THE EVOLUTION OF GOVERNMENT: REDUCING COST & IMPROVING MISSION EFFECTIVENESS

US Federal Government Shared Services

<u>Executive Summary</u>

With US Government debt exceeding $27 trillion and interest expense representing the fourth largest expenditure for the Federal Government, it's past time for changes to be made in the way government operates.

This paper advocates for the immediate development of a plan to implement shared services across the Federal Government, a model that has been embraced globally by businesses and governments.   The appointment of a Chief Shared Services Officer (CSSO) will be necessary to coordinate the development of a comprehensive plan (including business case) and then should be tasked with the realization of this plan.

Shared services is defined as a model by which a dedicated organization performs work that was previously being performed by multiple organizational units.

When the plan is complete and agreed upon, a mandate will need to be issued to ensure full compliance across the Federal Government. There should be no opting-out clause!

The shared services organizational structure and where the CSSO ultimately reports should be investigated and be a part of the overall plan. The SSO could report into an existing government department or agency, a completely new agency could be constituted or a private/ public partnership could be formed.

I think it's relevant to ask why a central approach to providing these shared services hasn't already occurred - it's a logical extension of the great work that has been occurring in the government over the past twenty years. Perhaps it is due to the problems of accountability and incentives. Many departments and agencies are (rightly) concerned about having proper accountability from shared services organizations (SSO). Further, from an SSO perspective, where is the incentive to migrate parts or all of 137 independent executive agencies and 268 units in the Cabinet (Source: USA.gov) to their SSO? Migrating back office functions such as accounting, procurement and aspects of Human Resources is a difficult undertaking akin to implementing a large software product. Why would a civil servant want to do this for years and years on end, working long hours and weekends with little to no upside? 'Doing the right thing' will only take us so far! In order for this very necessary central SSO to come to fruition, it might be necessary to construct a private/public partnership. From an equity stand point, the US Government would supply the current assets and private entities could provide funds for modernization, a perennial battle in the government. If a public/private partnership was to become the new delivery organization, it would be imperative that the cost structure and transparency of operations be agreed upon upfront and be part of the charter. *I repeat: it would be imperative that the cost structure and transparency of operations be agreed upon upfront and be part of the charter.* Public/private partnerships have a history of being less than transparent.

In summary, this paper advocates:

- The immediate appointment of a Chief Shared Services Officer.
    - Who would develop a comprehensive plan inclusive of data standardization, cyber security, process integration.
- Subsequent to an agreed upon plan, a **mandate** be issued to all departments and agencies in the US Government - no opt-out clause.
- That a determination be made as to how and where the organization is to be structured. A private/public partnership should be investigated as a leading candidate.

US Federal Government
Shared Services

This paper advocates for the immediate development of a plan to implement shared services across the Federal Government, a model that has been embraced globally by businesses and governments. As outlined in the March, 2015 Partnership for Public Service policy paper 'Building a Shared Services Marketplace', savings and cost avoidance alone is estimated at $47 billion over ten years, once fully operational. This number excludes benefits such as the leveraging of procurement spending or the increase in productivity through better service delivery. Regarding procurement spending, the Tech CEO Council in their January, 2017 paper estimated that $500 billion over ten years could be saved through procurement and supply chain. Clearly, substantial savings, in addition to improvement in mission, are awaiting the evolution of administrative activities. The appointment of a Federal Chief Shared Services Officer (CSSO) will be necessary to coordinate the development of a comprehensive plan (including business case) and then should be tasked with the realization of this plan.

What Is Shared Services?

Whether you call the model shared services, Enterprise Business Services, Global Business Services or some other name, shared services is defined as a model by which a dedicated organization performs work that was previously being performed by multiple organizational units. The work performed is measured and monitored with Service Level Agreements (SLAs) agreed with the customer organizations. A customer organization is the beneficiary of services from the Shared Services Organization (SSO). In the future, this would be all agencies and departments in the government. The types of work normally found in a shared services organization are functions such as accounting, aspects of procurement and human resources, payroll, accounts payable and other like functions. The common theme is that these functions are historic in nature - accounting, the actual act of procuring widgets or services, benefits administration, etc. - and lend themselves more readily to standardization, with the objective of full automation. Clearly, automation of all processes will not happen overnight but they will happen.

Accounting as an historic SSO function is pretty straight forward but let's take a look at recruitment. The SSO works with the agency or department's recruiter; it receives a request for certain skills from a customer organization and has a process for gathering resumes. After an

agreed upon level of screening has occurred, resumes are presented to the customer organization's recruiter. In this example, SSO performs the agreed upon level of screening. The SSO does not hire for the customer organization, just streamlines the process by leveraging scale.

An additional example is the procurement of a good and service by the SSO for the customer organization. The procurement occurs after the customer organization has determined a need for the good or service. For an exemplar as to how this will be accomplished, look to Amazon. The SSO hosts the procurement site, negotiates terms, conditions, and pricing but the customer organization buys through the front-end web application, with the exception of specialty or one-off items. The purchase requisition is routed, electronically as appropriate, for approval in the customer organization before a purchase order is let.

For the US Government, similar to how payroll is performed today, shared services functions would be centralized to a dedicated SSO and would no longer reside in agencies and departments as they do today. This does not mean there would be one physical location, just that there would be one management, coordinating standardization of technology and processes for interoperability of services across multiple physical SSO locations. Leveraged by technology, this is a revolution in the way in which work is being performed. Given that complexity will continue to increase, the sooner an organization embarks on the journey, the easier it will be on the overall entity and the faster benefits will accrue.

How Does Shared Services Add Value?

The shared services business model has three distinct benefits which are all leveraged by technology: efficiency and effectiveness, productivity increases, and leveraging of data.

Efficiency and effectiveness - enabled by labor arbitrage and economies of scale and the ability to constantly measure and monitor this now standardized work. Frequently, this is the prime focus for shared services advocates and the associated cost savings provide the basis of the business case. However, many seasoned SSO professionals believe the next two items provide even more financial benefits although unquantified in a business case.

Productivity increase - productivity increases in the customer organizations as technology is leveraged by dedicated SSO professionals delivering superior products and services back to the customer organizations.   Customer service, realized through a great customer experience, and transparency are absolutely critical aspects of the culture of the SSO. Virtually all issues are

tracked, measured and reported in a transparent way and benchmarked against other SSO organizations. Additionally, the customer organization is able to elevate all its energy to mission.

Data benefits - enabled by the capture and standardization of data elements. There are two major aspects to data benefits - spend data and productivity data. Since the SSO is the procurement organization and is coupled with accounts payable, the spend data resides in the SSO and is leveraged across the entire enterprise by - the US Federal Government - utilizing technology, commodity councils, reverse auctions and the like. As previously mentioned, data elements would need to be standardized across the government in order to capture the total benefits. The standardization of the data elements means that the goods and services would have unique identifiers. Therefore, quantities would be known across the government and could be leveraged with suppliers. Although a very simplistic example, think 4011 code for bananas in the grocery store (the next time you're in any of the large chains, notice the code on bananas - 4011). Although retail still has a long way to go in data standardization, it is now possible for a grocery chain to track banana sales across all locations, know exactly how many are sold and leverage spend and distribution across the chain. Further, it can replenish electronically with suppliers through economic order quantity algorithms. Today, the only items that need to be adjusted manually are inventory shrink and spoilage. While the Federal Government does have vendor spend data - General Motors or Goodyear - it does not have article spend data - how many half ton pick-up trucks were purchased from General Motors or tires, by size, etc. from Goodyear. Without knowing how many and which type of tires are purchased across the government, the spend cannot be leveraged with suppliers. Additionally, tools such as blockchain (distributed ledgers) allows for a more secure supply chain, such as reducing counterfeit parts issues, when appropriate. Spend data, coupled with payroll data and other data elements allows for insights into productivity sometimes using more advanced techniques such as linear regression. Finally, the SSO will have far more focus on cybersecurity and enable a more secure operating environment than the legacy approach to delivering services.

- A note of caution: The ability of the new SSO to accrue benefits will take time to develop and the SSO needs to be considerate in its approach and speed as it takes on more advanced functions. In agencies and departments that have higher value or unique parts, the customer organization will have to work closely with the SSO in order to optimize outcomes.

A fundamental precept of a shared services organization is that the data and information acquired or generated through SSO operations - be they over budget/under budget comparisons, profit and loss statements (in corporations), or productivity measurements - are to be interpreted and acted on by the customer organization. This makes perfect sense. The SSO is not privy to

the environment that drove the numbers. They only have the numbers. Was there a change in scope which drove the numbers? Was there a downturn in the economy which drove the profitability? And for productivity - compared to what? The ancillary benefit is that the shared services organization is viewed not as an enemy but an ally.

- A note of caution: Technology is the *enabler* of increased productivity. The processes and activities, as well as the foundation, need to be set before the introduction of exciting new technology. *This is not a technology led initiative and, therefore, investing in technology before a sound business case for that technology would certainly be putting the cart before the horse.*

It is worth repeating that a core tenet of a successful SSO is the embracing of a customer service mindset, realized by a great customer experience. Customer service allows for close partnership of the shared services organization and customer organizations. Further, although implementation should move rapidly, that does not mean moving without clear plans, adequate resources and a sound change leadership plan. Frequently, organizations do not understand that not only does the entity that is losing the work need change management, but that the SSO needs time to digest, grow and learn how to operate in, which for most of them will be a new way of working. This learning curve should be made part of any plan. Finally, a shared services organization must always be aware that, ultimately, the work being performed is for the customer organization. This does not mean that every case is special and different but that there are some legitimate differences that need to be accommodated. As the shared services organization develops and grows, leveraging new technology, it can tailor more exceptions to drive productivity or satisfy different ways of working. The core way in which work is accomplished may not change but the interface with the various individuals within the customer organization should be allowed to evolve.

What Are The Components Of A Successful SSO?

There are four components, all of which are important to the realization of a high performing SSO that stays motivated, accountable and continues to innovate. They are, Change Leadership, Culture Development, Governance. and Technical Plan.

Change leadership, defined by John Kotter -

'Change leadership is the ability to influence and inspire action in others, and respond with agility and vision during periods of growth, disruption or uncertainty to bring about the needed change.'

That is, we share the plan and engage with stakeholders. At its core, change leadership is about showing respect to those who have a stake or interest in the outcome.

This is often overlooked or downplayed. The real point is to continually explain the benefits, answer questions, and engage with stakeholders throughout the journey. Once a SSO organization is established, it will still be necessary to have a small change leadership team. The reason is simple: There will still be a lot of change impacting the customer organizations even after work has been moved to the SSO. However, no matter how good a change leadership plan is, all stakeholders will not get on board with the change.

Culture development. Culture is defined by B. Groysberg, J. Lee, J. Price, and J. Cheng in their Harvard Business Revue article Leader's Guide to Corporate Culture as -

'Culture is the tacit social order of an organization: It shapes attitudes and behaviors in wide-ranging and durable ways. Cultural norms define what is encouraged, discouraged, accepted or rejected within a group. When properly aligned with personal values, drives, and needs, culture can unleash tremendous amounts of energy towards a shared purpose and foster an organizations capacity to thrive.'

As mentioned twice previously, a critical cultural ingredient is a customer centric SSO. But also, an SSO must always be implementing new ways of working; driving productivity and automating. Culture development is no easy task but it really allows for high performing teams to develop and grow.

Governance.

Governance is how the SSO will operate and, more specifically, what and how the oversight is constructed.

Governance of an SSO is sometimes referred to as a board of directors (BoD), drives accountability and provides support. The BoD will approve budgets, the pricing (how much per

widget is charged to the customer organization usually developed using an activity based costing model), approves new initiatives and provides guidance.

There are generally fixed members and transitory members of the BoD. In the case of the government, the fixed members would be the supervisor of the CSSO and the CSSO, perhaps the heads of both Office of Management and Budget (OMB) and Office of Personnel Management (OPM), and the Administrator of the General Services Administration (GSA). In addition, given their size, a military representative from the Secretary of Defense should be considered. The transitory members would rotate on the BoD for fixed periods representing their department or agency and perhaps someone from the private sector might be helpful. The actual make-up of members would be determined from a larger organizational assessment and would be included as part of the overall plan. Additional sub-boards that would provide input on more specific operational areas, such as information technology (IT), would be created to give guidance and monitor more day-to-day processes and activities.

Technical plan including scope, time and resources.
The technical plan, inclusive of a business case outlining costs to implement and cost savings and avoidance, must include various phases that recognize how the work, once in the SSO, will evolve. The first phase would be the development of an implementation plan for the initiation of the shared services organization including the way in which the work will be moved to the SSO. Generally, work is moved 'lift and shift'. 'Lift and shift' means that very little standardization or change in process occurs before the work is moved to the SSO. It is imperative that, at this very nascent phase, the plan includes any and all aspects of cyber security that would need to be addressed prior to embarking on the journey. Organizations are most vulnerable during times of change. Cybersecurity is central and crucial to any large SSO and entails constant and close monitoring of the digital environment. Subsequent phases would include changes in work, to the extent practicable, to a standard model. Later phases would include process automation tools such as Robotic Process Automation (RPA), data pools, machine learning, artificial intelligence (AI) and the adoption and standardization of data elements, with Master Data Management (MDM) taking a lead role.

Inclusive in the technical plan is the implementation of help desk tools that are both a traditional phone and email help desk system with scripts and caller identification and work routing and tracking tools. These are required because, in addition to addressing calls and emails, the ability to track work (a call about an individual invoice, for example) and comparing to the SLAs (Service Level Agreements) is a critical element of a high performing SSO.

Processes, SLAs: Leveraged By Technology

SLAs spell out what the agreements are between the SSO and customer organization. Using the above example, an SLA may state that an invoice is to be paid on time if approved, with all the proper documentation, in three days. More specifically, if an invoice is dated and received on June 1, with an agreed payment term with the vendor of thirty days, and approved by June 27, the invoice would be paid on time. That's the SLA. If it is not paid on time, it is a breach of the SLA and would be recorded and published and a root cause analysis (RCA) would be initiated. A document would be prepared, reviewed and approved, outlining where the failure occurred - process failure, employee failure (did not follow the process) or technology failure - and corrective action undertaken. As part of an agreement with a supplier, the SSO procurement group would have agreed terms and conditions, in addition to price. If the SSO is not receiving support from the customer organization, then the issue(s) would be escalated to the customer organizations management. Both the SSO and the customer organization must work together; each has a part to play.

If you are still a little unsure of what shared services looks like, think of the automotive industry. Before Henry Ford's assembly line, vehicles were built by artisans. They were hand assembled with uneven quality, and costs. Henry Ford introduced the assembly line whereby efficiencies were obtained through standardization, allowing for the scaling of processes. However, choices in the early days were few. Henry Ford's famous statement about the Model T highlights this point: 'You can have any color you want as long as it's black.' The products, even with early assembly lines, were labor intensive and with quite a bit of product quality variability compared to what we would now expect. Fast forward to today. Vehicle construction and delivery is more and more an automated process with incredible choices for the customer. Most people today would consider a hand-built car expensive and less reliable than one built autonomously! The ability to configure your vehicle on-line and have that vehicle delivered is now possible. To drill down further, take just one simple process deviation example - color of vehicle. Blue, gray, red, silver, black, white, green, tan, etc. And with some manufacturers, you can pick any color you want, for a (process variation) fee. The result is higher customer satisfaction with a product that is of high quality and tailored to their needs. And the product quality and cost is predictable.

The most important factor influencing manufacturing over the last forty years is technology enhanced processes. Although it will take some time to realize, the SSO of the future will allow for process variations in order to satisfy the needs of the customer. After all, the SSO should not be an impediment to productivity but an enabler.

Looking Forward

A federal Chief Shard Services Officer should be appointed to develop a comprehensive plan incorporating four elements: Change Management Plan, Culture Plan, Governance Plan and Technical Plan. The development of this comprehensive plan should be time boxed. Additionally, the comprehensive plan would determine the organizational structure of the SSO and reporting relationship for the CSSO - would the SSO be part of an existing department or agency, be constituted as a new agency or would a public/private partnership be formed. A comprehensive plan with the right team and support, should take about eighteen months to develop. Subsequent to the plan being completed, a **mandate** will need to be made in order to realize the US Government's SSO plan. Interestingly, several current and former government employees have said that mandates do not work; cannot be issued in the government. These knowledgable and professional colleagues contend that the departments and agencies must be cajoled into doing the right thing or that funds for administrative upgrades be withheld in order to force compliance. An inability to issue a mandate to save money and improve mission is not something the American taxpayer can understand. Without a mandate, the realization of one interoperable SSO serving the needs of the US Government, will take longer to implement, delaying savings and benefits.

As with any large change initiative, there will be pushback from some agencies or departments. Therefore, there should be no 'opting out' clause in the mandate. Of course, that does not mean agencies and departments are steamrollered only that change is inevitable.

With some exceptions, specifically in the area of data, much of this work is not technically challenging - paying a vendor from a different location for instance - however, the impact will be far reaching. Accordingly, for this initiative to be successful, it will be necessary to receive support from the highest office of our nation.

Corporations frequently go through large change initiatives and issue mandates. There is always a feedback loop to monitor progress and adjust plans in response to challenges. However, there isn't an 'opt out clause' either. How the implementation plan is progressing should be part

of the overall governance plan and should incorporate clarity on evaluating the progress through objectives and key results. (OKRs)

In this author's experience, the argument against standardization and centralization of support services generally devolves to: 'You don't understand, we're different here'. The military will say that their accounting is fundamentally different. The intelligence community will say that their procurement of copy paper is of a different nature than others. The preceding rudimentary examples buttress the argument for process standardization and centralization but, to be fair, there will be differences that will need to be examined and allowances made. For instance, in the intelligence community, some items - more specifically, data - may need to be segregated and air gapped. However, common processes, technology and the leveraging of same should not change. NASA, being a project oriented organization with a lot of one-off, special built purchases, may need some bespoke processes for procurement Although there will be many process variations that will arise - it's inevitable with an organization with a budget in excess of $4.5 trillion - it is this authors view that, big picture, there are only three entities that will need to be addressed more holistically. These are the military, the intelligence community and all other. Again, that is not to say that 'all other' won't have variations - they will - but more at the process level.

There may be those who will argue that it is necessary to break up the SSO; to have several SSOs reporting into different existing agencies or departments. An example would be by 'functional tower' - finance reporting to one department, HR to another, procurement to a third, etc. This would be a mistake. The first, and most obvious reason, based on the previous section, is that the ability to standardize data elements and leverage data across all towers would be compromised. With the very best intentions, data standardizations will be compromised if not maintained within one organizational unit. Second, processes today, in most SSOs, are aligned to the functional towers (HR, for instance). However, this will change as the SSO becomes more sophisticated and automated. Processes will be aligned by the customers who benefit. In the future the processes will be aligned by employee, vendor, etc. A simple process example that cuts across towers is relocation. Relocation includes payroll, procurement, and HR, three functional towers. The new alignment, by employee or vendor, will be more beneficial to the recipient of services and would deliver an even higher level of customer satisfaction - better customer experience - and efficiency. This is similar to Germany's public sector approach. Germany has identified 575 public services. These public services were then grouped into 14 thematic areas such as health or retirement. Again, these cut across the functional towers of finance, HR or procurement; they are aligned to the recipient of these services. Higher levels of customer satisfaction, realized through better service delivery, means that employees in the customer organization will be focused on mission and not focused on administrative tasks such as getting a

vendor paid, a tuition reimbursement processed, or an IT service request fulfilled. Customer satisfaction drives mission productivity.

The CSSO work will not be done once the plan is complete. The CSSO will then orchestrate this multiyear plan with particular attention given to the standardization of data elements in order to start recognizing benefits as soon as possible. This is no easy task. Data standardization cuts across technologies as well as across agencies, departments, and existing government SSOs. Although properly addressed in the implementation plan, it is an almost certainty that the plan, from the very early days, will leverage the existing SSOs in the government - USDA National Finance Center, the Interior Business Center, Treasury's Administrative Resource Center, NASA's Shared Services Center, etc - in a quasi decentralized way, while a centralized infrastructure is organized and built-out promptly in order to begin the process of standardization and control of data elements. As most of the cost will be in the processes delivering goods and services and the existing SSOs will constitute a starting point in the plan for these deliveries, it is envisioned by this author that the existing SSOs will further evolve, driving down cost and increasing customer service; that their processes, technology and data will become integrated across the US Government.

A few words concerning funding and in-sourcing/outsourcing. A thorough understanding of funding models will need to be made as part of the comprehensive plan and a determination be made as to the proper funding mechanism. For instance, if it is determined that the SSO stays as a purely governmental organization, is an Enterprise Fund the correct vehicle for the SSO? Regarding in-sourcing/outsourcing, this author has over the last twenty years, experience in a purely in-sourced, a hybrid (in-sourced and outsourced providers working on aspects of the same processes frequently in the same facility), and an outsourced SSO. There are pros and cons for each, some of which is driven by circumstances such as size, complexity, flexibility and speed. If you are a small entity, for instance, an in-sourced SSO might find it difficult to remain current with processes and technology. It is likely that the final model will have processes that are in-sourced, processes that are administered in a hybrid fashion and processes that are outsourced.

Finally, if implemented well, the impact on customer organizations' employees whose work is moving to an SSO will be manageable. Working remotely, bridging retirement, relocations, and retraining are tools that should be used whenever possible. The impacted employees are our partners, our friends and neighbors and will need to be treated with respect and dignity throughout.

<u>Challenges</u>

Good work continues in the government such as that of the Quality Service Management Offices (QSMOs). The QSMOs are introducing standards in the areas of finance, cybersecurity, grants, compensation management, work schedule and leave management services and are 'setting the table' for the overall push to a comprehensive and transparent SSO. The existing SSOs within the government have driven down costs with increased transparency and accountability. Notwithstanding, there are number of challenges to the establishment of a truly twenty-first century comprehensive and interoperable SSO.

Following is a list of the more obvious challenges.
- General inertia. With all undertakings, this will require energy and focus. The arguments might be: - 'We have other things to focus on' or 'It's not broke'.
- Push back from impacted employees in customer organizations.
- Third parties thriving in the current environment.
- Attracting talent. Notwithstanding that some of this work will be outsourced, is the US Government a sufficiently attractive employer?
  - Will an all government structure be sufficient or will a public/private partnership be necessary?
- Perceived winners and losers and the associated political posturing.
- The perceived loss of control by recipient organizations.
- Funding. There will be an upfront cost to reorganizing and establishing an SSO. A combination of both private and public funds seems a likely outcome.

As governments around the world from Australia to the UK are realizing the substantial benefits of an SSO, the US has been largely left on the sidelines. When the world is being hit by ransomware attacks and other software intrusions, the US Government is operating administratively in a decentralized, non-transparent, outdated environment. Finally, in an age of deficits and debt, the US Government operates in a costly model with irregular outcomes.

A US Federal Government SSO will happen, without a doubt. It's not a matter of 'if' but 'when', therefore, we need to act. The longer we delay, the longer benefits are delayed. A Chief Shared Services Officer needs to be appointed now. During the development of the plan and business case (the eighteen month plan) this position should report to the US Vice President in order to gain support and have visibility. Wherever the CSSO ultimately reports, if a US Government employee, the term, for this many years initiative, should be greater than four years in order to drive consistency across administrations.

To be blunt: Enough talk, it's time for action!

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