Introduction of Shared Services in the Public Sector

Kaide Tammel
Ragnar Nurkse School of Innovation and Governance
Tallinn University of Technology

Keywords: shared services, public sector, government, institutional entrepreneurship, accounting, SAP

Abstract
In recent years and especially in the context of fiscal stress the governments are increasingly consolidating their back-office functions into shared service (SS) centres. Using the institutional entrepreneurship as a theoretical lens, this paper aims to clarify, how and by whom are these consolidation projects initiated. As the research is informed by the case studies from one country (Estonia) and one field (accounting), the results are context-dependent and not generalizable. However, emphasizing the role of the context might help better understand why a successful SS introduction strategy would not be usable in a different context.

1. Introduction
Shared services (SS) is a private sector management concept that has gained ground in the public sector (Ulbrich, 2003; Janssen & Joha, 2006, Janssen et al. 2007; Ulbrich, 2010). The definitions for shared services vary (Schulz & Brenner, 2010). Many authors refer to Bergeron (2003), who defines shared services as a collaborative strategy in which a subset of existing business functions are concentrated into a new, semi-autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation (Janssen & Joha, 2006).

While in theory the concept of shared services seems promising and the earlier academic studies encouraged the public sector to establish shared service centres (Janssen & Joha, 2006; Borman, 2008; Burns & Yeaton, 2008; Walsh et al., 2008), the more recent empirical studies report substantial problems in relation to the public sector sharing arrangements (e.g. Wagenaar, 2006; Kastberg, 2013; Meijerink & Bondarouk, 2014). The decision to introduce SS in the public sector brings along major transformational change (Janssen et al., 2009; Rothwell et al., 2011), is risky (Wagenaar, 2006) and does not seem to lead to the expected cost reduction (Paagman et al., 2013).

Public sector has unique features which distinguish it from the business community and which prevent exact replication of successful private sector SS arrangements (Wagenaar, 2006:355). Similarly to Wagenaar, Ulbrich (2010) argues that organisations translate new management ideas to fit their individual conditions and rarely emulate new ideas in their entirety. This leads to the
question of how and why have shared services become so popular among governments. In order to answer this question we have to look deep into the introduction phase of shared services.

It has been noted that the initiation of shared services projects in the public sector is often 'murky, hidden behind euphemism, perceived differently by various stakeholder groups, and generally not easily analysed' (Hirrschheilim & Lacity, 2000, cited in Janssen & Joha, 2006; Janssen et al., 2012).

For the purposes of this study the shared services introduction phase is defined as a phase preceding the implementation of shared services project. Hence, the introduction phase ends once the SS project implementation starts.

The theoretical framework of this study draws on institutional entrepreneurship. Currently, there are few studies that use the concept 'institutional entrepreneurship' in the public sector (Sundin & Tillmar, 2008). Thus, Jennings et al. (2013) suggest that there should be more micro, practice-oriented, highly contextual work on the entrepreneurial processes.

Looking at the three case studies from different levels of government I aim to explain the creation of the SS for public sector accounting and to find out whether and to which extent the cases differ from each other. Also, the main actors or change agents are identified and their role in the change process is analysed. Although the number of cases is small and the results are not generalisable, the case-studies might help better understand how and why public sector organisations introduce SS.

The paper is structured as follows. The second chapter presents theoretical framework – institutional entrepreneurship. The third chapter describes methodology. The fourth chapter gives an insight into the context of the cases. The fifth chapter describes the cases. The sixth chapter discusses the outcomes of the case studies and the last chapter concludes.

2. Theoretical framework

Institutional entrepreneurs are actors who have an interest in particular institutional arrangements and who mobilize resources to create new institutions or transform the existing ones (DiMaggio, 1988). An institutional entrepreneur may be an organization's manager, consultant, or as Sundin & Tillmar (2008) show, also people in a middle position in the organisational hierarchy. The earlier research on institutional entrepreneurship focussed mainly on individuals as institutional entrepreneurs and was criticized for seeing them as heroes (Battilana et al., 2009:67). The more recent research gives credit to collective institutional entrepreneurship and acknowledges the importance of collaboration and coalition building (Levy & Scully, 2007).

The institutional entrepreneurship aims to understand how individuals and organizations change the institutions in which they are embedded (Dacin et al., 2002). Since 1988 when DiMaggio introduced interest and agency in institutional theory (DiMaggio, 1988) the research on institutional entrepreneurship has focussed on the role played by the active agency in changing the organisations and organizational fields.

The organisational field is defined as a set of interdependent populations or organisations participating in the same cultural and social sub-system (Scott, 2008). The characteristics of the organisational field determine whether the institutional entrepreneurs are likely to succeed in changing the field or not. While mature organisational fields represent stable structures under which behaviour patterns (e.g. conflict or cooperation) are well defined, premature fields represent structures where the institutional order is not completely developed; hence, the institutional entrepreneur is expected change premature fields more easily (Pacheco et al., 2010). Public sector financial accounting can be categorized as a mature field with established rules, norms and behaviour patterns. Therefore, we might conjecture that a radical change in this field is unlikely or
very challenging at least.

In order to make the change possible, the institutional entrepreneurs use different strategies. Maguire et al. (2004) identify three strategies used by successful entrepreneurs:

- occupying subject positions with wide legitimacy and bridging diverse stakeholders;
- theorizing new practices through discursive and political means;
- institutionalising these new practices by connecting them to stakeholders’ routines and values.

The occupation of the subject position with wide legitimacy helps to portray the new institutional form as legitimate whereas other alternatives are seen as less appropriate, desirable, or viable (Dacin et al., 2002; Battilana et al. 2009). In the process of legitimation, entrepreneurs engage in battles that originate from conflicting perspectives between existing and proposed organisational fields (Maguire et al., 2004; Greenwood & Suddaby, 2006; Battilana et al., 2009; Pacheco et al., 2010). As the outcomes of the institutional entrepreneurship spread, more diverse social groups will be affected and possibly mobilized that will lead to new legitimacy battles (Garud et al., 2007). The agents that possess superior resources, knowledge, or strategic social network positions are better able to use their political power to win the battles and to shape the organisational field in their favour (Beckert, 1999, cited in Pacheco et al, 2010). The leaders who migrate from an organisation that has implemented a new practice are better positioned because they possess the appropriate expertise and cognitive reasoning to deem that practice as appropriate (Kraatz & Moore, 2002).

The theorization of new practices consists of two key components: framing problems and justifying innovation (Maguire et al., 2004). In more detail, theorization involves highlighting and recasting problems, problematising existing systems as inadequate, discrediting their underlying theories as outdated, or as supported by vested interests and translating interests to often-diverse constituents (Koene, 2013). As the process of theorization diffuses among organisations in a given field, new norms and practices take on a greater degree of legitimacy and, in turn, become institutionalised (Dacin et al., 2002).

However, theorization does not lead to automatic institutionalisation of change. The way the institutional entrepreneurs connect their change projects to the activities and interests of other actors in the organisational field determines their success; consequently, the projects are crafted to fit the conditions of the field (Maguire et al., 2004).

Based on this theoretical framework the research question for the empirical study is: how and by whom are the shared services introduced in the public sector?

3. Methodology

The current study grew out from our previous research that was focussed on the implementation of a central government project consolidating support services (see Raudla & Tammel, forthcoming and Tammel & Raudla, forthcoming). While researching the central government project we were informed about the similar and earlier initiatives both at the regional and local government levels. As – similarly to the central government project – those projects were considered “internal consolidation” projects by the stakeholders, there was not much public information available. Also, the people who had been involved in these projects were not easily identifiable.

We became interested in finding out whether and to which extent the introduction of the central government shared services mirrored the earlier consolidation projects at the local and regional government level. While choosing the appropriate research design to study the phenomenon of shared services in the public sector it became clear that we could not distinguish the processes
leading to the introduction of shared services in the public sector from the context of these processes.

It has been suggested that when the phenomenon under study is not readily distinguishable from its context, the case study is the most appropriate research method (Yin, 2003:4). According to Flyvbjerg (2006:222) context-dependent knowledge and expertise lie at the centre of the case study.

This research is an explanatory multiple-case study that aims to explain how events happened (Yin, 2003:5). The multiple cases were selected so that they replicate each other and predict similar results (Yin, 2003:5). The cases are all from the same sector (public), from the same organisational field (accounting) and belong to the same social-cultural and political-administrative context (Estonia).

Two main types of sources – documents and interviews were used to gather empirical data. Documents included official documents, internal documents, memos, reports, media articles and e-mails. The interviews were made with key actors from the central, regional and local level. As the focus of this study was on the introduction phase of shared services, the aim of the interviews was to explain the role and motives of key actors and to describe their strategies for the introduction of shared services in the public sector. Altogether 18 interviews were conducted (8 interviews in the first round in 2012-2013 and 10 interviews in the second round in 2014). The interviews were semi-structured, with open-ended questions. Most of the interviews were recorded – at the consent of the interviewees – and fully transcribed. The interviews lasted between 1-2,5 hours.

There are several limitations that have to be noted. First, the study takes the perspective of change initiators and does not cover the other players in the organisational field. Second, the study does not look at the implementation but only at the introduction phase of shared services project. The introduction phase is defined as a phase that ends once the implementation phase starts. This limitation gives necessary focus that helps better analyse the similarities and differences between the chosen case studies. Third, as this research is context-dependent, the results of the study are not generalisable.

4. Context of the case studies

**General political-administrative context**

Estonia is a small Baltic country that regained its independence from the Soviet Union in 1991. Since then the prevailing ideology of governments has been neo-liberal (Raudla & Kattel, 2011). The neo-liberal worldview of Estonia's political and administrative elite has led to continuous downsizing of the state and reluctance towards investing into coordination and administrative development (Sarapuu, 2011). However, governments have continuously invested in the development of e-government and in terms of internet voting Estonia is considered to be the most advanced country (Alvarez et al., 2009). Paper-free public administration, internet voting, and the search for efficiency and effectiveness have been high on the agenda of all Estonian coalition governments.

Estonia is administered by three levels of government – central (state), regional (county) and local (municipalities). The administrative system relies on ministerial responsibility (Sarapuu, 2011; Sarapuu, 2012). The ministries are autonomous in their respective areas of governance. The areas of governance are designated by law. While the ministries formulate the policies, the implementation of these policies is carried out by various agencies under their supervision (Sarapuu 2011; Sarapuu, 2012). The agencies enjoy relative freedom in organising their internal management (incl. the choice and design of their ICT systems). Difficulties related to solving problems that engage several
areas of governance can be seen as clashes between different agency ideologies (Sarapuu, 2011). The coordination problems in Estonian public administration have been outlined in the OECD report that found that there is considerable room for development in terms of joined-up policy design and implementation (OECD, 2011).

The county governments in Estonia do not represent a tier of self-government, but belong to the area of governance of the Ministry of the Interior. The county governors are appointed by the Minister and their task is to represent the state in 15 counties. The internal management of county governments was not centrally directed until recently, when the Ministry of the Interior streamlined the organisational structures of county governments (in 2009) and consolidated the internal audit function that previously existed in all county governments into one internal audit unit.

Since 2004 until 2014 the Ministry of the Interior was headed by two ministers – the Minister of Regional Affairs and the Minister of the Interior. The county governments together with other issues related to the regional development belonged to the area of governance of the Minister of the Regional Affairs.

Local governments (rural municipalities and towns) are autonomous. In 2013 there were altogether 215 municipalities. During the past decades the number of municipalities has been slightly decreased due to the mergers of some municipalities. The mergers have been non-mandatory, but highly encouraged by the central government. The biggest municipality is the capital city Tallinn. Since 2007 the Tallinn has been governed by the central government's opposition party.

Public sector accounting context

The public sector accounting legislation is drafted in the Ministry of Finance. Also, the coordination of public sector accounting belongs to the area of governance of the Ministry of Finance. The accounting legislation is aligned with the international accounting standards (Tikk, 2010). As early as in 2004 the Minister of Finance issued a decree (general rules for organisation of the accounting and financial reporting the state and state accounting entities) that was taken into use as the Estonian equivalent to the International Public Sector Accounting Standards (Tikk, 2010). This meant that Estonia became one of the few countries in the world where full accrual-basis accounting principle was adopted for financial accounting in the public sector (Wynne, 2007, cited in Tikk & Almann, 2011:49).

In line with the general 'paper-free public sector' approach of the government, the Ministry of Finance has aimed to digitalise public sector accounting. As early as in 1994 the Ministry of Finance explored the possibilities to introduce a common accounting software (Agresso) in the public sector. The project was started, but its implementation failed.

Since then the Ministry of Finance has been focussed on establishing public sector accounting rules and consolidating the accounting function from small accounting entities to their parent entities. In parallel, however, the Ministry of Finance continued to pursuing the idea of a common software for the whole public sector that would have enabled an automatic consolidation of data into a common database. Faced by the resistance to change and the autonomy of the other public sector organisations the hands of the Ministry of Finance were tied and it could not impose centralisation. Even though the Ministry had the support of the National Audit Office who pointed to the uneven quality of public sector accounting and suggested reducing the number of accounting entities, there was no consensus among the Ministers whether the financial accounting (and possibly other support services) should be centralised to the ministerial level.
The global financial crisis

The global financial crisis that started in 2008 hit new democracies harder than old ones (Peters et al., 2010). The peak of the financial crisis in Estonia was in 2009, when the GDP fall of Estonia was the third largest in the European Union (Raudla, 2011:1). In the absence of monetary policy measures – Estonia's currency was pegged to the euro – the government had to find ways for internal consolidation and cost savings. Estonia undertook extensive fiscal consolidation (Staehr, 2010, cited in Raudla & Kattel, 2011). In addition to cutting back the salaries, laying off civil servants and other fiscal austerity measures (see Raudla (2011:7-8) for a detailed overview) various centralisation measures, including a merger of several governmental agencies, were used during the peak of the financial crisis (Peters et al., 2010).

The lack of strong guarantees concerning salary cuts or layoffs for the civil servants and the almost non-existing trade union culture in Estonia facilitated the cuts to operational expenses of the government (Raudla, 2011:16).

It is important to note that the austerity measures taken by the government were supported by the public opinion: the majority of population favoured fiscal discipline. The fiscal discipline in 2009 was especially important as the prospect of joining the euro area has become more real than ever before and Estonia was devoted to fulfil the Maastricht debt and deficit criteria (Raudla, 2011; Raudla, Kattel, 2011).

5. Description of the case studies

Tallinn City

The consolidation of shared services in Tallinn was initiated by the Tallinn City (hereinafter City) financial director who took the office in 2000. At that time there were no common principles for public sector financial accounting, each City organization had its accounting system and the quality of accounting was uneven. The annual accounts of the City had received negative opinions from auditors (in 2000 from Ernst & Young, in 2001 from PwC). Both audits pointed to the fragmentation of the accounting and to the various problems thereof.

In 2000 a report was ordered from the consulting company KPMG that focussed on the accounting software used in the City. The report concluded that the financial accounting in the city was decentralized. Out of 289 different organizations 45% had decided to outsource the accounting service from the private sector, others employed in-house accountants.

Relying on these reports, the financial director proposed that in order to solve the problems outlined by auditors and to increase the efficiency and effectiveness of the City's accounting organization, a centralization of the accounting was needed.

For the reorganization of the City's financial management a consulting company (PwC) was hired. The consulting company drafted an extensive financial management model of the City by the end of May, 2002. In essence the model foresaw streamlining the business processes of the City and consolidating accounting from the different City organizations – around 300, incl. schools and kindergartens – to the central City government level.

The main goal of the project was to increase the quality of the accounting and reporting throughout the City. Importantly, cost saving was not seen as the main goal of the project. As it was clarified in the project outline, the cost saving measures in the public sector often led to the reduction of quality that had to be compensated somehow. Therefore eventually the cost saving measures may turn out to be costlier than maintaining the initial system.
However, even though the main goal of the project was not cost reduction, the calculations included in the project plan showed a promising potential to save costs. An important part of the project was the introduction of a common (ERP) software. The software vendor was not known in advance and in order to find an appropriate software a procurement of the software was planned. The tender documentation was prepared again with the help of the consultant from the PwC.

The Tallinn City accounting centralisation project was in a way ahead of time. Even though the Ministry of Finance favoured the reduction of the number of the accounting entities, the existing accounting legislation did not foresee the possibility to centralize accounting in the City so as instead of 289 different accounting entities (City organizations) there would be only one (City). However, the change of the accounting legislation was on its way. As the change was expected to become effective on 1 January, 2004, the City made its centralization plan accordingly. The project was expected to last from autumn 2002 until 1 January, 2004. The project drafters realized that the project was very complicated and posed a challenge to the implementors. Therefore the creation of a special project implementation team was foreseen. The team members were to be released from their other obligations and were expected to focus solely on the implementation of the project.

The project was approved by the City government on August, 2002. This gave the green light to the implementation of the model.

**Regional (county) governments**

The shared services project for regional governments was initiated in the Ministry of the Interior in autumn 2008. The project leader who initiated and led the drafting of the project, was invited to the Ministry of the Interior (in 2008) mainly because of his previous SS consolidation experience from the Ministry of Justice.

The project leader initiated the consolidation plan rather independently. He gathered a team of key persons in the Ministry of the Interior to draft the project plan. During the project preparation stage the project leader and his team visited the courts' accounting centre of the Ministry of Justice – with which the project leader had been working before – to learn from its experience. The project concept was worked out in less than a year and the project plan was drafted by the four officials (incl. the project leader) of the Ministry of Interior in one month (July – August 2009).

In the project scope there were three main tasks: 1. Centralisation of the financial accounting of county governments. 2. Centralisation of the financial accounting of the agencies of county governments (children's homes). 3. Centralisation of the payroll and personnel accounting of county governments.

The main goals of the project were the improvement of the accounting quality, improvement of statistical and analytical comparability of county governments, introduction of a common accounting software (SAP), overall reduction of human resources needed for accounting, creating preparedness for the possible general centralisation of the central government accounting.

It was believed that the creation of a common accounting centre would lead to efficiency as the accounting service would be provided by a professional accounting centre that employed highly qualified professionals who were relieved from other tasks that were not directly related to their profession.

As the project was in the area of responsibility of the Minister of Regional Affairs (who shared the Ministry of the Interior with the Minister of the Interior), it was decided that the accounting centre would be located outside the capital city. Therefore it was possible to consider the project as a measure of regional policy.
Although all county governments could compete for getting the accounting centre to be established in their region, the location of the centre was decided in advance. The accounting centre was established as a department of one county government that had spare rooms available, but most importantly had a person that was seen capable of leading the implementation phase of the project.

The project was communicated to the regional governments shortly before the implementation started. As the Minister of Regional Affairs had issued a decree for the centralisation of the accounting in the county governments, it meant that there was no room for argument anymore.

The project was implemented in less than five month (by the 01.01.2010) and was considered a great success.

Central government

The central government shared services consolidation project was initiated in the Ministry of Finance in spring, 2009. The idea of creating a single stand-alone accounting centre for public sector accounting had been circling around in the Ministry of Finance already for some time. The financial crisis opened a window of opportunity to implement that idea. In order to get the political support for the idea, it was taken to the Cabinet meeting of March 26, 2009. After the Prime Minister had proposed to consolidate the accounting of the central government into a single stand-alone accounting centre, the Ministry of Finance had a mandate to draft a project plan. For drafting the project plan a PwC consultant with a previous experience from the Tallinn City SS project was hired.

While the initial idea was to centralise the financial accounting function, the project plan went further. Relying on the best practices database of the PwC it suggested the adoption of a shared service centre model. In addition to the financial accounting other support services (HR accounting and procurement) were proposed for consolidation. The project plan referred to the public sector SS projects in the UK and Finland, noting that the Finnish Kieku project had enabled to save 13% of the financial accounting and 30% of the personnel accounting costs.

While drafting the project plan the consultant held several meetings with people from different organisations that could provide input to the project plan. Some of the people consulted had previous public sector accounting consolidation experience. However, most of the project planning and discussions took place within the Ministry of Finance and the officials of the Ministry of Finance formed the core of the project working group.

According to the initial project plan the main goals of the project were cost reduction (up to 2/3 of relevant costs), availability of good-quality support services for all organisations, standardization of processes and adoption of a common IT system.

The project implementation was planned as a Big Bang. The consultant who drafted the project was convinced that the radical change was the most effective: during the interview, when discussing the Kieku project in Finland and the slow implementation of the Estonian central government project he stated that “in democracies you don't build pyramids”. The top officials of the Ministry of Finance were also supportive of the radical reform strategy.

In the middle of 2009, a project leader with a previous radical reform experience from the public sector was asked to come to lead the project. During 2009 the project leader used all ways (mainly informal) to get necessary support for the project plan. However, as the initial SS consolidation plan was too ambitious for the government, the project was changed several times and additional documents were produced to convince the government. The plan that the government finally approved was a compromise. It did not foresee the creation of a separate stand-alone shared service
centre but the consolidation of accounting up to the ministerial level and the adoption of a common software SAP.

The implementation of the project started in 2010 and is ongoing (should have been completed by the end of 2013). [As a parallel development the top officials of the Ministry of Finance and the Ministry of Justice agreed to create a State Shared Service Centre in 2012 on the basis of the already existing Courts' accounting centre].

6. Discussion
All three case studies point to the same direction: the creation of shared service centres is driven by active agents – institutional entrepreneurs – in the public sector. In the Tallinn City the institutional entrepreneur was the financial director of the City, in case of regional governments it was the project leader. In case of the central government the institutional entrepreneur was hired once the project was already initiated and it was realized that in order to succeed a radical reformer with a previous public sector consolidation experience was needed.

All these institutional entrepreneurs occupied posts in top management of their organisations. This corresponds to the insight from our theoretical framework which suggests that agents who possess superior position and resources are better equipped to win legitimacy battles.

As for the legitimacy battles we expected that in a mature organisational field where the rules, norms and behaviour patterns are established, a radical change is unlikely or very challenging at least. It was generally known (from the past experience) that any attempt to centralise public sector accounting would be resisted both by the accountants and the heads of public sector organisations. In search for legitimacy for their projects, the institutional entrepreneurs therefore did not aim to gain legitimacy from the organisational field, but targeted the key persons who would provide necessary support for the project. In order to avoid legitimacy battles the project introduction phase was largely hidden from the public attention.

The theorization of the consolidation projects involved both framing the problems and justifying the need for centralisation/consolidation. In case of Tallinn City the framing was done by the auditors who gave negative opinion to the annual accounts of the City. Subsequent reports that were ordered from the consulting companies pointed to the weaknesses of the financial management of the City and provided a solution. In case of county governments the project leader together with his team both framed and justified the project. In case of central government the problem was framed by the top management of the Ministry of Finance with the help of a consultant.

Finally, our theoretical framework suggests that theorisation does not lead to automatic change and the way the institutional entrepreneurs connect their projects to the other actors in the organisational field determines their success. As we already noted in terms of legitimacy, the institutional entrepreneurs did not connect their projects to the other players in the organisational field. In a way it can be seen as a strategy taken in order to escape from legitimacy battles. Similarly, the theorising was not used to win over the other organisations in the field but to convince the key decision-makers. Therefore, while the theoretical framework suggests that the projects are crafted to fit the conditions of the field, the projects in practice were drafted to appeal the decision-makers. This deviation from our theoretical framework has several possible explanations.

Firstly, the institutional entrepreneurs were not ‘truly embedded’ in the organisational field. None of them was accountant by profession. Also, they joined the organisation shortly before or during the initiation of the project, therefore they did not have strong ties with the organisational field. Even though the chief accountants of the organisations that led the change were supportive (or in the case
of the central government, insisted the centralisation), they did not have necessary will or power to become institutional entrepreneurs themselves.

Secondly, central to all these projects was an adoption of an ERP system. This meant standardization and reengineering of business processes. The change therefore was of transformative nature and it was believed that the model developed by the consulting company (in case of Tallinn City) or the existing SAP functionality (in case of county governments and central government) determined the new structures and processes so that other actors in the field would not contribute to the build-up of the new system.

Thirdly, the Estonian political-administrative culture enabled to leave other organisations in the field aside while introducing a radical reform. Pragmatic search for efficiency and effectiveness (often through wider use of ICT) characterises both Estonian politics and public administration.

7. Conclusion

This study focussed on the introduction phase of shared services in the public sector. Three case studies from different levels of government were analysed. It was found that rather than using a collaborative strategy, shared services in the public sector were introduced using a top-down strategy with little or no involvement of other stakeholders in the organisational field.

Central to the introduction phase was an institutional entrepreneur or change agent who joined the organisation to initiate the project or to gain legitimacy to the already initiated project that otherwise would have lacked sufficient political support.

Winning over the key decision-makers and leaving other players that could potentially question the legitimacy of the project seems to be a successful strategy for the introduction of shared services in the public sector. However, this strategy is probably not usable in all countries.
References


