

**SHARED SERVICES: LOWER COSTS,
IMPROVED SERVICES AND A CHANGE IN CULTURE**

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23 September 2005

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INTRODUCTION

Although Service Canada⁽¹⁾ was officially launched as recently as 14 September 2005, the federal government is preparing another major reform that will also significantly affect the public service as we know it today. This reform will affect *internal* services, beginning with information technology, financial services, procurement and human resources. Over time, these will be organized into two new units – the Corporate Administrative Shared Services Organization and the Information Technology Shared Services Organization – responsible for the delivery of internal services throughout government.

Like Service Canada, the establishment of the new units is part of the expenditure review that aims to free up \$11 billion over the next five years. Some observers feel that internal services are a major source of inefficiencies in the government. Each year, the federal government spends \$6.5 billion on corporate and administrative services and \$5.2 billion on information technology (IT), and these services employ about 40,000 people.⁽²⁾ Rationalizing these expenditures by means of better work organization and a pooling of resources would lead to the creation of synergies and economies of scale and could achieve significant savings for the Canadian government. Such a reorganization could also have a positive impact on service quality. According to some, the reform might be a catalyst for the long-awaited change of culture in the public service.

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- (1) Service Canada is a new agency that provides one-stop service and integrates services from a number of federal departments to form a single service delivery network. Over the next three years, Service Canada will continue to enhance and introduce more services with the goal of continuous improvement in service delivery and client satisfaction. Over time, it will bring key federal services and benefits together, making it easier for Canadians to get the help they need in one place, whether by phone, Internet or in person.
 - (2) Public Service Human Resources Management Agency of Canada (www.hrma-agrh.gc.ca).

The establishment of internal service delivery units on the shared services model may indeed be the equivalent of a mini-revolution in the federal public service. This initiative has long been on the drawing board of the Treasury Board Secretariat⁽³⁾ without really materializing, even though it has become an everyday occurrence in large private corporations and is rapidly gaining in popularity in provincial governments (Alberta, British Columbia and Ontario) and foreign governments.⁽⁴⁾

This paper briefly explains the concept of shared services and describes the federal government initiatives under way in this area.

SHARED SERVICES

The principle of shared services is applied by large organizations around the world to improve the flow and quality of internal support services. It represents a fundamental change in organizational structure, the attitudes of the individuals who provide services to corporate personnel, and the nature of supplier-user relationships in most of the organizations that adopt it.

Shared common services are oriented around clients, performance and solutions.⁽⁵⁾ Clients⁽⁶⁾ can specify the services they need, and expect that the unit responsible for shared services will meet their requirements. The organization, for its part, continually improves the quality of its services, increases its efficiency and reduces its costs as a result of feedback from clients.

(3) On 18 April 1996, the Treasury Board approved an aide mémoire whereby ministers affirmed the direction and goals of the Shared Systems Initiative (SSI) (http://www.tbs-sct.gc.ca/ssi-isp/documents/critical-docs/initiatives/1996/initiative00_e.asp). Ministers also approved the SSI's operating principles and practices, the establishment of a Shared Systems Support Centre, and an action plan (http://www.tbs-sct.gc.ca/ssi-isp/documents/critical-docs/initiatives/1996/initiative05_e.asp) for the Centre's implementation and consolidation of shared systems components (http://www.tbs-sct.gc.ca/ssi-isp/index_e.asp).

(4) A. T. Kearney, *Shared Services in Government: Turning private-sector lessons into public-sector best practices*, Chicago, 2005 (http://www.atkearney.com/shared_res/pdf/Govt_Share_Services_S.pdf).

(5) A. T. Kearney and Harris Interactive, *Success Through Shared Services: From Back-Office Functions To Strategic Drivers*, Chicago, 2003 (http://www.atkearney.com/shared_res/pdf/Shared_Services_S.pdf).

(6) Unless otherwise indicated, the "clients" referred to in this document are "internal clients" of an organization's corporate shared services.

The primary advantage of the shared common services model lies in resource optimization (cost reduction and increased efficiency). In addition, it encourages a shift towards a culture of continuous improvement through performance objectives, in addition to facilitating access to expertise and encouraging innovation and development through “centres of excellence.” The model also allows for the establishment, with other internal or external entities, of partnerships that create added value for the organization. Lastly, it allows clients to concentrate on their strategic activities.

In order to produce the desired results, the introduction of shared common services must go beyond the mere physical grouping of services and be accompanied by a “best practices” initiative aimed at improving service delivery to clients and reducing costs. The work units must obey the laws of the market when they negotiate with clients, i.e., their services must be competitive. The clients must also be able to submit comments regarding their needs and the quality of the services received. Lastly, the performance of the work units providing shared services must be subject to evaluation by independent experts on the basis of measurable criteria.

FEDERAL INITIATIVES IN THE AREA OF SHARED SERVICES

The Expenditure Review Committee, which was set up in December 2003, had a mandate to examine all federal expenditures with a view to optimizing the use of taxpayers’ money, identifying opportunities for redirecting federal expenditures to meet the most pressing priorities, and recommending various ways of strengthening management, supervision and the effective delivery of programs and services. To achieve these ends, three types of review were carried out: departmental reviews, horizontal policy and program reviews, and reviews of government operations.

This was the context for the federal government’s horizontal review of Common Infrastructure and Service Delivery (CISD)⁽⁷⁾ with regard to external services, corporate administrative services and IT. The review revealed that expenditures on these three items represented one-third of gross operating expenditures, totalling almost \$13 billion annually.

(7) The report of the horizontal review was not available on the Internet at the time of writing, but the following two Treasury Board Secretariat (TBS) documents are available for consultation: *Corporate Administrative Services Review*, January 2005 (http://www.tbs-sct.gc.ca/spsm-rgsp/cas-sam/cas-sam_e.asp), and *Information Technology Services Review – Strategies for Improving IT and its Management*, January 2005 (http://www.tbs-sct.gc.ca/spsm-rgsp/gor-eog/itsr-est_e.asp); the present document draws on these sources.

Most importantly, it supported the conclusion that these activities could be restructured to make them more focused on the target clientele, more transparent in terms of costs and results, and managed in a way that would maximize overall value for the taxpayer and the service offered to the target clientele. In fact, external service delivery has undergone a swift, in-depth reformulation with the creation of Service Canada.

The conclusions of the review have also given a second wind to the Shared Services Initiative, a major component of the government strategy aimed at enhancing program delivery and achieving savings in the second half of the 1990s, specifically in the areas of corporate administrative services and IT.

A. The Corporate Administrative Shared Services Organization

The horizontal review of CISD with regard to corporate administrative services was intended at the outset to evaluate the feasibility of providing administrative services to the entire government through the use of a single system of financial, materiel management and human resources (HR) management services. The recommendations were aimed at achieving the following objectives:

- further optimization of resources;
- a lasting reduction in expenditures related to internal government services;
- enhanced responsibility based on information that is timely, clear, useful and whole-of-government oriented;
- greater flexibility to respond effectively to new strategic and legislative obligations.

The review led to the following recommendation, which was approved by the Treasury Board ministers on 29 March 2004:

The government adopts a shared services approach to the delivery of finance, materiel and HR services supported by common business processes and a common configuration on a single suite of applications hosted and managed by a common application hosting and management service.⁽⁸⁾

(8) Quoted in TBS, *Corporate Administrative Services Review*, “Executive Summary – CAS Review Report,” January 2005 (http://www.tbs-sct.gc.ca/spsm-rgsp/cas-sam/cas-sam01_e.asp).

Ultimately, the solution proposed in the wake of the CISD review, which appears to have been accepted by the Treasury Board ministers, means the establishment of a new legal entity called the Corporate Administrative Shared Services Organization (CA-SSO).

1. CA-SSO Products and Services

CA-SSO would provide administrative (finance, materiel and HR) services to all federal departments and agencies on the basis of a transactional formula. It would be client- and service-oriented and designed to draw on multiple service delivery mechanisms and tools of a technological nature to offer efficient, effective internal services on a shared basis. CA-SSO would provide bundled services ranging from mandatory to optional, with an emphasis on standardized, transaction-oriented offerings. The delivery of transaction-oriented services would be done in accordance with service-level agreements:

- *Level 0 – Self-service capability:* Users would access a self-service facility with information, content and interactive tools.
- *Level 1 – Contact centre:* Any user who did not have access to the Web or had questions that could not be resolved at the previous level could send an e-mail or dial a toll-free number to initiate transactions.
- *Level 2 – Service delivery group:* A significant proportion of the functional expertise would be housed in this group, which would be responsible for processing large volumes of transactions and more complex services. Some services might need to be provided in person and co-located where necessary with the clients.
- *Level 3 – Expertise network:* This group would provide consultant services. Most resources would be co-located with clients in order to provide services in person, and some could be located in one or more sites in order to optimize the skills sought to support CA-SSO and the clientele.

2. Operational Governance and Performance Management

The CA-SSO Enterprise Governance model would establish relationships based on shared responsibility between the organization and client departments and agencies, by establishing a management committee at the deputy minister level. The management committee would approve the CA-SSO's action plan, establish dispute settlement mechanisms, and have the authority to amend the CEO's job description.

CA-SSO would emphasize optimized management of services and service standards and expectations, as defined in service-level agreements signed with the departments

and agencies. These agreements would constitute a mechanism for monitoring CA-SSO's performance against established standards. The budgets for purchasing services would remain with the client departments and agencies. Multi-year agreements would be the method of choice for reducing the administrative burden.

The departments and agencies would continue to manage resources and take decisions using the administrative processes established by CA-SSO. They would thus retain their vertical responsibility and exercise their decision-making authority with regard to the achievement of program results. They would also retain responsibility for strategic management services (e.g., resource management and HR planning).

CA-SSO would be subject to external comparative analysis and to an independent audit of its performance.

3. Anticipated Savings and Investments Required

It is believed that the federal government could achieve direct savings in the order of \$4 billion over the next ten years by adopting a shared services model. As departments complete the transition to the CA-SSO model, gains in efficiency would be achieved due to the following factors:

- rationalization of financial, materiel and HR systems, resulting from the adoption of a single set of government-wide applications;
- standardization through the establishment of government-wide shared operational processes;
- implementation of self-service transactions through a common portal for employees;
- elimination of tasks with no value added;
- simplification resulting from a reasonable framework in terms of policies and supervision;
- consolidation through a reduction in the number of service delivery points;
- sharing of goods, activities and personnel to achieve economies of scale;
- simplified organization-wide reporting, notably through standardizing common data definitions (e.g., single supplier number and client number).

The complete transformation of current internal services and the creation of CA-SSO based on the seven-year timeline proposed by Treasury Board Secretariat would require investments of around \$1.9 billion. On the other hand, based on the status quo model, financial,

materiel and HR services would cost departments and agencies some \$37 billion over the next ten years.

Cost recovery of the amounts initially invested should be completed by the end of Year 7, and the shared services should from then on generate recurring net annual savings in the order of \$660 million at a minimum. These forecasts do not include indirect savings resulting from the implementation of a shared services model for corporate services within the federal government.

B. The Information Technology Shared Services Organization

For reasons of consistency and effectiveness, the establishment of a CA-SSO would require the implementation of an integrated information architecture and a single suite of applications hosted and managed by a common application hosting and management service.

The creation of an Information Technology Shared Services Organization is necessary in light of the multiple simultaneous pressures on the current model of IT service delivery throughout government:

- *Canadians' increased expectations with regard to services* – Fragmented IT is not capable of providing affordable, reliable and secure support for the delivery model based on a practical, integrated single window which Canadians now expect from banks and other service providers.
- *Declining confidence in government*– Fragmented IT is at the root of crises of confidence when the government is not in a position to provide accurate, timely information on how taxpayers' money and other resources have been spent.
- *Financial pressures* – Organizations with fragmented infrastructures and service delivery commonly spend 20% more than they should for IT. The federal government's expenditures in this area now amount to over \$5 billion annually and are increasing by approximately 5% a year.
- *Risk of a security breach* – The security of information in the government is no greater than that of the department or agency that is weakest in terms of security. According to the current service delivery model, the specialized resources and rigour required to guarantee security in processing and transmitting data are not uniformly available from one department or agency to another.
- *Constant need for organizational change* – Fragmented IT makes the restructuring and creation of new program units needlessly expensive in terms of money and time.

In this context, the CISD review has led to the recommendation to create an Information Technology Shared Services Organization (IT-SSO) which would provide shared services in terms of network, office and data centres to all departments and agencies, including CA-SSO, based on shared procedures and standards. In the short term, IT-SSO would apparently form part of Public Works and Government Services Canada.

The gradual transition of corporate services to the proposed model would be facilitated by a suite of integrated applications comprising SAP management software for finance and materiel and PeopleSoft for HR. This combination would constitute the sole standard across the federal government. All federal departments and agencies, without exception, would be required to adopt it within six years.

The suite of applications would be expanded to adopt the functionality and toolboxes required to support the proposed shared operational processes, information model and service delivery (shared services) model. To support the “single standard shared instances” (i.e., the SAP/PeopleSoft combination), an application management service would be established within CA-SSO and would work closely with a shared applications accommodation service, established within IT-SSO, which would house the technical environment for these shared services.

1. Integrated Architecture, Terminology and Standardized Parameters to Facilitate Performance Management

Standardized parameters and terminology related to the workload in a government-wide integrated architecture for IT services are an essential part of an effective comparative analysis of service delivery, an analysis of resource optimization, and an evaluation of the results on a government-wide basis.

The integrated architecture framework should also incorporate a series of key performance indicators that will enable standardized, government-wide measurement, not only of costs and workload, but also of the quality of service. Special attention should be paid to the choice of indicators proposed; specifically, they should:

- increase the transparency and internal accountability of IT services;
- facilitate the conclusion of agreements on service levels for common and shared services;
- permit a comparative analysis of performance against that of other comparable organizations around the world;
- provide effective evaluation of the quality of service delivery.

2. Multi-level Governance

The overall requirements of the organization, such as sustainability, standardization and interoperability, and the very varied requirements of individual programs and work groups, call for the establishment of a multi-level structure of governance. The recommendations emerging from the CISD review anticipate the following levels:

- *Organizational level:* Establish overall policies, thrusts, strategies and priorities.
- *Operational level:* Monitor activities carried out by the various common or shared services organizations of the federal government.
- *Decision input level:* Advisory committees and boards would represent a variety of interests within government, formulate advice based on their areas of specialization, and assume responsibility for mobilizing a broad community of interests to implement the program of change.

3. Anticipated Savings

According to the CISD review, major savings (between 15% and 25%) and service improvements would be possible if some IT services (shared processing, data centres and Web site hosting) were part of a shared services delivery model.

Compared to similar organizations, especially the best-performing ones, the federal government overall does not invest enough in advanced hardware and software, and thus requires 233% more full-time equivalents (FTEs) to accomplish the same workload. Obsolete equipment, software for which the suppliers no longer provide technical support, an extremely heterogeneous environment, limited grouping, the absence of automated tools (e.g., remote administration) and the lack of attention to systematic upgrading of processes are all factors that tend to increase personnel requirements. Furthermore, the average cost to the federal government per FTE in the IT sector is 33% lower than in similar organizations (\$72,700 as against \$108,400). This lower compensation would suggest that a greater share of resources is devoted to routine maintenance and support activities that require less advanced skills.

In view of the exceptionally high number of IT service employees in the federal government compared to similar organizations, the IT community is likely to be heavily affected by the introduction of a shared services model and by the various strategies designed to enhance performance in these areas. Future workforce reductions and the elimination of all vacant

positions and those whose status is unknown could result in savings in the order of \$500 million a year.

The review also indicates that the federal government spends much more than it should on hardware and software, and that it derives fewer benefits from these purchases than it could by reason of its usual short-term approach to supply and asset management. It also purchases too many licences for many types of software. The adoption of new, government-wide supply practices could result in annual savings in the order of \$60 million for materiel and related software.

CONCLUSION: COMPLEX REFORM, STRONG LEADERSHIP AND A CHANGE IN CULTURE

Treasury Board Secretariat wants all departments and agencies to be served, by 2010, through common business processes and a common configuration on a single suite of applications (SAP/PeopleSoft), managed by a single applications management service within CA-SSO and a single application hosting service within IT-SSO.

The implementation of shared services within an organization as vast and complex as the federal government is an ambitious program. It offers promising returns in terms of cost reduction and quality of service, but it could fail without strong leadership and the close cooperation of all partners, in particular the employees.

Ultimately, success of ISMP would depend on people accepting and adopting change. Effective change management, communication, and cultural change efforts would be required to ensure that ISMP has a positive impact on the people and culture of the GoC.⁽⁹⁾

(9) TBS, *Corporate Administrative Services Review*, “Executive Summary – CAS Review Report,” January 2005.