

The Government Executive Series

Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services



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High performance in government

What characterizes high performance in government? Through our extensive research and experience in the public sector, Accenture has found that true high-performance governments bear unmistakable hallmarks. High-performance governments generate maximum public value. They are relentlessly citizen centered and outcome focused. Their capabilities and operational activities all support the delivery of outcomes defined by their mission, and they measure their performance based on those outcomes—not just inputs and outputs. At the same time, high-performance governments are committed to cost-effectiveness. They hold themselves accountable; they actively accept their role as stewards of the public trust; and they make their operations and results transparent to all. They are innovative and flexible, continually striving to improve value delivery, and are able to respond creatively to new challenges and opportunities. They work in open and collaborative ways, understanding that their organization is part of a larger system, and cultivate working relationships with other agencies, organizations and stakeholders. Finally, high-performance governments reflect their enthusiasm for delivering public value. This evident passion engages both internal staff and external stakeholders in active support of their organizations' missions.

Shared services enables high performance. It allows governments to focus their precious resources on high-impact activities that are core to their missions, rather than on routine administrative functions. The end result is improved outcomes at a better cost for the citizens and businesses governments serve and, ultimately, better public-sector value.

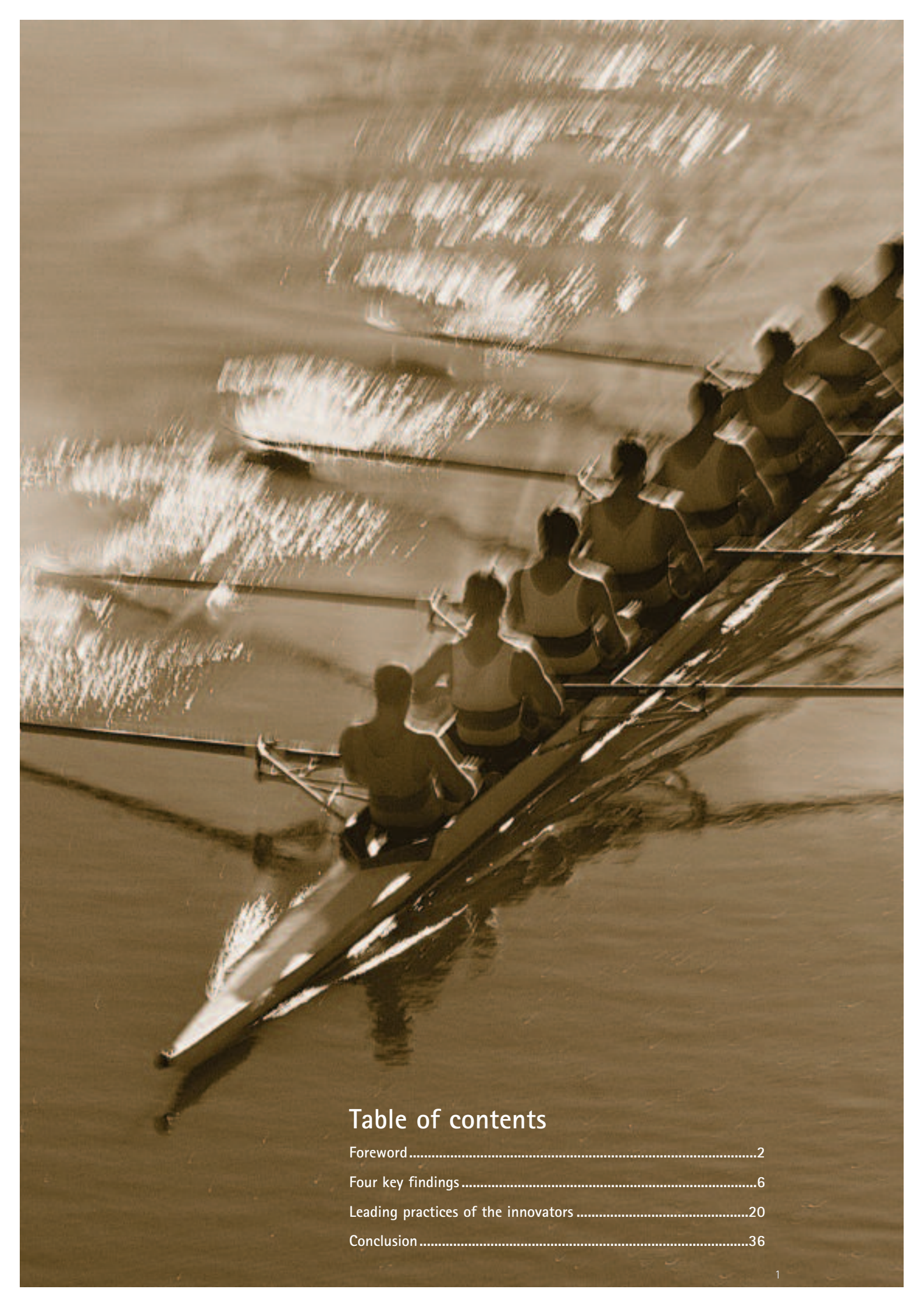


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Foreword

In recent years, governments around the globe have been fighting a common battle on three fronts. On the first, a global downturn in the economy has led to increased fiscal pressures and difficulties in balancing budgets. On the second, growing expectations that public-sector organizations need to be more accountable to stakeholders and deliver better public services have left governments struggling to provide more citizen-focused services with less funding. On the third, impending labor shortages as an aging workforce retires means many governments will find it difficult to retain the knowledge workers needed to run their operations. In fact, some governments are already starting to experience skills shortages in certain areas, such as information technology.

Governments need shared services now

In short, governments have the challenge of needing to accomplish seemingly endless objectives with decidedly limited resources. The traditional options for governments faced with such a dilemma have been either to cut services or increase revenue through higher taxes. Still, some government leaders have overcome these obstacles and achieved remarkable results through a different approach, dramatically increasing the value of the services they provide and transforming their organizations into high performers.¹

In this study, *Driving High Performance in Government: Maximizing the Value of Public-Sector Shared Services*, we aim to show how the drive toward high-performance government can be supported through implementing shared services. (See sidebar: "Shared services defined.") Shared services helps governments be more client-centered, outcome-oriented and accountable, by allowing governments to focus on their core responsibilities and to operate more efficiently. Ultimately, shared services can increase public-sector value—the return government gets on its investments—by decreasing administrative costs by up to 25 percent and freeing up human resources to be redirected to citizen-facing front-office programs. When used correctly,

shared services can be an engine of high performance, delivering significant cost reductions and dramatic service improvements, both of which result in improved value.

Shared services is a well-established concept in the commercial world, and Accenture has been examining its emergence in government as well. Last year, Accenture produced a point of view on shared services in the public sector. Our goal then was to provide a starting point—an overview of the shared services concept and advice for governments starting on the transformational journey.² Our experience working with hundreds of clients at all levels of government in dozens of countries around the world has given us conviction that governments looking to achieve high performance remain extremely interested in the improved efficiencies and higher levels of service that shared services can offer. They find the opportunities shared services affords to shift budget from administrative activities to front-line, citizen-facing services compelling.

For example, the U.S. Office of Management and Budget (OMB) has defined five "lines of business" for which they are advocating cross-agency consolidation, integration and possibly shared services. The lines of business include financial, human resources, grants, health and case management. The goal of the effort is to identify opportunities in the fiscal 2006 budget to reduce the cost of government and improve services to citizens through business performance improvements. In the United Kingdom, the *Gershon Review* (July 2004) outlines far-reaching public-sector reforms to take place over the next three years and brings back-office issues to the forefront. The Spending Review has targeted 2.5 percent annual efficiency gains, £21.5 billion a year in savings by 2008 and a significant reduction in the size of the civil service. Shared services is increasingly regarded as an important tool for addressing these challenges. In Singapore, the government has targeted a 3 percent manpower reduction each year. As part of the ongoing drive, the government has identified 12 services that will be "market-tested": a process known as best sourcing (including shared services) that will help the government deliver services more cheaply and efficiently.

¹ Accenture research suggests that high performers in the public sector base the value they create on two criteria: the outcomes they deliver for citizens and the cost-effectiveness they achieve. By focusing on both outcomes and cost-effectiveness, high-performance government organizations strive not only to do the right things, but also to do them in the right way.

² See the Accenture point of view, *Focus on Value: The Case for Shared Services in the Public Sector*.

Shared services defined

What is shared services? Ask the question in the public sector and opinions will vary, but Accenture defines *true* shared services as the consolidation of administrative or support functions (such as human resources, finance, information technology and procurement) from several departments or agencies into a single, stand-alone organizational entity whose only mission is to provide services as efficiently and effectively as possible. Shared services frees up scarce resources to allow departments and agencies to focus on their core business and on their customer needs, while providing organizational flexibility to have the administrative back-office structures independent of front-line activities and structures.

More than just centralization (where services are funneled into an existing department as an added-on responsibility), shared services implies a separate and distinct organization where administrative/support functions are the main focus and so are treated with primary importance. Moreover, shared services has a critical emphasis on "shared" responsibility for end results and on "service" for a high level of client satisfaction: Unlike centralized models, shared services organizations are typically responsible for providing services to an agreed service level and reporting on service effectiveness, which has positive implications both for benchmarking and for determining the value of money spent on providing the services.

While cost cutting may be the initial rationale for implementing shared services, high-performance governments will take a more value-oriented approach, seeking to leverage the full potential of shared services as an opportunity to improve public-sector value and transform citizen service delivery. However, adopting true shared services operating models requires a dramatic transformation and corporate culture change that address business processes, policies, organizational structure, personnel management and technology. Many organizations address a few of these components when trying to achieve high performance, but unless all of these components are addressed holistically as part of a shared services strategy, the benefits of shared services will not be attained.



Foreword

This year, we delved deeper—and conducted a methodical survey of government executives to identify trends around the awareness and adoption of the shared services model in the public sector. We wanted to provide an overview of current practices that our government clients could use to compare themselves to their peers. We also wanted to look specifically at some shared services innovators to understand the challenges they have faced in planning and implementing shared services, and to see what benefits, if any, to service delivery they are experiencing. (See sidebar: “Our methodology.”) Our goal was to identify the drivers, challenges, benefits and critical success factors for shared services initiatives in government and share that information to help government organizations transform their own operations through shared services as a step toward high performance.

We found a number of surprising trends

Some of what we found surprised us: More governments than we expected say they already have shared services operations, across a broad array of functions. Sixty-six percent of the governments we surveyed have already implemented shared services or are in the process of implementing it. Another 28 percent anticipate implementing shared services in the next one to three years. Only 6 percent have no plans to implement shared services. We also found that the toughest challenges many governments face during actual implementation are not the ones most expect before starting.

A majority of governments consider shared services a vital tool for meeting their challenges and are investing considerable resources on their shared services operations. In fact, 85 percent of the governments we surveyed believe shared services is or will be important to supporting their organization’s strategic goals. We believe these governments understand that delivering administrative services of higher quality at lower cost will improve direct service delivery to citizens and increase public-sector value.

However, we also found that many governments are still falling short of achieving the full potential benefit of shared services. In most cases, the focus on cost savings (versus value transformation) has obscured the service improvement opportunities so

far. Many governments also struggle with insufficient baseline data to assess their progress and the impact of the changes they made. They need to embrace benchmarking more fully to determine whether improvements have been made once their shared services transformation has begun. Additionally, the unique nature of government sets up some very specific challenges to shared services, in terms of managing politics and workforce, territorial and governance issues, that may prevent governments from adopting the optimal organizational structures and sourcing models that commercial entities can adopt more freely.

Our interviews with leaders uncovered a wealth of valuable advice from some hard-learned lessons. While all experienced a myriad of shared services challenges, they emerged with demonstrably successful shared services organizations and solid strategies for continuous improvement. Although their individual circumstances differed greatly, these executives often echoed strikingly similar sentiments, especially about the value of building a strong business case, gaining buy-in early from all stakeholders and of meticulous up-front planning.

A transformational journey worth taking

Accenture believes in the benefits shared services can deliver and in its pivotal role in transforming the delivery of administrative services in the public sector. However, our research has shown us that even governments that have implemented or are implementing shared services have many opportunities for improvement. Shared services is a long journey, and governments are clearly in the early stages of that journey. Realizing the full value of shared services comes from focusing and implementing both service management and continuous improvement as well as cost reduction. And so we offer this report—a baseline for governments to see what their peers are doing, leading practices uncovered from the research and our own advice based on extensive experience. Our hope is that we will begin to fill in the gaps in knowledge on a topic so critical to achieving high performance in government.

David A. Wilson
Managing Partner, Government Finance
and Performance Management

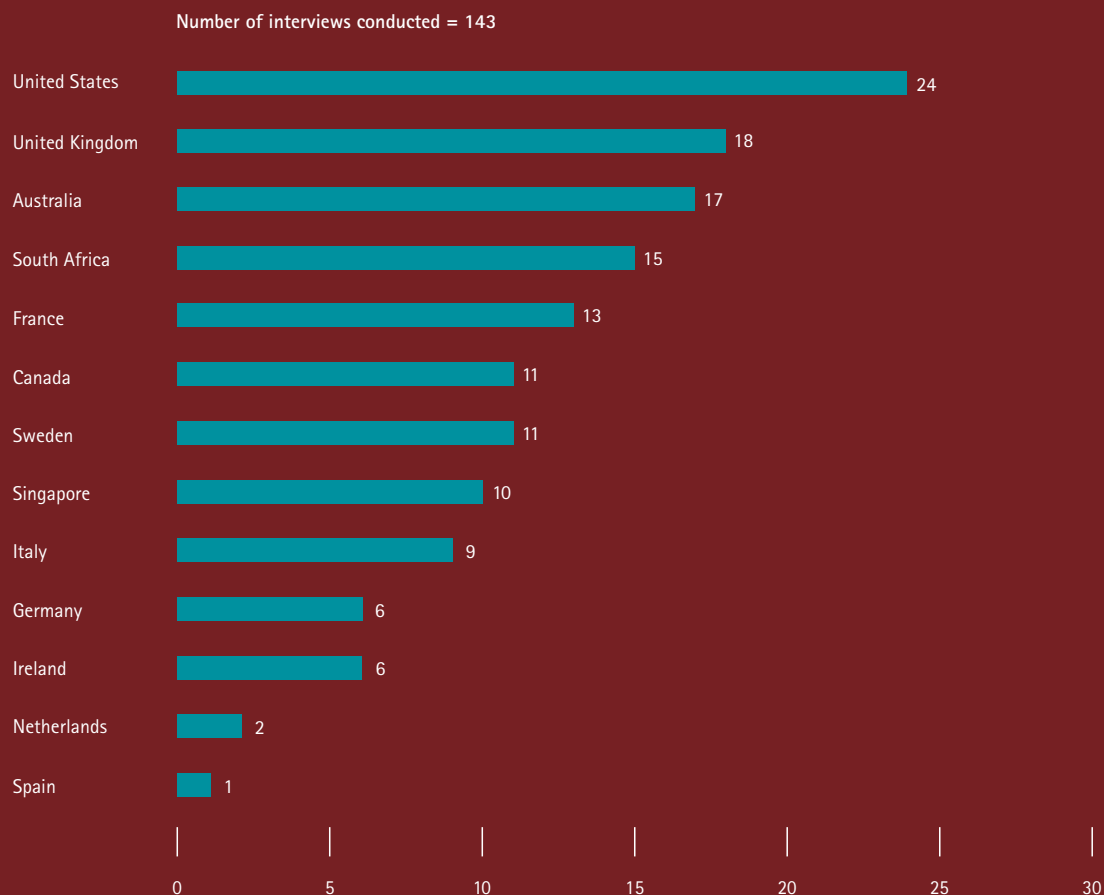
Our methodology

Our research consisted of two separate strands and was managed by Accenture's in-house research arm, Accenture Research. The first was a quantitative survey to assess progress toward the implementation of shared services in the public sector: the scope of functions being shared, sourcing models adopted, objectives, challenges and critical success factors.

For this quantitative component, we surveyed 143 senior government executives at all levels of government (central/federal, state/provincial and local) in a selection of government agencies across 13 countries: Australia, Canada, France, Germany, Ireland, Italy, The Netherlands, Singapore, South Africa, Spain, Sweden, the United Kingdom and the United States (see Figure 1, below). We conducted interviews with senior executives from government departments either with an overarching responsibility for the strategic objectives of the organization (such as chief finance officers, director generals, general managers or deputy ministers), or with overall responsibility for specific support functions within the organization (such as finance, human resources, information technology [IT] or procurement). Telephone interviews were conducted with these executives from September to November 2004 by Kadence UK Ltd. Results from this quantitative component largely constitute our "Four key findings" section.

Our research also contained a qualitative component, in which we interviewed senior executives at a targeted group of organizations that we identified as having made notable progress in their shared services journey. We spoke with innovators at 11 agencies³ around the world about the rationale behind their decision, the stages of their journey, the challenges they encountered, their measures of success, their critical success factors, the lessons learned and their plans for the future. We present their insights in the third section of the report, "Leading practices of the innovators."

Figure 1: Our quantitative results are the product of 143 interviews conducted in 13 countries



³ Please see the Acknowledgments at the end of this report for a full list of agencies that participated in our qualitative research.

Four key findings

The potential benefits from shared services are striking. In the private sector, it is not uncommon for organizations to identify savings in excess of 20 percent⁴—which alone is strong rationale for the move to shared services. Then, there are the other benefits that contribute to delivering greater public-sector value: greater efficiency, improved focus on strategic outcomes and improved service delivery. For governments to achieve these benefits, they need a starting point: baselines to compare practices, to understand what those who have been successful have done to ensure their success, and to help those just starting out on their shared services journey to know what practices to avoid and which ones to pursue rigorously. Our key findings provide this baseline information.

Four key findings emerged from our research:

- Governments regard shared services as a vital tool for meeting their challenges.

- Most governments in-source their own shared services center although many rely on outside expertise during planning.
- The unique nature of governments sets up some very specific challenges to shared services.
- Many governments have started to implement some key components of a true shared services operating model, but few have implemented them all; thus, few have achieved the full potential of their shared services.

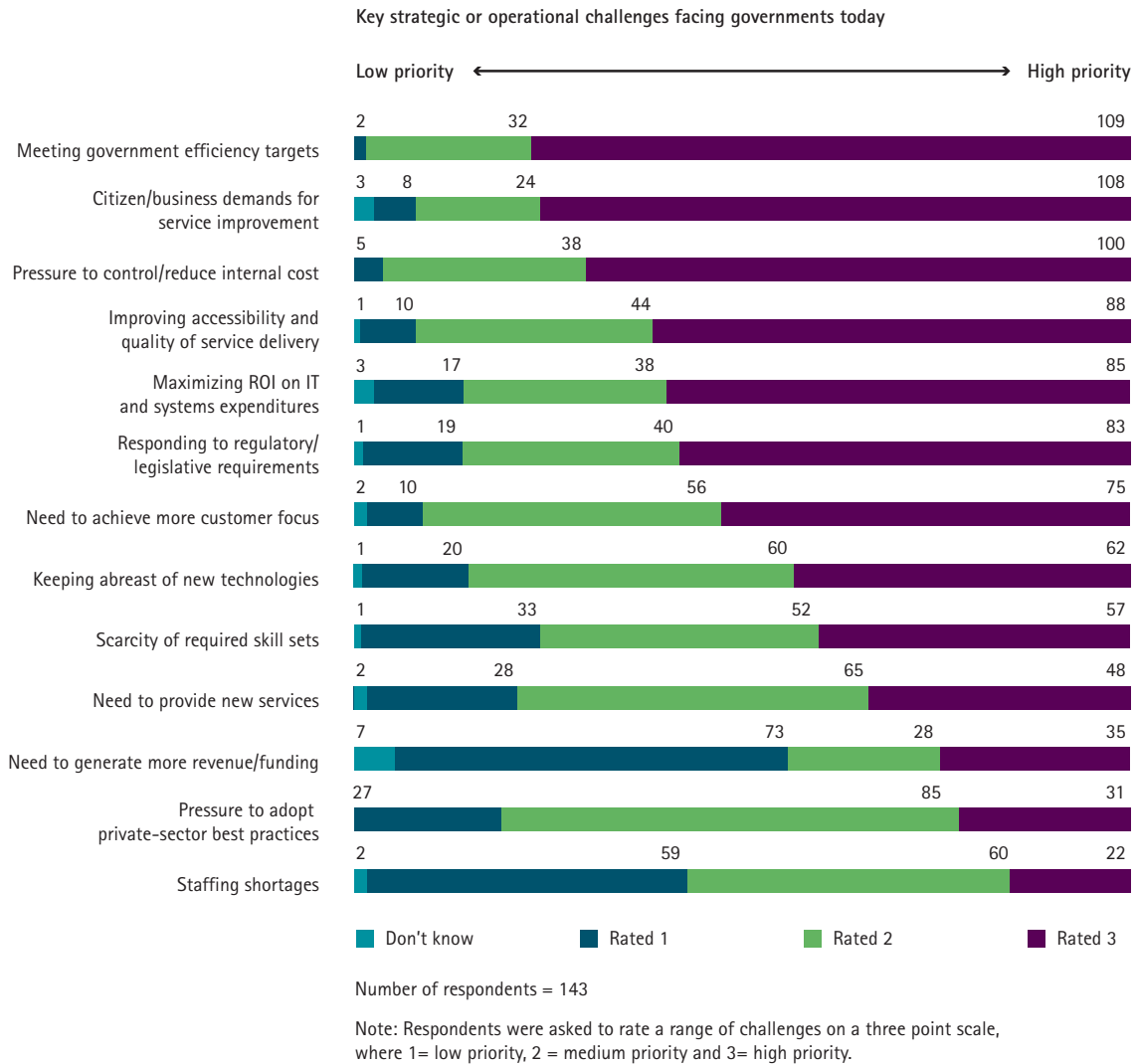
We discuss each of these findings in greater detail in the sections that follow.

Governments regard shared services as a vital tool for meeting their challenges

Governments around the globe are facing similar challenges tied to improving public-sector value. For most, meeting efficiency targets, reducing costs and

⁴ *Shared Services: The Evolution of Higher Performance*, by the Shared Services and Business Process Outsourcing Association in conjunction with Accenture, February 2004.

Figure 2: Efficiency targets, demands for improved services and cost pressures top the list of key challenges facing governments today



responding to citizen demands for improved services are at the top of their list. (See Figure 2.)

In response to their numerous operating challenges, more and more government agencies are gravitating toward shared services for their administrative processes. We provided our survey respondents with a basic definition of shared services⁵ and then asked

whether they had used or would consider using shared services in their own organization.

A higher number than we expected responded that shared services was already on their agenda. Fully 66 percent of the government executives we surveyed reported that they had already implemented, or were in the process of implementing, shared services.

⁵ We defined shared services as the consolidation of administrative or support functions (such as human resources, finance, information technology and procurement) into a single, stand-alone organizational entity whose only mission is to provide services as efficiently and effectively as possible.

Four key findings

Figure 3: Sixty-six percent (94 out of 143) of respondents report that they are already using shared services or are in the process of implementing it for some functions

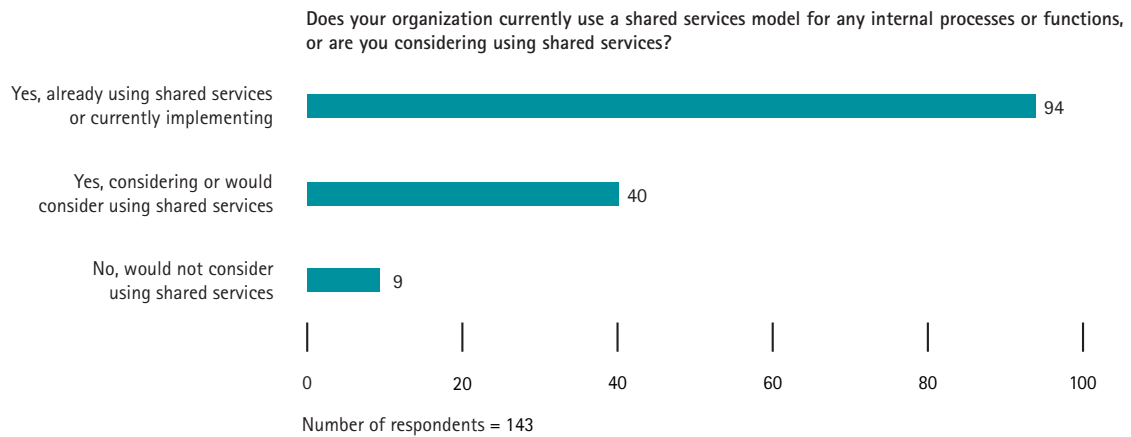
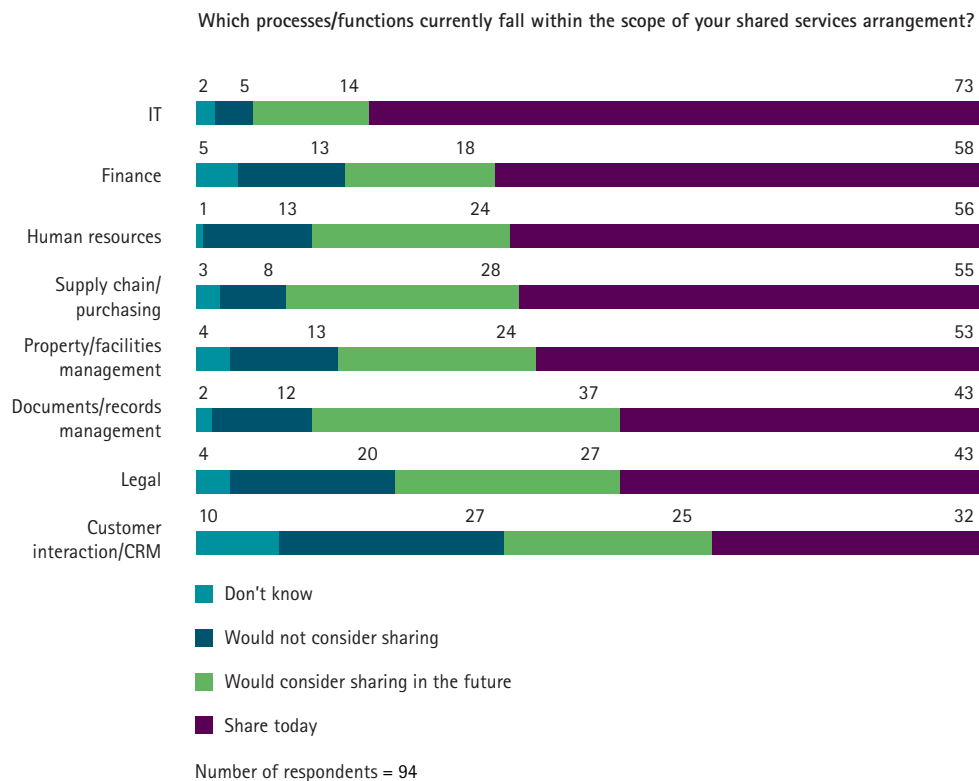


Figure 4: The most common processes found in government shared services today are related to information technology, finance and human resources



An additional 28 percent said they are considering, or would consider, implementing shared services in the future. In fact, only 6 percent of the respondents claimed they would not even consider a shared services model. (See Figure 3.) Those respondents who had no intention of using shared services cited a number of reasons, including bureaucratic inertia, skepticism of senior executives and the fact that the sheer size and complexity of their organization would make it very difficult to implement.

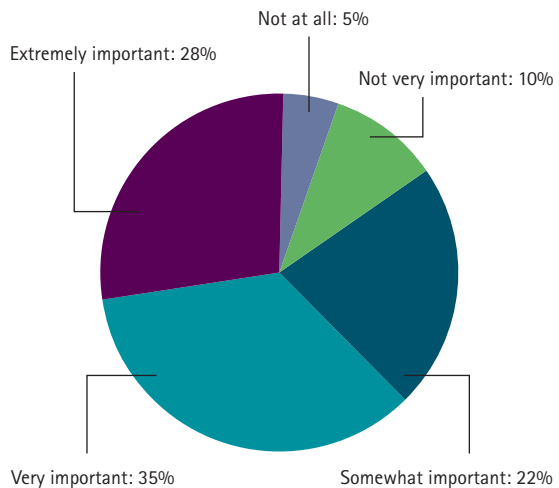
In the majority of the cases, their shared services operations are reasonably mature, with 70 percent of them in operation three years or longer. They also cover a wide range of functional areas and processes, with the most common services relating to information technology, finance and human resources. (See Figure 4.) This finding is unsurprising, as it follows the typical progression of service implementation in the private sector.

Governments clearly value their shared services initiatives. In fact, as Figure 5 shows, 63 percent of our survey respondents rate shared services as "extremely" or "very" important as a tool for addressing their current business challenges. In contrast, only 15 percent view shared services as unimportant.⁶

For these governments, the top priority is to reduce internal costs. Cost reduction was mentioned spontaneously by 70 percent of the respondents and 60 percent ranked it among their top three objectives. However, we also saw evidence of a broadening array of value-oriented shared services objectives, including strategic benefits (through standardized processing environments and improved systems, for example) and improved quality and speed.

Figure 5: Shared services is "very" or "extremely" important to 63 percent of our survey respondents

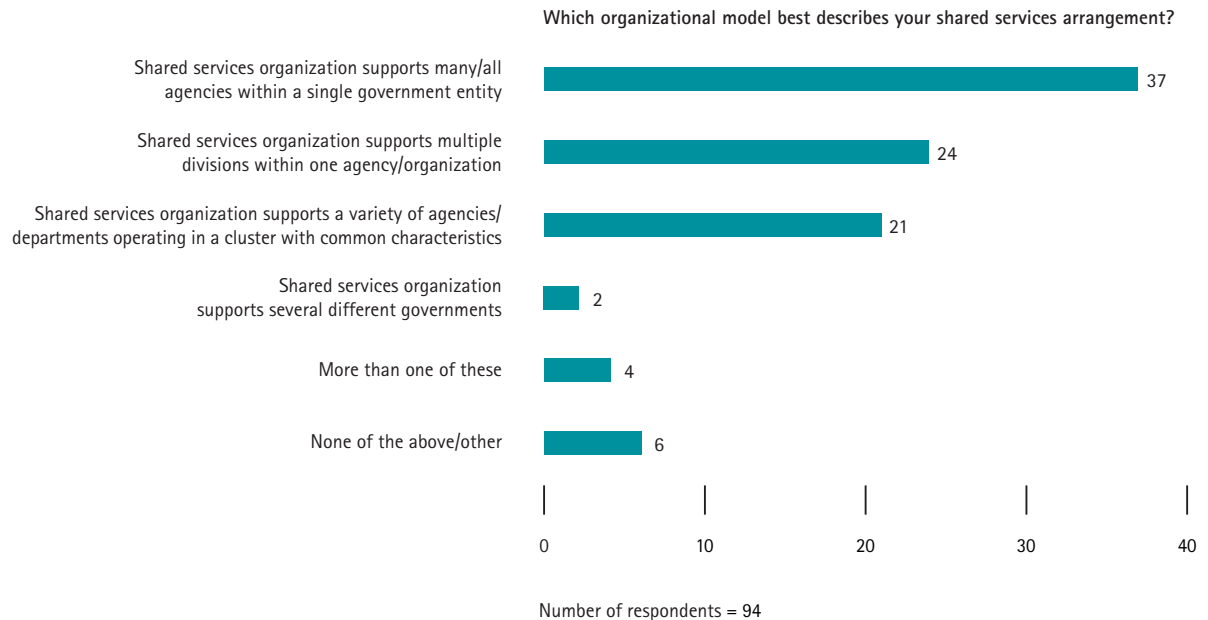
How important do you rate shared services as a way of helping you to address your key strategic and operational challenges?



⁶ These findings closely track attitudes in the private sector. In a survey published in February 2004 by the Shared Services and Business Process Outsourcing Association in conjunction with Accenture, *Shared Services: The Evolution of Higher Performance*, more than 60 percent of the respondents indicated that shared services was a valued component of their organizations.

Four key findings

Figure 6: Most shared services centers support multiple agencies within a single level of government



Most governments in-source their own shared services center although many rely on outside expertise during planning

As shown in Figure 6, shared services centers most typically provide their services to multiple agencies within a government, although several other models are used as well.

Accenture has identified the sourcing options for a new shared services arrangement as falling along a spectrum, typically defined by four main strategies: in-sourcing, co-sourcing, public/private joint ventures and business process outsourcing.⁷ As shown in Figure 7, to date, in-sourcing is by far the most popular sourcing choice for government agencies implementing shared services.

Why have so many chosen this route? A number of in-sourcing agencies (30 percent) felt they already had the requisite skills in house to staff the shared services organization most effectively. Yet, nearly as

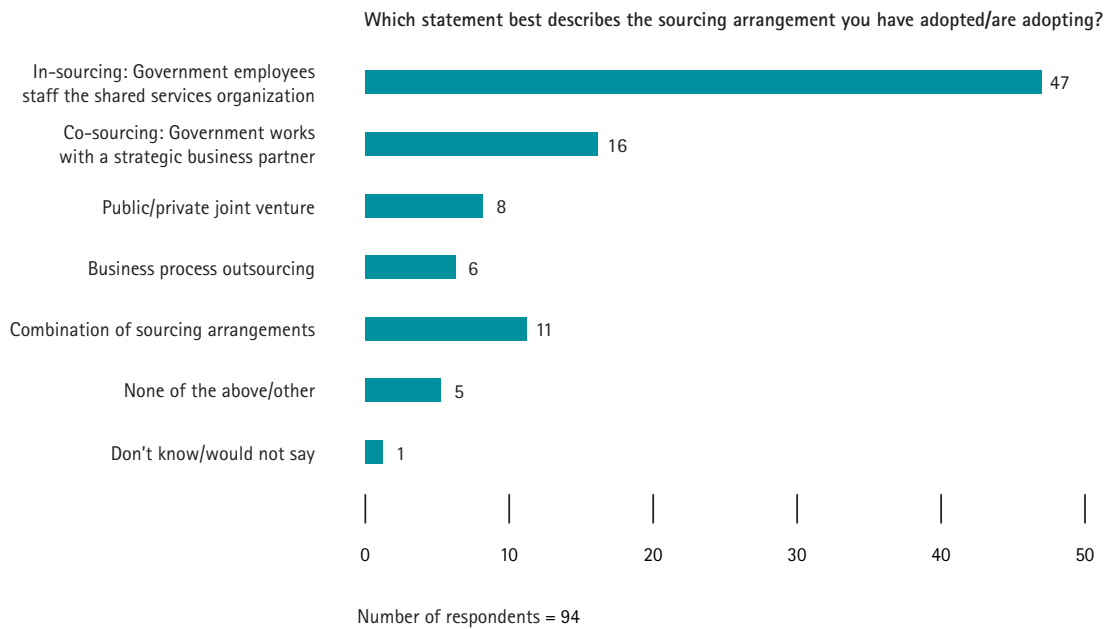
many (21 percent) cited the fact that in-sourcing can minimize union issues and workforce disagreements as a key factor. Seventeen percent mentioned government policy or legislative reasons as a key factor.

Despite the heavy reliance on their existing resources for running shared services, governments in most instances are uncomfortable going it completely alone when it comes to implementation. Those agencies that chose alternate sourcing models typically spoke of the need to compensate for a shortage of in-house expertise through the help of a third-party provider. In fact, only one organization had chosen an outsourcing model: The Singaporean government is not tied to a single sourcing arrangement, but rather has adopted a strategy of "best sourcing" through market testing. If a private company can deliver the service more cheaply and effectively, it is hired to do the job.

At the same time, all our interviewees had tapped into external expertise at either the planning or the implementation stage. As an example, the innovators we interviewed almost without exception had chosen an internally sourced and driven model.

⁷ See the Accenture point of view, *Focus on Value: The Case for Shared Services in the Public Sector*, for a more in-depth discussion of each of these sourcing models. Contact david.a.wilson@accenture.com for a copy.

Figure 7: Fifty percent of the respondents that have implemented or are implementing shared services have chosen an in-sourcing model



Despite the heavy reliance on their existing resources for running shared services, governments in most instances are uncomfortable going it completely alone when it comes to implementation.

Four key findings

However, these innovators acknowledged the value external vendors provided through a broader knowledge and understanding of shared services, as well as proven methodologies based on their experience. In these cases, external vendors could play a range of roles, such as performing benchmarking, providing due diligence on a business plan, advising on the scope of services to be included and organizational structure, facilitating change management and systems integration.

Very few respondents in our quantitative survey said they chose a business process outsourcing model (6 percent). This finding is not surprising; in many cases the culture and strength of unions, a general governmental disinclination toward outsourcing and a fear of becoming "captive" to a single vendor are frequently cited reasons. Those few that did choose full business process outsourcing typically expressed the desire for true transformation among their rationale. Other reasons cited include a desire to introduce private-sector management disciplines, a requirement to transfer risk to a third party and lack of internal competence to provide the services.

Likewise, few government organizations have located their shared services organizations in "green field" (or geographically removed from the sponsoring organization) sites. Though seen as a key success factor in the private sector for helping the shared services center achieve its objectives for performance, cost, independence and fairness, it has very often not been possible to move work out of a particular government jurisdiction. As a result, a number of interviewees used existing government buildings for their shared services organizations or were hosted by one or more of their clients. Here, politics are often a factor. For example, in Queensland, Australia, there were concerns about maintaining a strong regional presence and a need to be sensitive to reducing staff numbers, which would impact local employment markets.

The nature of governments sets up some very specific challenges to shared services

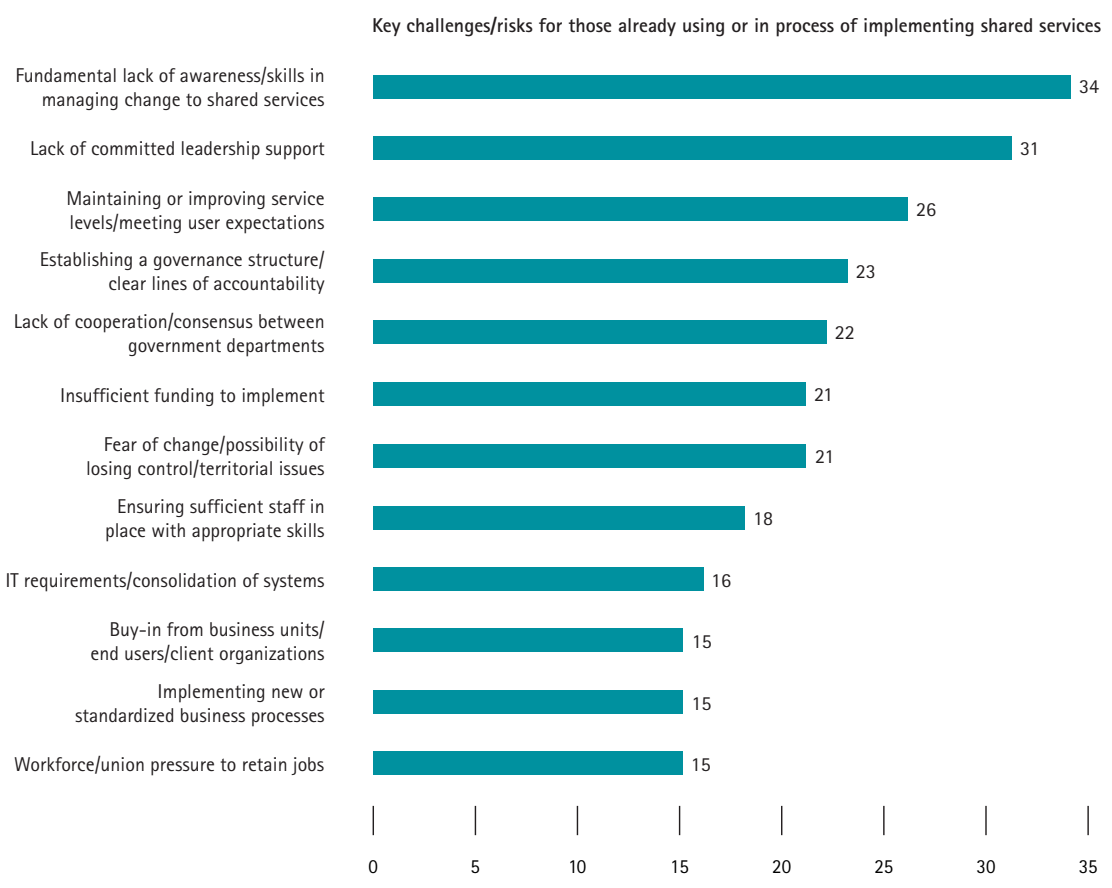
Shared services in any context, public or private sector, is challenging. Moving to shared services means committing to transformation, and while the benefits are striking, the changes can be wrenching for those affected. Public-sector implementations, because of the particular nature of government, face their own raft of specific shared services challenges. (See sidebar: "A broad spectrum of challenges" on page 15.)

For many, a fundamental lack of awareness and the necessary managerial skills to tackle a transformational change program is the main issue. In other cases, a lack of clear leadership support or top-level commitment to change is the issue. In fact, these were the top two challenges cited by those who already use or are currently implementing shared services. (See Figure 8.)

The roots of these problems sometimes can be traced to the way leaders are chosen at all levels of government. At the top levels, politics is at play. While the leaders may be excellent politicians, that does not necessarily make them excellent or even business-savvy managers. Often, too, there is divided decision-making authority within agencies; moving to shared services gives rise to turf battles. Transformational change requires invested leadership, but unless there is a clear mandate for change to a shared services model, politics, territorial issues and the risk of jeopardizing personal careers can be strong inhibitors.

Moving to shared services means committing to transformation, and while the benefits are striking, the changes can be wrenching for those affected.

Figure 8: Lack of awareness and the necessary managerial skills to tackle a transformational change program is the top challenge for governments currently using or implementing shared services



Number of respondents = 94, multiple responses possible

Four key findings

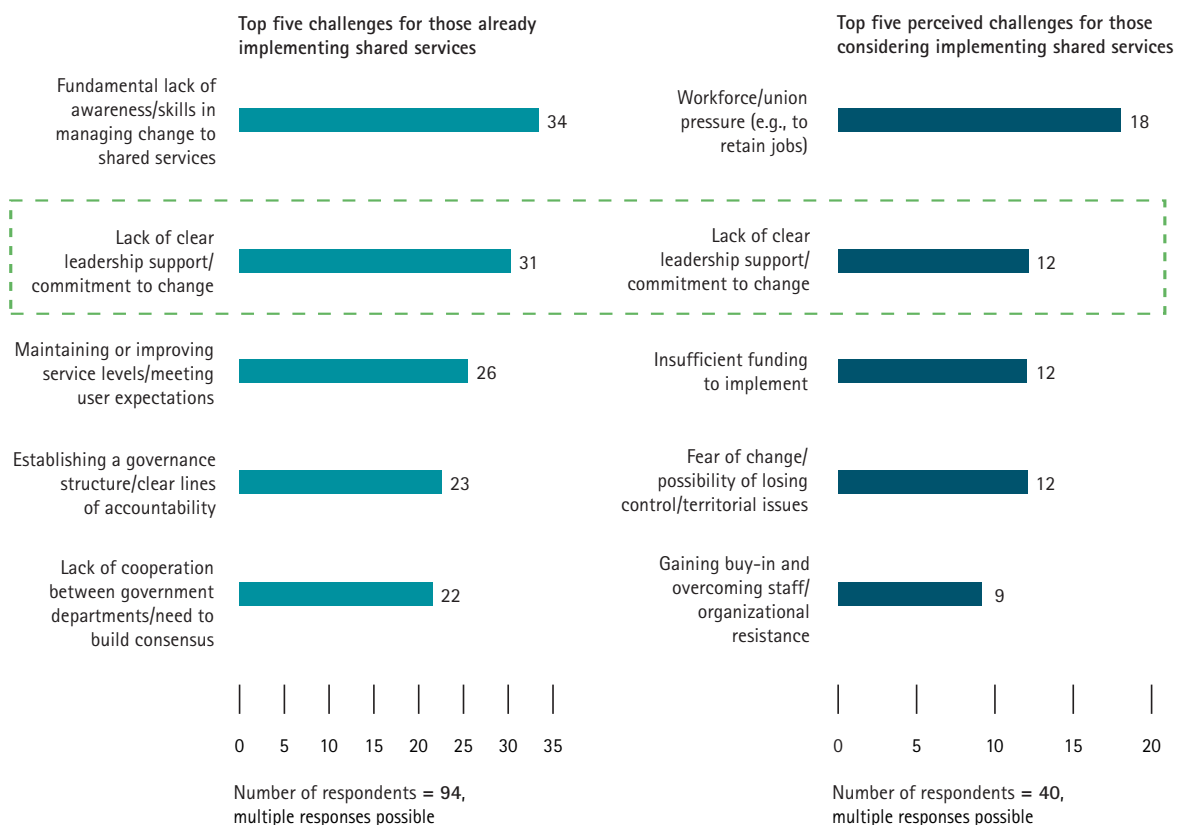
At lower levels, managers may have slowly progressed through the ranks without necessarily having had the opportunity to learn leading management practices. Here, even an enthusiastic leader will not be able to push the change through without the fundamental skills to do it. Without an influx of the necessary skills (typically through some sort of outside expertise), poor business case and strategy development will often result.

Interestingly, as shown in Figure 9, the key challenges perceived by those considering shared services had little overlap with the key challenges described by those who actually had gone through the implementation process. We believe this

indicates the level of misunderstanding of what shared services entails among many government executives before they undertake the initiative.

Most notably, workforce/union pressure was the top perceived challenge, yet ranked only 10th among those who had actually gone through the process. We think this disparity is reconciled by the fact that those who have gone through the process have realized that workforce challenges, while formidable, are surmountable with the right strategy and plain hard work.

Figure 9: Perceived challenges and actual challenges vary considerably for those who are considering shared services versus those who have actually undertaken the initiative

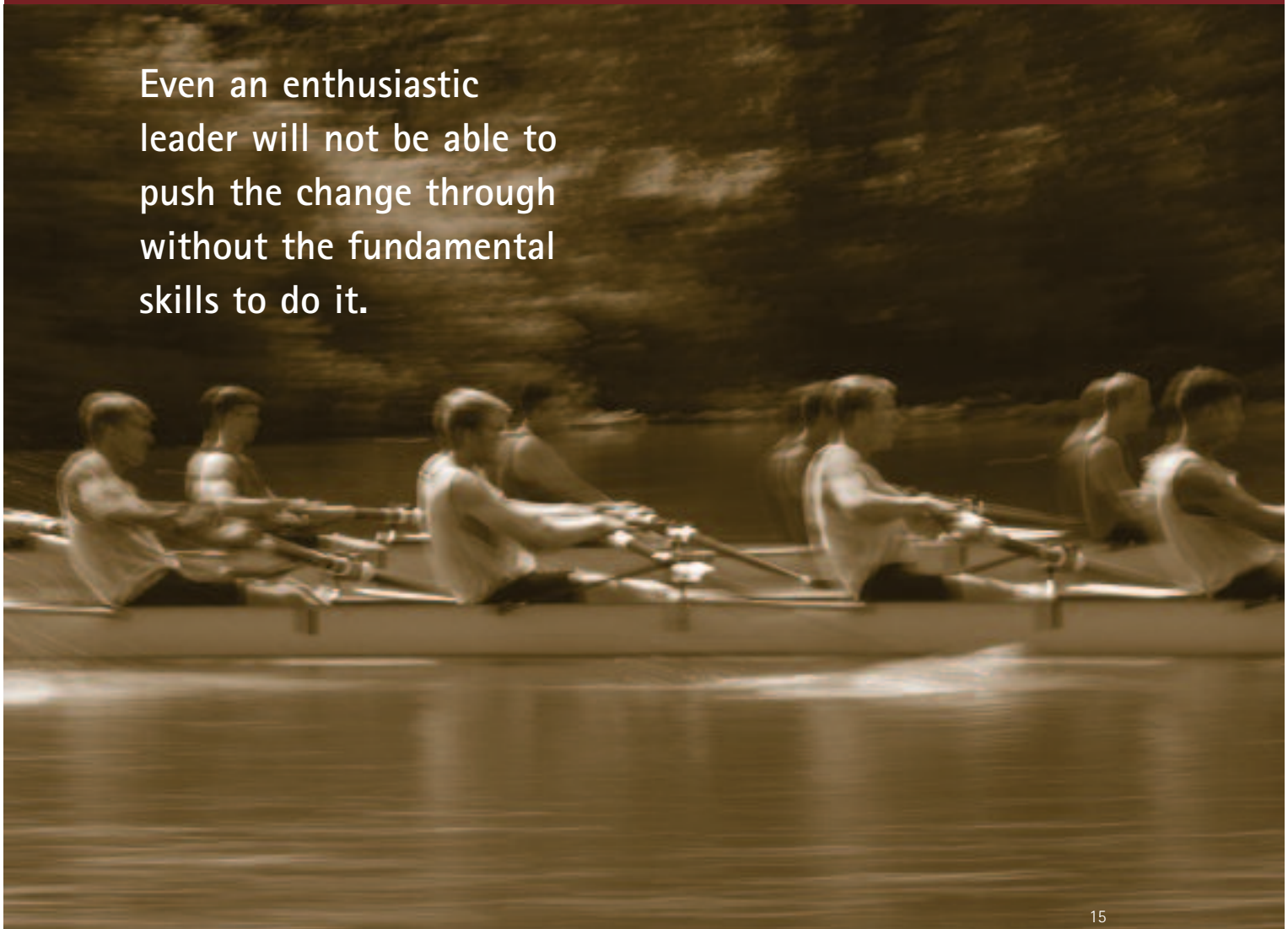


A broad spectrum of challenges

The key challenges to public-sector shared services illustrated in Figure 8 (on page 13) is by no means an exhaustive list. Our respondents named a broad spectrum of additional challenges not shown on the chart, including:

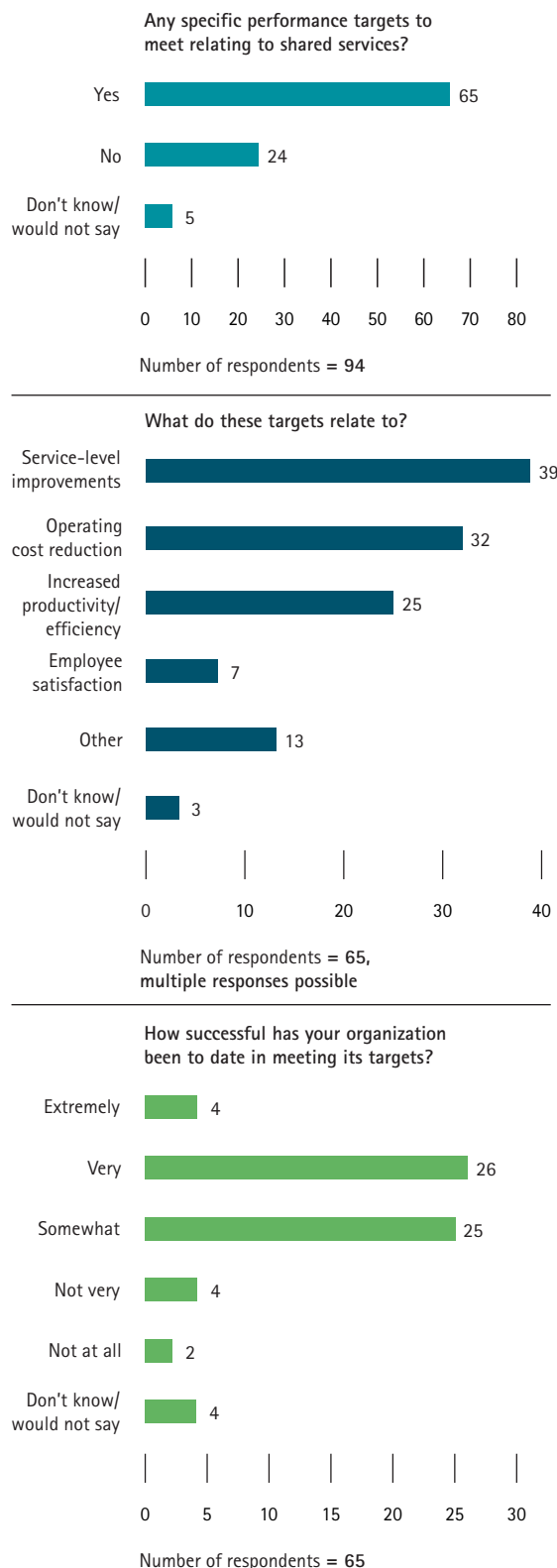
- Establishing and realizing the business case.
- Lack of a strategic vision.
- Defining the scope of shared services.
- Finding the right partner.
- Decentralized decision-making authority.
- Overcoming staff/organizational resistance to change.
- Transitioning staff to the new entity.
- Lack of reliable baseline data.
- Establishing a culture of customer service/responsiveness.
- Defining clear goals/objectives.
- Establishing service-level agreements/performance metrics.

Even an enthusiastic leader will not be able to push the change through without the fundamental skills to do it.



Four key findings

Figure 10: One-quarter of organizations that have implemented shared services have no performance targets of any kind in place. Of those that do, only half believe they have been “extremely” or “very” successful in meeting those targets



Many governments have started to implement some key components of a true shared services operating model, but few have implemented them all; thus, few have achieved the full potential of their shared services

While two-thirds of the government executives who took part in our survey stated that they had already implemented, or were in the process of implementing, shared services, not all of these implementations demonstrated the characteristics that Accenture associates with a genuine shared services arrangement. (See sidebar: “What constitutes true shared services?” on page 18.) In reality, government organizations are at different stages on the journey to demonstrating leading-practice shared services delivery, and most have some way to go to fully maximize the benefits.

Most striking was the lack of emphasis on customer service within many governments’ shared services initiatives. We asked respondents to rank their objectives in implementing shared services. Only 40 out of the 94 respondents spontaneously ranked improving service levels as one of their top three objectives. Most striking of all, only 10 percent mentioned the existence of formal service-level agreements between the shared services organization and its clients. However, we do believe that as shared services organizations mature, there will be much greater realization of their value in terms of improved service delivery. In fact, we saw a decided trend in our in-depth interviews: a number of leaders (now having some measure of experience with shared services) had moved beyond their initial focus on cost savings to include other, broader objectives. These organizations saw shared services as a means to provide better service levels for their end customers, improve access to expertise and encourage innovation and development through “centers of excellence,” among other objectives.

Other indications that governments may not yet be capitalizing on the potential of their shared services occur in the areas of performance management and creating a culture of continuous improvement. A culture of continuous improvement is a key feature of high-performance shared services organizations. Yet, fully 25 percent of the survey respondents reported having *no* performance targets related to their shared services organizations.

While 70 percent of respondents who are already implementing shared services *do* have targets in place for their shared services organization, only a little more than half actually have targets related to service-level improvements. Overall, regardless of the targets they had set, fewer than half of the respondents with performance targets believe that they have been very successful in meeting these targets. (See Figure 10.)

Additionally, 40 percent of respondents have *no* specific measures in place to assess the impact of their shared services organization and, consequently, its progress over time. (See Figure 11.)

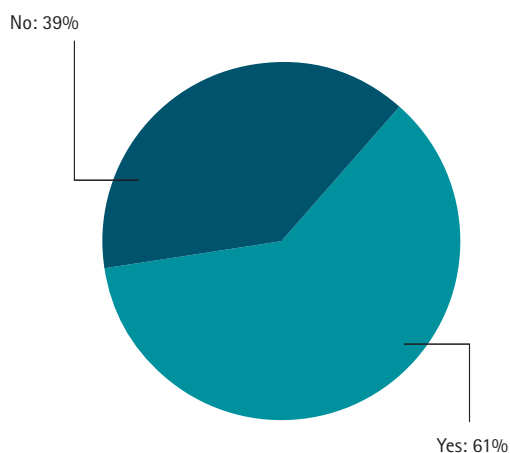
These results are striking: As described earlier in this section, governments clearly value their shared services initiatives (Figure 5 on page 9). Yet, there is an obvious disconnect between how government agencies perceive the role of shared services and what they are doing, in reality, to unleash its full potential.

For many of these organizations the problem stems from insufficient baseline data for measuring subsequent progress. As shared services initiatives gain traction, as more consistent data becomes available as a baseline and as those involved become more experienced in leading management practices associated with shared services, we expect benchmarking and other performance measures to be introduced with greater frequency—as a way of comparing performance to high-performing shared services centers, and as the first step in devising a plan for improving existing shared services operations. In fact, we see evidence of this happening already among the innovators we interviewed.⁸

Most striking was the lack of emphasis on customer service within many governments' shared services initiatives.

Figure 11: Thirty-nine percent of the respondents have no measures in place to assess the impact of their shared services organization

Have you adopted any specific measures to assess the impact of the shared services organization?



Number of respondents = 94

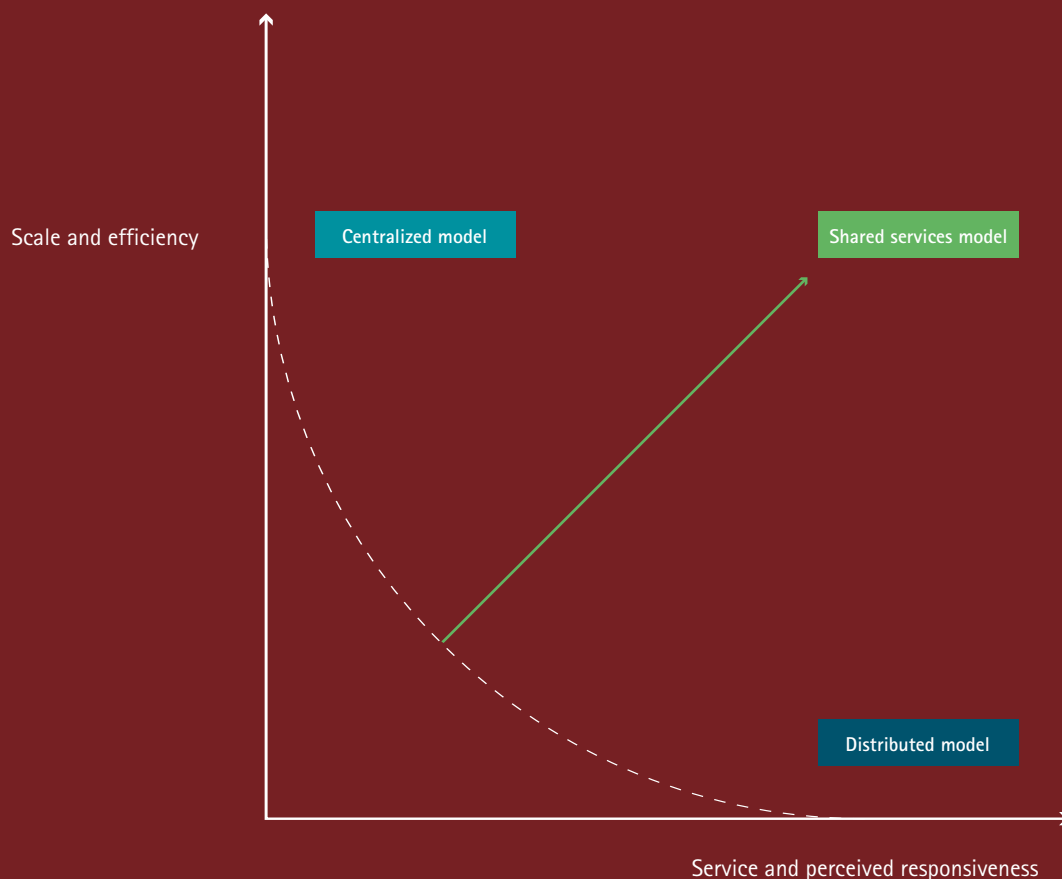
⁸ To receive notice when Accenture's upcoming research on benchmarking in the public sector (2005 release) becomes available, register for e-mail alerts at www.accenture.com/government.

What constitutes true shared services?

Organizations typically provide administrative support functions in one of three operating models—decentralized, where each department or agency manages its own administrative support functions; centralized, where components of these individual administrative support organizations are consolidated into one existing department; and shared services, where administrative functions are consolidated into stand-alone organizational entities whose only mission is to provide the administrative functions as effectively and efficiently as possible.

While centralized and shared services operating models share some superficial characteristics, the differences between shared services and centralized models are significant. Most important, centralized models fall short of the organizational culture and the customer service-focused aspects of shared services. (See Figure 12.)

Figure 12: Only the shared services model answers the needs for both scale and efficiency, and service and responsiveness



Accenture defines the key features of shared services operations as:

- Consolidating administrative functions into a stand-alone organizational entity, whose only mission is to provide administrative functions efficiently and effectively.
- Redesigning standardized end-to-end processes around best practices, utilizing enabling technology.
- Requiring a dramatic redesign or transformation of the organizational structure and workforce.
- Elevating the importance of administrative tasks to the highest management levels so they take on "front-office" importance.
- Building a high-performance culture with a strong focus on service excellence (rather than solely a cost focus) and continuous improvement.
- Clearly defining responsibilities for both customer and service provider via service-level agreements, key performance indicators and a comprehensive service management framework.
- Typically operating in a low-cost, high-skill area.



Leading practices of the innovators

Despite the numerous challenges, some leaders have already begun achieving significant benefits through their shared services operations.

For example, the United States Postal Service has saved US\$71.4 million and reduced the cost of its finance function by 16 to 18 percent thanks to shared services. Within a year of starting operations, the Queensland (Australia) whole-of-government shared services saved AU\$10 million, despite the fact that no savings were even expected for the first year. In Ireland, the Eastern Health Shared Services took 15 percent out of operating costs between 2002 and 2003.

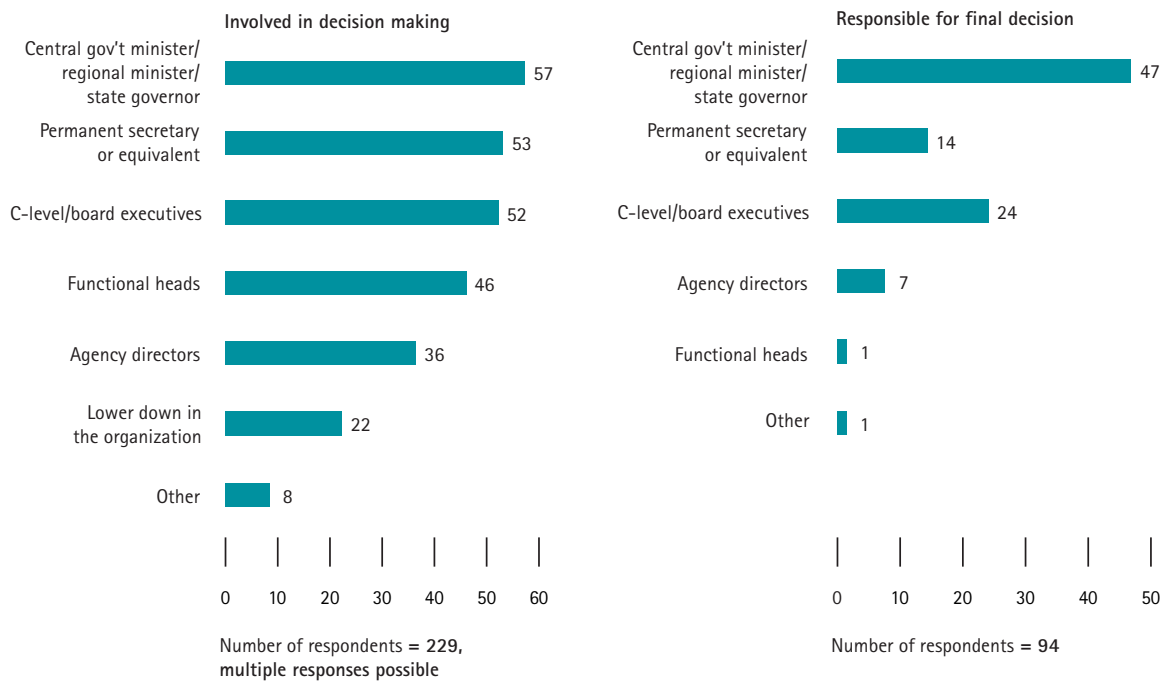
We found that shared services leaders are also achieving other, more strategic and equally important returns. For example, the Commonwealth of Massachusetts human resources shared services reduced staff head count by approximately 100, significantly reduced hiring times (which increased client satisfaction), reduced duplication of training curricula and automated processes, reducing the need for staff intervention.

What can we learn from these successes? Our interviews with these innovators revealed some consistent leading practices at various stages of the shared services journey:

- Gain leadership support/buy-in from politicians and senior management.
- Develop a strong shared services business case, strategy and plan.
- Create the shared services organization as a stand-alone entity.
- Create a strong governance structure that includes user departments and service-level agreements.
- Manage the workforce issues.
- Ensure that the right enabling capabilities are in place.
- Transform the internal culture.
- Measure performance.

While no organization we examined can claim to have embraced all of these practices, each represents a key factor for success.

Figure 13: While many levels are involved during the decision-making process, politicians and the most senior civil servants are very often responsible for the final decision about shared services initiatives



Gain leadership support/ buy-in from politicians and senior management

Garner and sustain strong political support/mandate for change

Strong political support is critical in making decisions about shared services. As Figure 13 shows, politicians can make or break the final decision about whether shared services initiatives go forward.

Because there are many barriers to shared services arrangements, successful practitioners spoke of the importance of having a strong political mandate to drive the transformational change shared services fundamentally implies. As Mike Burnheim of the State of Queensland, Australia, described, "You won't get agencies to magically coalesce" without it.

In some cases, the shared services arrangement was initiated as part of a broader transformation pro-

gram, driven or approved at the political level. For example, in the Singapore Ministry of Defense, shared services was part of a transformation of the country's public services to serve as an example to the private sector to encourage competitiveness. "Because the government is encouraging innovation, it also has to set the example itself," explained Colonel Png, director, D'eExecutive Services, Ministry of Defense. "So this is the current political climate and the spirit that I believe has caught on across all ministries: the need to focus on core business, outsourcing what is non-core, cost cutting continually, being more effective, being more efficient and always doing more with less."

As illustrated by these two examples, the objectives for the broader change programs vary; they may include the need to cut costs, a desire to improve the overall efficiency of the government, the need to improve the quality of front-line services or a desire to be closer to their customers. Yet in all cases, the shared services initiatives are a critical factor for achieving some of these objectives.

Leading practices of the innovators

Often, the government's support helped to overcome some of the initial challenges. In most successful shared services government projects that we examined, respected senior members of government have very actively and openly sponsored the initiative. Their support helped to provide the much-needed credibility that fosters commitment at all levels. In Queensland, for example, the state premier and treasurer have been powerful sponsors of the move to shared services, which was undertaken as part of a wide-ranging initiative to redirect state resources from administrative activities to programs that support the government's key priorities (for example, job creation and safer communities).

In other cases, strong government support has even helped to drive the pace of change. For example, when Michael Bloomberg became mayor of New York City, one of his priorities was to improve the level of service that city agencies provide to New Yorkers. His vision of "open government" involved instituting a "citizen service" mind-set among the city's workers and establishing systems and processes by which residents could easily interact with city agencies to receive information, file complaints or resolve issues. The result was 311, a consolidated citizen call center that provides non-emergency citizen services for all city departments. Mayor Bloomberg's continued sponsorship throughout the process helped to overcome resistance and ensured that the initiative was up and running within nine months of initiation.

Mandating shared services at the top levels of government cuts to the chase—it makes many arguments irrelevant, sweeping aside the typical and frequently derailing territorial squabbles and giving the initiative the momentum it needs to gain traction. Of course, strong political sponsorship can bring its own set of problems. Namely, lack of a consensual approach to decision making often means the resulting shared services organization will have to deal with residual resentment and work very hard to gain the respect (and eventual support) of customer agencies upon whom the decision was, in effect, forced. As one executive explained, "We need to make sure that agencies can pick up and understand the benefits to be derived from a proper implementation. So instead of being told that they have to do it, that they actually understand the logic

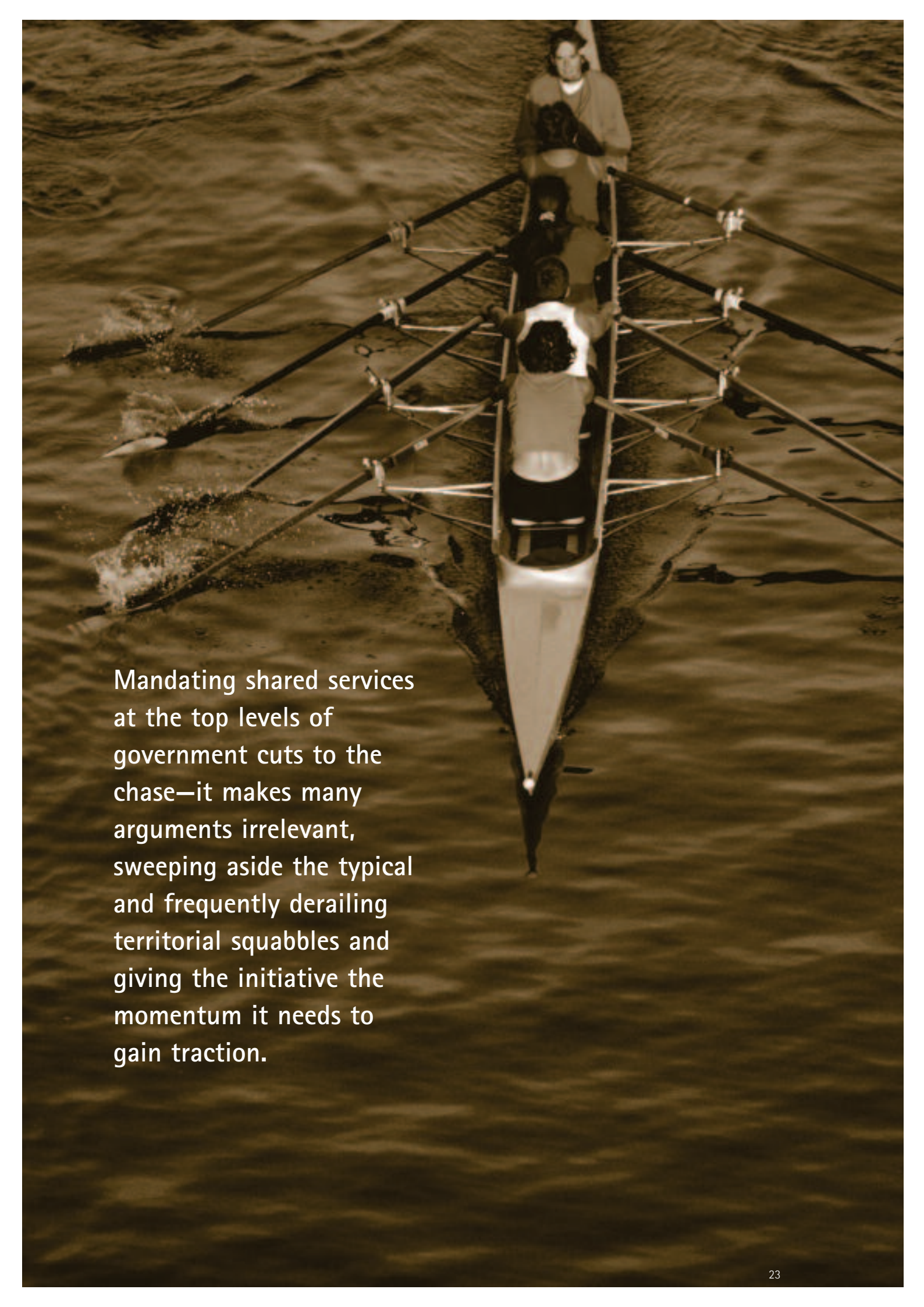
and come up wanting to do it over time." The key is not to rely on the mandate but, rather, be prepared to work very hard to bring the customer agencies on board and ensure that all parties have a say in the implementation plan and ongoing governance.

Gain top executive management sponsorship

Gaining buy-in at the top of the organization is critical to creating and sustaining the momentum required for transformation. This is particularly true in the public sector, where high-level individuals or steering committees are needed to encourage end users at the agency or ministry level who may resist change.

Strong, compassionate leadership is instrumental in overcoming skepticism and territorialism and in creating consensus among a broad group of stakeholders with widely divergent views, including end users/customers, unions and employees. That sponsorship, or strong leadership, needs to be sustained through planning, implementation and beyond. It needs to persevere in the face of the inevitable hurdles. Those leading a shared services journey need to be prepared for negatives and hard work. As one executive explained, "Really, a strong commitment to success is being prepared to take the hard knocks as you go through and working your way through."

Mike Burnheim of Queensland attributes strong, ongoing executive support as a critical success factor within his shared services organization: "I am going to say that this is one of the critical success factors. If you haven't got powerful sponsorship for the initiative, it won't get up. They [executive management] needed to have the commitment and the stamina to back the initiative and follow through on it—and by and large we have had that all the way through," he said.



Mandating shared services at the top levels of government cuts to the chase—it makes many arguments irrelevant, sweeping aside the typical and frequently derailing territorial squabbles and giving the initiative the momentum it needs to gain traction.

Leading practices of the innovators

Develop a strong shared services business case, strategy and plan

Define a clear vision, business strategy and operating model

This advice is so fundamental as to seem a given; yet, we were struck by how many of our respondents told of problems during implementation that could be traced back to planning that was either incomplete or not detailed enough. Nearly all spoke of the importance of spending the necessary “up-front” time as an important lesson learned, and we think it bears repeating here.

A successful shared services implementation requires a vision that is clear from the outset, extends far beyond initial deployment of the solution and is shared by stakeholders. In the Singapore Ministry of Defense, for example, having a clear, shared vision that translated into a workable strategy was regarded as an absolute prerequisite for success. The agency’s STARS vision incorporates the major components of successful shared services: service, transformation, accountability, renewal and standards.


Once the vision is developed, a clear strategy and detailed definition of scope of the initiative is essential. Here is where the critical parameters are set, including what will move to shared services and what will remain within individual departments and how roles and responsibilities will be distributed. The organizational model, sourcing strategy, charging mechanism, service-level definition and performance metrics should all be set out clearly in the strategy, to avoid taking back-steps in the future. Alberta Corporate Services, for example, found itself moving some services originally included in the scope of shared services back to individual departments, as it became clear the services were the wrong fit.

Build a strong business case

A strong business case up front justifies the typically significant investment necessary in a shared services initiative. A solid, quantitative business case starts with benchmarking current administrative processes and then comparing them to high-performing organizations. Among our interviewees, those with a detailed business case considered it critical to achieving buy-in, board approval and approval of investment plans. In Queensland, the initial business case was crucial to demonstrate to the government that there would be returns on investment over time: “I think working through the business case to ensure there were sufficient returns was a key issue....Government needed to be satisfied that there were sufficient incentives in terms of dividends to follow through on the model, because our business case said you weren’t going to break even or make a profit for at least four years—which is a long time to make the investment up front to actually get the returns down the track.” Those governments that did not take the time to develop a robust business case often felt the ramifications later on.

In only a very few instances had some organizations developed no formal business case at all, either because the decision to go ahead had been quick and had had no real opposition, or because the move to shared services was simply a “logical” step that required no formal justification. Yet even among these, the value of due diligence at the beginning was acknowledged. In the words of one seasoned executive: “The objective of our change to shared services was primarily to achieve a 20 percent cost reduction on a baseline that nobody defined—which made it really entertaining!”

In Queensland, the original business case is revisited at least annually to refresh assumptions and make changes as necessary. In fact, this approach was favored by many of our respondents, who felt that the business case should be treated as a living document—something that is constantly revisited to aid the decision-making process and to help alleviate some of the fears as the implementation proceeds. Leaders should be able to use it as the reference point to prove that the implementation is delivering value.



A solid, quantitative business case starts with benchmarking current administrative processes and then comparing them to high-performing organizations.

Conduct a detail-driven approach to planning

A detail-driven approach to planning and a good project management framework to guide organizations through the journey were highlighted by a number of innovators as prerequisites to a smooth transition and successful outcome. That starts with identifying all work being done within the operating units—both formal and informal. A thorough understanding of the “as is” workload is crucial, so that no residual workload suddenly comes to light or, worse, “falls through the cracks” in the new shared services model.

For example, detailed up-front planning was regarded as a vital success factor for the United States Postal Service’s shared services initiative. In the early stages, the organization took a detailed look at each of its 80 districts, using a checklist for all its formal processes, and, based on this, assessed its readiness for consolidation. Despite the detailed planning, however, the eventual finance transition brought to light a substantial amount of residual workload, work technicians previously had done informally but which the new organization was ill-equipped to

handle. “We realized that these folks were going above and beyond what was required of them... but the extent was much beyond our expectations,” explained Dick Strasser, USPS chief financial officer and executive vice president. The Postal Service is using what it learned from its experience in finance to inform the planning of its human resources transition to shared services. “It is really about getting a better definition of the ‘as is’ workload, to know what the future workload is going to be,” said Strasser.

Our interviewees emphasized the particular importance of planning in human resources shared services, where there is often greater sensitivity among the end-user population and a natural fear of “messaging up people’s benefits.” In this regard, a number of innovators mentioned the value of an external partner, who is not as close to the day-to-day work, to help map out the processes and the blueprint for the future vision with a dispassionate and critical eye.

Not surprisingly, the value of detailed up-front planning became apparent to some only later in the process, when they dealt with complications during

Leading practices of the innovators

implementation. In some cases, time constraints hindered the planning process. The initiative proceeded very quickly, and much of the planning, out of necessity, took place in conjunction with the actual implementation. While this approach helped momentum, it led to unforeseen challenges.

In Ireland, for example, much of the planning for the Eastern Health Shared Services concerned the overall restructuring of the health service, rather than how the shared services center would operate. Shared services planning was carried out during the implementation itself, but there was little process documentation or enough detail about how the new model would work in practice. As a result, the center got off to a shaky start and damage to its reputation had to be repaired just as the fledgling operation was trying to establish itself. "When I arrived, it was very much business as usual, as it had been, with the added complication that the transition itself had done a lot of damage to the center," said Valerie Judge. "A lot of people had availed of career opportunities to move on to other jobs that had opened up. We had lost about 25 percent of the core staff. Their knowledge went out the door with them and there had been very little process documentation or planning at that level of how the whole thing was going to work." Judge worked hard to have the shared services center achieve some quick wins to establish credibility and overcome these initial "teething" problems.

Identify your full budgetary requirements at the outset

Many of the executives spoke of initial funding constraints for implementing the shared services. Lack of funding also affected the pace of change in some organizations; out of necessity, some undertook the consolidation phase with old legacy technology, which was adequate but suboptimal. Others found it hard to source funding for ongoing investment in the business. "People say 'Well, just use some of the money you save [to reinvest for continuous improvement];'" explained Cathryn Landreth of the Alberta Corporate Shared Services Center. "The problem is when you are on 100 percent cost recovery, if you make the organization more efficient that means you just bill less to your clients—you don't actually have more money left in your pocket. One of the frustrations for us is getting the dollars to invest in the kind of change that will yield the kinds of results the government is looking for."

Even with sufficient up-front funding, maintaining fiscal discipline throughout the process so as not to go over budget is a key challenge. "You make an early assessment as to what you need to invest, and, as you get closer to the actual implementation, there are always good reasons as to why the dollars aren't sufficient," said Mike Burnheim, executive director, Queensland Shared Services Implementation Office. "So the fiscal discipline is a really important challenge for us: making sure we can live within our means."

Create the shared services organization as a stand-alone entity

Most of the innovators created new, stand-alone shared services entities as part of their organizational transformation. Though sometimes “hosted” by another organization, the shared services organizations typically were set up as separate entities with their own management team and, in some cases, with their own accounts and balance sheet.

Establishing the shared services organization as a separate entity is a key success factor: It separates the shared services center from any negative connotations associated with existing operating units or an organization's headquarters; it avoids conflicts of interest by providing clear purchaser-provider clarity; it combats lack of trust and concerns about service levels that are often expressed when a peer organization takes over services; it disengages the shared services organization from entrenched work paradigms and instills new values and a culture of operational excellence; and finally, it allows the shared services organization greater latitude during the design and implementation stage for establishing entirely new operational procedures that will in turn create higher value results. As one executive described, “Organizationally, from the executive director down through all the staff, both the hires and transfers in and all standard operational procedures were developed from scratch. The technology was developed from scratch. The facilities were developed from scratch. That gave us a whole lot of latitude in terms of what we wanted to design, both technically and organizationally.”

Equally important as any of these factors is a dedicated management team to deal with the day-to-day operations of the shared services organization, which increases the likelihood that shared services will deliver the expected benefits. In contrast, if the shared service were purely managed within an operating unit, it would raise the risk that management focus would be lost amid competing priorities.

Create a strong governance structure that includes user departments and service-level agreements

Sound governance is key to a successful shared services implementation, as it not only helps to manage the strategy for implementation and ongoing issues, but also defuses territorial issues and establishes accountability. Several of the organizations in our research found that a governance structure that included their client agencies was optimal, as it built and sustained buy-in. For example, the government of Ontario established a “Customer Council” comprising key stakeholders from their end-user groups to guide and assist with the implementation.

The challenge, then, is to ensure that governance by consensus does not grind decision making to a halt. Valerie Judge of Ireland's Eastern Health Shared Services described the potential pitfalls: “If it is a consensus model and you have four clients around the table and one shared services person, it takes a lot of influencing for things to happen, so that can be slow.” Or in the words of another executive: “Establish a solid framework laying out authorities and accountabilities for decision making. Deadlock is deadly.”

Service-level agreements (SLAs) form the most high-profile and tangible element of the service management approach. They are an integral component of the governance model because they remove ambiguity, at least in theory, about service expectations, quality standards, performance measures, costs and the relative roles and responsibilities of the shared services provider and the client agency for each service area.

Leading practices of the innovators

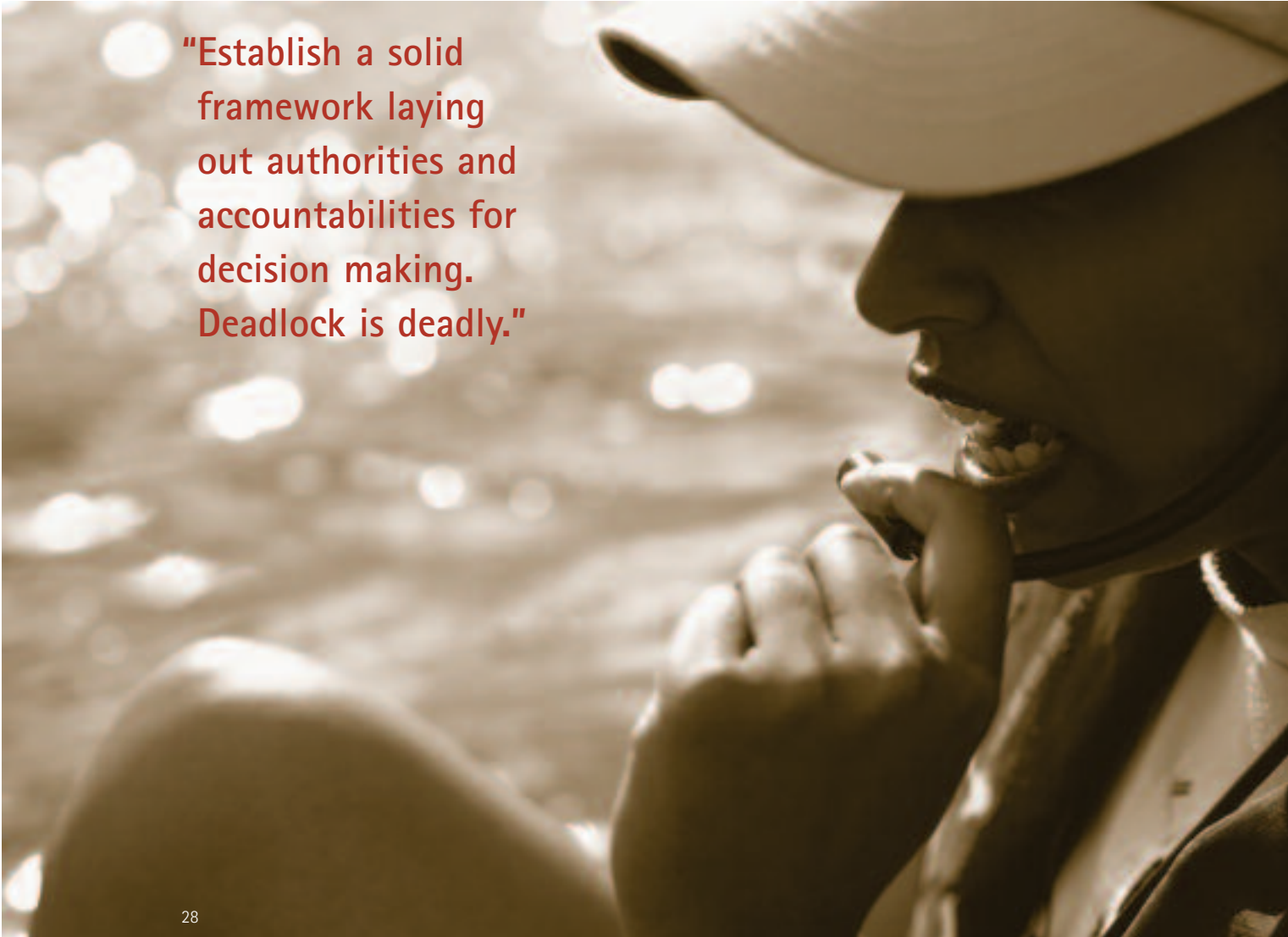
Almost all of the innovators we interviewed had service-level agreements in place or under development. Additionally, these SLAs were usually revisited on an annual basis and checked for relevance. Interestingly, however, the clients of the shared services organizations often seemed to interpret their SLAs with greater flexibility than is typically found in the private sector. For example, although Ireland's Eastern Health Shared Services has SLAs for the vast majority of its work, clients of the operation perceive it to be important that there is "flexibility around the edges" of the SLAs. In Alberta, there are 68 pages related to service levels of administration services. Despite that fact, many clients do not want rigid alignment with those levels. As Cathryn Landreth explained, "They want us to live that way, not count that way."

Manage the workforce issues

Communicate and manage workforce issues throughout the journey

When shared services centers are established, they typically will draw staff from multiple constituent agencies, which creates a number of issues. The reorientation of roles and responsibilities and change in internal culture will require substantial staff training. Additionally, governments must address fears about job losses or relocations, loss of morale among employees who feel they are moving to a less-important organization and issues related to pay parity and changes in working conditions and job descriptions.

The leaders stress the need for open and regular communication with staff during and after the transition. Staff needs to understand the vision and strategy and



"Establish a solid framework laying out authorities and accountabilities for decision making. Deadlock is deadly."

appreciate the new customer-focused mind-set of the shared services entity. They need to understand the conditions of their new employment. And most of all, they require reassurance about their new roles and value. As Valerie Judge of Eastern Health Shared Services explained, "All these *p* words: pride, getting people to see themselves as professionals in their own right, taking pride in their own professionalism, that is the key thing. I tend to come back to these words all the time. Realizing that they are not just an admin add-on to something else, that they are professionals in their own right. That was very important."

A robust communication and change management strategy is essential for managing workforce morale issues and overcoming skepticism and fears about the future. Ultimately, it will build acceptance of the move to shared services and of changing work conditions. In the Singapore Ministry of Defense shared services center, for example, workforce morale was managed by clear communication, which assured the staff about the direction of the organization and allowed them to understand its future shape. "When the organization decided to move to an integrated shared services center, the structure was made very clear to everybody. The posts were made clear, profiling was done, retraining was provided and that has allowed a very smooth transition," said Colonel Png, director, D'eXecutive Services at the Ministry of Defense.

Listening to employees' concerns is the first step. Doing more with less, while desirable at the organizational level, may be resented at the individual employee level. It is critical to instill pride in the employees as they take on their new roles, and to acclimate them to a continuing process of change. "We have been in changing mode for over 10 years and it has been hard on the workforce because there is never a break, never a rest," explained one executive. "Some people can't handle change."

As staff move to their new roles in shared services organizations, they very often require a different set of skills. Many of the executives spoke of the need to provide training, preferably before people make the transition to their new roles, so that there is no disruption in service levels. A strong training and development ethos will also help to create a culture of continuous improvement within the shared services organization.

"All these *p* words: pride, getting people to see themselves as professionals in their own right, taking pride in their own professionalism, that is the key thing. I tend to come back to these words all the time. Realizing that they are not just an admin add-on to something else, that they are professionals in their own right. That was very important."

Leading practices of the innovators

Negotiate with the unions to build support

Governments frequently see unions as one of the major roadblocks to implementing shared services. Yet, as described in the “Four key findings” section, those organizations that have gone through the process of implementing shared services typically rank union issues low among the actual challenges they faced.

Among our interviewees, unions had a variable impact on their ability to implement their plans for shared services. In some instances the shape of the shared services organization and the sourcing model had to be adapted because of union influence on head-count changes. In Alberta, union pressure led to an in-sourcing of its current shared services operations, although outsourcing alternatives are still a viable option on a case-by-case basis. Other organizations mitigated problems with the unions by managing workforce issues through attrition or offering alternative employment opportunities.

Undoubtedly, union issues *can* be managed, but there is no quick-fix solution. Mainly, they require hard work, plain and simple. Our interviewees agree that informing the unions early and then maintaining ongoing communication are crucial. In New York City's 311, the government “partnered” with the unions, enabling them to influence decisions on working conditions, employee contracts, career development and so on, to the point where they were advocating the new shared services center to their members: “There were no secrets, and as we talked about transferring people across, we immediately started sharing ideas with the Office of Labor Relations. We talked about what the work environment would be like; we brought the unions in for tours. There was very frequent and open dialogue so that they could advocate on their members' behalf.”

Ensure that the right enabling capabilities are in place

Put high-quality leadership and personnel in the shared services center

Many of the leaders attributed their success to the strong management team they had in place. Shared services works when leadership is consistent over time about the values and practices of the organization.

Equally important is the quality of the staff at the heart of the shared services organization, who must also have the right skills, experience, diversity and work ethic. Bringing the right expertise to bear at the right time is critical to successful shared services. Even with top-quality personnel, however, the leaders acknowledged the need to tap into outside expertise at times. Their advice is that organizations should use the skills at hand but be ready to supplement them when necessary. In Queensland, for example, the Shared Services Implementation Office is stretching its skills and resource base to the maximum but having difficulty identifying the right people to assist in the implementation and rollout. Consequently, it is currently looking at a sourcing strategy that may involve working with external partners to assist in implementation.

Build a solid technology platform

The executives we interviewed perceived technology as a key enabler for moving to shared services. In many cases, the right technology had enabled simplification, standardization and automation of previously complex, diverse, tedious and duplicated manual tasks. For example, the U.S. Defense Finance and Accounting Service consolidated 300 sites down to 27. Not surprisingly, executives there believe the successful move to shared services could not have happened without a solid technology platform. In other governments, reengineering of systems in the long term was regarded as vital to realize the full savings and efficiency potential of shared services. In this regard, a “shared vision” between the leadership in the shared services organization and the chief technology officer is a key success factor.



Leading practices of the innovators

Particularly important is a single enterprise resource planning (ERP) system, which was regarded as a key enabler for successful shared services implementation by a number of executives. "As a matter of fact, organizations that are contemplating shared services but that don't have an ERP, don't have a strategy for an ERP or have multiple ERPs are going to have a really challenging time doing this," cautioned Alberta's Cathryn Landreth.

Despite the value of leading-edge technology, several interviewees grappled initially with legacy systems, either because of lack of funding for information technology upgrades or lack of authority or control over IT policy. For example, when it was formed, Ireland's Eastern Health Shared Services did not have the authority or budget to move forward significantly on IT. To compensate, they made good use of their intranet and Web-based technology.

Implement standardized and automated processes

Rigorous process standardization and automation across all government entities greatly contributes to efficient shared services operations. "Before we jumped to rolling out new systems and new solutions we actually spent a fair bit of time doing some process redesign work," said Queensland's Mike Burnheim. "For the first nine months of the initiative we had a whole range of teams working across the sectors to look at new standardized processing environments in both finance and human resources. And I actually think that bought a lot of goodwill from corporate service practitioners, that they could see that there was a chance to actually change their working environments for the better and come up with new solutions for the way they do their work."

The executives we interviewed also talked about the need, not just to standardize the processes, but also to ensure that adequate internal controls were in place during the transition so that service levels are maintained throughout.

Transform the internal culture

Focus on client relationships and service excellence

Successful shared services implementation must have a strong focus on customer service and continuous improvement. As described in the previous section, a surprising number of governments with shared services centers did not rank service improvements as one of their top objectives. However, for many innovators, this outweighed all other measures of success.

The leaders understand that shared services end users are often reluctant players, because they often perceive shared services as taking away territory and power. "It took a while for people to understand that a deputy could preserve his accountability to operate his business within the government without necessarily having to have the people who do that work directly on his payroll," said Cathryn Landreth.

Just as important is fostering a change in attitudes among senior client executives. These new clients of the shared services entity need to learn how to become "informed purchasers." This culture change is often just as hard as the culture change for the shared services employees who have to become service providers. Senior clients need to adjust to using appropriate channels for requesting services, for example, and not just relying on calling in their human resources or finance director to do that work for them.

Additionally, some clients regard their service needs as "unique" and therefore potentially difficult to serve. As one executive explained an all-too-common attitude among end users, "They say, 'Standardized processes are OK for everyone else but not me!' Well, when you multiply that across hundreds of processes across 50 business lines, you can imagine the complexity that brought!"

Key stakeholders often need to be persuaded as to the value and competency of shared services—through the quality of what the organization delivers. "It is the politics of small steps," explained Rolf Gerber of the State of Hessen Competence Center in Germany.

The leaders we surveyed took deliberate steps to build client confidence and customer-focused cultures. For example, in New York City, which implemented its shared 311 call center for all nonemergency services, leaders understood the importance of developing relationships with clients from day one. The center has put in place a number of people who act as liaison points for each of the customer agencies. Open communication enables the shared services organization to ensure that the agencies are satisfied with the service and that knowledge and content are up to date, while

enabling the agencies to provide feedback and influence the future direction of NYC 311.

The leaders offered a range of other useful suggestions learned from experience for gaining goodwill with shared services clients. (See sidebar: "Advice from the front line.")

Advice from the front line

Our shared services veterans offered excellent advice about building goodwill and a strong culture focused on client service excellence:

- Establish good communication channels.
- Develop deep relationships with clients and develop a thorough understanding of their business.
- Focus on establishing an understanding of what clients define as success and good service.
- Establish a culture of shared responsibility between the shared services organizations and the client for a successfully completed and mutually satisfactory transaction.
- Focus on providing "value for service" as opposed to "value for money."
- Plan for as seamless as possible a transition in service delivery to build credibility from the outset.
- Over-invest in the help desk at the beginning.
- Convince people through the quality of your work.
- Build credibility and win client confidence by achieving some "quick wins."
- Ensure that current clients are satisfied before taking on new ones.
- Instill a strong customer service culture within staff.
- Ensure that clients participate in the governance body and encourage open communication between the shared services organization and end users.
- Conduct regular customer forums to explore service delivery performance and other issues.
- Establish mechanisms to allow customers to provide feedback and escalate issues when necessary.
- Finally, measure and communicate success. Because they consolidate responsibility and accountability, shared services organizations are often "an easy target for criticism." Create measurement metrics to demonstrate success and continuous improvement and be sure this is communicated to customers. Perception is very important.

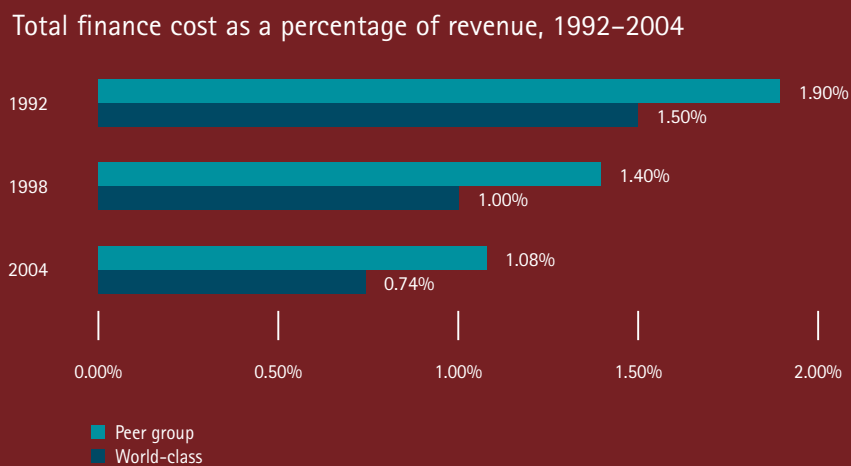
The value of benchmarking

The Hackett Group, a world-leading business advisory firm that counts 80 percent of the *Fortune* 100 among their clients, ranks benchmarking as one of the most accepted management tools and techniques among high-performing organizations for identifying opportunities for greater value and efficiency.

For shared services organizations, benchmarking establishes the baseline for capturing performance measures. It facilitates the comparison of similar processes across organizations to identify best practices, set improvement targets and measure progress.

For example, Figure 14 below, developed by The Hackett Group, illustrates the differences in finance cost as a percent of revenue between average performers and world-class performers.⁹ Benchmarking helps identify the best practices that will close gaps such as these and help steer organizations on a path to high performance. In this case, the use of a shared services model has contributed significantly to this dramatic cost reduction.

Figure 14. Benchmarking makes obvious the performance differences between average and world-class performers



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Governments that use benchmarking for shared services have a starting point to:

- Pinpoint a baseline reading of current performance.
- Rapidly distinguish between non-value-adding or differentiating resources/investments.
- Identify improvement opportunities hidden among the key drivers of costs:
 - Organizational complexity
 - Use of technology
 - Adoption of best practices
 - Cost-structure elasticity
- Objectively prioritize improvement opportunities
- Learn from peers who have faced similar challenges

Without benchmarking, however, there are few external guidelines shared services leaders can use to judge the relative effectiveness of the resources that they commit to the varieties of activities they control.

⁹ In Hackett's empirically based methodology, a company is considered to be world-class when it ranks in the top 25 percent both in efficiency and effectiveness metrics. These companies have not achieved excellence in all areas, but, using selected best practices, they have been able to strike a balance of efficiency and effectiveness that is appropriate for their business goals and operating model. Peer group represents the median of non-world-class companies.

Measure performance

Establish baseline measurements

Knowing the true cost of delivering services is prerequisite to measuring progress and, by extension, continuous improvement. It is simply impossible to prove benefits without baselines. Benchmarking administrative processes and comparing to high-performing organizations is a common best practice among global 500 private-sector companies; it is the foundation for building a business case for shared services transformation, and is key to determining whether improvements have been made once transformation has begun. (See sidebar: "The value of benchmarking.") However, nearly all of the executives we interviewed struggled with poor baseline data. Nonetheless, they all also recognized that measuring success was hampered by their lack of early benchmarks.

For example, clients sometimes underestimated or disbelieved the real cost and so underfunded the services. "The ministries originally said it was \$120 million, and that was what they were willing to put in," explained Alberta's Cathryn Landreth. "Consultants who originally looked at the government's business said the costs were at a minimum \$160 million, and our operating costs right now are \$175 million. So, it has taken four years of operating with an independent budget to be clear about what these services really cost in the government. That of course creates a risk of not knowing how to measure when you have done well." Similarly, Ireland's Eastern Health Shared Services received inadequate funding initially because baseline costs were unknown.

It is imperative to establish baseline costs as soon as possible to secure adequate funding and give proof of the value of shared services. New York City created baseline data before implementing 311, by conducting an exhaustive survey of its 40 existing call centers. The goal was to measure, as quantitatively as possible, call volumes, subject of calls, how long it took to answer and average length of calls. The city used the data to help forecast demand and provide adequate resources for the new operation as well as to demonstrate success over time.

Track progress against clearly defined metrics to inform decision making and future goal setting

Among the innovators there is general consensus that development of service performance metrics is critical to helping the shared services organization make progress. Performance management is a tool both to measure success and to provide the information and incentives to generate improvements.

The challenge for governments is to ensure that the focus is not just on dollar savings. Most of the executives we interviewed had moved beyond an initial cost focus to include other, equally important objectives, such as standardizing operations to achieve economies of scale, improving service levels for their end customers and better leveraging organizational (or external) expertise. In fact, many have already implemented a balanced scorecard approach or are in the process of doing so.

In Queensland, for example, the government believes key elements of performance management should include financial and nonfinancial indicators. The Shared Services Implementation Office is introducing a new performance management framework comprising a whole range of indicators. It is adopting a balanced scorecard approach that includes customer service and staff satisfaction measures. For them, it has been an evolutionary process that requires people to think and behave differently. In the Commonwealth of Massachusetts, the human resources shared services center is developing metrics around doing more with less (for example, timeline data, FTE ratios and payroll costs and staff turnover as specific performance indicators).

As well as helping to demonstrate success, performance measurement should be used to identify weak points, inform decision making and set future goals for the shared services organization. To this end, in some organizations the goals have been developed in conjunction with the clients. This approach enabled the organizations and the end users to define success together and decide on relevant key performance indices.

Conclusion

The current economic and social environment is pushing governments to make transformational change. Governments are at a crossroads. To meet rising expectations with shrinking resources, they need to make a choice: cut services, increase the tax burden or pursue a more value-oriented agenda that will put them on the path to higher performance. We believe leading governments will choose the last option—finding innovative ways to create greater public-sector value from their resources by delivering improved outcomes more cost effectively. This is the essence of high-performance government, and Accenture believes shared services is indispensable for getting there.

We see that governments are beginning to recognize shared services as an important tool in meeting their difficult challenges. Many governments are already in the process of implementing shared services, and it is fast becoming an accepted, proven model. However, the move to shared services implies a fundamental transformation in the way government operates. Consequently, shared services is a journey that takes time, effort, focus and discipline. Many governments have a long way to go on that journey to realize the full potential of shared services. Those governments that recognize the dramatic change inherent in shared services—change far

beyond technology deployment—have often found it vital to bring in outside help, either to assist through the transition or to partner with the government to deliver the shared services.

Public-sector organizations that have already started to adopt shared services now need to move to the next step in the journey—maximizing the benefits they get from shared services. For them, benchmarking their shared services operations is the right next step in developing a strategy for optimization. For those governments that have not yet begun, we hope this report has convinced them of the need to start on the path. Shared services is no longer an unproven concept in government, and there are successful examples and models in the public sector for them to emulate and learn from.

Shared services is not easy, but, as our research has found, it is well worth the effort. The leaders of shared services are already achieving stunning results in terms of cost savings, strategic benefits and improvements in the speed and quality of service, all of which translate into greater public-sector value. Their successes to date seem to make one point very clear: If you are not already thinking about moving to shared services for your organization, you probably should be.

Accenture has experience working with hundreds of clients in all levels of government around the world. We have the proven experience in shared services, deep industry insight and combination of strategic acumen and delivery capability to help our clients achieve high performance. For more information on how Accenture can help your government organization achieve high performance through shared services, please contact David Wilson at +1 612 277 5070 or david.a.wilson@accenture.com or contact Mark Howard at +1 720 359 6080 or mark.h.howard@accenture.com.

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