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WHITE PAPER

Shared Services in Government

Critical Success Factors for Sustainability

Government organizations face significant obstacles that make it difficult for leaders to keep the mission in focus. Reduced funding, doing more with less, the duplication of IT operations within a myriad of component agencies, a lack of integration between key legacy applications and newer web-based systems all highlight the need for shared services. As a comprehensive delivery model, shared services has grown into an increasingly attractive alternative across the globe.

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Shared services or Shared Services Center (SSC) refer to a dedicated unit (including people, processes and technologies) that is structured as a centralized point of service and is focused on defined business functions. These functions are supported by information technology (IT) and IT services for multiple business units within the enterprise.

As a point of reference, public sector institutions in Europe have been applying a shared services delivery model, both for IT and non-IT shared services for decades. Governments in the Middle East and Africa have deployed it more recently. Canada, through its newly formed Shared Services Agency, is adopting an aggressive stance on commodity-style business such as data centers and email.

Shared services continue to be attractive because they hold the potential for:

- **Faster decision making,** more informed policy making, more effective workforce management and improved resource alignment with agency mission goals
- **Improved servicing ration/response times,** reduced cycle times and improved automated reporting
- **Reduced duplicative** software/hardware/operations/labor resources
- **Increased interactivity** with constituents including, improved communication and responsiveness
- **Enhanced quality,** timeliness, accuracy and consistency

However, these goals are not always realized because even though the functions seem duplicative and logical candidates for shared services, they are not always severable and/or have complicating factors. In this white paper, we explore a history of shared services in the U.S. federal government, explore different types and added complexities for government shared services and provide recommendations to help create successful sustainable shared services.

"Many agencies, bureaus, and components have similar needs and instead of buying technology and services like hundreds of separate medium sized businesses, we would be sharing services to save tax dollars."

Steve VanRoekel
US Federal CIO

History of shared services in the U.S. federal government

Early shared services in the U.S. federal government began in the 1980s with interagency cross-servicing initiatives such as payroll and administrative consolidation efforts. Slow progress continued with the establishment of franchise funds authorized under the Government Management Reform Act of 1994 to promote competition and reduce the cost through the establishment of self-supporting business-like entities to provide common administrative services on a reimbursable basis. In the 2000s, shared services revolved around a concept known as "Lines of Business." The Lines of Business looked at common business functions across government to identify opportunities to transform, streamline and share. There were more than a dozen areas identified, including payroll, financial management, human resources, travel, small business, geospatial, grants management and later infrastructure. Each area was studied and plans were put in place for transformation of processes and/or technology.

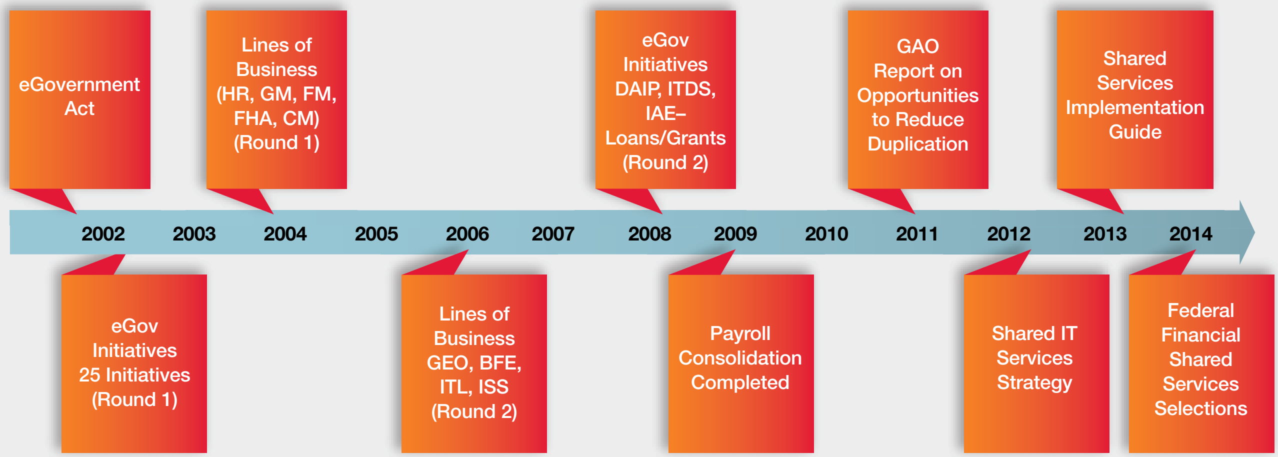
In some cases, shared services around technology became part of the overall solution. In these cases, the government selected a few commercially available products and then required agencies to adopt those pre-selected solutions in their agency. This approach was intended to significantly reduce development and operation costs across government as well as foster competition. Some of these efforts were more successful than others.

Building on the successes, the Obama administration released the Federal IT Shared Services Strategy in May 2012 and provided federal agency chief information officers and key stakeholders guidance on the implementation of shared IT services as a key part of their efforts to eliminate waste and duplication and reinvest in innovative mission systems. The strategy seeks to improve the return on investment for IT spending, close productivity gaps, increase communications with the managing partners and customers of shared services.

The Shared Services Strategy covers the entire spectrum of shared service opportunities throughout the federal government and promotes the use of existing and new strategic sourcing methods where agencies can combine their buying power for similar IT needs and get lower prices and improved service leverage in the process.

One of the administration's initiatives to streamline operations has been to implement shared services for core administrative functions. In May 2014, the Office of Management and Budget (OMB) in conjunction with the Department of Treasury announced the designation of the Departments of Agriculture, Treasury, Interior and Transportation as approved Shared Service Providers (SSPs) for financial management across the federal government.

RECENT HISTORY OF SHARED SERVICES IN THE U.S. FEDERAL GOVERNMENT



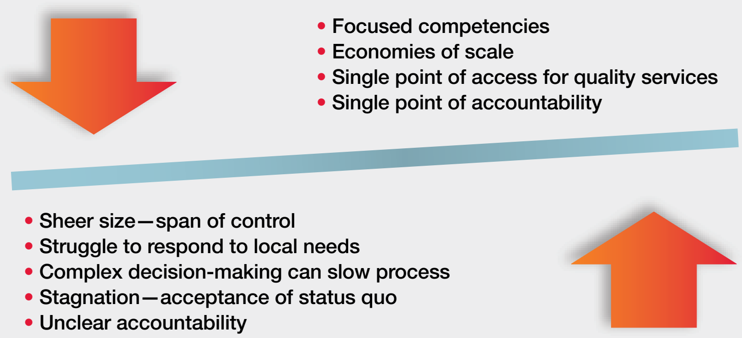
Rounds refer to groups of initiatives

Successes and failures of shared services

The U.S. government has had successes and failures in both initiating and operating shared services. The Bush administration's Lines of Business saw success in areas like eRulemaking (regulatory public comment function) and payroll (payment function) but failed to make progress in grants management and human resources. At this time, there were two different approaches to shared services: a single solution across government (such as eRulemaking) and a limited multi-solution option that agencies could choose. One initial payroll SSP pulled out after a year, which illustrates that agency priorities shift and make sustainability a challenge. Regardless of the type of shared service, the successful ones had two key attributes—standard processes and effective governance.

Today, the promise of cost savings is pushing federal agencies toward shared services again. However, there are still obstacles that need to be understood and balanced with the expected benefits. Shared services are not successful if they are business functions that cannot be uncoupled from critical mission functions; they are not set up to respond to all customer needs—both big and small; or they become so large and complex that decision making becomes a cog in someone else's mission. Further, when a federal agency is named an SSP for multiple agencies, and the shared service they are providing is not part of their core mission, it is unclear that continued executive sponsorship and support can be guaranteed.

PUSHES AND PULLS OF SHARED SERVICES



Moving forward, it is important to identify the right functions to be placed into a shared services model. This decision alone can be the key to success. Shared services should be:

- **Severable,** meaning they are not linked implicitly to another mission function
- **Scalable,** have high economies of scale
- **Standards-based,** reducing the number of customer "one offs"
- **Sustainable,** with long-term sponsorship and commitment
- **Governed and customer-focused,** keeping focus on mission goals and clear accountability for users and providers

Government-specific barriers to successful shared services

As the U.S. federal government begins to tackle more complex and larger functions for shared services, they will encounter a set of unique challenges when planning and executing a shared services strategy, including:

- **Funding—**Federal SSPs are not set up as separate or independent organizations authorized by legislation. Although some shared services entities have Franchise-Fund authority, when shared services are set up across government, the funding is still constrained to Interagency Agreements and the appropriations attached to them. The arbitration of these services is often difficult and based on specific transactions and usage. This means the funding mechanisms address only operations. Although Franchise Funds allow the retention of a small amount of retained earnings for the acquisition of capital equipment and some improvements, these funds and authorities are insufficient to allow for investment in new technology or business process innovation.
- **Leadership and organization—**Shared services generally fall under the management operations of a single agency. Typically, senior executive leaders are political appointees with limited tenure. This has proven to contribute to starts and stops in strategy and execution. Further, at the government-wide level, there is no one person in charge over a period of time who can set forth a strategy and see it through to implementation. This can lead to valuable time loss for senior leaders forced to field issues around non-mission related functions.
- **Standards—**To date, successful shared services in government involve processes that have standards in place. More complex government functions with redundancies such as human resources and grants management lack standards, which is why there have been challenges in establishing shared services. Agreement between agencies on a set of "core standards" takes coordination, effort and leadership across government.

These barriers are often brushed aside, but stand in the way of real success in government shared services. The barriers are also addressable with focused attention and planning.

Suggestions for future shared services

In looking at the successes and failures of shared services, the following suggestions should be considered prior to moving forward to ensure sustainability in the long term:

1. Choose the right business functions prior to establishing the shared service. Identifying a candidate for shared services should, at a minimum, take into consideration whether the business function is severable, scalable and standards-based. If an agency cannot sever the functions internally, they likely cannot sever across government. Alternatively, if the business function is severable and standards based, but does not have proven economies of scale, there still might be an option to introduce the shared service at the agency level at a minimum or to include several agencies with a common mission.

If you find the right business function, there needs to be ongoing commitment to supporting the function as a shared service with clear expectations and accountability for both the SSP and the customer. This is true whether within an agency or across government. The shared service also needs to be created with governance in mind—the user communities within or across agencies need to participate in transformation, operations and improvements. Without the commitment to sustainment and governance, the shared service will fail.

2. Develop a business case and agree upon expected outcomes. Sustainability of a shared service is predicated not only on transitioning the people, processes and technology around the shared services, but also on the expected outcomes. If the shared service is "championed" and supported because it is expected to save millions of dollars after three years and the savings are not realized, it may be determined a failure and be decommissioned. One of the key drivers is the hope of cost savings but other benefits may include:

- Cost recovery/avoidance
- Better service delivery
- Access to more data and tools
- Reduced risk in ongoing operations
- Improved compliance

Consider the creation of a federal government Geospatial Shared Service. A shared service around this function is anticipated to save some cost, but the real value and benefit is the government's ability to leverage common maps and data to make better decisions. If agencies recognize and appreciate the value of the shared service and measure to the expected outcomes, there is a much better chance of longevity.

One reason large agencies struggle to be served by an external shared service is that they may not see any return on investment or other benefits. If they have an enterprise shared service thoughout their own organization for the same function and have already reached the economies of scale internally, and their functions/processes are meeting their service-level agreements (SLAs), moving to shared services may not provide them the benefits that other agencies receive. Success for these types of situations becomes dependent upon accepted ROIs and other benefits. If these are not present, the barriers to success may be high.

3. Remove large, complex shared services from the agencies. This should be done without creating a large bureaucracy that is unresponsive to customers and lacks incentive for ongoing innovation. Consideration should be given to making the government-wide leader a term appointment, much like the Commissioner of the Internal Revenue Service, with a small staff. Back-office services are about efficient and effective management—not political policy—and as such need to be taken out of that arena and have their own government-wide "track," with a management structure that will be longer lasting and can be held accountable for planning, implementation and adoption across government and shared services offerings. If a separate organization were accountable for shared services, it should also receive a separate appropriation not only for operations but to fund innovation projects. Consideration might also be given to establishing a shared services organization as a government corporation or similar entity which could borrow money to be paid back over time to fund investments, enter into agreements with private partners to fund investment (Public/Private Partnerships). This would, however, require legislative changes.

4. Create a dynamic open marketplace to offer shared services. When the right government function is selected with a good business case, large, more complex functions should consider a shared service with a dynamic open market place. The market place attributes should include:

- Process/functional standards
- Security standards
- Compliant (business/technical/security standards) agencies/vendors
- Clear outcome-based pricing with penalties and incentives based on performance
- Oversight body to certifies the differences in the providers of the services

An open market is important—especially for large functions—to foster competition within the limited playing field and to help drive innovation. When providing large, complex business functions for the government, a single solution/provider may become comfortable that they essentially own the government space for that business function. Similarly, if a single software solution emerges as the defacto standard used throughout the government, there may be no incentive for the vendor to apply innovative or new technologies and processes in their IT solutions. A dynamic marketplace balances competition.

This is especially important because technology is now so intertwined with shared services. Over the last decade, technology vendors ran the risk of becoming stagnant when they owned a monopoly. Consider RIM/Blackberry dominance and all the "Blackberry servers" that took on a life in government. This model needed to change when iPhones were launched that didn't require dedicated web servers and the associated costs. The marketplace concept will help drive competitors to improve functions over time.

5. Shared services should be customer-focused and develop trust. If an agency becomes an SSP to another agency, it must focus on customers outside of their agency. Governance should be strong and comprised of participating organizations. The governance leadership should ensure that standards are kept, process and supporting system changes are prioritized and balanced based on participants needs, decisions are streamlined and operations are performed on agreed upon SLAs.

Today, where shared services are offered up to agencies, there are cases where some agencies are not participating. For example, the Office of Personnel Management conducts initial security background checks for federal agencies. While many agencies take advantage of this shared service, others are reluctant and stand up their own functions. Reluctance is typically tied to unknown standards, unpublished processing expectations (lack of SLAs), and other uncertainties. Good governance practices that address these kinds of issues will help build trust and participation, either within an organization or across government.

Conclusion

For shared services to succeed in government, they must be carefully selected, planned and implemented to ensure long-term sustainability. This includes developing a detailed return on investment and agreement on benefits for both large and small agencies.

Shared services should be considered and selected based on functions that easily can be decoupled from agency missions. Smaller governments may work well with a single provider of services with good-governance practices. Business functions that are more complex and need to be significantly scalable may be better served in a limited open market environment to help foster innovation and to ensure operational efficiencies via SLAs. This provides the user communities a choice and helps foster innovation.

However, the longevity of any shared service may be predicated on placement of this service into neutral government ground where attention is not diverted to agency core missions and long-term sustainability is not placed in the hands of mission priorities and politics.

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