

Shared services: delivering success

Based on a paper presented at the UKSG One-Day Conference, London: 'A Problem Shared? Understanding shared services and the drive for efficiency in scholarly communications', on 16 November 2011

'Shared services' is a misused and imprecise term. Often treated as a magic formula to improve efficiency, it covers a wide range of collaborative models. Frequently, it does not deliver the anticipated benefits due to over-optimism, lack of robust analysis, poor implementation and selecting the wrong model. This paper explores case studies of different shared services models, the lessons learned, the success factors and provides some tips on implementation. It also proposes a practical model to assess whether a shared services option is likely to deliver the objectives being sought and, if so, which is likely to be the best model. Finally, it points out that shared services can be cross sectoral and asks whether some higher and further educational institutions could find a business opportunity through taking over the running of local authority library services.

'Shared services' is a much misused term, a 'magic formula' which appears to lead to greater efficiency. Its imprecision makes it an ideal term for politicians and policy makers to use widely, their argument being that if only all public sector organizations implemented shared services, all would be well and problems created by the increasingly tight funding would be overcome. So, what are shared services, how might they be used to deliver efficiencies and service improvements, and are they always appropriate?

Shared service arrangements can include any collaborative model, ranging from benchmarking through collaboration on single projects to, ultimately, a joint service. There is now plenty of evidence to show that collaboration and joint working can lead to benefits, but there are failures, unnecessarily so. The potential benefits are obvious: lower unit costs through economies of scale, avoidance of duplication, greater procurement leverage, savings on IT, enabling access to the best expertise that the sharing organizations possess and savings in management costs. For example, if two organizations join together, the work of two senior managers doing similar jobs might be compressed to, say, 1.25 posts.

However, shared services are not a panacea. They do not necessarily deliver the anticipated benefits, and the groundwork in evaluating possible options has to be thorough. Some examples may illustrate this. (These are taken from various industries but the concept of shared services is common to all.)

When I was Director of the North West Centre of Excellence, responsible for supporting 47 local authorities in the delivery of efficiencies, shared services seemed an obvious opportunity. A study of waste collection services in 2006 showed a variation in cost per household of from £28 to £67. Closer inspection of the data indicated that we were not always comparing like for like. After taking this into account and recognizing the geographical differences between councils, it was concluded that the real difference was about 30%. So a review of waste collection for a group of councils in Cheshire was commissioned, which concluded that savings of 10% could be made by creating a single organization to serve them all. Savings could be made through 'sweating' assets, for example, making much greater use of each waste collection vehicle and making more intensive use of depots. Vehicles did not have to turn round at council boundaries and there was an opportunity to introduce more efficient work practices. However, nothing is



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24 straightforward in the real world. Depots could be combined, but sometimes only, say, half the space in a depot could be vacated and it might have been difficult to sell or let the rest in order to derive an income. This was one of the factors that led to the reduced savings estimate of 10% (still worthwhile).

In a very different example of shared services, in 2009, five London boroughs formed the London Boroughs Legal Alliance. I carried out a study to investigate whether collaboration would be beneficial and what was the best model. The study identified that there was duplication of generic advice. For instance, each council would provide separate advice on, say, a court decision. Eliminating this would reduce the workload both of council-employed legal personnel and of external solicitors. Also, going to the market jointly would enable better prices to be secured for legal advice. Several possible models were considered; a single organization serving all the councils could have delivered savings of 20–25%. It could have created centres of expertise in particular topics, e.g. children's services. However, the model that was recommended was for a loose collaboration, which was expected to save 10%. This meant that information was shared between councils; some IT needed to be bought to facilitate this and funding was provided by London Councils.

Several issues arose in this study. Firstly, the quality of the data was often poor; types of workloads were not always known and statistics, where they existed, were not always comparable. So a cautious approach had to be taken to calculating savings. Also, there was clearly much nervousness from the legal teams in the councils about joint working, and trust needed time to develop.

Whilst the recommended approach was sub-optimal, the best can be the enemy of the good and the recommended solution was workable. The funding for the new system was not necessary since it could have been paid for by in-year savings, but it was a catalyst. As a safeguard, the chief executives of the councils provided written commitment to the alliance. Since then the alliance has grown to over ten councils, which would not have happened had the 'best' solution of a joint organization been chosen.

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The next example is that of a consortium. Arriving as the first Director of the North Western Universities Purchasing Consortium (NWUPC) in 1997, I discovered that the consortium was in serious trouble. Its members felt it was not delivering value for money, membership fees were high (between £7,000 and £23,000 a year), its purchasing agreements were little used, so suppliers were disenchanted and saw no reason to offer value for money and the five Manchester Universities – the total membership was 14 universities – were threatening to pull out. It seemed likely that the benefits of collaboration were exceeded by the costs, particularly as the costs of time and travel to meetings were never measured. Also, the consortium HQ was housed in what can best be described as a garret in a Liverpool University building. It did not promote a professional image.

However, there was also an upside. Collaborative category groups existed. It was a question of creating the structures and motivation to galvanize them.

Quick action was needed to save the day. The procurement director at Manchester University was persuaded to accept the post of honorary Head of Contracts for the consortium. As he was acknowledged as the most influential of the procurement directors and extremely able, this kept the Manchester Universities in the consortium. New, but still cheap, offices were found in Manchester. However, more significantly, a much more disciplined approach was introduced. After 18 months' effort, the finance directors who made up the management board agreed that suppliers should contribute a rebate to fund the consortium. The protracted effort to get this agreed illustrated a human issue. The finance directors appointed me to introduce change. However, when it came to change, many of them were the most vocal opponents.

The suppliers were persuaded to accept paying a rebate on the premise that this would give NWUPC an incentive to ensure that the agreements were used. To help ensure this, before any tendering was started, each university was required to decide if it was 'in' or 'out'. If it

25 was 'in', it was expected to try to ensure that its staff complied with the agreement. If it was 'out', it had to stay out for the life of the agreement. So people had to make a choice at the outset.

Did this all work? Subscriptions went down, from £23,000 to £7,000 for the largest university. Spend through the purchasing agreements rose from £5m to nearly £50m and consortium membership increased from 13 to 21 – all in two years. However, it taught me that creating a vibrant and viable consortium is a huge amount of work. It is a mission.

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Moving to the research councils in 1999 to head the Joint Procurement Unit, I found that things were anything other than 'joint'. Five research councils were supposed to be working together on procurement, but little was achieved. On my second day a supplier visited me to say that he had received less than 1% of the expected joint business. Essentially, co-operation extended to joint meetings – plenty of them – but people were protecting their roles in their own research councils. If collaboration worked, there was fear that someone might propose a logical next step, a joint organization. Perversely, because it didn't work, I proposed just that. The finance directors were persuaded to commission me to do a study of the most appropriate model for collaboration – if collaboration was justified. The review was very thorough and the potential benefits of each collaborative model were evaluated for each council. Plenty of procurement data was available in finance systems, though largely unused until then, so it was possible to assess whether joint working was likely to benefit the councils. The most difficult part of the review was assessing costs and workloads of the existing organizations and it sometimes required estimates. However, one model scored well ahead of all the others, a single organization to serve all the councils.

The management board took an interesting decision. Having been appointed as the director of the new organization, I was given two months before line management of all the procurement staff was to pass to me. There was then a further year to turn it into a coherent organization. Members of staff were given the option at the end of that period to move back to their own councils, though not in a procurement role. Service-level agreements were created between the now 'Research Councils Procurement Organization' (RCPO) and customer councils – 'we will provide this service as long as you provide us with X and commit that all your procurement will go through the new organization'.

The new arrangements saw an increase in workload of between 15–25% compared to the combined workloads of the previous procurement organizations that had been merged into the RCPO. This increase was partly because all procurement work came through the RCPO and there was a disciplined approach to procurement for the first time. Administrative costs went down by 15%, specialist category teams were formed and there were major cash savings from procurement of several £millions. Several years later, the management board estimated that procurement savings in the first ten years would amount to some £170m.

As a postscript, several years after I left the research councils, it was decided to extend the compulsory use of the RCPO to all the research institutes belonging to the research councils (rather than the optional use that I had left). To facilitate this, an IT project, anticipated to cost around £70m, was set up. However, for a variety of reasons (commented on in a recent National Audit Office report) the costs escalated to around £130m and it seems possible that the costs of the system may exceed the additional benefits envisaged over a ten-year period.

Several lessons can be learned from these case studies. Collaboration can bring benefits of aggregation, commonality of specifications, commonality of procedures and doing things once. However, the full costs of collaboration are rarely measured and it will frequently prove not to be cost effective. The work also seems to be done by a few willing volunteers, people's day jobs take precedence over consortia or collaborative work, and the biggest institutions see the least benefit as they may already be large enough to secure the benefits of collaboration. Collaboration can therefore seem to be more trouble than it is worth.

26 Creating a joint organization sounds difficult, but, taking the approach of the research councils, it can be done quickly and does not allow time for significant opposition to materialize. It is likely to generate far greater benefits than other less structured collaborative models. Also, its costs are fully evident, performance can be measured – very difficult to do with a less structured collaborative model – service levels can be defined and one can operate through service-level agreements. Hence, there can be full accountability.

However, the business case needs to be thorough. Many people will need convincing and others will spend much time in trying to demolish the case. It is best to keep key stakeholders informed of the progress of the review and take on board their comments as one progresses. Above all, the business case must be honest. One must be prepared to recognize when the evidence does not support what had previously been the preferred option. If the case is weaker for one organization to join, this must be out in the open.

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A further lesson is that IT is rarely key to implementation and that quick fixes – probably available from a variety of small IT companies – may be a better and much quicker option than an IT project. Again, the best can be the enemy of the good. Implementation of a joint organization is difficult enough without having an IT disaster on one’s hands. A reasonable rule of thumb might be that IT should be funded from savings already achieved, rather than from potential savings that experience has shown often do not materialize.

A first step in assessing what might be the best collaborative model is to be clear about one’s objectives. One should then evaluate them against the possible collaborative models, including ‘no change’ or ‘no collaboration’ options. A quick idea of what can be the best model can be gained through creating a matrix against which each potential collaborative model is rated on how far it is likely to be able to deliver each objective: a simple scoring system ranging from five points for 100% delivery down to zero points for not at all. The first thing that is likely to become evident is that there is no perfect model and each model may score highly against a certain objective and low against others. So, one is aiming at a best fit. It is then worth doing a similar exercise by scoring the issues and risks against each model. One can then gain a better idea of where one is likely to be heading. One can make the evaluation matrices more sophisticated by weighting each objective, issue and risk, but, for the first pass, one should keep it simple and without weightings.

So, what are the rules for success in shared services?

- clear and realistic objectives
- clear business plan
- strong project team
- good quality business case
- good quality analysis
- apply due diligence
- select the right model – be realistic
- clear understanding of existing costs
- consider a constitution or set of rules
- ensure the right governance structure
- ensure strong support from the top
- introduce performance measurement
- be prepared to be flexible; government policies and funding can change

- do not avoid issues
- do not start unless one is determined to see things through.

There are four further golden rules. Firstly, do not collaborate with those who are not fit for collaboration, because they will not be able to implement what has been agreed (and probably will bring everyone else down with them). The second rule is to collaborate only with those who wish to collaborate. Undermining is difficult to handle, so best not get into that position in the first place. Thirdly, implement quickly – before opposition has time to materialize. This is particularly important if one is creating a joint organization. Fourthly, avoid significant investment in IT until one can do so from already realized savings. A flaky business case will then become evident and look pretty unattractive. Quick and cheap fixes might look a much better bet.

Finally, collaboration can be cross sectoral. Is there a business opportunity for universities and further education institutions to take over the library services of their nearby local authorities – running them more cheaply, improving the service, boosting engagement with local communities and mitigating some of the cuts in local government funding of them?

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