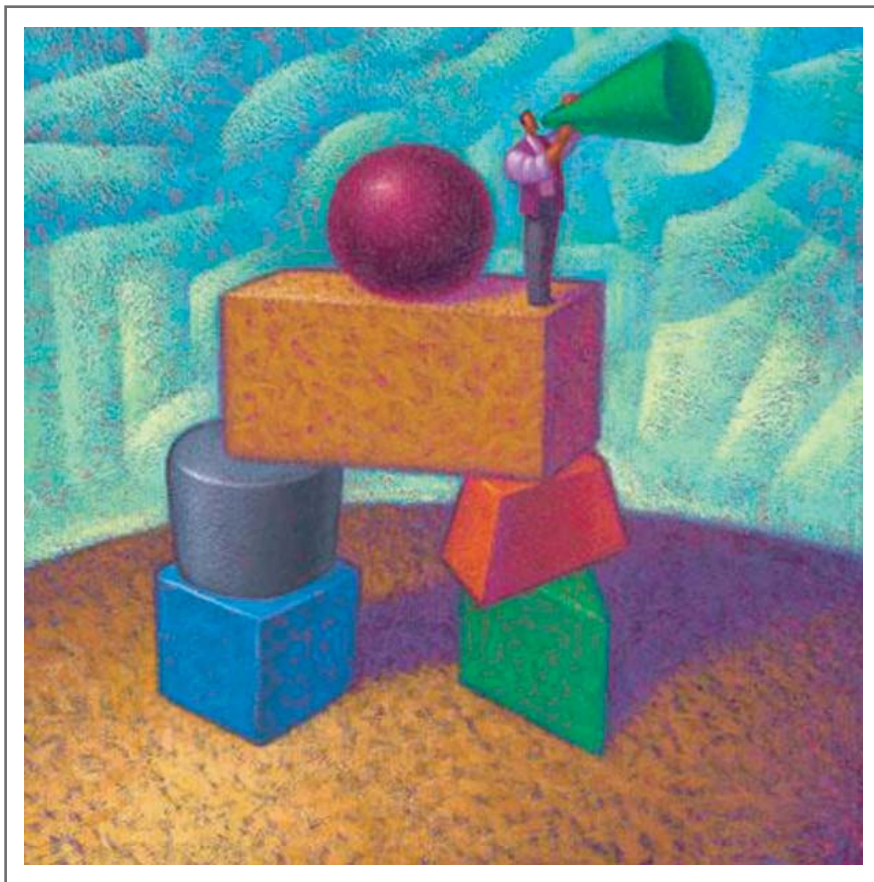


Shared Services in Government 2



BUILDING A PLATFORM FOR BETTER
PUBLIC SERVICES AT LOWER COST

ATKEARNEY

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PREFACE

In our previous research on Shared Services in Government, we noted the case for change and the historic opportunity facing the public sector. In the private sector, shared service best practices in operating models, organizational structures and ways of working had all continued to evolve. Central and local government organizations were ideally positioned to leverage this experience to leap directly and safely to 'best-in-class' shared services.

In this paper, two years later, we have conducted research to examine: how:

- Governments around the world are adopting shared services.
- Business cases are standing the test of time.
- Major challenges are being overcome.
- Opportunities in management of change and technology are being leveraged.
- Predictions of the future are shaping up.

We find that although cost reduction remains the most significant driver for government organizations to combine and share back and front office functions, improving services to citizens is becoming increasingly important. We detect that Canada is taking a lead in many facets of transformation, including the introduction of front-office shared services.

The business case is much better than previously thought, with benefits being targeted in the 15-25% range. However, this optimistic view needs to be tempered with caution as detail proves hard to measure and disclose.

Through our discussions with executives we discover that although introducing shared services into government has similar challenges as transformation in any complex organization, best practice is evident. From this, we offer a framework on enablers for success. This includes differentiating factors relating to vision, scope and stakeholder management and deployment of technology.

Finally, we present perspectives of the future from both the technology supply and market demand sides of shared services and peer into our crystal ball to predict what the next generation of shared services may be.

THE PUBLIC SECTOR HAS NOW RECOGNISED THE OPPORTUNITY OF SHARED SERVICES

In our last research paper on 'Shared Services in Government – Turning private-sector lessons into public-sector best practices(1)', we concluded that reducing government costs was a necessity, not an option. Shared services were perceived as a viable, proven approach to achieving the necessary rationalization of typical 'back-office' functions such as Human Resources, Finance, IT and Procurement. We stated that business cases had the potential to typically target at least 5-15 per cent in cost reduction, together with significant improvements in service levels for citizens.

With government finances under pressure and treasury departments increasing their drive for major reform of service delivery in welfare, health, taxation, education and justice sectors, at every level from national to local, it was recognized that the time was ripe to identify and grasp the benefits. The key was not whether to do it, but to ensure that it was done well. To facilitate this, we offered a six step approach, based on relevant private and public sectors experience which incorporated: (1). Definition of scope and realistic target setting; (2). Selection of an appropriate operating model; (3). Creation and application of an effective governance regime; (4). Inclusiveness of transformation and recognition of the need to balance the demands of the 'day job' (5). Pragmatic management of technology and infrastructure costs; and (6). Simplification of performance management.

We also noted that shared services are a building block in an evolutionary cycle toward more dynamic and flexible public sector services, consistent with the vision of an agile, responsive and joined-up government fit for this millennium. We identified early applications of the concept of shared services for citizen-facing processes and predicted this potential future trend. Our other predictions for the potential next generation included increased interest in engagement of the private sector, outsourcing, off-shoring, the increase of standardization and the role of technology.

INTRODUCTION TO THE NEW RESEARCH

Our last research examined the economic and organizational case for shared services and concluded that the opportunity to implement was ripe, we thought that it would be compelling to now examine how the *concepts are being turned into reality*. To do this, we developed hypotheses on drivers, enablers, benefit identification and realization, transformation barriers and future trends. These hypotheses were developed from our own experience in working with private sector clients and with many government organizations on projects, together with a comprehensive review of contemporary published research papers.

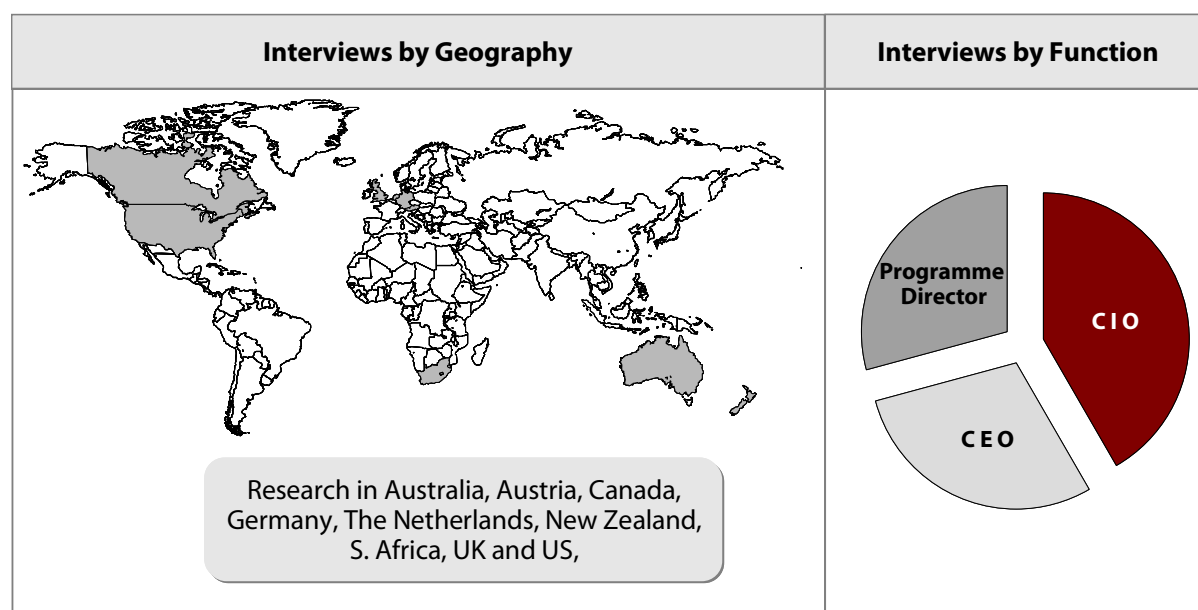


Figure 1 *Scope of research into Government shared services*

The hypotheses were discussed in 25 in-depth interviews with CEO/CIO executives and Program Directors from government organizations in nine countries – Australia, Austria, Canada, Germany, South Africa, The Netherlands, New Zealand, United Kingdom and United States.

Although the resulting analysis is not statistically representative, it provides interesting insights into how governments are implementing shared services and their aspirations for the future. This paper highlights the good – and the not so good – practice, and offers advice and frameworks to improve the implementation and maximize the opportunity that shared services present.

INCREASINGLY CHALLENGING TIMES FOR GOVERNMENT SERVICES

External pressures on governments continue to grow: responding to the competitive challenge of globalization, maintaining security, understanding climate change and its environmental and economic impact, and supporting aging populations. In addition, citizens are more demanding of the public sector as they experience the service improvements that new technologies can bring. Further, there is an ever-present need to reduce the cost to serve and the demand on the taxpayer.

Governments are not passive participants. They have the ability and the opportunity to deal with these pressures and provide their citizens with an improved service – and they are able to do so without necessarily breaking the treasury. Shared services, where economies of scale initiate a reorganization to create a new service to provide either back-office (for example HR, procurement, IT and 'lower-value' transactional processing) or front-office (for example customer service) processes have become a significant element for the strategy to address these challenges.

Many countries are already well advanced in their development. For example:

- In Canada, dramatic and sustained positive turn-around at most levels has delivered budget surpluses (except at the municipal level). There is continued effort at reducing cost and simultaneously enhancing the quality of service. The focus is on delivery, looking at innovative approaches to changing service infrastructures, by involving the private sector and increasingly from within the broader public sector itself.
- In The Netherlands, The previous government focused on reducing cost and its role, for example by bringing market mechanisms back in the healthcare system by enlarging the role of insurers and reducing the role of government. With a new government there is a renewed focus on further reducing costs (target of €750m annually in 2011) and significantly increasing service to citizens. On top of this a new regulation has recently been passed in which it is forbidden for a government organization to request information from a citizen if that person has already provided that information to another government organization. So, the commitment and need to co-operate across government departments and ensure information is shared is being mandated.

The need to refocus is underscored by pragmatic reviews of citizens' experiences – including one typical case in the UK where, following bereavement, a citizen was required to make 44 separate contacts with government(2). Citizen-centric government requires more cross cutting interactions across entrenched vertical silos, higher quality information and increased sharing of information across government.

In other recent research(3), A.T. Kearney conducted a survey exploring how the public sector communicates with citizens. The survey found that citizens are desperate for joined-up government - 84% of citizens surveyed want a one-stop shop at least for simple transactions. Yet two-thirds of central government departments surveyed have no plans to increase cooperation with other departments to improve the way they communicate with and serve citizens. Unsurprisingly, there is a mismatch between demand and supply. A quarter of citizens would like

to communicate with the public sector on-line – and yet this only happens in 7% of cases. Only 6% of citizens said they want to use automated telephony services, and yet nearly half of all organizations surveyed are investing heavily in these services. So, despite some clear indications of progress, application and implementation of shared service strategy to both cut cost to serve and improve citizen services remains patchy.

DRIVERS

Although cost reduction is dominant, there is realization that shared services are also key for better service and building trust.

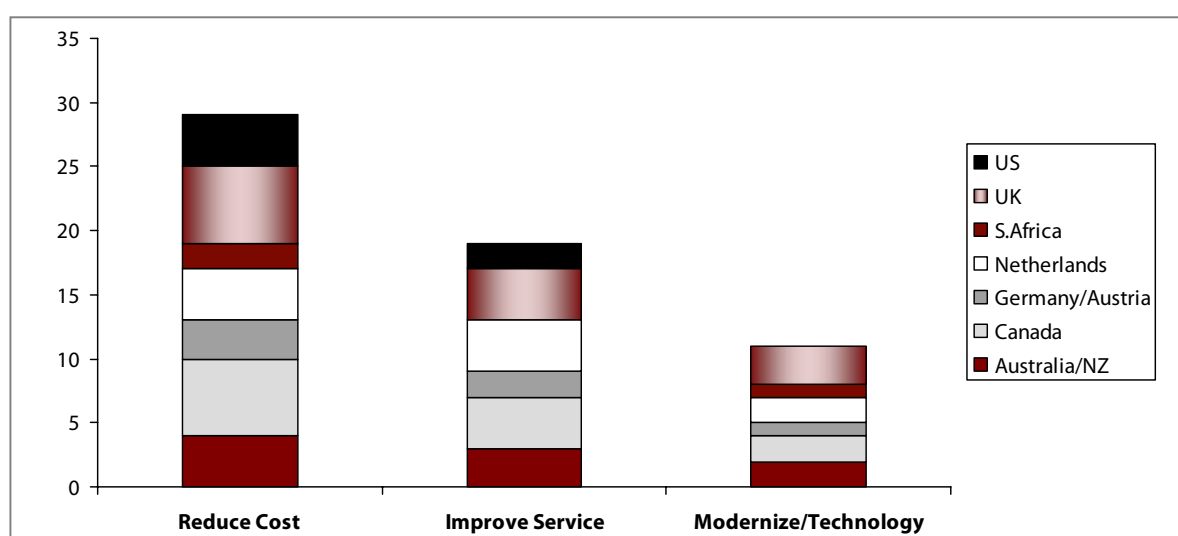


Figure 2 *Stated reasons for Government organizations to consider implementing shared services*

1. Cost Reduction and Service Improvement

Not surprisingly, cost reduction remains the dominant global driver for government when considering reorganization of appropriate corporate services into shared services (Figure 2). Typically, the drive for cost reduction is centrally (treasury) driven as government seeks to reduce (and is seen to reduce) the burden on the taxpayer and balance their accounts.

However, there are some interesting trends behind this overall domineering perspective. Firstly, from a geographical perspective, the business case is definitely cost-driven in Australia/New Zealand, Austria, Germany, The Netherlands, UK and the US where savings are driven by and retained by a centralized treasury. The funds are then absorbed into the overall policies being driven by the political leaders.

Canada however, presents a different approach. Although cost reduction remains important, improvement in service to citizens and to other civil servants is also emphasised as a primary driver. This is reflected in an expansion of scope to implement shared services into the front-office

domain. On the radar as 'something for the future' in other countries, the Canadians are doing it now. This builds on benefits already gained through sharing the typical back-office functions (HR, Finance, Procurement and IT). Interestingly, there is a strong link of cost reduction and resulting savings being directly reinvested into citizen services, for example, cost savings achieved in 'welfare' back-office functions are reinvested in improving 'welfare' citizen services. Secondly, from a functional perspective, shared services delivering back-office functions overwhelmingly focus on cost reduction through headcount rationalization or redeployment, and consolidation of operating contracts in IT service provision, property ownership and building services. However, many shared services have now achieved their initial cost savings from consolidation. Many are now looking at process optimization and the potential of increasing top-line 'revenue' to achieve further benefits and reducing the cost per transaction. To realize this potential, shared services are seeking to create critical mass around certain activities.

In the front-office, improving the quality of the citizen experience is the key driver and demonstrates an intention to fulfil the need (as noted in the 'missed opportunities in the UK' above). This driver is also articulated as raising citizen awareness (again demonstrating an intent for business development), increased transparency on government services (potentially to improve the (typically diminishing) trust between citizens and bureaucracy, improved specialization (through customer segmentation and enabled through Customer Relationship Management (CRM) software) and innovation (with a particular focus on channels and self-service).

In some communities, regulation is also set to have an impact. European Union Service Directives will pressurize authorities to integrate processes vertically (between federal, state and municipalities) and horizontally between organizations. This will promote much wider information sharing across organizational boundaries.

2. Modernization and Technology

We also detect a balance of interest in how the potential of recent technological trends in information management are shaping opportunities. On the one hand, increased application of CRM and Business Intelligence software tools in government services are opening up the possibilities of more customized services. On the other hand, there is a genuine anxiety that increased automation will replace the 'human touch', where citizen contact is reduced to a case number in an IT workflow and e-channel. This is a very genuine concern for public sector staff who perceives that one of their key roles is to present the human side of an increasingly automated and bureaucratic government service.

Throughout this research the common view is that technology is pragmatically managed as a fundamental resource. There were only a limited number of respondents expressing that leveraging the most up-to-date technology was deemed to be a key driver. Technology is generally seen as a functional requirement, with an reaffirmation of the need for fit, performance, reliability, standardization, centralization, through-life cost and future-readiness for expansion and function.

3. Complexity Reduction

Although reducing complexity is more of a means rather than an end (resulting in cost reduction and service improvement) many of our interviewees specifically noted this as a driver for them, with four main themes which include:

- *Reassessment of competency* by the original host organization typically resulting in a refocus on what their core services are and competency should be. Why burn scarce resource on in-house support services when this could be bought in from a shared service that could (through scale benefits) provide the same or better services for less? This would then result in more resources for the core competency (more welfare agents, tax collectors and policemen on the 'front-line' of citizen service).
- *Opportunity to rationalize* spend and improve the procurement processes. It is recognized that many government organizations are over-protective of 'doing things their own way'. Moving processes and procedures into shared services offers a great incentive to let go of out of date working practices and also reap the benefits of aggregation of spend to drive price reduction for bought in goods and services. However, translating savings into ongoing budget reductions remains a challenge.
- *Leverage the application of technology*. It is now recognized that, after many years of mixed success in the application of bespoke IT systems, that risk of failure is significantly reduced if Commercialized Off The Shelf (COTS) components are used, tied together using flexible open architectures. To achieve this, many organizations are prepared to reduce complexity of their architectures and simplify business processes.

Consolidating all services for a European Ministry of Defence

In 2002 the ministry decided to bundle all services, previously spread over four divisions. The scope includes IT, catering, real estate, transportation, medical services, HR, accounts payable, and training services. This resulted in one of the largest case examples reviewed in this study, with 10,000 FTEs and an operating budget of €1.2bn in 2006.

Though there was significant initial resistance from the four divisions, the transition to a Shared Service Centre (SSC) resulted in considerable service improvement and estimated cost reductions of over €200m and staff reductions in the range of 30-50% depending on the area involved.

Key differentiating enablers for a SSC this size and magnitude in such an environment were strong support from senior management (particularly the minister) and the ability to autonomously appoint staff and attract people from the private sector (e.g. the CIO).

- *Consolidation*. Complexity is reduced when staff are co-located in the minimum number of buildings. Size also matters. The currently held view from our research is that the optimum size for front-office shared service centres is approximately 500 staff, although for back-offices, much larger staffing levels are being established (see case in the adjacent panel).

4. Improved Working environment

The last key driver on why government agencies would consider implementing shared services relates to improving the experience for government employees. This mainly reflects that reorganization from old 'host' organizations which have typically suffered from under-investment over the years to a new environment often leads to a direct improvement in working conditions. However, we detected that it was more than just this. Introducing shared services not only attracts the potential for smarter offices and IT, it also attracts creativity and entrepreneurialism. In several countries, the introduction of legal/corporate structures outside the classical government organizations are encouraging this. In turn, this has promoted the emergence of new leadership. This grows from the government administration's own ranks or, increasingly from recruitment from the private sector where experience gained on implementation and operation of shared services can be reapplied. Appointment of leaders from the private sector is a bold move. More on this topic later.

In many cases this raising of the staff experience is not just about putting right a history of poor investment. It is recognition that the supply market place is competitive. Service agents are in demand (typically wages are increasing at 2-3% ahead of inflation). Consequently, organizations must compete for talent.

GETTING IT RIGHT - HOW SUCCESSFUL SHARED SERVICES ARE BEING IMPLEMENTED

Although there are specific demands in the government sector - such as complex stakeholder management, long decision making processes and huge aversion to risk - the design and implementation of shared services in the public sector is like any other relatively complicated organizational change. The challenges of delivering such change have been well documented. In our research, we tapped into specific shared service implementation experience (both positive and negative). We asked interviewees to reflect on all the various enablers who could be called upon to implement a shared service and rank them. We then developed a framework from these results to define which enablers combine best to reduce the risks of implementation and deliver a successful outcome.

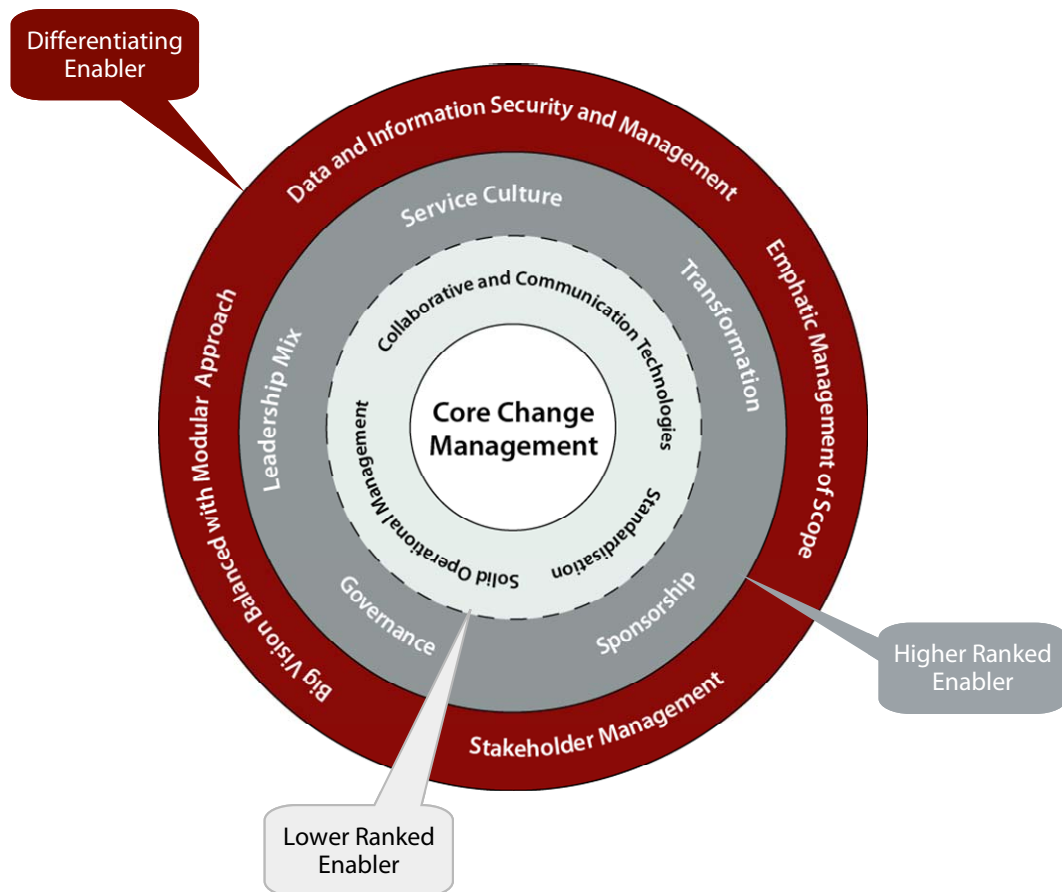


Figure 3 A framework for enabling successful implementation of government shared services

This framework is shown in Figure 3 and has three 'ranks' of enablers.

1. Differentiating enablers – when deployed well, result in successful execution of change and sets up a highly valued service. These enablers are:
 - Emphatic management of scope
 - Big vision balanced with a modular approach
 - Data and information security and management
 - Stakeholder management

2. Higher ranked enablers – perceived as a key and fundamental. These enablers are:
 - Sponsorship
 - Transformation
 - Governance
 - Leadership Mix
 - Service Culture

3. Lower ranked enablers – also perceived as fundamental, but significantly less important. These enablers are:
 - Collaboration and communication technologies

- Standardization and
- Solid operational management

It should be reinforced that all these enablers are important. Lower ranking does not mean that the issues relevant to that enabler can be ignored. The framework does however give an interesting (and potentially surprising) insight on relative importance. These insights are developed below and illustrated in case studies taken from our research.

The differentiating enablers:

Emphatic management of scope – successful shared services are typically born out of a specific need and then developed with an overall openness on consideration of what could be included within scope. Two general rules seem to be applied when considering which business processes and capabilities could be included in a shared service.

- a) Benefit - to focus on high volume/low value work.
- b) Difficulty of implementation – to achieve a thorough understanding of the implementation risk, resulting level of quality of service and potential speed of implementation.

Other considerations on scope include:

- The consequences to the original 'host' organization(s). For example, if a finance shared service originally developed for the welfare sector wins new business from a taxation organization, how will this affect service for the originators?
- The willingness of potential partner organizations to be included within a proposed shared service.
- Legacy IT infrastructure which may limit an even dictate potential expansion (or contraction).

Big vision balanced with a modular approach – firstly, this means the creation of a sufficiently large vision to make the business case compelling and attract attention, passion, champions and support. Secondly, if the vision is grand, implementation should be modular and designed for simplicity as speedy implementation. As with all successful transformation, speed is critical to success. Implementation plans should focus on the very near term (typically 1-2 months), be very detailed and rigidly adhered to.

As a general rule – think big and act in small, clearly defined and quick steps.

Data and information security and management – is increasingly important not only in the obvious sectors of national security and fighting crime, but also in the move to more segmented citizen-focused services, the application of CRM tools and the rise in legislation on data security, privacy and confidentiality. Reliability and professionalism of data and information management are important for both front-office and back-office shared services organizations as both manage customer and staff related data. Also, with the increase in application of shared services in cross-departmental functions (for example a shared service to receive ‘change of circumstance’ information) to feed into an information chain back into welfare, taxation and healthcare processes, the ability to handle security around complex networks has become crucial.

Consolidation of back-office operations for European Ministry of Finance

A classic mix of back-office consolidation and selective outsourcing, including:

- Travel Management, Space Management and Budget Reporting
- Payroll and HR Administration
- Accounting (outsourced to different governmental organization)
- IT (outsourced to government central computing centre)

.... resulted in:

- Cost benefits through 20% reduction in headcount
- 90% improvement in quality
- Speed of service – travel reimbursement cycle reduced from 26 to 3 Weeks

Technology was the main enabler for these shared services, delivering immediate and significant savings.

Having a solid concept, business case and getting the scope right were crucial success factors. Travel Management, as a relatively “easy” function with obvious savings potential, was implemented first as a pilot to prove the greater business case. As soon as this was

A secondary factor for this enabler is that data security can be audited. Such audits help to drive up performance standards and become an important selling point for the ambitious shared service. However, challenges were presented that need some consideration. Firstly, specification of data and information management security is relatively new and can be open to wide interpretation, potentially causing misalignment between needs and solution. This is an emotionally charged subject and legislation lags behind both demand and supply side drivers in many countries. Secondly, it can potentially obstruct or even derail decision making, especially in relation to investment in technology. Managing through this challenge requires experience of handling ambiguity and sound judgment.

Stakeholder management – is universally accepted as critical to get right and easy to get wrong. To build on the already published volume of text on this subject, noted below are specific observations from the experience of setting up a government shared service:

- Resources to manage the required levels of stakeholder management are significantly under-estimated.
- Creating a shared service always means that there will be stakeholders who are potentially losing power, influence and control. Specific tactics will be required for these individuals.

- Avoid a multitude of committees and focus on one steering committee as the main stakeholder management vehicle.
- Top level leadership is usually collegial in nature and rarely present issues. The challenge is at 2nd and 3rd levels in the management hierarchy.
- Recognize that 'soft' levers (for example, building trust, honouring commitments, using informal networks and communities of interest) are far more important than formal procedures and mechanisms.

Merging 25 Finance teams in European Healthcare

25 Finance organisations were merged as a shared service for healthcare to reduce costs, improve efficiency and conform to centrally driven targets.

Although many improvements were achieved (including increased control, real-time access to information, much-improved MI, increased purchasing power and cost avoidance), the merger did not realise the initial benefits case. It was over-ambitious. After a pilot stage, transfer prices had to be renegotiated as the Service was losing money and effectively subsidising the sharing 'customer' organisations. Economic viability was achieved after five years (as compared to the originally planned two years).

Once established, to achieve excellence, the venture had to deliver more than just cost reduction. It grew through improved service and information management.

Gaining a track record for delivery was vital in attracting new customers. Many expansion projects had a high risk profile, with little or no room for mistake. So, delivery performance was key. To achieve this, the implementation approach was phased and pragmatic.

- Communication planning needs to emphasize the building of trust and the management of expectations. A well structured business case remains as the best vehicle to achieve this. Successful organizations are using a variety of media channels to promote a business case.

The higher ranked enablers – perceived as a key fundamental enabler

Sponsorship – champions are needed to present a personalized agenda. Leadership solely legitimized through institutional position rarely commands the same emotional power and drive of the personally enthused and emotionally charged leader. What drives this type of leader? Certainly ambition and the need to be recognized as a 'mover and shaker'. They tend to be entrepreneurial - dynamic and willing to take considerable risks. Suffice to say, they tend to be a scarce in government service hierarchies (in recognizing this, many governments have recruited from the private sector). Along with spirit, to succeed these leaders also need to be secure – at least long enough to effect major change. As the time-span of control is short (approximately 2 years), time is usually of the essence. Consequently, successful shared services are usually set up under dynamic, politically secure and well organized leaders delivering change (from concept to delivery) inside 2 years.

If top political sponsorship is key, it is closely followed by a need for strong alignment within the larger executive group, both in word (many organizations adopt tools such as a 'contract of change' document or a 'talking-heads' video which is shared throughout the organization as a demonstration of alignments) and most importantly behaviours.

Transformation – not surprisingly, our research showed that the most successful shared service implementation had been well managed projects. Three themes for success are evident:

Next Generation of Shared Service in a North American organization

As part of a number of initiatives, a government team undertook to further modernize its back-office and supply chain management services by creating a new entity guided by five strategic thrusts:

- Reduce Product and Service Costs
- Simplify Processes and Automate Where Possible
- Streamline Policies
- Promote Smart Consumption
- Leverage Ideas and Talents on Entire Workforce

In partnership with key stakeholders and ministries, the government has been able to drive-in efficiencies and drive-out costs. For example, total payments processed per Accounts Payable FTE has increased by 42% resulting in the reduction of processing costs by 27%. Total transactions processed per Payroll FTE has increased by 13% resulting in the reduction in the unit cost of payroll payments by 9%.

Advice from the leadership is a text-book of transformation:

- Clarity and Commitment to a Strategy
- Alignment of the Organization to Achieve the Strategy
- Hold the Course: adjust plans as necessary, but not the strategy
- Focus on Results and Measure
- Maintain Stability and Continuity of the Organization

1. Consistent project management leadership through the change lifecycle.
2. Precision in planning and execution – with a strong overall vision, a holistic and flexible medium term (6 month) plan and a very detailed and rigid short term (1-2 month) plan; and close alignment between the short term plan and reality.
3. Quality and pragmatic application of risk management tools.

An interesting difference was observed in the attitude of project leadership to the challenge of stakeholder management (defined above as a *'differentiating'* enabler). In general, there was

conformance to the view that stakeholder management was key. However, one particular very successful project leader bucked the trend. A decision had been made that as speed was key and stakeholder management would only slow them down. So, with strong political backing, a robust plan and personal conviction (the project leader was a very experienced leader recruited from the private sector) they implemented quickly and successfully by diktat.

Governance – smoothing the path of progress is more challenging in the public sector than the private sector. The potential complexity of shared services where a significant degree of interaction between different organizations is required further increases the challenge. In noting the observations on lessons learnt by successful operators, it is useful to split into governance during 'transformation' (i.e. up to and including implementation) and 'steady state'.

Governance during transformation. Project governance requires all of the usual attributes required in complex change in the public sector. In particular, successful transformation uses its governance arrangements to:

- a) Leverage a senior management mandate.

- b) Allocate scarce resources.
- c) Facilitate a major part of stakeholder communication.
- d) Provide a senior decision making forum and an escalation route for issues.

An interesting challenge is presented where a shared service is absorbing work from multiple host organizations all at differing levels of readiness. This challenge is best met with a balance of awareness, relative attention and transparency.

Governance in steady state. As a new shared service organization starts operations the governance challenges change. The governance relationships will vary according to the specific situation. Our previous research noted five main aspects of governance need to be addressed which are:

- a) Economic model: How will the shared service be priced? What payment mechanisms need to be put in place? What are the contingencies if the service turns out to be over- or under-profitable? – in the main transfer pricing remains a relatively administrative issue. The main focus of business cases is getting the cost model correct (staff costs for Opex and IT and Estate costs for Capex). Attention increases if an outsourcing model is applied. In this case pricing forms a major part of the outsource negotiation as a potential benefits share is carved up into price reduction (cost reduction to the host) and cost reduction (improved margin for the outsourcer).
- b) Growth philosophy: Is the unit expected to grow? Will the new shared service focus only on the 'host' organization or will it also seek third-party business? – indeed proving to be a hot topic. As government shared services remains a relatively immature market place, there is currently room for varying degrees of imposed 'regulation' from original host departments. As (and if) the market is allowed to develop, such regulation will be removed through market forces.

Major cost and service improvement in revenue services in North America

The revenue management of some government services (billing, collections and debt management) of a number of departments were consolidated into a shared service and outsourced to the private sector in a 10 year deal.

The mix of modernization (service oriented architecture, IT and telephony infrastructure and ERP), privatization and consolidation delivered a dramatic improvement in performance – essentially doubling the revenue collected with half of the original staffing levels.

During the transformation phase, data security and individual confidentiality was a major challenge, addressed through corporate restructuring (to clearly assign responsibility, accountability and control) and system engineering.

In post-implementation day-to-day management, the role of an interface organization (between the shared service and government client departments) became key in managing scope, expansion and service levels. Interestingly, some performance measures were left fluid for over 12 months whilst the new operating model settled down. This enabled all parties to better understand possibilities and refine targets.

Merging 12 HR teams across all ministries in a European jurisdiction

The scope was to merge HR functions for 12 ministries, increase automation and improve efficiency and quality. Primary services in a phased implementation included payroll, personnel administration and recruitment.

The original initiative was started in 2003, but cancelled in 2005 because of insufficient progress and delivery issues with service providers. Restarted in 2006, it is now in implementation phase.

During the first implementation there was too much emphasis on IT. A fixed price contract had been entered into with suppliers. In hindsight, the suppliers promised too much and had too little knowledge of the required processes to be able to deliver. Coordination and steering from within the government was also difficult. The suppliers withdrew in 2005.

More attention should have been given to process harmonisation and standardisation across the ministries before looking at technology solutions and a shared service.

On restart, phasing the implementation was an important lesson, starting with salary administration (because this was a significant 'critical-mass' first step), followed by personnel administration (employee self-service). Getting the different ministries aligned was also a key success factor.

On full completion this will result in a 60% reduction in HR staff.

- c) Capital requirement: Who is responsible? How is return on capital to be managed? – in the main, capital management also remains a relatively administrative issue. Progress of treasuries in many countries over the recent decade to reframe national budget management beyond the annual horizon (to two or three years) has done the trick. Our latest research suggests that managing capital is not an issue. Indeed, CxOs in three different countries suggested that a

threatened barrier due to capital requirements was usually symptomatic of potential loss of some individual's power. Also, if capital was really an issue, a simple solution of scope reduction to enable an initial start would be engineered (in line with the 'think big, act small' mantra noted earlier).

- d) Management philosophy: what part will the core organization play in the management of the shared service? Will it consist of pure oversight of service performance or will more direct involvement in decision-making be required? – two main models are emerging:
- Directive and top-down – where the host senior management has an advisory (almost non-executive) role in the running of the shared service.
 - Institutional – where the host and shared service middle management liaise in a small liaison functional team.

- e) Visibility/transparency: How open will the accounts be? If the shared service wins third-party business, will overhead reallocation become an issue? – although generally the market is still too immature, we found that this is a hot issue in Canadian provincial governments where shared services centres are already revolutionizing the disclosure of content in published reports.

Private sector involvement in shared services (ranging from service provision to full blown outsourcing) is increasing. In these models, governance can play an important role particularly in enabling the introduction of more innovative (and capital intensive) IT and web-based services. Curbing this growth in privatization are new public sector models where new non-profit agencies are created to provide services to other public sector entities.

Leadership mix – blending traditional public sector leadership (process oriented, well networked, organization savvy and public service oriented) with leaders recruited from the private sector (task oriented, functionally skilled and more accepting of risk) is a talent management method being applied in most jurisdictions and government sectors (in Tax and Welfare Departments in particular).

Service culture - changing government services from a process focus to a citizen centric ‘service’ culture is supremely difficult. In many cases, the creation of a shared service has proved to be an effective catalyst. This is true in ‘back-office’ shared services where a new identity has enabled staff to treat their ‘new’ customers, many of whom were previously colleagues, in a completely new way. New relationships are fostered in many ways through: new management, technology, branding, collaboration and innovation but mainly by the new leaders and senior staff. These also apply for front-office shared services too, together with the additional effect of investment in channels and CRM applications.

The lower ranked enablers – also perceived as fundamental, but significantly less important

Collaboration and communication technologies – significant developments by technology suppliers has enabled shared service operations to improve infrastructure and provide new options for service models. In the main, at CxO level, the leadership of shared service organizations take technology provision and capability as a given. Technology needs to be cheap, reliable and future-proof. In our research, we noted the following:

Creating one number to call for a benefits organisation in Europe

Between March 2003 and March 2006 the benefits organization (unemployment/ disability) decided to consolidate enquiries so there was only one number to call for employees and one for employers nationwide. Currently, there are about 1,000 employees in the call centre who will answer an estimated 6m calls in 2007, with a budget of around €35m. This is down from around 12m calls before the setup of the central call centre and an estimated cost reduction of approximately 50%.

Cost was not the main driver though, increased service to citizens was the main goal. An initial target of answering 60% of questions in the first call was set. Now at least 85% are answered in the first call, explaining the drop in numbers of calls.

One of the key success factors was the fact that a clear vision was developed, but implementation was done “opportunistically” by constantly focusing on the best way to support the “client advisors” (call centre operators).

- Concern that systems architecture is capable of integrating existing systems and adapting to new locations and the provision of new services.
- Speed of implementation and expansion is often severely compromised by existing infrastructures.
- Relatively stronger focus on technology in Canada due to significant investment levels.
- Increasing use of web based tools to enable cross agency collaboration.
- Increase in transition from customized software to COTS and Enterprise Resource Planning (ERP) software in steady state back-office shared services.
- Experience of a 'tipping point' moment in time where the uncertainty of an initial transformation process finishes and the operating model freezes at a particular level of technology. After this time, further incremental change becomes difficult as the organization starts thinking about the next step change.

Standardization and Solid operational management – we observed a strong aspiration to understand the basics and deliver them well. It is comprehensively understood that standardization is required to reduce complexity, secure business process re-engineering benefits and enable IT change to institutionalize change. There is a strong consensus that re-engineering was the main deliverer of benefits, rather than the application of IT.

Similarly, CxOs recognize the need for strong operational management. In particular, shared services run well when operations are focused on quality of service and performance; staff welfare and development; financially secure; and individual and corporate performance measures are aligned.

SHARING SERVICES 'DELIVERS GREAT BENEFITS'WE THINK!

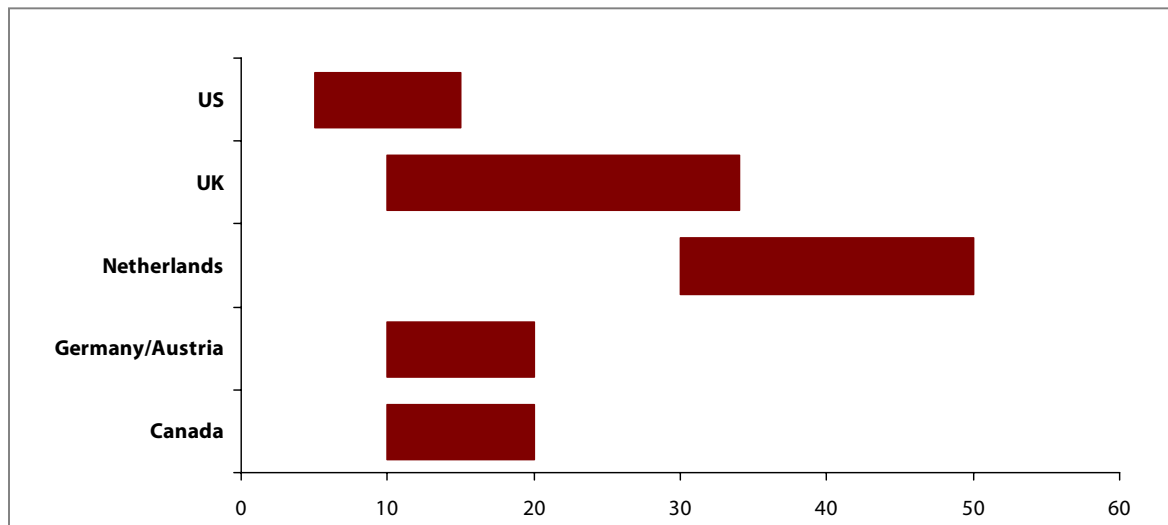


Figure 4 *Perceived benefits*

Although CxOs are generally optimistic that shared services deliver benefits, this is tempered with a degree of caution on the robustness of quantification and differences between ambition and reality, especially on 'time to market'.

Figure 4 shows the perceived levels of benefits realized in five countries included in our research. Almost two-thirds of our interviewees approximated that they achieved cost reductions of 20% or greater, which was the probable maximum predicted in our earlier research.. The maximum cost reduction claimed in this 2007 research was 50%.

There was a strong consensus that the main sources of benefits were achieved in headcount reduction (ranging from 50-80% of the overall total benefits) with IT contract and service consolidation as the second most important contribution. Some transactional processing times are being dramatically cut (for example from 26 to 3 weeks). Further, many other benefits were also listed:

- Improvement in efficiency, effectiveness and quality of service to citizens.
- New accessible data for all management leading to improved monitoring and accountability.
- Better informed decision-making.
- Expanded internal capability. Internal expertise and capacity have been added to support the public sector. As a result, civil servants are now capable to support other implementations and reducing the overall cost of change.

So, this is a significantly better than originally anticipated. Or is it? Although comfortable in declaring approximations, these were rarely backed up with hard evidence. Indeed some interviewees openly stated that benefits were not measured. There were three main reasons presented for this:

- a) Too difficult. Lack of baseline figures prior to transformation, changes in operating models and reallocation of overheads all contribute to confusion.
- b) Not my job. In many cases, the benefits achieved by the shared services flow to the host/client organizations.
- c) Leap of faith. The perceived benefits, coupled with experience drawn in from leaders recruited from the private sector, build a compelling case.

On the time to implement a shared service, most business cases are targeting 1-2 years. This is generally being achieved. However, some implementations do hit significant delays (delivering much later in years 5 and 6) typically due to a combination of poor scope management, under estimation of complexity and a refusal to adopt standardization.

Reflection on the barriers to achieving benefits included all the typical challenges of transformation in the public sector. However, two main themes were particularly interesting:

- In many cases, management of staff is the key to speed of transformation and capacity (rather than capability) to deliver services. Staff turnover is an issue. Although recognizing this, it is intriguing that staff management was relatively low in the CxO's ranking of perceived enablers for successful shared services. Going forward, leaders will have to place increased importance on this.
- Scalability and delivery of IT services:
 - Public sector leaders have an anxiety that IT service providers, fired up with success from supporting shared services in the private sector (financial services, utilities etc.) severely underestimate the sheer scale of the public sector.
 - Capacity and capability of program/ project/technical support labour in IT suppliers potentially affecting the ability to deliver. To reinforce this point, one CIO suggested that there was potentially a need to slow down government progress on shared services implementation to allow the IT labour market time to catch up!

THE FUTURE – TECHNOLOGY WILL SET THE SUPPLY AGENDA

In our previous paper, we put forward a six-step approach within which we recommended that organizations should manage, but not be led by, technology. This recognized that the rate of technological advancement has consistently outpaced organizations' adoption of new technology, and that the supply-side push, although a definer of modern shared services, needed to be harnessed in a measured and controlled way. With public services a late adopter of shared services but becoming a fast-follower, our caution was predicated on the belief that trying to "run before you can walk" would manifest in misaligned business cases, poor execution, and limited realization of anticipated benefits; trampling out the early successes of shared services and destroying stakeholder confidence.

The mismatch in demand and supply identified in this recent research, where, for example, over half of the organizations surveyed were investing heavily in automated telephony (such as Interactive Voice Response (IVR)) even though only 6% of citizens would want to use it. This misalignment confirms that poor selection and management of ICT solutions threatens to undermine the future of shared services in some government agencies.

The future of shared services is heavily dependent on technology - as the vision definer, solution shaper and business enabler of integrated service operations, technology will continue to power the evolution. In fact, the relationship between shared services and technology is not a symbiotic one, in which service requirements have instigated IT solutions, and IT solutions have enhanced service operations. The reality is that technology supply is creating demand and driving service advancements towards government reform agendas. After all, it is no coincidence that shared services came to the fore in the late 1990's as technological innovations such as global telecommunications, the internet, and standardized ERP applications matured and became mainstream: fuelled by technological developments the promise of shared services was realized.

Today, technology remains an important enabler of modern shared services and future advancements will be leveraged on technological innovation. Importantly, shared services are consistent with the drive for sustainability. This will have an increasing impact on the development of business cases in the future. Our research reveals three developments in the technology supply-side that are leading the changes to shared services centres which are:

- Improved Communications
- Greater Collaboration
- Increased Productivity

Improved Communications - Vendor solutions are enhancing and diversifying the channels for government to citizen interactions through multiple communications mediums such as mobile, internet, telephony, and interactive TV.

As personalized communications come of age, shared services will need to consolidate their data and voice communications infrastructure, and deploy capability for real-time on-demand video services (to support front-office citizen interaction) and intelligent analytical applications. To

facilitate this, unified communications platforms are emerging that eliminate the complexities of managing disparate systems by combining data, e-mail, instant messaging, voice, and video into a single system designed around workplace operators and their activities. To support the need for more customized communications, advancements in CRM software combined with Business Intelligence technologies are allowing for a better understanding of service demand and demographics, and more tailored service delivery.

Although these innovations promise to increase the efficacy of service operations, they have raised concerns over data access and confidentiality. In response, vendors are now building in greater security and control measures such as authentication, authorization and certifications to protect confidential data and alleviate these fears.

Greater Collaboration - Shared services in the public sector, in contrast to the private sector, are epitomized by the sheer scale and complexity of their operations. One of the bigger challenges to be overcome the vertical silo working of departments and agencies is the need to standardize data and system interoperability. This is borne out in our research where discussions centred on the difficulty of integrating and upgrading existing systems to support new service models.

Although the benefits to all stakeholders from more collaborative working are great, legacy and proprietary technology have traditionally been the biggest obstacle. The emergence of Service-Oriented Architecture (SOA) based systems that are independent of their inherent development technologies and platforms means that programs can talk to other programs more easily based on a formal definition of a common object such as a patient, pensioner, pupil or welfare claimant. SOA enables easier systems integration and the deployment of more joined-up service solutions that can even span front and back-offices.

For example, a citizen's change in circumstances can be entered once and automatically replicated in all related systems, including those in other agencies or government bodies. Broadband capacity is becoming an increasingly important prerequisite for the success of next generation shared services. Especially as more of those back-office services rely on video-based collaboration and interaction, together with the handling of an ever-increasing load of data and voice traffic. At the applications level, some ERP system providers are building service-orientation directly into its solutions and providing a service-oriented technology platform that will allow its customers to integrate disparate applications more easily.

Increased Productivity - As organizations strive to further their economies of scale and expertise through shared services, they require greater automation and systems reliability. Vendors are now bringing to market solutions that increase systems resilience and reliability, improve connectivity to enable best-shoring and location independence, and simplify information entry, storage and access. SOA is reducing complexity and management costs, shortening the time it takes to implement and expand the technology base, and making more effective use of networked resources.

SOA is also facilitating workplace transformation through the development of web services integrated into workplace portals that provide seamless access to applications as part of a standardized back-office workflow. Self-service tools, for example such as those provided through

ELSTER for electronic transfer of tax declaration in Germany or the Government Gateway in the UK, are reducing the demands on the back-office by encouraging citizen's to interact online, either to submit their tax returns or update their benefits eligibility. Advanced workflow and telephony tools such as soft-phones built on Voice over IP (VoIP), net meetings, document imaging, and automated alerts are increasing operator productivity and levels of customer service and are already on the market.

Despite the supply-side push, a pragmatic approach to the selection, implementation, and management of technology is essential. As departments rush to embrace new vendor offerings, they must not overlook the capabilities and competencies required to exploit these new technologies in terms of both organizational maturity and citizen acceptability. The success of enabling technologies will, as before, depend on the pragmatic application of supply-side innovations, and the ability of governments to identify, scope, align and deploy technology initiatives effectively.

Technology implementation in the public sector requires the same management disciplines as in the private sector – a clear alignment of spend to objectives, customer engagement and change management, a continuous focus on benefits, and the tracking of desired outcomes. So although technology innovation drives upwards and onwards unabated, its institutionalization in government shared services should be progressive, pragmatic and carefully managed.

THE FUTURE – MATURITY AND INFORMATION MANAGEMENT NEEDS WILL DRIVE DEMAND

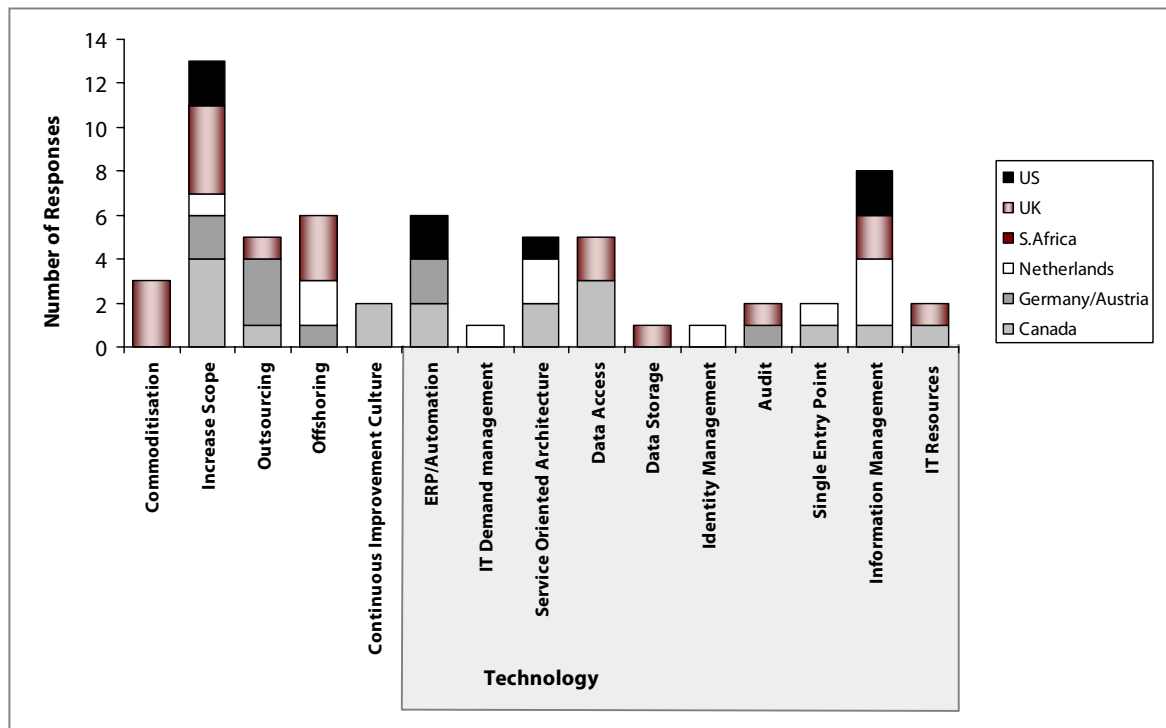


Figure 5 *Perceived future trends*

We asked the interviewees their thoughts on the future of shared services. In summary, many perceive that the internal market for shared services is in its infancy. Consequently, there is a view that the future will involve significant reconfiguration (commoditisation, changes in scope and continued review of retained internal capability versus commissioned external services). Also, the evolution of many forms of technology were featured. Figure 5 shows the range of responses. These are expanded in more detail below:

- **Commoditization** – as more and more public sector shared services centres are established and the original ties that bind them to a host organization fade (typically, within 3 years the originating management team will have completely moved on), increased pressure of cost reduction will drive competition.
- **Increase in scope** – although back office scope is already relatively broad (HR/payroll, finance IT and procurement) further functions (for example, some transactional processing – data entry, compliance and control, budgeting and forecasting) will be drawn into scope as business cases evolve. Front office services are currently departmentally oriented (multiple and separate tax and welfare customer contact functions). Signals are already in place that ‘top-down’ strategy (driven in some cases by legislation, for example in The Netherlands) will rationalize services and increase the scope for sharing, for example a single point of contact for the handling of a change in circumstances. Also, front office

services could also expand into advice, for example taxation services to include debt counselling. Certain (usually larger) government organizations will become best-of-breed providers of a particular service and smaller organizations will accept that being a buyer of that service better fits their business model (rather than carrying their own dedicated service). As demand for more 'citizen-centric' services increase, the winning shared services will be those that nurture a customer service culture through their channel, product/service, customer handling procedure and technology.

- **Outsourcing** – as established shared service centres in the private sector have been forced by their Boards to consider outsourcing, competition will drive similar behaviour in the public sector. With North America leading the way in this thinking, it is likely that we will see more out-sourcing (either to the private sector or to new public sector agencies) with only contract management maintained by government. This in turn will require adaptation of government procurement procedures and liaison processes to ensure the best leverage and risk/reward share with the private sector. As the role of the private sector increases from longer term service contracts to full outsourcing, partnering arrangements including the sharing risks and rewards with IT and other service companies will significantly increase in importance.
- **Off-shoring** – although for some, off-shoring remains as non-viable due to political, data security and language issues, we detected a definite softening on this issue as compared to our research in 2005. The general perspective is that, as cost reduction drivers continue, near-shoring and off-shoring will increasingly become an attractive option for consideration. Major global trends are in force from the supply-side. Off-shoring has been big business in India for some time and with the expansion of the European Union there is an increasing opportunity for Eastern Europe too – there is a skilled work force, a private sector shared services culture already established, low inflation and salaries at half to a third of those in Western Europe.
- **Continuous improvement culture** – although generally accepted in management styles in all of the countries included in the research, once again Canada stood out in emphasizing the need to promote continuous improvement from the top.
- **Progressive application of technology** - the drive for cost reduction and the push of technology will improve and increase automation and the agility of technical infrastructure to respond to organizational and process evolution. However, during our interviews, two main themes of concern were expressed:
 - The potential of losing touch with citizen's needs as automation and IT take over.
 - A need to ensure that potential benefit is properly considered not oversold.

Technology will become more standardized, open and flexible to facilitate greater data sharing. Many talked of the need for increased 'plug and play' solutions and Service Oriented Architecture combining packaged/standard applications. Increased web and portal technology will enable more staff 'self-service' type applications. Information management will need to be increasingly more intelligent to meet the demands for confidentiality and security – such as potentially tagging network elements with a security footprint.

GREAT OPPORTUNITY FOR THE SUCCESSFUL INNOVATORS AND EARLY IMPLEMENTERS

Reducing the costs of government services remains a necessity. As well as this, the value of improving services throughout what can be considered as an 'information chain' is being seen as a lever to improve customer (and citizen) relationships. Shared services in government typically presents a progressive approach to secure such benefits in both the back-office (HR, finance, procurement, IT, transactional processing) and also increasingly in citizen facing front-office. This research suggests that opportunities exceed previous predictions (5-15%) with improvements of 15-25% as the achievable target range. When this is factored with the large multi-million dollar/euro budgets of government administration organizations, target savings for treasuries are very significant.

However, transforming government services is complex and risky. Research on best practice suggests that as well as delivering all of the usual change management and technology tasks effectively, the design, development and implementation of shared services should pay particular attention to:

1. Having a compelling vision and delivering success very quickly in pragmatic segments
2. Emphatically managing scope
3. Recognizing and managing stakeholder complexity and
4. Rising to the challenge of data security, privacy and confidentiality of information.

In the long run, those that implement successfully and build their scope will create a market where economic forces drive up standards, lower costs and maintain delivery in the true spirit of the public service ethos.

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