Definition and Classification of IT-Shared-Service-Center

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ABSTRACT

Shared service centers (SSCs) are an increasingly important and oft-utilized approach to organizing Information Technology services. Nevertheless, researchers hitherto have not investigated SSCs sufficiently. Our research attempts to fill this gap by addressing the following basic problems: Firstly, no standardized definition of SSCs has established; and, secondly, different features of SSCs in practice have not been analysed. In an extensive literature review, we identified the following characteristics of SSCs to be commonly mentioned by researchers: consolidation of processes within the group; delivery of support processes; separated organizational unit; alignment with external customers; cost cutting as a major driver; focus on internal customers; and operation like a business. In a focus group, we identified the following parameters in which existing SSCs differ from each other: legal form; main form of co-ordination; service charges; external market; contractual form; center concept and product portfolio. These criteria were validated empirically by extensive case study research with seven IT-organizations from North America and Europe.

Keywords  
Business Models of IT Organizations, Strategic IT Management, Shared Services, Shared Service Center, Shared Service Organizations

INTRODUCTION

Motivation

Shared Service Centers (SSC) have risen greatly in relevance and importance over the past few years, with a majority of Fortune 500 companies running SSCs in order to make back-office services available to different business units in their company (Ulbrich, 2006). Several studies from both industry and academia have assessed the distribution of SSCs in large corporations (A. T. Kearney, 2004; Accenture, 2004; Fischer and Sterzenbach, 2006; Frost & Sullivan, 2007; Redman Snape Wass and Hamilton, 2007). According to (Bain & Company, 2008) 55% of global companies studied use SSCs.

Despite these efforts, we have ascertained a dearth in SSC research in two key problem areas:
In both literature and practice, the term SSC does not hold a standardized meaning, without which it has been difficult to generate a scientific body of knowledge.

SSCs exhibit wide variation in features, structure, and service offerings. However, few empirical studies delve into these features with scientific approaches.

Research questions
In order to address these two problems mentioned above we pose the two following research questions:

• (1) How is a Shared Service Center defined?
• (2) What relevant criteria describe different facets of SSCs?

Research Approach
For this research a three-step approach is used, which is described as follows:

In the first step we analyze relevant SSC literature. From the literature we can arrive at a definition of SSC that is widely accepted and reflects common usage and understanding. This definition is the foundation for the further research and reflects a consolidation of the characteristics mentioned by the majority of academic papers.

In the second step, we identified criteria in which existing SSCs differ. For that, we discussed different candidates of criteria in a focus group. We base our discussion on the definition of SSC elaborated in step one.

In the third step we evaluated the criteria indentified in the focus group and described their coherences with real SSCs. To that end we conducted extensive case studies with SSCs based in Canada (1), Germany (3), Sweden (1), Switzerland (1), and the USA (1).

LITERATURE REVIEW
The current literature is comprised of wide variety of definitions and characteristics of SSCs. What is identical in most sources, however, is a shared delineation of the concept of simple centralization while distinguishing SSCs from traditional outsourcing concepts. Furthermore, almost all definitions address advantages and desired improvements of the SSC approach. Our literature review aims at identifying common definitional characteristics of SSCs.

Approach
In our basic methodology, we scanned ABI/INFORM, a database containing leading journals and periodicals, for the terms “Shared Service Center(re)”, “Shared Service Organiz(s)ation”, and “Shared Services” in citation and abstracts. We focused on papers that have been published in scientific journals or on scientific conferences, yielding 185 results.

We omitted papers with the following characteristics:

• Articles dealing with the organizational form for back-office functionalities
• Articles focusing on highly particular aspects and functions of SSCs like HR or Payroll.
• Articles that do not contain a definition of “Shared Service Centers”.
• Doubles, e.g. authors that had the definition in two or more of their papers.

After filtering, we were left with 9 results (Aksin and Masini, 2008; Davis, 2005; Forst, 1999; Goh Prakash and Yeo, 2007; Goold Pettifer and Young, 2001; Janssen and Joha, 2006; Schmidt, 1997; Ulrich, 1995; Wang and Wang, 2007). At the end we analyzed definitions from the books with the most frequent citations. We used the citation functionality by Google Scholar to find out the quantity of citations and identify the most cited books literature (Bergeron, 2003; Kagelmam, 2001; Quinn Cooke and Kris, 2000; Schulman Dunleavy Harmer and Lusk, 1999).
### Results

Table 2 shows those features and characteristics of SSCs mentioned most frequently. For notation purposes, if a definition or description mentions a particular feature, it is shown by “+” in the table. If a particular feature is not mentioned in the definition, the cell is marked with “—”.

<table>
<thead>
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<tbody>
<tr>
<td>… is the result of the consolidation / concentration process within the company</td>
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<td>… is engaged in support services / staff functions / internal services</td>
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<td>… is aligned with external competitors</td>
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<td>… is a separate organization within the group</td>
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<td>… reduces costs / competitive costs</td>
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<td>… is operated like a “normal business unit”</td>
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<td>… has a focus on internal clients / delivery to internal customers</td>
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<td>… improves service quality / competitive quality</td>
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<td>… makes use of “Best Practices”</td>
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<td>… uses resources company-wide</td>
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<td>… has established a supplier-customer relationship</td>
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<td>4</td>
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<td>… is controlled by business units</td>
<td>+</td>
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<td>… provides services that are tailored to customers’ needs</td>
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<td>… supports several units</td>
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<td>4</td>
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<tr>
<td>… charges back to business units</td>
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<td>3</td>
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<td>… focus on continuous improvement</td>
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</table>

Table 1: Important definitions of the term "SSC"
This analysis demonstrated that the following features are generally accepted in literature on SSC, named by at least 50 percent of relevant literature:

- **Result of consolidation of processes within the company:** In de-centralized corporations, each unit has its own support service tailored exactly to individual requirements. These previously distributed support services are consolidated while forming SSCs. The aim is to avoid duplication of work and to achieve synergies (Martín-Pérez and Berger, 2004).

- **Exclusively engaged in support services:** Support services are processes that support core processes of the company, but are not core processes itself. The authors differentiate between services for transaction-oriented and complex, knowledge-based processes (Goold et al., 2001). Transaction-oriented processes are mainly processes that share a high degree of standardization, feature few interfaces with other processes and technologies, entail low financial/business risk and show a high potential for automation (Shah, 1998). Typical processes are accountancy and bookkeeping or operating a computer centre. Characteristic processes in the area of knowledge- or expertise-based processes are, inter alia, financial analysis or development of applications (Quinn et al., 2000).

- **Alignment with external competitors:** According to literature, SSCs align themselves with external competitors (Young, 2005). To enhance competitiveness, SSCs build strategic knowledge such as information about competitors in the external market, analyzing its own strengths and weaknesses, and pricing benchmarks. Through these processes SSCs can confirm their competitiveness to internal clients and explain deviations (Quinn et al., 2000). Therefore, SSCs should ideally be aligned with the external environment.

- **Independent organization:** Most definitions explicitly emphasize the independent organizational form of an SSC as a unit clearly separate from other areas, with its own responsibilities and its own management. Frequently the term “partly autonomous” is used (Bergeron, 2003), which is meant to signal that the SSCs are managed like separate businesses but still highly dependent on the parent company. Thus the SSC typically belongs 100% to the corporation which at the same time is its main client. This setup results in a very specific governance model and restricts the entrepreneurial freedom of the SSC. For instance, many SSC-internal decisions have to be agreed by the corporate group.

- **Reduction of costs as a main goal:** The majority of authors include the goal “cost reduction” explicitly in their definition. Several surveys revealed that cost-cutting is a primary motivator for implementing shared services (Ulbrich, 2006). Average savings by 25% – 30% are not unusual (Quinn et al., 2000), achieving lower costs by making use of economies of scale.

- **Operated like a normal business:** SSCs should be managed like third-party vendors, tailoring their IT-services to the requirements of their customers. They deliver value at a cost that the customers are willing to pay (Schmidt, 1997).

- **Service-oriented focus on internal clients:** An SSC aims at optimizing the internal client experience, focusing on service output—a defined functionality with contracted quality levels and an agreed price including penalties (Young, 2005). This approach enables the central department to act clearly on behalf of internal clients, a relationship which exhibits monopoly-like behavior (Bergeron, 2003). These traditional departments were typically focused on improving technologies used for producing the services and less on improving the actual service output.

Based on the literature review we derive a definition that reflects an understanding common to SSC analysts and scholars. Cited by over 50 percent of the relevant literature, an SSC is an organizational concept with the following attributes:

- consolidation of processes within the group in order to reduce redundancies
- delivers support processes as its core competency
- is a separate organizational unit within the group
- is aligned with external customers
- cost cutting is a major driver for implementation
- has a clear focus on internal customers
- is operated like a business

This definition is useful for delineating SSC from alternative IT delivery forms like outsourcing or internal IT staff division. This institutional separation is shown in Figure 1. Compared to Outsourcing (external provider) an SSC is part of the corporate group, with processes consolidated into one unit. However, there is a strong linkage to outsourcing. In many cases,
the implementation of SSC is a preliminary stage of outsourcing. Processes and resources are consolidated company-wide in a SSC to be potentially outsourced to an external provider afterwards. Nevertheless, it is important to note that SSC are not a centralized staff function due to the fact that it is a separate organizational unit aligned to external competitors.

![Figure 1: Shared Service Organizations and alternative IT Delivery Forms; according to (Janssen et al., 2006)l]

**IDENTIFICATION OF CRITERIA FOR DESCRIBING VARIETIES AMONG SHARED SERVICE CENTERS**

**Approach**

In the second step we investigated—through a focus group—how SSCs operate in practice. This group consisted of CIOs, head of IT service providers, further managerial staff from service providers, and other IT-experts like consultants and scientists. These experts are from IT departments or internal Service Provider of big international companies based in Germany and Switzerland. A workshop that includes a detailed discussion of these topics was organized and conducted in January 2008.

**Results**

Through the focus group, we identified seven criteria in which SSCs in reality differ from each other: legal form, form of co-ordination, service charges, external market, contract forms, center concept, and product portfolio. The different values of these criteria represent the variety of existing forms of SSCs. In the following paragraphs, the seven criteria and their values are described and explained in detail.

**Legal form:**

On one hand SSCs can be legally-independent, which means they can be incorporated independent of their parent firm. On the other hand, they can also simply be part of an independent legal entity, thus legally dependent themselves (Kagelmann, 2001). SSCs in the USA may have the legal form “C-Corporation” (Bergeron, 2003), whereas in Germany the “GmbH” is a typical form. In most cases a legally-independent subsidiary is preferred because it confers several advantages: increased in transparency as the company commands all profit-related factors, leading to more accurate controlling. With subsidiary status the SSC no longer has to pay company or branch tariffs leading to more competitive wage costs and improves overall efficiency of the IT-section. In practice, it is evident that increased autonomy resulting from legal independence often leads to the use of a clearing system based on market-related prices, rather than a standardized allocation formula. Furthermore, cases show that legal independence generates positive motivation effects, a subject which has already been investigated (Kreuter and Solbach, 1997). The cumbersome effects of additional bureaucracy—for instance in legal matters—have also been observed in previous studies (Schulman et al., 1999).

**Form of coordination:**

There are two methods of coordinating service transactions between the demand-side (business units that are supported with IT services) and the supply side (SSC): (1) through markets; (2) through hierarchies, in which high-level management
decisions regulate service transactions. However, pure forms are rare, and a multitude of intermediate solutions can be observed. For instance, in market-related coordination, typically an extensive management system is implemented, including contract management, invoicing or management of suppliers (Malone Yates and Benjamin, 1987). In the event that a new internal market is established, new organizational structures are created on both sides: a sales and marketing organization for the provider and procurement departments on the demand side. In fact, this separation accelerates the evolvement of internal markets (Zarnekow, 2007). However, in these markets regulations can be observed.

Service charges:
Several billing methods are employed. In a first approach, the SSC has an annual budget, similar to other central divisions within the company. There is no pricing system and costs incurred are overhead. In a second case—that of allocation—costs incurred are charged to the different business units, where calculations are based on number of users, posts, or transactions. Thirdly, transfer pricing can be used, where SSC’s services are sold to the various business units. Here prices are commensurate to the sum of costs-per-service plus profit. This approach, however, provides no incentives to the SSC to lower its costs. If prices are market based, the picture is very different. In this case the SSC sells its services to business units at previously fixed prices equal to those paid in the marketplace (Bergeron, 2003; Quinn et al., 2000; Schröder Kesten and Hartwich, 2007; Schulman et al., 1999).

External market:
With access to external markets an SSC may also serve third parties for profit. Access can apply to the entire portfolio or particular services only, and confers the benefit of additional sales and the opportunity to use spare capacities. Through limited access to the external market, different objectives are pursued. Here the expected benefits to the parent company include exclusiveness and flexibility. If the SSC has no access to external market, the business units receive greater service attention.

Contract forms:
Three varieties of contract form occur in practice. Firstly, under term contractual obligation, intra-company clients may obtain IT services only from the internal SSC. This can either be all-inclusive or relate only to particular services. Secondly, in the case of contractual exchange, the internal customer must consider the offer made by the SSC, where the SSC bids a “first offer”. If not acceptable, the client may also consider external providers. However, the “last call” form allows the SSC to submit its own offer based on the knowledge of external tenders already in hand. In competition, the client decides on whether the internal provider wins the contract according to conventional bidding criteria such as reputation, price and quality. Company clients are not compelled to fall back on the SSC (Bamberger, 2000).

Center concept:
A center is an organizational unit responsible for specific services. Venkatraman (1997) identified 4 different organizational concepts for managing information technology resources within a company: cost center, service center, investment center, and profit center. The cost center aims at supplying IT services at lowest cost level, focusing on operational efficiency, measured, for example, by cost per MIPS. To further improve cost levels, relationships are established with best-in-class outsourcers. By comparison, the main aim of a service center is to support the company’s business strategy with IT services by delivering client satisfaction and adherence to agreed service levels. An investment center has a much stronger strategic focus by pro-actively creating capabilities for business and using new IT services which shape alternative business strategies. The supply of IT services to the external market is the focus of profit centers, where the IT section seeks to obtain knowledge of the external market as well as gain credibility for its internal clients and attain additional revenue for the corporation.

Product portfolio:
A functional SSC covers processes of one function, (e.g. finance, HR, IT) (Dressler, 2007), and in our present study, this refers to organizations specializing in information technology. By contrast, a multi-functional SSC offers various functional fields, e.g., IT and HR.

EVALUATION OF THE CRITERIA REPRESENTING THE VARIETY OF EXISTING SHARED SERVICE CENTERS

Approach
In the third step we evaluated the criteria identified in the focus group and described their coherences with real SSCs. We conducted extensive case studies with SSCs, scanning potential peer group partners regarding our SSC definition. All IT organizations analyzed fit these requirements.
Along with focus group criteria organizations must fulfill further requirements:

- Focus on IT service delivery
- Percentage of external sales lower than 50%
- International Organization: SSC should have sites in at least 2 countries / continents
- SSC of large, international corporations

Further requirements to the total entity of the peer group:

- Parent groups of the SSC should be from different industries as statements should apply to multiple sectors
- SSC should be headquartered in different countries/regions
- We should be able to get contact and interview top-level management (CIOs of the group, CEOs of the provider) of the respective SSCs

At the end we identified and conducted seven case studies with SSCs based in Canada (1), Germany (3), Sweden (1), Switzerland (1) and the USA (1). Table 2 gives a short overview of the characteristics of the case study companies. All names have been made anonymously. The interviews took 6 - 10 hours per company.

<table>
<thead>
<tr>
<th>Case</th>
<th>Companies</th>
<th>Country of headquarter</th>
<th>Employees SSC (FTE)</th>
<th>Industry</th>
<th>Number of Interviews</th>
<th>Time of Interviews</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Alpha Services</td>
<td>US</td>
<td>&gt; 1.000</td>
<td>Steel</td>
<td>1</td>
<td>Sept. 2008</td>
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<td>2</td>
<td>Beta Services</td>
<td>Germany</td>
<td>&gt; 1.000</td>
<td>Media</td>
<td>6</td>
<td>Oct. – Nov. 2008</td>
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<tr>
<td>3</td>
<td>Gamma Services</td>
<td>Germany</td>
<td>&gt; 4.000</td>
<td>Pharmacy</td>
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<td>Oct. – Dec. 2007</td>
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<td>4</td>
<td>Delta Services</td>
<td>Switzerland</td>
<td>&gt; 4.000</td>
<td>Bank</td>
<td>4</td>
<td>Sept. 2008</td>
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<tr>
<td>5</td>
<td>Epsilon Services</td>
<td>Germany</td>
<td>&gt; 3.000</td>
<td>Aviation</td>
<td>5</td>
<td>April – June 2008</td>
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<tr>
<td>6</td>
<td>Zeta Services</td>
<td>Canada</td>
<td>&lt; 1.000</td>
<td>Food</td>
<td>1</td>
<td>Nov. 2008</td>
</tr>
<tr>
<td>7</td>
<td>Eta Services</td>
<td>Sweden</td>
<td>&gt; 4.000</td>
<td>Automotive</td>
<td>3</td>
<td>March 2008</td>
</tr>
</tbody>
</table>

Table 2: Case studies overview

Classification of the SSCs investigated

Table 3 provides an overview of the criteria formulated during the focus group discussions. For each criterion we got various typical features we found in literature. The respective references have been included in this overview. For every specification we list the number of the company (case) with corresponding characteristics.
Table 3: Criteria and characteristics of analyzed SSCs

To better understand SSCs we have selected the following three case studies exemplary. The three SSCs described below show the strongest diversity in the analyzed criteria. The overview of these differences enables a more varied understanding of SSC characteristics.

**Type 1: Delta Services**

Delta Services is the internal business unit of a financial services company in Switzerland. The SSC’s aim is the IT support of core processes. 4,000 employees work in this legally subordinate organization, where coordination is purely hierarchical and market-related elements are at minimum impact.

The organization does not clearly separate supply and demand. Costs incurred are allocated to the various business units, and few service characteristics are contractually-agreed on beforehand. In order to ensure that clients are not paying inflated prices, however, the competitiveness of the service is benchmarked. Theoretically the SSC has access to the external market but in practice there are no third-party activities and none are planned. The corporate clients are prohibited from buying services on the external market. The SSC manages sourcing, although clients are able to influence the process. The SSC acts as a pure cost centre, where cost efficiency is the main aim. Delta Services offers its clients only IT services.

**Type 2: Eta Services**

Eta Services is a legally-independent provider within the Swedish industry. Service transactions involve the influence of intra-firm hierarchy as well as market-related elements. For instance, Eta services implements market-oriented functions such as demand management on the client side as well as product management on the provider side. However, the roles “CIO of the company” and “CEO of the provider” are fused by personal union, leading to mainly hierarchical decision making.

Price structure is determined by interaction in a semi-closed market. Clients are charged transfer prices, meaning that they have to pay costs plus a mark-up. Similarly, the provider must prove through benchmarking that its prices are competitive. The provider offers only a portion of the portfolio to the external market. While the choice of supply to external clients is made by the service provider, obligations must be met to clients within the company. Here, Eta Services has the duty to supply all IT services needed. Clients within the company are advised to buy their needed support services from the internal provider. There is also a last call option, i.e., in knowledge of an external offer, where the provider can improve his own offer based on existing information. If the provider is in no position to supply what is needed, specialist departments may buy directly from external service providers.
IT is important to the concern as a whole and facilitates competitive advantages in some areas of the core business. IT is not a core competence itself, and therefore remains focused on delivering cost advantage rather than raw revenue streams. The optimum support of the business units is the main objective; success is measured in the quality of the supply or customer satisfaction. The product portfolio includes all IT services.

Type 3: Epsilon Services

Epsilon Services is a legally-independent service provider of an aviation company with headquarters in Germany. The exchange of services follows a market model.

Epsilon Services has free access to the external market. The provider decides whom it supplies. According to statements by the CEO of the SSC, decisions closely follow economic or strategic considerations. The free-market logic applies not only to the commodity business but also to strategic IT services that can help the parent company to generate competitive advantages in its core business. Epsilon Services acts like an external service provider that must sustain its position in the market. The open system works both ways: the business units of the company are not legally-bound to the internal service provider. They only buy from the internal provider if it can make the best offer. In this environment, the SSC has the primary goal of generating long term profits for the corporation and is thus managed as profit centre.

Evaluation of the Criteria

We found that the seven criteria are well-suited to describing the different facets of SSCs. Interview partners during the case studies confirmed that these criteria are relevant to describe main characteristics of the SSC business model. Secondly, we could classify all analyzed SSC in this grid and found those different characteristics operational at real-world SSCs, with the exception that none of the analyzed SSCs used overhead service charging.

SUMMARY AND OUTLOOK

Summary

Shared Services have risen in both importance and visibility over the last decade and have become ubiquitous among large international companies. As a major driver of firm performance, it is incumbent on researchers to further analyze SSC organizational types in detail. Nevertheless, extensive research is rare in this field. No clear and common understanding of the term “Shared Service Center” is available. Furthermore, in practice a wide variety of the SSCs exists and many facets of SSCs differ significantly. Therefore, we address two research questions with this article: “(1) How is a SSC defined?” and “(2) What relevant criteria describe different facets of SSCs?” By analyzing the most relevant literature sources we derive a common definition as follows: An SSC consolidates processes within a concern in order to reduce redundancies; it delivers support processes; it is a separate organizational unit within the group; it is aligned with external customers; cost-cutting is a major driver for implementation; it is focused on internal customers; and it is operated like a business. In order to represent the different facets of IT-SSC we identified seven criteria with help of a focus group: legal form; main form of co-ordination; service charges; external market; contractual form; center concept and product portfolio. Finally, we validated these criteria by an extensive case study research.

In sum, we achieved the research goals initially defined in this paper. We suggest a definition, thus foster a common understanding of the term SSC and established descriptive criteria. Whereas the scientific discussion on outsourcing has progressed rapidly and provided important insights, there is rather little discourse and thus little common understanding about SSCs. Thus this paper provides an important contribution to the field by providing a first formalization of an issue that has only been discussed by practitioners so far. Further research could build on the established definition and the criteria set forth here.

Outlook

Despite continuing progress, SSC research remains beset by limitations. The main focus of this research thus far has been to describe existing SSCs, however, motives for establishing the SSCs and the respective influences on the business model characteristics have not yet been considered. Further research could provide a better understanding of major factors influencing the SSC strategy, form, and function.

Finally, the SSC criteria put forward here need to be validated. For this, a follow-on broad-based study is planned with a large number of participants. Aided by an online questionnaire, the diversity of SSCs in service areas other than IT services is
being analyzed and correspondingly, to check the validity of the SSC classification grid. This research in turn may enable a generalization of this classification.

REFERENCES


