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Shared Services: Maverick or Originator?

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Abstract. The local governments of the OECD countries have attempted a number of sourcing practices over the past decades, including corporatization and collaborative arrangements. Sharing services is one of the latest options to emerge to cast a new actor, the shared service organization (SSO), in a lead role. To deliver services to the client councils these special-purpose vehicles adopt an alternative model that has prompted Information and Communication Technology (ICT) providers to evolve into this new species of enterprise, and to discard models based on publicly funded collaboration arrangements or the usual ICT outsourcing practices. This case study analyses the route taken by an Italian public company that reengineered its approach into that of an SSO to become a reference point for its customers and their ICT strategies. The article’s general reflection on the changes under way supports the continuity of the basic organizational logics that inform the practices of public SSOs.

Keywords: Shared service, Sourcing arrangements, ICT, Public enterprises, Organization studies

1 Introduction

The dramatic changes set to impact the Information and Communication Technology (ICT) sourcing strategies of councils equate to major challenges, despite the fact that the public managers now have access to a broader range of tools and more creative options [1, 2]. The shared service option is an emerging strategy originally developed in the corporate sector in the late 1980s [3]. A plethora of academic literature on ICT sourcing (e.g., [4, 5, 6, 7]) has demonstrated that, first, in-house sourcing, shared services and outsourcing form a continuum; second, rather than a ready-made dichotomy (i.e., outsourcing vs. shared services), the solutions are mixed and multiple; and, third, the viable sourcing choices are larger in scope and complexity.

“Shared services” is an umbrella term [8, 9] that signifies the concentration of one or more processes spread across one or more organizations or across more divisions of the same organization. A shared service organization (SSO) can aggregate activities, functions, systems and personnel in one single hub of competences from which it manages these activities as core business processes. Large corporations use the SS

option chiefly to achieve efficiency gains through the ongoing improvement of processes [3, 10]. In the public sector, precise government mandates and independent choice are the two factors driving central and local administrations [10, 11, 12] to progressively adopt SS arrangements. The US government's decision to close 800 of the country's 2000-plus data centres by 2015 is one example [13:18].

A variety of functions can be shared but the SS option is of special interest to Information Systems (IS). First, because information technology service sourcing has become the most common type of technology service that organizations seek from inter-organizational relationships [14:261] and, second, because many (if not all) other public services are dependent upon IS for their delivery [15].

This qualitative research investigates the supply-side of the SS option. Specifically, it seeks to respond to the research question "*What truly makes the SSO an originator?*" from the SSO perspective. Two important, interrelated issues underline how the SS option is not a given in central and local government, despite first impressions. The first is the tightly integrated nature [16] of IS processes with internal processes that requires the user council to make a significant organizational effort. The second is the brand loyalty issue whereby the councils tend to stick with their core IS providers. Despite the many countries predominated by tiny municipalities, little SS research has explored the coming together of these crucial issues. This is the knowledge gap the contribution starts to bridge, laying the groundwork for a future research agenda.

Using a case study approach, the paper maps the experience of a public-owned enterprise founded in 2004 to deliver ICT services to a group of small councils in Italy. Three years later the company, which started life as a typical Public-Private Partnership (PPP) to provide local governments with ICT outsourcing and facility management services, switched to an 'SSO' approach in order to manage a number of ICT-related functions for these public-sector clients.

The paper draws on extant literature and some empirical observations to argue that the public enterprise model, whereby a single supplier provides municipal clients with a full range of standardized ICT services, clashes with the strong relationships forged between the small municipalities and their software vendors, a situation that renders the model impracticable. But the case study shows how this can be successfully turned around when a public SSO is willing to adapt to the "multi-sourcing" strategies of its client councils, i.e., by offering a combination of ICT and business services sourced from multiple providers [17].

This contribution enriches the SS research in two ways: i) it reconstructs the journey of a public SS provider that surpassed the problems of the commonly accepted sector business model; and ii) proposes a general reflection on the underlying organizational logics that inform actual practices.

The paper first discusses the literature on the SS option in the public sector before providing a quick contextual guide to the Italian ICT market as a preamble to the case study. A description of the research design and the case itself is followed by an analysis of the empirical evidences with relative commentary. The insights gleaned are translated into practical suggestions of use to senior management and implications for research.

2 Related Work

Most IS literature approaches the shared services issue by asking classic questions such as “what”, “why”, “who” and “how” but leave many theoretical aspects unexplored (see the extensive review made by [18]). Indeed, only a very small number of cases use general organization theories such as Resource-based View, Dynamic Capabilities, IT Governance Theory, Resource Dependence Theory, Real Options Theory, and Transaction Cost Economics [ibidem: 1020], and then almost always from the perspective of the *recipients*, i.e., the decision makers of the user organizations responsible for exploring such arrangements.

Research on SS in local government ranks shared services arrangements as highly promising solutions for the councils’ operational efficiency. Interestingly, and regardless of the observers’ stances, the current debate (e.g., see [19, 20, 21] assigns a key role to the ‘cost-cutting promise’ and the potential to access expertise not held in-house [19:87, 9, 22] in the decisions to redesign internal functions via newly emerging ‘market’ relationships [23]. But the SS has other general advantages, from the elimination of effort duplication to the potential for greater organizational resilience and the creation of new capabilities [24:33, 18]. For example, Walsh and colleagues [3:202] argue that SS arrangements ideally facilitate a process of continuous innovation and improvement in the quality and cost-effectiveness of services. Research has also helped to shed light on the critical success factors of SS arrangements [15].

As Dollery and Akimov [11] observe, most studies tend to adopt a pro-local shared service arrangements stance with no evidence to the contrary. Nevertheless, Tomkinson [24:34-37] is one of the few authors to have analyzed both the general and the specific disadvantages of sharing arrangements in local government. General disadvantages include the implied relinquishing of control over resources, policies and practices between partner councils; obtaining the negotiation commitment of the potential sharers prior to the effective delivery of the service; and the complexity of managing potential staff displacements. Another recurrent theme is the risks related to the organizational change required of the user organizations [25].

The main SS business models have been classified by the research efforts that adopt a more conceptual approach [3,12, 26]. Joha and Janssen’s work [12], for instance, not only identifies three typical SS configurations (i.e., centralized, federated, and decentralized) in a public sector context, but links each one to four discriminating dimensions (and respective variables): governance structure, strategic rationale, nature of the services, and customer orientation. The governance structure dimension addresses the question of how the service delivery is organized; the strategic rationale dimension addresses why the SS was set up in the first place; the nature of the services dimension provides answers to the type of services actually delivered; and the customer-orientation dimension refers to the SS users. This generalization enables us to depict a ‘more granular and subtle’ reality of the shared services and to use a multidimensional approach to investigate its articulated nature.

Ulbrich and Borman [25] have made a valuable contribution to understanding public SS. These authors, in observing that the appropriate level of standardization might vary between organizations based on their specific needs, question the rational process standardization commonly indicated as a major lever used by an SSO to achieve synergies and high levels of services quality. Hence, an unbalancing of process stan-

standardization could cause shared service centres to transition into less effectively functioning modes.

This contingent view of process standardization breaks with the mainstream conceptualization of SS for at least two reasons. First, it contradicts the perspective that has favoured almost exclusively the attainment of high levels of process optimization, being the key goal in order to improve shared services. As the authors put it “process standardization might be counterproductive and negatively impact on a shared service centre’s ability to reach its original goals” (ibidem: 2). Second, Ulbrich and Borman’s reasoning includes the temporal dimension that is often neglected in the SS debate. In particular, when process standardization becomes unbalanced four natural trajectories (namely: centralized SS, outsourced SS, collaborative SS, and decentralized SS) occur. The reverse trajectories indicate an SSO’s “freedom of action to not transition toward one of the four adapted service delivery modes” (ibidem: 3). Ulbrich and Borman suggest some managerial strategies to prevent SSO decline and to counterbalance the negative effects of transiting from one trajectory to another.

What can we learn from this brief literature overview? All the contributions cited see shared services as a dynamic field that deserves considerable attention to develop a better understanding of the factors at work and, thus, to enhance the possibility – for both the service takers and the service providers – of achieving successful outcomes. And, while researchers agree upon the fact that economic reasons prevail behind the SS option, the effort to address the *new* aspects of SS is still embryonic: the SSO ‘as an organizational entity in its own right’ [18:34] is underexplored. Our objective here is to take an initial step forward to redress that asymmetry. To better orient the reader, Section 3 contextually frames the topics discussed.

3 Italian Councils and the Demand and Supply of ICT Services

Italy has 8100 local councils, all similar in organizational structure, services range, legal status and reporting requirements. The Italian municipalities have all implemented basic computerization, albeit with considerable differences in how they choose to manage their information technology and information systems.

Clearly, the fact that the smaller councils have few financial and professional resources to allocate to technological innovation means that ICT is only a blip on their organizational radar. Further, as observed by, among others, Italy’s Ancitel (the national association for coordinating the ICT policies of the municipalities) the intense action of penetration by the demand-specific ICT companies has led to the current situation of the smaller councils. In fact, having colonized this market, these companies are now the *de facto* guiders of the small councils’ innovation policies (for instance, in the field of e-government) and, as such, are determined to safeguard their role and usefulness as the more or less exclusive partner of each council [27].

The suppliers’ digital administration know-how and in-depth knowledge of the municipal administrative processes outstrips that of even the large system integrators hired by the central government to help develop e-government. The influence this enables them to exert over the small councils comes from the contractual status they enjoy and the hegemony of “those who know best” what is good for the user [27:90].

4 Research Design, Data Collection, Data Analysis

That “good descriptions of what happens or what has happened on the ground” are necessary to effective theory-building and theory-testing [28] and the fact that the literature on SSO as an organizational entity in its own right is not yet fully consolidated [18] led the authors to choose the exploratory study approach. Indeed, a full picture of current and emerging public SSO trends is a solid foundation on which to chart a course of deeper exploration.

Research setting. Lombardy is a primary source of evidence for our analysis with its high fragmentation (out of a total of 1546, 1091 municipalities have 5000 or fewer residents) and approximately 500 inter-municipal arrangements in the most disparate sectors [29, 30]. The paper illustrates the case of Consorzio.IT (“CIT”), a public-owned SSO that supplies ICT services and support to 47 mostly small Lombard councils. After starting life as a typical PPP, CIT is now 100% controlled by SCRP, a multi-utility founded in 1963 by 47 municipalities and the Province of Cremona to manage waste disposal and water treatment.

CIT was selected for its good data access and the possibility to map the longitudinal history and evolutionary pattern of an enterprise that reengineered its approach after ditching the typical in-house business model initially adopted.

The authors conducted the field research from June 2012 to July 2013. Primary data collection was based on semi-structured, 40 to 60-minute interviews with CIT staff that addressed four main areas: activity, organization, environmental context, operations. The interviews were held with two top managers, the CEO, the commercial director, a second-level help desk line employee, and were transcribed by two researchers. Follow-up phone interviews with CIT were conducted in July 2013. Six mayors of user councils attending a public meeting also agreed to be interviewed. The three authors then discussed the information gathered.

5 The Case Study

CIT was founded exclusively to service small councils (5000 or fewer residents) when Italy’s central government implemented several measures and allocated Euro 15 million to fund the inclusion of the small councils in the national e-government agenda. However, that sum, being far too low to fund all of Italy’s small local governments, sparked uncertainty on the effective use of the resources.

This led the government to issue a new services provision measure that introduced the ‘local area services centre’ (in Italian, Centro servizi territoriali or ‘CST’). Applicable to solely neighbouring councils, the CST was devised mainly for the phase prior to public engagement. Some Regions, including Lombardy, opened special lines to fund ICT infrastructure, hardware and software, and ICT aggregation [29].

Although two private ICT firms took minority stakes in CIT, their interest in growing the user base made CIT’s full-outsourcing goal unattainable. With regional government funding CIT purchased the hardware needed to set up a CST data centre and a low-cost connectivity wireless network for the councils. However, this was not

enough and, two years later, not one municipality had retired their information system and migrated to CIT. This forced CIT to reposition the business. The company's General Manager had a corporate TLC background and recruited a new Commercial Director; both managers had a marketing-oriented approach. The new commercial director decided to pay personal calls on the officers and councillors of the adjacent councils in order to *"understand their biggest problems."* (Commercial Director, CIT).

This revealed that *"80% of the cases were requests for operational help that often had nothing to do with connectivity or the performance of the software applications installed at the councils."* And by *"Speaking with the respective mayors"* the company learned of the *"need, voiced frequently, to implement widespread training. This issue had never been raised before so CIT started to organize base courses for the council staff. The next step was to convince the councils to use us as outsourcers for those technical activities that offered no particular advantages kept in-house. We followed that up with an offer of brand new services to complete and integrate the application portfolio"* (Commercial Director, CIT).

The ICT suppliers chosen and used by the councils were an additional challenge. Also here CIT had to work to mainly earn their trust. *"At first they saw us as a threat to their business. We had to convince them that our position was non-partisan and that our policy was never to pressure customers into anything. Today, the ICT suppliers see us as allies in certain respects because we're their sole spokesperson.... Some of them have even noticed an increase in revenues since they started to work with us."* (Commercial Director, CIT).

Following Joha and Janssen's work [12:33-34], the CIT business model can be divided into four interrelated dimensions: (1) governance structure; (2) strategic rationale behind the SSC; (3) nature of the services; and (4) customer orientation.

Governance structure. CIT is a limited company with share capital of Euro 100,000, incorporated in Italy and based in Crema (a city of 33,000 inhabitants located in the Region of Lombardy). CIT is wholly owned by the public utility group SCRP SpA and therefore is the indirect expression of the multi-utility council partners of the Crema area. CIT and SCRP have the same CEO and the offices and technological resources of CIT are housed at the parent company's head office. CIT has six employees assigned to the following functions: Commercial (1), 1st-level help desk (2), 2nd-level help desk (2), Cartographic services (1).

The company uses the support of a Customer Relationship Management (CRM) system to perform and govern its assistance activities. In particular, a first-level call centre provides telephonic and online assistance and the company monitors the perceived quality of services with a customer satisfaction questionnaire.

CIT's CEO explained why, despite 2012 revenues of Euro 1.2 million, CIT reported only modest earnings in the past five financial years: *"Our goal is simply to achieve a fair balance between two needs: keeping a good managerial balance and minimizing the costs for the client councils."*

Strategic rationale. The robust funding of the central and regional governments is what gave CIT its start-up momentum. Key arguments in favour of data centre consolidation according to the CST model were underpinned by the idea to optimize the core ICT standard services and thus achieve economies of scale and effectiveness. However, this clashed with the strategic rationale of the private partners to grow the

business by giving preferred access to a captive client base. As a result, the private-sector minority shareholders exited the share capital, providing the catalyst that transformed CIT into an SSO.

CIT soon realized that the municipalities most pressing need was operational support for the users of the core information system (none of the IS providers delivered an adequate level of operational assistance). This led the company to reengineer its structure around this service and launch the help desk, which soon found its niche as a critical resource for the functioning of the client councils. All CIT's later decisions were guided by this same rationale of identifying potential needs and finding solutions (unbundling the ICT activities) that best meet the client's specific needs. Over time, these sourcing-related decisions map the sourcing path of an organization [31].

CIT's responses to the quintessential challenges posed in the diverse stages of the public service ICT value chain included: definition of innovation policies, research and identification of the technological solution, acquisition of the technological solution and implementation of the solution and service governance.

Nature of the services. While CIT offers a standard range of services in terms of target client type, the variety and individual sourcing choices are differentiated. CIT's mix of services falls under two headings: i) assistance, and ii) ICT services. The former consists of the online help desk, legislative/regulatory assistance, software applications assistance. The second consists of the centralization of software applications, connectivity, e-mail management, website design, hosting and maintenance, software application programme development, back-up and disaster recovery, management of video-surveillance systems, software asset management.

The current services portfolio is the fruit of additional developments since 2007. Meanwhile, the ICT demand of the individual councils has become modular and articulated, creating a market in which several suppliers (including CIT) provide a range of solutions and services. Moreover, CIT runs online assistance for the partner councils in the event of regional and central government connectivity problems.

Customer orientation. The multi-sourcing logic favoured by CIT, for example, its servers run the information systems of four different software providers, give the client councils complete freedom of choice when it comes to evaluating which of CIT's services best match their needs and requirements.

CIT's business-like approach means that it performs evaluations at client request to help this latter decide whether to "make it in-house" or 'buy it on the market'. For instance, in addition to its centrally hosted environment, CIT owns a virtual infrastructure (some 20 machines) located at the data centre of a Cremona public telecommunication services company. CIT is the epicentre of a system of relations, both external, i.e., from and to the user councils, and internal, i.e., from and to the sub-contractors. CIT is like a well-oiled hinge that joins the councils' demand for technological innovation to the potential capabilities of the market players, while the use of third parties enables CIT to keep both organizational structure and fixed costs lean.

6 Discussion

CIT is an example of supra-corporate model [24], i.e., a special-purpose vehicle that delivers services on behalf of all its partners. CIT is a small-sized enterprise that can claim all three of the publicness criteria of ownership, funding, and control [32]. While the primarily public dimension of CIT, especially its ownership, is very clear, the other two aspects are hazier. Several factors – all usually associated with the private company logic – point to CIT's *hybrid* nature: i) it is an established main player in a competitive market of peers; ii) it self-finances its operations (from services income), and iii) it pursues ongoing innovation in its offer by keeping track of the needs of its customers. However, given the physical proximity of parent company and subsidiary and that the SSO has the same top management as the group parent company, the potential influence of this mix of roles on CIT's choices and task environment relations cannot be ruled out.

The company's present guise is the result of a number of management decisions made basically to rectify past weaknesses. The most interesting aspect, which clashes somewhat with the conceptualization of Ulbrich and Borman [22], is that CIT embarks on not one but several trajectories in tandem, according to the level of process consolidation required by each client council.

The CIT case confirms that an SSO is not simple to implement. Small councils are usually risk-adverse and full outsourcing initiatives are loaded with unknown factors, above all related to organizational and cultural change, so it is highly probable that the initial proposal to retire the existing IS has been delegitimized, albeit in a creeping way, by the administrative staff of the councils in question. It is also likely that the incumbent suppliers felt threatened by the newcomer and did not just remain on the sidelines of these dynamics of resistance.

The relevance of the dimensions identified by Joha and Janssen [12] is that they shed light on how CIT articulated its business model. The brand new strategy devised by CIT to counter the councils' resistance was based on the fact that even the smallest had made the transition to basic computerization. This led CIT to design and offer a range of services around the IS already in place to address specific needs never tackled before. In other words, by adding technical and organizational capabilities to the ICT resources used by the councils, CIT identified a new market niche and became a point of reference for the local ICT offer. This strategy spurred the councils to take up the SS option. The mayors interviewed emphasized the relationship of trust forged with CIT, the flexibility of the offer and, above all, that it took into account that certain local councils might have already assigned internal competencies and resources to manage their ICT operations.

The service portfolio of this SSO is different to that of the usual consolidation ventures, such as a CST, which are driven by the needs of the service providers that want to sign up all their clients to the same platform and solutions or a catalogue of standard options. CIT inverted that trend by starting to listen to the users' actual needs, using these premises to craft a shared services offer 'customized for individual customer sets' [21]. In short, CIT 'retains the individuality of councils' [24:33]. This is a sharp break with the software provider's typically product-driven approach, which rarely seeks to grow the client's technological culture. This mediator role seems to strike a much-needed balance between standardization and customization, as sug-

gested by Joha and Janssen [9]. On the other hand, the interviews did not enable us to evaluate the extent to which the company is aware of the potential risks of unbalanced process standardization [22]) as a result of giving complete freedom of choice to the client councils.

CIT's in-depth knowledge of the client's processes is a crucial resource in organizational terms and is its first factor of success. On the one side, the knowledge can be used strategically to improve CIT's understanding of its client councils' technological demand and, thus, to fuel competitive growth and reinforce its market position. On the other, the know-how can be used to empower the service content for existing and potential clients.

The overall recognition earned by CIT makes it a key player in a very important game, that of the implementation of the inter-municipal collaborations recently mandated by the Italian government. CIT actively supports the efforts of the councils by leveraging its tertiary nature both with the ICT suppliers and the individual ICT options offered: "*Getting both clients and suppliers around the same table means we can analyze the pros and cons of the solutions together and thus lay the foundations for shared choices*" (Commercial Director, CIT).

The second important success factor is that the knowledge acquired by CIT has placed it in a position to create client dependency and, therefore, to 'control' them. Nevertheless, the relationship of trust forged between client and supplier smoothes the way to technical solutions that minimize the "perceived costs of switching from the status quo", especially in terms of the psychological commitment [27:27]. The fact that the SSO is able to provide customized services and to use its knowledge and experience to anticipate the needs of the client puts other market options in the pale, making these suppliers and their products appear less attractive as CIT replacements.

Summing up, we could respond to the research question "*What truly makes the SSO an originator?*" by pointing to the mainstream literature's concentration on the exterior aspects of the SSO arrangements or the features of the SSO offering. However, these cannot be called tangible signs of change in organizational logics. Nor has the empirical case given any precise indications of change in the logic that guides the design of the organizational form, meant as the configuration of right and obligations of action, decision, control and ownership, and the coordination mechanisms [34:294].

Rather, what the empirical case does indicate is a 'subtle yet important process of incorporation of the clients within the boundaries of the company' [35] not in legal-formal terms but in the management of qualifying elements that connote the client-supplier relationship. Thanks to this knowledge, the SSO moves its influence toward the outside and consolidates itself in the technological environment on which the council's activities are wholly dependent [36]. In other words, it seeks to augment its 'exercisable control' [35] over external service receivers.

7 Conclusions and Implications

That the SSO does not cross the boundaries of the dominant organizational logic in favour of design solutions capable of augmenting the company's level of exercisable

control over its own task environment is the central thesis of this article. The analysis suggests that Consorzio.IT is a *pocket-sized* SSO, the product of an evolutionary trajectory where nothing can be taken for granted. CIT has succeeded in staking its place in the market and is an apparent case of *virtuous localism*.

However, the business model adopted up to now cannot be replicated across the board should CIT decide to pursue growth-by-expansion strategies, such as extending its market to non-SCRIP member councils in the local area, which is anyway prohibited by Italian public tender law and the recent measures issued in conjunction with the government's spending review, and while CIT could tap into new outlet markets by undertaking a corporate restructuring project that, let's say, leverages SCRIP SpA's holdings in other local utilities, this would indubitably affect the group parent company's strategic agenda and confirm the SSO's role as a tool of local governance.

The paper contributes to *research* because it extends the reasons beyond economic self-interest to other meaningful aspects of the ICT sourcing options, such as the role and preferences of the relevant actors. In addition, it reflects on the key role of ICT services in the processes of regulation, i.e., the coordination and control processes; and on the centrality of the public SSO in the system of multiple local relations.

In terms of the implications for *practice*, the study enables us to formulate some useful lines of intervention for SSO senior management. In particular, the sustainability of public enterprises that deliver services according to the SS model to the small councils in particular is contingent on: (a) creating value from technological investments, management systems and managerial resources already in place; (b) minimizing organizational switching costs; (c) aligning with the multi-sourcing strategies of the clients; and (d) defining an affordable price policy that matches the services effectively delivered and not the logic of a captive market.

For obvious reasons, the findings of this study (based on one case alone) are not enough to demonstrate the theory proposed. Nevertheless, the authors believe that certain aspects can be transposed to some broader contexts, e.g., over a wider spectrum of organizational settings, also comparatively. A deeper analysis of the above findings and those of other international case studies that address local government SSOs prospects a promising research path (the authors thank the anonymous reviewer for this suggestion) that could form the basis for decision makers to reflect on a 'vendor' perspective. A further, perhaps more ambitious avenue for future research would be to formulate a theoretical framework for the public SSO to give us a more focused lens on this type of service provider. For instance, and purely for indicative reasons, drawing on organization studies theories that focus on analyzing the processes of action and decision could be a fruitful contribution.

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