

**Affinity Group 3 Report:**  
Efficiency and Effectiveness  
through Consolidation, Outsourcing,  
Centralization, Shared Services,  
Common Services

39<sup>th</sup> ICA Meeting  
Salzburg

# Overview

- Figuring out an overall strategy
  - When to consolidate?
  - When to outsource?
- Managing and achieving benefits
- Organisational change: how to convince people and get them to work together
- Conclusions

# Overall strategy and vision for restructuring government

- Consolidation depends on government strategy/enterprise architecture
- Outsourcing merely follows this plan
- Need to create standards and policies upfront: agency reps meet to update standards twice a year (Singapore)
- Different models from strong political leadership from a single individual (Malta) to CIO councils bringing in the major stakeholders (UK, Mexico)

# When to consolidate?

- Consolidation requires taking a strategic focus that touches on the role of government
- Criteria:
  1. economies of scale
  2. total cost of ownership
  3. what makes political and business sense?
  4. maintain or improve overall service level (UK)
  5. focus on core or strategic activities

# Areas for consolidation

- IT services: commodity computers; networking; communications
- Back office processes: payroll, HR, financial systems
- Government-wide licensing; procurement
- Consolidating services are more difficult than back office support processes
- Shared service centers
  - Canada: creating two new share service agencies – one for HR and finance and one for IT. Focus on transactions; leave HR and financial policy in departments.

# When to outsource?

- Outsourcing shouldn't be a question of ideology (though it often is)
- Outsourcing should be a subset issue: first find out what to achieve; outsourcing is just one means to achieve greater efficiency
- Outsourcing one piece without a plan makes it very difficult to consolidate afterwards because there is no private sector incentive (Estonia)
- Government can also be a competitive service provider. Alternative formulations ('best sourcing', 'competitive sourcing', 'performance sourcing') are less ideological or radical and focus on value delivery.

# Defining core v. non-core activities

- Core activity is the reason why the agency exists (Finland)
- Do we have the capability to manage the outsourced solution? (UK)
- Stakeholders all want their responsibilities to be considered 'core' (Malta)
- Have tested the market to see whether or not it can provide a service at a lower cost than government (Singapore)

# Challenges to consolidation and outsourcing

- Lack of remaining contract management capacity when too much is outsourced: need to be smarter than the contractor
- Lack of sufficient managers with horizontal perspective to manage common processes (US)
- Sometimes lack of offer from the private sector in small countries (Estonia)
- Consolidation can favor multi-nationals over small local contractors (Singapore)
- Politicians don't always understand the issues: want to save money, but don't always focus on service improvements
- Need to find a willing vendor for partnership; vendors more willing when they can also sell the service the private sector in order to ensure economies of scale

# Managing and achieving benefits

- Few realized savings as yet: 30% by 2010 (Sing); numeric targets = 30% of back office labor (Japan)
- Few short-term benefits realized because service levels are increasing constantly and many benefits are intangible
- Need to make an up-front investment: gains will occur only after consolidation
- Many benefits do not accrue to the agency where the investment is made (sow/harvest problem)
- Partnership can allow shifting risk to private sector in the short term in exchange for long-term sharing of benefits;
  - USA: shared services – the vendor is only paid when the project is successful
- Need to baseline activities in order to measure benefits
  - Canada: 1) survey each agency on their activities, costs, staff etc;  
2) baseline activities of two clusters (central agencies and science)

# Organisational Change

- Managing the human side of change
  - Canada: plan on attrition of 41k jobs over 10 year period.
  - US: No firing. A hiring freeze until all of the displaced people are assimilated within agency. Change is very disruptive, but people are more likely to accept change if they are about their jobs.
- Carrot and stick approach – set efficiency targets for agencies and then offer them guidance through centres of excellence (UK)
- Canada: budget stays with the department so that they can buy services from new shared services agencies. Implement in phases. The lead of the agency is responsible for finding the efficiencies (including through outsourcing).

# Key findings

- **No unique prescription:** can go directly to outsourcing for straightforward activities, but for more strategic activities, need vision and plan
- **Benchmark and define objectives:** first figure out government's objectives and the roadmap to get there (i.e. through an enterprise architecture) before deciding how to best deliver the service/process
- **Ensure project management capacity:** need both global vision and understanding as well as project-level management skills
- **Invest in standards:** update regularly and share early-on with vendors
- **Find optimal contract duration:** need equilibrium between cost savings from more long-term contracts and avoiding vendor capture and stifling innovation; need exit strategy for contracts and a plan to re-compete a contract
- **Establish appropriate governance arrangement:** Need central leadership operating at an appropriate level (get out of the weeds)