A Journey Towards Shared Services at Natural Resources Canada: "Bringing theory to life"

Réjean Langlais

In the previous article, published in the fall edition of the FMI Journal, we have presented the approach and the methodology used during the analytical phase. This article will present the deliverables received at the end of each phase that lead to the decision to implement a shared services strategy at Natural Resources Canada.

Phase 1: Scoping and planning

The objective of this phase was to obtain approval by the Departmental Management Committee (DMC) on the methodology described in the first article (i.e. the phased approach and the process framework) including the timelines associated with each phase. It was also used to develop a clear understanding of the necessary delineation between the "Governance" and the "Services" activities.

With respect to the timelines, DMC accepted that the recommendation should be tabled at the beginning of January 2004, leaving us four months to complete the whole study.

The following definitions were also accepted for the "Governance" and the "Services" activities.

- **Governance activities** are defined as activities that allow the organisation to assign responsibility and direct staff in meeting its mission critical objectives (the principal-agent relationship). These activities include policy development, monitoring and control functions that allow the department to account for its operations and its effectiveness in meeting its mandated accountability.
- **Service activities** are defined as activities that are essential in supporting the delivery of its mission critical objectives as part of the organization value chain (the client-supplier relationship) as presented in Figure 1.

Phase 2: As-Is baseline data collection and activity analysis

In order to gather all the necessary information to best describe the As-Is baseline, 182 interviews were conducted with senior managers, support services employees and clients across the country; nine workshops were conducted with client groups to assess their perception and understanding about the services they received; and a huge amount of documentation was analyzed. All this effort resulted in the following observations, summarized in figure 2.

- The overall investment in "Governance", "Service Activities" and other related activities have been estimated at $168 Million or 30% of NRCan's Operating Budget;
- Labour costs were estimated at $90 Million, while the other related costs were estimated at $78 Million;
- The level of effort deployed towards these activities was estimated at 1245 Full Time Equivalents or 26 % of NRCan's Workforce;
- Strategic investment in information technology, a major category of expenditures, was not well leveraged;
- There is a multiplicity of organizational units delivering the services, more than 37 units across the country; and
- Process delivery is very fragmented and varies within sectors as well as within regions.

The measure of fragmentation, presented in Figure 3, represents a concentration ratio, which is the total Full Time Equivalent (FTE) devoted to an activity divided by the number of employees who allocated a percentage of their effort to a sub-process. Low concentration ratios indicate highly fragmented sub-processes.

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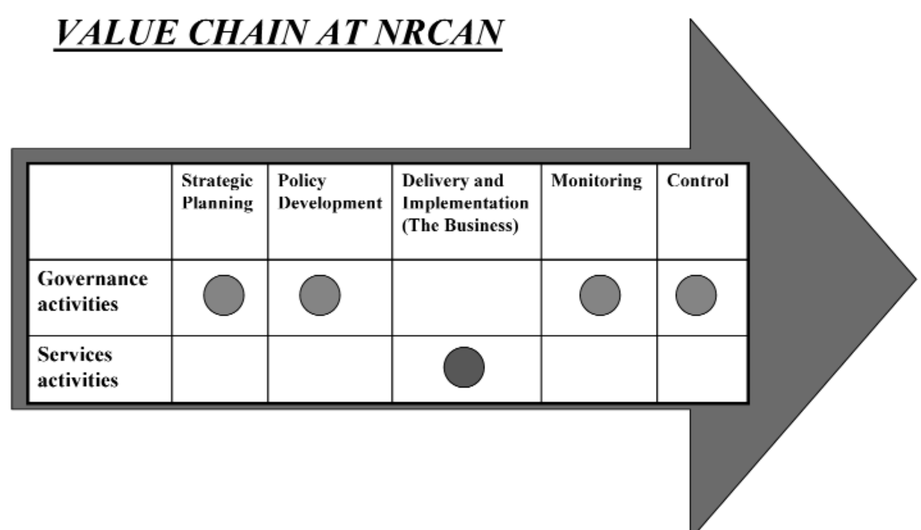

Figure 1

The review of the As-Is Baseline also provided the identification of opportunities for improving efficiency and effectiveness of "Governance" and "Services" activities. A portfolio of opportunities was developed by identifying a broad range of savings for each of the processes identified in the framework. The portfolio was developed using the following opportunity types:

- Adopt a shared services philosophy;
- Optimize the level of effort for Governance activities;
- Leverage IT infrastructure and investment;
- Commit to process improvements and standardisation;
- Consolidate Strategic Spending; and
- Improve performance management.

The following table presents the low-end and the high-end range of opportunities.

Phase 3 & 4: To-Be Model Assessment and Recommendation

The transformation requires a redefinition of the delivery structures and systems to create and sustain a new service delivery vision and culture. Service quality, professionalism, cost-effectiveness and continuous improvement are the key characteristics for the development of the new service culture and vision.

The models were assessed against the following objectives required for the proposed transformation:

- provide more effective accountability throughout the system and greater clarity between governance and service responsibilities;
- ensure that client requirements drive the delivery system;
- enhance professionalism, and career development for service providers;
- guarantee excellence in service delivery in regions;
- embed within the delivery system a motivation for continuous process improvement and innovation; and
- tie the quality and the cost of service delivery to department providers and objectives.

Three of the four models analyzed did not provide the long term and sustainable benefits in term of service delivery and/or cost effectiveness. These models were:

Status quo with process improvements

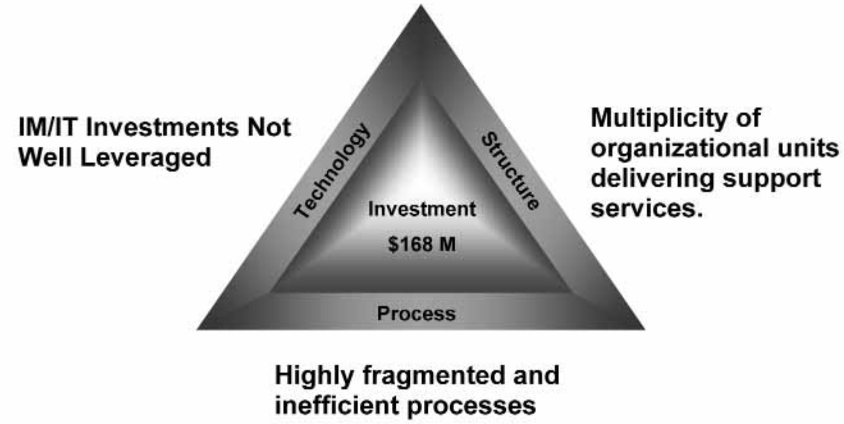

Figure 2

Process	Headcount / Process	FTE / Process	Concentration
Plan & Manage the Enterprise	299	60.6	0.20
Develop & Manage Budgets & Plans	283	50.2	0.18
Manage Accounting and Finance	346	135.2	0.39
Manage Procurement, Inventory and Logistics	379	99.7	0.26
Manage Capital Assets (>$1,000)	195	71.3	0.37
Manage Audit Evaluation & Risk	57	23.8	0.42
Manage Human Resources	381	171.7	0.45
Manage Security, Safety & Emergency Responses	114	42.3	0.37
Manage Information Management	362	147.7	0.41
Manage Information Technology	344	220.9	0.64
Manage Communications	403	208.7	0.52
Manage Environmental Affairs	46	13.2	0.29

Figure 3

	Low End	**High End**
Description	Represents changes made at the margin	Represents significant standardisation of processes
Elements	• Some Process Improvements • Improve sharing of services • Implementation of quick wins • Minimal investments in supporting infrastructure	• Implementing a shared service organization • Implementation of strategic sourcing opportunities • Implementing the supporting technology infrastructure to automate the processes as much as possible.
Average savings	9%	18%
Saving estimates from Baseline	$15 Million	$30 Million

In this model, there are no major organizational changes, no consolidation of directional governance activities. The current service delivery system remains relatively intact. Special task forces would be established to implement specific process, mostly through streamlining and standardization. This model represents an incremental approach that focuses essentially on efficiencies. The realization of economies of scale are minimal and economies of scope, virtually impossible because the system has little incentive to "bundle" services due to its large fragmentation and multiplicity of delivering units. Some savings would occur but the fundamental issues and concerns identified in the "As-Is" (e.g. multiplicity of organizations; fragmentation of processes etc.) would not be addressed in a systemic manner. This option is the easiest to implement and the least disruptive in terms of human resources implications. The incentive for continuous improvement and for department-wide efficiencies are likely not sustainable over the medium term.

Centralized model

This model centralizes all client-supplier processes and most directional governance responsibilities into corporate groups. This is the classic "centralized" delivery model where co-location of some services would occur but, for the most part, the service is supply driven (i.e. a base level of service is determined and applied to all users). The model had proven itself capable of yielding significant efficiencies but, however, at the expense of adequate service and responsiveness to the needs of clients.

Sector Model

In this model, most of the directional/governance type responsibilities are consolidated into the appropriate corporate groups. Client-supplier processes are organized, managed and delivered by each sector. Corporate support service procedures and policies are adapted to meet each sector's specific and unique requirements. The model would provide excellent service delivery as resources would be managed and owned by sectors. While service excellence would be optimized (according to each sector's cost constraints), the model would not yield economies of scale nor a sufficient potential for economies of scope. From a departmental perspective, this model is the most expensive to finance. Not only would the overall spend on support services be high, the coordination costs across sectors to implement any departmental policy would also be significant. In addition, the issue of leveraging strategic expenditures remains. As with the centralization model, this approach fails to address the key issues of the "As-Is" picture.

The fourth model, **the Shared Services Initiative**, was recommended to the Departmental Management Committee.

The key challenge for implementing an effective transformation strategy, for shared services, is to develop a framework that will generate the right incentives, motivation, dynamics and organizational behaviour such that the new delivery system embodies and sustains a new service culture. The leitmotif of this new service culture is to provide the department with both timely, accurate and dependable service delivery for its users and realize the full benefits of economies of scale and scope.

The proposed framework consists of three key structural components:

- A strong and clearly identified directional/policy;
- A consolidated support services delivery; and
- A robust governance structure for the delivery.

A strong and clearly identified directional/policy

The literature on shared services supports an approach that differentiates the governance activities from those that are purely service oriented (i.e. those that are of a client-supplier nature). In many organizations, staff must administer policy while also attempting to service clients. This schizophrenic behaviour creates a certain degree of frustration for line managers and staff when, from their perspective, those groups that should be in their service and meeting their needs are in fact assuming directional and control responsibilities. For example, finance groups offer services to their internal clients but, at the same time, enforce compliance with policies, standards and processes. In this case, there is at best confusion and more likely a conflict of interest between the two roles of governance and service.

The first component of the framework would require that the governance responsibilities included in the support service processes would be consolidated into the relevant NRCan's Corporate Groups. Sectors would retain all resources required to be able to respond to corporate initiatives while ensuring their own accountabilities.

A consolidated support services delivery

The second component of the governance framework consists of a consolidation of all non-directional support service delivery into a **dedicated service delivery organization,** called the Shared Services Organization (SSO), that would be headed by an Executive Director. All client-supplier type services, including those currently carried out in the corporate groups, would be organized functionally into **service delivery clusters** (business/process lines) in the new dedicated unit.

Support service delivery in regions would be organized into five hubs that would support all NRCan sectors within their designated geographic boundaries and would report to the SSO.

The *quid pro quo* for a consolidation of service delivery is that users have access to excellent and customized service. In order to address this critical success factor, the SSO would be structured into two distinct but highly integrated groups:

- The first group would focus on the supply of services. Organized into delivery clusters, managers would be responsible for the design, production, management, actual delivery of support services directly to users and ensuring proper linkages with the governance groups.
- The second group would focus on demand for services. Organized into a unit of Account Executives, each sector in the NCR and each geographic territory in regions would be assigned an Account Executive responsible for ensuring proper linkages between the clients and the service delivery clusters.

A robust Governance Structure for delivery

The third component relates to the accountability framework for the SSO. The SSO would report directly to the Deputy. In addition, the Department would create a new **Service Board** that would represent the service users interests in terms of access to and delivery of support services.

The Service Board would act somewhat like a "Board of Directors" or "Board Trustees." The Board would provide the SSO with strategic direction, monitoring and control.

More specifically, the Service Board would dictate performance objectives to the SSO both in terms of service levels and cost effectiveness. It would approve prices and investments, and monitor the performance.

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ble force Mother Nature has to remind us of both our basic mortality and humanity. There were some up-sides as we saw a world that asked tough questions in the face of 'Might is Right' proponents, saw a widespread mobilization in defence of democracy and the right for people to chose and support for our fellow human beings that nearly eclipsed amazing survival stories and the insurmountable nature of the human spirit. We watched it all on our 40-inch TVs and felt lucky to be safe at home or anywhere the action was not unfolding.

So 2004 turns to 2005 and we fill ourselves with turkey and fixin's and promise to do better next year. But what does "do better mean" for we mere mortals in the financial community and what does this have to do with keeping our eye on the bottom line?

Absolutely nothing.

And that's as it should be. Maybe this time of year is really about reflecting on how we can be better people versus better professionals. About how we can contribute to something greater than the bottom line. About not wasting our mental energy trying to calculate how much water it will take to fill the backyard skating rink (*mea culpa*) but wondering instead how much care and attention it takes to fill your kids' eyes with true wonder and amazement at simple miracles and that being a kid doesn't compute on a balance sheet. About its not how much we or our organizations make but how we make a difference. Talk about a real balanced scorecard!

Yes, it's been an interesting and even wondrous year. How did you stack up? More importantly how will you stack up next year?

Before I get all preachy (a big trap I often fall into, I am told) let me close out uncharacteristically short of my 1500 words, with the following advice that should be our community's credo:

- Live every day like it was your last
- Dance like nobody's watching
- Let the child you were be proud of the adult you are now
- Be good to one another
- Smile more, think less

May 2005 be a happy, healthy and thought-provoking year for all. Yes, I know I didn't say prosperous…but that's how I see it from behind my green eyeshade. ■

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make controls not only stronger but unnecessary in many cases; thus creating the opportunity to reduce costs and increase innovation.

Conclusion

The financial management controls established to protect the taxpayers of Canada are generally of a very high standard. Control breakdowns mostly result from a lack of accountability for the exercising of controls.

Financial management controls established to help managers and organizations achieve their objectives could be improved. Greater progress will result from:

- clearer communication on the meaning and purpose of FM & C and where it fits within the overall management framework of the government;
- clearer communication and guidance on the respective responsibilities and accountabilities for FM & C of financial experts and managers at all levels; and
- more emphasis on how to link resources to results, such as by introducing sound cost management policies and practices across government.

An FM & C framework should be built on the premise that the government wants a sound process in place in its departments and agencies for planning and acquiring the resources needed to achieve stakeholders' expectations and for rendering accountability to their respective stakeholders for the cost effective and proper use of these resources. Based on this premise, this article suggests that the purpose of an FM & C framework is to facilitate and set the boundary lines for the planning, use and accounting of resources. ■

References

1. AG Report, Chapter 5, December 2002, and various issues that have received public attention, such as the allegations of poor financial control of transfer payments by HRDC, and the breakdown of controls in the Office of the Privacy Commissioner.
2. An early example was the government's response to the recommendation of the Royal Commission on Government Organization (Glassco) in 1962 to delegate substantial responsibility and authority to departments and agencies for financial management in exchange for a corresponding increase in accountability of deputy ministers.
3. This is problem that has been raised by a succession of Auditors General over the years, and is a subject that has not been given sufficient attention in financial and expenditure management reforms.
4. She refers to the Guide for Ministers and Secretaries of State; Guidance for Deputy Ministers; the Management Accountability Framework; and the Values and Ethics Code for the Public Service
5. Unfortunately, I could find no reference document on this so this quote is based on my personal memory of what Mr. Lamframboise said.
6. H.L. Laframboise, *Administrative Reform in the Public Service: Signs of a Saturation Psychosis,* Canadian Public Administration Journal, Vol 14, No. 3
7. Quote from *Why is government so difficult (reluctant) to change?*, Sheldon Ehrenworth, Optimum on Line, Vol. 34, Issue No. 3, October 2004.
8. Similar confusion has occurred over the difference between public administration and public management.
9. Guidance for Deputy Ministers, figure 2, page 30, Privy Council Office, 2003.
10. Her Majesty's Treasury, *The Responsibilities of an Accounting Officer* (London (UK): HMSO, 1991, Annex # 4.1. (s. 5)), p. 2.
11. Page 19 of the Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada
12. Stakeholders include the people within the organization, as well as external bodies.
13. FM & C Specialists range from junior financial officers all the way up to the Comptroller General of Canada.
14. Page 4.

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It would also approve service level agreements to ensure fair and equitable treatment of its constituents. Finally, it would also act as a final dispute settlement mechanism between the clients and the service providers, as required.

The shared services initiatives sets the relationship such that the interest of the various stakeholders are counter-balancing without being counter-productive. The relationships will ensure long-term sustainability by encouraging a creative tension throughout the system. Continuous improvement and client responsiveness, which are built in, will ensure success.

Now that theory has been brought to life, the next and last article, to be published in the next edition of the FMI Journal, will present the implementation strategy developed to establish the new Shared Service Office. ■