

LOCAL GOVERNMENT  
SHARED SERVICES  
CENTERS

PRAISE FOR LOCAL GOVERNMENT SHARED  
SERVICES CENTERS: MANAGEMENT  
AND ORGANIZATION

*“An excellent guide to the process of efficient and safe creation of shared service centers in local government structures.”*

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*“A must-read for all interested parties, in particular the management bodies of local government units, SSCs directors, auditors and public sector specialists.”*

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*“The author not only has significant scientific achievements... but also has extensive professional experience covering the management of [shared services] units, their organization and creation, as well as auditing.”*

**Roberta Pellegrino**, Department of Mechanics, Mathematics and Management, Politecnico di Bari, Italy

# LOCAL GOVERNMENT SHARED SERVICES CENTERS: MANAGEMENT AND ORGANIZATIONS

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INVESTOR IN PEOPLE

*“To my wife Asia, for help, valuable comments and patience.”*

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# INTRODUCTION

Shared Service Centers (SSCs) are an example of a tool that supports the management of administratively complex enterprises where the effect of scale, concentration of resources and specialization have been used. The primary goal of making administrative changes and creating SSCs in organizations was mainly aimed to reduce costs and improve the quality of provided services. Additional benefits of SSC establishment were associated with better use of human resources, the possibility of the managerial staff to focus on the implementation of basic organization objectives, but also the possibility to remodel provided processes and reduce unnecessary, duplicate activities. The division of tasks and the introduction of specialization allowed business entities to operate in the global world to increase their operation efficiency. Previously, individually and independently performed tasks were transferred and provided by one specialized unit in a company – the SSC. The mentioned effectiveness increase of entities, which operated on the basis of shared services, was the result of two factors. First, the accumulation of common tasks in a company enabled their standardization and optimization. For example, the unification of financial and accounting systems, the standardization of records and accounting analytics, made it possible to provide full financial information at all decision-making levels in an enterprise. Second, various management

levels could focus only on their core tasks, which was not possible before. Central support of back-office tasks allowed the managers to concentrate on task implementation, such as achieving planned sales targets, building relationships with customers, etc. Today, it is difficult to imagine thriving companies that would function without shared services or would not plan to do so in the near future.

Good business practices from business area were implemented by public sector which perceived these solutions as opportunity to increase the effectiveness of public services, increase the security of their implementation and, above all, achieve savings in spending public funds. The development of information technology was crucial for SSCs, which can use it to provide efficient and secure shared services. Of course SSCs are not the only form of process organization in public management. There are models where the whole process is transferred – outsourcing or mixed models where some processes remain in public sector and some others are transferred to private sector – public–private partnerships (PPP). PPPs are used primarily to provide new services or services that should be significantly improved (modernized), while SSCs and outsourcing models are based on currently provided services, for example, accounting services. In the subject literature, shared services are referred to as a cooperation strategy where existing business functions form a new unit that is partially autonomous. The organizational structure of that unit is mainly designed to ensure efficiency, create added value, reduce costs and provide services to internal customers the same way as in a business world that is focused on external market. In this respect, the provision of shared services is based on cooperation between public sector units to provide services. SSCs, both in private and public sectors, function as independent entities that focus on tasks that are outside main statutory tasks, the so-called core business of parent companies, that

is, supported ones. Therefore, their business focus is primarily on financial and accounting, human resource and IT services.

First SSCs in public sector were established in the UK, which has become one of the leaders in implementing these solutions in Europe and throughout the world. The evaluation of the functioning of British SSCs carried out by self-government organizations is enough to state that the implementation of indicated solutions into local government units contributed to their effectiveness improvement. These units have significantly reduced administrative costs of their operation, used the potential created with economies of scale, improved the quality of public services, reduced the risk of management errors, and made better use of their human resources in the organization.

Presented experiences of the private and public sectors in European Union countries concerning the creation of local government SSCs were implemented in Poland along with the amendment of the Commune Self-government Act, which was a key legislative change in this area. Under this regulation, local authorities may create specialized entities of shared operation. According to the provisions of the Act, the performance of public tasks may be carried out through cooperation between territorial self-government units.

This book is prepared as an effect synthesis of more than three years of the validity of the amendment to the Commune Self-government Act. The publication presents the results of research conducted in cooperation with the Union of Polish Metropolises and the Association of Polish Counties on the organization, development and effectiveness of shared service market in local government public sector in Poland. The author also presents the results of functional audits and the implementation of newly created local government SSCs in Poland. This book is the first publication that presents the following: (1) the process of creating SSCs in local governments;

(2) key elements of unit management; (3) barriers and threats to both the creation and operation of SSCs; and (4) strategic technological solutions used in the shared service provision.

The study presents a research hypothesis which assumes that SSCs are the initial stage on the way to improve the effectiveness of public and local government administration management. Organizational changes, standardization and specialization of the tasks to be carried out should not be related exclusively to SSCs and units supported with common services, but to all self-governing administrative units. The purpose of this study was to verify key parameters that determine the effective functioning and creation of SSCs in local governments.

This book is divided into an Introduction, five chapters and a Summary.

The first chapter is an introduction to the subject of the shared services market. It contains a literature review on the evolution and optimization of organizational structures of entities depending on their complexity and scope of services rendered. The first chapter presents the definition of shared services and indicates the differences between a traditional model without the use of shared services and models based on outsourcing or SSCs.

The second chapter presents development stages of shared service market in the business sector across the world. The author pointed out countries with the highest number of SSCs, what is the activity scope – the subject of provided shared service, and current trends on this market. One of the basic questions that has been asked is how private sector defines the objectives of establishing SSCs. The second part of the chapter presents Poland in terms of shared service market, which is currently one of the key locations taken into account in the process of planning the SSCs location by corporations and companies not only from Europe but also from all around the world. This chapter provides an introduction to the presentation of the shared service market in public sector.

The third chapter presents legal regulations on the basis of which it is possible to create SSCs within local government structures. In addition, it also describes legal organization variants of SSC as units within the structure of the office or as self-governing administrative unit. This chapter also presents the objective and subjective scope of a shared service provided in local governments.

The fourth chapter presents the results of research conducted by the author concerning the organization of functional models of SSCs in local governments in Poland, the evaluation of their effectiveness, the analysis of risks and activity threats, as well as development opportunities for this market. What units are covered with shared services, what is the scope of provided service, what goals were set by the commune authorities when establishing SSCs, whether these goals were achieved and to what extent and in what time – these are just the most important questions that have been answered there. The result presentation of the conducted SSCs research and audits allowed to answer the question whether a common organization model of SSCs has been developed in local governments in Poland and whether there are similarities in the subject and object area of provided shared services?

Chapter 5 covers the possibilities of using IT tools in the SSCs operation and management, which is crucial for providing shared services at a certain level. The experience of local governments in Poland indicates that units which used the same IT solutions (e.g., shared financial-accounting, payroll or human resources programs) could be supported with a shared service. For the time being, this has been one of the most decisive factors taken into account by local authorities when creating units that provide shared services within their structures. That is why it has become so popular to include educational units for shared services in the first place. The use of the same IT programs by educational units has enabled

them to be efficiently incorporated into SSC operations. This chapter also presents the process of blockchain technology implementation in securing electronically signed documents on the example of the SSC in Toruń. This implementation was considered as one of the most innovative solutions of 2019 in public sector at the national Smart City conference held annually in Warsaw.

This book constitutes an excellent literature supplement on the management of SSCs and the process of creating these units within a local government structure. It can therefore be used by practitioners, scientists, and students of management, administration and economics. The combination of theoretical aspects, research results and audits that have been carried out, as well as the author's many years of practical experience in management and creation of units of this type, feature significant advantages of this publication.

# IDEA AND PURPOSE OF CREATING A SHARED SERVICE CENTER

## 1.1. EVOLUTION OF ORGANIZATIONAL STRUCTURES AND ORGANIZATIONAL MANAGEMENT MODELS

The development stage where a company operates, the nature of its operations and the ownership structure are the main, but not the only, factors that have influence on the choice of a unit's organizational model and determines its management model. The simplest organizational forms can be found in micro-enterprises, where making strategic and operational decisions, direct task delegation, and bearing full responsibility rests with the owner. The level of cooperation between employees in this model of organization is usually low. The organizational structure changes with enterprise development, the increasing number of employees, the activity scale, both in the objective area, that is, the number of products and services provided, as well as in the subjective area, that is, the number of customers or markets where the enterprise

operates. Increasing number of employees makes it necessary to introduce intermediate levels of organization management or its separate part, for example, by area or product. This way, strategic management, reserved for top management, is separated from operational management, that is shifted to lower decision-making levels. This solution requires efficient information flow within the organization as well as resource sharing. Any organizational structure remodeling that takes place in the organization is primarily focused on effectiveness increase, which is widely understood here by optimizing own resources, providing greater operation flexibility and ultimately better communication with customers. Building multi-department organizational structures requires adjusting the strategy, structure, and processes to evolving environment in which the company operates (Chandler, 1962). In case of modeling multi-level organizational structures, Herbert and Seal point out there is a “boss dilemma” which means maintaining a balance between the autonomy of undertaken operational decisions and the management efficiency of the organization as a whole and avoiding internal competition among individual company departments. The main dilemma is related to the determination of the autonomy scope of individual departments in the process of making operational decisions and the scope of control and direct interference in the decision-making processes by top-level management. The key challenge that the management is about to face is to ensure the optimal flow of information within the organization and to create proper conditions for knowledge sharing and collaboration between various departments in achieving the objectives of the entire organization (Herbert & Seal, 2010). The basic form of multi-departmental organization assumes that individual departments are more effective when they directly respond to market needs in their activity areas (Fig. 1).