

The future of lean government



Authors

Dinu Bumbacea
Partner
Management Consulting

Radu Andrei
Principal
Management Consulting

Shared Service Centres in the public sector

There is a general perception that governments around the world are not always run with the efficiency hat on, a perception which has been analysed and demonstrated in several studies carried out by international organisations such as the OECD and the World Bank. Far too often we read about inefficiencies in the public sector, generated primarily by self-interest, poor systems, obsolete processes or the attitude of employees.

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Healthcare and education aside, governments have a “monopoly” of their services, and customer centric behaviour has never been a monopoly trait.

By comparison, shareholders in the private sector are interested primarily in maximising the return on their investment and this is usually achieved through a focus on increasing revenue while maintaining a close eye on costs. Those businesses which interact significantly with their customers can only achieve sustainable revenue growth if they create a positive customer experience. Customers will end up buying the goods or services from the company which best meets their increasingly sophisticated needs, price being just one of the selection criteria. To generate value, shareholders appoint managers who are measured based on achieving certain performance criteria. These are usually a combination of their ability to generate value and their capability to inspire teams to achieve their goals.

The approach should not be fundamentally different in the public sector. There are some notable differences though. Governments do not have shareholders. Instead, they have a group of stakeholders larger than any private business – the whole population of the country. Equally important, healthcare and education aside, governments have a “monopoly” of their services, and customer centric behaviour has never been a monopoly trait. However, there is an increasing expectation from the public to receive excellent services for the contributions they pay – good healthcare, meaningful education, fast resolution of issues and reduced bureaucracy. This is, in fact, the return on their “investment”. To meet these expectations, governments need to have the right tools (processes and systems) operated by the right people.

The road to a lean government



At least in Romania, public services are seen by many stakeholders as far from meeting their expectations. There is a long road to achieve change, but a journey of 10,000 miles begins with a single step¹. While there is an increasing expectation of better customer service and experience, this cannot be achieved with old processes and systems (or new ones, but without integration). A first necessary step for putting the house in order is the introduction of robust, integrated systems and efficient processes, the latter achievable through the development of shared service centres as one of the tried and tested approaches. While they may apply to operational areas, the areas which are most commonly delivered through a shared service solution are finance and accounting, procurement, HR and IT.

¹: Chinese proverb ascribed to the Chinese philosopher Laozi (circa 604 BCE – circa 531 BCE)

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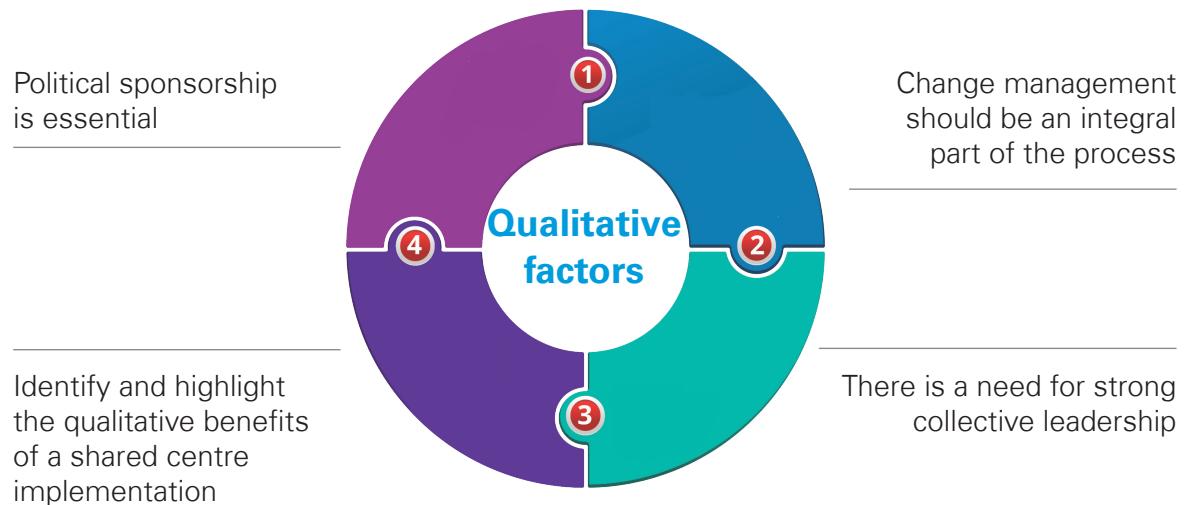
Shared service centres started in an attempt by global companies to enhance quality and reduce costs, and over the past decade have been developed more and more in the public sector too. For the sake of clarity, we have used the following definition of shared service centres in the public sector:

The aggregation of services of various government units into a centralised unit administered by the government, leading to delivery of better services, with high quality and lower costs. This is achieved through standardisation of systems, processes and practices, control over operations as well as attraction and retention of quality resources.

In other words, certain services (accounting, procurement, etc.) are carried out by specialised centralised departments serving several public institutions simultaneously.

In contrast to setting up shared service centres, maintaining the status quo leads to redundant investments in hardware and software, inconsistent practices between various units generating differences in quality and cost of delivery, as well as excessive headcount leading to non-value added time spent by senior management on internal matters.

Much of the success of a shared service centre lies in the standardisation of processes, which can only be achieved by using a single technological platform. Considering the variety of systems currently being used in local and central government units, as well as the maturity of such systems, we expect the upfront investment (systems, as well as implementation time and effort) to be significant, while the pace of achieving benefits depends heavily on qualitative factors.



Political sponsorship is essential

Such a large transformation programme would span a significant number of departments across local and central governments. It is therefore essential that the initiative should be driven by a central team, with appropriate support from the whole political spectrum. It is highly likely that the program would have an implementation cycle overlapping two political cycles, which may mean that it would be completed under the term of a government which was not involved in the definition and initiation of the project.

Change management should be an integral part of the project

Assuming that the decision has been taken, human nature is such that any (significant) change can be expected to face some opposition from employees who will be affected. We sometimes instinctively tend to put our heels in the ground and argue endlessly about why we should maintain the status quo, wasting huge amounts of time and energy. Often we do not have a continuous improvement mind-set, nor is this taught in schools. We look for workarounds rather than for root causes and ways to do things in a different and better way.

It is inevitable that the introduction of shared service centres leads to loss of jobs in some areas, but this is often not the only concern of the affected leaders. Self-interest, such as fear of losing control, is much more difficult to handle. Unless handled with care, this may lead to a sub-optimal collective outcome.

There is a need for strong collective leadership

Most people perceive the government as a single enterprise. This however is not the way in which it operates – it is in fact a collection of agencies/ departments which are set up as standalone organisations and tend to operate with a certain degree of autonomy. It is therefore quite difficult to find the common denominator in order to reduce the disruption caused by such a significant transformation. This is not a matter of individual leadership for driving the initiative, but rather collective leadership for making it happen.

Each leader involved in steering this transformation programme (including those affected by the change) will have to understand the risks their individual organisations face (including their personal risk) when a shared service centre is introduced. This requirement is even more important in a context where they will entrust someone else to achieve benefits (some of which cannot always be guaranteed), and the opportunity cost arising from loss of flexibility and control is one that these leaders cannot foresee or measure.

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The qualitative benefits of introduction of shared service centres need to be identified and highlighted

The first driver for the change is usually cost reduction. While any such significant change would need to have a sound business case, this cannot be the only driver. Focusing exclusively on costs will clearly dilute some of the obvious benefits of the transformation, such as better service delivery, better management information systems for decision making and change of senior management focus from transaction processing to policy development.

Quick wins

Rather than embarking in a large scale transformation program, we believe that benefits could be achieved in the short term through small scale development of shared service centres for local or central government, where political decision making rests in very few hands. There are two initiatives which in our opinion would achieve significant benefits with a relatively low initial investment. The implementation of these initiatives would allow the validation of the benefits and continuation of the journey based on proven success stories.

Continuation of the centralisation of procurement functions

Even though a centralisation process has been initiated, a significant amount of public procurement in Romania is still highly decentralised, at the level of individual spending ministries, local authorities or other public bodies covered by the procurement law. Centralisation would lead to an improvement in the quality of goods and services acquired with a significant reduction in prices of services or goods due to the large scale purchases and professional teams dealing with public procurement in a transparent way. The central purchasing agency would be able to sign framework agreements for most common purchases.

Centralisation of payroll

Like any other corporate service, payroll is delivered in each local or central government unit, each using its own technology, systems and processes. Considering the specific nature of the service, this is an ideal candidate for centralisation. This would release significant resources, optimise the investment in technology and ensure the delivery of the service to a consistent quality and in a cost effective way.

Conclusion

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Setting up shared service centres is a brave decision which needs to be carefully planned and carried out, mindful of the qualitative factors and define a realistic approach in setting up the cost saving targets in the business case.

The Romanian government is under increasing pressure to curb expenditure, particularly now in the context of the significant increases in government spending. This will require a fundamental transformation of people, service delivery models and supporting systems and processes.

Setting up shared service centres is a brave decision which needs to be carefully planned and carried out. The government would have to be mindful of the qualitative factors and define a realistic approach in setting up the cost saving targets in the business case. The whole process would be intensely scrutinised and there is no room for mistakes.

There is a strong incentive to embark on this journey. We believe that the implementation of shared service centres would result in efficiency gains of minimum 20% and reduction in technology costs of the affected areas of minimum 10%. There is a sizeable implementation cost, but we believe it will be more than offset by the benefits which are in perpetuity.

Certain European countries (like the UK and Ireland) have already started this journey and have reported significant progress and benefits, even though not always at the level of those planned in the business case. Other states are considering the idea too, with varying levels of enthusiasm. What is clear, though, is that that this is on everybody's agenda, and that the next step is outsourcing. It is just a matter of time before these ideas become reality.

Notes

Contact us

Dinu Bumbăcea

Partner, Management Consulting
Email: dbumbacea@kpmg.com

KPMG Romania

Bucharest Office

Victoria Business Park,
DN1, Bucuresti - Ploiesti Road
no. 69-71, Sector 1, Bucharest
013685, Romania
P.O. Box 18-191
T: +40 (372) 377 800

www.kpmg.ro

