



Shared Services

*Driving UK public sector
transformation and revitalisation*

Sharing the challenge of change

Shared Services are the enabler of change, offering the UK government the means to achieve several goals at once. Wrapped up in this approach is the opportunity to make significant inroads in overall efficiency targets, and to kick-start transformation of government and the wider public sector into a more focused, citizen-centric entity.

Nobody has said it will be easy to move to a Shared Services model. On the contrary, experience has shown it can be exceedingly difficult and painful. But the vast majority of large private sector companies have already adopted Shared Services because they have been proven to save money, provide better HR, finance and other back-office services to employees and managers, and lay solid foundations for a variety of other cultural transformations. In light of the Gershon and Lyons reviews, maintaining the status quo is not an option for government or the wider public sector.

*Shared Services deployed across central and local government offer the opportunity to make major savings on support services and to redeploy those financial and human resources to front line, citizen-facing services. This was spelled out in the report *Transformational Government – Enabled by Technology*, the government's blueprint to reforming the public sector. It identified Shared Services, citizen-centric services and IT professionalism as the three key components of transformation.*

However, in the first stages of adoption, the breadth of the initial vision does not appear to have been mirrored in action.

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It is vital that the Shared Services initiative is seen throughout the public sector, from top to bottom, not as an isolated IT project but as part of the overall transformation in the way government services operate. The Xansa/NHS deal is an example of a successful project, but it is one of a small number of exceptions that prove the rule. Elsewhere this is not happening.

Critical to the success of Shared Services in the public sector is an understanding of the end-to-end implications, from development of strategy through process redesign, technical enablement and operation, to measurement of savings. Some initiatives already under way, or about to begin, are giving cause for concern. After a good start in establishing cross-government Shared Services, issues coming to the fore could jeopardise its success and condemn the overall initiative to permanent underachievement or outright failure.

This need not be the case. Government and the public sector need only look to the private sector to see examples of success. IBM for one has amassed knowledge, assets and expertise from a wide variety of transformation projects, including its own Shared Services functions for HR, finance and IT. With this extensive experience in public and private sectors in the UK and globally, IBM is keen to contribute to the debate on how best to move the UK initiative forward to a successful outcome.

Building up for let down

Shared Services are defined by the *Transformational Government* report as the common delivery of a transactional operation or function to more than one organisation to improve the effectiveness of those operations and deliver them better, at lower cost. It identifies HR, finance and IT as back-office or corporate services functions where Shared Services are appropriate.

Transformation is a journey fraught with hazards, the greatest of which is to view change as simply a matter of technology and process. The critical component is people: it is people who have to change. This is the single biggest challenge in implementing the Shared Services concept.

Back-office rationalisation: BP

The global energy group BP sought to achieve business benefits by integrating back-office functions without affecting its customer focus, and an aggressive mergers and acquisitions strategy that it was pursuing. The initiative was driven by a need to sustain cost reductions; improve visibility, control and flexibility; establish enforceable service levels; and reduce its workforce. Through Business Transformation Outsourcing, BP transformed its finance and accounting (F&A) functions, which include managing accounting transactions, financial reporting, compliance and decision support. As a result, integration of acquisitions was speeded up significantly, F&A costs were greatly reduced, and the quality of data provided in support of decision making was improved. The transformation freed local employees to serve BP customers.

Strong sponsorship and leadership are key to successful Shared Services programmes. This has been amply demonstrated over the past decade in the private sector. Programmes need leaders and sponsors who are visible and committed to the programme, who will view change management as their top priority. Our experience on a number of public sector projects suggests this is not consistently happening, with predictable results: delays, avoidance and obfuscation in making decisions, and not 'signing off' on proposed changes.

Shared Services are about transformation, not isolation. Think beyond HR and finance. Sharing means breaking down some traditional boundaries.

Other factors for potential failure in the approach to Shared Services by the government, and the public sector as a whole, are:

- **Fragmentation** – *no plans for real cross-departmental sharing with many organisations wanting to provide services but few wanting to buy them*
- **Limitation of scope** – *not extending the concept far enough*
- **Lack of clarity** – *no vision of where the programme is going or how it fits in the bigger picture and no easy description of what 'Shared Services' actually are*
- **Job losses not addressed** – *transferring existing staff groupings into Shared Services operations defeats the objective of reducing staff, the main driver of cost savings.*

Shared Services offer the potential not only for efficiency and savings but also for improving the quality of those services involved. This differentiates the concept from other, simpler options for cutting costs – simplification, standardisation and consolidation – all of which Shared Services cover.

Time to take change seriously

The private sector has tested, developed and proven the Shared Services model through more than a decade of survival-driven change. IBM experience covers many different organisations and geographies. In the public sector, we have been struck by the variance in understanding of Shared Services as a concept and what it means in practice.

Shared Services are part of the overall transformation process and not an isolated IT project. Unfortunately, changing the course of the public sector and dealing with entrenched practices and vested interests is notoriously difficult. Current evidence from the public sector suggests business transformation and change management are not being taken seriously. More money is being spent on updating technology than on training people. Projects are set up as systems implementations or integration. With no long-term goal or vision, initiatives are often treated as short term at best and 'fire-fighting' at worst.

Finding a better way: Ontario's IFIS

Ontario launched a Shared Services initiative in 1997 to consolidate and streamline the financial, HR, payroll and benefits transaction processing activities of over 65,000 public sector employees working across the province's 24 ministries, plus corporate bodies and agencies. The provincial Ministry of Finance, increasingly constrained by the inability of 17 core financial systems and more than 100 smaller systems to deliver timely, accurate information, spearheaded the move to the Integrated Financial Information System (IFIS), using Oracle Financials software. The government made the decision that all sub-ledger financial processing would be done by Ontario Shared Services, including all government transfer payments, enabled by IFIS. Working with a consortium led by IBM, the province successfully brought all ministries on board through strong leadership and by showing them the benefits of a single financial system and Shared Services, which included efficiency, reduction of duplication, simplification and streamlining of procedures, and less manual processing. Proactive stakeholder management was a key factor in overcoming long-standing vertical boundaries so that by 2004, when the last ministries came on stream, IFIS has been delivering significant benefits to all stakeholders. Efficiencies were gained by properly training Shared Services and ministry staff on the new applications, business processes and procedures.

Learn from the experience of the private sector where back-office costs have been reduced to 1% of annual expenditure, compared with 2.5% in the government sector.

Staff rationalisation is the most difficult area to address. There is no easy answer. Staff issues may be a particularly sensitive area in the public sector but they cannot be ignored. IBM's experience on a number of recent public sector projects points to several shortcomings. These include redeploying staff to new operations instead of terminating employment, keeping people and their functions in the central organisation, and not devolving management responsibility to the Shared Services centre. The stark reality is that unless significant staff reductions are made, the government's targets will not be met.

Realising the benefits

The size and scale of the public sector set it apart. More than 1,300 government organisations undertake their own finance and HR support processes. They spend about £25 billion on back-office services, or 2.5% of their annual expenditure. By comparison, the private sector averages less than 1% on the same services.

The potential for government to realise benefits from Shared Services at practical, tactical and strategic levels is immense. The Gershon review's target is £1.5 billion in savings in corporate services by the end of 2007. By cutting jobs and removing duplication of back-office processes and services throughout central and local government, Shared Services can make a major contribution to achieving this.

Moreover, by portraying Shared Services as a goal and an evolving mechanism, some of its constituent parts – simplification, standardisation and consolidation – can be planned as phases to deliver quick wins early on. Realisation of the benefits would encourage acceptance and support for the broader Shared Services initiative, and potentially increase the overall savings available.

At a strategic level, Shared Services open a door for wide-ranging transformation of the public sector. Their collaborative introduction by different cooperating organisations could bring about new ways of working. The model of shared, collaborative working across departments and agencies could pave the way for sharing people, data and cultures across the public sector. Released from the back-office, more skilled people would be available for citizen-centric roles, resulting in improved services for all.

To get there, the public sector must overcome a number of threats and shortcomings, including:

- *Scope and scale of change*
- *Level of ambition*
- *Level of importance.*

Changes necessary to realisation of the benefits of Shared Services are far-reaching. They require innovative responses to training and support, a major shift in the public sector's employment model and approach to public/private cooperation, and a new way of managing the overall direction of Shared Services across the whole of government, its departments, agencies and units.

So far, a relatively limited set of back-office processes and functions have been the focus of public sector initiatives, themselves often limited by a narrow, fragmented approach. These initiatives are unlikely to produce the scale of efficiency savings required without expanding Shared Services beyond HR and finance into front-office services – those people, processes and services that interact with citizens – and other back-office functions such as procurement, estates management and IT.

To achieve the targeted benefits and savings in the public sector, Shared Services need to be taken more seriously. This means clarity, rigour and coordination in the preparation of business cases, leading to clear criteria for sign-off, an understanding of expected benefits and a reliable baseline for measuring progress.

Shared Services will help improve quality as well as cut costs.

A clear road to success

IBM's experience working on a number of central and local government projects, directly or in connection with Shared Services initiatives, has led us to make three broad recommendations for success:

- *Strengthen the senior team managing and driving Shared Services across government, with specific targets for individuals*
- *Make staff reductions a clear and identifiable component of overall savings*
- *Allocate appropriate resources to activities relating to people, training and change management.*

There is no denying that change on the scale that is envisioned will have huge impact. It requires an implementation strategy that covers not just the steps to be taken and milestones along the route, but a clear vision of the end state itself. The strategy needs to be supported by data, analysis and validation, and related training.

Significant outsourcing of services to the private sector is a likely outcome in the drive for efficiencies and savings. The scale of projected cross-departmental, back-office operations points to a fundamental change in the nature of government-supplier relationships. A small number of large companies or consortia capable of partnering with government may emerge. This in turn would require a change in the approach to procurement and contracting, with a move to a partnering philosophy, possibly embodied in joint venture arrangements.

Options for such contracting or partnering arrangements for Shared Services should be the focus of a new working party between government and potential private sector suppliers.

To combat the risk of selling initiatives short, we recommend the scope of Shared Services is expanded beyond the initial back-office functions to include areas for sharing such as infrastructure, IT and applications. This would open avenues for building 'quick wins' into the business cases and project plans, and help accelerate the realisation of overall benefits.

Little will happen without a strong business case and leadership. We recommend developing a structured and detailed business case template which all Shared Services projects should be required to complete, to provide consistency and a means of measuring success. Top level project leadership can be strengthened by giving individuals specific time and management targets, as well as responsibility for cross-departmental sharing of processes and infrastructure.

Staff reduction is unavoidable if cost is to be saved. We recommend setting clear targets of cost cuts for all Shared Services projects. The contribution to this total made by job loss should be identified and measured during and after implementation.

IBM's inside perspective from many private and public sector Shared Services initiatives gives us a unique view of the entire change scenario, including potential pitfalls and best practice. While we have concerns about the current direction of the overall government initiative, our accumulated expertise enables us not just to contribute to the debate, but to help guide the initiative toward its logical successful conclusion.

Transformation affects people. Redundancies are inevitable. Acceptance and planning help ease the pain.

Success in Shared Services depends on strong and committed leadership.

Walking the talk: IBM

IBM is one of the world's largest organisations with more than 329,000 employees. Big and complex, it has faced many of the challenges it now helps other enterprises overcome. In 1992, facing break-up, IBM needed to find significant reductions in its cost base. The company focused on seven key processes, making its infrastructure consistent and consolidation throughout its operations. Between 1992 and 2004, infrastructure consolidation saw the company go from 128 CIOs to one; 31 networks to one; 155 data centres to six; and 16,000 applications to 4,200. In HR, it consolidated 38 operation centres into one; 21 data centres into one; and achieved a global HR: staff ratio of 1:109, an improvement from 1:59. Through its own reorganisation to a Shared Services model, IBM learned the value of consolidation and delivering one process across the business, and how necessity gives a strong impetus to finding a new, more efficient operating model.

The road ahead is challenging and there will be set-backs, but IBM can help make the journey smoother.



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