Abstract

The importance of enterprise governance in IT has been demonstrated in both the private and the public sector. Some of the issues that implementing IT governance addresses are IT-business alignment, the demonstrable business value of IT, effective IT portfolio management, maximisation of the value of IT investments as well as mitigating the risk of IT failure. As the pressure on government ICT departments grows to provide additional services, to respond quickly to new business requirements, to increase effectiveness and to continue to demonstrate business value while under increased scrutiny and tight budgets, relatively new models of service delivery are being considered and implemented in the public sector across the world, these include outsourcing, public-private partnerships and the creation of shared service centres (SSC) to deliver inter-departmental services to government agencies. This paper will focus on SSCs in the public sector and will review the literature and present a case study of IT governance failure in an SSC in the Queensland government’s implementation of a centralised HR and payroll system. Based on the analysis completed, we explore the risks and benefits in SSCs and investigate key governance-related concerns in the creation, transition to and operation of SSCs in the public sector, highlighting the importance of the relationship between the SSC governance model and the scope of service delivery.

Keywords: IT Governance, shared services centres and public sector.

1 Introduction

IT has become a commodity, as Carr states in his seminal article [16]. Just like other commodities, its status as a commodity has paradoxically led to its increased importance in our everyday lives. After the dot com bust, the Y2K con and the global financial crises, IT is expected to constantly prove its business value. Spectacular failures such as the one explored in the case study should not happen, however both the private and public sectors are littered with examples of such costly failures.

IT governance, as opposed to IT management which deals with supply of IT services, is meant to control the demand of IT, by ensuring IT-business alignment, formulating the business requirements of IT and ensuring effective use of investments in technology.

With the advent of e-government initiatives, the public sector has also become increasingly dependent on IT. The famous Gershon report promoted major cost savings in the UK, and it prompted Australia to commission a similar report. The public sector around the world started imitating the private sector by creating shared service centres [16].

Shared service centres present additional IT governance issues. How to ensure strategic alignment between government departments which historically have been independent while at the same time ensuring cost savings through economy of scale? How to look at IT governance from a ‘meta-organisational’ perspective? While we accept Grembergen & Haes’s model of governance, the reality of applying this to a multi-tenanted environment is much more difficult in practice [6].

We believe spectacular failures present an opportunity for both academics and practitioners to gain valuable insight, identifying causes and working to prevent them in the future.

In this paper we have selected the failed HR and payroll implementation in the Queensland Health Department. We will first analyse the failure itself and then conduct research in the literature to compare the results and extrapolate our conclusions on the ideal configuration of a shared service. Since, in our view, enterprise governance of IT must
formulate the demands of IT, when establishing these demands, it is important to clearly understand the requirements, to evaluate the inherent risks and to understand the limits of the feasible when embarking on the long-term strategic decision to create a shared service centre. This paper will attempt to identify success factors in SSCs in the public sector.

2 Literature review

The topic of shared service governance in the public sector is a complicated topic; as so few papers have dealt with this topic specifically. However, the papers we have selected are comprehensive and include relevant case studies.

The importance of clear decision rights and proposes governance structures considered optimal based on existing SSCs, normally three or four levels starting at national level with a governing board, then at executive level with a steering committee as well as an implementation office at this level because transformation projects in SSC environments can be particularly complex and require constant guidance. The third level, the managerial level, deals with partnership management among the members of the SSC as well as process and strategy review and SLA approvals. Sometimes this level is split even further into a fourth, tactical level which deals with day-to-day operations and user committees to gain user feedback on performance for a continuous service improvement cycle [5].

The paper also presents eight important processes to consider when designing governance for an SSC [5]. These are:-

1. Customer-focused strategic leadership.
2. Strategic alignment aided by separating strategic from operational concerns and avoiding charge-back models of cost recovery.
3. Risk management by clearly defining service delivery expectations across all SSC participants.
4. Performance management via metrics to prove the cost savings gained by SSC service delivery as well as issue resolution (the use of the Kaplan and Norton’s balanced scorecard is recommended).
5. Control and legislative compliance, for issues such as privacy and accountability.

6. Relationship management, of vital importance in an SSC, which addresses transparency, communications to participants during the transition to the SSC and attentiveness to the cultural impact upon participants that an SSC transition causes.

7. Transformation management, including skilled staffing, defining transition timelines and managing the growth and scope of the SSC.

8. Value management, to deal with on-going funding for services (who pays for what and in what proportion?).

The significant viewpoints of the research governance on SSCs have two different viewpoints. One is the resource based view (RBV) and another dynamic capability view (DCV) [9]. RBV considers resources to be scarce and views an SSC as a way to achieve better efficiency in the use of resources by sharing services [9]. DCV instead concerns itself with the ability of an organisation to change in response to a rapidly changing environment and the changing needs of each stakeholder in the SSC [9]. Both the ability to achieve greater efficiency and respond to the needs of SSC participants (IT-business alignment) are essentially governance issues.

This paper stresses the importance of the three main aspects of governance: processes, structures and relational mechanisms [9]. The two case studies examined in the paper show two different governance structures for two different types of SSCs. In the first case, the SSC provides central, non-customized services to government departments in Holland. The driver for this centralised approach is to avoid duplication of efforts for commoditized ICT services. It has a centralised, top-down decision-making structure, with representatives from the participants being senior executives with more strategic than operational functions within their organisations. The services are offered and some later discarded based on the uptake. Account management focuses mainly on SLA negotiation and for escalation of performance issues. The central governance board focuses on risk and project management, funding model reviews and scope expansion.

The second case study is instead, a decentralised, federated model with decision-making based on participant consensus. In this case, the SSC was essentially a merger of the ICT departments of multiple municipalities in
Holland. The SSC was given the mandate to provide all ICT services to its participants. New requirements, performance issues, feedback and project and prioritization management are governed by user boards comprised of line managers, process owners and administrative users. The SSC governance board in this case has a compliance and as well as decision-making rights on major architectural choices [2].

The paper conclusions trend with the following key sentence ‘The level of commoditisation of shared services determines the efficiency that can be gained; however, it limits the customisation and consumer orientation’. It concludes by underlining the importance of governance in SSCs and in balancing the governance mechanisms with the agreed objectives of the participants when creating the SSC. Governance will need to carefully balance customisation and commoditization to achieve efficiency while ensuring consumer orientation.

According to the important study which conducted that the public sector organizations from several countries have embraced the idea of shared services [20]. The idea promises both high quality service and cost reduction [21] [4]. The idea is that of combining the best elements of decentralized and centralized service delivery. The adoption of common services in public sector organizations is based on a combination of process, people and policy changes [17]. They explore a successful HR and payroll implementation by four government agencies. In this case, senior management from each participant recognized the efficiencies to be gained and created an SSC with a federated governance model based on voluntary participation [21]. This SSC was so successful that a national board was created in Sweden to drive a whole-of-government shared services initiative. However, this new national board encountered difficulties due to expert staff being unwilling to move to the new SSC and not seeing the larger picture of greater benefit for all participants. Also, a point of contention was due to a nation-wide SSC essentially reducing the administrative budgets to individual agencies, which caused some political resistance. The paper stresses the importance not just of senior management buy-in, but also buy-in at the operational level by individual employees. Employee resistance to an SSC transition is also exacerbated by the sense of life-long employment as a public servant, so that inertia/passive resistance by key experienced staff can be a severe impediment to organizational transformation initiatives [21].

Another interesting study that, conducted cost saving and efficiency as prime drivers for the creation of SSCs [22] [4]. SSCs facilitate cost reduction by introducing a transparent vendor for service delivery and as a concentration point of expertise. It implies a long-term strategy decision. However this paper highlights the complexity that such a move entails due to the migration of legacy systems as well as divergent expectations among participants which renders IT-business alignment in an SSC very difficult. He cites a case study of another failed HR/payroll system rollout in the Netherlands as an example and compares the bottom-up emergent process growth versus top-down steering committee direction setting governance structures. In the case study, the issues arose from a lack of a programme director and top-down decision making which ignored the pre-existing complexity of the HR system. The SSC in question took it upon itself to make unilateral requirement decisions and no clear migration strategy or roadmap was developed. This led to alienation and a lack of trust by the participants in the SSC. In turn, key integration projects with existing systems failed and the Minister of the Interior had to step in and install a programme management office. This failed to turn around the project and the SSC project was declared a defeat. Wagenaar [22] defines the scope of an SSC by:-

- Type and number of processes supported.
- The organisations to which the services will be provided.

An SSC can be compared to a particular form of outsourcing; however the paper identifies a number of governance risks in the creation of, transition to and operation of an SSC. These risks are mainly organisational and politically related, as existing management structures resist changes and power shifts to the SSC. The risks are listed as:-

- Resistance against one-size-fits-all.
- Resistance against power concentrations.
- Resistance against higher than expected initial costs associated with enterprise reorganization.
• Resistance to lengthy project time lines which may give the perception to users that no benefits are being achieved.

The paper also identifies the dilemmas of a public sector SSC, both in its design and in its implementation. For design aspects a prime concern is defining the scope of the SSC, as increasing its scope too much can have the effect of reducing overall efficiency gains. Choosing the geographical location of the centre can also be both a practical and a political issue. Relational mechanism design is also important, with transparency being a key factor. The relationships between a participant and the SSC, whether formal or informal, should always lead to transparent consensus-based decisions [7].

As for implementation dilemmas a prime one is decision-making, whether participants will delegate certain decisions to be made centrally, or whether a decentralised, federated governance structure is used. Expectation and communication management is also a dilemma.

The recommendation here is to run open and well-communicated pilot projects first, gain acceptance and then start a full project which need not be as open as the pilot.

The paper concludes with no ‘easy answers’, given that the topic is still too new to have developed governance design patterns and ‘best practices’. The main issue in the public sector is the lack of a central board of directors, which makes decision-making difficult. The general recommendation given is to start with limited services, as the risks of implementing large, sophisticated services such as ERP and HR software are great and the performance gains are hard to evaluate.

Creating an SSC involves trade-offs and an effective governance structure [8]. An SSC is not easy to accomplish as it requires considerable changes in organisational arrangements, a coordination mechanism, business processes and responsibility allocation. It is also difficult to make optimal decisions since it is hard to quantify success factors. To be considered successful the SSC must achieve a delicate balance of service improvement, cost reduction and innovation [4]. Finally, outcomes are hard to measure as participants’ perception [8].

Important aspects which cannot be overlooked include the design of the governance structure in relation to the existing participant structures. Architecture must be established that takes into account both the centralised and de-centralised elements. The right expectations must be set from the start and effectively communicated to stakeholders. Communication is key and must make clear to participants and end users the envisaged strategy as well as on-going progress and the benefits the SSC is achieving [8].

There is no evidence to support the optimal business model for an SSC that achieves all benefits in each distinct situation. The paper describes the following common types of SSCs [8]:

1. Central department for IT staff.
2. An internal joint venture.
3. Infrastructure facilities for multiple business units.
4. A service arm in a single department which provides services to others.
5. A separate service firm, similar to outsourcing arrangements with the participants as its customers.

According to important study which conducted that, shared service centres (SSCs) are becoming more popular as a service delivery model [11]. Currently, there are significant barriers to transforming structures and processes within local government. Some of the frequently mentioned problems include the inability to predict the outcomes of a change and the increased difficulty in achieving an IT-business alignment [18][19]. Shared services enable governments to focus resources on the primary high-impact activities at the core of their mission rather than on routine administrative functions. However, expectations of SSCs are often high, and sometimes not entirely realistic. Furthermore, it is difficult to realize all the objectives, because the introduction of an SSC often involves a series of complex, interrelated objectives and involves a large number of stakeholders. The paper highlights the need for decision support systems to simulate and evaluate the impact of shared service delivery.

3 IT governance case study

CorpTech is a shared service centre created by the Queensland government as part of a wider, shared services initiative which began in 2003. This initiative included whole-of-government delivery of payroll, rostering, purchasing, inventory management, asset management,
accounts payable and receivable [15]. CorpTech was made responsible for systems to administer finances and HR. CorpTech, in turn, established the Corporate Solutions Programme to implement a whole-of-government payroll, finance and HR system [15].

CorpTech initiated a project to roll out a centralised HR and payroll system to all major agencies across the public sector [13] [14]. The software selected by CorpTech was SAP, which would also manage and direct implementation. Queensland health (QH) was originally scheduled to begin implementation of the system in 2006. Queensland health’s legacy system LATTICE would no longer be supported by its vendor from July 2008. Delays in the whole-of-government initiative prompted QH to escalate and have its implementation schedule given precedence [13] [14].

However there were unclear governance structures and decision-making rights between the main agencies involved, in this case CorpTech, IBM the contracted vendor and the Queensland health department [13] [14]. The original project timeline set August 2008 as a go-live date, however, incorrect business requirements, a lack of a post-implementation test strategy, a lack of periodic reviews of the business requirements, lack of useability testing and validation of new business processes and a lack of a contingency plan cause the project to be delayed by almost two years [1].

After 47 business requirement changes and $64.5m later (300% over-budget), when the system did go live, a majority of the 76,000 employees at QH were paid incorrectly, superannuation contributions were incorrect and for the close of the financial year employees were instructed to calculate their own group certificates. The issue, at the time of writing, still has not been rectified and there have been calls for the QLD health minister to be sacked. Blame was also directed at the department of public works which controlled CorpTech. The QLD government also entered into litigation with IBM over the matter [1].

The spectacular failure of this project caused the Queensland government to review and effectively abandon its centralised, whole-of-government shared services approach to payroll and to order a review of its entire shared services initiative [1].

4 Results

From the literature review, a number of enabling factors and barriers can be identified which are crucial to the successful design and implementation of an SSC. These are as follows [3]:

- Management commitment: This is crucial because without management commitment
to the SSC, it is doomed to failure from the outset.

- Communication and consultation: All stakeholders must be consulted so as to best determine the needs of various departments and accordingly create an implementation plan for the SSC. Constant communication at each step of the process is crucial.

- Centralized versus de-centralized system: The decision between a centralised system, a de-centralised system or a combination of both methods must be made prior to rolling out the SSC services. This will enable a suitable plan of action which is focused towards meeting the objectives of the organisation as a whole.

- Process, people and policy: These must be kept in mind at all times during the pre-planning and planning phases. The process must be explicitly defined for all to understand; the people’s attitudes towards change must be gauged and accordingly these people must be informed thoroughly about the benefits of the new process/system so that they may be able to adopt them seamlessly and finally policies must be in place to facilitate smooth transition to the new shared services system.

- Appropriate services: Choosing the appropriate technology can make or break the shared services program. Such technology includes software and hardware.

- Change management: This is needed so that the migration or transition is done in an organised manner following a pre-defined setup plan.

- Administrative organisation: A clear hierarchical power structure must be defined for the new system so as to designate responsibility for various aspects of the shared services to specific individuals who will be held accountable.

- Stepwise implementation: Start small and test run the system to identify problems to be fixed before rolling out the program. Expand gradually using a realistic time frame. This way problems arising can be dealt with before moving on.

- Contingency/backup plan: This is required to forestall any major problems during the implementation of the shared services initiative.

- Monitoring and evaluation: This is required to determine if the goals of the organisation and the shared services initiative are being met or not. It serves as checks and balances system to ensure that the objectives of the program are being met.

5 Research Analysis

Based on the literature review and the information from the case study available to date, it is clear that shared services initiatives, while theoretically providing efficiencies and cost savings, are fraught with additional risks and complexities which IT governance structures, processes and relational mechanisms in public sector departments must address, not only before the start of such an undertaking but also by carefully measuring performance during the implementation and operation phases. From the case study, we identified the following governance issues:

- The SSC governance structure was not well defined, and, in fact, was re-shuffled mid-way through the project. The QLD government failed to take into consideration the additional governance complexity of a shared service model.

- While the department of health did make use of the balanced score card approach for measuring the value of IT investments, it is clear that this model was not modified to take into account inter-departmental projects such as the one studied.

- The government failed to prepare a contingency plan, and opted for a ‘big-bang’ approach to implementing a complex, highly-customized service such as payroll, and failed to appropriately test the system prior to the go-live date. Indeed, test criteria were lowered to allow the system to pass QA. This shows top-down political pressure. Thus it failed in appropriate risk management.

- The fact that the scope and requirements signed off by the government to the main contractor, IBM, were later found not to meet the business needs and the fact that both parties blamed the contractor shows the failure to set up appropriate programme management and processes for requirement analysis and sign-off.

- The massive cost blow-out shows that there was a lack of portfolio management to measure the business benefits of the large
investment and they failed to take appropriate steps once it was clear that the cost of the project had been massively under-estimated and failure was imminent. The fact that the Queensland government, in light of this failure, ordered a review into the whole-of-government initiative shows they are having difficulty clearly demonstrating to stakeholders the cost savings and benefits of shared services. This is an issue highlighted in the literature review.

6 Recommendations

Based on the issues exposed in the case study and the literature review conducted, several recommendations can be provided.

- First of all, in the case of government departments, which historically have operated as independent units, the barriers to shared service adoption can be enormous and must not be underestimated. The literature show no unified best practice governance model for shared services in the public sector. Also, there will always be a trade-off between efficiency and service levels, and proposes the use of complex simulation models to evaluate the impact of shared services [11]. Stresses the importance of clear decision rights among the SSC and its participants as key, and also stresses the importance of stakeholder communication and transformation management, relationship management and performance management, including the use of Norton and Kaplan’s balanced scorecard at the SSC level, not just within individual participants’ organisations [5]. The SSC must continuously prove its value and cost savings. This did not happen in the case study and led to the QLD government ordering a review of its shared services strategy.

- The researchers describe a centralised versus a decentralised SSC and state that the cost-savings of providing a shared service are directly related to the level of customisation required by each participant [10] [12]. In the case study example, proper cost-benefit analysis might have shown that the cost savings of a highly customised service such as payroll would not have justified the increased complexity and additional risks created by providing it as a shared service [10].

- Another researcher specifically singles out ERP and payroll applications as lacking the modularity necessary for providing them as a shared service. This paper provides a similar failed HR project where decision-making lines between the vendor, the participant and the SSC were not clear, leading to political issues and participants’ alienation from the SSC. What is obvious both here and in the Australian case study is that the existence of an SSC in the project added an additional layer of complexity which was not addressed by clear governance structures, processes and relational mechanisms [22].

- Finally, we recommend that for the QLD case study, the SSC could have been used to aggregate demand and drive down the cost of payroll licensing software by providing a state-wide licensing software agreement. The SSC could also have provided central infrastructure and network services to host the payroll application under an infrastructure-as-a-service (IaaS) model. Both these actions would have immediately demonstrated the cost-saving value of CorpTech, leaving the actual complexities of implementation to each participant.

7 Conclusion

Creating an SSC involves trade-offs and an effective organisational and management structure is crucial. An SSC is not easy to accomplish as it requires considerable changes in organisational arrangements, coordination mechanisms, business processes and responsibility allocation. Obtaining the full benefits is very difficult and requires that the SSC capture the best elements of centralised and decentralised organisation. It is also difficult to make optimal decisions since it is harder to quantify success factors. To be considered successful, the SSC must achieve a delicate balance of service improvement, cost reduction and continuous innovation. Finally, outcomes are hard to measure as participants’ perception. Important aspects which cannot be overlooked include the design of the management structure in relation to the participants’ existing structures. The right expectations must be set from the start and effectively communicated to stakeholders. The scope of services to be delivered via the shared
services model must be carefully evaluated; the scope must then determine which governance model is appropriate. Infrastructural IT services are better suited to a shared service delivery model. Communication is the key and must make clear to participants and end users the envisaged strategy as well as on-going progress and the benefits the SSC is achieving.

We conducted this research in a limited timeframe. It is clear, however, that the topic of shared service centres in the public sector is still new and should be approached with caution. There is evidence from the other case studies which show that not all ICT services are fit for central delivery. Also, found that while an SSC can successfully provide some services at a reduced cost, it may not be appropriate to provide all types of services to its participants. Indeed, the key concepts found in the literature have been to start slowly and incrementally, constantly demonstrating the benefits at every stage. The Queensland approach here appears to have been top-down driven and the SSC scope was over-reaching. When the first signs of project delay and potential failure became apparent bad decisions were made, most certainly due to political pressure and unclear governance structures. This clearly defies most recommendations in the literature. Future research points to comparing shared services with outsourcing arrangements and applying frameworks developed for evaluating outsourcing services to shared services.

References


