Shared Corporate Services in the Public Sector: A Critical Review

Thomas Elston¹
Blavatnik School of Government,
University of Oxford

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Abstract

The sharing of management support services between distinct public agencies has emerged as a fashionable ‘best practice’ of administrative reform, championed by academics, management consultants and policymakers as an innovative solution to fiscal stress. Standardizing, commodifying and trading corporate processes in areas such as HR, ICT and finance is claimed to increase efficiency, ensure core mission focus, and allow new investment and professionalization in the oft-neglected ‘back-office’. Yet, in the rush to centralize and consolidate these supposedly generic functions, little attention has been paid to the wider implications for governance and public policy. Accordingly, this article first documents the scale, character and trajectory of international ‘shared services’ adoption, before theorizing its possible consequences. A comparative framework reveals the acceleration and design intensification befitting an international reform ‘mega-trend’. Then, drawing on existing management and organizational theory, three outcome scenarios are rehearsed which each predict strong limits to the ‘shared services’ logic.

Keywords

Administrative reform; agencies; centralisation; government; shared services

¹ thomas.elston@bsg.ox.ac.uk | 10 Merton Street, Oxford OX1 4JJ
I. Introduction

Contemporary public administration is no stranger to fashions and fads, management mega-trends and international ‘best practices’, as testified by the discipline’s expanding comparative agenda and much-debated ‘convergence thesis’. And although inter-governmental similarities do often prove to be largely semantic (Hood 1995; Wallis 2009), not least because administrative reform is prompted by a great variety of factors, and transnational management ideas necessarily require local interpretation within diverse politico-cultural traditions (Elston 2014; Smullen 2010), the recent internationalization of diagnosis and remedy in public management is well established (Halligan 1996; Löffler 2000; Pollitt and Bouckaert 2004; Sahlin-Andersson 2001). As Pal (2012) recalls, it was during the period of new public management’s ascendancy (NPM) that this ‘global conversation’ on good government emerged. The effect was to enable new debate, critique and solution sharing between jurisdictions and transnational actors commonly locating the ailments of public administration in late modernity in its centralized, standardized and bureaucratic character. Latterly, while the swell of enthusiasm for redress by unbridled marketization, agencification and deregulation has receded somewhat (Christensen and Lægreid 2007; Dunleavy et al. 2006; Olsen 2008), there is little to suggest that the global reform conversation has run dry (Pal and Clark 2013). Indeed, epitomizing today’s ‘post-NPM’ hybridization of markets and bureaucracy, a newly fashionable best practice is currently circulating which, by the breadth of its advocacy and emerging scale of adoption, looks set to eclipse even the canonical examples of (supposed) NPM-era convergence. This is the ‘shared services mega-trend’.

Originating in the private sector after 1980 (Gospel and Sako 2010), shared services involve nominally independent agencies amalgamating their management support functions in areas such as HR, ICT, finance and procurement. This composite activity is apportioned to a separate division or third-party provider with a defined
support service remit. Discrete organizational micro-processes (like payroll administration, vacancy listing and accounts payable), as well as more strategic management and advisory services (internal audit, employee training and development) and professional consultancy (legal advice), are then offered in the vendor’s service ‘menu’ and acquired by user agencies as interoperable – or ‘off-the-shelf’ – commodities, generally on a pay-by-use basis.

This reconfiguration of the corporate ‘back-office’ is claimed to alleviate a number of administrative ills (see Accenture 2005; Burns and Yeaton 2008; CIPFA 2010; Dollery et al. 2012; OECD, 2010b; PWC 2009). Firstly, there is inefficiency. By pooling resource and demand duplicated across multiple cost centres, new economies of scale are released. Furthermore, interagency standardization on ‘best-way’ operating models, comparative benchmarking of staff ratios and unit costs, and the possibility of whole or partial outsourcing and offshoring are also identified as cost-reduction levers. Secondly, shared services address the problem of cluttered competence. Once divested of ancillary operations, organizations enjoy renewed focus on their core missions, ultimately raising performance in frontline delivery. And thirdly, there is the issue of deficient capability. Pooled HR, ICT and so forth generates new ‘critical mass’ in these functions, allowing investment, innovation and professionalization on a scale previously unthinkable in small, resource-stretched organizations. Again, this is expected to improve outcomes.

Thus inspired, governmental emulation of business restructuring began in the mid-1990s, most notably in Canadian and Australian state administration. Thereafter, as company practice matured and the global industry in ‘business process outsourcing’ grew, public sector adoption expanded through improved technology and internal accounting, growing faith in the ready extraction and commodification of management support tasks, and the increasing attraction of scalability. Today, with over 75 per cent of Fortune 500 companies having already consolidated (Accenture 2013), and with many states under severe fiscal stress, policy enthusiasm for shared services is
considerable. Following previous mega-trends, the most prominent reform advocates include management consultants, the Organisation for Economic Cooperation and Development (OECD), think tanks and lobbyists, various chartered and professional institutes, parliamentary auditors, and academic researchers (Burns and Yeaton 2008; CIPFA 2010; Controller and Auditor-General New Zealand 2012; Dollery et al. 2012; Lewis et al. 2009; LGA 2012; NAO 2012; OECD 2010b; PWC, 2009). Further fuelling this cross-national and multi-sectoral debate are burgeoning peer networks, conferences, ‘webinars’, road shows, magazine articles, internet blogs and staff secondments. A small industry has emerged to project-manage transition and tendering processes, and a variety of formal training options are also available, including at least one postgraduate qualification.

In short, shared services are the order of the day in international public administration reform. The demonstrable redirection of resources from bureaucratic to frontline activity is, perhaps, the main political attraction (for example, AIM 2012; Cabinet Office 2011; OMB 2012a; Scottish Executive 2006). Managerially, too, shared services are well suited to the quantified options appraisal required of modern cost-benefit analysis. The succinct economy-of-scale rationale, implicit neo-Taylorist analogizing of efficient, ‘one-best-way’ production, and promised enumeration of administrative activity formerly obscured within the seemingly unintelligible ‘black box’ of public bureaucracy, also bolster the intuitive appeal. Not only does this account for the scale of international reform, but it also explains the lack of critical scholarship on the shared services idea. Supply-side studies of project management and delivery are emerging (for example, Borman 2010; Knol et al. 2014), but alongside almost no demand-side analysis of the impact on organizational capability and governance more widely. Even just the scale, character and trajectory of the global reform movement has received little attention.
Accepting that trade-offs and dilemmas are an inevitable accompaniment to reorganization (Gulick 1937; Self 1972), these significant uncertainties as to the full costs and benefits of shared services consolidation are unsustainable in today's period of great enthusiasm and rapid expansion. A broader and more theorized approach is needed to optimize reform programmes and understand their limits. What follows begins this process. After a brief literature review, a comparative framework is developed for understanding variation in reform designs. This accounts for both the corporate governance of shared service ventures, and the nature of the 'products' exchanged. The framework is then used to explore the global trend towards administrative consolidation: firstly, with a broad overview of developments in local, regional, national and supranational governance; and then through more detailed and longitudinal analysis of central government reforms in Anglophone states. Having demonstrated the acceleration and design intensification befitting of a reform 'mega-trend', the final section theorizes its possible wider implications. Drawing on established organizational and management studies literature, three outcome scenarios are rehearsed which each predict deleterious consequences in more extreme divestment programmes. In thus suggesting important limits to the previously unimpeachable shared services logic, the conclusion considers how user agencies can best to meet the challenges of shared services, and what direction a new, demand-side research agenda might usefully take.

II. Literature: A Supply-Side Bias

From a variety of disciplines, including information systems, management science and economics, the literature on governmental shared services addresses three key issues: namely, definitions of, motives for, and delivery challenges in reform. The first interest is prompted by the structural similarity between shared, centralized and outsourced back-office models (Borman 2010), and the emerging heterogeneity of practice. ‘Shared service’ can mean consolidation within a single multidivisional
organization (Janssen and Joha 2006), or multiagency collaboration across entirely separate entities (OECD, 2010b). Ownership and control can thus be concentrated or diffuse, and either wholly public (Knol et al. 2014), wholly private (McIvor et al. 2011), or a combination of the two. In addition, the vendor’s ‘products’ can be purely managerial and back-office in nature (Schulz and Brenner 2010), or can extend to frontline activities like call centre management and municipal waste disposal (Dollery et al. 2012; Zeemering and Delabbio 2013). Amid this interpretive plurality, stricter delimitation has been advocated (Janssen and Joha 2006; OECD, 2010b), although this remains but an aspiration (Schulz and Brenner 2010). Moreover, because arrangements often evolve over time, an unduly narrow definition risks overlooking this dynamism and the common user challenges that transcend particular governance structures. The method adopted below, therefore, is to recognize not a definite practice, but rather an approach to the sourcing of management support functions, characterized by several general principles. Hence:

Shared service arrangements involve the procurement of management support services from a distinctly separate organizational division or third party provider whose core mission is to supply these to multiple clients, often on a pay-by-use basis.

The second question addressed in existing literature concerns adoption motives and influences. McCracken and McIvor (2013) draw on transaction cost economics and the resource-based view of the firm – established frameworks for understanding firms’ ‘make-or-buy’ decisions – to explain the shared service attraction in UK government. The apparent confluence of centralized and decentralized design features has also received attention; for example, regarding HR reform in US state government (Selden and Wooters 2011) and ICT in the Netherlands (Janssen and Joha 2006). Both studies report that, in combining functional consolidation with a customer-service orientation, shared service models should reconcile the traditionally incommensurate ideals of scale economy and professionalism, on the one hand, and local flexibility and responsiveness,
on the other. Finally, in terms of design influences, Selden and Wooters (2011) also explore organizational and environmental effects on adoption, such as level of unionization and government performance record. Similarly, Niehaves and Krause (2010) demonstrate the path dependence of shared service configurations from prior partnership arrangements in German local government.

The final and largest body of research into governmental shared services addresses the challenges faced by vendors and policymakers in delivering reform objectives. Growing recognition of the gap between theorized benefits and on-the-ground outcomes means that this question of delivery fidelity intrigues scholars and professionals alike (Borman and Janssen 2013). Successive audits have bemoaned cost overruns, project delays and unrealized business cases (AIM, 2012; Committee of Public Accounts 2012; Economic Regulation Authority 2011; NAO, 2008; 2011), and academic case studies also identify problems (Janssen and Joha 2006; Wagenaar 2006). The recently discontinued shared service programme in Western Australia is an example of failure-induced policy reversal (AIM, 2012; Economic Regulation Authority 2011).

Moreover, on the basis of uncertain international experience, caution has been expressed by a once enthusiastic advocate (Gershon 2008) and a government traditionally in the vanguard of administrative mega-trends (New Zealand State Services Commission 2007). In the main, however, disaffection with policy realization has not dampened enthusiasm for the consolidation principle; as demonstrated below, shared service adoption grows apace. It is, rather, the challenge of implementation – and, specifically, of overcoming donor agencies’ cherished autonomy and fear of business disruption – that has attracted attention from project managers, consultants and researchers. Collectively, their response has been to call for more circumspect business cases, strengthened programme governance, sustained managerial and political leadership, rigorously enforced process standardization, mandatory user participation, and (perhaps antithetically) thorough local ‘buy-in’ (Borman 2010; Borman and Janssen
Overall, some important ideas have emerged from this initial research on the shared services phenomenon, as well as several key insights for policy and practice. Nonetheless, the tripartite focus on definition, motive and influences, and project management is unduly insular, risking neglect of the unintended consequences and wider system interactions resulting from administrative consolidation. Furthermore, broad acceptance of the merits of the shared service logic, owing partly to claims of a ‘middle-way’ between centralization and decentralization, and partly to the intuitive appeal of this efficiency solution, has fostered an uncritical and even naïve approach to demand-side issues. The underlying assumption, made explicit by Janssen and Joha (2006), is that consolidation will “improve service levels without any of the agencies having to give up their autonomy”. This optimism deserves probing, however; not least because consolidation forces new interdependencies between organizations.

Potentially, then, what is often disregarded as unhelpful user parochialism and resistance could, from a demand-side perspective, be rather interpreted as legitimate concern for continued individual determination of organizational performance.

Only Wagenaar (2006) has pursued this broader and more critical line of thought, and even then only preliminarily. In examining a failed HR initiative in Dutch central government, he identifies ‘great consequences’ for participating organizations, including de-autonomization, and then lists the many ‘dilemmas’ facing decision makers as a result, such as over how far scalability should be pushed and what the new client-provider relationship should be. With established organizational and management theory, one aim of the present article is to elaborate this important but still nascent demand-side perspective, and, in so doing, theorize potential limits in the hitherto unimpeachable shared services logic. Before doing so, however, it is necessary to gauge the scale, character and trajectory of this global reform mega-trend.
III: Dimensions of Reform

The aforementioned heterogeneity of definition provides multiple strategies for appraising and comparing shared service designs. Among the main policy choices are the vendor's corporate governance and the nature of their product ‘menu’. In combination, these two dimensions offer a framework for international and longitudinal comparison, as well as for discriminating alternative pathways to reform outcomes.

Vendor governance

Much institutional diversity is captured in the different meanings ascribed to the word ‘shared’. On a spectrum, these order from ‘shared governance’ to ‘shared supply’, with each corresponding to an alternative vision of user participation and influence. Thus, with the ‘shared governance’ type, not only do multiple organizations draw on the same supplier of management support services, but that vendor’s ownership and management responsibility is similarly distributed among these users. This participatory mode of consolidation is common in local government, where neighbouring councils voluntarily pool functions into either a ‘joint venture’ or nominal ‘host’ agency (Dollery et al. 2012). At the other end of the spectrum are designs that entirely remove vendor ownership and management from users; for example, through outsourcing. Here, ‘shared’ refers not to the enterprise as a whole, but – more narrowly – to agencies’ common sourcing of standardized management services from a single, agreed supplier. Potential for scalability increases under this ‘shared supply’ interpretation, since complex multiparty governance is eschewed. However, some authors do not consider such user-provider detachment, and the attendant reduction in the meaning of ‘shared’, to constitute shared services proper (Knol et al. 2014; Schulz and Brenner 2010).

Several intermediated design types sit between the ‘shared governance’ and ‘shared supply’ poles. There is joint public-private ownership, as with the partnership
between the UK Department of Health and the outsourcing firm Steria; and so-called ‘insourcing’, where services are delivered on a contractual basis from elsewhere in the public sector. In this latter design, ‘shared’ is connotative of ‘joined-up government’ ideals, with the common challenge of resource stewardship mandating new strategic partnering. This can be realized as either ‘proximate’ or ‘arm’s-length’ insourcing, the former occurring when provider and user remain relatively close in sectoral or hierarchical terms, and the latter involving greater remove through multi-sectoral supply chains.

In order to locate designs between the two ‘shared governance’ and ‘shared supply’ poles, it is useful to note that the origin, design and delivery of a shared service scheme are often mutually implicating. Two contrasting adoption strategies identified by Wagenaar (2006) are the ‘big bang’ approach, where a ‘magnificent and compelling’ consolidation is swiftly implemented across multiple agencies, and the ‘soft pressure’ approach, where restructuring is more small-scale, gradual and participatory. Similarly, the OECD (2012) distinguishes between ‘top-down’ and ‘bottom-up’ shared services, the former receiving impetus from central mandate, while the latter proceeds more through incentives. Allowing greater scale and user-provider distancing, both the big bang and top-down approaches tend to produce weaker interpretations of ‘shared’ and thus more arm’s-length insourcing. The soft pressure and bottom-up approaches, conversely, allow for the participatory management of the fuller ‘shared governance’ definition.

**Product type**

Alongside vendor governance, consolidation designs also differ by the type of services offered to users. The framework captures this variation through its second, ‘product type’ dimension, which is a continuum between ‘transactional’ and ‘co-produced’ services. Binary oppositions of this type frequent the literature on work and professions, with authors distinguishing ‘transactional’ and ‘knowledge-based’ services
\((\text{Knol et al. 2014; Schulz and Brenner 2010,)} \) ‘transactional’ and ‘transformational’ services (Ulrich 1995), and ‘administrative’ and ‘professional’ services (Selden and Wooters 2011). Intervening hierarchies are also often suggested. Employee recordkeeping and relocation services, for example, are deemed to be transactional; recruitment and change management are intermediates; and workforce planning and labor relations are more strategic (Sako 2006).

Such work classifications involve the endogenous appraisal of a task's intrinsic characteristics. However, in the present framework, the distinction between transactional and co-produced services rests more specifically on the differing user-vendor interaction required of each. For example, generic payroll administration involves mass reproduction of a process containing a finite number of predictable options and sub-processes. This is transactional activity, capable of ready standardization and automation. The commissioning, delivery and receipt of legal advice, by contrast, relies on thorough and sustained user-provider interaction. The dialogue may differ from one episode to the next, and value creation is both reciprocal and individual. This is co-productive work. Finally, intermediate options are also possible along this dimension. For example, job evaluation may require consultancy advice from the HR vendor that is interactive yet guided by standard protocols.

**The comparative framework**

In combination, these two ‘vendor governance’ and ‘product type’ dimensions assemble the two-by-two matrix in Figure 1. Shared service designs locate within one of the four quadrants by their particular interpretation of ‘shared’ and corresponding corporate governance (the y-axis), and the nature of products offered to users (the x-axis). Both dimensions are cumulative, so that ascent of the vertical axis indicates the addition of shared governance to the minimum of shared supply, while increase along the horizontal axis joins together co-productive and transactional services.
From the demand-side perspective sought in this article, the particular significance of Figure 1 is that positioning along the vertical axis corresponds to alternative pathways to user influence over the vendor. In a participatory joint venture, for example, user influence over products and service levels is relatively immediate and assured, constrained only by the vagaries of multiparty decision-making. Alternately, for outsourced arrangements, users depend on ex-ante contract negotiations and ex-post customer-provider dialogue to express preferences indirectly. Intermediately, proximate and arm’s-length insourcing both lengthen and complicate client pathways to influence, but without full institutional severance: preferences may still be granted by hierarchical command, common political or managerial accountabilities, or even simply through the *esprit de corps* of both governmental entities. These contrasting pathways are drawn in Figure 2.

Arising from these differential levels of user influence is the empirical question of whether governments tend toward particular combinations of vendor governance and product type, and, furthermore, whether such governance-product combinations change with the accumulation of operational experience and/or fiscal stress. In addition, the normative question for theory is whether contrasting demand-side
outcomes can be anticipated for the alternative permutations. Both questions direct the analysis below.

(i) Joint venture

(ii) Proximate insourcing

(iii) Arm's-length insourcing

Figure 2: Channels of influence in different shared service arrangements

IV. A Global ‘Mega-Trend’

This section reviews the international growth in public sector shared services. No claim to comprehensiveness is made. Rather, the aim is to demonstrate a level of cross-national and multi-sectoral adoption commensurate with the designation, ‘mega-trend’. Restrictions of space and data limit the most detailed longitudinal analysis to Anglophone central governments, but these cases are suitably contextualized by first examining developments at the local, regional, national and supranational levels.
Local, regional, national and supranational sharing

Local government. At the municipal level in Australia and New Zealand, shared front- and back-office services are an attractive alternative to the previously-favoured efficiency solution of council amalgamations, being considered advantageous for delivering scale economies without undermining local democracy (Dollery et al. 2012; Local Government New Zealand 2012). In the UK, moreover, consolidation is currently deemed essential to the paradigm shift required of local administration by current financial pressures (LGA 2012). Higher levels of government are also encouraging local partnerships in variety of contexts. The US state of New Jersey, for example, established a ‘SHARE’ fund in 2005 to enable councils to undertake feasibility studies (Burns and Yeaton 2008), while, in New York, a variety of non-financial aid is offered to those seeking to partner (Office of the New York State Comptroller 2009). In Germany, the regional government in North Rhine-Westphalia funded a pilot study in 2007 into multi-council procurement, accounting, HR and accommodation management (Niehaves and Krause 2010), and the UK Department for Communities and Local Government has also made available successive grants. Finally, illustrating the great attraction of scale in the current financial climate, nationwide sharing of some locally duplicated functions is being considered in both Ireland and New Zealand (Local Government Efficiency Review Group 2010; Local Government New Zealand 2012).

Public Healthcare. Administrative consolidation has also occurred in public healthcare systems. In the early 2000s, back-office partnerships emerged between district health boards in Auckland, New Zealand (Day and Norris 2006), followed by various schemes within and between the Canadian provinces (Canadian Agency for Drugs and Technologies in Health 2011). In Ireland, what was initially a regional consolidation latterly expanded into nationwide coverage (Accenture 2009), again demonstrating the shift towards greater scale. Conversely, in the UK, national consolidation was actually pursued from 1999 (NHS 2002), although rollout partially
stalled with the advent of autonomous ‘trust’ status for high-performing hospitals (see Carvel and Watt 2003).

\textit{Regional government.} At the regional level, formative collaboration in HR and ICT was underway in the Australian state of Victoria in the early 1990s, and, by 1996, the Government of New South Wales had established a central services unit (AIM 2012). Subsequently, the vendor landscape grew and user participation was made compulsory. Consolidation proceeded in Queensland and Western Australia in 2003, and then in South Australia and the Australia Capital Territory in 2006. These cases involved both cross-governmental and sector-specific provision, with education and health often having dedicated vendors. Recent policy has been to further the sectoral approach (New South Wales Department of Premier and Cabinet 2010; PWC, 2010).

Canada’s first provincial shared service centre was established in 1998 to serve 22 ministries in Ontario (Juozapavicius 2000). Next came the Alberta Corporate Service Centre, followed by the Centre de services partagés du Québec in 2005. New Brunswick launched its ‘internal services alignment initiative’ in 2008, and, demonstrating that scale and participatory management are not necessarily incommensurate, this vendor is overseen by ten user departments from across the government (New Brunswick Internal Services Agency 2011). Unlike Australia, further economies have recently been sought by growing this cross-sectoral approach (see Drummond Committee 2012).

Elsewhere at the regional-level, shared management services are being adopted in the UK’s devolved administrations (Scottish Executive 2006); in Flanders, Belgium; and in many American states (Selden and Wooters 2011).

\textit{National government.} Shared services have been formed or extended at the national level in a variety of non-Anglophone states, including in Portugal, Switzerland (Steiner and Huber 2011), the Netherlands (Knol et al. 2014), Denmark (OECD 2012), Norway (OECD 2013a) and Sweden (OECD 2013b). Contrasting top-down and bottom-up implementation strategies have contributed to differing reform designs. For
instance, while the OECD identifies further consolidation potential in both Norway and Sweden, which followed a bottom-up method, Denmark’s more forceful, top-down approach is championed as ‘an inspiring example of efficiency improvements’ through ‘a strong policy of service sharing’ (OECD 2012). Longitudinally, reform acceleration and intensification are also evident in these examples. In 2010, Finland’s four sectoral vendors were merged to form a single, cross-governmental and mandatory supplier (OECD 2010a), shifting the governance from ‘proximate’ and to ‘arm’s-length’ insourcing. Similarly, Sweden’s National Government Service Centre, established by merger in 2012, delivers both transaction and ‘consultancy’ services (OECD 2013b), making for a design shift toward ‘co-produced’ product types.

Supra-national governance. Finally, at the European level, shared services have been considered as a means of reducing administrative burden in the Commission’s decentralized agencies (Directorate-General for Internal Policies 2009). Various models for common procurement, legal advice and budgetary support were considered in 2009, although implementation has since been delayed by concern for inadvertently undoing necessary agency autonomy.

Summary. Overall, this initial review suggests two key trends: reform acceleration and design intensification. The core mantra of efficiency-by-sharing grew steadily during the early 2000s across local, regional, national and supranational government, and is now central to post-recession retrenchment plans in many contexts. On the comparative framework, a shift away from ‘shared governance’ and toward ‘shared supply’ registers particularly in the pursuit of greater scale and growth in top-down compulsion. Furthermore, there is some evidence of intensification along the product-type dimension through the recent divestment of co-productive services. These trends are now explored more closely in Anglophone central governments.
Anglophone central governments

*Canada.* Three phases of design are evident in Canadian federal government. In sequence, these testify to growth in the ‘shared supply’ rather than ‘shared governance’ interpretation.

The first phase began in 1996, just prior to early developments at the provincial level. The aim was to align the ICT supporting generic administrative processing in multiple departments. Although cross-governmental in scope, the project was envisioned as a ‘horizontal’ and ‘co-operative’ venture between users (Treasury Board 1996), and is thus classified as *relatively proximate insourcing of transactional activity* [labelled ‘Canada #1’ in Figure 3, below].

Phase two began in 2004. Now, the aspiration was for annual savings of $660m through actual business process consolidation. A ‘single system of financial, materiel management and human resources’ services would be delivered cross-governmentally from a customer-focused agency (Le Goff 2005). This would be governed as a ‘shared responsibility between the [vendor] and client departments’, and would undertake both transactional and consultancy activity (Le Goff 2005). As such, while the pseudo-participatory governance is retained, the expanded service menu during this second phase makes for *relatively proximate insourcing of part-transactional, part-co-productive activity* [labelled Canada #2].

In its third phase, Canada has returned to the original ICT focus. Concern with ailing infrastructure led to creation of a new department in 2011 with a ‘mandate’ to oversee ‘consolidation and standardization of the government’s email systems, data centres and networks’ (Shared Services Canada 2012). Forty-three user departments contributed over 6,000 employees to the vendor, which is established by statute and overseen by a minister. Thus, although the language of customer-provider ‘partnership’ is retained, such a top-down mandate and broad-based adoption indicates that this final design moves further towards realizing a ‘shared supply’ interpretation as the *arm’s-
length insourcing of part-transactional, part-co-productive activity [Canada #3]. This completes a three-phased transition from top-left to bottom-right on the comparative framework (see Figure 3, below).

United States of America. Adoption in US federal government has been drawn-out and partial, but a trajectory towards shared supply is again evident across two key periods.

In 2001, the ’President’s Management Agenda’ identified e-government as key to dismantling ’obsolete bureaucratic divisions’ (OMB 2001). Analysis confirmed major interagency duplication, with 19 organizations undertaking all 28 identifiable ‘lines of business’, including HR and grants management (OMB 2002). Projects were launched to ‘integrate agency operations and IT investments’ in both frontline and back-office activity, yet, beyond a major payroll consolidation, the scale of this early transformation is unclear. Cross-governmental in focus and directed at generic processes, the aspiration nonetheless classifies as arm’s-length insourcing of transactional services [USA #1].

Soon after the President’s Management Agenda, an ’enterprise architecture’ project was established to design ‘common, shared business processes and information technology’ (OMB 2005). By 2004, five ‘lines of business’ task forces were searching for solutions, including in the areas of financial management and HR. The result was an enhanced system of market-based back-office provision, where existing government providers and external firms would apply to become approved federal suppliers and then bid for work from the remaining agencies. Initial vendor evaluations were conducted centrally on the basis of ’past performance, current capabilities, and ability to operate a customer-focused organization’ (OMB 2006), and then, once established, approved providers for each line of business were overseen by a single ’managing partner’ located elsewhere in government. Thus, while the transactional focus remains in this latter phase of US reform, the greater user-provider distance afforded by
marketization and independent functional oversight makes for ‘arm’s-length’ insourcing or full outsourcing of transactional activity [USA #2].

United Kingdom. Developments in the UK testify to a particularly dramatic shift in design principles, with intensification registering across both dimensions of the comparative framework.

In 2004, the Gershon Report listed back-office activity as one of six areas in which government could ‘release resource[s] to the frontline’ through increased efficiency. The focus was on ‘high volume’ and ‘replicated’ processes (Gershon 2004), and, in implementation, a bottom-up approach was taken, with the central Cabinet Office providing guidance to departments and agencies on various options for service sharing. Partnerships emerged within large sectors such as transport and justice, and several small policy ministries also began to procure services from larger delivery organizations. Overall, this period qualifies as relatively proximate insourcing of transactional activity [UK #1].

As at the local level, further shared services reform became critical to fiscal retrenchment after 2010. Principally, there is the ‘Next Generation Shared Services’ programme which aims for annual savings of £600m by rationalizing the provider landscape to three sectoral and two cross-governmental vendors, the latter being either partially or wholly owned by the private sector and overseen centrally on behalf of individual users (HM Government 2012b). Although the old transactional focus is retained, implementation is now via a strict top-down ‘comply-or-explain’ approach, with a strengthened Cabinet Office heavily involved in policy delivery. The resulting outsourced provision of transactional activity thus represents a marked shift towards the ‘shared supply’ interpretation [UK #2a].

Simultaneously, the Civil Service Reform Plan initiated a second strategy for the consolidation of non-transactional activity. It argued:
‘As departments reduce in size, they will no longer be able to maintain high quality services in many expert and advisory services (such as policy making, analytical functions, and legal services) without sharing with others. Sharing services will ensure that there is a high quality, flexible and resilient service available to every department.’ (HM Government 2012a)

Directly associated with fiscal stress, then, this insourcing of co-produced activity [UK #2b] represents a major design intensification from the UK’s early efforts at purely transactional consolidation.

**Ireland.** Impetus for coordinated shared services in Irish central government came from an OECD (2008) recommendation, compounded by the severe economic crisis. Broadly, a sectoral design is being pursued, with separate plans for health, justice, education and defence. These are being delivered by officials in each spending department (DPER 2011), albeit with central oversight and co-ordination. Separate arrangements are also being made for the core civil service. Overall, this registers as a half-top-down, half-participatory strategy for relatively proximate insourcing of largely transactional activity [Ireland #1]. However, possible future extension by either outsourcing or product expansion to legal advice and internal audit have both been mooted (DPER 2011; Department of the Taoiseach 2008). If implemented, such developments would shift the Irish design towards the ‘co-productive’ and ‘shared support’ poles, in line with developments elsewhere.

**New Zealand.** Shared services have been considered several times in New Zealand, but with little enthusiasm, given the uncertainty of international experience (State Services Commission 2007). An annual benchmarking exercise has latterly sought to locate government performance in ‘administrative and support services’ against international and industrial comparators (New Zealand Treasury 2013). However, actual service consolidation is largely confined to a recent partnership between the State Services Commission, the Department of Prime Minister and Cabinet, and the Treasury (Controller and Auditor-General New Zealand 2012). This operates as
a joint venture with a strong day-to-day presence in each department. Initially, the
service offer includes HR, ICT, finance and information management, making for the
participatory provision of largely transactional services [New Zealand #1]. However, in
future, this could expand to legal, communications and property services (Controller
and Auditor-General New Zealand 2012).

Australia. In contrast to its advanced regional consolidations, central
government in Australia has also been hesitant to participate in shared services reform.
After his initial advocacy in the UK, Gershon (2008) dramatically modified his opinion in
an Australian report, arguing that shared services ‘should only be undertaken on a very
carefully selected and controlled basis’. Like New Zealand, the particular concern is
with failed international examples, as well as emerging state-level implementation
problems. This caution appears to be well embedded, and, latterly, there have only been
very tentative steps towards coordinated sharing in national government (Department
of Finance and Deregulation 2011).

Summary. This longitudinal analysis of Anglophone reform confirms the
aforementioned acceleration and intensification tendencies. In Canada, America and the
UK, greater user-vendor distance is being achieved through independent functional
oversight, arm’s-length insourcing, full outsourcing, or stronger top-down
implementation. This means that the ‘shared supply’ interpretation is increasingly
overwriting the original ‘shared governance’ proposition, with a likely diminution in
user influence as a result. In addition, expansion to co-produced services, evident most
especially in the UK, but also to an extent in Canada and with future potential in both
Ireland and New Zealand, again suggests latter-day design intensification. Figure 3
illustrates this spatially, with continuous arrows denoting observed trends and dotted
arrows anticipating future potential. The concentration of entry points (‘#1s’) in the top
left-hand quadrant and common orientation of the arrows downwards and/or outwards
particularly indicate the direction of reform.
V. Three Outcome Scenarios

Having demonstrated the reform acceleration and intensification consistent with a global mega-trend, this final section returns to the question of possible demand-side limits in the shared services logic. Drawing on established organizational and management theory, three outcome scenarios are hypothesized and their risk of coming to fruition explored.

Outcome scenario 1: The return of ‘government-by-process’

Ideals of scale economy, process optimization and professional expertise are very familiar from classical administrative science, despite the novelty implied in current reform advocacy. In defining such founding principles of organizational design, this literature also gauges the trade-offs associated with any restructuring strategy. Luther Gulick (1937), for instance, noted four equally desirable yet incommensurate means of grouping administrative activity, including by functional process and by policy purpose. The obverse advantages and challenges of each principle are suggestive of possible outcomes in the case of shared service reform.
According to Gulick (1937), the process principle arranges government institutions by function, aiming to unite ‘those who are at work making use of a given special skill or technology, or are members of a given profession’. This is intended to ensure ‘maximum utilization of up-to-date technical skill’, enhanced career structures, greater specialization from increased work throughput, and greater economies of scale. A legal perspective, for example, is variously required in all policy sectors, but, according to the process principle, quality legal advice is best assured by the professional co-location of lawyers in a single ‘law’ department, rather than field co-location in specific policy departments. Organization by policy purpose, on the other hand, divides government according to social mission – education, justice, housing and so on. All necessary resources and capabilities are internalized within each purpose-defined department, so that a single authority has ‘immediate control of all the experts, agencies and services which are required’ for goal attainment (Gulick 1937). This specialization and departmentalization by policy rather than function involves the dispersal and duplication of processes and professions across institutions, but assuages concerns that, under a consolidated system, ‘process departments may be more interested in how things are done than in what is accomplished’, to the detriment of overall policy delivery. Equally, however, such a purpose-based design sacrifices the many advantages of process-based organization, including scale economy and professionalization.

These two organizational principles – or ‘proverbs of administration’, as Herbert Simon (1946) called them – are incompatible. Each is individually attractive and persuasive, yet each has unavoidable challenges that require remedy by reverting to the other. In consequence, administrative design needs to be thoroughly contextual, and account for both the challenges and advantages of a supposedly problematic or outmoded system, including those which are taken-for-granted or otherwise implicit. Failure to undertake such rounded analysis partly accounts for the cyclicality often decried in administrative reform. Gradually accumulated disaffection for a once-
favoured administrative solution leads to eventual fracture, re-orientation, accumulation of new (and obverse) dysfunctionalities, and then further reversal. Indeed, although risking an overly rational and apolitical account, the initial rise and subsequent attenuation of new public management can be interpreted in these terms, as the OECD (2005) illustrates:

'In the 1970s, many "shared service centres" were set up to execute tasks carried out by many organisations. Then, in the 1980s, ... NPM emphasised that organisations should operate relatively autonomously and be held accountable for outputs produced, rather than for management of inputs or internal processes. Today, governments are recognising that, while beneficial in many ways, this approach can lead to inefficiencies when different organisations perform the same tasks.'

In terms of the possible outcomes of shared services reform, then, the administrative science perspective is both cautious about the existence of an organizational solution that apparently transcends all contexts, and concerned for the lost benefits of the former, decentralized system of management support. In particular, by potentially institutionalizing a bias towards the 'how' of process over the 'what' of public value, the risk of unqualified functional consolidation is its frustration of goal attainment in key lines of public policy. Disaffection with this new 'government-by-process' could eventually prompt further reversion to the devolved, organization-by-purpose arrangements strongly favoured during the NPM years and yet currently disavowed by shared service reformers.

**Outcome scenario 2: Strategic disarray**

Writers on strategy and performance often conceive of organizations as bundles of resources that, once optimized, deliver either competitive advantage (Barney 1991) or public value (Klein et al. 2013). Shared service models redistribute these resources between users and vendors (Gospel and Sako 2010), with greater fracture resulting from realizing the 'shared supply' rather than 'shared governance' interpretation. Such resource redistribution is attractive when user organizations gain clearer focus on their
core competencies while vendors direct new attention to formerly peripheral activities (McCracken and McIvor 2013). Yet there remains the issue of whether or not ‘core’ and ‘peripheral’ activity is as readily divisible as this ‘resource-based view’ implies. As noted above, the tendency is to classify management support services by the endogenous evaluation of intrinsic characteristics, and this encourages such an understanding of value as residing internally rather than relationally. However, some authors have proposed more contextual methods for work classification. For example, Gospel and Sako (2010) evaluate corporate functions in the private sector by the nature of their relation to a firm’s specific mission:

‘We may conceptualize some support activities as separable from primary value adding activities, whilst other support activities are more complementary and coupled with primary activities. Thus, each corporate function consists of a hierarchy of activities which are tightly or loosely coupled to primary activities to varying degrees.’

Under this exogenous or relational view of the corporate back-office, a particular function’s significance registers less in its intrinsic value than in its role in supporting core mission. In short, as management support services, value is derived in the context of organizational surroundings, making for contingent rather than generic activities that are not readily extractable.

This relational view of corporate functions resurfaces in the literature on public management. For example, Poister and Streib (1999) define ‘strategic management’ as ‘the integrative force that guides and disciplines a wide array of management processes to move in a unified direction’, while Ingraham and Donahue (2000) similarly maintain that ‘good management depends ... on the extent to which ... management subsystems operate according to consistent objectives, are mutually supporting, and are well coordinated’. These ‘management processes’ and ‘management subsystems’, which can be aligned, orientated and mutually supportive, are therefore not simply generic and reified commodities, but rather negotiated social endeavours.
In terms of an outcome scenario, then, while previous ‘resource-based’ accounts emphasize the performance benefits of new competency specialization (McCracken and McIvor 2013), the strategic management perspective cautions that, beyond transactional activity, value generation in back-office services is at least partially derived from their role as management support services. Even if the efficiency and effectiveness of supply is enhanced by administrative consolidation, poor coordination and alignment of those functions that are, in Gospel and Sako’s (2010) terms, ‘complementary and coupled with primary activities’, puts organizations at risk of strategic disarray, with deleterious consequences for demand-side performance.

**Scenario 3: The hyper-modernity of public administration**

An activity’s disaggregation into constituent elements and the apportioning of their manufacture to specialized parties – ‘enhancing the division of labour’, as it is termed – has long been recognized as improving productivity. In Wealth of Nations, Adam Smith wrote: ‘The division of labour ... so far as it can be introduced, occasions, in every art, a proportionate increase of the productive powers of labour’ (2001 [1776]). By the early twentieth century, this mantra was central to both the administrative principles formulated by Gulick and others, and the ‘scientific management’ of Frederick Taylor (1914), whose search for ‘best way’ tools and techniques rested on such an elemental view of manufacturing. Technology has since allowed increasingly fine-grained task decompositions. Through ‘modular’ design, generic micro-components can be independently manufactured at great scale and then combined to render more specific products, enabling scale economies, product diversity and rapid innovation, since substitution of one component markedly alters the overall good.

Despite originating in manufacturing, this logic of super-fragmentation, mass production, and modular output is being increasingly appropriated for the design and narration of shared services reform (for instance, Pekkarinen and Ulkuniemi 2008). Firstly, there is in the necessary micro-analysis of organizational functions prior to any
divestment or tendering process. In the US’s ‘Line of Business’ initiative, for example, HR was disaggregated into ten sub-functions, 45 processes, and then an array subordinate of ‘activities, roles, and major inputs and outputs’ (Biggert et al. 2008). In part, this allows close alignment with supporting ICT, but it also illustrates the neo-Taylorist bent of the shared service logic. Secondly, there is the growing emphasis on up-scaled provision, captured in the move toward the ‘shared supply’ interpretation of administrative consolidation. This rests upon the thorough standardization of processes and operating models across disparate agencies, so that, just as business process outsourcing leads to the paradox of competitor firms sharing common back-office products (Davenport 2005), so too are governments procuring management micro-processes as generic and detachable commodities. Thirdly, there is the claim that third-party divestment enables greater purchaser flexibility, with marketization allowing for ready termination of contracts and re-tendering on the basis of attractive alternative offers from suppliers. And fourthly, there is the growing shared service lexicon, which includes ‘menus’ (Selden and Wooters 2011), ‘shopping for services’ (Biggert et al. 2008) ’re-usable modules’ (OMB 2012b), ‘off-the-shelf’ models (Gershon 2004) and ‘interoperable’, ‘plug-and-play’ and ‘mix-and-match’ solutions (OPM 2011). Again, these liken back-office activity to the goods of hard manufacturing.

The misappropriation of manufacturing logic in redesigning public services has received much prior critique; for example, regarding the assumption of readily observed and measured public policy outcomes (Hood and Peters 2004). Moreover, the danger of reifying management support services as pseudo-objects was alluded to in Scenario 2, above, in terms of the possible detriment to strategic management. While the crucial difference between goods and services has been emphasized in private sector operations management literature, Osborne (2010) identifies the lack similar distinction in public administration as the ‘fatal flaw’ of much theory and practice. He elaborates:
'[M]anufacturing theory relates to activities that physically change materials to produce saleable goods while services theory relates to activities concerned with the transaction of intangible benefits.'

In short, although making for an elegant terminology and persuasive case for reform, the danger of pursuing shared services on the basis of manufacturing insights is that this overlooks the essential differences between tangible, storable, visible and quantifiable 'goods', and intangible, instantaneous and co-productive services. The outcome may be to further advance public administration toward a state of hyper-modernity, where subjectivities, irrationalities and creativities are veiled by a gloss of rational and predetermined management tools. The accommodation of implicit and non-overt elements of public management, values and human nature, and even simply the 'given-and-take' required to ease day-to-day organization life is uncertain in such a system of strict categorization and 'hollowed' organizations, bringing possible detriment to public sector innovation, entrepreneurialism and the handling of the unexpected.

**Shared services: Risks and rewards**

The three outcome scenarios are summarized in Table 1, overleaf. As the fourth row indicates, the design intensification noted above is anticipated to increase risk of deleterious effects in each case. Hence, closer approximation of 'shared supply' rather than 'shared governance' instils greater user-vendor distance, thereby furthering the 'government-by-process' reorientation (Scenario 1) and increasing the separation of 'core' and 'peripheral' competencies (Scenario 2). Similarly, the shift from purely 'transactional' services towards 'co-productive' activity further exposes and violates the interdependencies between primary and supporting activities (Scenario 2) and heightens risk of treating management services as tangible commodities (Scenario 3).
**Outcome Scenario 1**

**Perspectives and theorists**
Administrative science (Gulick 1937)

**Summary of logic**
Dilemmas and trade-offs in administrative design can lead to cyclical reforms, where the accumulated dilemmas of a once favoured system prompt restructuring to an alternative with opposing benefits and costs.

**Challenges in shared service adoption**
Securing the predicted benefits of a process-based work allocation (scale economy, professional structures) without undue costs to mission attainment (e.g., by a focus on the 'how' rather than the 'what' of policy delivery).

**Risk exaggeration along 'vendor governance' and 'product type' dimensions**
Reduced user influence over process organizations by the shift toward 'shared supply'.

**Potential outcome scenario**
Poorly managed 'government-by-process' design; accumulation of dysfunctionalities; eventual further restructuring.

**Outcome Scenario 2**

**Perspectives and theorists**
Resource-based view of outsourcing (Barney 1991; Espino-Rodríguez and Padrón-Robaina 2006)
Management and strategy (Gospel and Sako 2010; Ingraham and Donahue 2000; Poister and Streib 1999)

**Summary of logic**
Organizations combine valuable resources to deliver outcomes, yet it is not simply the possession of competencies that determines success, but rather their strategic integration.

**Challenges in shared service adoption**
Enabling continued interaction between core (retained) and peripheral (divested) competencies, so that management services do function as support services. Avoiding problematic resurrection of the politics-administration dichotomy.

**Risk exaggeration along 'vendor governance' and 'product type' dimensions**
Exposure and violation of the indivisibility of core and peripheral activity in the shift toward divestment of 'co-productive' services and the user-provider distancing of 'shared supply'.

**Potential outcome scenario**
Poor co-ordination and deployment of management resources to support strategic organizational aims.

**Outcome Scenario 3**

**Perspectives and theorists**
Service operations management (Osborne 2010)

**Summary of logic**
Goods and services differ fundamentally, the latter being intangible, less quantifiable, instantaneous and co-productive.

**Challenges in shared service adoption**
Avoiding treatment of higher-value management support services as hard 'products'. Allowing for implicit, unpredictable and non-quantifiable elements of public management.

**Risk exaggeration along 'vendor governance' and 'product type' dimensions**
International and multileveled reform acceleration and hegemony as a 'logic without limits'.

**Potential outcome scenario**
A hyper-modernity that privileges the overt and observable over the implicit and subjective, and copes less readily with unpredictability and creativity.

Table 1: Summary of outcome scenarios
VI. Conclusion: A Logic Without Limits?

The first purpose of this article was to demonstrate the emergence of a shared services mega-trend in contemporary public administration. Collaborative sourcing or supply of management support services is a growing phenomenon in differing states, policy sectors and levels of government, and rests on a renewed idealizing of centralization and standardization. Although often accompanied by assurances of a 'customer service' orientation and the option of full or partial marketization, this efficiency logic departs significantly from the NPM emphasis on autonomy and deregulation. It is partly for this reason that shared services deserve higher priority in the discipline's future research agenda.

The article’s second contribution has been to capture the interpretive heterogeneity of the shared services concept, and relate this to likely levels of user influence over vendors. In so doing, a challenge has been levelled at the claim of a middle-way between centralized and decentralized provision. In fact, as has been demonstrated, the tendency towards arm’s-length insourcing or full outsourcing – 'shared supply' rather than 'shared governance' – means that that user influence is likely diminishing, thereby undoing much of empowerment claimed to protect donor organizations against the traditional problems of central dependency. Future research must thus be more critical in distinguishing supply-side claims from evolving practice, and more probing of the demand-side perspective.

Thirdly, and related to this, the article has questioned what demand-side limits might emerge within this currently salient reform logic. The three outcome scenarios all predict deleterious consequences to government performance in situations of unabated reform. Risk of institutional bias towards the 'how' of government administration over the 'what' of public value, potential strategic disarray in the deployment of newly professionalized capabilities, and the damaged culture and capacity engendered by advancing public administration into an era of hyper-modernity all mean that the
benefits of administrative consolidation are not inexhaustible – shared services are not a ‘logic without limits’. More discriminating application, some policy reversal, and a new emphasis on securing demand-side gains by developing an intelligent customer base are, then, prerequisites if this reform is to deliver maximum benefit.

Acknowledgements

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