature review and empirical validation of motives for introducing shared services in government organizations



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ABSTRACT

This paper contributes to the understanding of the meaning of shared services and motives for introducing shared services in government organizations. We review and clarify definitions of shared services and derive a definition applicable for the government context. Based on an extensive literature review, we present an empirically grounded research framework of motives for introducing shared services. We validated this framework in 16 interviews with shared services experts from New Zealand and Dutch government organizations. Achieving back office cost reduction is a major public policy goal in many OECD countries, and shared services models are increasingly promoted as a means for achieving this. However, cost reduction and business management principles derived from the private sector are not the only motivations guiding public sector IT. As organizations realize the difficulties in reducing costs, other motives for using shared services increase in significance: improvement of service delivery, service quality and consistency, exchange of internal capabilities and better access to skilled and external resources. These motives are consistent with a “New Public Service” ethos of greater engagement and collaboration. Our findings suggest that trends in public sector IT management and sourcing frequently reflect wider philosophical motivations in public policy.

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“Public administration has entered a new age. In the 1980s, “less” government was the prevailing idea; in the 1990s and early 21st century, “New Public Management” was the dominant theme. Today... reforms are focusing on the quality of services for citizens and businesses and on the efficiency of administration (the “back office” of government).”¹

1. Introduction

It has been suggested that a more collaborative shared services approach constitutes the “new age” of public sector management. In the 1990s, the “New Public Management”, based on agency theory, and providing a great deal of autonomy to CEOs to meet their key performance indicators and source services as they saw fit

was “*de rigueur*”.² However, this philosophy resulted in considerable potential for fragmentation and duplication in areas such as information technology (IT), and in some cases, it was difficult for public sector organizations to source their IT requirements cost-effectively (Tate, Johnstone, Toland, & Hynson, 2007). More recently, under pressure from budget cuts, political reforms, and increasing calls for service quality, cost containment and transparency, government organizations are searching for strategies to improve the cost effectiveness of back-office functions without reducing the quality of those services (Furtmueller, 2012; Redman, Snape, Wass, & Hamilton, 2007; Tate & Furtmueller, 2013). The trend has been to consolidate back-office functions using shared services models (Cooke, 2006) and this has been adopted as explicit public sector policy in many OECD countries.³ Bergeron (2003)

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¹ http://www.oecd-ilibrary.org/governance/public-administration-after-new-public-management_9789264086449-en.

² http://www.oecd-ilibrary.org/governance/public-administration-after-new-public-management_9789264086449-en.

³ http://www.oecd-ilibrary.org/governance/public-administration-after-new-public-management_9789264086449-en.

explains the shared services concept as a collaborative strategy in which a subset of back-office functions are concentrated in a new semi-autonomous unit to promote efficiency, value generation, cost savings, and improved service delivery for the internal customers of the parent organization. One example of a shared services initiative is the Defence Shared Services of the New Zealand Defence Force. In the early 2000s, the separate IT and administrative functions of Navy, Army and Air Force were consolidated in one organization overseeing all related matters for the three military branches. Functions like property and housing management, which were delivered separately by each of the branches in the past, were combined to achieve cost savings and build better operational efficiencies across the three areas of the Defence Force.

Public sector organizations may have different goals and motivations than private sector organizations. We consider the possibility that while public sector IT sourcing decisions seem to be based on business issues such as potential for cost-saving, there are frequently underlying public management issues which indirectly influence public sector IT sourcing decisions and strategies. The aim of this research is to contribute to the understanding of the meaning of shared services and motives for introducing shared services in government.

Our research questions are: What are the motives for introducing shared services in government organizations? How do these IT sourcing decisions reflect trends in public sector management more generally? We answer these questions by conducting a systematic literature review with the aim of discovering a candidate set of motives. In addition, we evaluate the external validity of the set of motives we derived from the scientific literature by conducting semi-structured interviews with 16 shared services experts from 13 different organizations in the Netherlands and New Zealand. We contextualize our findings within global trends in public management, and relate attitudes and expectations towards public service delivery to the motives for shared services adoption.

The remainder of the paper is structured as follows: Section 2 describes the history and concept of shared services, and recent trends in public sector management and IT sourcing. Section 3 illustrates the methodology of the study. Section 4 presents the results from the literature review and the interviews. In Section 5, we first compare the findings from literature and the outcomes of the interviews. This is followed with a discussion of the relation between trends in public sector management and our findings. We end this paper with our main conclusions and contribution in Section 6.

2. The shared services concept and public management

In the late 1980s, large corporations combined some of their back-office functions, such as accounting, from separate business units into one single unit and the concept of shared services was introduced (Redman et al., 2007). In the early 1990s, the shared services initiatives of managers in US firms were also adopted by European and Asian firms (Davis, 2005; Redman et al., 2007). Early shared services initiatives commonly provided accounting and finance functions (Ulbrich, 2006), and more recently, IT services, human resource, customer services, procurement, public administration, and asset management (Janssen, Joha, & Zuurmond, 2009; Janssen, 2005; Murray, Rentell, & Geere, 2008; Nasir & Abbott, 2011; Furtmueller, 2012; Tate & Furtmueller, 2012; Tate, Furtmueller, & Wilderom, 2013).

In research literature, different terms for the shared services concept are used, for example 'shared services' (e.g. Ulrich, 1995), 'shared service organization' (e.g. Schulz, Hochstein, Uebornickel, & Brenner, 2009), and 'shared services model' (e.g. Maatman, Bondarouk, & Looise, 2010). Throughout this paper, the terms 'shared services' or 'shared services model' will be used.

There is no generally accepted definition of shared services. Schulz and Brenner (2010) analyzed the characteristics of shared services definitions. Combining the elements that are described in at least 50% of their literature sample, they arrived at the following definition: "Shared services is an organizational concept that: consolidates processes within the group in order to reduce redundancies; delivers support processes; is a separate organizational unit within the group; is aligned with external competitors; has cost-cutting as a major driver for implementation; is focused on internal customers; and is operated like a business". These seven characteristics were derived from an analysis of articles published between 1995 and 2009. After 2010, some authors have proposed alternatives to this influential definition. For instance, Miles (2011, p. 1) defines shared services as "an organizational arrangement for providing services to a group of public or private sector clients via a service provider which replaces the previous in-house or contracted-out function". This definition encompasses the idea that the shared services concept refers to a separate organizational unit with a focus on internal customers. Miskon, Bandara, Gable and Fiel (2010, p. 378) define shared services as "the internal provisioning of services by a semi-autonomous organizational unit to multiple organizational units involving the consolidation of business functions supported by a sharing arrangement". This has a similar focus to that of Miles (2011), but with an additional emphasis on the consolidation of processes.

Tate, Hynson, and Toland (2006) argued that philosophical trends in public sector management can have a considerable, if indirect impact on IT management and sourcing decisions. Table 1 is adapted from this paper and from Denhardt and Denhardt (2000) and includes comments about the implications of these changes for public sector IT management.

The last twenty-five years have seen significant shifts in thinking about the role and nature of the public sector (Denhardt & Denhardt, 2000). In the 1990s, new market models changed the old public sector management thinking and triggered a trend widely known as the New Public Management (NPM) (Lynne, 1998). In brief summary, the NPM viewed relationships between public agencies, or between public agencies and their stakeholders, through a lens of principal-agent theory. This theory viewed organizational interactions as a series of contractual relationships between individuals, a principal who has a job to be done, and an agent who agrees to carry out the job in return for agreed-on compensation (Kettl, 1995). This tended to result in public sector relationships that could be conceived of as a network of contracts (Tate et al., 2006). Campaign platforms served as a "contract" with votes by elected officials, that they need to deliver on or risk being voted out. The elected official is the principal, and the execution of these promises is contracted out to an "agent" (the public service) via an agency head. In this model, agency heads had considerable power to make procedural, spending, recruitment and sourcing decisions (Hunter, 2000). The agency head employed all other public officials. The practical application of the NPM resulted in an orthodoxy known as the three 'D's': downsize, devolve and disperse (Ott & Dicke, 2001). Downsizing involved reducing the cost and size of government. Devolution involved moving decision making closer to the people who are affected by the decisions, often implemented as a transfer of responsibility from central to local government. Dispersing involved government agencies withdrawing from activities that the private sector can provide (such as IT), and obtaining those services, on a contractual basis, from private sector organizations. This is considered to deliver cost savings by allowing public sector managers to purchase services in a competitive marketplace.

However, there is an asymmetry of information which could be taken advantage of by the agent. As a result, there is inherent lack of trust embedded in agency theory, which assumes that agents will act in their own self-interest. Public sector theorists have sought

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