Chapter Thirteen
Expand the Use of Shared Services

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Expand the Use of Shared Services

Every dollar spent on mission-support functions—often called overhead costs—is a dollar that could be returned to the taxpayer or spent on programs that directly benefit the public or enhance national defense. Private-sector companies repeatedly reduce overhead to be competitive. In recent years, they have had to go even further to cushion the impact of the recession. Today, the federal government faces the same challenge of significantly reducing overhead costs in the face of budget constraints.

As the federal government tackles deficit reduction, the priority will be reducing overhead costs to preserve program dollars. This will require fundamental changes in administrative practices and a move toward greater collaboration on administrative systems and operations where there are other, less costly options. These systems have grown up over decades, and change will not be easy to achieve if viewed on an agency-by-agency basis. However, fiscal challenges of the current magnitude can facilitate or even force changes that may not normally be possible, like the changes made in the private sector to rein in operating costs.

This chapter focuses on two operational leading practices that have enabled significant savings with improved services delivery, and have been extensively and successfully applied in the private sector:

- **Shared services for mission support.** In a world of rapid advances in technology, interconnectivity, and interoperability, federal agencies may no longer need to have their own back-office mission support, such as information technology (IT), finance, budget formulation and execution, lending, grants, human resources, and procurement operations. In some agencies, they are maintaining duplicative mission-support activities.
- **Shared services for mission delivery**. The second practice is to use shared services for mission delivery, which holds the promise of reducing the operational footprint of agencies by leveraging the power of electronic commerce.

These two leading practices are certainly not new to the federal government. In recent years, government has both embraced shared services and worked to decrease the operations footprint through electronic commerce. What is needed today is to move more expeditiously in these two areas.

Moving to Shared Services for Mission Support

Redundant systems are wasteful and unnecessary, both within and across agencies. This has been a central theme of recent administrations:

- The e-government initiative and creation of lines of business during the Bush administration
- Reinventing government during the Clinton administration
- The Obama administration's establishment of a chief performance officer and initiatives to seek common solutions to management problems that include the expansion of shared services, a movement to cloud computing, and the closing of hundreds of data centers

The time has now come to shed inefficient and out-of-date practices, break down bureaucratic barriers, and apply lessons learned to exploit the demonstrated benefits of shared services.

Shared services are now saving billions of dollars in mission support functions. Shared services enable organizations to benefit from economies of scale and leading-edge innovation, promote standardization of common functions, and foster centers of excellence. There is a body of evidence illustrating how the federal government has reduced costs by moving to shared services. Examples include:

- ***Establishment of the Defense Finance and Accounting Service (DFAS).*** The Department of Defense eliminated stovepiped military service accounting and payment activities by consolidating over 300 installation-level finance offices into nine DFAS sites, which in fiscal year 2010 disbursed over $578 billion, accounted for 1,129 active appropriations, and maintained 255 million general ledger accounts.[1] DFAS has dramatically reduced the cost of finance while strengthening the accounting and payment processes.
- ***Consolidation of payroll processing.*** Federal agencies dramatically reduced payroll costs by consolidating 26 payroll systems to four payroll providers. For example, the Environmental Protection Agency and the Department of Health and Human Services reduced annual payroll processing costs from a reported $270 and $259 per employee, respectively, to $90 per employee.[2]
- ***Consolidation of civilian travel systems.*** Costs of travel payment processing and time needed to reimburse the traveler were appreciably reduced. For instance, the Department of Labor reported that its costs went from $60 to $20 per travel voucher, and the processing time was reduced from about seven to three days.[3]
- ***Consolidation of Navy information technology (IT) systems.*** The Navy consolidated 242 disparate IT systems located outside the continental United States into a single shared services architecture and operating model.
- ***The Commonwealth of Pennsylvania*** moved its largely decentralized human resource function to a shared-services model, reducing costs by 11 percent in the first year alone while improving service delivery quality.

These successes represent only a small portion of what is possible. During the Bush administration, nine lines of business were identified for standardization and consolidation:
- Financial management
- Budget formulation and execution
- Information technology infrastructure
- Information systems security
- Human resources management
- Grants management
- Case management
- Federal health architecture
- Geospatial[4]

Today, all of these mission-support functions represent continuing opportunities to potentially save billions of dollars through shared services and streamlining.

A prime candidate to increase use of shared services is the largest, most complex federal agency, the Department of Defense, which reported overhead costs of $212 billion, or 40 percent of its budget, for fiscal year 2009. In mid-2011, the Department of Defense established a cost-cutting goal of $178 billion over the next five years, with an emphasis on business operations. The intent is to reduce the top line by $78 billion, while reinvesting the remaining $100 billion to increase combat capability.[5]

There is also a need for the federal government to move more expeditiously, as past initiatives have taken many years to implement. In contrast, the private sector has historically been much more agile in reducing overhead costs, in part as a matter of survival in the marketplace. Federal agencies will need to move more to a survival mode and eliminate barriers that stand in the way of needed actions.

Other countries are assessing the benefits of moving to shared services. Four case studies by the British government suggest that 20 to 30-percent savings are achievable by moving to a shared services platform.[6] The private sector has experienced even greater economies. For instance, IBM dramatically reduced its own data center operations and saved up to 40 percent in operating expenses and also cut its information technology expenses over 50 percent through consolidation and standardization.[7]

Shared Services for Mission Delivery

Many federal programs have citizen-facing operations across the country that still rely on manual, paper-based business forms and processes. By moving as many touch points to electronic platforms as possible, there is potential to remove billions of dollars in costs while improving services delivery.

Moving to electronic self-service. Technology permits organizations to be more agile and efficient and reduce the cost of operations. Automation of forms and application processes for government programs is one way the federal government has been reducing its footprint. Citizens can apply for Social Security and Medicare online, easing the administrative process for both the public and the government. Federal tax returns are increasingly filed online, reducing both processing costs and data entry errors while providing valuable automated information to monitor tax compliance. These web portals are user-friendly and include guidance and frequently asked questions. It is win-win for both the federal government and the public.

Other countries are leveraging technology in this way. For example, Australia's CentreLink initiative provides online benefit determination and payments to individuals on behalf of 27 different Australian government agencies. Similarly, the Service Canada initiative provides 70 services on behalf of 13 Canadian government agencies through online, phone, and in-person service delivery channels.[8]

What the federal government needs to do is to build on current success stories. It has been estimated that there are more than 10,000 federal government forms in 173 different agencies that could be automated to allow citizens and businesses to conduct business with government online.[9] A related opportunity is to expand the use of call centers that can be located in different time zones and in lower-cost regions of the country to handle routine business—much like a private-sector call center that operates from 8 am to 8 pm EST. Private business and all levels of government and non-profit organizations have been able to improve efficiency, better allocate resources, and squeeze out billions of dollars in savings through electronic commerce supported by call centers and online transaction capabilities.

Reducing the operations footprint. Along with the move to greater electronic self-service and call centers, there is the opportunity to reduce the operations footprint accordingly, so that there are fewer offices and fewer staff needed to handle citizen-facing services. This is not intended to totally eliminate person-to-person interaction either in person or by phone. Rather, when feasible and practical, routine matters would be handled effectively and at much lower cost through electronic means, and supported by call centers where needed. This would also give citizens 24/7 access to conduct business online, as is now available for certain government programs.

There are several additional benefits of the smaller operations footprint. First, the need for office space could be reduced, enabling the government to monetize some of its assets by selling or leasing excess facilities, reducing square footage needs, and moving to lower-cost areas. Even without the type of changes in operations discussed here, OMB has reported that there are 14,000 excess buildings and 55,000 underutilized buildings in the federal inventory.[10] The administration has set a goal of $3.5 billion in real estate

Service Canada: Building a Culture of Service Excellence

Countries other than the United States leverage their use of shared service models by creating electronic self-service platforms for government services to the public. In 2005, Canada launched a service integration effort, known as Service Canada, which aimed to integrate delivery of citizen-oriented services across various levels of the public sector, thus making service access faster, easier, and more convenient.[11]

Service Canada sought improvements in the delivery of government programs and services by deploying a one-stop point of access for Canadians for a wide range of federal programs and services. Service Canada's initiative now provides 70 services on behalf of 13 federal agencies through online, phone, and in-person service delivery channels. The estimated savings in the first year of operation totaled $292 million.[12]

Canada's experience serves as a point of comparison for U.S. government in its delivery of services. Understanding Canada's key challenges and strategies could help the U.S. understand how to design and carry out similar efforts. The first step in any service delivery project is to clearly define what service excellence should mean by focusing on two key areas:[13]

- What citizens expect in terms of service
- What capabilities or system design requirements are necessary to meet citizens' service expectations

Why don't all levels of government integrate their service delivery models? It is not as easy as it may seem.

First, public services have traditionally been delivered through a number of government departments or agencies via unconnected, often fragmented programs. Transforming decentralized program fragmentation and integrating service delivery across all levels of government would require intergovernmental agreement on moving to a more citizen- or customer-centric approach. Second, there is the challenge of retaining the benefits of political federalism while creating additional value for the citizen. In both cases, strong leadership at all levels of government would be essential to a value-added service delivery integration initiative.

Key strategies that led to the successful integration of Service Canada's delivery systems include:[14]

- **Creating a collaborative network-based governance framework.** Forged a more robust set of conditions and learning opportunities for accelerating the development of network-based governance mechanisms that transcend traditional jurisdictional silos.
- **Engaging citizens and communities in design and delivery.** Engaged a wider set of stakeholders including municipal governments, First Nations communities, private and not-for-profit organizations, and service recipients more broadly.
- **Creating a common technology infrastructure.** Collaboratively built a service architecture used by all levels of government that emphasizes open standards and interoperable information systems across all government levels as much as possible.

- **Agreeing on a common management framework to identify program participants.** Formalized a governance framework that emphasizes collaborative planning and shared forms of accountability. This framework would serve as a foundation for the development of a national system to create a common approach to identify individuals participating in government programs.

  If the U.S. government moves to a shared services model to deliver government services, it shouldn't have to recreate the wheel. It could build upon the lessons learned from countries, or private-sector companies, who have already implemented an effective service integration model that delivers high mission value.

  Sources: Service Canada—a New Paradigm in Government Service Delivery, Harvard Case Study, 2007 (http://www-01.ibm.com/industries/government/ieg/pdf/e-government.pdf); and Jeffrey Roy and John Langford, *Integrating Service Delivery Across Levels of Government: Case Studies of Canada and Other Countries,* IBM Center for the Business of Government, 2008 (http://www.businessofgovernment.org/report/integrating-service-delivery-across-levels-government-case-studies-canada-and-other-countries).

savings by the end of 2012.[15] Monetizing unneeded assets should be a continuing priority. Reducing office space means a reduction in energy use, security and custodial staff, and potentially traffic congestion, which could also ease the need for road repair and construction.

Next Steps for Moving to a Shared Services Environment

What does the federal government now need to do to move forward and make real progress in areas that are widely viewed as worthwhile, with billions in potential savings and improvement in services to the public, and for which there has been success in the past? We offer five actions on the way forward, based on experiences from the private sector and government.

- **Action One:** This must be a presidential priority, with the President personally conveying to Cabinet members the need to expeditiously move forward with broad initiatives that may change the landscape of agency operations. Private-sector companies have had success when the initiative is driven from the top of the organization and the expectations are clearly presented to senior leadership.
- **Action Two:** The initiative should be led by the Office of Management and Budget, under the umbrella of the deputy director for management and chief performance officer, and the departmental chief operating officers.

A Case for Moving to Shared Services
for Federal Lending Programs

Let's look at a case where the federal government has the potential for signifi-
cant savings by applying the shared services concept to its lending programs—
loans and loan guarantees. At the beginning of fiscal year 2010, federal loans
and loan guarantees across a host of federal agencies were a reported $852
billion and $1.45 trillion, respectively.[16] Budgeting and financial reporting re-
quirements are based on the requirements of the Federal Credit Reform Act
of 1990, which provides a common framework for all lending programs, and
agencies have administrative systems and processes that start with the loan or
loan guarantee application and end with repayment.

Each lending program has its own eligibility rules, given the different
legislative provisions that govern various lending programs. But there is no
compelling reason to have different administrative systems to address require-
ments common to lending programs, such as loan processing, collection, and
reporting.

This is an area that would be adaptable to consolidation of administra-
tive operations under a shared service organization that would charge agencies
for its services like any business does. This is the concept behind DFAS and
other federal shared service activities. The agency program office would still
be responsible for establishing the eligibility requirements and for day-to-day
management and oversight of the program. None of that would change. What
would change is that the agency would use a shared service provider for com-
mon, routine administrative operations.

How It Could Work

A potential borrower would enter a central government lending portal serv-
ing all federal lending programs. The applicant would complete the required ini-
tial borrower information, such as name, address, and social security number,
which would be standardized for any lending program. The applicant would
then select the appropriate lending program from a menu, and request informa-
tion specific to that program. Once all the information was obtained, it would be
reviewed using advanced data analytics and forwarded to the agency program
official for review and approval. Any risks that surface from the analysis, such
as questions about creditworthiness or discovery that the borrower was already
receiving funds from multiple federal lending programs, in default on other
federal debt, or had other deviations from the norm for the particular lending
program, would be highlighted. The program official would receive all the data
necessary to approve or disapprove the loan or guarantee or to ask questions or
request further information.

If approved, the shared service organization would direct that the funds be
released and would perform all collection, accounting, and day-to-day admin-
istrative compliance activities. It would also generate user-friendly reports and
analysis to the agency program staff responsible for oversight. Any decisions to

restructure the loan or guarantee or place the loan in default would be made by the agency program manager.

In this example, the agency program officials would still develop the program rules and regulations, make all decisions regarding approval or modification to the terms of the loan or guarantee, and have responsibility for day-to-day oversight and management based on comprehensive reporting from the shared service organization. The agency would be spared having to perform a number of standardized administrative functions common to all agencies. These would now be accomplished through a shared services organization at a lower cost to the government. A shared service organization could also provide greater ease to the borrower in applying for credit through a common federal lending portal.

Implementing this type of system is not technically challenging, but it is culturally challenging as it would dramatically change the status quo. Some may resist for fear of losing control over the process, and worry about their own roles and responsibilities. Developing a consensus across programs and agencies will require a clear mandate to accomplish what is needed. The initiative would have to come from the President and be led by the Office of Management and Budget, given its central management responsibility, and would also need strong congressional support. A number of congressional committees have responsibility for various lending programs and would have to be in sync in order to support this type of change.

- **Action Three:** The leadership team would identify and prioritize the initiatives and establish implementation teams responsible for operationalizing the changes, with clear goals and accountability for action and results.
- **Action Four:** Aggressive timelines must be set to avoid lengthy implementation over years and years and avoid becoming a compliance exercise. Federal agencies will need to move from a treading-water mode to a proactive accomplishment mode, and determining the time frame in which to implement is imperative. Leading private-sector companies establish aggressive timelines and challenge their staff to beat those timelines.
- **Action Five:** Individuals should be empowered with the authority to make hard decisions and to enforce those decisions. These individuals should also be given the tools and resources to make things happen. In some instances, this may require an immediate investment and/or a dramatic change that may initially be somewhat disruptive but will be unavoidable.

To motivate the desired behavior, private-sector companies often set cost reduction targets linked to the budget. Operating within these new constraints incentivizes the organization to look at things in a new light. Again, if federal agencies believe they are in a survival mode, it will be easier to gain consensus on difficult issues. Expanding shared services or changing the operations footprint requires some surrender of control, and instinctively that can

be threatening. By focusing on positive results and empowering management to expedite implementation, much of the institutional resistance can be ameliorated.

Final Thoughts

Today's fiscal challenges and the reality of ever-tightening operations budgets over a sustained period of time will in themselves propel these operational best practices forward as agencies work to reduce operations costs. What will be important is moving ahead expeditiously, even venturing outside the comfort zones of some agencies. The private sector has shown the way forward in reducing overhead costs with a sense of purpose and urgency. True commitment, openness to substantial organizational change, and a sense of urgency must be manifest in all federal agencies.

The federal government and private-sector companies have different objectives, size, scope, organizational characteristics, and processes. But these differences should not be viewed as impediments to forcefully and expeditiously expanding shared services and substantially reducing the operations footprint beyond what has been done in the past. The payoff is the potential of saving billions of dollars, while materially improving the delivery of services to a public that is demanding a less costly government that is more responsive to its needs.

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Notes

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