A CLASSIFICATION OF SHARED SERVICE CENTERS: INSIGHTS FROM THE IT SERVICES INDUSTRY

Veit Schulz*  
Falk Uebernickel†

Axel Hochstein†  
Walter Brenner**

*University of St. Gallen, veit.schulz@unisg.ch  
†Stanford University, axel.hochstein@cs.stanford.edu  
‡University of St. Gallen, falk.uebernickel@unisg.ch  
**University of St. Gallen, walter.brenner@unisg.ch

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CATEGORIZATION OF SHARED SERVICE CENTERS: INSIGHTS FROM THE IT SERVICES INDUSTRY

Veit Schulz
Institute of Information Management, University of St. Gallen
Mueller-Friedbergstrasse 8, 9000 St. Gallen, Switzerland
veit.schulz@unisg.ch

Axel Hochstein
Computer Science Department, Stanford University
Gates 250, Serra Mall, 94305 CA, Stanford, USA
axel.hochstein@cs.stanford.edu

Falk Uebernickel
Institute of Information Management, University of St. Gallen
Mueller-Friedbergstrasse 8, 9000 St. Gallen, Switzerland
falk.uebernickel@unisg.ch

Walter Brenner
Institute of Information Management, University of St. Gallen
Mueller-Friedbergstrasse 8, 9000 St. Gallen, Switzerland
walter.brenner@unisg.ch

Abstract

Shared service centers are a common approach for organizing IT service provisioning. However, current research reveals little so that both consultants and scientists maintain a fragmented understanding of the basic characteristics of SSCs and their different variations. From SSCs with free access to external markets to SSCs with restricted access or no access to external markets, many facets of the SSC require further clarification. Other criteria such as legal form, organizational structure, and accounting approach vary across different departments. The general elements describing SSCs are extracted from literature and show a common understanding. Based on material gathered during focus groups and extensive case studies in 7 SSCs from Europe and North America, our study extracts typical SSC characteristics, as well as their distinctive attributes, and designs a classification grid. This framework is used to classify three typical profiles that have been identified.

Keywords: Business Models of IT Organizations, Strategic IT Management, Shared Services, Shared Service Center, Shared Service Organizations
1 INITIAL STATE AND THE PROBLEM DEFINED

1.1 Motivation

In large international corporations, the importance of Shared Service Centers (SSC) has increased enormously over the past few years. The majority of Fortune 500 companies run such organizations in order to make back office services available to different business units in their company. A number of studies have been conducted, documenting the distribution of SSCs in large corporations (A. T. Kearney, 2004; Accenture, 2004; Booz Allen Hamilton, 1998; Fischer and Sterzenbach, 2006; Frost & Sullivan, 2007; Redman, Snape, Wass and Hamilton, 2007). According to (Bain & Company, 2008) 55% of global companies studied are using SSCs. The distribution and relevance of SSCs is thus wide indeed. Nevertheless, in literature and in practice, the term SSC does not hold a standardized meaning. The aim of this publication therefore, is to systematize a multitude of definitions and arrive at a unified concept for the term. Based on an analysis of different SSCs, a suggestion for a definition is proposed. We have ascertained a dearth in SSC research in two key problem areas:

(1) In both literature and practice, the term SSC does not hold a standardized meaning, without which it has been difficult to generate a scientific body of knowledge.

(2) SSCs exhibit wide variation in features, structure, and service offerings. However, few empirical studies delve into these features with scientific approaches.

1.2 Research questions

In order to address these two problems mentioned above we pose the three following research questions:

(1) How is a Shared Service Center defined?

(2) What relevant criteria describe different facets of SSCs?

(3) What types of SSCs exist in practice?

1.3 Research Approach

For this research a four-step approach is used, which is described as follows:

In the first step we analyze relevant SSC literature. From the literature we can arrive at a definition of SSC that is widely accepted and reflects common usage and understanding. This definition is the foundation for the further research and reflects a consolidation of the characteristics mentioned by the majority of academic papers.

In the second step, we identified criteria in which existing SSCs differ. For that, we discussed different candidates of criteria in a focus group. We base our discussion on the definition of Shared Service Centers elaborated in step one.

In the third step we evaluated the criteria identified in the focus group and described their coherences with real SSCs. To that end we conducted extensive case studies with SSCs based in Canada (1), Germany (3), Sweden (1), Switzerland (1), and the USA (1).

In the forth step we classified three different SSC types based on the findings of the case study research.

2 LITERATURE REVIEW

The current literature is comprised of a wide variety of definitions and characteristics of SSCs. What is identical in most sources, however, is a shared delineation of the concept of simple centralization while distinguishing SSCs from traditional outsourcing concepts. Furthermore, almost all definitions
address advantages and desired improvements of the SSC approach. Our literature review aims at identifying common definitional characteristics of SSCs.

2.1 Approach

In our basic methodology, we scanned ABI/INFORM, a database containing leading journals and periodicals, for the terms “Shared Service Center(re)”, “Shared Service Organiz(s)ation”, and “Shared Services” in citations and abstracts. We focused on papers that have been published in scientific journals or at scientific conferences, yielding 185 results.

We omitted papers with the following characteristics:

- Articles dealing with the organizational form of back-office functionalities
- Articles focusing on highly particular aspects and functions of SSCs like HR or Payroll.
- Articles that do not contain a definition of “Shared Service Centers”.
- Duplicates, e.g. authors that had the definition in two or more of their papers.

After filtering, we were left with 9 results (Aksin and Masini, 2008; Davis, 2005; Forst, 1999; Goh Prakash and Yeo, 2007; Goold Pettifer and Young, 2001; Janssen and Joha, 2006; Schmidt, 1997; Ulrich, 1995; Wang and Wang, 2007). Thereafter we analyzed definitions from the books with the most frequent citations. We used Google Scholar’s citation function to find out the quantity of citations and identify the most cited literature (Bergeron, 2003; Kagelmann, 2001; Quinn Cooke and Kris, 2000; Schulman Dunleavy Harmer and Lusk, 1999).

2.2 Results

Table 1 shows those features and characteristics of SSCs mentioned most frequently. For notation purposes, if a definition or description mentions a particular feature it is shown by “+” in the table. If a particular feature is not mentioned in the definition, the cell is marked with “—”.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>… is the result of the consolidation / concentration process within the company</td>
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<td>-</td>
<td>-</td>
<td>+</td>
<td>+</td>
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<td>8</td>
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<tr>
<td>… is engaged in support services / staff functions / internal services</td>
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<td>… is aligned with external competitors</td>
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<tr>
<td>… is a separate operated and steered organization within the group</td>
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<td>7</td>
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<tr>
<td>… reduces costs / competitive costs</td>
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<td>… is operated like a “normal business unit”</td>
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<td>7</td>
</tr>
</tbody>
</table>
Table 1. Important definitions and descriptions of the term "Shared Service Center"

This analysis demonstrated that the following features are generally accepted in literature on SSC, named by at least 50 percent of relevant literature:

- Result of consolidation of processes within the company: In de-centralized corporations, each unit has its own support service tailored exactly to individual requirements. These previously distributed support services are consolidated while forming SSCs. The aim is to avoid duplication of work and to achieve synergies (Martín-Pérez and Berger, 2004).

- Exclusively engaged in support services. Support services are processes that support core processes of the company, but are not core processes themselves. The authors differentiate between services for transaction-oriented and complex, knowledge-based processes (Goold et al., 2001). Transaction-oriented processes are mainly processes that share a high degree of commonality or standardization, feature few interfaces with other processes and technologies, entail low financial/business risk, depend only to a small degree on outside clients, and show a high potential for automation (Shah, 1998). Typical processes are wage accounting, accountancy and bookkeeping or operating a computer centre. Characteristic processes in the area of knowledge-based processes are, inter alia, financial analysis, staff training, development of applications or even real estate management (Quinn et al., 2000).

- Alignment with external competitors: According to the literature, SSCs align themselves with external competitors (Young, 2005). To enhance competitiveness, SSCs build strategic knowledge such as information about competitors in the external market, analyzing its own strengths and weaknesses, and pricing benchmarks. Through these processes SSCs can confirm their competitiveness to internal clients and explain deviations (Quinn et al., 2000).

- Independent organization: Most definitions explicitly emphasize the independent organizational form of an SSC as a unit clearly separate from other areas, with its own responsibilities and its own management. Frequently the term “partly autonomous” is used (Bergeron, 2003), which is meant to signal that the SSCs are managed like separate businesses but still highly dependent on the parent company. Thus the SSC typically belongs 100% to the corporation which at the same time is its main client.

- Reduction of costs as a main goal: The majority of authors include the goal “cost reduction” explicitly in their definition. Several surveys revealed that cost-cutting is a primary motivator for implementing shared services (Ulbrich, 2006). Average savings of 25% – 30% are not unusual (Quinn et al., 2000), achieving lower costs by making use of economies of scale.
Operated like a normal business: SSCs should be managed like third-party vendors, tailoring their IT-services to the requirements of their customers. They deliver value at a cost that the customers are willing to pay (Schmidt, 1997).

Service-oriented focus on internal clients: An SSC aims at optimizing the internal client experience, focusing on service output—a defined functionality with contracted quality levels and an agreed price including penalties (Young, 2005). This approach enables the central department to act clearly on behalf of internal clients, a relationship which exhibits monopoly-like behavior (Bergeron, 2003). These traditional departments were typically focused on improving technologies used for producing the services and less on improving the actual service output.

Based on the literature review we derive a definition that reflects an understanding common to SSC analysts and scholars. Cited by over 50 percent of the relevant literature, an SSC is an organizational concept with the following attributes:

- consolidation of processes within the group in order to reduce redundancies
- delivers support processes as its core competency
- is a separate organizational unit within the group
- is aligned with external customers
- cost cutting is a major driver for implementation
- has a clear focus on internal customers
- is operated like a business

This definition is useful for delineating SSC from alternative IT delivery forms like outsourcing or internal IT staff division.

3 CRITERIA FOR DESCRIBING SSC

3.1 Approach

In the second step we investigated—through a focus group—how SSCs operate in practice. This group consisted of CIOs, head of IT service providers, further managerial staff from service providers, and other IT-experts like consultants and scientists. These experts are from IT departments or internal Service Providers of big international companies based in Germany and Switzerland. A workshop that included a detailed discussion of these topics was organized and held in January 2008.

3.2 Results

Through the focus group we identified seven criteria in which SSCs in reality differ from each other: legal form, form of co-ordination, service charges, external market, contract forms, center concept, and product portfolio. The different values of these criteria represent the variety of existing forms of SSCs. In the following paragraphs, the seven criteria and their values are described and explained in detail.

3.2.1 Legal form:

SSC legal forms vary widely across countries. On the one hand SSCs can be legally-independent, which means they can be incorporated independent of their parent firm. On the other hand, they can also simply be part of an independent legal entity, thus legally dependent themselves (Kagelmann, 2001). The actual legal form depends on the country. SSCs in the USA may have the legal form “C-Corporation” (Bergeron, 2003), whereas in Germany the “GmbH” is a typical form. In most cases a legally-independent subsidiary is preferred because it entails several advantages, for example increased transparency as the company commands all profit-related factors leading to more accurate controlling. With subsidiary status the SSC no longer has to pay company or branch tariffs leading to
more competitive wage costs and improves overall efficiency of the IT-section. In practice, it is evident that the increased autonomy resulting from legal independence often leads to the use of a clearing system based on market-related prices rather than a standardized allocation formula. Furthermore, cases show that legal independence generates positive motivation effects, a subject which has already been investigated (Kreuter and Solbach, 1997). The cumbersome effects of additional bureaucracy—in legal matters or in the area of HR for instance—have also been observed in previous studies (Schulman et al., 1999).

### 3.2.2 Form of coordination:

There are two methods of coordinating service transactions between the demand-side (business units that are supported with IT services) and the supply side (SSC): (1) through markets; (2) through hierarchies in which high-level management decisions regulate service transactions. However, pure forms are rare, and a multitude of intermediate solutions can be observed. In market-related coordination for instance, an extensive management system is typically implemented, including contract management, invoicing or management of suppliers (Malone Yates and Benjamin, 1987). In the event that a new internal market is established, new organizational structures are created on both sides: a sales and marketing organization for the provider and procurement departments on the demand side. In fact, this separation accelerates the evolution of internal markets (Zarnekow, 2007). However, in these markets regulations can be observed, such as the preference of the internal versus external providers.

### 3.2.3 Service charges:

Several billing methods are employed. In a first approach, the SSC has an annual budget, similar to other central divisions within the company. There is no pricing system and costs incurred are overhead. In a second case—that of allocation—costs incurred are charged to the different business units, where calculations are based on number of users, posts, or transactions. Thirdly, transfer pricing can be used, where SSC’s services are sold to the various business units. Here prices are commensurate to the sum of costs-per-service plus profit. This approach however, provides no incentives to the SSC to lower its costs. If prices are market based, the picture is very different. In this case the SSC sells its services to business units at previously fixed prices equal to those paid in the marketplace (Bergeron, 2003; Quinn et al., 2000; Schröder Kesten and Hartwich, 2007; Schulman et al., 1999).

### 3.2.4 External market:

With access to external markets an SSC may also serve third parties for profit. Access can apply to the entire portfolio or particular services only, and confers the benefit of additional sales and the opportunity to use spare capacities. Through limited access to the external market, different objectives are pursued. Here the expected benefits to the parent company include exclusiveness and flexibility. If the SSC has no access to external markets, the business units of the parent company receive greater service attention.

### 3.2.5 Contract forms:

Three varieties of contract form occur in practice. Firstly, under term contractual obligation, intra-company clients may obtain IT services only from the internal SSC. This can either be all-inclusive or relate only to particular services. Secondly, in the case of contractual exchange, the internal customer must consider the offer made by the SSC where the SSC bids a “first offer”. If not acceptable, the client may also consider external providers. However, the “last call” form allows the SSC to submit its own offer based on the knowledge of external tenders already at hand. With competition, the client decides on whether the internal provider wins the contract according to conventional bidding criteria such as reputation, price and quality. Company clients are not compelled to fall back on the SSC (Bamberger, 2000).

### 3.2.6 Center concept:

A center is an organizational unit responsible for specific services. Venkatraman (1997) identified 4 different organizational concepts for managing information technology resources within a company:
cost center, service center, investment center, and profit center. The cost center aims at supplying IT services at the lowest cost level, focusing on operational efficiency, measured – for example – by cost per MIPS. To further improve cost levels, relationships are established with best-in-class outsourcers. In contrast, the main aim of a service center is to support the company’s business strategy with IT services by delivering client satisfaction and adherence to agreed service levels. An investment center has a much stronger strategic focus by pro-actively creating capabilities for business and using new IT services which shape alternative business strategies. The supply of IT services to the external market is the focus of profit centers, where the IT section seeks to obtain knowledge of the external market as well as gain credibility for its internal clients and attain additional revenue for the corporation. To this end, the section must be competitive vis-a-vis best-in-class providers.

3.2.7 Product portfolio:

Width of portfolios separate one provider from the other. A functional SSC covers processes of a function (e.g., finance, HR, IT) (Dressler, 2007) and in our present study, this refers to organizations specializing in information technology. By contrast, a multi-functional SSC offers various functional fields, e.g., IT and HR.

4 EVALUATION OF IDENTIFIED CRITERIA FOR SSC

4.1 Approach

In the third step we evaluated the criteria identified in the focus group and described their coherence with real SSCs. We conducted extensive case studies with SSCs, scanning potential peer group partners regarding our SSC definition. All IT organizations analyzed fit these requirements.

Alongside focus group criteria, organizations must fulfill further requirements:

- Focus on IT service delivery
- Percentage of external sales lower than 50%
- International Organization: SSC should have sites in at least 2 countries / continents
- Internal Service Provider of large, international corporations

Further requirements to the total entity of the peer group:

- Parent groups of the SSC should be from different industries as statements should apply to multiple sectors
- SSC should be headquartered in different countries/regions
- We should be able to contact and interview top-level management (CIOs of the group, CEOs of the provider) of the respective SSCs

In the end we identified and conducted seven case studies with SSCs based in Canada (1), Germany (3), Sweden (1), Switzerland (1) and the USA (1). Table 2 gives a short overview of the characteristics of the case study companies. All names have been made anonymous. We conducted semi-structured interviews. We used a standardized questionnaire with given answer options. Nevertheless, the interviewees could give additional answers. The interviews took approximately 6 - 10 hours per company.

<table>
<thead>
<tr>
<th>Case</th>
<th>Companies</th>
<th>Country of headquarter</th>
<th>Employees SSC (FTE)</th>
<th>Industry</th>
<th>Number of Interviews</th>
<th>Time of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alpha Services</td>
<td>US</td>
<td>&gt; 1.000</td>
<td>Steel</td>
<td>1</td>
<td>Sept. 2008</td>
</tr>
<tr>
<td>2</td>
<td>Beta Services</td>
<td>Germany</td>
<td>&gt; 1.000</td>
<td>Media</td>
<td>6</td>
<td>Oct. – Nov. 2008</td>
</tr>
<tr>
<td>3</td>
<td>Gamma Services</td>
<td>Germany</td>
<td>&gt; 4.000</td>
<td>Pharmacy</td>
<td>6</td>
<td>Oct. – Dec. 2007</td>
</tr>
<tr>
<td>4</td>
<td>Delta Services</td>
<td>Switzerland</td>
<td>&gt; 4.000</td>
<td>Bank</td>
<td>4</td>
<td>Sept. 2008</td>
</tr>
<tr>
<td>5</td>
<td>Epsilon Services</td>
<td>Germany</td>
<td>&gt; 3.000</td>
<td>Aviation</td>
<td>5</td>
<td>April – June 2008</td>
</tr>
<tr>
<td>6</td>
<td>Zeta Services</td>
<td>Canada</td>
<td>&lt; 1.000</td>
<td>Food</td>
<td>1</td>
<td>Nov. 2008</td>
</tr>
<tr>
<td>7</td>
<td>Eta Services</td>
<td>Sweden</td>
<td>&gt; 4.000</td>
<td>Automotive</td>
<td>3</td>
<td>March 2008</td>
</tr>
</tbody>
</table>

Table 2. Case studies overview
4.2 Results

Table 3 provides an overview of the characteristics of the different SSCs analyzed during the case studies. All SSCs could be described by the characteristics identified through the focus-groups. The different interview partners confirmed the usefulness of these characteristics for describing the SSC business model.

<table>
<thead>
<tr>
<th>Case</th>
<th>Companies</th>
<th>Legal form</th>
<th>Form of co-ordination</th>
<th>Service charges</th>
<th>External market</th>
<th>Contractual form</th>
<th>Centre concept</th>
<th>Product portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alpha Services</td>
<td>intra-company business unit</td>
<td>mainly hierarchical allocation</td>
<td>no access</td>
<td>contractual obligation</td>
<td>cost centre</td>
<td>multifunctional SSC</td>
<td></td>
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<tr>
<td>2</td>
<td>Beta Services</td>
<td>independent subsidiary</td>
<td>primarily market-orientated market prices</td>
<td>free access</td>
<td>competition</td>
<td>profit centre</td>
<td>functional SSC</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Gamma Services</td>
<td>independent subsidiary</td>
<td>mixed co-ordination market prices</td>
<td>limited access</td>
<td>contractual exchange</td>
<td>service centre</td>
<td>multifunctional SSC</td>
<td></td>
</tr>
<tr>
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<td>investment centre</td>
<td>functional SSC</td>
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</table>

Table 3 Analyzed SSC and the respective characteristics

5 CATEGORIZATION OF SSC INVESTIGATED

Based on the focus group results and the case studies we identified three very different types of SSCs. We could classify all analyzed providers either as ”Disguised” Central Department, or as “Preferred Provider” or as “Competitive SSC”. Table 4 shows the three different types with their characteristic values. Furthermore, the different analyzed providers are related to the respective type. For better understanding, one real world provider per provider type is described exemplarily below.
5.1 Type 1: “Disguised” central department

Delta Services is the internal business unit of a financial services company. The SSC’s aim is the IT support of core processes. 4,000 employees work in this legally subordinate organization, where coordination is purely hierarchical and market-related elements are of minimum impact. The organization does not clearly separate supply and demand, and lines between the IT provision and business itself are blurred. Costs incurred are assigned to the various business units, and few service characteristics are contractually agreed upon beforehand. In order to ensure that clients are not paying inflated prices however, the competitiveness of the service is benchmarked. Theoretically, the SSC has access to the external market but in practice there are no third party activities, and according to statements made by the head of strategy, none are planned. The corporate clients are prohibited from buying services on the external market. Sourcing is always done via the SSC, although clients are able to influence the process. The SSC is run and managed as a pure cost centre where cost efficiency is the main aim. Delta Services only offers its clients IT services.

5.2 Type 2: Preferred Provider

Eta Services is a legally independent provider in the automotive industry. Exchange of services shows the influence of intra-firm hierarchy as well as market-related elements. For instance, Eta services implements market-oriented functions such as demand management on the client side as well as product management on the provider side. However, the roles “CIO of the company” and “CEO of the provider” are fused by personal union, leading to hierarchical decision making.

Price structure is determined by interaction in a semi-closed market. Clients are charged transfer prices, meaning that they have to pay costs plus a mark-up. Similarly, the provider has to prove through benchmarking that his prices are competitive. Access to the external market however is limited as the external market does not have access to its entire product portfolio. While the choice of supply to external clients is made by the service provider, obligations must be met to clients within the company. Here, according to statements made by the head of IT operations, Eta Services has the duty to supply all IT services needed. The relationship obligations works both ways: clients within the company are advised to buy their needed support services from the internal provider. There is also a last call option, i.e., in knowledge of an external offer where the provider can improve on his own offer based on this information. If the provider is in no position to supply what is needed, specialist departments may buy directly from external service providers. Such cases are however rare.
The provider is managed according to the concept of investment centers described above. IT is quite important to the concern as a whole and facilitates competitive advantages in some areas of the core business. Admittedly, IT is not a core competence itself. Maximizing gains therefore is not its main aim but rather the optimum support of the business units; success is measured in the quality of the supply or customer satisfaction. The product portfolio solely includes all IT services, and those alone, with no further responsibility for other back office processes.

5.3 Type 3: Competitive SSCs

Epsilon Services is a legally-independent service provider of an aviation company. The exchange of services follows a market model; hierarchical co-ordination mechanisms are not involved.

Epsilon Services has free access to the external market. Whether a client is supplied is decided by the provider. According to statements by the CEO of the SSC, decisions closely follow economic or strategic considerations. The market in this regard is open, with no obligations to supply or prefer the parent company. This logic applies not only to the commodity business but also to strategic IT services that can help the parent company generate competitive advantages in its core business. Epsilon Services acts like an external service provider that must sustain its position in the market. The open system works both ways: the business units of the company do not have a legal obligation to the service provider and are free to choose their suppliers. They only buy from the internal provider if it can make the best offer. In this environment, the SSC has the primary goal of generating long term profits for the corporation. It is therefore managed as a profit centre. In addition to IT services, the portfolio does not include other back office functionalities.

6 SUMMARY AND OUTLOOK

6.1 Summary

Shared Services have risen in both importance and visibility over the last decade and have become ubiquitous among large international companies. As a major driver of firm performance, it is up to researchers to further analyze SSC organizational types in detail. Nevertheless, extensive research is rare in this field. No clear and common understanding of the term “Shared Service Center” is available. Furthermore, in practice a wide variety of the SSCs exists and many facets of SSCs differ significantly. Therefore, we address three research questions with this article: “(1) How is a Shared Service Center defined?” , “(2) What relevant criteria describe different facets of SSCs?” and (3) What types of SSCs exist in practice? By analyzing the most relevant literature we derive a common definition as follows: An SSC consolidates processes within a concern in order to reduce redundancies; it delivers support processes; it is a separate organizational unit within the group; it is aligned with external customers; cost-cutting is a major driver for implementation; it is focused on internal customers; and it is operated like a business. In order to represent the different facets of IT-SSCs we identified seven criteria with help of a focus group: legal form; main form of co-ordination; service charges; external market; contractual form; center concept and product portfolio. We validated these criteria with extensive case study research. Based on this material we extracted a classification grid for SSCs, highlighting the three types of SSCs currently in operation: (1) “disguised” central department; (2) preferred provider; (3) competitive SSC. Each organization’s business model depends largely on its legal status—dependent entity or subordinate to parent company—and its corresponding position in the open market for IT services.

6.2 Contribution to Research and Practice

In sum, we achieved both research goals defined at the outset of this paper. Further research could build on the established definition and criteria set forth here. We hence suggest a definition in order foster a common understanding of the term SSC and established descriptive criteria. With help of the grid we could classify three different types of SSC operating in practice. Whereas the scientific discussion on outsourcing has progressed rapidly and provided important insights, there is rather little discourse and thus little common understanding about SSCs. This paper is therefore an important
contribution to the field as it provides a first formalization of an issue that has so far only been discussed by practitioners.

6.3 Further Research

Despite continuing progress, SSC research remains beset by limitations. The main focus of this research thus far has been to describe existing SSCs. Motives for establishing the SSCs and the respective influences on the business model characteristics however, have not yet been considered. Further research could provide a better understanding of major factors influencing the SSC strategy, form, and function.

Finally, the SSC criteria put forward here needs to be validated. For this, a follow-up broad-based study is planned with a large number of participants. Aided by an online questionnaire, the diversity of SSCs in service areas other than IT services is being analyzed to check the validity of the SSC classification grid. This research in turn may enable a generalization of this classification.

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