

# Shared Services in Procurement and Supply Chain Management



Shared services provide an opportunity to reduce waste and increase efficiency through reorganising resources and sharing investments between business units (CIPS: Shared Services).



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### Introduction

Shared services is a model for the organisation and delivery of operations. The concept of shared services was developed in the 1980s as organisations were looking for new ways to increase their effectiveness. The driving forces behind the popularity of shared services were some major management concerns caused by productivity, reengineering, globalisation, service and technology issues. The companies were required to produce more at lower costs and by using fewer resources (Ulrich, 1995).

Some common features and requirements of the shared services concept are: separate organisation and/or management of the shared services centre, standardised processes and operations, scale operations and effective use of systems, and the service management approach. Purchasing and supply management are among the functions that are most suited for a successful migration to shared services. Other functions include financial services (including general accounting and payroll), facilities management, human resources (including recruitment and training), sales and marketing, IT, customer service, R&D, health and safety, and legal services (CIPS: Shared Services).

Shared services is not centralisation. In a centralised organisation, the corporate office dictates procedures across organisational functions and controls resources. In a shared services organisation resources from the different fields are shared but the control over resources remains in those fields (Ulrich, 1995). In fact, the shared services model captures the benefits of both centralisation and decentralisation as it serves the needs of multiple and often quite different customers, and still realises the economies of scale (Janssen and Joha, 2006). Shared services are sometimes seen as an alternative to outsourcing since some activities previously located in head office are retained within the firm but aggregated into a new central unit acting as a vendor to internal customers (Rothwell et al., 2011). Shared services are particularly suitable for public administrations where they replace the traditional practice of developing and maintaining individual systems (Janssen and Joha, 2006). In fact, shared services were one of the most popular strategies of local and central governments to improve and transform public services in recent years (CIPS: Shared Services).

### Definition

"A shared service is 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 internal customers of the parent organisation, like a business competing in the open market" (Bergeron, 2003).

### Successful Application

While building the business case for shared services, it is advisable to develop a risk register detailing the types of likely risks, their probability of occurrence and the impact they could have. In this phase it is enough to define which services should be initially included as more services can be added once the system is established and running. Usually at this stage the question of why the service should be provided internally and not outsourced to an external vendor who might be able to provide it in better quality and at lower cost can arise. At that stage in the implementation process it is important to discuss the sourcing decision not based

on anecdotal dissatisfaction with the present service or on incorrect assumptions about the availability and costs of external vendors (CIPS: Shared Services).

### Steps to Successful Application

- Define internal customer requirements.
- Define customer interfaces.
- Define the process of service delivery.
- Create a Shared Service Centre or Centre of Excellence

### Hints and Tips

- Shared services require large scale operations in order to generate economies of scale (CIPS: Shared Services).
- Shared services must be viewed from the top level perspective to ensure synergy between principles, goals and objectives (CIPS: Shared Services).
- In order for shared services to be a success, it is crucial to involve the future users of those services when defining deliverables (Ulrich, 1995).
- In the public sector it is necessary to understand EU procurement rules, otherwise there can be legal difficulties when trying to establish the principle contracting authority (CIPS: Shared Services).

### Potential Advantages

- Compared with alternatives such as outsourcing, shared services minimises the cost of contracts with third parties (Rothwell et al., 2011).
- The shared services model can reduce costs through standardised processes and economies of scale (CIPS: Shared Services).
- Shared services offers a good alternative to outsourcing as management control and flexibility are retained with the firm (Rothwell et al., 2011).

### Potential Disadvantages

- It is difficult to define shared services as a business model due to differences across organisations as well as between sectors (Rothwell et al., 2011).
- Moving multiple functions into a shared services centre can be a long and complicated process (Rothwell et al., 2011). It can also impose big challenges on leadership and communications (Goh et al., 2007).
- Switching to the shared services model can represent a very dramatic change for an organisation, one that not all organisations handle equally well (Rothwell et al., 2011).

### Performance Monitoring

- Financial spend per business unit or department (CIPS).
- Business process measures: e.g. completion time, order fill rates (CIPS).
- Savings as compared to externally procured services (CIPS).
- Performance measures: e.g. profits (CIPS).
- Service levels (CIPS).

## Case Studies

- Nortel (previously known as Northern Telecom) implemented the shared services concept in the 1990s and went from 70 people across seven locations to less than 40 people in one location. This resulted in savings of more than US\$1m per year, while the initial investment was \$500,000 (Ulrich, 1995).
- Alcoa, the world's leading aluminium producer, created its own shared services organisation called Alcoa Business Support Services (ABSS) which oversees numerous internal services including purchasing. At the beginning of the 2000s ABSS had over 400 members, served over 60,000 employees and 60,000 retirees (Forst, 2002).
- BHP Billiton adopted the shared services model for purchasing which allowed the company to implement a strategic sourcing programme. The company's Shared Business Services (SBS) ensured that the best sourcing strategy was created for each commodity and throughout the company purchasing became much more efficient (Forst, 2002).

## Further Reading/References

### Web Resources

- Shared services and procurement boost construction firm  
<http://www.procurementleaders.com/blog>
- Information portal by the Scottish Government  
<http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/efficientgovernment/SharedServices>
- Outsourcing vs. shared services  
<http://www.infoworld.com/t/business/outsourcing-vs-shared-services-616>
- Government shared Services  
[http://www.cio.com.au/article/392372/government\\_shared\\_services\\_navigate\\_rocky\\_road\\_-\\_part\\_1/](http://www.cio.com.au/article/392372/government_shared_services_navigate_rocky_road_-_part_1/)
- Executive Summary by the National Audit Office  
[http://www.nao.org.uk/publications/0708/improving\\_corporate\\_functions.aspx?alreadysearchfor=yes](http://www.nao.org.uk/publications/0708/improving_corporate_functions.aspx?alreadysearchfor=yes)

### Books

- Shared Services : Adding Value to the Business Units, Donniel S. Schulman, Martin J. Harmer, John R. Dunleavy, James S. Lusk - Comprehensive book covering all fundamentals of shared services
- Essentials of Shared Services, Bryan Bergeron - Essential guide, targets practitioner audience
- Shared Services: A Manager's Journey, Daniel C. Melchior Jr. - Presents the real business challenges along with human factors when migrating to shared services
- Shared Services in Local Government: Improving Service Delivery, Ray Tomkinson - Comprehensive study of shared services for the UK public sector
- Shared Services: Mining for Corporate Gold, Barbara Quinn, Robert Cooke, Andrew Kris - Implementation guide and case studies from real companies

## References

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**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

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**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infosaf@cips.org.za](mailto:infosaf@cips.org.za)

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**CIPS Australasia** Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

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**CIPS Middle East & North Africa** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates  
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)

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