The New Era of Shared Services

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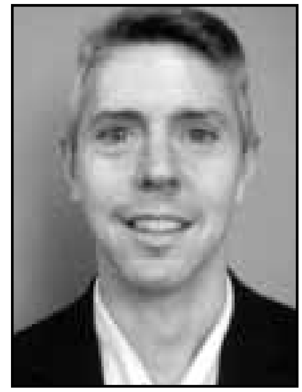

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Service Delivery Evolution

Ongoing requirements to improve service delivery, while at the same time trying to manage overall budgets that never seem to have enough money to cover all requests for government services, are forcing governments to re-examine their service delivery models. The Canadian Federal Government is no exception, and in its case, it has been putting renewed focus on shared service delivery models. These models provide opportunity and need to be carefully examined in terms of the best approach for their applicability, from both the service provider as well as the end-users' or clients' perspectives.

Shared services arrangements are designed to achieve efficiencies by using a single organization to provide a service to multiple departments and agencies, (i.e., clients), rather than requiring each of them to have their own capacity to provide that service. In our Federal Government, shared services concepts have been prevalent for years. The conventional back-office centralized shared services exist in Public Works and Government Services Canada (PWGSC), which has had a long history in this area ranging from mainframe data centre support services, to procurement support, to telecommunications provisioning, to real property services, to leading edge concepts such as the evolving Secure Channel infrastructure project. Similarly, the Treasury Board Secretariat (TBS) has been providing central policy, budgets and expenditure management, and program planning support in a number of areas. These include such things as the Financial Administration Act (FAA), support for the implementation of accrual based accounting, and expenditure management systems. There are also evolving shared services such as cluster support for core corporate and administrative enterprise resource planning (ERP) systems, and even the potential for common business process support. Shared services also exist at the citizen service delivery interface. The Government On-Line (GOL) initiatives consider 'e'-enabling service delivery, ideally with a common or shared look and feel to citizen transaction processing that crosses the conventionally departmental, or even jurisdictional, or organizational boundaries. These initiatives would support such things as common government wide internet portals or shared call centres. Given the significance of the citizen end-user, the confluence of these service delivery areas at the citizen interface is potentially a more important, and sometimes overlooked shared service opportunity.

Shared Service Benefits and Challenges

While a range of different products and services can be supported, shared service delivery models usually have common features. These would include benefits such as economies of scale or scope and the achievement of efficiencies, stronger negotiating positions, and streamlined or common business processes. There is also the potential for improved management and the improvement in quality and delivery of service. Cost economies are particularly effective with routine, high-volume transactions, which could be the case in areas such as finance, materiel, and human resources transaction processing, or with structured supply-side processes (e.g., supplier selection and procurement). Similarly, with departmental requirements to interact or interface with central organizations, the ability to standardize business processes can provide benefits to all organizations involved. Ideally, the services that are shareable are 'commodity' services, where not much differentiation between departmental operations exists. For example, the application of certain aspects of the FAA could have similarities, independent of which department or organization is providing the services. Having a shared service organization focus on these commodity type services allows departments to focus on their core business. There are a number of benefits in considering shared services in the Canadian Federal Government, but the extent of the benefits may vary depending upon the maturity and capability of the organization.

Despite the successes and apparent advantages and opportunities in shared services, there are also challenges in implementing them, numerous failed attempts, and lessons learned. Challenges range from loss of control and flexibility, in particular with respect to service delivery impacting services to citizens in unique program areas, to increased bureaucracy needed to get things done, and time and effort to implement change. Dealing with the trade-off of reduced costs versus perceived lack of localized service delivery support, (e.g., it is a good idea, but 'won't work in my unique program area'), is also an important consideration to address in the evaluation of any shared service delivery model.

There are also financial challenges in implementing a shared service delivery model. Putting together a shared delivery organization results in the grouping of service delivery resources, whether it is people, equipment or facilities. These resources are used in common by several clients, who all in theory should pay for

TABLE 1
Shared Service Delivery Benefits

Shared Service Delivery	Department Focused Service Delivery
• Economies of scale and greater cost efficiencies (e.g., operations locations, reduction in support staff) • Ability to establish standards and simplify environment - Improve flexibility to adopt key process changes across entire organization • Greater potential to attract and retain qualified professionals in one larger organization than many smaller ones • Ability to establish common performance metrics and monitor results • Ability to leverage prior experiences • Ability to coordinate and integrate across organizational boundaries, especially as related to enterprise initiatives • More effective use of common infrastructure	• Potential to be more responsive to and focused on specific program needs • More innovative and able to change; less management hierarchy • Better ability to understand program area and effectively apply expertise • Ability to closely manage and monitor available resources • Ability to influence priorities to meet program needs without competing for resources with other entities • Greater control over service delivery/selection of service provider • More flexibility to address the application of new technologies to specific (possibly customized) needs

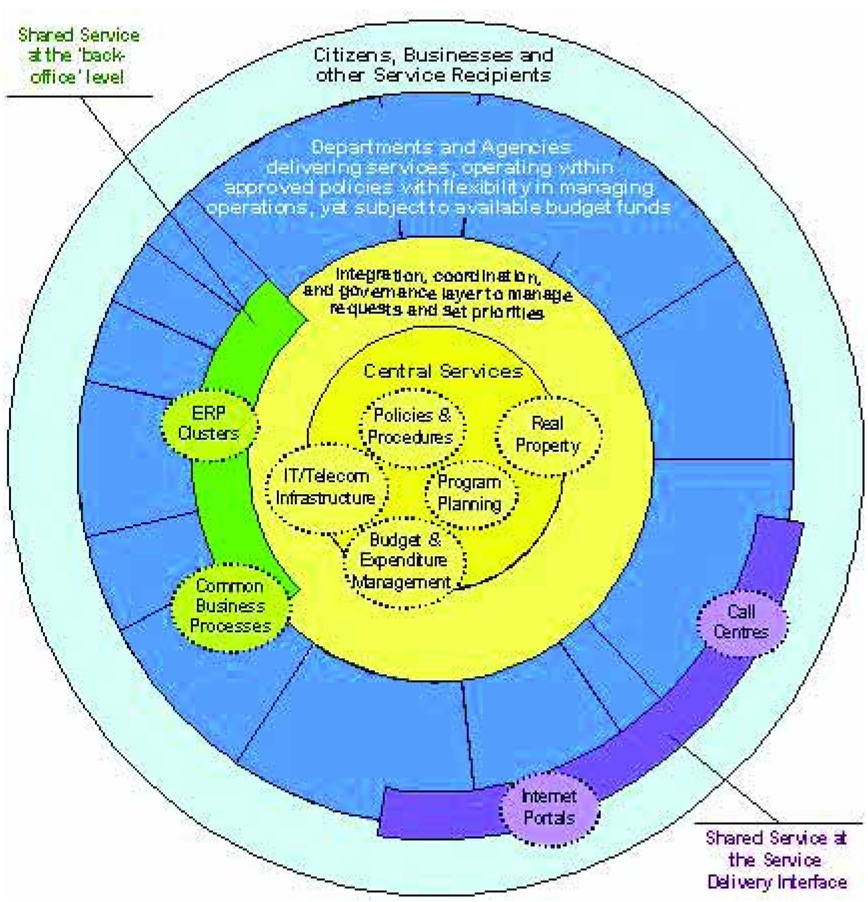

Figure 1. Shared Services Interfaces

these resources directly or indirectly. The most common direction in governments over the past number of years is to have clients responsible for their utilization of these resources, and by extension, responsible for paying for these resources. The alternative of providing services at zero or subsidized cost presents the opportunity for abuse of the system and inefficiency, either by the service delivery end-user or provider. Determining the appropriate financial costs and benefits balance is not straight forward.

The shared service approach is not intended to be utilized across all service delivery areas. An understanding of how it can work in unique situations and the potential challenges is important in determining applicability. The following table typifies some of the benefits that are associated with shared service delivery, as well as conventional department focused stand alone service delivery.

The Business of Shared Services

Shared services are not usually directly tied to departmental program delivery, and as a result are often looked at as more of a business, with specific revenues and costs. In support of revenue generation, there is a range of pricing or billing approaches. One prevalent in the Canadian Federal Government is to have the billings or price of the services equal to the costs plus a mark-up to cover overhead. This ties costs closely to revenues and while intuitively appealing, can result in inefficient behaviour (e.g., more costs result in more revenue). Alternative pricing approaches can be used to separate the costs from the billings, such as 'market' pricing, which represents the price of the service that could be obtained in a competitive market or from a competitive supplier. However, even this apparently straight forward approach is complicated when the market price for a service could change depending on whether the price is for any typical buyer, or for a buyer with the purchasing power or buying clout of the Canadian Federal Government. Given the sheer size and credit worthiness of the government, there are few if any comparable service buyers in many markets, thus even with this ideally unbiased approach, some subjectivity is required in setting the price based on existing market prices for other buyers. For example, the common market price would be the ceiling price for the government service delivery price.

Similarly, determining the costs for shared services, given the common expenditures utilized by multiple clients can be complicated. There is usually a requirement to allocate the costs to the end-users or clients based on a cost 'driver' or factor that is related to the client consumption (e.g., units utilised). With cost allocation comes some degree of subjectivity or arbitrariness. For example, while units may be the cost driver, each unit may not cost the same amount or there may be different costs for different quantity levels, and as such there is generalization of the costing.

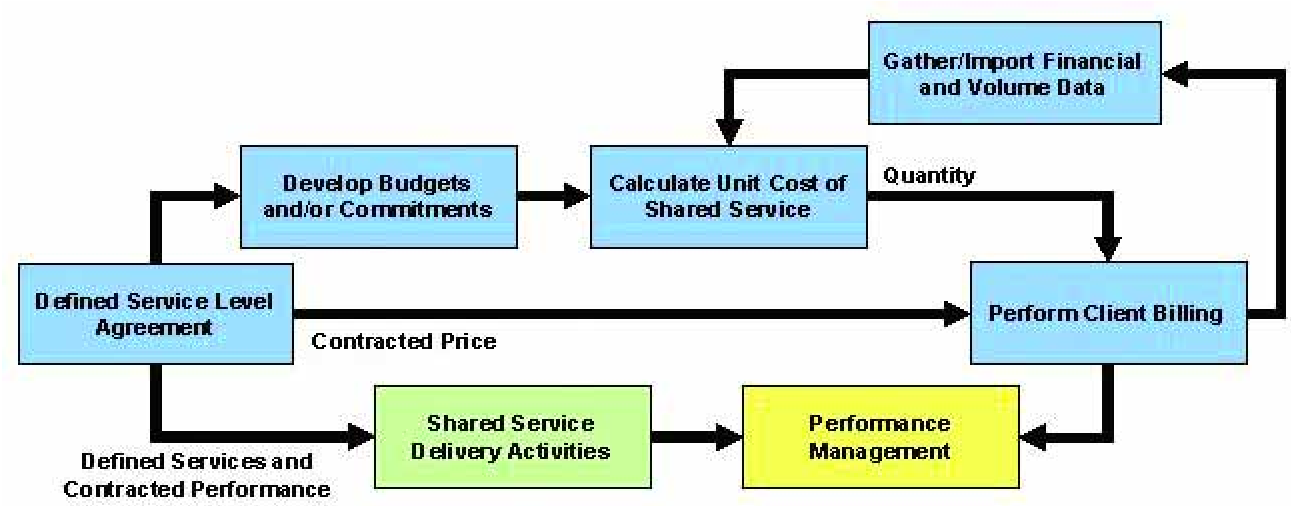

Figure 2. An Integrated Shared Services Approach

There is a range of commonly accepted allocation approaches, cost drivers and methodologies, however direct, causal relationships are never exact and as a result some degree of subjectivity normally exists here as well.

Another challenge for the Canadian Federal Government is providing the appropriate service for the appropriate price. Historically, the approach seen in several shared service implementations is to be as service oriented as possible, where the service provider develops a service agreement (SA) that positions itself to provide as much service as possible for a specific price. There often is not a detailed service level agreement (SLA) to support the SA that would quantify the amount of service provided for the price. For example, for computer availability, metrics such as percentage of time available, acceptable downtime, monitoring metrics and tools, reporting formats and frequencies, can all be considered as part of the SLA and these would differentiate the quantity of service provided for the price. Additional support and accountability can be required for measuring and meeting these specific metrics. This SLA approach positions the service provider to offer different ranges of service, where the most responsive service, which is normally the default service delivery level of current SA's, would cost more than a level of service that was less than the most responsive. Clients may prefer a less responsive alternative, (e.g., one day turnaround vs. two hour turnaround) if it could provide significant cost reductions. However, moving from a full service, 'provide everything possible regardless of cost' culture, to one driven by service levels is difficult, in particular in the public sector where if service delivery impacts constituents in any way, it may have political implications.

The impact of relating the level of service to the cost of service by extension leads to another challenge – the overall resource or funding requirement for the shared service organization. Taking the lead from private sector counterparts, who co-incidentally could be alternative service providers in there own right, public sector shared service providers are often structured such that their revenues, or billings, equal their total costs – they break-even. Ensuring that recipients pay for all costs associated with the service delivery ensures that there is a real or perceived agreement of the value. This often requires the recipients to fully appreciate and understand the source, amount, and make-up of their billings. Given that these are often supported by some kind of subjective cost allocation, this can require additional effort to explain the allocation processes and provide transparency of the processes, and possible alternatives, to get full support and buy-in. The historical budgeting processes, often not zero-based, may accumulate overheads in such a way that there is not always clarity on what makes up the cost pools that are allocated, further complicating the transparency. One way or another, the requirement to run shared services organizations as profit centres that break-even, as opposed to service delivery cost centres, requires a change in approach and behaviour in service delivery organizations.

Shared services approaches should be integrated with a defined set of services, associated revenues or billings and costs, upfront budgeting, and service level agreements. Performance management with associated client relationship processes are also important to ensure outcomes are met, service levels are managed, and the service delivery model is efficient and effective.

Management and the People Perspective

As is often the case, the human or people aspect of shared services delivery approaches can be the most challenging, in particular given the subjectivity and potential complexity of shared services models. Client relationship management usually involves some requirement to have both the service provider and the end-user or client work together to come up with mutually agreed upon approaches that balance the rigor required in such things as precise cost allocation or billing models, with the cost of developing and maintaining the models. Transparency, visibility and understanding of the billings, costs, and cost drivers are important, as is a recognition of the subjectively of the information. Consistent and ongoing communication along with flexibility in implementing alternatives is important.

In addition to the specific service

provider and client relationship, overall effective governance within a shared services environment is an important and challenging management concept. Governance is defined here as a set of management mechanisms that balances the decision rights of multiple organizations and encourages desirable behaviours. Effective governance starts with the recognition that it involves competing stakeholders and politics, in addition to plans, budgets, services and standards.

Shared services organizations need to be cognizant of perceptions from their government clients regarding its decisions. Cross departmental working groups should be utilized to improve ownership in management practices and ensure that they are practical and effective. A common approach to this is the use of internal and external stakeholder groups. These groups have vested interest in the outcome of the shared service programs and could effect change in how programs are carried out. These groups can be composed of department and agency representatives, service or technology experts, with possible representation from the private sector, and the shared service organization. However, as the number of stakeholders increases, the control of the individual department diminishes. This must be balanced against too much control. For example, if one stakeholder has more than 50 percent 'ownership', shared services may not be effective as that stakeholder can assert veto power whenever proposals do not align with their desired outcome. Similarly, where individual stakeholders have less than 5 or 10 percent ownership, they may feel their representation is lacking or feel disenfranchised. Stakeholder groups provide useful relevant input to the shared service governance.

When determining the appropriate balance of responsibilities, it is important to be pragmatic. For example, responsibility should rest with those accountable. If a manager will ultimately be accountable for the success or failure of an initiative, then she or he should be given the responsibility to influence factors important to its success. Performance measures and incentives should encourage good management practices (e.g., use of structured project management approaches) and discourage empire building (e.g., increasing FTEs or budget). This holds true for both the shared service organization and departments. In addition, over time an organization develops a personality that reflects the values of its leadership and workforce. Many large departments and agencies are also likely to have prior experience struggling with internal departments over the balance of responsibilities and bring their past experience and judgment to the table. Although not impossible to overcome, taking these predispositions and cultural factors into account can help minimize conflict when implementing change. Finally, activities performed by the shared service organization must bring value to a department and not be merely perceived as imposing additional bureaucracy.

Shared Service Delivery

In summary, shared service approaches have been and will be used in the Canadian Federal Government, and have a range of associated benefits and challenges that need to be managed. They should be looked at from a business perspective with attention to revenue as well as costs, service levels, and performance management in delivering these services. More importantly, the management and people perspectives should be focused on to ensure effective relationships and agreements can be supported while providing the right balance of service delivery management and efficient operations. ■