HELPING GOVERNMENT DELIVER II

The Obstacles and Opportunities Surrounding Shared Services

MARCH 2015

PARTNERSHIP FOR PUBLIC SERVICE

Deloitte.

The Partnership for Public Service is a nonpartisan, nonprofit organization that works to revitalize the federal government by inspiring a new generation to serve and by transforming the way government works. The Partnership teams up with federal agencies and other stakeholders to make our government more effective and efficient. We pursue this goal by:

- Providing assistance to federal agencies to improve their management and operations, and to strengthen their leadership capacity
- Conducting outreach to college campuses and job seekers to promote public service
- Identifying and celebrating government's successes so they can be replicated across government
- Advocating for needed legislative and regulatory reforms to strengthen the civil service
- Generating research on, and effective responses to, the workforce challenges facing our federal government
- Enhancing public understanding of the valuable work civil servants perform

EXECUTIVE SUMMARY

Federal agencies could perform more efficiently by eliminating overlapping or duplicative services. Today, one federal agency may have several different offices handling its payments, information technology support, human resources transactions or the purchase of goods and services, a costly and inefficient way of doing business.

Understanding that there is great potential for agencies to consolidate many of their common administrative or even mission services, in 2014, the administration made shared services a top management priority. Nevertheless, advancing shared services has been a slow process, fraught with challenges.

This report explores the extent to which administrative shared services are underway, barriers to moving to shared services and plans to do so, from the perspective of agency leaders responsible for many of these decisions. Specifically, we interviewed agency chief financial officers (CFOs), their representatives or other senior management officials about their experiences with four lines of business: acquisition, financial management, human resources and information technology. Some of the individuals we interviewed have gone so far as to say that management functions such as human resources and acquisition are "broken," yet various obstacles impede widespread and rapid acceptance of shared services, and the practice of shared services has not been adopted widely. Many interviewees noted that they:

- Have implemented select shared services initiatives, but are not viewing widespread implementation as their priority—due in part to past experiences with shared services and the challenges of sustaining long-term transformation efforts
- Hesitate to transition vital agency functions without clearer cost benefit and performance information on federal shared services providers—those organizations in federal departments that charge fees for providing administrative services to other government entities
- Need more data about their own agency's performance and costs to demonstrate the value of shared services and build a business case for change
- Would like strategic workforce planning to be integrated into decisions an agency's most senior executives make about shared services

PROMISING PRACTICES

CFOs we interviewed offered promising practices and steps they took—or wished they had—to rally agency support for shared services, including:

- Designating a leader to manage shared services and convening an enterprise-wide leadership council
- Incorporating accountability measures on shared services into the performance contracts of the senior executives leading their agency's efforts
- Building relationships with other agencies to share lessons learned and emulate successful service-level agreements
- Assessing current needs, costs and performance
- Integrating shared services into workforce planning, and developing a two-way communication strategy for changes
- Focusing on incremental changes that demonstrated the potential of shared services and delivered early successes

RECOMMENDATIONS

Agencies need more support and resources from the Office of Management and Budget and the Office of Personnel Management to implement shared services. The Partnership for Public Service and Deloitte offer the following recommendations.

OMB should:

- Establish clear deadlines and hold agency leaders accountable for meeting these deadlines
- Develop standard service-level agreements for agencies to use as templates and build a repository
- Work with GSA to establish a team of experts to assist agencies
- Fund shared services pilots and evaluate their impact

OPM should:

- Publish a strategic guide for agencies, offering options for managing the workforce transition to shared services

INTRODUCTION

When customers want books, shoes or clothing delivered, retailers typically use the services of the Postal Service, UPS or FedEx to send the goods. After all, the mission of these retailers is to sell products, not maintain a fleet of trucks and planes to deliver them.

What does this have to do with government? For too long, federal agencies have tried to do the equivalent of maintaining the trucks and planes while tending to their core missions. It is not necessary, for example, for hundreds of federal offices throughout the country or dozens within one agency to use multiple incompatible systems to manage their own payments, information technology support, human resources transactions or purchasing processes.

The result is many overlapping and duplicative support services, excess costs and wasted effort. As agencies continue to function with budget constraints, and the federal government faces intense scrutiny over how it operates, it is important for agencies to consider changing how they do business, although no one promises it will be easy.

The Partnership for Public Service and Deloitte envision a government that addresses its biggest challenges by relying on efficient organizations that share support services and draw upon existing resources in other agencies and organizations when it makes sense. Under this vision, the agencies or private-sector companies that are best equipped to perform an administrative or support service or function would provide it for other agencies or units, making the processes more efficient and providing better quality service for all. Several agencies have implemented shared services to varying degrees. The question is how to get to the point where it is routine for organizations to share or merge these functions.

For this report, the Partnership and Deloitte interviewed 18 agency leaders from across the federal government, which represents three-quarters of the Chief Financial Officers Act agencies, to understand the extent to which agencies are using or moving toward shared services; what the key barriers are to implementing shared services strategies; and how the Office of Management and Budget and other agencies can assist. The group included 11 CFOs, four deputy CFOs, an assistant secretary for administration, a deputy assistant secretary for administration, and a director of a business operations center. This group of CFOs and senior management leaders hereafter are referred to as CFOs.

We chose to interview CFOs with the idea that these executives, who oversee the cost and performance of agency operations, would have the pulse of their agencies on the issue of shared services. Their view of management functions and programs across the organization gives them insights into how shared services could reduce costs and improve efficiency. In our interviews, we

FEDERAL SHARED SERVICES DEFINED

In the federal government, shared services is when agencies move common administrative or mission operations to one provider that performs those operations for more than one department, agency or agency unit. The goal is to improve service delivery and reduce fragmentation, overlap, duplication and overall costs through standardization, economies of scale and continuous business process improvements.

discussed their experiences with key management functions, including moving support services related to financial management systems, human resources and information technology investments to a shared services provider. Many of the CFOs we interviewed had federal experience moving acquisition, financial management, HR or IT to a shared services provider, and some had similar experience from the private sector.

This report looks at the state of shared services across those four lines of business. The views and opinions of CFOs are critical to the successful implementation of shared services within agencies. If enough CFOs are unconvinced that shared services strategies provide solutions to their fiscal and performance challenges, the shared services approach is not likely to gain traction in government.

Agencies have barely scratched the surface

Agencies are using shared services to varying degrees, our interviews showed. The CFOs who are exploring greater use of this delivery model to transform their agency operations believe shared services can increase efficiency and improve government operations. In particular, CFOs we interviewed from the four largest agencies believed in the potential of shared services to streamline and improve how government operates.

Responses from these CFOs from those four agencies revealed that, on average, nearly 80 to 100 percent of their agencies' work in the support functions of acquisition, financial management, HR and IT could be moved to a shared services model. Yet these CFOs said that less than half of such work had been transitioned. The CFOs specifically hoped for a move to shared services in the areas of HR and acquisition, which they perceived as the most problematic services for their agencies to carry out on their own. Participation in shared services by the largest agencies offers the greatest potential economies of scale and likely would contribute substantially to changing how government does business.

Shared services has evolved slowly

In the 1980s, the federal government consolidated some services and stood up what then were called "cooperative administrative support units" so smaller agencies could avoid hiring dedicated administrative staff.[1] One of these, for example, was the National Finance Center, a federal shared services provider in the Department of Agriculture. Launched in 1983, it has been providing payroll support to other departments and agencies, including the departments of Justice, Agriculture and Homeland Security.

In the 1990s, Congress authorized several pilot projects that allowed agency units to provide support functions to federal entities within or outside the agency, on a fee-for-service basis. This led to a wave of consolidation. Major budget cuts also contributed to a flurry of activity as agencies moved back-office functions to other entities that could provide them as a service. Many of these pilot projects became permanent.

The pace picked up after 2001. That year, OMB identified 24 areas for e-government initiatives, and e-government legislation in 2002 passed with the idea that agencies would share technologies that improved support functions. These initiatives included payroll management, government travel and a process for submitting security clearance questionnaires online. In addition, in 2004, OMB created an office of electronic government, establishing several task forces that looked at various agency lines of business. These specific support functions became the basis of today's work in shared services. Since 2004, the Treasury Department and the Office of Personnel Management have also taken key steps toward leading shared services implementation across government. Treasury has worked to consolidate some financial management functions and OPM has worked to integrate selected human resources information systems.

Despite these activities, the shared services evolution was moving slowly. The Obama administration kick-started it by pushing the issue up on the president's management agenda. In 2014, shared services became a top management objective through the administration's cross-agency priority (CAP) goals. Since passage of the Government Performance and Results Modernization Act, the administration is required to set goals that will be among the president's top management priorities, and OMB chooses these goals. The administration set an objective for government to "strategically expand high-quality, high-

1 "The New Administration's Shared Services Opportunity." John Marshall, *Public Manager*, Summer 2009, 37-44.

value shared services to improve performance and efficiency throughout government." The shared services CAP goal stated, "We can make the sort of transformative changes in our service delivery approach that have altered the course of the commercial retail marketplace and reinvigorated American manufacturing."

The two federal executives chosen to be the CAP goal leaders for shared services were the OMB controller and the deputy secretary of Agriculture. They have the task of reviewing progress and leading the push to transformation. The three objectives of the CAP goal are to:

- Develop a marketplace that enhances the capabilities and capacity of the shared services providers (federal shared service providers are agencies within federal departments that charge fees for providing administrative services to other government entities)
- Improve the governance of the shared services providers
- Identify quick wins for shared services adoption

As outlined in our prior report, "Helping Government Deliver: Transforming Mission and Support Services," agencies that took on the challenge of shared services got good results, including improved operations, greater efficiency, cost savings and satisfied customers.

For example, the creation of NASA's Shared Services Center, a fee-for-service unit that performs many administrative support functions for NASA's 10 research, space and flight centers across the country, has led to greater operational efficiency and reduced administrative costs for the agency. The center provides 55 support services in HR, finance, IT and procurement, including strategic sourcing, drug testing, payroll processing, retirement application processing, survivor benefit counseling, bill payment and grants management.

A combined business center within the Department of Energy was created in 2004 to centralize the cleanup and closure process at sites dealing with the nuclear legacy of the Manhattan Project from World War II. That project led to research and production sites across the U.S., for scientists to work on the atom bomb. Since the creation of the Consolidated Business Center in DOE's Office of Environmental Management, five contaminated sites have been shuttered—when previously none had been closed—and the business center has gained specialized experience that DOE did not possess. The business center's experience with managing contracts led to it becoming the responsible party for issuing all new environmental management contract competitions, which are awarded faster and at lower cost than ever before.

Understanding the view of the CFO customers of shared services

This second report presents perspectives of CFOs, and in some cases other senior leaders, on the challenges of adopting shared services and the opportunities to transform government operations through this approach. We believe that with oversight of agency finances, the CFO has a broad perspective and can drive change across management functions—acquisition, financial management, HR and IT—to drive change. Currently, a large gap exists between where agencies are now and what is possible. The following sections discuss a vision for the future of shared services from these leaders, and the challenges they have encountered in trying to achieve that vision. Additionally, they offered their views on shared services offered by federal shared services providers.

Several officials we interviewed had experience preparing for and migrating to shared services, although not all those experiences were successful. We learned about several tactics CFOs used to position their departments for a shared services transformation, or wished they had used to be more successful. The report summarizes the lessons they learned and presents several promising practices for senior agency leaders to consider when debating a move to shared services. It reflects what we heard from CFOs about shared services across administrative functions—acquisition, financial management, HR and IT.

Additionally, the Partnership and Deloitte offer recommendations for how OMB and OPM can support agencies that are considering migrating to shared services or are in the process of such a transition. The CFOs we surveyed recognized that OMB and OPM currently do not have the funding or staff currently to offer agencies that are preparing for a transition to shared services. Our recommendations take into account these constraints and focus on the central agency activities that do not require additional funding from those central agencies but, rather, maximize their non-monetary assistance and support for agencies' work in this area.

FINDING ONE

Although most CFOs and other senior leaders do not see shared services as a priority, some are moving ahead aggressively

Most of the chief financial officers and other senior leaders we spoke with did not view increasing their agencies' use of shared services as high on their management agenda and, in many cases, were not aware of the extent to which shared services was implemented in their agencies. The few CFOs who pursued shared services either had prior successful experiences with shared services or were so discouraged by the status quo they made a move to try something different. These CFOs and agencies are moving aggressively to shared services.

In many cases, their reluctance was due to the time it would take to institute shared services, and the disruptive nature of changing how an agency operates. The transition to shared services can be a long process, and most CFOs don't believe they can complete such a change during their short tenures, or get enough traction for transformation activities to continue once they leave. Many thought that such a demanding endeavor could take a decade or more to implement successfully—far longer than even a two-term presidential administration.

One interviewee, who called transformation efforts "painful," said that many program leaders resist turning over their services to others because they prefer to have control of all of the administrative functions connected to their work. They are "so mission-driven, they want to be able to [leverage all their resources] against a problem and can't do that in as complete or as timely a manner when you don't control all your processes," said this CFO.

Other CFOs described a mismatch between the functions the administration seeks to move to a shared services arrangement and those the CFOs think need the most improvement. The administration and the Treasury Department are intent on consolidating financial management shared services, while the CFOs thought the focus should be on human resources and acquisition, with many saying that HR and acquisition are "broken."

Federal executives outside of business operations also are frustrated with the quality of HR and acquisition functions, according to many interviewees. If these are the trouble spots for program leaders, attacking and fixing those two functions would go the furthest in providing needed momentum for shared services.

Several CFOs said shared services for acquisition, in particular, could provide the greatest economies of scale. The "biggest bang for government-wide is one acquisition and contracting system with one contracting officer to use the power of the government to buy," said one CFO. "Financial technology is scraping the margins. This [ac-

"You put your programs at risk if [providers] don't have their 'A game.'"

quisition] should be the top target."

Although the CAP goal for shared services will span into the next administration, many CFOs said that this alone may not be enough to sustain CAP goal activities when so many leadership positions change over in a new administration. Many appointee positions in the current administration are vacant already, undermining some leaders' willingness to tackle shared services, when they know they will not have political support in their agencies.

Another CFO feared the risks associated with a major move to a shared services arrangement, particularly if the agency were to have a bad experience with the provider it selects. They know they would not be able simply to transition back to internal systems because they would have lost the internal capability. "You put your programs at risk if [providers] don't have their 'A game,'" this CFO said. The CFO's agency was mandated to move payroll to a provider and now finds that annual costs sometimes rise unexpectedly. "This year, they announced a 17 percent increase in costs without even consulting us, even though we are their biggest customer."

In addition, this agency's financial system is so large, no current provider can run it. "We have one

AGENCIES MOVING TOWARD SHARED SERVICES

Several CFOs and their agencies are taking bold steps to transform their back-office operations or substantially alter their existing shared services arrangements. The CFOs and senior leaders from these agencies believe that by embracing shared services, they can increase efficiency, improve the quality of service to other parts of their agencies, and reduce duplication. The departments of Commerce, Housing and Urban Development, Health and Human Services and Veterans Affairs are all evaluating or moving toward a shared services model.

In 2014, the Department of Commerce started to examine how shared services could improve operations, with executives questioning whether the agency needs multiple acquisition, financial management, HR and IT offices across its dozen subcomponents. It is also conducting a needs assessment, developing a business case and coming up with recommendations on additional shared services areas, examining all the possibilities for change.

In a trailblazing move, HUD is shifting two entire key mission-support areas from under its jurisdiction to a shared services provider—financial management and HR are being moved to Treasury. Since it was such a large endeavor, the agency decided to move key functions incrementally, to ensure a smooth and manageable transition. The shared services migration began in 2013 with a significant portion of the HR functions moving to Treasury. The next year, HUD moved its travel services functions out of the department. Now it is transitioning major aspects of its financial management activities to enable HUD employees to concentrate on delivering key programs.

Although HHS was a longtime shared services provider for HR, the agency decided to move its HR activities to the National Finance Center in the Department of Agriculture, the same federal shared services provider that delivers HHS's payroll. The agency's assistant secretary for management and administration said the move made sense because it allowed the department to use one provider to integrate many of its HR back-office functions. One official we spoke with said that the entire federal government should be viewed as an enterprise, with corporate business centers providing high-quality services to all federal agencies.

At the VA, leaders are considering ways that shared services could boost productivity throughout the agency. In late 2014, Secretary Robert McDonald issued a call to action for his workforce to embrace shared services, with a management agenda that includes identifying opportunities for VA to improve efficiency, reduce costs and increase productivity across the agency by using a shared services model for its internal business processes throughout the organization.

According to a November 2014 press release, the secretary said, "Right now, we're looking at options used in the private sector to enhance our rapid delivery of services, and also at our own business processes that are suited for shared services."

Deloitte Consulting LLP, a sponsor of this research, assisted Commerce with a review of shared services.

financial system. It is old and needs replacing, but it is a single system. Right now, there isn't any one of them [providers] that could eat the elephant."

Disappointment that lingers

Unfortunately, many CFOs have also had negative shared services experiences. Many of those interviewed said high-profile failures and unsuccessful attempts by their agencies to centralize services have dampened support for shared services initiatives. Some CFOs discussed an e-government initiative that consolidated how agencies engaged the public. Agencies were mandated to use the system, but were disappointed with its functionality.

One CFO indicated that the initiative didn't "help with building enthusiasm for future government-wide shared services." Another CFO said it felt like the agency was taking a step backward. "It didn't have the checks and balances like we were used to. It's much less functional and slower for the user." The system "didn't want to adopt any of our processes," said a CFO. Yet, the agency was "forced" to use the system. Some CFOs said it didn't feel as though they were using shared services, because they were unable to shop around for a provider or decide whether it was the best tool. They were just told to use it.

Other shared services initiatives that CFOs don't see as successes include budget management, travel and certain HR functions. The CFO of one agency discussed being mandated to pay for a travel service that had an accounting component that was unusable because the agency had identified hundreds of bugs in it. The agency "paid all the money but got none of the benefit," the CFO said, referring to his experience with a federal shared services provider. "About 75 percent of bugs have not been resolved and it has been nearly a year," the CFO added. The agency also had problems with an HR shared service. "We outsourced recruiting, but the level of service was terrible. It wasn't good before, but it got worse, so we had to pull it back." To add to the distress, the agency's shared services travel initiative, also mandated, "has been remarkably painful" as well.

Several agencies complained about relying on a service provider that stopped providing the service or software to the agency. "We ended up with [one provider] because [another] kicked us out because they weren't providing the shared services anymore," said a CFO. Then the second provider stopped supporting the software the agency had been using. Both providers were flying distance away from the agency requiring their services, and that added to the staff's difficulty with managing the process. Some staff required retraining. Others were offered buyouts to reduce costs of retraining. Some staff had to travel more frequently. "What does this mean for staff?" the CFO wondered. "Do we have to move staff geographically or have them travel more? For a good six months we had to provide a lot of support," which meant employees often had to fly across the country to work on the move to a shared accounts-payable system. To add to the frustration, when the second provider stopped supporting the agency software, the agency had to bring the work back in and deal with rebuilding the service it had spent all that time and effort migrating out. The cost of changing the agency's software and work processes to a new system would have been too costly.

Most CFOs tended to focus on what they viewed as failures; few mentioned successes. Some shared services have become so ingrained in agency culture, CFOs seemed to have forgotten the pain of the transition or that they were ever done another way. "Payroll doesn't keep us up at night," one CFO said. "It works so well."

> **"We outsourced recruiting, but the level of service was terrible. It wasn't good before, but it got worse, so we had to pull it back."**

But it didn't always. The eight-year transition to shared services started in 2001, and there was great difficulty involved in reducing the number of payroll providers from 26 to four, according to Tim Young, former OMB deputy administrator for e-government and IT responsible for the e-payroll initiative during the previous administration.[2] The process was fraught with tension because agencies did not want to give up their payroll operations, he said.

Accountability plays a key role

Many CFOs discussed the effect that leadership has on migrating to shared services. Many CFOs view accountability as a key factor in

2 Tim Young. "Transforming Service Delivery: Learning from Federal Payroll Consolidation" Discussion at the Partnership for Public Service, Washington D.C., 21 Oct. 2014.

“Where there’s leadership and a governance board with buy-in, there is often success.”

helping agencies make the transition to shared services, but said that accountability measures did not accompany efforts to migrate services, in their experience. Some cited prior e-government transformation efforts as a good model. Those initiatives had deadlines and mechanisms to compel agencies to move services. For instance, the e-payroll initiative set deadlines several years out for making the change. No agency met the original deadlines, but having them in place kept them at their task, propelling the changes that were made eventually, CFOs said.

President Bush’s direct involvement in the transition contributed to its success, according to Young, who headed the initiative. Young described a meeting with the president and agency leaders to review progress on moving to the consolidated payroll providers. When agency leaders arrived they were assigned seats. As the meeting progressed, the president explained that they were seated according to their progress on implementing e-payroll. The individuals closest to the president—a “green light” group—were making sufficient progress. Those furthest away—the red light group—were not. When the meeting concluded, according to Young, the president pushed for progress and asked a yellow light group to improve to green. He told agency leaders in the red light group to get to yellow by the next meeting or they would no longer have their jobs. The president’s direct involvement, and his push to hold leaders accountable for these management changes, was instrumental in the success of the payroll shared services initiative.

To mandate or not to mandate?

CFOs we interviewed were divided over whether a mandate for shared services would be effective. Some said a mandate could be the force that pushes their leadership to pursue shared services. However, even those CFOs who felt a mandate could be helpful were concerned that their agency would be pushed to shared services without receiving the personnel or funding support needed to make the transition successful. In lieu of support or funding, one CFO wanted OMB to assist agencies with migrating to shared services by, for example, waiving requirements, applying pressure or providing advice and counsel. The CFOs supporting a mandate recognized that OMB is also constrained and lacks the money and personnel to support agencies’ activities.

Other leaders spoke passionately against a mandate. They want their agencies to be able to pursue shared services in their own way rather than be told how and when to do so. “I do not think we need a mandate,” said one CFO. “Sometimes those things do more harm than good. We want the flexibility to decide when and where it’s appropriate to move to shared services and not be dictated.”

These CFOs believe mandates to use certain shared services providers lessens the accountability of the providers. “It is especially difficult to hold a provider accountable if it is a mandate to be with them in the first place,” a CFO said.

Some CFOs discussed how the lack of senior departmental leadership, specifically from the secretary and deputy secretary, hinders an agency’s ability to make the transition to shared services. “If the agency does not think the department leadership is serious, it won’t do it,” one CFO said. Another CFO explained how his agency’s deputy secretary led the transition to shared services with the explicit support of the secretary, and their involvement was vital to the agency’s successful transition. Other key officials were given specific roles. For example, the chief information officer was involved in all key decisions. This CFO said that all parties understood that the effort “goes all the way up to the secretary level.”

The majority of CFOs from large departments said they think it is especially difficult for larger agencies to move to a shared services provider or consolidate internally, even with support from the secretary or deputy secretary. They said it would help if field offices were also involved in the decision-making. “We have a dispersed workforce. People on the ground have to be on board,” said one CFO, echoing the sentiments of several interviewees. “Where there’s leadership and a governance board with buy-in, there is often success.” He said his agency’s biggest challenge is the “unwillingness of program offices to give up direct management of services.”

Despite the challenges, many CFOs believe it is no longer a viable option to keep going with the stratified services structure that exists. “There has been some movement toward standardization, and more will be coming. The fiscal environment will force that,” one CFO said, adding, "In my career, I always complained about cuts. Most people say, 'There is no way I can find an offset.' But programs got better in downsizing. Taking the money away forced efficient thinking. Programs were simplified and redundancies reduced because you can't back off of mission, so mission doesn't always bear the brunt." Another CFO said, however, that "more information from OMB and others is needed to help demonstrate the value of moving activities to a shared services provider."

Many other CFOs agreed OMB needs to help demonstrate the benefits of shared services to convince senior agency leaders of the benefits.

One CFO who has experience with shared services from both the public and private sectors took issue with how shared services is often portrayed. "I think we talk about this issue the wrong way. The notion that [agencies] are selling things to each other is nuts. We ought to be a single purchaser of things," he said, adding that agencies shouldn't be buying from one another but should all look outside of government to purchase services. "We should be buying together from the private sector," he said. "I want to stop talking about our charges to our customers. These are the costs of the enterprise to do things. If we keep talking about it this way, that we are competing with other federal departments and agencies, the notion that they are my competitors seems silly to me." From the perspective of this CFO, administrative functions like HR or IT are the cost of doing business in government. It should not matter what agency delivers them, but ultimately agencies should treat each other as partners.

"I think we talk about this issue the wrong way. The notion that [agencies] are selling things to each other is nuts. We ought to be a single purchaser of things."

PROMISING PRACTICES FOR AGENCIES

The chief financial officers discussed several practices they pursued—or wished they had—to rally agency support for shared services. Methods included designating a leader, developing a forum to rally agency leaders and seeking the support of senior agency officials. Below are practices for CFOs and other senior agency leaders to use at their agencies.

Designate a leader to manage shared services

Three of the largest federal departments have a single top executive responsible for shared services. That person serves as the champion and focal point for shared services initiatives. The CFOs in agencies with an executive leader for shared services said that a single point of contact at the very senior level of the agency is essential for demonstrating the commitment of top management to extending shared services throughout the organization. They also thought that person should be responsible for managing the organization's transition to shared services across the organization.

CFOs from agencies without such an executive responsible for shared services often lacked information about their agencies' state of shared services, they said in interviews.

Convene a leadership council

An internal council led by the agency's shared services designee can serve as a steering committee for all shared services decisions, said several CFOs. Such a council, consisting of leaders responsible for agency programs and the CFO, the chief human capital officer, chief information officer and chief acquisition officer, could provide a cohesive view of agency issues and spur collective problem-solving. Our interviewees indicated agencies with an ad hoc approach have made little progress. "There is no committee that meets on any regular basis to review or manage shared services operations," said a CFO from a large agency with a limited record of shared services. "Any ideas for consolidation or sharing are organic."

One department decided to use a top management council already in place at the agency to foster leadership support. The council included the department's secretary, deputy secretary, CFO and executives responsible for specific lines of business, such as the CIO and CHCO, and heads of internal bureaus. The council makes recommendations to the secretary, who has the ultimate decision-making power. Once the secretary decides to implement shared services, a council member is designated as a co-lead for each line of business. In prior, failed attempts at shared services, the department did not use the management council and lacked leadership involvement, according to its CFO.

Another CFO stressed the importance of getting mission leaders on board to overcome those leaders' fears of losing control of their support services. "Mission people are the difficult ones," the CFO said. "The reason? It is a control issue because we have demonstrated failure in the past. I know that I'm getting [poor] service in-house, but at least I can control it. And history shows that [using a shared services provider] costs more and the service is worse."

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Incorporate accountability measures into performance contracts

Several CFOs told us that past attempts to transition to shared services were stymied due to the lack of commitment from agency secretaries, deputy secretaries and other senior agency executives. To ensure that senior executives made shared services a management priority, one CFO suggested tying attention to and success at migration efforts to senior executives' performance bonuses. One CFO who had private-sector experience said, "When I worked in international banking and we directed [the organization] to move to a new compliance standard, if they hadn't moved in one year, we got rid of their management. We held people accountable." Incorporating shared services migration into senior executives' performance plans can help to strengthen agency-wide accountability for a transition, according to some CFOs.

RECOMMENDATIONS FOR OMB

OMB should establish clear deadlines and hold agency leaders accountable for meeting these deadlines

As part of its implementation of the shared services CAP goal, OMB should work to establish government-wide benchmarks and target dates for shared services implementation. OMB intends to track the number of migrations to shared providers, the percentage of departments using shared services for administrative functions, and customer agencies' satisfaction survey results. Once set, agency leaders should be held accountable for meeting these benchmarks and targets.

FINDING TWO

CFOs and other senior leaders are stymied by the lack of transparency on provider cost and quality

As chief financial officers and other senior leaders we spoke with considered shared services, they described a frustrating process for comparing options, ensuring a federal shared services provider is accountable, and preventing unexpected price hikes related to upgrades and other activities connected to the service being provided. Even with the best plans in place, moving to shared services can be difficult.

It is challenging to compare the cost and performance of federal shared services providers, and therefore close to impossible to compare the benefits of one provider versus another, CFOs agreed. Nor are they able to compare the value of potential providers to their current operations. “Being privy to all relevant information is a challenge,” said one CFO. “If you don’t have clean data, you can’t make the best informed decision. So having access to good data is important.”

The lack of federal shared services provider performance data is aggravating to some CFOs. Some were shocked to learn about high annual cost increases to fund new systems or modernization efforts once they had migrated, and wondered why they didn’t know beforehand. “We’re government. Government to government, it’s all one big entity,” one CFO said. “There is such a huge lack of transparency, with providers acting like they’re private [sector] service contractors. None of this should be a secret. Improving shared services means getting and sharing more information from shared services providers.”

A similarly frustrated CFO said, “We don’t have a lot of information on quality or [the federal shared services provider’s] track record,” he said. Another offered, “When the providers have to modernize, there is no insight into what your share of the modernization pie will be.”

Federal shared services providers

When the CFOs were discussing shared services providers, they typically were referring to federal, not private, shared services providers. These federal shared services providers are currently organizations found in Cabinet departments, although several private providers have been authorized for agencies to use. A federal shared services provider is like a private business in that it offers an administrative service to other agencies for a fee.

CFOs from large agencies often have different perspectives on moving to shared services than those from small agencies. CFOs from the smaller agencies fear their influence on service providers will be reduced in the

“Being privy to all relevant information is a challenge.”

Shared services offered by selected federal providers

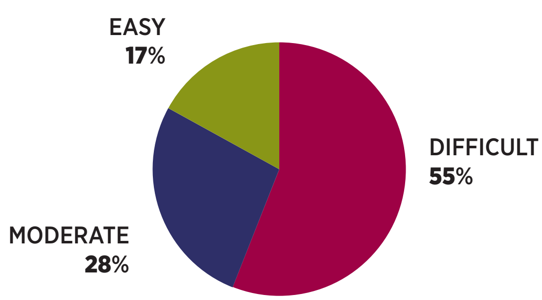
Federal Shared Services Provider	Cabinet Department	Administrative Function: Financial Mgmt.	Human Resources	Payroll	Acquisition
Administrative Resource Center	Treasury				
Defense Finance and Accounting Service	Defense				
Defense Civilian Personnel Advisory Service	Defense				
Enterprise Service Center	Transportation				
General Services Administration	N/A		*	*	
Interior Business Center	Interior				
National Finance Center	Agriculture				
Program Support Center	Health and Human Services		**		

This list is not comprehensive.

* No longer offering service to new agencies. Service will transition to another provider.
** No longer offering service to new agencies. Service will transition to National Finance Center.

"Up to now, the giant Cabinet agencies have more of a say than the little fish."

How easy is it to terminate or transition services?



Source: Information from Partnership analysis based on survey responses.

shadow of the larger Cabinet agencies. "Up to now, the giant Cabinet agencies have more of a say than the little fish," said a CFO. Small agencies are concerned they will be held captive by what they perceive as the dominance of the large agencies. "The big agencies get all the decision-making power. And that doesn't make sense for [us]," said a CFO.

CFOs at large agencies don't necessarily see it that way, with some having the sense that each agency has a voice, no matter the size, and there are many more small agencies than large ones. Some CFOs felt that large agencies would be dictated terms by small agencies and they are resistant to that notion.

That leaves a situation in which CFOs from both large and small agencies feel like they will be held captive by the other. Some CFOs from large agencies contend that the large agencies pay more to a provider and therefore offer the government the greatest economies of scale when it comes to reducing costs, and that they should have a larger voice in how the shared services provider performs.

Another concern a few CFOs expressed is that, under the shared services model, once they select a provider they will be unable to hold that entity accountable for performance, customer service and cost, other than through the difficult processes of either reverting back to providing the service in-house or starting over with another provider. A strong governing model, which involves clear lines of communication between the customer and provider, is a key factor for holding providers accountable. The CFOs we interviewed reported mixed satisfaction regarding the effectiveness of shared services governance by their federal shared services provider. About 40 percent of the CFOs indicated they believed the current state of governance was “very ineffective” or “ineffective” at ensuring that their views were heard and their needs were met.

Agency CFOs want stronger, standardized service-level agreements (SLAs) that help agencies anticipate future cost increases better and allow them greater flexibility to change providers. A shared services pioneer said, “Changing the language in the SLAs can make the biggest difference.” The CFOs said the importance of the SLAs cannot be overstated. “SLAs have to be well hammered out, clear and specific. You have to be specific about what you’re buying,” said an interviewee. Another CFO said, “You also must have a ‘get out of contract’ clause with all of your service-level agreements.”

The frustrations over cost and quality have led other CFOs to question how easy it is to terminate and move services to another provider if needed. CFOs said they fear being locked into provider agreements and unable to terminate them when they want to switch due to cost increases or poor quality. The majority of those surveyed indicated it was “difficult” to terminate services.

The move to shared services is not just “flipping a switch,” CFOs said. Shared services migration is a process that requires planning, bringing other agency leaders on board to support the move, understanding current costs and operations through a business plan, developing a strategy for change, and deploying resources for the move. Leadership, people, resources and data need to be ready for the transition, which can fundamentally change how agencies do business. In addition, the skills needed during and after the migration are changing. “We’re going to need more analysis work and more vendor management talent,” said a CFO. The provider “is a huge vendor and we need people to work on the management of that relationship and contract.” Another CFO said, “A lot of planning goes into the transition and a lot of times agencies don’t have the bandwidth to take employees off their jobs and devote them to this transition.”

A major exception was a large department that moved from one shared services payroll provider to another so the department could do a better job of integrating payroll with other human capital services. That CFO said that the endeavor was not as difficult as one might think.

“We don’t know what it will really cost; if the service isn’t good enough, it poisons the well.”

PROMISING PRACTICES FOR AGENCIES

Some CFOs said there are several useful practices they either put in place during a transition to a shared services provider or wished they had.

Share service-level agreements (SLAs) with other agencies

To mitigate risks such as poor performance and unexpectedly high cost increases, most CFOs said they wished they could get their hands on strong, proven SLAs and review agreements from other agencies. Agencies that are moving or have moved services to providers, whether they’re using a federal shared services provider or an internal shared services center, have developed SLAs that could serve as models for other agencies. Many of these SLAs cover issues of governance, performance and cost. One interviewee spoke of lessons he learned several years ago that led to stronger “teeth” being added to his agency’s SLA. His agency no longer feels at risk of a surprise increase in costs. He believes his agency’s experiences could benefit others who may either be new to shared services or are unaware of the type of requirements other agencies have learned to put into place to protect themselves from uncontrollable or unexpected price increases.

These SLAs can reduce the consternation shared services can cause, stemming from cost, performance or service termination issues. “We don’t know what it will really cost; if the service isn’t good enough, it poisons the well,” said one CFO, echoing sentiments from many others. “Quality is difficult to get a metric on. Cost and speed are easy, but the fact is, once you’ve invested the money and the effort to participate, you are captive and cannot escape.”

Build relationships with other agencies to disseminate lessons learned

Many CFOs said that there are valuable lessons to be learned from those who move to shared services, and some departments are reaching out to gather those lessons.

For example, one Cabinet department used an implementation strategy it learned from another department. Another CFO said he valued “building relationships with agencies that have gone through a similar task because lessons learned are priceless.” Several CFOs found value in attending CFO Council meetings. One CFO said that most of what his agency learns about new services or promising opportunities comes from attending such council meetings.

RECOMMENDATIONS FOR OMB

OMB should develop standard SLAs for customer agencies to use as templates, and build a repository for agencies

OMB should set standards on costs, performance, types of service, governance and support for agencies migrating to a shared services provider. Successful SLAs can serve as a model to help others enter strong relationships with providers.

OMB standards and SLA templates addressing cost and performance should also be applied to internal shared services centers in agencies. Starting out with such standards internally could smooth the way for agencies that choose to move to government-wide providers. OMB can serve as a repository for the agreements and offer recommendations on which SLAs it considers to be good models.

OMB should spotlight and support those agencies that are innovating and taking risks

OMB should provide inventive, risk-taking agencies with expertise, funding and political cover to help changes in those agencies take hold. OMB also should develop a community of practitioners and leaders of shared services to allow a routine exchange of ideas and best practices; this will ensure that the lessons from risk-takers can be passed to others.

For example, one large department is looking at shared services as a transformative management practice, examining whether to move more administrative functions to external shared services providers or form an internal shared services center. This and other agencies’ willingness to try alternative shared services arrangements will provide lessons as other agencies migrate to shared services. Collecting those lessons learned and allowing innovators to exchange ideas can drive growth.

FINDING THREE

Shared services advocates have difficulty building a sound business case

The starting point in our conversations with the chief financial officers or other senior leaders was typically the need to save money, but it hasn't been made clear to them whether a move to shared services does so. Most CFOs said that federal leaders often view cost savings as the top priority when considering shared services, and the potential for cost savings during a time of continued fiscal belt-tightening has increased senior officials' willingness to consider making major changes in agency operations. "Budget constraints make people more receptive," one CFO said, adding that attitudes are changing, and people now understand why their agencies might have to do things differently. "[Agencies] are seeing the writing on the wall. The budget and sequestration set people up to have this [shared services] conversation."

However, they face a key obstacle: getting cost data to make the business case for shared services. Nearly 80 percent of those we interviewed identified saving money as the primary objective for moving to shared services, and nearly half indicated that cost avoidance was an important objective. But many CFOs said they were having a tough time calculating current costs of operation and projected savings from a move to shared services. "We asked bureaus what was their overhead cost versus direct mission cost and everyone measured it differently," said a CFO. "We also consolidate (costs) for the entire federal government, and there is no way to measure consistently."

Several CFOs who attempted to create a business case found their agencies didn't have the best information for assessing the costs of a particular service. For instance, one CFO said the agency's business case did not accurately calculate a cost per transaction; it only included personnel costs. Another CFO's agency had even more difficulty: His agency had no baseline costs of its systems at all. "They didn't know what they were

What are your agency's primary objectives when considering whether to adopt or expand shared services?

Source: Information from Partnership analysis based on survey responses.

“[Agencies] are seeing the writing on the wall. The budget and sequestration set people up to have this [shared services] conversation.”

spending, in reality,” said the CFO. Some CFOs said it is challenging to build a business case because government accounting systems make it difficult to determine the cost of a particular activity, such as processing a new employee.

Many CFOs indicated that good data are vital for proving that shared services lower costs and improve service for an agency. Without it, it’s difficult to judge progress after a move to a shared services provider. One CFO, whose agency consolidated IT across three agency subcomponents, said he wished he had that original, baseline data before his agency’s transition to a shared service. It would have enabled the agency to measure success, establish parameters for success, and set expectations for agency employees and the agency’s provider. The CFO says employees of the three agency subcomponents complain about the service—that it’s too expensive and it could have been done better and cheaper. But without having the baseline cost and performance data, the agency is unable to make comparisons and show the advantages of the new, consolidated system.

When support function operations span several agencies or subcomponents, it adds a layer of difficulty to figuring out business costs, CFOs said. Nearly two-thirds of those surveyed said that in addition to better data on the cost of their operations without shared services, they wished they knew the estimated costs of doing business in a shared services environment and that they had customer feedback on the quality of services now being provided. More than half said they wished they had a better understanding of the return on investment over the long term that could be achieved by moving to a shared services arrangement.

The business case isn’t just about costs and performance quality. “When we’re looking at long term, if people are going to be displaced, then we would do a business case, but business cases aren’t required,” said one CFO. “It’s not just a question of the money. The people component of a business case is important to capture.”

Several CFOs said one helpful activity for evaluating their agency’s operational costs and administrative efficiency is the government-wide initiative for benchmarking agencies’ costs for support services. Officials from the General Services Administration and the Office of Management and Budget have led the implementation of a “benchmarking initiative.” As part of this initiative, officials partnered with agencies to develop estimates of the current costs of acquisition, financial management, human resources, IT and property management activities at the 24 Chief Financial Officers Act agencies and many of their major bureaus and components. The benchmarking initiative’s early 2015 endeavor is to collect new measures of service quality and customer satisfaction. This will allow CFOs and other support function leaders to have a more complete picture of performance, and enable agency officials to compare the cost of operations within their own organizations and with other agencies.

One CFO said his agency was using the benchmarking data in the areas of financial management and accounts receivable. His agency compared favorably on financial management services but had much higher costs for accounts receivable, allowing the CFO to target that area for cost reduction or a move to shared services. One CFO, however, put the cost factor in perspective. “The current GSA benchmarking study is interesting, and I love the idea of it,” he said. “They didn’t have the countervailing quality—just had cost. It if is cheap and really bad, I wouldn’t want it.”

CFOs have done their homework and considered the role of the private sector in taking over some administrative functions, but in their experience it has not worked effectively. A CFO from a large department told us that few companies had the capabilities to provide the scale of services his large agency uses.

But maintaining the status quo isn’t risk free. CFOs said that business practices and aging IT systems that form the backbone of many support functions have not been updated for years, and poorly per-

“They’ve given us a sound bite answer to a complex problem.”

forming support personnel are hampering mission operations. However, without good data, they were largely unable to quantify the existing risk of conducting their business.

Many agencies' financial management systems were installed in the mid-1980s or earlier and have been modified or upgraded over time by various contractors. These stand-alone systems were never required to maintain data in a standardized format for ease of analysis or transferability. Some systems use outdated machine language, which forces agencies to depend heavily on a small number of contractors who have the skills to work on them.

The problems agencies have had over the years in designing and implementing expensive new systems have made them reluctant to propose buying such systems. Yet they are also uncertain whether shared services will save them money on systems and services. A transition to shared services has enormous costs associated with it, according to one CFO who added that people want to compare program costs, but that is not enough. Agencies assessing systems have to look at the total costs and figure out how long the provider relationship will last and whether costs will remain steady, which is not easy to do. "There is no projection of cost from the providers," the CFO said. "In addition, when the providers have to modernize, there is no insight into what your share of the modernization pie is. Once you make the move you are captive, and you do not get to do the analysis again. You have to look not only at the short term investment, but a period of five to 10 years out and what that looks like as a cash flow in or out."

The CFO added, "They've given us a sound bite answer to a complex problem. Most of the CFOs are very smart and are looking at this, but it is hard to get the data from the providers for costs over the next five to 10 years. Tell me when you are going to modernize and what does it look like."

Another obstacle to shared services is getting the funding for the initial investment. Overwhelmingly, most CFOs thought the upfront costs of moving to shared services is a barrier to entry, particularly the cost of migrating information from older IT systems and retraining full-time employees who would move into new positions. "Funding is a huge issue," said one CFO. "It's frustrating because I think it's the right thing to do. But because there is no infrastructure investment capability in agencies, it is just not possible."

Sixty percent of the CFOs we surveyed said the need for more budget authority is "highly" or "very highly" important for being able to transition to shared services. Even if their current way of doing business is inefficient, their agencies don't have the money to invest in IT infrastructure, move data to a shared services provider or pay for retraining for employees.

OMB and GSA want to help other agencies respond to shared services directives by conducting readiness assessments, and helping agencies with business cases and the business-process engineering. But CFOs said those two agencies don't have the resources. CFOs also wanted OMB or GSA to set standards that would allow agencies to compare providers' performance data more easily.

"It's frustrating because I think [shared services is] the right thing to do. But because there is no infrastructure investment capability in agencies, it is just not possible."

PROMISING PRACTICES FOR AGENCIES

The CFOs who are exploring a move to shared services focused on drafting a sound business case that assesses current needs, costs and performance of the administrative function. Information on the potential for cost reductions and performance improvements could convince agency executives to support a transition to shared services.

One agency developing the business case learned that more work should have to examine the agency's requirements for optimal performance of administrative functions, according to one CFO. "We used a guide from 10 years ago, but we have learned that a lot has changed. If we did it over, we would beef up the requirements first and then go into discovery."

Assess current needs, costs and performance

Agencies need to begin calculating the full personnel and system costs for specific lines of business as well as the current state of performance. If they do not have access to performance and cost data, they need to begin developing mechanisms to measure the quality of current service delivery, including obtaining input from the program officials dependent on those services to meet mission demands. According to many of the CFOs, the GSA and OMB benchmarking initiative has opened the conversation on cost data.

Obtaining this information internally can help agencies assess their operations and compare them to those of shared services providers. Nearly all CFOs agreed that it is essential to understand current costs. It is useful for this information to include an accounting of personnel doing support work that might end up migrating to a shared services provider, and taking an inventory of their work to develop expenditure data.

RECOMMENDATIONS FOR OMB

OMB should work with GSA to establish a team of experts to assist agencies

A shared services team could provide assistance with drafting a business case, identifying how cost data could be collected and analyzed, assessing risks and sharing benchmarking data. Such a team of experts could be made up of agency leaders across government who have experience migrating to shared services, either as customers or providers. The team could be particularly helpful for assessing risk—the activity CFOs said was most challenging for them.

OMB could model the team after GSA's mysteriously named 18F—a moniker based on the agency's location at 18th and F streets. GSA's team is composed of agency technologists who are available to other agencies to address fast-moving technology issues. GSA uses existing hiring authorities to recruit people to provide expertise that agencies don't have. GSA can achieve greater economies of scale by pooling employees' capabilities, rather than having multiple agencies compete for talent.

OMB should fund shared services pilots and evaluate their impact

Agencies are struggling with the start-up costs of shared services. By funding select pilot projects' start-up costs, such as those for setting up internal shared services centers or transitions to government-wide providers, OMB can begin to develop best practices for decision-making, as well as migrating and implementing shared services. Rigorous evaluation of the results of pilot projects should be used to inform agencies on best practices.

FINDING FOUR

Agencies face difficulties managing the workforce for a shared services model

A major challenge of moving to shared services is the impact on the workforce, according to chief financial officers or other senior leaders. An agency is unlikely to need the same number of employees once it moves to a shared services provider, and agency officials face difficult questions about what to do with displaced employees and what the costs are to retrain them. "I think one of the major deterrents to moving to a shared services provider is the unanswered question of 'What do you do with people that are left behind?'" said one CFO. Interviewees said they have little appetite to cut the workforce through a reduction in force or voluntary separations.

A reduction in force can be challenging for CFOs and other agency leaders. Job cuts are painful to implement and can have an impact on the morale of the entire organization. One CFO told us that after his agency consolidated accounting services, many people lost their jobs, which created a difficult cultural transition for those left behind. A CFO indicated that it can create a culture of fear. Employees do not trust their organization's leaders and think they could be next.

Another CFO told us that "due to federal restrictions, you can't just fire people because you don't have work for them anymore." A reduction in force is also a blunt tool. It often spares those with seniority and targets the newest employees—the very people an agency may want to keep. A cut in one unit can mean displacing employees in another unit, a process that can take months to settle.

An agency that formed an internal shared services support center acknowledged that the short-term cost of retraining staff can be prohibitive. "It cost more in the end to have to move [the staff] and retrain them" than it would have cost to move to the shared services center, the CFO said.

CFOs from large agencies also discussed Congress's interference with past attempts at consolidation. For instance, when their agencies sought to merge staff for greater efficiencies and less duplication, employees in field offices complained to their congressmen about the loss of full-time jobs. But keeping the personnel can be an expensive proposition. CFOs said the most effective cost savings from shared services likely will come from a reduction in labor costs. "Unless you are willing to [conduct a reduction in force], there are no cost savings," one CFO said. "There is no way you have to keep the same amount of people when you outsource your systems."

Universally, however, CFOs said shared services need to be viewed as a crucial process of change. "Our change management plans haven't been as robust as they could have been," one CFO said. "Now we do much more work on change management: This is how X will work, this is how X will benefit you. We've learned from the past."

Most CFOs described the advantages of reallocating some staff. About 40 percent of the CFOs we surveyed said a primary reason to pursue shared services was to enable agencies to reallocate, if not eliminate, full-time employees. Tight budgets make it difficult for agencies to increase personnel where they need it most—for pursuing the mission, they said. Transformation through shared services is a way for agencies to gain additional employees for delivering the mission and serving the American people, and fewer performing back-office jobs.

The benefit to pooling and strengthening expertise in support functions is the ability to share experts, such as an acquisition analyst with extensive experience or a human resources professional particularly knowledgeable about retirement policies. Shared services allows agencies to tap expertise without having to build it in-house.

“It cost more in the end to have to move [the staff] and retrain them.”

“Unless you are willing to [conduct a reduction in force], there are no cost savings. There is no way you have to keep the same amount of people when you outsource your systems.”

PROMISING PRACTICES FOR AGENCIES

The CFOs discussed several practices to build support by making changes incrementally and communicating openly about the changes. Below are several practices and strategies that deputy secretaries, CFOs and other senior agency leaders can use to manage change.

Integrate shared services into workforce planning

People issues are critical to any change management effort, and moving to shared services is no exception. Sometimes agencies have to count on the work of employees whose jobs are in flux and may be altered radically, a potentially awkward situation. Those employees are shutting down services they had been performing and, in many cases, are being asked to work strategically to help with the transition to shared services and then to work in the shared services environment. “People whose day jobs would fundamentally change are in an unusual spot,” said one CFO. “They’re closing the books on those jobs, but we also said that in the meantime, we need them to become subject matter experts in shared services, and by the way, their area is going to shrink by 50 percent at the end of the day.”

Several CFOs told us that transitioning displaced employees may be the costliest component of a shared services migration and the most difficult for the agency to handle. Agencies need to understand fluctuations in their workforce and their employees’ skills, said one CFO, who suggested that if the data are available, agencies should evaluate the future workforce by creating statistical models based on historical personnel changes. This can help agencies understand how retirements may affect the number of workers who would likely require retraining.

It’s important for agencies to determine the size of the workforce and the type of skills and training employees will need after a transition to a shared services model that is sure to reduce the number of employees performing certain administrative functions. “You have to have projections and make that decision based on the agency’s needs,” said one CFO.

Develop a two-way communication strategy for any changes

During a difficult shared services transition, having a communications strategy was vital to early success, CFOs said. “Communications strategy and early buy-in are essential,” said a CFO. It’s also a critical component for making the business case, said another CFO. A good strategy needs to include open communication as well as opportunities for leadership to listen and respond to workforce concerns. “People who were not included in the process had their feelings hurt a little. The leadership is going out to talk to them, and I think that will help,” said a CFO who learned a valuable lesson from the lack of a sound communication strategy.

The CFO of a department that plans to make a major move to shared services said, “It is important to have a good communication plan. We have to work through the people issue, the plans for how we’re going to do everything that needs to be done and make good estimates of time and costs. It is all about defining what [the agency] is going to do and what [the provider] is going to do and then deal with the people problems from there. We’re very clear about having transparency as our mantra.”

Deliver easy-to-achieve successes early on through incremental changes that demonstrate the potential of shared services

A few of the CFOs with shared services experience said they wished they had demonstrated some “quick wins” to their agency to rally workforce support. Incremental change can highlight success and quickly demonstrate the value of shared services for the agency. One agency moved quickly to build a track record on strategic sourcing, according to a CFO, who said that early success enabled the agency to gain support from other senior executives for a broader analysis of the agency's shared services options.

It was also important to get experience with shared services on a smaller scale, before moving to a larger migration such as consolidating an entire HR team. "It's important to bite off small chunks with definable scope in order to have success," said a CFO. "The lesson we have learned living through it is you have to just give it some time. Don't rush it. We have set a high bar but it is scalable." His agency continues to put changes in place. "We're striving for this to culturally feed on itself and have structured the project in phases to do just that. For example, we're going to do travel first, make the change, people get their new system and the world doesn't collapse. Then we'll go on to time and attendance, etc. Success is infectious. That's how you fundamentally change something."

"People whose day jobs would fundamentally change are in an unusual spot... [W]e need them to become subject matter experts in shared services, and by the way, their area is going to shrink by 50 percent at the end of the day."

RECOMMENDATIONS FOR OPM

OPM should publish a strategic guide for agencies, offering options for managing the workforce transition to shared services

An OPM guide should include direction on how to approach human capital changes, including timelines, guidance on retraining and options for reducing the number of employees—either through buy-outs, phased retirements or reductions in force. It should also give agencies help on how to assist employees through resume writing, outplacement and other services.

CONCLUSION

For decades, the growth of federal shared services has been slow, but mounting fiscal challenges are compelling chief financial officers and other senior leaders to consider the idea of shared services. Despite the hurdles many CFOs see in transforming their administrative operations, some have pushed forward to make bold changes. Others are aggressively examining their options, to determine how their operations could improve from a move to a shared services management model. The success of these CFOs and agency leaders will be critical in demonstrating the transformative value of shared services.

Some agencies are unlikely to move ahead until they believe that shared services is a management priority that will be backed by a strong system for holding providers accountable, and that there will be a sufficient amount of high-quality providers available. Without knowing providers' capabilities or being able to assess the costs and effectiveness of their own operations, agency leaders are unlikely to understand the potential of shared services to reduce cost, increase efficiency and improve performance. Finally, managing changes to the workforce—and the prospect of possible reductions in the workforce—create barriers that CFOs and other agency leaders are reluctant to tackle.

Agency leaders can foster transformation in their agencies but can only go so far without sustained support from the White House, the Office of Management and Budget and the Office of Personnel Management to demonstrate that shared services is a top management priority. Without that additional pressure for change, the government-wide effort to embrace shared services will not advance as quickly as it could. Prioritizing shared services means supporting agencies as they examine the approach, ensuring those who are exploring deeper shared services relationships do not fail, and holding agency heads accountable for meeting deadlines in shared services adoption.

Progress will require a consistent and relentless focus from OMB and Cabinet secretaries. The consolidation of payroll providers—from 26 to four—took nearly a decade, but persistence paid off. Ultimately, payroll became so successful and is so embedded in agencies operations that many CFOs don't dwell on the fact that it is now a relatively painless shared service or that employee paychecks are processed by an external provider.

The Partnership for Public Service and Deloitte will continue to report on government-wide adoption of shared services and share lessons learned for practitioners. We will also continue to give a voice to agencies about their frustrations, and report on the progress of shared services transformation. In future reports, we plan to illuminate the state of shared services in selected lines of business and highlight how developments in each can enhance government-wide shared services adoption.

APPENDIX ONE

RESEARCH METHODOLOGY

The Partnership for Public Service and Deloitte set out to understand the extent to which agencies are using or moving toward shared services, and what the key barriers are to implementation of shared services strategies, from the perspective of agency CFOs or other senior leaders. We conducted a literature review of the field in the public sector. This review included past and current initiatives in shared services as well as best practices in implementing shared services.

We also conducted interviews with chief financial officers and senior management figures at 18 agencies and offices, including: Department of Agriculture, Department of Commerce, Department of Defense, Department of Education, Department of Health and Human Services, Department of Housing and Urban Development, Department of the Interior, Department of Labor, Department of Transportation, Department of Treasury, Department of Veterans Affairs, General Services Administration, National Aeronautics and Space Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, and U.S. Agency for International Development. The group included 11 CFOs, four deputy CFOs, an assistant secretary for administration, a deputy assistant secretary for administration, and a director of a business operations center.

From June through August 2014, we conducted in-person interviews with 40 people with financial and management oversight of shared services implementation, some with direct experience in directing the planning or transitioning to a shared services management model. We also reviewed publicly available information on the activities occurring at these agencies.

APPENDIX TWO
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