

Shared Services Horizons of Value

Leadership Lessons on Accelerating
Transformation to High Performance



*A report from the 2009 Shared Services Summit
at Harvard Kennedy School*

*“There are risks and costs to a program of action.
But they are far less than the long-range risks and
costs of comfortable inaction.”*

President John F. Kennedy



The Space Shuttle Discovery is poised on the launch pad, absorbing the warmth of the Florida sun and the hope of the people waiting for it to takeoff.

Seven astronauts are strapped-in, ready for a mission they've been planning and training for most of their lives. Anticipation grows as the countdown progresses:

- Mission Command: "T-minus nine minutes and counting, hatch close, access arm retract and crew fallback."
- Shuttle Captain: "Secured and ready."
- Mission Command: "T-minus seven minutes. Auxiliary power units engage."
- Shuttle Captain: "GOX vent arm retracted."
- Mission Command: "T-minus one minute and counting — initialize suppression system."
- Shuttle Captain: "Flow to rain birds is on and good."
- Mission Command: "You're go for main ignition start."
- Shuttle Captain: "Main ignition start — sounds beautiful."
- Mission Control: "Shuttle you are go for launch at T-minus five seconds and counting."
- Shuttle Captain: "Looking good to go. Let's roll."
- Mission Control: "Five, four, three, two, one... You are go for launch."
- Shuttle Captain: "Launching — nose up and we're clear — solid and golden."
- Mission Control: "God speed and see you soon."

The shuttle roars into orbit — a marvel of human, natural and technical might pulling away from earth at more than 7,000 meters per second — ready to explore the universe for new ideas and solutions to humankind's challenges.

For all of the energy, technical prowess, engineering and sheer grit required to launch a shuttle into space, National Aeronautics and Space Administration (NASA) officials say there's another key enabler of their program: shared services. "The bottom line for NASA is, if we're going to get to the Moon and Mars and really go beyond the space shuttle, we've got to improve management of NASA's resources. And that means both on the technical side as well as the business support side," says Richard Arbuthnot, Executive Director of NASA Shared Services. "For us to continue flying the shuttle, logically retire it and develop the next-generation launch vehicle, we've got to get smarter in how we operate. Shared services is one of the new operating models we've implemented to try and free up resources on the business-support side of NASA and redirect those resources to directly support NASA's mission to pioneer the future in space exploration, scientific discovery and aeronautics research. "

The effort has garnered even better results than expected. Upon launching the shared services program in 2006, NASA officials estimated a savings of \$6 million to \$8 million a year. In 2008, shared services saved the agency \$16 million. Current conservative estimates project annual savings of \$12 million to \$16 million — a doubling of original projections. "Cost containment is huge for us because the more we can save on the administrative side, the more we can push resources to the NASA mission — and that's why we're here," Richard says.

Worldwide, public service leaders and organizations such as NASA are moving to shared services to help them achieve their mission. Let's take a look at how shared services can grow an organization's capacity to deliver, how progressive leaders are moving forward on shared services, and what you can do propel your organization into the future.

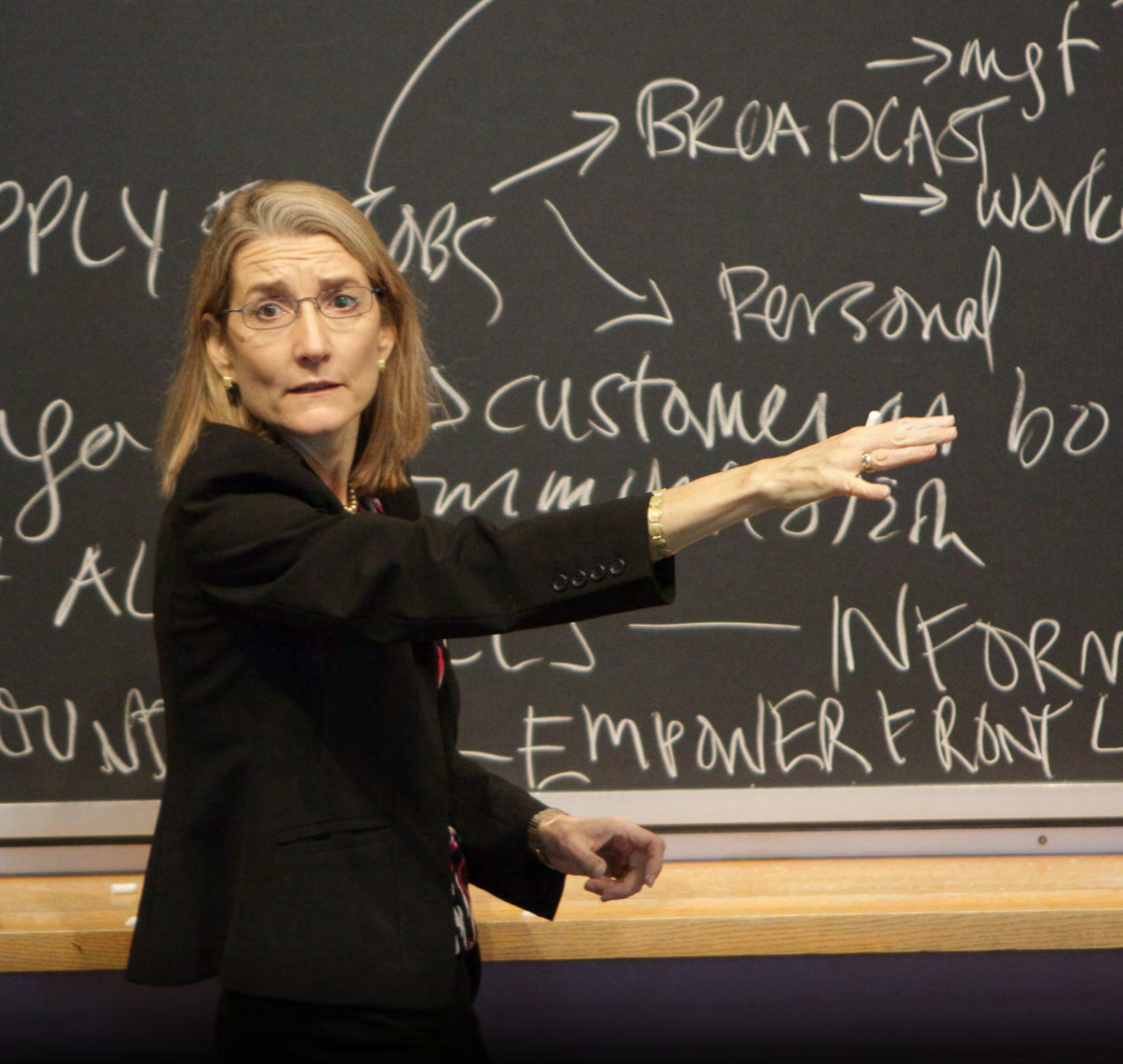




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"Ultimately, your primary job as a leader is to nurture the culture your organization needs to have to get the job done..."

Amy Edmondson, Harvard Business School

Introduction

Creating value in these turbulent times is a defining challenge for public service leaders. Grappling with the economic downturn, you may have already been forced to make painful choices about program and service cuts — all while constituents are demanding more services, transparency, accountability and value from government. But today's cost-containment measures cannot be built on one-off tactics for immediate relief. They must be driven by structural and efficiency improvements that enable sustainable innovation for the long-term. A downturn of this magnitude requires a new mindset, not just a retread of traditional responses.

Forward-thinking executives realize that meeting these new demands and creating ever-higher public value requires improved performance in both the front and back offices — and increasingly, they're adopting shared services as the engine for this transformation. Yet building and growing a shared services enterprise presents substantial leadership challenges in the current tumultuous environment.

To help address these challenges, Harvard's Leadership for a Networked World Program and Accenture developed a unique research program to track and evaluate the growth of shared services enterprises worldwide. Knowledge harvested from that effort was supplemented in June 2009, when they convened shared services senior leaders for the *2009 Shared Services in the Public Sector Summit: Accelerating Transformation to High Performance*. Consensus held that shared services can increase efficiencies, elevate the effectiveness of processes and programs, and yield productivity gains — yet ultimately leaders are looking to shared services as the engine for real transformation.

Moving along an ever-increasing trajectory of value generation with shared services is thus the central charge for public service leaders. To facilitate this, the Leadership for a Networked World Program developed a maturity model referred to as "Shared Services Horizons of Value":



Transforming: The shared services enterprise is at scale and has grown beyond transactional services to provide innovation-driving strategies and value-added services.

Growing: The shared services enterprise has operational experience, is actively extending and scaling-up its services and developing incremental innovations to its service portfolio.

Launching: The shared services initiative has a business plan and governance in place, is implementing services and forming a high-performance operation.

Visioning: The shared services leadership is actively assessing the potential and feasibility of deploying a shared services start-up, and is creating a foundation for governance and a business plan.

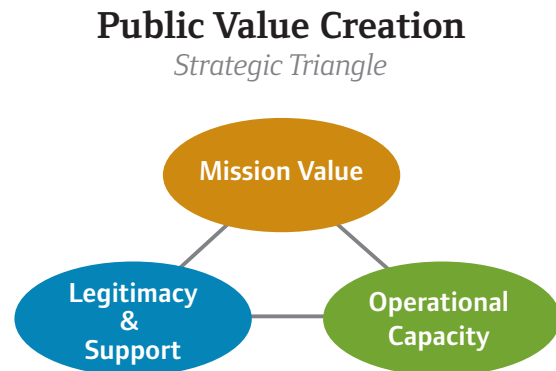
To help you progress through the horizons, the Leadership for a Networked World Program and Accenture are pleased to present "Horizons of Value: Leadership Lessons on Transforming Public Service through Shared Services." This paper couples insights from the Summit with case-based narratives on executives in California, Ohio, Illinois and Ontario. As you'll learn from their experiences, progress is feasible, but requires sound strategy, judgment and leadership to create the environment for success.

Shared Services — A Leadership Issue

One of the first things senior executives ask in regard to shared services is: Why should I be involved? Isn't this a general back-office management issue or something I can delegate to technologists? To answer this, we need to understand the role of the modern public service leader, why the challenges are more difficult today and how shared services plays into that mix.

First and foremost, leaders of a public organization must strive to maximize public value — with public value defined as the measure of how effective and efficient the organization is in achieving the mission mandated by citizens and the authorizing legislature. The managerial understanding of public strategy and value creation was in part developed at Harvard Kennedy School by Professor Mark Moore and is visually represented by the “strategic triangle.”

In this model the leadership focus is directed to three dimensions: the mission, sources of legitimacy and support and operational capacity.



- **Mission Value:** The “mission value” peak captures the intended purpose and mission of the organization. This is akin to the market need that the organization is fulfilling in a select market or social sector and should be measured by outcomes resulting from services². In order to stay viable, the organization has to consistently meet this need. The mission permeates the entire organization and should drive the formal value chain of structure, processes, inputs, outputs and outcomes. Over time the organization will have to adapt its mission and outcomes to stay in sync with its environment.
- **Legitimacy and Support:** The “legitimacy and support” peak represents the authorizing environment within the sector. Similar to the force the capital markets impose on private organizations, authorizing environments (most notably legislatures) want public organizations to create value that is higher than its marginal cost to society and its opportunity cost of capital. Legitimacy and support is often measured in national and regional governments by how much “buy-in” is observed by key stakeholders and legislators.
- **Operational Capacity:** The “operational capacity” peak represents the organization’s people and culture, management and operational processes, capital and technology and ongoing learning that enable it to produce in the most efficient and effective manner. The operational capacity dimension is where many of the organization’s bottom-line measures are derived, as well as measures of human capital recruitment and retention, organizational learning and knowledge management.

Balancing and optimizing the strategic triangle is the role of a public service leader. From the value-generation perspective, most of the direct leverage a leader has is in improving the operational capacity of the organization. Thus, questions a public service leader should continually ask are: Is my organization achieving its mission and delivering valued outcomes? Are we capable of delivering on both effectiveness and efficiency? What innovations will grow my organization’s capacity to maximize public value? And from an enterprise-wide view: Are the organizations under my purview focusing on their core capacities? How can I gain efficiencies across organizations in order to have more resources for citizen services?

As public service leaders ask capacity-oriented questions they realize that achieving results requires an enterprise-wide view, political and organizational influence and coordination and cooperation across multiple stakeholder groups — from the highest executives, to legislative bodies and partners to every level of employee. So improving the capacity of a public service organization through methods such as shared services is not only a leadership issue — it is a front-burner leadership issue.

The Leadership Imperative — Elevating the Capacity to Deliver

As public service leaders look for methods to increase their capacity to deliver, they find that traditional answers are not feasible in today's environment. Cutting programs is usually counterproductive; raising taxes, borrowing money and implementing new fees requires legislative wrangling; the tactical fixes espoused over the past decade (budget shifting, service deferment, streamlining, etc.) have reached their limits.

Further driving this imperative to produce more with less is the colliding trends of citizen and constituent demands and demographics with long-term economic indicators. Constituents across the age spectrum are demanding more from government. Older citizens, for example, are consuming public services at an increasing rate, and the swelling number of retirees will impact not only government's employee base but also the level and scope of services government provides. Younger constituents are forcing major changes upon government services by expecting service levels comparable to consumer-focused private companies, and with features such as personalized and interactive services, convenient access and 24/7 customer service. Everyone is demanding higher levels of governmental transparency and accountability.

Public service organizations cannot look to economic growth for a band-aid either, as the United States and most western nations are just now entering this phase of protracted demand and retracted resources. Most economists agree that long-term economic growth will be at a rate lower than any time since World War II and that increases in productivity must offset this low growth rate. Yet there is reason to persevere: a recent study³ by McKinsey & Company showed that raising productivity by 1.4 percent a year in the US and by 1.6 percent in Germany would let their governments sustain current levels of public services and social programs without additional taxes or borrowing. A McKinsey analysis of the US Bureau of Labor Statistics estimates that a five to 15 percent increase in productivity could save the US \$104 billion to \$312 billion annually.

While increasing productivity is necessary, productivity gains alone cannot meet the demands imposed by constituents — public service organizations need more capacity to produce valued outcomes. Thus the new leadership imperative is producing better outcomes at a reduced cost to taxpayers. And this requires higher productivity along with increased capacity for service delivery.



Shared Services — Meeting the New Performance Imperative

Increasingly, forward-thinking leaders are gravitating toward a shared services business model as a way to address the capacity-building imperative and to move toward a more citizen-centered, outcome-oriented, accountable and efficient public service delivery system.

“Shared services offers a new way forward,” says David Wilson, Accenture’s Managing Director, Canada and US State and Local Government. “A shared services operating model is a method of ordering work so that business processes and the people who do those processes are brought together in a new and more efficient and effective way. It’s relying on economies of scale and allowing workers to specialize in processing those transactions quickly and effectively. This drives down cost and enables the organization to transfer costs from back office business processes to programs that really impact constituents and the individual citizen.”

Shared services by definition is the consolidation of administrative and/or support functions (such as finance and accounting, information technology, procurement, human resources, etc.) from several departments or agencies into a single autonomous organization whose mission is to provide the consolidated services as effectively and efficiently as possible. Unlike centralized models, shared services organizations are typically responsible for providing services to an agreed level and reporting on service effectiveness. Successful public shared services models enable departments and agencies to focus on their core business and customer needs and free up resources in order to improve citizen-facing policies and services.

Shared services drives to the core of the capacity imperative (for more on the economics of shared services see page 8) in that it generates:

- **Increased Operational Efficiency:** Shared services standardizes and optimizes business and operational processes — yielding greater output from resources and savings in administrative and technical costs.
- **Increased Operational Effectiveness:** Shared services drives improvement in management processes and performance management techniques for employees — spurring innovation in service development and delivery.
- **Improved Resource Allocation:** Shared services savings can be repurposed to front-office program development and innovation in service delivery — creating alignment with and orienting the enterprise around outcomes.
- **Renewed Public Value:** Shared services leads to inter-organization and intra-organization value creation — helping all agencies to achieve their mission and thereby securing the authorizing (legislative bodies and public sentiment) environment.

As meeting the capacity imperative through shared services becomes the front-burner leadership issue, how are public service executives responding?



A shared services business model comprises four defining characteristics:

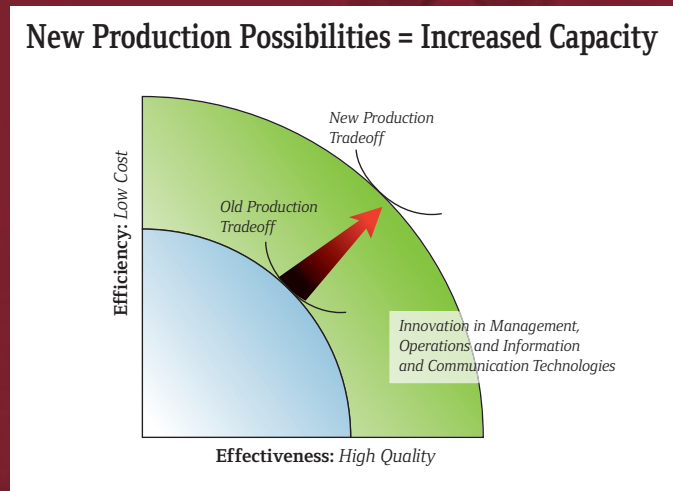
- Shared services consolidates front-office services (such as licensing, benefits administration, tax collection, etc.), administrative and/or support functions (such as finance and accounting, information technology, procurement, human resources, etc.) from several departments or agencies into a single autonomous organization whose mission is to provide the consolidated services as effectively and efficiently as possible.
- Shared services differs from centralized services in that the autonomy of the organization and the degree of ownership and governance by customers make it more market driven and attuned to customer needs and market-wide best practices.
- Shared services combines the scale efficiencies of centralization with the superior customer service, customization and focus associated with decentralization, and can effectively compete with the best the marketplace can offer in service expertise, efficiency and effectiveness.
- Shared services models enable departments and agencies to focus on their core business and customer needs and free resources to develop citizen-facing policies, programs and services and develop a client-centered, outcome-oriented, accountable and efficient service delivery system.

Economics of Shared Services: Moving the Capacity Curve

A long-standing thorn in the side of government leaders is managing the capacity to deliver services by making tradeoffs between efficiency and effectiveness in the production of services. Managers historically had two broad options for optimizing this “production function.” They could pull resources (capital and labor) in and focus on maximizing efficient production through standardization of processes and technologies and direct central control — but this limited flexibility and responsiveness at the agency level. Alternatively, they could push resources out and provide extensive customization and local control of production to agencies — yet this option ignored volume efficiencies, produced duplication and raised overall costs to taxpayers. It was a lose-lose proposition.

Now the game has changed. The combination of innovations in information technology and innovations in management and operating processes has created a new level of optimization — one in which overall capacity has grown. These innovations interrelate and include:

- **Management Processes:** The activities through which an organization creates policy and strategic direction and coordinates and controls the operating processes that execute strategy have advanced to simultaneously accommodate flexibility, innovation and control.
- **Operating Processes:** The series of activities that form how an organization designs, produces, markets, delivers and supports its services have been subjected to collective knowledge (such as time and motion studies) and are now able to be done faster and leaner.
- **Information Technology:** The hardware, software and networks that enable an organization to create, store and use information in all its forms have advanced to a point where management and operations/operating processes can be streamlined, integrated and synchronized over any distance.



Underpinning the above innovations are continual advances that make collaboration and coordination more efficient (Metcalfé’s Law) and that make information processing more powerful (Moore’s Law). Collectively, this enables more granular standards so that standardized systems can support customizable solutions. Standards need no longer mean “one size fits all.” Information infrastructure can now share the data and processing needed to customize agency and citizen services efficiently and effectively in real-time. This has fundamentally changed the equation and shifted the capacity curve up and to the right as managers can gain both efficiency (low unit costs) and effectiveness (high quality) by moving to new and/or better production methods.

Shared Services can amplify the effects of this new capacity curve by extending it to the agencies and partners that comprise a governmental area. This amplification is based on increasing the return on labor (through specialization of management and operational processes) and increasing the return on capital (through higher utilization from the volume of production). The total potential for increased capacity depends on how extensively integrated the shared services model is and the breadth and depth of services shared. Governments that adopt these new models of doing business will be better able to meet societal demands for improved services and lower costs through:

- **Greater Returns to Scale** — government can produce more with a constant proportion of inputs, i.e., “We can do more with the same amount of resources.”
- **Greater Economies of Scale** — government can produce more when input proportions are variable, i.e., “We can double our output with less than a doubling of cost.”
- **Greater Economies of Scope** — government outputs by a single entity are greater than outputs that could be achieved by two different agencies each producing on their own, i.e., “We can share expertise and processes to get more for less.”

In sum, harnessing newfound capacity within a shared services enterprise and extending it enterprise-wide increases the capacity for high performance and subsequently increases public value. Managing for efficiency and effectiveness is now a win-win proposition for public sector leaders.



How are Public Leaders Responding?

Research compiled from more than 100 executives who attended the Shared Services Summit show that while all are addressing shared services, their level of experience varies broadly. Categorized in terms of the Shared Services Horizons of Value, 53 percent are in the Visioning phase, 33 percent in Launching, 9 percent in Growing and 5 percent in Transforming. While this shows great progress in the traction of shared services, it also reveals there's room for dramatic increases in both maturity and value generation in the public sector.

Additionally, results from Accenture's 2009 Shared Services in the Public Sector Survey show that while public service leaders are embracing shared services at a much higher rate than before, classic public sector challenges still stand in the way of progress. A sample of results from the survey is presented on subsequent pages and illustrates these challenges and opportunities.

Collectively, data from the Accenture survey and from attendees of the Shared Services Summit demonstrate that the public service sector is at a critical tipping point. Many organizations have taken steps into shared services — and many more will be entering the arena within the next three years — looking for reduction of costs and increases in productivity as well as front office performance improvement.

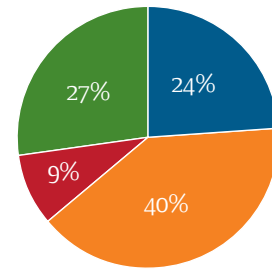
Yet the data also show that leaders are acutely aware of the challenges inherent in the public sector. Moving forward requires commitment to a new vision of the future and a deft hand at knitting together the politics, change management and funding threads that shared services requires.

So how should public service leaders turn shared services promises into reality? And how should leaders envision, launch, grow and transform public value through shared services?

A Snapshot: Taking Action on Shared Services

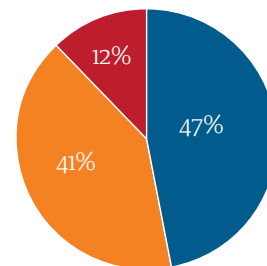
What is your current shared services status?

- We are utilizing shared services within our organization = 24%
- We are utilizing shared services within our organization and offering services to other departments/agencies outside our organization = 40%
- We are a customer of a shared services organization = 9%
- We do not utilize shared services = 27%



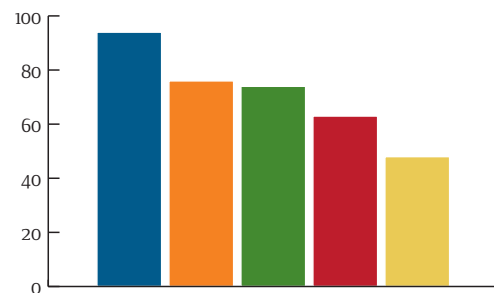
If shared services is planned but not implemented yet, when do you anticipate the effort to begin?

- Within the next year = 47%
- Within two to three years = 41%
- More than five years = 0%
- No plans at this time = 12%



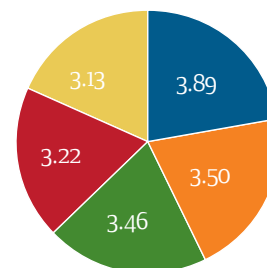
What are your top-five drivers of shared services?

- Reduce costs through simplification and standardization = 94%
- Greater standardization of processes = 76%
- Increase productivity = 74%
- Increase service quality to customers = 63%
- Improve citizen satisfaction = 48% (tied with Facilitate the deployment of technology and platforms)



What are your biggest challenges in deploying shared services? [Not a barrier = 1 / A very significant barrier = 5]

- Insufficient funding to implement = 3.89
- Change resistance among employees = 3.50
- Lack of cooperation/consensus between departments = 3.46
- Shifting agendas/goals/targets = 3.22
- Lack of data analytics and insights to facilitate decision making = 3.13



If you are operating shared services, what functions are currently offered?
If not currently offered, are you planning to offer the service in the future?

	Service Category	Current Service	Future Service
Front Office (Citizen-facing) Services	Information delivery and access (e.g. portals/one stop shops)	67%	27%
	Eligibility Management	21	30
	Licensing and Permits	23	33
	Service Delivery and Case Management	28	39
	Service Integration	31	30
Financial Services	Accounts Payable	51	27
	Accounts Receivable	41	27
	Billing	33	30
	Collections	34	21
	Credit Management	31	21
	Fixed Assets Accounting	46	30
	General Ledger	62	18
	Interagency Accounting	51	15
	Order Management/Entry	33	24
	Returns Processing	18	18
Human Resource Services	Travel and Expense Reimbursement	54	24
	Benefits Administration	56	27
	HR Administration	64	24
	Payroll Processing	74	21
	Safety	36	15
	Staffing	54	9
	Time and Leave Processing	59	33
Information Technology Services	Training and Education	56	24
	Application Maintenance & Development	56	33
	Data Center Operations	67	24
	Desktop Support	46	27
	Hardware & Software Acquisition	62	30
	Enterprise IT Help Desk & Support	59	30
	Telecommunications	67	18
	Records Archiving	44	33
	Disaster Recovery	51	39
Procurement Services	Email Consolidation	56	30
	Receiving	26	18
	Requisition Processing/Purchasing Support	51	27
General Services	Strategic Sourcing	39	33
	Facilities Management	46	15
	Fleet Management	28	21
	Legal	41	12
	Marketing	18	15
	Real Estate	33	9
	Security	39	18



*"The world has changed and the possibilities
are heightened - the time is now."*

Jerry Mechling, Harvard Kennedy School



HORIZON ONE

Visioning

When Teri Takai opened the door to her office the sun had yet to come up — but it had been a long day already. The morning news team squawked about California’s dire financial situation and the governor’s office was asking for ideas on how to close the budget gap. Her eyes glanced from the lights of the state capitol to the commuters streaming into Sacramento on Interstate 80 in the distance. The glimmer of the headlights gave her pause. It’s about them, she thought, the people who work hard every day to grow their businesses, provide for their families and build their communities. They rely on me to get this right. Never mind the staggering deficit or the massive bureaucracy or the decisions of past administrations. This is what public service is all about — making the tough decisions to secure a better future for the people of California. As the sun started to rise she smiled. Today’s a new day, time to fix some things.

From the time Americans first traveled west, California has drawn the creators and the builders — and a reputation for independence that became a hallmark of the culture. This California “DNA” has provided the nation and the world with a rich array of social and technological advances — and the “let a thousand flowers bloom” mindset will again play a pivotal role as California visions shared services in its future. California has always been a bellwether for changing conditions in not only the United States but also the developed world. And what we see in California is rapidly changing demographics, growing and fragmented constituent demands and expectations and nearly 50 percent of public sector employees retiring in the next 10 years. Compounding these challenges are projected long-term declines in tax revenues and higher costs of debt in the capital markets. It’s enough to make even the toughest governor shiver a bit.



Teri Takai

*Chief Information Officer and
Cabinet Member, State of California*

Current Shared Services Status: *Visioning*

Teri Takai was appointed by Governor Arnold Schwarzenegger as Chief Information Officer for the State of California. As a member of the Governor’s cabinet, she advises him on the strategic management and direction of information technology resources as the state works to modernize and transform the way agencies do business with citizens. Prior to her appointment, Teri was Chief Information Officer for the State of Michigan where she transformed the state’s information technology units into one centralized organization that served 19 agencies and more than 1,700 employees. Previously, Teri held executive positions at Ford Motor Company, EDS and Federal-Mogul Corporation.

Acting on the impending situation in government, The California Performance Review workgroup was commissioned by Gov. Arnold Schwarzenegger in 2004 to restructure, reorganize and reform state government to make it more responsive to the needs of its citizens and business community. The review provided directives for executive branch reorganization, program performance, improved services and productivity and acquisition reform. The group determined that a critical enabler for all of these areas should be shared services. Knowing he needed a capable leader with the bona fides of change-maker and IT expert, in 2007 Governor Schwarzenegger recruited Teri Takai to California and charged her with aligning the state's information technology infrastructure and policies with the vision of where California needs to go. "My job is to work directly with the governor to ensure the state's information technology helps agencies achieve their strategic and programmatic initiatives and do it in the most efficient way," says Teri, now state CIO and Cabinet Member. "And part of that mix is creating a vision for what can be accomplished with shared services."

The key steps in the visioning process are securing value and sponsorship, developing a strategic plan and preparing for implementation and change. Ultimately, when Teri briefs the governor on the shared services initiative she needs to know the answer to the following question: What's the upside and can we make it happen?

Let's take a look at how this is working in California and what others have done to move their vision for shared services forward.

Securing Sponsorship and Value

Like running for political office, planning for shared services is essentially a persuasion campaign. The leader of the shared services initiative is largely making a case for transformation — and in so doing converting people to a new vision for the future. And like an organizational turnaround, the leaders must convince people that the organization truly cannot sustain the current model of business — or, at the very least — that substantial changes are required if the organization is to meet future demands. Persuasion must then be channeled into resolve and sponsorship from key senior executives who will also be engaged in governing the initiative.

Much of the persuasion involves facilitating cooperation between central and local institutions as shared services often generates some opposition from local operators who fear losing status or control, or from those who disagree that change is required ("We'll never recapture the savings, so why do it?"). Support for shared services won't be effective unless those with authority understand the business case and are prepared to tolerate some discomfort through the transition period and possibly beyond. Critical early work involves touching base with stakeholders (legislative as well as executive), communicating the vision and business case and learning about underlying interests while probing for and assembling support. Will the benefits of shared services be enough to hold the coalition together? Where will the problems and opposition likely arise, and how might they be handled? Political mobilization typically requires utilizing one-on-one private meetings and public sessions to verify and solidify support.

For Teri, a key element in addressing concerns and gaining executive support is to engage the governor, agency heads and key stakeholders early in order to incorporate their views and ideas. The goals of shared services should also be closely tied to the vision and mission of the governor and the cabinet-level agencies — and help them see how shared services can enable more effectiveness on the "front lines" and not just in the "back office." "Historically, shared services in government have come not from service agencies but from control agencies," Teri explains. "Because of this, shared services are often seen not as an opportunity to provide better service, but as a bottle-neck. So it's critical to paint the

Horizon One: Visioning

At this level executives are securing the initial support for exploring shared services. The focus of their work is on assessing the value and feasibility of shared services and developing projections on value generation. Supporting the projections is a robust assessment of pre-shared services costs and benchmarking both internally and externally in order to understand the opportunities for decreased costs and increased performance. Syncing with the assessed value is a strategic plan and governance framework that ensures high-performance service delivery. Ultimately, the goal is to clearly articulate a value proposition and produce a sound strategy and business plan with support and sponsorship from senior executives and key political figures.

Key competencies at this horizon include:

- Securing Value and Sponsorship
- Developing a Strategic Plan
- Preparing for Implementation and Change

picture of the new capabilities shared services can bring. From an IT perspective, it gives you a focal point to change the policy discussion around what you can do with a shared services organization. So, you can talk about moving to a more citizen-centric model because you're operating on an enterprise level."

Connecting shared services to agility in achieving citizen outcomes helps to drive home the point that shared services is about capacity development rather than limitation. "When you have a culture very fixated on independence and control it's difficult to get people to agree on what can be shared and who will run things," Teri says. "This plays out as reluctance for organizations to buy-in and makes it paramount to focus on gaining executive sponsorship and support. Generally speaking, there are two types of buy-in. The first is top-down, where the governor makes it clear the initiative aligns with the administration's goals. The second is to work with individual organizations involved. Usually the first type of buy-in precedes and is necessary for the second. Once you put them together, you have a coalition that can make the case for change."

In the Visioning Horizon, there's a symbiotic nature to gaining support and securing value — it takes executive sponsorship and political cover to do deep assessment of the value that could be generated via shared services — and as value is determined and communicated, that translates to ever-increasing buy-in and momentum. Let's take a look at how that potential value is assessed.

Analyzing the Current State

"Assessing value is a critical part of the shared services journey as it sets people's expectations and their level of engagement. You have to wear a lot of hats — change agent, analyst, financier, project manager, etc. — and you have to make all of the rounds to ensure that everyone has a stake in the initiative," Teri says.

A key early step in getting comfortable with assessing value is creating confidence in both the process and the results of the visioning and assessment — because for transparency in government (from the stakeholder perspective) the process of making a decision is often just as important as the decision itself. Key to finding this comfort and trust level is asking the right questions: What benchmarking comparisons are needed to compare the present operations model to one to be used in the future? Will unit costs and other performance measures improve? Will the expected improvements be enough to repay the investments (both economic and non-economic)? Have the planning assumptions been tested for feasibility? How likely and substantial are the downside risks? Will the new model be sustainable financially and operationally? Has the planning been sufficiently comprehensive (major elements present) and rigorous (major sources of evidence and expertise consulted)?

The central purpose in assessing value is to develop a complete and accurate view of what the current practices and costs are enterprise-wide. This forms a baseline of understanding on the "current state of things" and how much improvement could be generated. In a state with a large and independent set of government organizations like California, the challenge is figuring out where to start. So must Teri and her team of analysts rent a car and visit each agency in California to do an assessment? Not exactly — what's important is finding performance baselines across key categories of business processes and benchmarking those against best practices in other governments and across sectors. Because of the size and complexity of California government, the practical approach for a "current state analysis" is to scan the California agencies (and boards) to identify and cluster common business processes and perform analysis on costs related to those clusters.

In all likelihood, there will be more than one cluster to look at and a large scope of services that could be delivered via shared services — so segmenting by service type and clusters and choosing the right splice for a shared services portfolio is critical for both buy-in and start-up success. There are three broad categories of services in the public sector which have potential to be delivered via a shared services model:

- **Transaction Services:** Primarily, these services support operations and include telecommunications, information systems, accounts payable and receivable, back-end human resource processes, etc. Most of these processes and services are routine, can be standardized and consolidated and are prime for delivery via a shared services model.
- **Program Services:** Generally, these services are managerial in nature and are designed to support and deliver agency-specific programs (such as licensing, benefits estimation and delivery, tax collection, regulatory services, etc.) and support services such as legal, procurement, fleet management and facilities. This is a mixed bag when it comes to

delivering via shared services, but depending on the level of standardization, some of these services can be migrated to a shared services enterprise as the shared services organization matures.

- **Policy Services:** These types of services and their underlying processes are mostly expertise-based and include processes and mechanisms for developing micro policy, organizational planning, resource allocation and budgeting and human resource planning. Most of these services and processes are better left at the agency level — especially during a shared services start-up. But as we'll see, mature shared services enterprises are able to effectively provide some of these services.

As a case in point, California has three tax collection agencies — the Board of Equalization, the Franchise Tax Board and the Employment Development Department. The transactional processes and underpinning technologies of these organizations could potentially be standardized and consolidated into a shared services center. Furthermore, creating centers of excellence for the program services across these agencies could potentially drive efficiency in tax collection through shared access to constituents and faster cycle times.

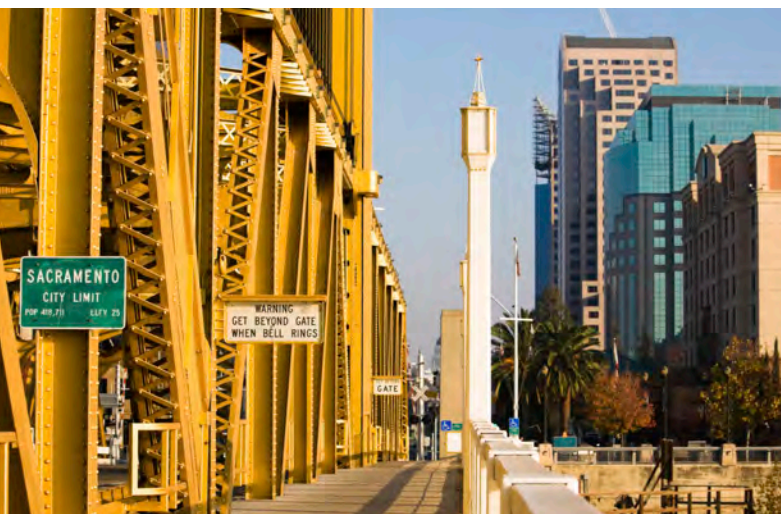
As another example, Californians and countless in/out-of-state businesses are forced to transact payments for state products and services in a manual form, such as currency, check, money order, or traveler's check, because most state entities are not set up to accept electronic payments. This results in a delay of revenue to the state as well as unnecessary costs due to inefficiencies to both the person and the government. To fix this, a statewide process to accommodate electronic payments for all state purchases could be developed, and a single web portal could be deployed as a shared service — saving agencies and constituents money and time.

Conversely, California's State and Consumer Services agency oversees the licensing and investigation of a diverse group of professions via separate programs (e.g. doctors, auto mechanics, apprentices, embalmers).

Although investigation is a common process across the licensing of these groups, implementing a shared service may be difficult because each constituent-group must be convinced that the policy and program services throughout the investigation process are essentially the same among them and that the specifics of their programs don't change the processes.

Analysis such as this serves two valuable purposes: First, it enables the California team to understand the degree to which business processes are currently standardized and aligned so that with a small amount of configuring they could be staged in the near term for shared services. Second, it shows the level of reengineering required to optimize and standardize processes whether the processes stay at the agency or are staged for delivery via shared services in the future. Combining these two provides overall insight into process reengineering and migration over time and how related policy, program and transaction services integrate with the shared services business plan.

As this clustering and set of processes is known, analysis can be done on their cost and performance. This is a technical process (better left to a technical paper), but broadly includes understanding the end-to-end cost of a select business process — including analysis of the number of employees and hand-offs required for the process, total cycle time (time and motion), throughput (what percent of time is actually productive time), technology cost, etc. Once this data is known, it can be factored into the "true and total" cost of delivering the process and can form a baseline. Comparisons can now be run against best practices in other state governments or sectors to answer the question of how much more or less it costs California to perform a select process compared with Ohio or Minnesota or the U.S. Postal Service or Walmart.



Once Teri and her team have a deep understanding of the business processes that could effectively be sourced within a statewide shared services enterprise, analysis can be conducted along two primary arbitrage levers — the portfolio of services offered (efficiencies derived from scope and scale) and the resources (efficiencies derived from performance and location of workforce) needed to deliver the portfolio in a high-performance manner. By running scenarios and creating models of various levels of service delivery within the portfolio of services offered, a forecast of investment and return can be calculated. The resulting financial projections and pro-forma statements can then be utilized to develop strategy and to create a framework for governance.

Finalizing and communicating the results of the assessment work is critical to securing the authorizing environment (stakeholders, legislature, unions and citizen groups) and generating resolve to move forward. Provided that the assessment work was done thoroughly and transparently, in most cases the numbers will speak for themselves. Packaging that estimated value and conditional resolve in the form of a strategic plan is the next step forward.

Developing a Strategic Plan

From a leadership perspective, if the sermon is how shared services can enable the mission, the scripture to back it up is a well-developed strategic plan. Broadly, the shared services strategy is the organization's goals and objectives, customer mix and the service portfolio delivered to those customers. The underlying business plan is composed of the tactical elements necessary to meet strategic goals and generate desired outcomes. (A shared services organization is essentially a start-up business, and as such the technical steps from operations, budgeting, hiring, systems, rollout, etc, to developing an executable plan are many — and vitally important. For a contemporary and in-depth set of resources on producing a business plan please see Accenture.com/sharedservices.) Making a clear link and leap from the visioning language of “here are all the ways we can create value” to the pragmatic language of “and here's the step-by-step plan to get it done” is a difficult but needed step in the Visioning Horizon.

“All the assessment work, the sponsorship work, governance design — it all comes full circle when we look at creating and financing the future shared services,” Teri says. “It's where the rubber hits the road. In California, it will all have to be packaged together. I'll need the service mix, the organization and the funding streams to be clearly laid out and of clear value. And everyone will have to have some skin in the game — the agencies, the legislature, and the unions — everyone, if we want to make this happen.” “Making it happen” from the leadership context is getting the service mix, governance and funding on paper and in process.

Firming Up the Service Portfolio Mix

Strategy sets the value and mission of the shared services operation, the services to be provided and the customers who will be serviced initially. The strategy also reaffirms the estimates on value creation and clearly lays out the measures of that value. Thus, the core of the strategic plan is the service mix that the shared services organization will provide. The

Probing for Feasibility

A cross-cutting thread in all of the assessment work is probing for the feasibility of assumptions and ideas. A leader has to systematically look for political, social and technical challenges that will hinder progress. The Leadership for a Networked World Program is often called on to help senior executives plan for innovation and reform, and in most cases, a “feasibility filter” will be applied to help the leaders find focus. The measures used are involvement, value, confusion, and conflict and described as:

- **Involvement:** How much time and effort presently goes to this activity? Is the agency currently looking for help with processes? With low involvement, the option claims very little time or attention; with high involvement, virtually everyone is thinking about it.
- **Value (or Reward):** How much value and return will come from the initiative at the local level? From the agency's perspective — if we put effort into shared services, will we get value back from it?
- **Confusion:** The level of difficulty of getting those who must act to know what to do. With low confusion, everyone knows what to do and how to do it; with high confusion, many people don't know what to do or how, and it's hard to educate them.
- **Conflict:** The difficulty of getting those who must act to want to do so. With low conflict, everyone needed to support the option wants to do so; with high conflict, many think the option is not in their interest and form a difficult-to-overcome opposition.

Whether by a formal survey or a back-of-the-napkin analysis, working through a feasibility lens will help a leader gather where she will run into the most or least resistance relative to the potential value and what she can do to increase feasibility and ultimately deliver a successful innovation.

overriding work item in developing the strategy for the shared services initiative is working with stakeholders to firm up and choose the portfolio that will be presented as part of the plan. It's imperative at this stage to have the highest level of agreement possible, as the portfolio decision sets the wheels in motion for designing and financing the operation and determines the downstream launch conditions. There are two broad questions that leadership and stakeholders should ask when determining the portfolio:

1. What do we collectively think will provide the most value? In the assessment stage, a comprehensive estimate of savings was developed by looking enterprise-wide at services and processes and determining which could be effectively offered from a shared services organization. In the strategy development stage, leadership is sitting at the table with agencies and stakeholders and negotiating over this list to find agreement on which services will be put into the portfolio. What the shared services leadership needs to focus on here is selecting the services that have the clearest value and the clearest path to implementation. The customer agency needs to focus on selecting services that will provide the most agility with the least disruption.
2. What services will give us the biggest chance of success? Beyond the value issue is the more complicated set of issues around probability of success and feasibility. What leadership needs to consider is given the political environment and the organizational dynamics at play, what services would drive the most value with the least amount of dissonance. This requires both insight and foresight as you have to project the reaction at the agency level to changes in processes, movement of staff and the degree of conflict this will cause. Essentially, leadership is putting all the cards on the table, and determining which fights are worth having.

This sounds imposing, but most shared services organizations have worked through this issue successfully. For example, as leaders of the Ohio Shared Services held discussions with key officials and agency leaders, they decided against offering a large portfolio of services and instead opted for a strategy of a very specific financial transaction service portfolio and matched it with a small, more agile and high-touch delivery model and governance framework. In addition, they made agency participation voluntary — spurring both a need and capacity for a high-performance organizational design.

The key leadership insight is to choose your portfolio of services wisely. The portfolio should be broad enough to achieve benefits but not too large and complex that start-up and operations would prove difficult. Once this process is completed, all parties can move forward with one voice and with greater resolve. This resolve can then be translated into a framework for governance, and in particular, the alignment of strategy and governance.

Aligning Governance and Strategy

Governance in the shared services context is the formal structure and methods that bring the shared services enterprise and its customers together in order to secure resources, make resource allocation decisions, strategize regarding ongoing service levels and refine the long-term shared services business model. In between the visioning and launching phases of shared services, governance also acts as glue to engage customers and stakeholders and ensure long-term commitment. Solid governance is also needed prior to developing a business plan in order to ensure buy-in and support.

The Visioning Horizon is also an opportune time to discuss with stakeholders and customers the role of governance and engage them in designing it. What is important is that the shared services customers understand they have a direct role in measuring service and outcomes and that they understand how to engage the process. Teri expresses why this alignment is so important: “Essentially, it's all about ownership and collectively optimizing the service, so it's pivotal to jointly develop and understand the offerings, expectations, requirements and capabilities — and focus on what is most important to the customer. Talking this through with stakeholders such as agency heads provides an opportunity to learn what the agency really needs and how they think about service. These conversations can also build a sense of trust and generate a sense of buy-in as the message can be conveyed that a ‘service organization’ is being created rather than a ‘control organization.’ ”

In action, governance structures and facilitates the decisions that ensure value accrues in an equitable and transparent way to all the customers and stakeholders. It also brings the shared services enterprise and its customers together in order to secure resources, make resource allocation decisions, strategize regarding ongoing service levels and refine the long-term shared services business model. While the actual governance framework varies in implementation, the

tactics remain mostly the same and include ensuring representation from each customer and from select stakeholders and providing them the ability and rights to make decisions and affect direction. For example, the Ohio shared services governance structure was designed to ensure alignment between the shared service center, the Office of Budget and Management and all partnering agencies as well as to drive consistent end-to-end process improvement and innovation critical to creating statewide value. Executives from all three segments sit on a strategic committee, which tackles long-term partnership issues; a managerial committee, which reviews service delivery, accountability and measurement; and various operational committees that include performance management, continuous improvement and training and development working groups.

Together, the strategy and governance structure is a key component to successfully launching shared services. According to Aaron Erickson, Director of Ohio Shared Services, working out this alignment was critical in getting key executives to participate in the project. Aaron explains: “The agencies had little incentive to take on another project when they were in survival mode and trying to keep programs afloat. The project takes time and resources away from the agencies’ other programs so the key to solving this problem was to convince the Office of Budget and Management that we need to let agencies that participate keep all the savings, just ask that the savings be well-documented. If the project was going to take the savings or reduce the agency’s overall budget, I am not sure that we would have the level of participation we need. Now agencies can recoup their savings and move the funds directly to citizen-facing programs. It’s a win for everyone.”

The Visioning Horizon is the time to deeply engage stakeholders and customers in designing the overall form of governance. What is important is that the shared services customers understand that they have a direct role in designing and measuring service and outcomes and that they understand how to engage the process. And as we will see next, governance is also integral to the process of financing the shared services organization.

Financing the Organization

When asked what the most challenging aspect of starting shared services is, executives usually place “funding the start-up” in the top three — right up with “employee resistance to change” and “lack of cooperation among stakeholders.” This is logical as a start-up operation is financially intensive to build as well as run until break-even. Yet even in these turbulent economic times there are methods to increase your ability to raise capital.

There are three general ways of securing financing for the shared services launch. The first is through the legislative branch of government via general fund appropriation or a bonding bill. The second method is to pool resources across agencies and partners to form an investment pool. The third is a hybrid, in which both legislative and executive branch funding mechanisms are tapped. Given the general economic climate in most regions of the world the latter “boot-strapping” method is most prevalent — yet it can be the most difficult as it requires agency customers to reallocate funds that have traditionally been in their budgets.

As we’ll see in the Launching Horizon, combining multiple funding sources was the path Ohio took in financing its shared services launch. Yet even that was challenging, as Aaron points out: “We had four different funding sources for our operation. I think it is the right way to approach the project in government; in Ohio for sure, because getting \$40 million in general funds from the legislature was unlikely, if not impossible, particularly in this economic climate. Getting \$5 million to \$10 million chunks through different funding sources was the only way we could have funded shared services.”



Another method increasingly being used is to attach a shared services initiative to a complimentary initiative. Common examples of this are when a government embarks on a wide-ranging “reform” initiative or a major agency consolidation effort. In these scenarios, there is generally a budget in play and the case can be made that shared services is integral to the reform. Similar to this is attaching to a major enterprise-wide initiative such as an Enterprise Resource Planning (ERP) project. This makes sense in large governments and especially when combined with streamlining and reengineering efforts as the synergy between ERP and shared services is high. This may be the path California follows as the state has yet to implement an ERP statewide.

A big mistake shared services leaders have made is going into meetings at the legislature or with partners and saying something along the lines of, “I need all this money now and you’ll see a return in seven years.” That kind of request doesn’t make it far. A much better method involves the ability to scale your business plan and investment over time. This enables a close match of return-on-investment of select service areas to discrete funding sources. So it’s feasible with this method to “chunk” the investment over months and years — lessening the strain on near-term budgetary issues for funders and creating incentive for all parties to succeed.

From the tactical perspective, it’s important to know the numbers and assumptions in the plan inside and out and to be able to spread them out and “flex” them over time. For example, Aaron currently forecasts 4.5 years to break even for Ohio Shared Services. However, it’s ultimately his call as to what time frame that’s delivered. He explains, “If we add more processes faster, the break-even obviously comes down. But I really put a lot of time in the business case. I understand every lever in the business case and I know you can tweak a couple things and you shoot it [ROI] up or down pretty dramatically. I have one model that shows a certain level of savings, and I have another model that shows a higher level — but you have to go in and know what levers you’re comfortable with and what assumptions you’re willing to make. We have consultants who help with analysis tell me the range is from here to here — yet my job is to know what I can really deliver.”

This form of scaling and staging investment also opens up the possibility for a new funding stream that may not be available currently. For example, Ontario Shared Services moved to a core funding model approximately three years ago. The focus is now on how efficiently they spend available funding, and charge backs are limited to specific consumption-based services such as mail and print services.

A general tactical insight is to engage bond counsel, legislative budget officers and any other funding executive early on in the planning — you’ll need their support later. “The process to secure all the funding took a long time and constantly needs to be defended, even to this date,” Aaron says. “It took a lot of persistence — as the budget forecasts changed every quarter — to make sure the funding was available and protected as much as possible. In the end I did not get as much funding as I was seeking, but I have enough to find different ways to make it work.”

From a leadership perspective, the point to consider is that developing the financial structure is a constant structuring — selling — financing cycle which requires a deft hand at financial analysis, negotiation and collaborative problem solving.

Preparing for Implementation and Change

Teri Takai of California has a big job ahead — the annals of organizational history are riddled with great ideas and plans that failed once words were put into action, and shared services is no exception. In fact, because of the intense focus shared services enterprises must have on customer satisfaction, the stakes are even higher. Compounding this is the challenge of setting up a new shared services organization within the dominant organizational culture in government. Surmounting these obstacles requires readying both the shared services organization for high performance, and readying the customer and stakeholder groups through change management.

Readying the Organization

A well-designed business is built around the “niche” the business is serving and the attributes and capabilities needed to succeed. The same is true in shared services as the structure of the service organization has to be formed around both the portfolio of services being offered and the performance thresholds of how those services need to be delivered. This is a substantial effort, and one way to break it down is to focus on desired outcomes — and how the major organizational design components of structure, people, processes, technology and measures act as optimizing levers.

- **Structure:** The structure of a shared services organization builds off the established governance frameworks and makes them executable via the types of decisions that are made and who makes them. Structure also drives organizational culture as it pre-sets and informs the shared values, ideals, attitudes, goals and practices that characterize the environment and guide collective action.
- **People:** Central to the performance of the shared services organization are the people who will be working there. In a customer-centric organization such as a shared services enterprise, everyone has to be empowered to proactively decide and act on customer issues. When designing the workforce, considerations should include the location of the center, the distribution of employees across agencies and the center, the ratio of government employees and contractors, and the decision rights at each level.
- **Processes & Technology:** The shared services organization has to excel at delivering process-oriented services to customers and it has to excel at its own internal management and operational processes. The key here is to link the processes and technology to a robust Service Management Framework (SMF) and to the Service Level Agreements (SLA) that provide the tactical underpinning. The SMF sets expectations for all parties based on a clear definition of services and defines the roles, responsibilities and metrics for the shared services center and customers. Effectively done, the SMF and SLAs are tools that drive management and operational processes and ensure service consistency. The Service Management Framework also facilitates the development of employees and operations within the shared services enterprise. Systematic and regular review of the agreements helps align business partner needs with operating efficiency goals and provides the objectives and principles for how the shared services staff will make decisions. Further, the framework and agreements provide the ability to hold the staff accountable and to link performance measurement to recognition and/or rewards. (For more information on Service Management Frameworks, please see Accenture.com/sharedservices.)
- **Measures:** Put in place a tool to measure work outcomes from day one. The measures should flow directly from the core capabilities the shared services center is attempting to achieve. For example, NASA Shared Services Center put in place a “Balanced Scorecard.” The scorecard contains four different dimensions that they manage: customer confidence and loyalty, financial, unparalleled service, and investing in employees. Each of these dimensions is supported by a set of strategic goals designed to endure three to five years in length. And each of the strategic goals is supported by a set of annual tactical goals with action items that are rolled into employees’ performance plans. Richard Arbutnot, Executive Director of the NASA Shared Services Center explains, “The balanced scorecard is a big deal for us. It is not just a strategic management document that is three inches thick and sits on someone’s shelf that nobody reads. It’s a five-page document that we use daily to manage the NASA Shared Services Center.”

The leadership key is to modulate these levers to fit the outcomes desired — and as we’ll see in subsequent horizons, adapt them over time. As you work through the Visioning Horizon and transition into the Launching Horizon, make sure to keep an eye focused on the form of organization that will help you realize downstream success.

Readying the Environment

Mobilizing support and momentum for shared services implementation is both a process and an art form. It takes multiple steps and continues throughout the lifecycle of the initiative — and systematically managing this change and readiness for implementation is vital for success. Here are key steps leaders should take to mobilize the environment throughout the Visioning Horizon:

- **Campaign for Change:** This step is the “wake-up call.” It’s when the leadership of the shared services initiative establishes a sense of urgency around the challenges and opportunities facing the government. Most efforts that are successful in this regard create a close link between the long-term structural challenges the government is facing (financial, demographics, inefficiencies, etc.) and how shared services can solve those challenges. This effort is closely tied to the business planning work as accurate baselines on current costs, external benchmarks, internal surveys and projections on savings and service improvements help galvanize stakeholders on the urgent need for change. “For California that will mean really highlighting the potential and projected effectiveness and efficiency improvements and making an argument for change. And then repeat, repeat, repeat,” Teri says.
- **Create a Change Coalition:** Having executive sponsorship is critical to shared services initiatives, but this step requires a deeper and wider approach. Bring on board select agency leaders, union leaders, technology partners and the media. Initially, this group simply must buy into the general notion that shared services is needed, but over time they need to

work together on developing the vision for what shared services can accomplish. This is an iterative process and one in which the shared services leadership learns just as much as the groups they're speaking with as the conversations raise ideas, issues and concerns. The goal here is to move the people to become the evangelists for the initiative.

- **Align Vision and Frames:** Once the shared services change coalition develops a picture of the future and how shared services enables that, they must help disparate and potentially affected groups and organizations see the vision through their respective frames. For example, they should consider how shared services would impact and help the education department, front-line health and human services employees and union employees. Looking at NASA's strategy, the sponsors of the California shared services initiative realized they had to go beyond talking about how shared services can enable productivity, and speak directly to how shared services can facilitate the outcomes California needs — more health and human services workers on the front lines to serve citizens, faster response times for business licensing and permitting, enhanced learning materials for primary and secondary education and the retention and growth of state parks and environmental causes, for example.
- **Assess Adaptive Challenges and Opportunities:** It's often said that people resist or are afraid of change. The more accurate view is that people are afraid of loss. People rarely resist a promotion, receiving an inheritance or a winning lottery ticket. Major transformation efforts always have gains and losses at both the organizational level and the individual level. Building on the work in step three, in step four leaders should assess where these gains and losses are. While difficult to do at the individual level, it is possible to create a matrix of potential impact in categories of organizations and people. This assessment — while a lot of work — reaps big dividends later as the shared services leadership will be able to plan and communicate more effectively. (For more on the importance of exercising leadership through adaptation please see the sidebar entitled "Leading Adaptation" on page 29.)

It remains to be seen what form shared services will take in California. The questions on value and feasibility have yet to be answered, and leadership is still garnering the resolve to move forward. Yet clearly they have a good start at laying the groundwork — and Teri grasps the road ahead. "As you move forward to a shared services model, what I'm finding is that you're doing visioning, launching and implementation in some cases all at the same time. And that there's interplay between them as you try to move your agenda forward, particularly as it relates to what you need to have to continue to get executive support. I want to make that point because if you're in the early stages, it may be easy to say well, I need to do the visioning piece and then I can move into the launching piece and then I can start implementing — but in reality you have to see the whole journey ahead of you," she says.

Once California has a solid vision, executive support, governance and a business plan, what's next? And what steps should Teri think about in preparation to launch shared services? Let's look to Ohio for some answers.



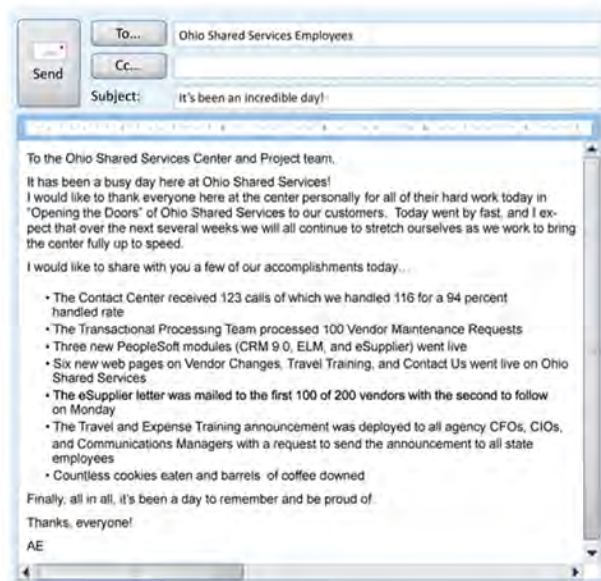
"We cannot afford waste and fraud in any department or agency. This unprecedented action will mean a total review of government: its performance, its practices, and its costs. Together with my dedicated team of experts, we will make California the first true 21st Century government in America, a government that is as innovative and dynamic as the state itself."

– Gov. Arnold Schwarzenegger

HORIZON TWO

Launching

The angle of the September sun reminded Aaron Erickson it was getting late. He glanced at his watch — 6:30 pm. “Wow, what an incredible day,” he thought, loosening his tie. He reflected on the months of planning, the analysis, the meetings, and calls — and how the shared services center finally opened its doors to customers that day. He took a long, relaxed breath and typed a congratulatory e-mail to the team:



Aaron Erickson

Director of Ohio's Shared Services Center

Current Shared Services Status: *Launching*

Aaron Erickson is Director of the Ohio Shared Services Center where he leads the start-up and rollout of the new operation. Prior to launching the Shared Services Center, Aaron served as Deputy Director for the State of Ohio's Office of Budget and Management where he was the prime sponsor of the State of Ohio's Enterprise Resource Planning (ERP) project — the Ohio Administrative Knowledge System. Previously, Aaron held executive positions with Accenture and Deloitte where he focused on technology, business process reengineering and change management.

For two years, Aaron and the management team at the Office of Budget and Management and the Department of Administrative Services worked to bring to fruition Gov. Ted Strickland's vision of an innovative experiment in high-performance workplace management. The effort required complex legislation and extensive changes to systems throughout state government — accounting rules, financial reporting processes, reimbursement policy, cash management measures and collective bargaining agreements — and was accomplished with few resources. When Ohio Shared Services planning began in 2007, the governor and state officials faced a state revenue base eroding by \$1.6 billion per year and fierce pressure to maintain or increase the capacity to deliver citizen services without adding people or money. Ohio's revenues eroded even further following the national financial crisis and ensuing recession. In 2009, state agency budgets were funded at 70-80 percent of levels three to five years previous, and the state was operating with fewer employees than in 1983.

The Strickland Administration decided that aggressive implementation of shared services would leverage the significant investment already made in their ERP system and help the state obtain savings through streamlining finance operations. Soon after the ERP system launched, Aaron proposed to the Executive Sponsors of Ohio Shared Services, Director Pari Sabety from the Office of Budget and Management and Director Hugh Quill from the Department of Administrative Services, that the state build the data to prove the business case. The team launched a benchmark study with Hackett Group, a strategic advisory firm, that compared state operations to other governments and companies such as Radio Shack, Panasonic, Phillip Morris and Capital One.

When the results came in, the disparity between Ohio's state-run operations and other states and high-performing organizations was evident, fostering support for change. Ohio's finance costs as a percent of operating budget were three times those of other states and high-performing organizations, for example, and the state had 75 percent more finance staff than other states and 150 percent more than high-performing organizations. Similar patterns appeared across several finance practices (e.g. accounts payable, travel and expense reimbursement, customer billing) and in comparison with high-performing organizations, transactions were less automated, less integrated, and took longer to complete. Further analysis showed that through enterprise-wide shared services, Ohio could generate savings worth a Net Present Value (NPV) of \$1.2 billion. Commented Pari, "This project allows Ohio to move to the head of the class and create the platform for a new operating model for efficiency in state government, and quality service for its citizens. Modeled on best practice in the private sector, Ohio Shared Services will bring state government finance operations into the 21st Century."

As Aaron prepares for the days to come, he is ready. "Our vision is to be a best-in-class, high-performing public service entity," he says. Ohio Shared Services was able to open its doors in September 2009 because the team was dedicated to high performance. In launching shared services, Aaron and his team excelled at the key steps: delivering on the governance and business plans, preparing a new workforce and form of organization and managing change and communication. Let's take a look at their work in detail.

Implementing the Processes and Services

Occasionally, shared services initiatives suffer an untimely death in a stunning fashion: a blow up at the legislature, an executive sponsor derailed by political stunts, or agency heads doing a last-minute about-face. But more often, unsuccessful initiatives experience a "cloak-and-dagger death" brought on by a poorly executed transition of processes and services. Making it worse, problems with migrating processes and services can destroy financial projections, return-on-investment and your credibility.

Horizon Two: *Launching*

At this level the shared services initiative is in implementation mode. The primary directive is to execute against the shared services business plan, governance structure and service delivery framework in a measured fashion. Tactically, the enterprise is working to stage and roll-out its first portfolio of services to its customers via a well-planned migration and implementation plan. Leadership of the organization is also training the workforce on new processes and business practices and rolling-out a systematic set of change management and communication actions both internally and with customers and stakeholders.

Key competencies at this horizon include:

1. Implementing the Processes and Services
2. Preparing a New Workforce and Form of Organization
3. Managing Change and Communication

Yet many shared services initiatives have navigated this step and set a solid platform for growth. So how does the shared services leadership ensure the successful transition and implementation of services? Here are a few lessons from the trenches.

- **Keep Morale High:** Start-up operations tend to be hectic and the pace and duration of work can wear down employees — especially during the first six months or until stabilization. In addition, the cultural shift to a customer-centric workplace can be unsettling. Leadership should continually assess employee morale, provide support when needed, and celebrate both big and small successes.
- **Follow the Benchmarks:** Now is the time to build to the benchmarks and best practices that were noted during the initial assessment phase and throughout the development of the Service Management Framework and governance model. As the processes and services are actually transitioned to the shared services center, it's imperative to meet the criteria and ideals expressed throughout the visioning phase. To help achieve this, put someone in charge of monitoring the standards to make sure there's no slippage.
- **Optimize End to End:** Building on the benchmarking, make sure to understand every process from start to finish and what's working well. By watching key metrics, such as transaction time and error rates, you will be able to ascertain whether a process is working as planned and develop improvements on the fly. Additionally, at each point of handoff throughout a process cycle, there's risk of some entity or person wanting to retain a past practice. This may be fine, but ensure that after past practices are balanced with the new, the optimum method is retained. Apart from a select few exceptions (usually politically driven), now is also not the time to start renegotiating process flow and handoffs — just focus on optimizing end to end.
- **Watch for Shadow Processes:** In an effort to retain authority, power or the past, customer organizations will sometimes create "shadow processes" within their organizations. Shadow processes create redundancy and inevitably increase costs enterprise-wide. To prevent this, the shared services center staff should be in communication with customers to instill confidence in the new business practices. And of course, maintaining normal services throughout transformation is critical. Preventing shadow processes is also a change management issue and an adaptive issue — so the shared services leader has to maintain dialogue with agency (customer) heads to ensure that monitoring is happening from the top of each organization.
- **Live and Breathe the Service Level Agreements:** During the transition process, staff at both the shared services center and at customer locations should integrate the standards in the Service Level Agreements into every process decision they make. The key filter positioned as a question should be: Balancing effectiveness and efficiency, will this decision get us closer to or further from the standards in the SLA?

The key insight for leaders is the value of "pacing the processes." Pacing the rollout of processes and services while maintaining a positive work environment is a fine art, and ultimately it is the role of someone like Aaron to ensure the achievement of migration and integration without sacrificing effectiveness and efficiency.

Preparing a New Workforce and Form of Organization

"You cannot overlook the importance of branding and culture. I get a lot of questions about the technology and we have some cool stuff, but that will not be the key to our success. Our core competencies and values are all driven around building the right culture and having pride in our brand and delivery of service first. The first 120 hours of an associate's career at shared services is structured to bring the brand to life," Aaron explains. "After visiting private sector shared services centers at Marriott, Nationwide and Limited Brands we realized that a high-performance workplace is instrumental to providing the service we wanted and the continuous improvement we will need. So we're instilling a customer-centered culture that permeates the entire shared services organization."

Turning that vision into reality meant working closely with the Ohio Civil Service Employees Association to align state and union goals and create a new performance-oriented workforce. The shared services center engages 47 employees from 15 state agencies in self-directed work teams, skill-based pay, and metrics measuring weekly job performance — a redefinition of work that required both sides to shed preconceived notions and embrace a partnership extending beyond mandated procedures and grievance processes. "We wanted the culture well-defined before we ever opened the door," says Anne Saunier, Deputy Director of the Ohio Office of Budget and Management, and partnership chair representing the state. "But it's commonly referred to as a high-performance culture and we weren't sure how the union would react to that." To promote trust and support, the state set a broad partnership agenda, inviting union representatives to

weigh in on an array of center policies including management structure, management job descriptions, and continuous improvement — matters outside typical negotiations involving wages, hours, and terms and conditions of employment.

Few overtures were needed to promote support for a high-performance workplace. Carol Bowshier, Director of Health Policy and Administrative Services for the Ohio Civil Service Employees Association and partnership chair representing the union, saw the shared services center as the perfect opportunity for labor to help define the high-performance pathway. In fact, labor had already developed a “high-performance plan” promoting work redesign, more training, and the implementation of new technologies. “It was our thought that if we could develop high-performance workplaces in state government, the private sector wouldn’t be able to compete with us, and therefore our work would never be contracted out to them,” Carol says. The center, which offers workers increased pay as they acquire skill sets, will also provide workers greater job satisfaction and a self-directed career ladder in addition to greater job security, she posits.

Anne agrees. Self-directed work teams attained by flattening the management structure and reducing the ratio of exempt- to- bargaining staff — a key agreement negotiated between labor and the state — will likely be cost effective. “If we don’t have to pay for all those managers, I’m more than willing to pay the union rates for the workers, which are a little higher than what we see in the private sector in Columbus,” she says.

With these guidelines in place, the partnership team flushed out other key program criteria:

- Agency participation is voluntary. Agencies will minimize layoffs by using natural attrition to staff the shared services positions
- A select group of current employees can bid to enter the shared services center, and will have grievance rights if they believe someone with less experience is awarded the position
- Employees who have been performing much of the same work for a lengthy period of time will not have to serve a probationary period in the new position
- Shared services employees will all enter as one classification but will be eligible for pay raises as they move through four skill blocks — a departure from the “step-and-grade” pay system
- Employees will be exempt from a current two-year pay freeze recently negotiated by the union
- Efforts will be made to flatten the management structure
- Weekly metrics will provide employees the opportunity to self-evaluate job performance, and workers will evaluate their “coaches” via quarterly surveys
- Shared services pilot programs will be launched

Looking forward, Carol and Anne see challenges and opportunities. Both are mindful that greater agency cooperation is needed to staff the center, and that protracted economic concerns could hinder real-time workplace adjustments. But they agree that potential benefits outweigh these hurdles. For labor, an environment of continuous improvement will unleash the power of individual workers to set their own career paths, they say. And greater productivity combined with cost-saving measures may just make Ohio shared services a model for other states.

“We really want to demonstrate that this is possible in a state-run union shop,” Anne says. “We fundamentally believe that it is and we want to point at this and say, ‘See, if you work really hard, this is what’s possible.’ ” The leadership takeaway here is that it takes time, energy and commitment from all stakeholders to put together a high-performance organization, Aaron explains. “Every day is a new challenge as a leader; some days it can be overwhelming. I have to remember to stop, breathe and let the team work through the issues. The shared services team will take any problem back to the home office and work on resolution for an agency; it is not acceptable to say, ‘That is not our problem.’ The least we can do is listen and give advice on options to resolve the problem. If our customers need our help, we need to be there to deliver.”

Managing Change and Communication

“There is no easy road to building shared services. You will take hits and many of them you won’t see coming. Stay resilient,” Pam Murray, from Marriott, told me when I first met her,” Aaron says. “Short, simple and perfect advice to share with the team and one of our core values we expect in every facet of our shared services enterprise,” he notes.

The first few months of the Launching Horizon provide an opportunity to validate assumptions. Often, shared services leaders find they need to refine their business model to meet unanticipated demands and communicate differently to retain executive sponsorship and stakeholder resolve. Sensing what's happening and responding quickly to change — being agile and resilient — is what's needed directly post-launch.

In practice, shared services leadership must manage change and communication along both organizational and authorizing environment dimensions. So far Ohio Shared Services is performing well. The assessment, benchmarking and metrics produced during the Visioning Horizon provided sound data upon which to make decisions, and the operation is meeting the goals of the business plan. Just three weeks after going live, sponsors approved starting a payroll shared

services project to expand the scope of services. Yet Ohio Shared Services has also found areas that need refinement if they are to sustain progress.

Refining the Organizational Structure

From the organizational perspective, now is the time to review the organizational design components of structure, people, processes, technology and measures and set a path for refinement and change.

- **Structure:** The structure of a shared services organization builds off the established governance frameworks and makes them executable via the types of decisions that are made and who makes them. Looking at the trajectory of service adoption, Aaron realizes that Ohio Shared Services will need to modify governance sooner rather than later. The current governance is primarily focused on the project and current scope of processes. The long-term governance model will need to be more diverse and focused on building and expanding.

"I think we have underestimated the time and effort required to move to the operating governance model. It is something I have to figure out very quickly in order to start expanding services," Aaron explains.

- **People:** Apart from establishing the desired workplace characteristics, management of the shared services center must also monitor and refine staffing tactics. A key lesson here is to start as early as possible in planning the number, identifying and recruiting staff. "It takes much longer than most realize to select and train a workforce," Aaron says. "It has been difficult to assemble the right state team in a timely fashion. Although we planned for staff on an appropriate schedule, it took longer to move them to the project than expected. As a result, we started the project without all the key team members." A good practice is to forecast the team requirements and get people on the team a month before they are needed for the work plan. Once the shared services operation has a few months of experience, reward the employees who have performed well and continue to develop and promote employees who personify the high-performance culture.
- **Operating Processes & Technology:** The shared services organization has to excel at delivering process-oriented services to customers and it has to excel at its own internal management and operational processes. One of the first refinements Ohio Shared Services made was to tweak the process for billing agencies. "We were presented with several scenarios for billing agencies: budget basis, allocation and direct. Based on input from the customers we are going live with a model of billing agencies direct for each service by transaction type versus the budget or allocation model. This was a strong request from the CFO advisory council and long-term, I fully support the model and the transparency of such a model. The difficulty is that I have all kinds of assumptions on what my cost per transaction will be and I won't know the real cost for a year or two. If I had to do it over again I would ask the advisory council to use a budget-based allocation for the first year of a process and then move to direct once it is stable," Aaron says. Technology plays a key role in assuring that employees processing work every day are outfitted with technology solutions enabling them to be high performing and meet customer needs during each and every transaction.



- **Measures:** The measures for the shared services center should flow directly from the core capabilities and service offerings. Post-launch, the shared services center will produce a wealth of data that can be analyzed and measured — don't let this data go to waste as it gives critical insight into performance. Like OSS, use the data to make changes that optimize the operation. "We particularly watch the numbers coming in from our Contact Center (help desk) as well as system-wide feedback from customers and employees, and we use that data to tweak systems and get fully up to speed. It's one way to really 'listen and respond' to customers during the launch," Aaron says.

Managing the Authorizing Environment

The shared services leadership must continually take the temperature of the authorizing environment — the views of the key sponsors, stakeholders and constituent groups — during the transition. This assessment will help manage the change and communication that will secure and sustain resolve. Building on the steps required in the Visioning Horizon to prepare the environment for implementation and change, there are additional steps leaders should take throughout the Launching Horizon:

- **Engage Stakeholders in Adaptation:** Understand that adaptation to the new business and organizational models doesn't stop once shared services launches — it generally intensifies. Focusing on the insights collected during the Visioning Horizon and during the launch, shared services leadership should continue dialogue with key groups and individuals with the goal of removing both real and perceived barriers to change. What's important here is listening, not telling. As Aaron recalls, "My change management team put communicate, communicate, communicate on slides at one point. I replaced it with listen, listen, listen. Talking is not communicating in this environment." More than anything, people want to be heard in this phase. Even if all their issues aren't resolved, airing them is most of the battle. Back listening up with a systematic effort to engage people in the change.
- **Stay on Message:** Sustaining transformation is very difficult without the continual buy-in and help from stakeholder and employee groups — the people who will have to do the day-to-day work that brings a shared services enterprise to fruition. Thus, it's important to keep the message of the mission in the foreground. Managing communication involves many factors and tactical details specific to each initiative, but the primary lesson learned and espoused by change experts is to make your first plan, then multiply the communication amount and channels by a factor of ten. It's memorable repetition — and over a long period of time. As in other transformations, the key with shared services is to have as many credible "sponsor voices" as possible — from the chief elected official, to the leads of agencies and to partners such as unions and industry groups. Ohio's outside advisory council of shared services leaders from Marriott, Limited Brands and Nationwide supported the project throughout the Visioning and Launching Horizons — making it politically difficult to question the project — and offered solid proof of concept for supporters.
- **Solidify the New Business Model:** Whereas the benchmarking and assessment phase was a form of "unfreezing" legacy processes and business models, the shared services leadership should now move to "refreeze" the new process and business models. It's important to do this as soon as the shared services center has credible success, as that's when it's possible to rapidly change policies and processes that don't fit the vision of the future and to institutionalize new methods and higher performance. Leadership across the shared service enterprise and the customer base should also continue to communicate the connections between the new shared services business model and citizen-facing programmatic success. Additionally, be sure to celebrate the early wins as they help maintain momentum. What's important here is to make the ongoing argument for transformation — and that shared services is an enabler of increased public value.

Managing change and communication goes hand in hand with sustaining support for shared services during the launching phase. Essentially, it involves managing the "holding environment" and pacing the change for customers and stakeholders. A general lesson learned from transformation efforts like shared services is that the change process starts early — and takes substantial time. So start now, and don't let up.

What's next in Ohio? Stabilize, optimize, and expand is the quick rundown. "Our biggest challenge going forward is the stabilization phase and we have to get through that. I want to keep the momentum going," Aaron says. "Understanding Governor Strickland's need to create opportunities for agencies to save funds, and direct those funds to mission-critical services are the driving forces behind such initiatives as Ohio Shared Services."

To explore incremental innovation, let's now look to the Growing Horizon, and how Greg Wass has brought new energy to shared services in Illinois.

Shared Services Transformation: *the Adaptive Challenge*

For the majority of governments, shared services provides clear fiscal benefits, increased efficiencies and enhanced effectiveness — so why is it that some shared services initiatives fail to launch and grow?

A fair guess would be that leaders underestimate the level, form and duration of change required to launch and sustain the effort. Yet the full answer is that leaders must recognize shared services initiatives for what they are — a transformational change effort. Transformational change in shared services goes beyond change management — and has some significant differences.

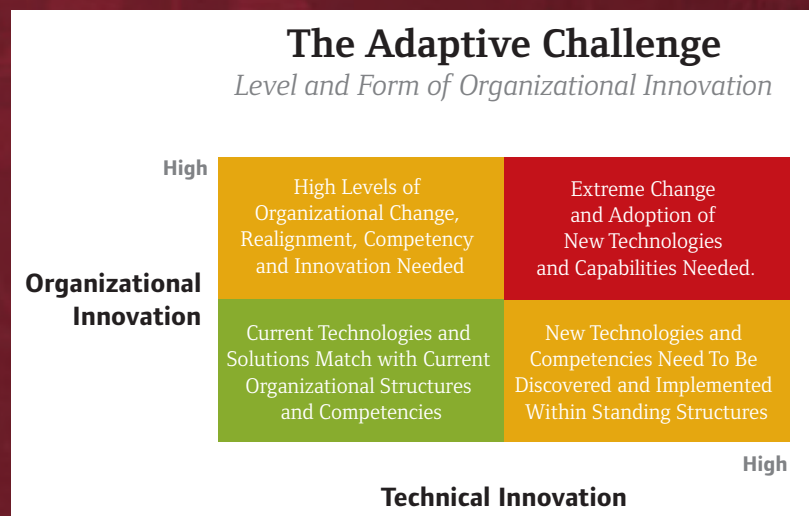
The differences reside in the necessity of innovating along two dimensions simultaneously - technical and organizational — and how the resulting tension impacts the social system and environment within which the shared services enterprise operates. Broadly, the dimensions can be described as:

- **Technical Innovation:** This form of change is what we're most used to. Organizations and people experience this when implementing incremental change (such as updating a process, technology or management method) within their current organizational structure, authority lines and knowledge set.
- **Organizational Innovation:** This form of change is where most people and institutions get uncomfortable, as it requires the development and adoption of new competencies and capabilities — often within a new environment, governance structure and organizational design.

Combine these two dimensions and you have an “adaptive challenge” on your hands. According to Ron Heifetz, Founder of the Center for Public Leadership at Harvard Kennedy School, an adaptive challenge requires experiments, new discoveries and adjustments from numerous places in the organization. Without learning new ways — changing attitudes, values and behaviors — people cannot make the adaptive leap necessary to thrive in the new environment. The sustainability of change depends on having the people with the problem internalize the change itself. Mr. Heifetz suggests transformational change cannot be affected completely through authority or (change) management. Rather, it takes a person (or set of complimentary-acting people) to actively mobilize stakeholders to address real and perceived loss of important ideals, values and competencies that have been in place for years (if not for a lifetime) while also actively learning new competencies, capabilities and culture.

When people and social systems are working through an adaptive challenge, a high level of personal and organizational “cognitive dissonance” can arise. This state of psychological distress is caused by the variance between a projected or required future and the current reality. At high levels, the stress and fear of loss can spur people to work against the change. Thus the capacity of people and organizations to move through adaptive challenges and end up on the positive side of transformational change is largely dependent on planning for and exercising leadership by mobilizing groups to work through their adaptive challenges.

What happens when adaptation does not go well or when people exhibit maladaptive behavior? When personal and organizational dissonance rises to a level where such behavior occurs, the resulting disturbance can be enough to derail a shared services initiative. Common examples of maladaptive behavior include:



- **Avoidance:** People disengage from the initiative — consciously or unconsciously — as they avoid the pain, anxiety or conflict that comes with actively working through the gains and losses.
- **Direct Push-back:** People will actively fight the changes taking place.
- **Circumvention:** People will bypass or work around the shared services sponsors and lobby agency heads, legislators or whoever will lend a sympathetic ear in order to delay, distract or derail the initiative.
- **Shadow Processes:** People will secretly keep past processes and operating models — duplicating work in some cases — in order to retain a sense of control. Shadow processes are particularly destructive to efficiency as they undermine the savings that come from a shared services business model.

Methods to Exercise Leadership and Mobilize the Shared Services Stakeholders

Clearly the importance of exercising leadership through the shared services adaptation is critical to success. Here are some recommendations for mobilizing individuals and organizations — and yourself:

- **Understand and Assess the Psychology of “Gains and Losses”:** The first step is to understand the perceived and real value gains and value losses to each category of stakeholder, i.e., data center managers will perceive the value vastly different than an authorizing body or a senior executive in the initiative. It is important to discover both sides of the gain/loss equation as perceived losses affect adoption as much as perceived gains.
- **Identify the Adaptive Challenges:** Be in a position where you know what will happen next. If you assess and forecast where the adaptive challenges will arise you can start working with the people and units affected — moving them to surface and resolving the difficult tensions and tradeoffs related to their changing roles, capabilities, loyalties and identity.
- **Pace the Innovation and Adaptation:** Realize that people need time to work through adaptive challenges — and get to know their limits. As the saying goes; “Keep it hot enough but don’t let it boil over.” One way you can achieve this is by creating a “holding environment” (the term originated in psychoanalysis to describe the relationship between the therapist and the patient) for groups to discuss all of the issues related to the change in a non-judgmental atmosphere. The intent is to understand people’s underlying fears and address adaptive questions such as: What do we have to give up to make this work? Are we competent enough for this new model? How will this change the identities of our current organizations? Do we believe in this new way of doing business?
- **Protect Voices of Leadership:** It’s critical to find and protect the people who exercise leadership but who don’t have the cover of formal authority. These people are the “change-makers” within an organization and usually have a high capacity for mobilizing themselves and their peers. Make sure you funnel them timely information, engage them in helping to voice the necessity of change, and protect them during the process.
- **Hold Steady:** Last — and most important — protect yourself. Realize that you are affected by the change and adaptation as much as others. Make sure you work through your personal adaptation — and even better if you can do some of it with others. A key element is clearly separating yourself from your role and understanding that maladaptive people will “attack” your role and your authority — don’t take it personally.

For more information on exercising leadership and adaptive challenges please see:

“A Survival Guide for Leaders”, Ronald Heifetz and Marty Linsky, Harvard Business Review, June 2002.⁴

“Leadership on the Line — Staying Alive Through the Dangers of Leading”, Ronald Heifetz and Marty Linsky, Harvard Business School Press, 2002.⁵

“Leadership Without Easy Answers”, Ronald Heifetz, Harvard University Press, 1994.⁶

HORIZON THREE

Growing

Imagine that you're the captain of a large passenger plane. You're flying through turbulent skies at a 25,000-foot altitude and have the nose up a bit to reach 35,000 feet and the jet stream — where the real speed happens. But as you look at the dashboard you see a dizzying array of issues. One engine is running at 80 percent and the other at 40 percent; the tail rudder isn't as responsive as you'd like and the passengers keep buzzing their service buttons. It's a little overwhelming toggling among the hats of captain, systems engineer and flight attendant all the same time — but you see blue skies ahead.

If you can imagine the above scenario, you know a bit about what it's like to run a shared services enterprise in the Growing Horizon — and the work of Illinois CIO Greg Wass. Greg is focused on the challenge of simultaneously stabilizing and growing his shared services enterprise. With a state employee headcount reduced by 13,000 over the past decade, a plethora of paper-and-people intensive processes and outdated computer systems, Illinois has a lot of room for improvement. Currently, shared services in Illinois comprise IT infrastructure, fiscal and human resources areas. Greg's primary challenge is to solidify and scale those operations while building out new processes and technologies to form a platform for new services and new customers. Simultaneously, he is striving to develop future shared services leaders and make the centers an employer of choice. Greg knows that if he can move Illinois shared services to the next level, he will be able to focus on incremental innovation and launching "front-end" services such as health and human services intake operations for multiple agencies.



Greg Wass

Chief Information Officer, State of Illinois

Current Shared Services Status: *Growing*

Greg Wass is the Chief Information Officer for the State of Illinois where he oversees the shared services initiative, coordinates application development for all agencies, and leads the state's strategic technology plan with an emphasis on cross-boundary efforts to transform government through greater collaboration and resource sharing. Prior to being appointed CIO of Illinois, Greg held executive positions with the City of Chicago, Illinois State Treasurer and City of Alexandria, VA. Previously, Greg worked as a vice president of government solutions for a Fortune 500 company, was co-owner of a Chicago-based management and technology consulting firm and led research at the Civic Federation.

Greg and his team have had more than their fair share of challenges. Political upheaval brought on by a governor's impeachment coupled with the worst budget deficit in state history set his plans back almost two years, and delayed a project to replace more than 100 legacy computer systems. Even in the best of economic times, shared services leaders in this stage must relentlessly sell customers on the value of shared services, persuade stakeholders to stay engaged and move employees through further adaptation — challenges that require extra stamina and tenacity today. Yet momentum is now on the side of reform, and Greg is looking to harness that momentum to grow Illinois shared services.

There are three key competencies in the Growing Horizon: scaling services and operations, refining workforce capabilities and performance and generating value through incremental innovation. Let's take a look at how Greg and others are addressing these areas and attempting to grow their shared services operations.

Scaling Services & Operations

Increasing uptake of services weighs prominently on Greg's mind. Executed well, shared services will bring \$229 million in savings to Illinois over five years. This amount consists primarily of savings generated through increases in the efficiency of administrative functions and the elimination of maintenance costs of computer systems identified for replacement. Investments in implementing integrated administrative systems (e.g. purchase of software, hardware, implementation services, contractors and training) will be approximately \$108 million over five years. The result could be \$121 million in estimated net positive cash flow over five years and \$110 million in estimated reduced operating costs, recurring annually, beginning in year six.

Yet achieving those numbers requires scaling services and operations that are all at different stages in their lifecycle. Information technology consolidation is about 80 percent complete and human resources and fiscal shared services is about 40 percent complete. While they're well on their way, there's still a lot of work to be done — and a lot of growth to be achieved.

While Greg is managing the adoption and scale issue, he's also dealing with the realities of selling and persuading. "There are still areas with a lack of political support and leadership, and pockets of people standing in opposition to the program. So I'm continuously selling the shared services program to the governor's office, state agency directors, my own shared services program staff and the vendor community," he says. "We also have problems related to the perception that the launching phase of the IT consolidation that preceded our HR and fiscal shared services was a 'brute force' consolidation. So, we've got that kind of bad will to deal with in our 'good' shared services program for HR and fiscal."

While managing these issues, Greg is focusing on three primary areas — maximizing, maturing and extending the platform.

- **Maximizing the Base:** This is about hitting the numbers in the financial forecasts. In Ohio, Aaron Erickson was in tune with the levers in the financial plan and how he could flex them up and down depending on how fast customers adopted the processes and services (in scope) and at what service level. Furthermore, he developed a solid idea on where the break-even optimally was, and how much customer volume was needed to get there. Illinois is a bit more complicated as the shared services center has three service offerings at different levels of maturity. Greg's challenge is

Horizon Three: *Growing*

At this level the shared services enterprise is up and running and has operational experience with a portfolio of services. The primary thrust of operations is on managing the uptake of services and increasing the pace of scale. Leadership of the enterprise is also actively assessing key metrics and measures and adjusting governance and service requirements in order to optimize adoption of services. Additionally, the shared services enterprise is developing and moving to a commercially oriented and performance-based culture that is adept at designing and rolling-out new processes and services based on customer input and demand. The key challenge at this stage is managing the balance between achieving the maximum levels of effectiveness and efficiency in current services while planning and budgeting for incremental innovation and extensions of service offerings.

Key competencies at this horizon include:

1. Scaling Services & Operations
2. Refining Workforce Capabilities and Performance
3. Generating Value through Incremental Innovation

to know exactly how many customers he can have on each service offering and try to maximize that. To achieve this, he will work to maximize the customer volume by incrementally moving customers onto the services while keeping a close eye on productivity ratios (such as headcount and cycle times) in the shared services center. Over time, this load balancing will ensure Illinois is generating the maximum amount of efficiency from each service brought on line.

- **Maturing the Platform:** As the shared services center gains experience, valuable data can be gathered. In general, the “sweet spot” of a mature service is where the resources (technology and staff) and the business processes (patterns of interaction, coordination, communication and decisionmaking) show a consistent ratio of input to output and at the lowest average cost. The value in this formula is that it enables the internal ability to know exactly what the thresholds are for cutting costs and improving service quality, as well as how to extend the platform.
- **Extending the Platform:** Once a service offering is mature, shared services leadership can look to extend the offering as deeply as possible into the current customer base. Yet the challenge here is to not overextend the platform. At some point the model may break or become too strained and additional resources will be required — and that can impact the overall business model. From the leadership perspective, you should extend incrementally — while carefully watching metrics. It’s also important to frequently speak with staff to gauge their sentiment and morale.

A key insight from Greg and others is that leading within the Growing Horizon requires just as much resolve as in the Visioning and Launching horizons. It’s like fighting a long war on two fronts — but optimism eventually pays off. “I think the final realization of shared services for back-office functions could take us five years,” Greg says. “We had that problem of not having the funding available to start ERP, but we’re going to get there this year, so I’m really looking forward to fiscal 2010!”

Refining Workforce Capabilities and Performance

“My main goal is to develop future center leaders and make shared services centers employers of choice,” he adds. This is a vital goal as employees of a shared services center make up 60 to 70 percent of overhead — and must be performing at peak levels in order to deliver on the promise of shared services. At the Growing Horizon, the focus of refining workforce skills and performance is centered on maturing the capabilities of current employees while readying them for future change and innovation.

An interesting challenge at this stage is leading a workforce which has pockets of employees eager to move into the future and others clinging to the past. “This isn’t always easy or welcomed by employees, but gets better over time,” Greg explains. “You’ll get continued pushback. Especially from employees that had to move as part of the shared services transition. But, I think that once you get a shared services center in place, they form their own culture and they form their own camaraderie and I’ve seen really good things starting to happen.”

Over time (and as we’ll see in the case of Ontario), a shared services enterprise that wants to grow will have to develop a commercially oriented culture and systems based on agility, flexibility and being able to anticipate change in order to respond quickly. Yet this is hard to achieve in organizations focused on cost-cutting and maximizing efficiency. To make this transition, leadership of the shared services enterprise must incrementally change the values and methods in which work is performed.

A practical framework for achieving incremental refinement and growth was developed by Robert Simons, Harvard Business School professor and author of “Levers of Organization Design: How Managers Use Accountability Systems for Greater Performance and Commitment.”⁷ Simons’s work presents an action-oriented framework for designing high-performance jobs by modifying four spans of work — control, accountability, influence and support — from



the perspective of the employee. At a baseline, each employee has to know the answer to four basic questions related to their spans, which leadership can adapt over time. Applied to shared services enterprises, the framework can be described as:

- **Span of Control:** “What resources do I control to accomplish my tasks?” This span defines the range of resources (assets and infrastructure) for which an employee is given decision rights.
- **Span of Support:** “How much support can I expect when I reach out to others for help?” This span refers to the amount of help an individual can expect from people in other shared services units in order to implement a strategy or deliverable.
- **Span of Accountability:** “What measures will be used to evaluate my performance?” This span refers to the range of tradeoffs affecting the measures used to evaluate achievement. For example, a shared services lead responsible for headcount in a particular service area has a smaller span of accountability than a manager responsible for profit and loss across multiple services.
- **Span of Influence:** “Who do I need to interact with and influence to achieve my goals?” This span corresponds to the width of the net that an individual needs to cast in collecting data and information and attempting to influence the work of others. In a shared services center, an employee responsible for data input may not need to pay much attention to people outside his or her area, whereas a customer service representative must interact extensively with others to influence action and solve problems.

For any organization to operate at maximum efficiency and effectiveness, the four spans must be optimized to the role and responsibility of each employee. It’s also important to understand how the spans interrelate — for any shared service organization the supply of resources for each job and each unit must equal the demand. In other words, span of control plus span of support must equal span of accountability plus span of influence.

For organizations that are trying to become more innovative, leadership will generally increase the spans for certain individuals and teams in order to generate more experimentation and to develop new ideas and approaches to business. In Illinois, Greg must prepare the workforce for innovation and new markets by adjusting the spans for certain employees in order to give them latitude to be entrepreneurial and innovative. A tactical approach to this would be to create a cross-unit team that can look at services enterprise-wide. Provide them with a wide span of influence and impart some creative tension in the team by challenging them with stretch goals such as reducing a service cost by a large percentage or modifying a process so that it could be applied to a new customer.

The delicate balance for Greg and his operation is to maintain the focus and methodologies for standardization and cost cutting while also enabling employees to look for and develop ideas for incremental innovation.

Generating Value through Incremental Innovation

“The service that I’m really looking forward to getting off the ground is the human services and health portal — intake, eligibility and determination, and case management.” Greg says. “That’s the one that I’m starting from the beginning with a good team of believers, and the notion is that we have to define projects that are already in flight to the program. So, in a way we’re looking for quick wins that were already things that were being thought of.”

Greg has a great vision for the future, and now his challenge lies in retaining the performance and best practices of mature business processes, while harnessing and attaching capabilities to new and extended offerings. As we’ve seen in the previous section, refining workforce capabilities is one of the levers in successfully growing and providing incremental innovation. The other two levers are refining both the business model and the technological model of service offerings. The task here is pacing innovation and adoption on both the shared services side and on the customer side, so as methods change, adaptation keeps pace and performance improves.



This is one of the classic dilemmas of management. Harvard Business School Professor Clayton Christensen explains in his book, “Innovator’s Dilemma,”⁸⁷ that “Processes and standards, by their very nature, are set up so that employees perform tasks in a consistent way, time after time. They are meant not to change or, if they must change, to change through tightly controlled procedures. When people use a process to do the task it was designed for, it is likely to perform efficiently. But when the same process is used to tackle a very different task, it is likely to perform sluggishly.”

So how do successful business leaders approach this challenge, and what lessons can we learn from Illinois? The key is finding and choosing innovations that introduce a moderate level of disruption — rocking the boat a little, but not capsizing it. Classically, the path to creating incremental innovation and subsequent value is by helping your customers do the same things — but in a way that leads to better outcomes without a lot of new learning.

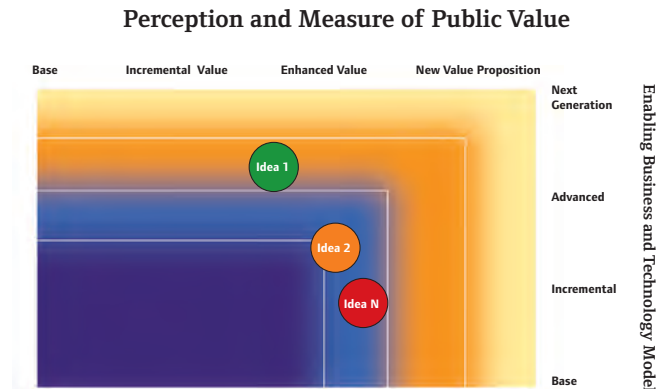
The first step toward achieving this end is to scan for “Blue Ocean” among current and potential shared services customers. For a shared services enterprise, a blue ocean strategy is when the services offered can be slightly modified to create value simultaneously for both the shared services enterprise and the customer. To do this, create a team composed of a few of your most innovative employees and charge them with finding Blue Ocean opportunities and outlining new processes and standards to meet the ideas gathered. The team’s central focus should be on extracting current best practices and determining the modifications necessary to increase effectiveness and efficiency on the customer side. In practice, this requires helping customers via improvements in their business model and via enabling technology — and more specifically — in how the two dimensions interact.

- **Innovation in Business Model:** Refers to the management and operational processes used to create, develop and deliver a service to citizens. For example, Illinois currently has multiple health and human services organizations providing services to constituents, and often the organizations overlap and/or are dependent on hand-offs between organizations. This has been the dominant business model over the past century as authority and accountability structures were dependent on strict hierarchy and silo-based structures. This business model can lead to duplication and inefficiencies and oftentimes results in harm to constituents — the exact opposite outcome that’s targeted for health and human services.
- **Innovation in Technology:** Refers to the communication and information technology, the infrastructure and the standards that enable a business model. Building on the example above, the current health and human services organizations don’t have to be dismantled — they just need to be interconnected. Technology could be applied that could help health and human services back-office and front-office workers coordinate and collaborate across organizational boundaries. The result would be more seamless handoffs, real-time information sharing and ultimately, healthier and safer citizens.

The shared services organization is well positioned to be the synchronizer of these two dimensions as it has an enterprise-wide view of current and future customer needs and can assess the incremental advances that bring both a perception and real measure of value.

At this point, ideas are still just that — ideas, and the leadership of the shared services operation still has the challenges of development and adoption and choosing the “right” ideas to move forward. Essentially, as in the Visioning Horizon, we’re asking, can we make it happen?

Deciding whether or not an innovation can be sustainable requires assessing expected value and expected risk and assigning the idea an Innovation Value Profile. The most direct way to do this is by looking at each idea and qualifying its value and risk profile with dimensions and questions such as:



- **Organizational Impact:** How much business model and technical model change is involved in the idea? How much internal and customer employee resistance will there be? What level of benefit will this bring to our customers and their constituents? What level of business model and technical model (organizational form) change do we need to bring this level of benefit to the customer? Can the scale and scope of the current shared services platform be extended to this purpose? Will we lose our value proposition and connection with certain customers?
- **Expected Value:** How valuable is this to customers? How valuable is it to the shared services operation? Does the value for customers and the shared services organization intersect in a positive way? How much political value is at stake? How much fiscal value and risk (measured by financial tools such as Payback, Internal Rate of Return, Net Present Value, etc.) is at stake? Can we afford not to do it?
- **Perceived Risk:** What is the probability of failure and how would that be measured? Is our organization capable of absorbing this amount of internal shift and change? Do we have the technical capability to complete the project? How would failure impact our organization's operating environment, customer relationships, authority, and perceived value within our authorizing environment?

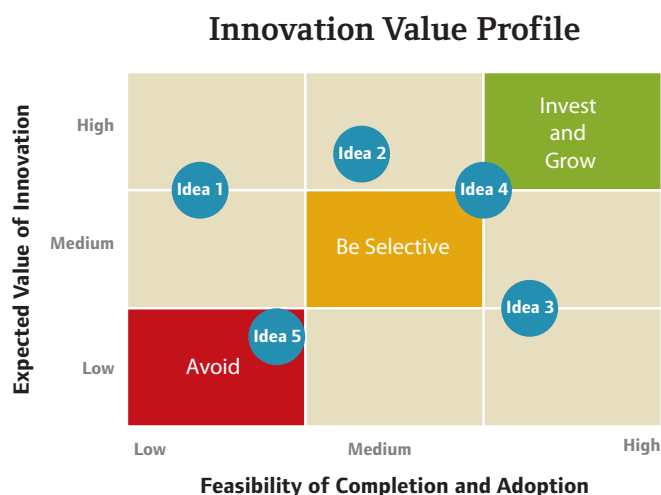
Assessing each idea on a base level (an organization should develop a customized set of measures and metrics in order to tailor a portfolio precisely to its mission) of metrics and then plotting them according to expected value and risk will provide a snapshot of the array of ideas and potential innovations to choose from.

Plotting will enable management to pick a set of initiatives to move into development and start with a balanced portfolio of innovative service development projects. For most organizations, incremental change is the most feasible as it brings a “tempered” level of value. Alternatively, high levels of innovation and change (as we’ll see in the Transforming Horizon) are difficult because of the adaptation necessary — even though breakthrough change will often bring the greatest public value creation.

In Illinois, Greg has been working with agencies to better understand their needs and find incremental innovations that the shared services enterprise can develop and launch. From this work he has a portfolio of new ideas including a shared call center, deeper IT services, grants processes and the health and human services portal mentioned above.

Done well, this process of developing incremental innovations and offering them via the shared services model brings new value to agencies, the shared services operation and the state — a win-win-win scenario. As the leader moving forward these forms of innovation, remember to continuously sell the vision. Greg projects a great example as he moves forward on innovation in health and human services: “The health and human services work is the one that I’m most committed to and engaged with as it has the most results per end clients, for people who receive services from the state. It’s much easier for me to deal with that because that’s a vision and you can inspire people with a vision. You’re at that point where you’re dealing with a hundred different systems around health and human services that each has a silo bureaucracy around them. And that description of how you fuse those things and how you get benefits and efficiencies out — that’s a compelling argument to make.”

Greg knows there’s a lot of room for improvement and impact in Illinois, and sees developing new processes, standards and services as a catalyst for preparing his shared services center to move into the Transforming Horizon. Yet he wonders what new capabilities they’ll need. For answers, let’s look to David Hallet and the Canadian Province of Ontario.



HORIZON FOUR

Transforming

Ontario

“Game-changing innovation” is the mantra of David Hallett, Associate Deputy Minister of Ontario’s Ministry of Health and Long Term Care. Previous to his appointment in December, 2009, David served as Associate Deputy Minister of the Ministry Government Services in Ontario for five years, during which he spearheaded the province’s shared services initiative — an effort that has made Ontario a model for other governments hoping to take their shared services enterprise to the next level. Since its inception in 1998, Ontario Shared Services (OSS) has evolved from an organization that simply provided back-office transactional support to an entity that is helping to drive transformational change across government. Today, a staff of 1,200 delivers strategic advice and services in financial services, human resources and payroll, enterprise services and supply chain management.

Yet success didn’t come right away. David was recruited in 2004 to turn around a shared services operation that was struggling through the Launching and Growing Horizons. Ontario Shared Services launched with a laudable mission: “to drive in efficiencies and drive out costs” by eliminating duplication and leveraging economies of scale. Despite their initial efforts, however, progress was slowed by an unwillingness of certain ministries to embrace the shared services model for the delivery of back-office services. Further complicating their efforts was the lack of a mature, focused business model to guide decision-making.



David Hallett

*Associate Deputy Minister
Ontario Ministry of Government Services*

Current Shared Services Status: *Transforming*

David Hallett is Associate Deputy Minister of Ontario’s Ministry of Health and Long Term Care. He was previously the Associate Deputy Minister for Ontario Shared Services where he led a comprehensive transformation strategy to reposition shared services into a high-performance organization. Prior to assuming his position at Ontario Shared Services, David was Chief Information Officer for Ontario Central Agencies where he created IT-enabled solutions for the Cabinet Office, Management Board Secretariat and the Ministry of Finance. Previous to his public sector work, David held executive positions at Loblaw Companies and Oshawa Group.

By 2004 the shared services organization was faced with significant customer dissatisfaction and a \$12 million annual operating deficit. In assuming the leadership of Ontario Shared Services, David's overriding objective was to position the organization for long-term success by focusing resources on delivering core transactional services that would move Ontario Shared Services into the Growing Horizon.

Between 2004 and 2008, Ontario Shared Services transformed itself from an organization that delivered shared services of all kinds to an organization that delivered core back-office transactional services exceptionally well. Roman Zydownyk, Acting Associate Deputy Minister of OSS, attributes the success to staff implementing the key foundational elements of shared services — including standardizing business processes and supply chain management processes, consolidation, and implementing enterprise resource planning systems (ERPs) for human resources and financial transactions. These efforts not only helped eliminate the initial \$12 million annual deficit, but Ontario Shared Services was also able to absorb additional annualized cost pressures of roughly \$28 million and generate approximately \$225 million in net new revenues, cost structure flexibility and cost savings for the government. It also reduced the net size of its workforce by 24 percent (395 positions) in four years while continuing to transform, extend and improve its services across the Ontario public service.

By the end of 2008 Ontario Shared Services was ready to move into the Transforming Horizon with the launch of its Vision 2012 strategy, a plan to move from providing core back-office transactional services to helping drive public sector modernization through the implementation of innovative enterprise solutions and services. OSS leadership will not only continue looking for opportunities to drive in efficiencies and drive out unnecessary administrative costs, but also be a key contributor to increasing overall public sector performance that increases the confidence Ontario citizens have in their public service.

Ontario Shared Services Vision 2012 comprises three overriding objectives:

1. Extend the reach of existing services
2. Pursue game-changing initiatives
3. Contribute to finding \$1 billion in efficiency-related savings across government over three years

Let's take a look at how they plan to achieve it.

Optimizing the Service Portfolio

To achieve Vision 2012 Ontario Shared Services must continually optimize its current services. The mantra, "drive in efficiencies and drive out costs" formed early on still permeates the organization. However, there's a key difference between the past and the present as its maturity has enabled multiple methods of achieving the reduction of product and service costs.

The trend lines of government spending paint a picture of how successful OSS has been at driving out costs. While government direct expenditures increased roughly 25 percent from \$9.7 billion to \$12.1 billion between 2004 and 2009, the Ontario Shared Services operating budget decreased by 9 percent, from \$184 million to \$168 million. On a comparative

Horizon Four: Transforming

At this level the shared services business is positioned as a strategic partner to its customers and its value proposition has grown beyond transactional services to include professional services. Tactically, the enterprise is highly adept at reducing the costs of services through innovative use of new technology, process optimization and outsourcing. Strategically, the business is growing by bringing in new sets of customers and creating a professional services culture whose focus is now on pro-actively helping "clients" to transform their organizations through large-scale innovation supported by comprehensive project and change management capabilities. The driving vision and goal is to stay ahead of the curve in order to help clients increase their capacity for productivity and to realize completely new forms of public value.

Key competencies at this horizon include:

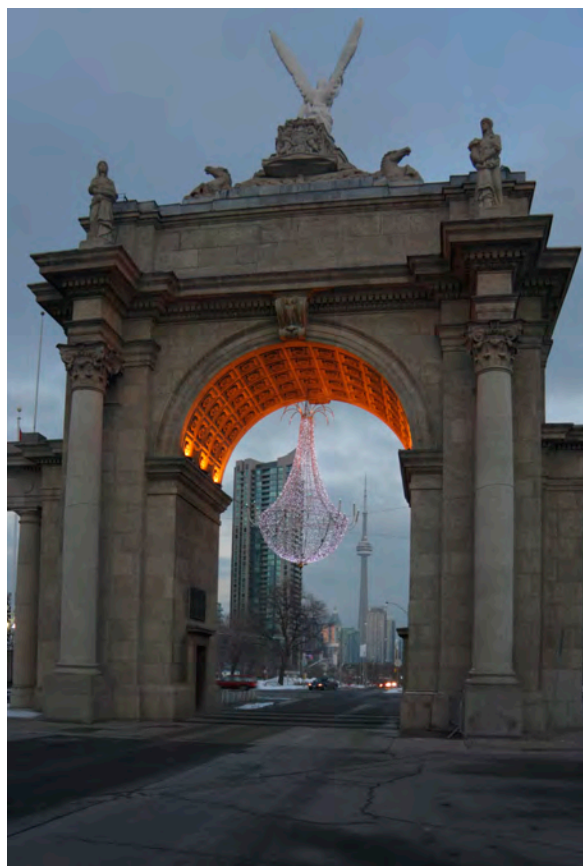
1. Optimizing the Service Portfolio
2. Creating a Professional Services Culture
3. Ideating and Launching New Platforms

basis, OSS' operating budget has gone from representing 1.9 percent of direct government expenditures to 1.3 percent of direct expenditures in the past five years.

How does Ontario Shared Services generate this level of efficiency? In four primary ways: developing internal excellence, fostering client excellence, affecting policy changes and enabling increased transparency and accountability.

- **Developing Internal Excellence:** As Ontario Shared Services has matured its processes and systems, it's able to extract every drop of efficiency from them. From a productivity point of view, since 2004, the number of clients served per full-time employee has gone from roughly 43 to 59; an increase of about 37 percent. As David proudly points out, "These productivity improvements would not have been possible without the commitment and efforts of the organization's 1,200 professional public servants."
- **Fostering Client Excellence:** OSS has developed a deep understanding of processes and services from the end-to-end perspective, as well as the quality and accuracy of both the inputs and outputs of their services. OSS employees have garnered a wealth of respect from their clients, enabling collaboration to achieve service improvement breakthroughs. As David explains, "Working with our clients using fact-based data has helped both parties to identify what needs to be done and to jointly pursue corrective actions that achieve positive outcomes."
- **Affecting Policy Changes:** The third method OSS utilizes to streamline the simplification and automation of processes is through policy changes. As David puts it, "In order to drive in efficiencies and drive out costs, you need to streamline processes and automate wherever possible. To ensure streamlined processes and automation achieve the intended outcomes it is often necessary to revise existing government policies." For example, when OSS introduced a financial systems solution known as iExpenses for the processing of business expenses, the financial policy for processing business expenses had to be updated to require roughly 43,000 public servants to only submit business expenses electronically. That policy change, combined with an automated solution with streamlined processes allowed Ontario Shared Services and its clients to process business expenses in five business days rather than 15, and permit approximately 40 OSS professionals to be redirected to deliver new service offerings.
- **Enabling Increased Transparency and Accountability:** Ontario Shared Services plays a key role in improving accountability for government expenditures and enabling increased transparency in several ways. OSS drives standardizing business processes for key financial processes such as bill payments, payroll and procurement, which, in turn, ensures that financial commitments can only be made with proper approvals and spending authority in place. Using single, enterprise IT systems for these core functions also enables better tracking and reporting across the Ontario Public Service. For example, OSS has automated and standardized reporting across government on spending for key areas of focus for expense reduction such as travel. OSS also drives increased accountability and transparency through government procurement policies and its Vendor of Record programs that have standardized how the Ontario Government makes purchases.

This value of "what could be" is becoming more and more apparent. As Roman and the rest of the OSS management team continue to build their capabilities and introduce new services, an integral part of their effort is to further develop the organization's professional services culture. Let's get a glimpse into how they are achieving this.



Creating a Professional Services Culture

As Ontario Shared Services positions itself as a strategic partner to client agencies, staff live and breathe the ethos of collaboration, ever ready to solve client challenges. “We believe if we do our job very well in the back office, public servants on the front lines can focus on what is most important — serving the needs of province’s citizens,” David explains. “If we can directly and indirectly contribute to increasing the overall performance of public servants, we believe this will significantly increase the confidence the public has in the public service.”

Becoming a valued partner to clients requires much more than delivering current services effectively and efficiently — it means solving client challenges and creating new value in proactive and visionary ways. It means being fully client-centered. And it requires a professional services culture.

To enable these outcomes, Ontario Shared Services has been guided by a set of “Core Beliefs” and “Strategic Thrusts” since 2004.

The three Core Beliefs are:

1. Common back-office services enable ministries to focus on the delivery of core services to citizens.
2. Driving in efficiencies, driving out unnecessary costs free up savings that can be redirected to other government priorities.
3. An enterprise-focused organization enables sound, ethical and innovative public administration.

The five Strategic Thrusts are:

1. Reduce Product and Service Costs
 - Ensure the government gets the best value from its vendors and service providers, including Ontario Shared Services.
2. Simplify Processes and Automate
 - Simplify processes, pursue enterprise solutions, and deploy self-service technologies.
3. Streamline Policies
 - Facilitate the simplification and automation of processes through policy changes.
4. Promote Smart Consumption
 - Provide self-service technologies that facilitate informed decision making.
5. Strategically Engage Staff and Key Stakeholders
 - Harness the knowledge, skills and talents of OSS’ entire professional workforce and the Ontario Public Service community.

The beliefs and thrusts continue to serve as a foundation for day-to-day decisionmaking and enable the organization’s pursuit of its Vision 2012 strategy.

Since 2004, Ontario Shared Services has treated its entire workforce as a pool of highly talented professionals that is to be leveraged and repositioned to ensure service delivery excellence based on changing client needs. The shared services organization has also worked hard to develop strong working relationships with key stakeholders such as the ministries’ chief administrative officers. As David puts it, “The government’s chief administrative officers have become key leaders in helping transform Ontario Shared Services into an excellent provider of backend, enterprise class administrative services.”

Developing and fostering a client-centered and professional service culture is a prerequisite to helping ministries with transformational change. But making this happen also requires a change of mindset where shared services is seen as a provider of solutions, not simply a provider of transactional services. This is a cultural shift that has taken time to achieve.

Ideating and Launching New Platforms

“Our key stakeholders see us as much more than simply a transactional organization. They are actively working with us to find new ways to extend existing services as well as identify and pursue ‘game changers’ that will further transform how the government operates,” David says. “As we pursue Vision 2012, we’re focused more than ever on enabling enterprise solutions and services that can be extended further into ministries as well as offered to a larger client base in the province’s broader public service. At the end of the day, it’s about ensuring all public servants across the province are working to ensure tax dollars are prudently used and that we’re getting the maximum value from each dollar spent.”

Ontario Shared Services’ mature foundation now enables the enterprise to focus on the future — which includes initiatives such as e-waste recycling, aggregating and consolidating print operations across the government and centralizing the management of all government forms, to name a few plans. Looking back to the case of Illinois, Greg Wass and his team are creating incremental innovation by focusing on changes to customer business models and enabling technologies. And while similar in methods, Ontario Shared Services is pushing into new territory by creating new platforms — a “leapfrog” move — that deliver a completely new value proposition to clients. This is why David calls it “game changing” — the advances fundamentally alter the public value that can be generated.

Ontario Shared Service’s entrepreneurial culture, structure and people also enable it to bring forward transformational solutions. As part of his strategy, David harnessed these capabilities and applied them to the overall positioning of the organization and how it communicates that positioning.

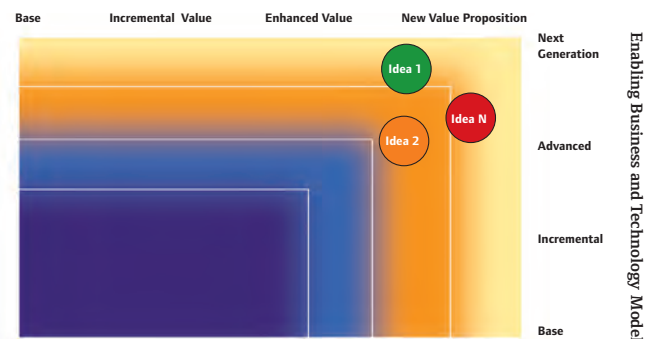
When it comes to positioning the organization and communicating with current and potential clients, Ontario Shared Services takes a page out of the playbooks of leading brand management experts. OSS’ strategy is to communicate a position that helps clients see the organization in a new light — one that conveys capability and progress — one that’s beyond transactional services. “We want to change the lexicon over the next four years,” David says.

“OSS has changed the concept of how customers traditionally look at shared services,” he adds. “For example, take the phrase ‘accounts payable’. By changing that phrase to ‘payables processing’ you break away from simply being understood as having a service that pays invoices; you have a service that can pay other types of expenditures as well on behalf of ministries which can be leveraged through the Ontario government’s one enterprise class financial system. Under this new frame of reference for example, OSS is currently working with the government’s Ministry of Health to potentially take over the payment of medical claims.”

Another example is positioning and communicating around “business intelligence and decisionmaking.” Traditionally, shared services customers would be of the mindset that the shared services provider can’t help with any type of analysis and decisionmaking. Yet a mature shared services operation will over time collect immense amounts of data and insight that can inform enterprise-wide decisions.

An application of this is OSS’ leadership in helping reduce the government’s carbon footprint. OSS is working in collaboration with its stakeholders and clients to provide leadership in managing the government’s inventory of approximately 10,000 vehicles to achieve reduced costs and, more importantly, reduced emissions. The analysis and subsequent implementation of a fleet management selector tool now allows clients to make informed decisions on the types of vehicles to acquire with the full understanding of how those decisions will positively reduce the overall amount of greenhouse gases that government vehicles generate.

Perception and Measure of Public Value



In addition, the OSS platform supports “greening the Ontario Public Service” through the development of policies and decision tools that require environmentally friendly purchasing, print management strategies and disposal of surplus government assets (furniture, computers, etc) including diverting more than 500,000 kilos or 1.2 million pounds (60 tractor trailers) of e-waste (old and unneeded computers, printers, etc) from landfills.

Keep in mind that this doesn’t happen overnight. It’s the product of organizational design, of building and harnessing capabilities and skills, of knowing when and how to move forward, and of providing measures and incentives to drive transformational change. The leader’s role is to pace all of this, to set a vision for the future and motivate the organization to excel.

Building the Platforms

As the public value created from an innovation is directly dependent on citizens and customers adopting the new service, it’s important to set up both a “front-end” process that designs the policy and service strategy and architecture of each idea and a “back-end” process which synchronizes the shared services operation with customer insight. The overarching strategy is to keep a level of consistency with the long-term policy and service evolution while reaching the desired level and form of innovation.

On the front end, this means really drilling down to what makes a transformation successful in both development and adoption. Most customer-driven organizations (especially private sector companies but increasingly government agencies) use the “Rogers Model” for preliminary assessment of how a new product or service will do in their customer market.

The Rogers Model is based on research by sociologist Everett Rogers which shows that 49 percent to 87 percent of the variance in the rate of new product and service adoption can be attributed to five product-based characteristics. These are classified as:

- **Relative Advantage** — the degree to which a product or service is better than the product it replaces. In this area, customer feedback should be gathered that compares the old method of interacting with the organization and its service to the new method. The shared services organization may find that while the new business or technical model is advantageous to their operation, it is actually less advantageous to the customer.
- **Compatibility** — the degree to which a product is consistent with existing values and experiences. Customers get acclimated to a way of interacting with an organization’s service line and this interaction brings a set of values and experiences that become important to the customer. Customers will often voice these values and experiences by saying how “responsive,” “easy,” and “nice” the old service was for example. It is important to tap into these underlying values when formulating the new service.
- **Complexity** — the degree to which a product is difficult to understand and use. This measure is important to capture because often policy makers and technical strategists will see the value in an innovation because of macro-measures and assume the customer sees the same. Yet when the customer gets exposed to the new service the new complexity can overpower the long-term value and suppress adoption.
- **Trialability** — the degree to which a product may be experimented with on a limited basis. This measure is geared more toward private industry developed consumer goods but can be applicable to public sector innovations when the customer has to adapt to a large technical shift in the new service (such as with electronic medical records or electronic benefit cards). In these cases it is important to provide an opportunity for identified lead users to beta-test a new service prior to launch to generate feedback for refined development.
- **Observability** — the degree to which product usage and impact are visible to others. Adoption by customers is accelerated when they can see another person’s or organization’s successful use of the service. If possible, the new service should be built so when used by a customer agency other potential customers will be persuaded to adopt it.

The customer feedback and usability filters in the development process should incorporate testing on all five variables with an eye to maximizing the rate of adoption once the service is launched to the customer. Again — many governmental organizations (and even many private organizations driven by even more forceful market pressures) neglect to build in customer iteration during the development stage, but successful organizations such as OSS make customer feedback integral to their process.

The “back-end” process includes setting up the team and development structure by matching the level of cross-functional expertise and insight needed to the form of team and level of control needed. In general, developments that are more experimental in nature with a lot of uncertainty as to how the innovation will progress should utilize a team that is dedicated to the initiative, yet loosely managed and “organic” in process. Developments that have clear benchmarks and deliverables yet are complex in nature should be more tightly managed with a team that can move the project through stages in a fluid way.

Teams should comprise members who can bring cross-functional expertise to the development. This is not a point to “throw the idea over the wall” and have technical experts only working on the development. On the team should be individuals representing the policy functions of the organization and keeping an eye on the long-term service strategy, individuals from information and technology bringing the lever of technology to the project, and individuals from the organizational development side, pressing for the customer view and organizational growth. Last, the team should have a dedicated project manager and an executive sponsor to allocate resources and organizational leverage.

As the development moves through the process the focus should turn more to customer input and iteration. As each idea hits a level of development it should pass through customer filters that first assess the direction of the development and then as the development matures into a pre-launch phase to assess the usability of the proposed service. Key to this is running pilot programs where one or two customers run a temporary service environment for the new offering. Position the pilot as a win-win scenario with both the shared services center and the customer responsible for committing to the pilot and to sharing the learning, best practices and success measures.

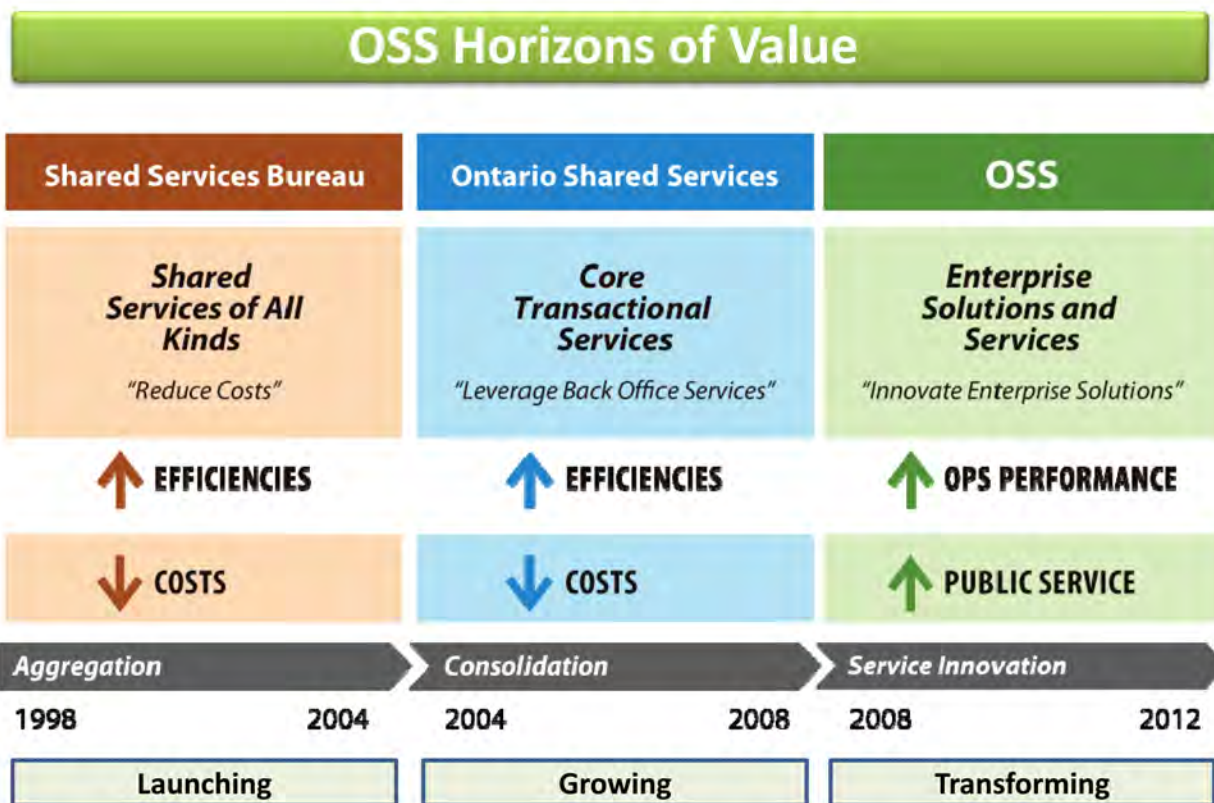
For example, Ontario Shared Services has partnered with ministries to improve the way it bills, processes accounts receivables and non-tax revenue activities. This has resulted in net new non-tax revenues for the government including more effective management and collection of non-tax debts (e.g. student loans) owed to the Ontario government. Previously, when loans from government weren’t repaid on time, they went into collection, but government ministries didn’t have capacity to actually follow up. As a result, the size of non-collectable debt for government would invariably increase each year.

As a result of these innovations, OSS has increased net revenues to government by \$60 million. Consolidating cash collection functions in one place has also improved cash management for the Government of Ontario. This in turn impacts the timing and/or need for short-term borrowing by the government and resulting interest costs.

Roman Zydownyk explains the significance: “That’s a significant amount of money in the current fiscal environment. We now have a model with a proven track record. We are working with areas of government that aren’t using our consolidated model to bring them on board which will increase the reach and effectiveness of our non-tax revenue collection program. And again, that’ll change the way we do things. It’s a co-development model, and that’s what powers game changers.”



He continues, “During this same period, OSS has been recognized as a transformative leader in the Ontario Government. This has meant increased investment in systems and people to support growth. OSS is also given increased opportunity to take on new initiatives that will further transform government.” The OSS team communicates this progress in the graphic below – chronicling the journey shared services in Ontario has been on since 1998.



Overall, managing the pace of game changing transformation is the primary challenge for Ontario Shared Services' management team. Executives and managers have to keep an eye on the policy implications as they develop innovations and have to balance maximizing value creation and ensuring continuity. When successful, a stream of innovative services brings value for the organization, customers and stakeholders.

David reflects on this: “What has been instrumentally important for our success is to sustain clear strategy and goals going forward. We don't let day-to-day events distract us from pursuing the course we have set for ourselves. My trait is that when you decide on a strategy, you align all resources to achieve that strategy and you relentlessly pursue that strategy making only minor modifications where appropriate. When we began pursuing our strategy in 2004 we experienced both 'cross winds and head winds' that could have either thrown us off course or slowed us down had we not been resolved to remain focused on achieving the endgame for success we had set for the organization. Yet we persevered, and now we are helping transform government. It's a great place to be.”



"Shared services offers a new way forward – enabling an organization to optimize back-office processes and transfer resources to programs that directly impact the citizen."

David Wilson, Accenture

Smart Moves:

A Glimpse into the Future of Shared Services

Real breakthroughs are often created by leveraging multiple incremental innovations — and shared services is no exception. When the new business models, processes and technologies that underpin shared services are put in place, what will visionary leaders do with them? Participants in Accenture's Shared Services Summit at Harvard identified four primary ways that shared services will impact and shape the future of public services: Generating economic development, driving mass collaboration, fostering legitimacy and equity and enabling front-office agility.

Generating Economic Development

Given the versatility of modern network-enabled business models and communications technologies, shared services can be sourced almost anywhere. The private sector has focused on and excelled at sourcing in low-cost regions worldwide — and today the option is viable over thousands of miles. In government, visionary leaders are applying this model to economic development statewide. The Commonwealth of Virginia, for example, factored economic development into its planning and built a data center in southwest Virginia — providing vitally needed jobs in a rural area while also gaining a secure and low-cost center for critical infrastructure and applications. Virtually every state government has a region that could benefit from the influx of professional jobs that shared services entails. In northern Minnesota, the “Iron Range” was once dominated by mining and foresting industries. But as the economy changed, the jobs did as well — leaving behind a swath of underemployed people. As Minnesota envisions its shared services options, state leaders should consider building the business case to support a center in a targeted area such as the Iron Range.

In a best-case scenario, an economically challenged region can gain critical middle-income jobs, while the shared services center can gain efficiencies through paying less in real estate and wages than they would in a high-cost center of a major city. Increasingly, governors, mayors and public officials will take advantage of this economically and politically viable move.

Driving Massive Collaboration

One of the growing tensions in government, especially in the United States, is between sustaining regional self-sufficiency and preserving the “Jeffersonian” model of very decentralized and community-based governing despite the economic inefficiency it brings in the modern world. There are those who advocate for consolidating city and county governments — especially where the population has declined and budgets are severely strained — but this is difficult politically.

“I think shared services creates the opportunity for a third way,” says Accenture's David Wilson. “We can both sustain our local city governments and school districts, while at the same time make them fiscally viable by sharing services.” Similar to the rationale behind sourcing for economic development, shared services can be leveraged across traditional jurisdictional and sector boundaries.

The Ohio Shared Services Center plans to partner with the state public schools and universities, for example. This relationship would provide lower-cost business processes to the education system and free them to focus on educating (their core competency) while the shared services center gains valuable clients. This example could be applied anywhere — imagine the immense savings a state like California could generate if shared services were implemented among not only state agencies but also state boards and educational institutions.



Peggy Feldmann, the Chief Applications Officer for the Commonwealth of Virginia, shares another example. “Look at geographic information systems (GIS) and school bus routing,” she says. “Many of our local public schools are still using strings and dots on a wall-mounted map to figure out what the best school bus routes are. Unfortunately, each of those separate school districts can’t afford a \$25,000 mapping software program, but they could maybe afford a \$2,000 investment into a system that all schools could share. Think of the savings there — in energy, in time, in money.”

Whether federal-to-state, state-to-county, state-to-local or any combination therein, modern shared services can provide urgently needed efficiencies while retaining the decision-making power and flexibility of the local governance structure. The opportunity is here for this form of collaboration — and the times demand it.

Fostering Legitimacy and Equity

If the world has learned anything from recent high-level elections around the globe, it’s that citizens are demanding more open, transparent and equitable governance structures. This means that public service organizations need to be in a position to collect, store and harness information in ways that permeate the entire value chain of government. Shared services, by its very structure, provides a platform to aggregate and present information in ways that facilitate open and transparent dialogue on the role of government.

In the Commonwealth of Virginia, officials are calling this movement the “360 Degree Citizen.” “The drive towards transparency is really forcing government to realize that the citizen wants to see the enterprise view; they don’t view government as individual agencies,” Peggy explains. This was made abundantly clear when the governor of Virginia used business intelligence tools shared across agencies to collect and track federal stimulus funds in real-time and report back to citizens. Citizens engaged as well, inundating officials with \$400 billion worth of ideas for “shovel ready” projects. From that information the governor moved forward with a newfound legitimacy to get things done.

As citizens help shape the process of policymaking and delivery, government will have to get better at providing the multi-directional and real-time information flows that citizens expect. Public officials who have deployed “311 systems” to connect citizens to government, for example, are now seeing how information provided from citizens is driving policy and management changes daily and hourly. As Bruce Robinson, head of the Northern Ireland Civil Service relates, “When you can aggregate the data provided by citizen feedback, you can look at trends and you can start setting some policies. I can take a step back and say, ‘Wait a minute, why are we offering it in this way?’ We can reform the way we plan and deliver services directly based on citizen information.”

Offering this level of transparency and working collaboratively with citizens to make decisions based on information is the key to trust and legitimacy. Going forward, shared services will be a key enabler of that process.

Enabling Front-Office Agility

Citizens are increasingly demanding “one-stop government” as services that are tailored to their lives. As a result, public service organizations around the world are striving to design “citizen-centric” business models. Yet this is a challenge that often cuts across traditional organizational boundaries and necessitates creating solutions that are sourced from multiple areas of government expertise and services — a level of reform that often requires redesigning services from the ground up. Shared services can enable this type of reform, as “back-office” transformation drives resources and efficiencies to the “front-office” of the organization.

“I think the way front office is going to be impacted by the shared services model is as back office shared services become more common, more ubiquitous, more examples of real success, then we will begin to start saying, okay, now we can start applying these same concepts to the front office, to the citizen-facing parts of government,” says David Wilson.

This movement is already gaining traction. In Canada, for example, the integration across levels of jurisdictional authority (federal, provincial, and local) drove efficiency to the front of the organization and enabled the creation of “Service Canada” — a citizen one-stop with online service, single window service, online portals servicing targeted groups and life events, and integration across channels (internet, phone, mail, and walk-in). As we look to the future, shared services will open up the possibility for new and combined citizen-facing services — directly improving outcomes and public value. It’s a move worth making.

Summary: Acting in Time

Every generation of leaders faces a critical challenge upon which they must act in time. For leaders of public service organizations, the foremost challenge now is meeting demands to increase the capacity to deliver services, while grappling with the deepest economic downturn since the Great Depression. Compounding these challenges are the realities of demographic shifts and social forces pushing for increased equity and transparency in government operations. This unprecedented “squeeze” on public service organizations strikes at the very core of government — public confidence in government institutions — and leaders are grappling with how to respond.

As public service leaders look for solutions, they’re finding that traditional answers are not feasible in today’s environment — cutting programs is counterproductive; raising taxes and fees is politically dire; and tactical fixes have reached their limit. The best solution is to increase effectiveness and efficiency of public services through innovations that bring improved productivity and elevated capacity.

“The dogmas of the quiet past are inadequate to the stormy present.

The occasion is piled high with difficulty, and we must rise to the occasion.

As our case is new, so we must think anew and act anew.”

—President Abraham Lincoln

Proactive public service leaders are acting on this “capacity imperative” by transforming government organizations into high-performance enterprises — and increasingly, they’re adopting new models of shared services as the engine for this transformation. As these leaders move through increasing “Horizons of Shared Services Value” — from Visioning, to Launching, to Growing and Transforming — they’re realizing unprecedented gains. Yet building a shared services enterprise doesn’t happen overnight — it requires a new mindset, new strategies and new technologies — and it requires stakeholders to make a concerted and sustained effort to envision and affect change.

As the case studies in this paper show, the shared services journey necessitates large-scale innovation and change to both the organizational and technical models of an enterprise. The resulting “adaptive challenge” requires stakeholders to address real and perceived change while also actively learning new competencies, capabilities and culture. Thus, shared services calls for “adaptive leadership” to mobilize and pace people and communities through the change necessary to realize the gains.

And gains there are. In California, officials are looking to implement shared services as a foundation for economic recovery and streamlined citizen services. In Ohio, shared services is on track to deliver \$1.2 billion in value and has jumpstarted a new high-performance culture. In Illinois, executives are growing their shared services in order to save \$229 million while providing needed reform in health and human services. In Ontario, leaders are working toward \$1 billion in annual savings by pursuing game-changing innovations such as environmentally sustainable technology and new platforms for the education and health sectors.

Leaders who pursue shared services are looking upon the challenge with optimism. As their organizations progress, they realize greater efficiency, effectiveness and capacity to deliver the future of citizen services. It is these leaders and organizations that will set the bar for public service performance. Will you be one of them? Will you act in time?



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Resources

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About the Leadership for a Networked World Program

The Leadership for a Networked World (LNW) Program at Harvard Kennedy School helps those exercising leadership to better understand and respond to the challenges and opportunities created by information and communication technologies and network-enabled business models. Founded in 1987 by Dr. Jerry Mechling, the LNW Program taps diverse knowledge within the Harvard community for uniquely powerful executive education, research and teaching content.

Current efforts of the LNW are focused on the cross-boundary challenges of innovation and change moving across traditional organizational boundaries: departments, jurisdictions, branches of government and sectors of society. These cross-boundary reforms represent the next wave of the many opportunities and challenges opened by information and communication technologies and network-enabled organizational models.

Leading successfully in this networked world requires elected officials, general managers and technology managers to collectively make difficult decisions and choices about the level and pace of reform and change. By bringing together leading practitioners, academics and executives to share ideas and learn about governance, the LNW Program strives to deliver creative solutions to real-world problems and lasting public value for pressing challenges. Find more information at www.lnwprogram.org.

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Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful organizations, Accenture collaborates with clients to help them become high-performance businesses and governments.

As a premier thought leader in shared services concepts and industry leading practices, Accenture has been at the forefront working with government organizations and educational institutions on how to seek the full potential that a shared services operating model has to offer by taking a value-oriented approach to improve public-sector value and transform citizen service delivery. Accenture works with organizations to help navigate the unique requirements of a public sector environment including transformation of business processes, policies, organizational structure, personnel management and technology.

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“And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them.”

Niccollo Machiavelli in “The Prince,” 1537



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