Centralized or Decentralized Organization?

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ABSTRACT

Politicians and public managers continue to debate over whether to centralize or to decentralize departments, information systems and services. Shared service centers (SSCs) are gaining importance in public administration as a means to innovate, to reduce costs and to increase service levels. The SSC is a business model in which selected government functions are concentrated into a semi-autonomous business unit. Implementing SSCs is not easy, as it often requires several trade-offs and an effective organization and management structure.

The discussions about the decision whether to use SSCs seem to be predominantly focused on efficiency and effectiveness aspects, which are rational arguments. In this research-in-progress ongoing research into the design and governance of SSC is presented. We analyze a case study at a municipality and identify factors contributing to success and failure. Our preliminary findings suggest that designing an effective management structure, establishing an architecture capturing central and decentral elements, setting the right expectations, creating a sense of urgency and ensuring that all stakeholders understand the centralization/decentralization aspects of the SSC are important elements resulting in success.

Categories and Subject Descriptors

H.1.1. [**General System Theory**]: Models and Principles – *Systems and Information Theory*; J.1 [**Administrative Data Processing**]: Administrative Data Processing – *Government*; K.6.4 [**Management of computing and Information Systems**] Management of Computing and Information Systems– *System Management*

General Terms

Management, Performance, Design, Economics.

Keywords

Success factors, Data Centers, Shared Service Centers, Centralization/Decentralization, Decision-making

1. INTRODUCTION

Managers in public organizations become increasingly dissatisfied with the returns obtained from their investments in ICT. Costs are rising too rapidly and technology seems to be changing so quickly that one organization can hardly keep up with the latest developments by itself. This has sporadically resulted in collaboration between small municipalities to avoid duplication of efforts and to establish one shared back-office [5]. The main motivations seem to be cost reduction and concentration of expertise [3]. Collaboration resulted in the centralization of functions in so-called shared services centers (SSCs).

Obtaining all the advantages of SSCs is extremely difficult [6] and requires at least an organization capturing central and decentral elements, an effective management structure and addressing a number of critical success factors, which are not known yet. A lot of efforts are necessary to adapt and adopt the new organizational arrangements, coordination mechanisms, new processes and the allocation of responsibilities. Motives to implement a SSC are to some degree conflicting and therefore difficult to combine in practice. For example accomplishing cost reduction, service improvement and innovation is difficult. Consequently measuring the benefits is difficult as it is often impossible to measure actual outcomes and only respondent's perceptions can be measured, which depends on the specific position they have. As such, it is necessary to understand how the promises of SSCs can be accomplished and which factors result in failure or success.

2. SHARED SERVICE CENTERS

The SSC is a business model in which selected government functions are concentrated into a semi-autonomous business unit with management structures that promote efficiency, value generation, and cost savings in a manner akin to companies competing in an open market [1]. By unbundling and centralizing activities, the basic premise for a SSC seems to be that services provided by one local department can be provided to others with relatively few efforts. With centralization and decentralization respectively we denote the (de)centralization of the broad spectrum of information systems resources including human resources, computing hardware, applications, storage and network services, web hosting, application hosting and information resources.

Figure 2 depicts a classification of SSC archetype as a (1) staff department, (2) internal joint venture, (3) infrastructure facilities for multiple business units (BU), (4) a center within one BU, (5)

service firm, which is similar to outsourcing arrangements and (6) joint venture with an outsourcing vendor [9]. Combinations of archetypes can be found within large organizations.
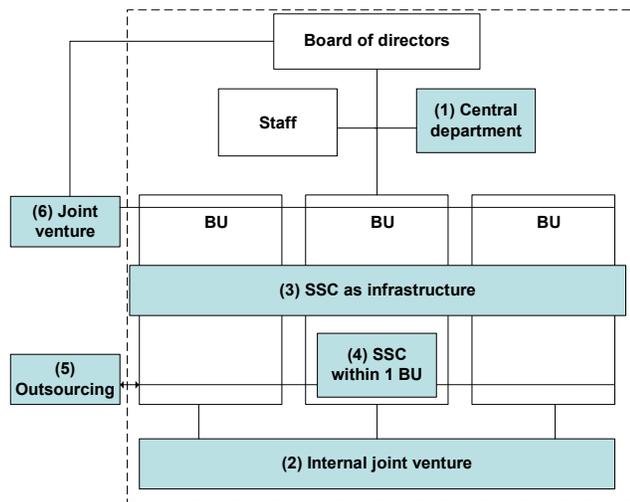

Figure 2: Archetypes of SSC business models (based [9])

The decision to use a SSC is a decision whether to centralize or decentralize activities and systems. Managers have been confronted with these kinds of decisions ever since the computer was introduced [4]. There is limited emphasis on the business engineering [2] and the management of change [8] in public administration. The centralization/decentralization choice is a critical decision on a strategic level. It implies a long-term decision with significant complexity and risks.

The decision-making whether or not to use a SSC seems to be predominantly focused on efficiency and effectiveness, rational arguments [1][3][6]. In previous research we identified services that can be shared among government agencies [7], investigated the motives and management issues determining the successful implementation of SSCs [6] and investigated the management relationships in SSCs [5] We found that obtaining the promised benefits is not easily accomplished and can require considerable changes in organizational arrangements, coordination mechanisms, business processes and allocation of responsibilities. Our current research is focused on supporting decision-making concerning the implementation of SSC.

3. RESEARCH-IN-PROGRESS
Our intention is to study the elements contributing to the success or failure of SSCs. Case study research was chosen as it is a suitable instrument for studying a contemporary phenomenon in its natural setting, and investigating a wide range of variables [10]. We investigated a large municipality in the Netherlands to explore issues resulting in failure of success. The city council decided to initiate a SSC concerning the internal joint venture archetype. The case study is being investigated using reports, policy documents and semi-structured interviews.

4. CONCLUSIONS
In this research-in-progress we presented ongoing research into shared services centers in e-government. We investigated a case study at a large municipality. Our preliminary findings suggest that designing an effective management structure, establishing an architecture capturing central and decentral elements, setting the right expectations, creating a sense of urgency and ensuring that all stakeholders understand the centralization/decentralization aspects of the SSC are important elements resulting in success.

This research-in-progress is part of ongoing research into the concept of SSCs. This research is responsive to the call of public agencies about which kind of services are suitable to share, how to obtain the expected benefits and how to organize SSCs. Clearly, there is no one-size-fits-all business model that incorporates all benefits and has no negative aspects. As such, it is necessary to understand how the promises of SSCs can be accomplished, which trade-offs should be made and which factors result in failure or success given certain conditions.

The quest towards shared service business models has just started and there remain many research questions to be solved. There still is a major need to further investigate the governance and design issues of shared service centers and the major factors contributing to success and failure. Further research in this direction has been planned.

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