

**AIM Insights**

# **SHARED SERVICES IN THE PUBLIC SECTOR**

## **A TRIUMPH OF HOPE OVER EXPERIENCE?**

**WHITE PAPER August 2012**



Australian  
Institute of  
Management

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# FOREWORD

This paper has been produced by the Australian Institute of Management NSW & ACT, in partnership with the Australian Institute of Management QLD & NT, as a contribution to leading thought on relevant management topics.

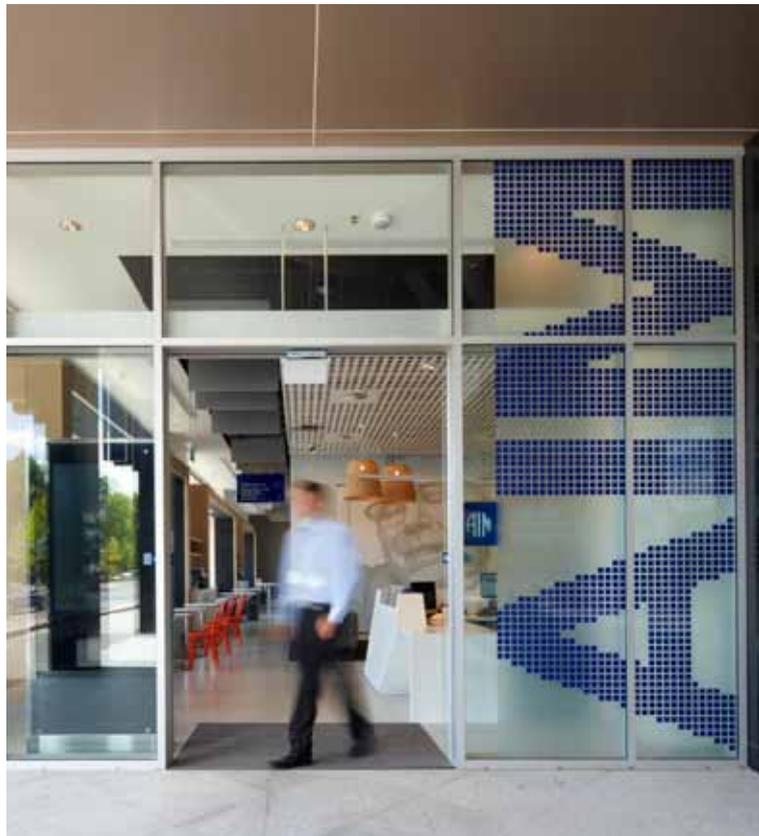
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The "White Paper" designation signifies that this document:

- Contains our conclusions on an issue that has relevance to the management community
- Builds on our initial thoughts and insights, developed through a process of qualitative and/ or quantitative research and set out in our previously-published Green Paper
- Is ready for circulation both to members of the Institute and to the broader management community to inform their thinking, policies and practices.

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# RESEARCH INSIGHTS

Sharing of “back office” services by public sector organisations offers obvious and concrete benefits which include:

- Lower costs in transaction processing (efficiency)
- Consolidation of high-end functional expertise (effectiveness)
- Greater professionalism and better career paths within shared support functions
- Greater focus on core business within the remainder of each organisation
- Promoting regional policy objectives and overcoming geographical skills shortages
- Facilitating “Machinery of Government” changes

During the last decade, governments in almost every Australian jurisdiction have seized upon shared services as a cost saving option. Often (if not initially, then eventually) they have aimed to achieve some or all of the other benefits listed above as well.

Sadly while the benefits are clear in-principle, in practice large-scale public sector shared services implementations have almost invariably been problematic. The literature describes overly optimistic business cases, poor governance, bad technology choices and lack of ongoing political sponsorship. The Auditors-General of several Australian jurisdictions have reviewed cost overruns and delays in implementation. In some cases, they have expressed doubt that shared services will ever achieve their promise.

With such clear benefits in view on every occasion, we suggest that this can only have occurred through systematic underestimation of the costs and/ or risks of implementation — caused by behavioural factors which have not been given sufficient weight, either in business cases or in implementation planning and execution.

**We believe the principal such factors are:**

- Optimism bias by proponents at the whole-of-Government level
- Fear of loss of control by players at the individual agency level

It is certainly indicative of optimism bias that time and again, start-up and transition costs and timelines have been greater and longer than originally planned. This has been well documented, and no doubt future proponents will be well aware of this risk. In our view, it would be prudent for the business cases of future shared services initiatives to include adjustments for optimism bias and identify tactics for bias mitigation.

The drivers behind fear of loss of control are, it

would seem, less well understood. They are clearly illuminated in the report that recently recommended the Western Australian Government should decommission its whole-of-Government shared services solution and return corporate services to the agencies. The report shows that labour-related costs across Government would **decrease** by \$356 million (net present value) over the upcoming 10 year period as a result of this decision. This suggests that agencies had retained much of the capacity and capability required to deliver corporate services, even after a whole-of-Government shared services arrangement had been set up.

In order to minimise the loss of control experienced by players at the individual agency level, and to encourage greater buy-in by the different players (and in effect, a willingness to relinquish some control), we believe the following is required:

- Appropriate and sufficient political sponsorship and a consequent focus on potential service delivery improvements as well as cost savings
- The articulation of expected service improvements at an agency level, so that individual agencies are able to weigh benefits against their risks, including the risk of loss of control
- A willingness to tailor shared services – to a reasonable degree, consistent with maintaining process standardisation at a level that delivers economies of scale from the shared service arrangement – in order to accommodate differing agency business needs (again, providing individual agencies with some control over the function they have relinquished to the shared service provider)

This paper will be useful for jurisdictions that are contemplating shared services implementations. Equally, the research insights will very likely be relevant to other large scale public sector reform initiatives.

# RESEARCH PROCESS

The insights contained in our Green Paper (AIM, September 2011) were based on a combination of desktop research and confidential in-depth interviews with a number of senior executives — all of whom have been, or are still, involved in a large-scale public sector shared services implementation in some way.

In the next phase of this project we undertook a case study of shared service arrangements in the ACT Government which, unlike the experiences of other jurisdictions, is widely viewed as a success.<sup>1</sup> The purpose of the case study was to better understand our initial finding that behavioural issues are at the heart of getting shared services right. Accordingly, the case study focused on the experiences of individual staff members in the transition to the shared services arrangements. Interviews were conducted with a representative mix of leaders, functional owners, decision makers, service receivers and service providers from a cross section of agencies and groups within the ACT Government.

Of course, there are unique factors that characterise the ACT Government shared services initiative, which make it more amenable to this change. Not all of these factors translate into generic advice that can be used to guide similar initiatives in other jurisdictions. For example, Ministers in the ACT commonly hold multiple portfolios which mean they are more likely, we suggest, to see the benefits of shared services compared to their counterparts in other jurisdictions who are responsible for a narrower span of activity.

Notwithstanding these differences, we believe that many of the findings of this case study can be usefully extrapolated to other jurisdictions. A number of these findings are discussed within the context of our conclusions below. The full case study can be found at Appendix 1.

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1. We note that interview participants in the ACT Government case study indicated that their capacity to draw on the experience of, and seek assistance from, other jurisdictions has contributed to the ACT Government's success.



# RESEARCH CONCLUSIONS AND OBSERVATIONS

## BEHAVIOURAL ISSUES ARE AT THE HEART OF GETTING SHARED SERVICES RIGHT

The way people behave – how they work together and their preparedness to collaborate – is the key. The principal areas where behavioural issues have emerged in our work are:

- 1 The right change imperative
- 2 Appropriate and sufficient political sponsorship
- 3 Strong collective leadership
- 4 A realistic business case

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Let's look at these elements more closely:

### 1 The right change imperative

There are many good and rational reasons why Governments may want to reduce costs or redirect resources from “back office” to service delivery.

Of the senior executives interviewed for this study, virtually all confirmed that cost reduction was initially the major driver for implementing shared services in their jurisdiction. Interestingly, the strong message is that these initiatives would probably have been more successful and easier to implement if there had been greater focus on service improvement (ideally within each participating organisation), not simply on cost reduction.

Why is this so? Simply, the effort/ reward tradeoff from an initiative focused on cost reduction, when seen from an individual player's point of view, is unattractive.

Large-scale public sector shared services, in particular, are difficult to implement and carry concrete costs and risks to those involved. If focused on reducing costs per se, the benefits they deliver are at best diffuse (more/ better service delivery across Government) and at worst, abstract (improvement in the whole-of-Government budgetary position). On the other hand, the use of savings to generate service delivery improvements directly within each participating organisation is a considerably more concrete proposition, and hence easier to align people with. It was suggested to us very strongly that after an initial period of success on this basis, it would probably become easier to get traction with the higher level benefits.

## 2 Appropriate and sufficient political sponsorship

Since large scale public sector shared services implementations by definition span multiple departments and agencies, it is critical for the implementation of these initiatives to have visible top level political sponsorship.

Our work also suggests that the right political champion is important. Typically, in Australia, Treasurers or Finance Ministers have been the political sponsors of such initiatives, supported by their agencies. There is no doubt in our mind that it is necessary for these initiatives to be driven by a central agency and its Minister—at least at the outset. However, the financial orientation of these particular players has inevitably resulted in a greater focus on the cost reduction benefits of shared services while playing down the other benefits (particularly service delivery improvement aspects, both internally and externally).

In our view, a more appropriate political

sponsor for a large-scale public sector shared services initiative would be one whose role was instead oriented towards (for example) improvements to public sector administration.

Whoever the political sponsor, they also need to be:

- Visible (and able to sustain their public support for the initiative—even if implementation does become problematic)
- Durable (a large-scale public sector shared services initiative can span two terms of Government, or more)

The experience in the ACT resonates, to an extent, with our conclusions. Interview participants in the case study observed that the shared services initiative in that jurisdiction was publicly defended by the Chief Minister after receiving criticism from the Opposition. This had the effect of raising the profile of the initiative and setting clear expectations to the Chief Executive Group.

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## 3 Strong collective leadership

The outside world may look at Government as a single enterprise, where change can be imposed and orders are invariably understood, accepted and followed. This is not the way Governments tend to operate. Government agencies are typically set up as standalone organisations with a certain degree of autonomy enshrined in legislation. The primary responsibility of the agency's leader is usually to manage it well, with a secondary responsibility to participate in mandated whole-of-Government initiatives (albeit not entirely clear whether this is constrained in any way by their primary responsibility).

When shared services initiatives are attempted across agencies, this is equivalent to setting up shared services across a number of different private sector companies. The organisations involved will not all have the same issues and objectives. Whole-of-Government initiatives in other domains

have not always met with great success, for example IT outsourcing by the Federal Government. It is reasonable to expect a large scale public sector shared services initiative to encounter the same issues, and face the same challenges to effective execution.

To be successful, the leaders of the participating organisations must all be pulling in the same direction. Whilst leadership in and of itself cannot enact major change, the championing of change, combined with communication and other change strategies, does make for more effective change. Our case study confirmed that leadership really does matter. The case study data shows that the leader of the change program was very effective; however it also shows that leadership within agencies is very important. A system-wide leader still needs a coalition for reform throughout the system, embedded in organisations, to make large scale change work.

While this emphasis on leadership seems obvious, good leadership doesn't always happen. In the 2005 Accenture survey of 94 government executives across 13 countries, lack of top level leadership support was rated as the second largest challenge in implementing shared services.

The governance model adopted in cross-agency public sector shared services implementations to date has generally included a board or committee consisting of (some but not usually all) CEOs or agency heads. This is a powerful assembly, the role of which has typically been to:

- Approve the shared services design solution
- Decide the change management approach
- Address all key implementation issues.

It has been observed that leaders may well attend this forum because the shared services initiative has been mandated. They may not personally support it, or they may be neutral about it. Other leaders, whose support is necessary for the initiative to succeed, may not be represented on the governing body at all.

It has also been observed that subordinate managers, for example heads of corporate services, often have their own subsidiary governance bodies, where the calculation of costs and benefits is different again as they are likely to have a stronger attachment to the status quo. Both individually and collectively, these players are naturally in a position to influence the views of their leaders.

The positive support of leaders, their preparedness to work together, and their acceptance and management of the risks involved, are all necessary preconditions for the success of a shared services initiative. Without them, the initiative will be problematic from the start.

Leaders also set the tone for the people in their own organisation, and it will become clear very quickly if the CEO

doesn't actively support the initiative—at which point, resistance to it will become organisationally acceptable.

One key lesson from state Government shared services implementations in Australia has been that the leaders of the participating organisations often saw a shared services initiative as a potential loss event. Their calculation of the net benefit involved in implementing shared services tended to take account of costs and risks (mostly associated with loss of control over corporate services delivery) that are not necessarily visible/taken into account/ weighted in the same way at the whole-of-Government level.

The application of game theory provides a useful lens through which to understand why and how the best available collective outcome may not be achieved from a shared services initiative that has been mandated at the whole of Government level, due to the players' apparently rational fear of loss of control, and the choices they make in pursuing the best available individual outcome instead.

Game theory is the study of the ways in which strategic interactions among people (and other forms of agents) produce outcomes that may or may not be matched to the preferences or desired outcomes of those people. In game theory, interactions are considered strategic when the parties to the exchange can take into account the expected actions and reactions of one another. Most often, suboptimal collective outcomes arise due to a lack of trust in one another's actions, and in the consequent attempts by individuals to optimise their own outcomes directly, in preference to collaborating for achievement of the best available collective outcome.

It seems to us that each individual leader will rightly be mindful of the risks their organisation faces (and indeed they personally face) from an initiative (shared services) which entails putting their trust in an external provider to deliver cost savings they cannot guarantee, at an opportunity cost (in terms of loss

of flexibility and control) they cannot measure. Subordinate managers, with influence on their leaders, have even clearer personal interests at play.

One of the dangers in pursuing a large scale public sector shared services initiative, as game theory tells us, is that one or more parties may adopt a zero sum mindset when the actual structure of the initiative or “game” is non-zero sum (ie the best available collective outcome is better than what can be achieved by each agency acting in isolation).

Because of this, our research participants generally agreed that the leaders involved should, ideally, have their performance judged on achievement of the collective outcome, in order to give them “skin in the game”. We observe that, while unarguably a fine sentiment, this may be hard to achieve when leaders’ performance is, in fact, assessed on their contribution in multiple areas of policy and service delivery, among which a single “back office” improvement initiative may not rank particularly highly.

Other mechanisms may be employed that shift the parties from a “non-

cooperative game” towards a “cooperative game”. As well as building in strong collaborative mechanisms and ongoing and visible sponsorship at Ministerial level, articulating the benefits for individual parties may go a long way towards negating self-interested behaviours that could serve to undermine the overall success of the shared services initiative.

A further mechanism, made evident in the ACT Government case study, is to recognise at the outset that one size does not necessarily fit all. Different agencies will have different needs and any model of shared services needs to be sensitive to the nature of business undertaken by these organisations.

We believe that if the shared services implementation is able to capture, to a reasonable degree (that is, consistent with maintaining process standardisation at a level that delivers economies of scale from the shared service arrangement), the specific needs and expectations of different agencies and build these into the services that are delivered, the sense of loss of control by individual agencies will be less acutely felt.

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## 4 A realistic business case

We first observe that the “shared services” label has been used over time to cover many kinds of initiatives, and that a proper large scale shared services business case can only relate to a proper large scale shared services initiative. For example, simply changing reporting lines for large numbers of back office staff is hardly worth the label of “shared services”, and cannot reasonably be expected to yield any of shared services’ benefits. Co-locating those staff, while it might yield some financial savings, is also hardly worth the label “shared services”. Nor is coordinated procurement of goods and/ or services a “shared service”, even if it is large scale. The benefits of large scale shared services can only be harvested, and benchmark levels of cost performance can only be achieved, through adoption of common “back office”

processes across multiple organisations. If the business case says otherwise, it is not a shared services business case.

Large scale shared services implementations in the public sector are clearly complicated affairs. In Western Australia, for example, the initiative involved setting up three shared service centres and rolling the corporate services functions from some 100 government agencies into them, while concurrently implementing a new technology platform. This was a complex environment with a large number of stakeholders and a high degree of aversion to change. Every large scale public sector shared services initiative is anticipated, planned and implemented in a similarly complex environment.

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2. In zero-sum games, choices by players can neither increase nor decrease the available resources so that what one party wins the other party loses.

In the implementations we looked at closely, we found that the decision to commence the initiative was often based on an initial high-level business case, and that when a more detailed analysis was done for implementation planning (or indeed, when the estimates were revisited after implementation commenced) the real metrics were, in some cases, significantly different. Typically the financial benefits were overstated, the service improvements were understated and the implementation timeframe was underestimated.

It seems to us that in many instances the original (relatively high level) business cases relied too heavily on private sector benefits benchmarks and did not take proper account of all factors relevant to the implementation, particularly costs and risks, such as:

- Complexity of the implementation process
- Degree of change management required
- Availability of sufficient resources with the capability to deliver
- The weight of contextual constraints, for example:
  - Political influence over tactical implementation decisions
  - The public sector industrial relations environment

In addition, while the business cases may have identified faithfully how the promised benefits (particularly financial benefits) would actually be gained from sharing, implementations have sometimes had trouble delivering the initiative as designed. As they have progressed, we have seen variations from the initially anticipated degree of standardisation and hence sharing. The result of this is, of course, to increase the cost of implementation and to make the originally anticipated financial benefits less achievable.

Finally, we observe the self-evident truth that if its business case does not show a net benefit, even when all relevant factors have been accounted for, then a shared services initiative should not proceed. We suggest that if the proponents have made a degree of emotional or political investment in the initiative, they may find it hard to take that decision.

We suggest that the business cases for large scale public sector change initiatives are so often not reflected in the benefits that are actually delivered because of cognitive

bias (systematic, directional biases in judgement that are predictable) on the part of proponents. Specifically, we conclude that optimism bias can impact on the capacity to develop realistic business cases.

Optimism bias is defined as the tendency to overestimate the chances of experiencing a positive event, or underestimating the chances of experiencing a negative event (Weinstein, 1980). Optimism bias is more likely to occur for some events than for others, and as a function of who or what the comparison metric is. For example, people are more likely to display optimism bias for events that are controllable, because they over-estimate their ability to steer the outcome (Klein & Helweg-Larsen, 2002).

Optimism bias has been shown to influence decision-making and forecasting in many areas of policy, planning, and management not just shared services (for example, the costs and completion times of planned decisions tend to be underestimated, and the benefits overestimated, due to optimism bias).

A technique called Reference Class Forecasting<sup>3</sup> has been developed to identify and reduce the impact of optimism bias and increase forecasting accuracy by framing decisions so that they are based on more accurate information about the distributions, actual odds, and frequencies of events based on previous comparable processes.

Whether assuming that known pitfalls, which have brought other initiatives unstuck, will not be encountered on this particular one, or using high level benchmarks (particularly around cost saving) that may not be relevant/achievable), optimism bias will almost inevitably be a risk at the shared services business case stage—storing up trouble down the track if not addressed by a hard-headed independent look at the assumptions and numbers. Put simply, human nature pushes proponents to present the business case in its best light, and also makes them more likely to make “line ball” decisions in favour of proceeding.

Both her Majesty’s Treasury in the UK and

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3. Reference Class Forecasting is based on the theories of decision making under uncertainty of Kahneman and Tversky. It is a method of forecasting that takes the “outside view”—that is, the outcomes of a project are predicted by looking at the outcomes of comparable projects.

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4. Further information on these UK government policies and guidelines can be found at [www.hm-treasury.gov.uk/green\\_book\\_guidance\\_optimism\\_bias.htm](http://www.hm-treasury.gov.uk/green_book_guidance_optimism_bias.htm) and [www.communities.gov.uk/publications/corporate/adjustingoptimism](http://www.communities.gov.uk/publications/corporate/adjustingoptimism)

local government divisions have a set of guidelines for assessing, quantifying and controlling for the impact of optimism bias. These guidelines assist project appraisers to make explicit adjustments as a function of the levels of optimism bias, and this adjustment usually results in increasing the anticipated cost and time-line for project completion and delaying the receipt of estimated benefits.<sup>4</sup>

The type and complexity of project will affect the impact of optimism bias and the potential for mitigating optimism bias factors. Therefore the UK Government

Treasury guidelines recommend that adjustments be empirically based—that is, based on data from past comparable projects—to ensure that adjustments accord with the characteristics of the project at hand.

In view of the history of shared services implementations in the Australian public sector we consider that adjustments for optimism bias and tactics for mitigating such bias should be built into the business cases of future initiatives.

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## GETTING THE MECHANICAL ISSUES RIGHT IS IMPORTANT TOO

In every large scale public sector shared services initiative, there are other issues around maintaining the necessary level of standardisation required to deliver shared services benefits. We have labelled these issues “mechanical”, to distinguish them from the behavioural issues, which we believe are at the heart of what needs to be got right.

### Ongoing relationships

The success of a shared services initiative is not determined at the moment implementation activity ceases. Realising the benefits may take some time and depends on a strong relationship being forged between the shared service provider and the client organisations.

Too often, this evolves into a “master-servant” relationship, where the client organisations exert their dominance over the shared service provider by demanding more and more customised solutions and the provider responds with ever-increasing tailoring of their services. While, as noted earlier, it is important that client business requirements are met where possible, too much tailoring by the provider can undermine the provision of services using standardised business processes, which in turn diminishes the initiative’s ability to achieve economies of scale, and hence is one of the main reasons for underachievement of anticipated business case benefits.

### Technology

Achieving economies of scale in transaction processing requires standardised business processes, and these can only be truly achieved when a single technology platform is used. The dilemma for every shared service initiative is when to move to a single platform—at the beginning of the implementation or after processing has been consolidated into the centre. Either way, it is a difficult and expensive undertaking:

- In Queensland, the technology move was made after the processes were consolidated. While most of the executives we spoke to agreed that it would have been better to implement the new technology at the start of the project, this would have required a capital investment for which the Government’s appetite was unclear
- In Western Australia, the single technology platform was implemented in parallel with the process consolidation. We observe that difficulties with implementation of the technology increased the overall cost and created delays in the schedule, all of which evidently contributed to the recent recommendation that responsibility for corporate services should be returned to the agencies

# FUTURE DIRECTIONS

It was once believed that outsourcing (which allows the outsourced provider to obtain further economies of scale by combining the processes of many customer groups, and also has the benefit of commercial innovation in delivery of “back office” service delivery) was either an obvious next step to shared services, or indeed an alternative to it. This is certainly the case in the commercial world, where it is often combined with “offshoring” to take advantage of “labour arbitrage”, that is, lower labour costs in developing countries.

There is emerging interest in alternative “back office” service delivery models, which are neither pure shared services nor pure outsourcing. In the UK, an often-cited and long-standing model is the Xansa (now Steria) partnership with the Department of Health. Known as Shared Business Services, this opt-in shared services model was assessed by the UK National Audit Office in 2007 as being on track to deliver financial benefits amounting to Stg160 million over nine years. In Australia, similar (albeit smaller scale) partnership and alliancing models have been trialled by some local councils.

Within the traditional public sector shared services construct, the behavioural factors discussed earlier in this paper may mean that portfolio-based shared services “clusters”, reflecting the alignment of agencies’ interests insofar as they all report to a single Minister, may be more effective than continuing to attempt to “cluster” less-aligned agencies.

We also note that a greater degree of pragmatism has entered Governments’ consideration of their large scale efficiency options, in many cases falling short of large scale shared services. In New Zealand for example, the State Services Commission identified the following potential opportunities:

- 1 Sharing good practice, processes and systems
- 2 Reviewing shared services opportunities when certain trigger events (for example, Machinery of Government changes) occur
- 3 Directing agencies to comply in specific (and by implication relatively constrained) situations
- 4 Sharing “back office” services for small agencies

The Federal Government’s “*Review of Agency Efficiency Measures*” is similarly pragmatic.

In the UK, the National Audit Office has proposed greater transparency around decisions to adopt shared services: “If public bodies choose not to adopt shared services, they should demonstrate clear business cases showing why shared services are not the most suitable option. This approach could be termed share or explain”. Such transparency should make it easier for public sector organisations to support initiatives that provide collective benefit.

Finally, we note that innovative options for technology support are also now beginning to emerge, for example, the suggestion in the Economic Regulatory Authority’s report that the WA Government’s shared service provider might deliver “software as a service” to its former clients.

# BACKGROUND

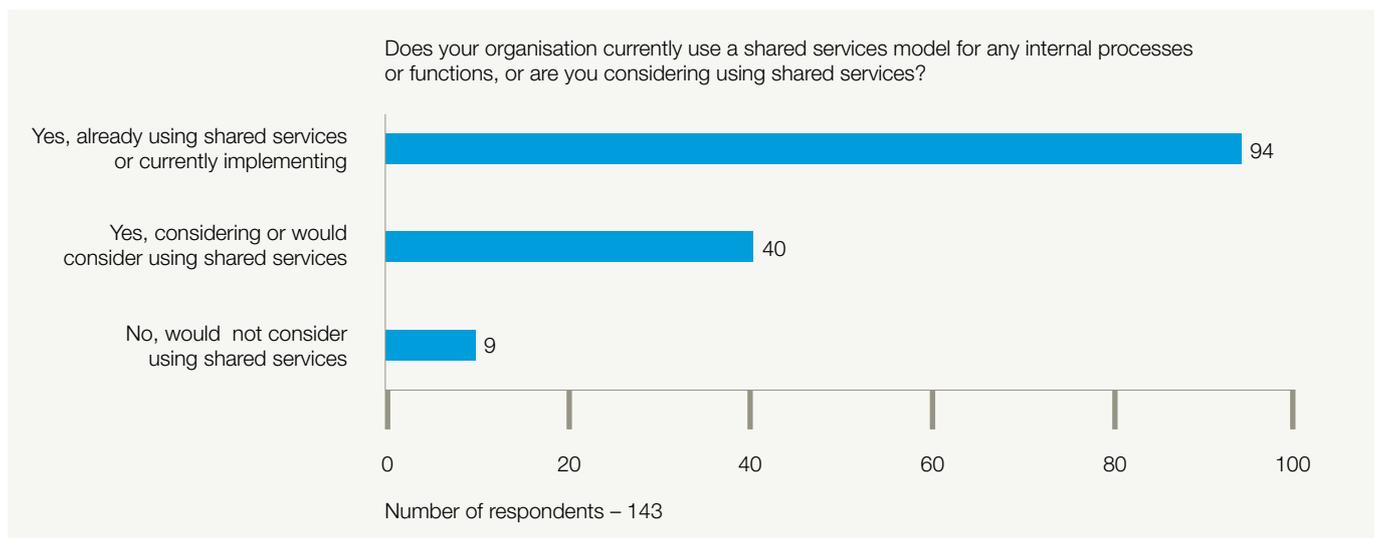
## PUBLIC SECTOR SHARED SERVICES

While delivering a range of benefits, the primary driver for shared services is often operational efficiency, achieved through economies of scale. A 2005 A.T. Kearney report estimated that the private sector has achieved 5 to 15 percent cost reductions through the use of shared services. A more recent Hackett Group Review (2009) suggests that shared services reform delivers over 20 percent cost reduction with improved service delivery and quality outcomes.

In recent years, Governments around the world have been dealing with challenges on a number of fronts. The global downturn has increased fiscal pressures in many countries and governments are struggling to balance budgets.

Governments are also facing pressure from their citizens for greater accountability and improvements in service delivery. Advances in technology have also raised the expectations of citizens, who want to be able to take advantage of the information age when dealing with Government.

Logically, the concept of shared services applies equally to the private and public sector. Both undertake the transactional administration tasks suited to shared services, and both can offer the transactional volume that is required to achieve economies of scale. This has led many governments to look at shared services as a way of addressing these issues.



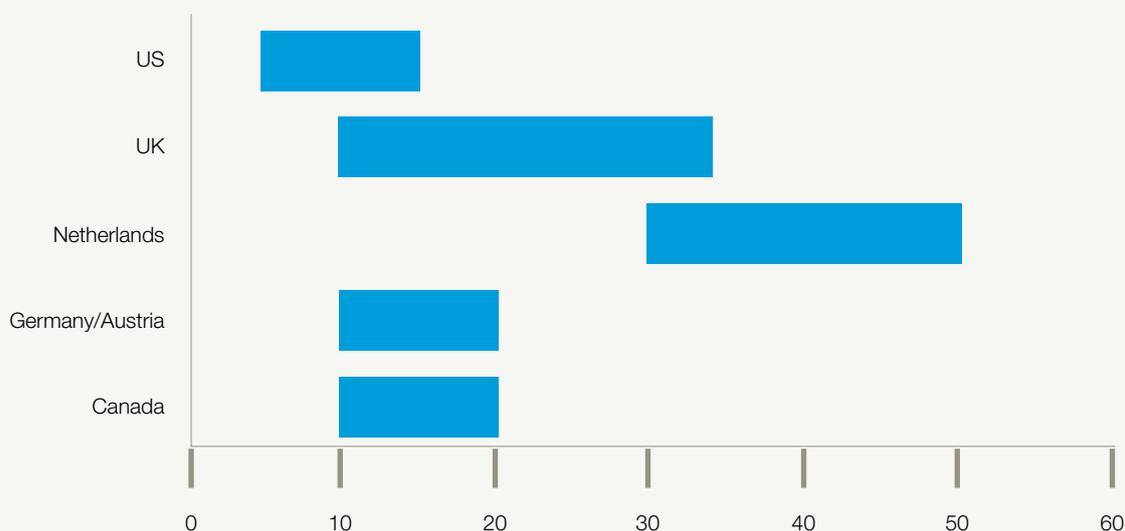
**Figure 1** Accenture survey of public sector shared services (Accenture, 2005: 8)

The United Kingdom government has implemented a significant Operational Efficiency Programme over the past seven years as a result of the Gershon Review in 2004. The review estimated the annual cost of back office operations could be reduced by £4 billion and the cost of IT could be reduced by around £3.2 billion by utilising shared services. Some of the savings have been delivered, but there is considerable scope to go further (United Kingdom HM Treasury, 2009: 15).

In 2004, the Canadian Government decided to adopt a shared services model for the delivery of finance,

material and HR services supported by a single IT infrastructure. It was estimated that the transformation would yield in the order of \$4 billion over ten years and require an investment of around \$1.9 billion. While cost savings was certainly a driver in the Canadian Government’s move to shared services, the greater focus was on delivering value to its citizens through high performance customer service (Library of Parliament, 2005: 6). The Canadian initiative was subsequently stalled, and has recently re-emerged primarily as the vehicle for creating a whole of Government IT platform.

## Sharing services ‘delivers great benefits’ ...We think!



**Figure 2** Perceived cost reduction % ranges in public sector shared services (source AT Kearny, Shared Services in Government 2 pg 18)

Australian state and territory governments have been implementing shared services for more than a decade, and are still gnawing away at the issue. Their experience to date is described in the following section of this paper.

The Australian Federal Government has dipped its toe into the shared services water in its “Review of the

Measures of Agency Efficiency” report (2011). It has a track record of sharing services within large scale individual organisations, and on a more ad hoc basis between smaller organisations from time to time. Aspects of the Federal Government’s experience to date are described later in this paper.

# STATE AND TERRITORY GOVERNMENTS

## Queensland whole-of-Government

The Queensland state Government is an enterprise of over 200,000 employees with a turnover over \$40 billion.

It was one of the first Governments to venture into shared services in a significant way. The decision to implement shared services was made in 2002 and six shared service providers (later amalgamated into four) were set up the following year.

The Queensland Shared Service Initiative was a whole-of-Government approach to corporate service delivery. It was a wide-ranging initiative that involved all Government departments and agencies and required the transitioning of approximately 5,000 staff across a broad range of corporate functions into the shared service centres. In addition to cost saving, the following were also described in the vision for the initiative:

- The capability to deliver corporate services is enhanced
- Corporate services provision is continuously improving
- Corporate services support the operations of customers, clients and other stakeholders
- Government and community receive benefit from effective corporate services

The initiative, which has now transitioned from a project environment into a mainstream model of service delivery, is said to have delivered more than \$100m in savings (Queensland Government, 2008: 3-4).

While the Queensland experience has largely delivered on the business case expectations, problems were exposed in 2010 during the implementation of

the Corporate Solutions Program, which had been established to implement the whole-of-government finance and HR IT systems. When the new payroll system went live, issues were encountered that left thousands of government workers with little or no pay.

A review by the Queensland Auditor-General, Glen Poole, concluded that at the time the system went live it was 20 months late and about 300% over budget. Mr Poole found that the governance structure for the project was unclear, the business requirements were unclear, and the program lacked robust project management (Auditor-General of Queensland, 2010).

Mr Poole's report led to the Queensland Government commissioning a complete review of the use of shared services (PricewaterhouseCoopers, 2010). The objectives of the review were to assess the organisation of corporate services under the shared services model and determine the most appropriate arrangements for the Queensland Government into the future. The review also looked at governance arrangements and the ongoing roll-out of the Corporate Solutions Program.

The review confirmed that shared services is still a valid way to deliver corporate services in Queensland but recommended a number of changes to the current model. The changes will see separate shared service provision for each of Queensland Health, Department of Education and Training, and the rest of Government, along with improved governance (PricewaterhouseCoopers, 2010: xii).

## Western Australia whole-of-Government

The Western Australian state Government is an enterprise of over 100,000 employees with a turnover over \$20 billion.

In 2003, The Government endorsed a business case for reforming the delivery of 'back office' services. The business case estimated that corporate services across government cost around \$315 million annually and involved around 5,000 people. By utilising a shared services model, savings were forecast in the order of \$55 million per annum and required an initial investment of \$82 million (Western Australian Auditor General, 2010: 18).

An underlying objective of the reform was to free up scarce resources that could then be transferred to important front line service delivery in the areas of health, education, community services and law and order.

The shared service model proposed the transfer of financial, human resource and procurement transactional functions from some 100 individual agencies into three shared service centres—namely the Health Corporate Network (servicing the health portfolio), the Education and Training Shared Service Centre (servicing the education portfolio), and the Department of Treasury and Finance Shared Services Centre (servicing the rest of the Government agencies).

In addition to cost saving, the following were also described in the vision for the initiative:

- Increased effectiveness through standardisation of policies and procedures and simplification of processes, creating better services to agencies
- Allowing agencies to focus on their core business to the community of WA
- Increased opportunities for continuous improvement
- Overall value-for-money

By 2007, the project was significantly behind schedule and running over budget. The Government was so concerned that it commissioned a Shared Corporate Services Program Review in order to determine any

potential risks and issues with proceeding with the full program across all general agencies. The review did not find any issues that were big enough to warrant a deviation of the current implementation plan (Quadrant Group, 2008:1).

The initiative placed great reliance on migration of the processes managed by shared services onto a single computer platform (Oracle). Issues with the Oracle implementation and other project teething problems led to the project completion date blowing out from 2006 to 2013 and implementation costs increasing from the initial estimate of \$82 million to some \$180 million (Western Australian Auditor-General, 2010: 19).

The Auditor-General stated that 'the quality and timeliness of services from the Department of Treasury and Finance Shared Service Centre has caused concern for agencies and gives rise to scepticism about whether the expected savings will be achieved' (Western Australian Auditor-General, 2010: 20).

Subsequent to this, a review by the Economic Regulation Authority (10 June 2011) recommended that the Government decommission its whole-of-Government shared services solution and return corporate services to the agencies. It seems to us that the fate of this friendless project was primarily caused by the complexity arising from attempts to accommodate non-standard processes and business arrangements, and agency resistance (in other words, absence of effective political sponsorship and collective leadership by public servants).

The then Treasurer of WA, Eric Ripper provided the kind of unequivocal support that a large scale public sector shared services initiative so clearly needs, early in the WA implementation process: "When it reaches its full potential in 2008, the Shared Corporate Services project is expected to deliver savings to WA taxpayers of \$55 million a year". The risk of political embarrassment must be a powerful motivator for politicians in future to hesitate when asked to provide such support in future.

## South Australia whole-of-Government

The shared service initiative in the South Australian Government was announced in 2006. As with other such initiatives, the aim was to streamline and simplify internal corporate and business support services to deliver savings that could then be redirected to front-line government services. The initiative involved transferring human resources, financial and procurement transaction processing from all government departments and agencies into a single shared service centre known as Shared Services SA.

The original business case estimated that the implementation of shared services would save some \$130 million over four years to 2009-10, offset by implementation costs of \$60 million over the same period (South Australian Auditor-General, 2010:9).

The 2006 Budget, which announced the initiative, promised savings of \$60 million per year.

As early as 2008, Cabinet was advised that the project timeline was unlikely to be met and that 'the planned schedule for savings realisation was considered unrealistic, but the savings were considered attainable over a longer period' (South Australian Auditor-General, 2010: 9).

The Auditor-General found that the project had suffered a number of delays, which had resulted in the anticipated savings being \$43m less than expected (for the period to 2009/10), an additional \$8.3m required for implementation, and the project timeline being unclear.

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## New South Wales whole-of-Government

Historically, NSW has approached the issue of shared services in a piecemeal way. The first government shared services provider, the Central Corporate Services Unit (CCSU), was created in 1996 in the NSW Department of Public Works and Services. In 2002, the NSW Government had another push to encourage its departments and agencies to take on shared services. Participation was supposedly no longer optional, but there was a choice of models that agencies could select from. The business case for this initiative is not available, nor is there any useful information on implementation activity or on whether savings targets have been met.

Currently, there are three shared service operators in the NSW Government—Service First (which incorporated the CCSU and others), BusinessLink, and Health Support Services. The NSW Government has recently released a Blueprint for Corporate and Shared Services in the NSW Government as a key part of supporting the 2009 improvements to the structure of the NSW Government. A timeframe for implementation has yet to be agreed.

In May 2010, the NSW Department of Premier & Cabinet released their Blueprint for Corporate and Shared Services in the NSW Government. This followed the announcement of major rationalisation in the structure of Government, through amalgamating agencies into 13 clusters.

Shared services is a key element to the reform, and the objectives sought are a more streamlined and standardised Corporate and Shared Services framework and service delivery; more efficient, low cost service and redirection of effort to front line services; and a focus on customer service and improving the Corporate and Shared Service experience (Blueprint, 2010:4).

The Blueprint describes a future model involving five in-house shared service provider organisations for each of its largest agencies—Transport, Police and Emergency Services, Human Services, Education and Training, and NSW Health, plus one multi-tenant shared service provider (Service First) to serve the remainder.

## Victoria whole-of-Government

The Victorian Government was one of the first governments to utilise outsourcing for some “back office” functions, in particular human resources and ICT for a small number of departments. It has approached shared services in a gradual way beginning in the early 1990’s with a small number of departments collaborating on a small number of services, in particular ICT. It has operated with a long-established structure of mega-departments, giving access to economies of scale within agencies without a compelling need to

share services between them. The ALP election platform in 2006 committed to save \$60 million over four years from shared services, a relatively trivial amount in context.

More recently, the Victorian Government has made a stronger commitment to shared services and established a new administrative office—the Government Services Group within the Department of Treasury and Finance—to drive the initiative forward. Progress to date has been slow (Firecone Ventures Pty Ltd, 2007: 6-8).

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## Other jurisdictions

Both Tasmania and the Territories have undertaken activity in shared services.

The ACT’s shared services initiative, announced in the June 2006 Budget with a target of saving \$20 million per year, is widely seen as having been very successful. A case study of the ACT Government shared service arrangements is at Appendix 1.

# FEDERAL GOVERNMENT

## Defence

Defence has embarked on a reform program that will take ten years to complete. The Strategic Reform Program Delivering Force 2030 outlines the initiatives that will deliver a total of \$20 billion in gross savings. This is a massive reform program that will tackle productivity improvements in a number of areas, including shared services.

Defence approached the shared services piece by getting McKinsey management consultants to compare Defence's performance in key back office areas to a set of benchmarks. From this an initial set of targets was developed and approved subject to further validation.

Since that point, Defence has done a more detailed review and found that many of the anticipated savings were not achievable.

This has resulted in the original targeted savings from shared services being downgraded by some \$0.5 billion (albeit offset by opportunities for greater savings in other areas).

In the initial stages, the project experienced some common execution problems—poor stakeholder engagement, lack of visible political sponsorship, a jaded organisational view of reform, and a sceptical governance committee. New capability has been brought to the project and there is renewed confidence that these issues are being managed.

Recently, further opportunities to benefit from implementing shared services have been identified.

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## Department of Human Services

In December 2009, the Minister for Human Services, Chris Bowen, announced sweeping reforms to how the Department and its portfolio agencies (Medicare Australia, Centrelink, Child Support Agency, CSR Australia, Australian Hearing Services) will deliver services to the Australian public. The service delivery reform will involve:<sup>5</sup>

- The creation of a single point face-to-face, phone and online access to a wider range of Government services, with offices to co-locate progressively from 2010;
- Bringing payment and services directly to Indigenous communities and rural and remote Australia through Mobile Offices;
- Giving Australians the ability to 'tell us once' so people won't need to tell different Human Service agencies the same information again and again.

This is a significant service transformation that will involve sharing front office services. The natural partner to this is the establishment of back office shared services across the portfolio agencies, which has happened fairly seamlessly in the period leading up to integration of the agencies themselves on 1 July 2011.

How has this been done? The entire focus of the service transformation is about integrated service delivery, and this has captured the imagination of the portfolio's staff. The shared services element makes sense from an organisational point of view, as it is not primarily driven by a desire to reduce costs.

From a governance perspective, the integration has had strong leadership and committed top-level backing. The heads of participating agencies were seen as standing together and driving the program, even distributing co-signed newsletters to staff at key milestones.

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5. <http://www.dhs.gov.au/media/archives/bowen/2009/091216-reform-to-deliver-service-that-works-for-you.php>

A sophisticated change management approach is being used, utilising journey management techniques, embedded change agents, and specially selected transformer agents. The driving message is service improvement, not cost reduction.

While the full transformation is not scheduled to be completed until 2019/20, the project seems to be progressing well and the back office shared services has not experienced the execution pains of many other examples in the public sector.

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## Review of the Measures of Agency Efficiency

Recently, the Federal Government has started to look seriously at utilising shared services in its quest to improve agency efficiency. The recently released Review of the Measures of Agency Efficiency report recommends “actions to address efficiency and reduce cost structures into the medium term” including:

- Benchmarking of common functions
- Rationalisation of the number of agencies
- Standardising common processes
- Greater use of shared services models.

In developing an efficiency agenda for the Federal Government, it seems the Department of Finance and Deregulation will pragmatically pursue multiple concurrent agendas rather than a single “silver bullet” solution such as shared services.

Given the experience of state and territory Governments, and the known difficulties in implementing large scale public sector shared services, the Federal Government may well be hesitant to follow their lead. If Finance focuses on rationalising agencies and standardising processes, these actions alone may deliver considerable efficiencies without tackling the tough nut of shared services in any substantial way at all.

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# APPENDIX 1

## CASE STUDY

### ACT GOVERNMENT SHARED SERVICES

#### Shared Services in the ACT Government

The ACT's shared services initiative, announced in the 2006 Budget, with a target of saving \$20 million per year, is widely seen as a success. In this Appendix, we present a case study on the ACT Government's experience.

This case study has been developed to provide a better understanding of this initiative, and the reasons for its perceived success, at a more granular level than is usually the case — in order to allow interested readers to obtain their own actionable insights and/ or to discuss its findings further with relevant ACT Government officials.

#### Background

On 21 April 2006 the then Chief Minister, Mr Jon Stanhope MLA, announced the Government's decision to establish a Shared Services organisation in the ACT Public Service. The ACT Government Shared Services (Shared Services) became operational on 1 February 2007. It included the existing ACT Government Information, Communications and Technology (ICT) provider, InTACT, as well as Procurement Solutions, records and publishing services and tactical and transactional finance and human resources services for all ACT Government departments and agencies.

The 2006-07 Budget papers described the aim of Shared Services to be:

"To consolidate these traditional back office functions to achieve economies of scale, standardised and streamlined processes and an overall reduction in costs. This will allow agencies to focus on their core business of providing services to the community. The Shared Services Centre will achieve its objectives by working closely with its clients to identify appropriate services, agree on service standards, and agree on mechanisms for delivery that are efficient and cost effective".

Prior to this the ACT Public Service had already implemented a number of reforms in the delivery of corporate services. Payroll centres had been consolidated across agencies, with some departments taking on the function on behalf of others. Procurement Solutions and InTACT had been expanded to undertake the delivery of procurement and ICT services on behalf of all ACT Government agencies.

#### Shared Services' main priorities for 2006-07 were to:

- Map and redesign the key tactical and transactional human resource and finance processes and design the Shared Services organisation based on these processes
- Prepare the accommodation for, and transfer of, staff from corporate service functions within agencies into Shared Services.

These were to be achieved by working closely with agencies to identify appropriate services and resources, and to agree on service standards and efficient, cost-effective mechanisms for service delivery.

A transitional team comprised of human resource, finance, procurement and other functional staff was formed to be responsible for the redesign of shared services business processes, as well as the delivery of communication and change management to facilitate the establishment of Shared Services.

Approximately 600 staff were transferred into Shared Services to join the existing 300 InTACT staff.

**The services to be provided included the following:**

### ICT services

Infrastructure, applications support and development, ICT policy and ICT project services including:

- management of the government data network
- 24 hour support, on a fee-for-service basis
- assistance to agencies on IT security
- management of the whole of government communications network
- business systems support
- general service and help desk functions.

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### Procurement Solutions

The provision of tactical and transactional procurement services to departments and agencies including:

- whole of government procurement support services
- the buyers and sellers information service (“basis”)
- contracts register
- e-Tendering
- supplier pre-qualification arrangements
- notifying business opportunities to local suppliers
- the commencement of client requested projects.

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### Human Resources

The provision of tactical and transactional human resource services to departments and agencies including:

- payroll, including tax payments and salary packaging
- recruitment, selection and appointment
- policy and guidance on performance management
- reporting, advice and guidance on workers’ compensation
- statutory and management reporting
- organisational data management.

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### Finance

The provision of tactical and transactional finance services to departments and agencies including:

- accounts payable and accounts receivable functions
- general ledger
- cash flow management and bank reconciliations
- tax payments including returns and advice
- statutory and management reporting
- financial management
- records management

# CASE STUDY

The purpose of the case study was to see if the ACT Government's shared services experience could shed light on the reasons why public sector shared services implementations are challenging, the lessons that can be learned, and how those lessons can be applied to future implementations.

In our Green Paper we observed that behavioural issues are at the heart of getting shared services right. The way people behave—how they work together and their preparedness to collaborate—is the key. AIM believes that for these insights and lessons to be truly valuable, the experiences of the individuals need to be better understood.

As part of our further research, the ACT Government agreed to participate in a case study regarding the setting up of the current shared services arrangements. AIM was allowed to interview staff, and to gather data from individuals about their experience of transitioning from the former arrangements to the current shared services arrangements.

We acknowledge the support of the Under Treasurer in providing permission for this case study to be undertaken, and for providing clearance of it prior to publication.

## Methodology

Individual interviews (23 participants) were conducted with a representative mix of leaders, functional owners, decision makers, service receivers (10 participants) and service providers (13 participants) from a cross section of agencies and groups within the ACT Government. To ensure that the impacts of the change itself were captured, only those who had worked in ACT Government prior to and during the change were invited to participate.

The questions were designed to elicit an understanding of interviewees' feelings about the change and their reactions to it. The information collected was analysed and a number of common themes emerged.

## Interview participants: perceptions

### The reactions and expectations following the announcement

Interview participants were asked to describe their initial reactions to the announcement of the proposed shared service arrangements, and outline their personal expectations regarding the new arrangements.

The majority of participants' initial reactions to the proposed change were positive and no strong negative views or expectations were expressed. The majority of staff were either quite keen on the proposed changes, anticipating that it would result in a more efficient and effective service, or they were rather indifferent to the change.

*"I'm an advocate for shared services. It would bring together expertise, offer superior service across Government, increase interaction. I could only imagine advantages."*

*"I don't think I thought much about it. It wasn't until I had to interact with them that it became apparent that this was a new world"*

*"I looked forward to it. Yes there would be problems but we would get through them"*

A few had concerns regarding loss of control and were apprehensive about what might lie ahead:

*“We all hoped it would lead to a more professional service, reduce costs. There were concerns that it would evolve too far and we would lose control. There was some apprehension – we hoped for the best”*

ACT Government staff had already experienced many changes to the work environment and ICT, some procurement, publishing, records management and payroll were already delivered using a shared services model.

Staff were very conscious of the need for the ACT Government to make savings, and there were many other initiatives in progress at the time for example, the closure of some ACT public schools. However the shared services initiative details were the only ones that were released prior to the 2006 Budget so they received a lot of attention and publicity.

### The transition process

The transition process consisted of:

- Mapping and redesigning the key tactical and transactional human resource and finance processes and designing the Shared Services organisation based on these processes
- Preparing the accommodation for, and transfer of, staff from corporate service functions within agencies into Shared Services.

Transition teams and committees were established to manage the redesign of shared business processes, as well as the delivery of communication and change management to facilitate the establishment of Shared Services. They relied on agencies identifying staff within their respective agencies, who were currently involved in the delivery of the services, and arranging to transfer them into Shared Services.

As noted earlier, approximately 600 staff were to be transferred into Shared Services to join the existing 300 InTACT staff.

When asked about their experiences of the transition process and whether their expectations regarding it were realised, interview participants had a mixed response. Some had been apprehensive about the actual transition process, anticipating that it would be difficult. Many thought the transition went according to their expectations. Some members of the transition team were disappointed that the expected level of buy in was not achieved; others said the transition was not as difficult as they had expected.

*“I knew it would be difficult. We ended up having to negotiate with agencies regarding budgets. A lot of finance changes were driven quickly without too many questions being asked a lot was left to negotiate, it was difficult to settle”*

*“I was part of the transition team and an advocate for shared services. The amount of effort put in made it less traumatic. There was a high level of preparation, communication and induction”*

*“It was not well managed from our group’s perspective, our resources for finance and HR were taken but the tasks still needed to be done”*

*“The setting up and communications beforehand were good. The agreements were still fuzzy”*

The majority of interview participants believed that the transition was managed as well as it could have been within the timeframe. The timeframe was short and it was suggested by one interview participant that this may have been a good thing as there was not sufficient time for change fatigue to set in.

However, participants noted there was some initial confusion as to how the interactions between the agencies and Shared Services would work and who was responsible for what. A lot of the detail was not addressed until Shared Services was established.

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## The behaviours observed

Interview participants were asked to comment on the different behaviours they observed during and following the transition—in particular the degree of commitment they saw to the change and how this played out in the actions people took.

### Support from the Top

When details of the shared services initiative were released it received much criticism from the Opposition who claimed that it would not work. As a result, the initiative was publicly defended by the Chief Minister, which had the effect of raising its profile. It also sent a very clear message to the Chief Executive Group that the initiative had to work, and that they would be held accountable.

An interview participant commented that this Group took the change very seriously; they met fortnightly throughout the period of transition and were very generous with their time.

### Change Leader

Michael Vanderheide was appointed as the CEO of Shared Services and led the transition process. He had already built up the trust of many of the stakeholders having been the head of InTACT – the shared ICT service provider.

Interview participants across the sample were impressed with the CEO’s leadership style and expressed confidence in his competence. Participants noted that the CEO ensured that there was regular and open communication and that a range of change management techniques were utilised during the transition.

*“Michael was very gifted. We felt his presence. He was a human face, a natural communicator. He tried to listen, and there were weekly updates. He was good at being seen.”*

*“He was a great marketer and salesman. The ability to negotiate with CEOs was critical. There was a lot of resistance from agencies. When reviewed, they hid staff in other roles. They wanted to give up the work but not the position. They did not want to surrender resources, were concerned about loss of control, some set up their own sub cell until trust was established it was a duplication of effort. Michael made hidden staff want to come on board, he was a good communicator”*

*“MV was an amazing communicator and leader. He was very inclusive. His communication was outstanding he had the capacity to communicate at all level, he made people feel special and that to be involved would be of benefit to them”*

**The following change management techniques employed by the CEO were highlighted:**

- Communication was targeted at many different levels. Frequent “Town Hall” sessions were held for staff where discussions included how things would work, what was in it for them (increased job opportunities, skills development, like minded peers, able to take leave, promotional opportunities, range of clients) and also disadvantages (no free parking, some jobs more transactional; not so satisfying). There was an emphasis on transparency, telling the truth rather than just good news. There were weekly email updates sent out to approximately 800 stakeholders. Transition teams were formed, comprised of smart, enthusiastic staff who were mainly self-nominated but came with strong credentials.
- Strong relationships were built with key individuals (for example, the Chair of the Audit Committee, members of the Chief Financial Officers group and union representatives) and their expertise and assistance was actively sought. Effort was directed to ensuring the transferring staff felt valued, for example, the Shared Services accommodation was given a new fit out and welcome packs were provided to the staff. It was noted that some transferring staff, especially those performing more transactional tasks, had not always felt that their roles were valued in their former agencies.

### **Leadership**

Leadership at all levels was found to be important, with many interview participants in leadership roles indicating that they actively tried to do the best they could within their sphere of influence to make the change a positive experience and reassure staff.

Shared Services staff and transition team members made the following comments:

“If key people were positive then it had a better influence. It was important to be supportive and be proactive and be convinced yourself”

“As part of the transition team I was able to influence. We used the Seattle Fish Market philosophy. It was all about relationships. People looked to me for the answers both within Shared Services and in the agencies. We did a lot of meeting and greeting, identified key people, reassurance, some teambuilding, celebrations, newsletters to new staff, developed code of conduct, dress rules etc”

“Can only pick an element and try to fix it for those around you. I used my own enthusiasm and previous experience of change to assist my staff and colleagues”.

### **Level of commitment and resistance**

Those interviewed observed that the degree of commitment to the change among staff and leaders was variable according to the individual rather than their level or the type or size of agency they were in.

Interviewees commented that some individuals willingly participated in the consultation and communication forums and in providing qualitative information (details and requirements of existing processes and who did them) and data. Some were proactive, while others were not. Some agencies were willing to participate in process design and future state workshops, while others passively resisted and refused to participate.

According to interview participants, some agencies were willing to achieve the savings required but still wanted to retain control of all their corporate services functions. It had to be made clear that this was not an available option.

Several interview participants commented that they observed that some agencies shuffled their good people into other positions and retained them within the agency rather than transferring them to Shared Services. It was suggested that in some cases, agencies used the new arrangements as an opportunity to transfer their poorer performing staff out of the agency.

Although the public line from agency leaders and senior staff was always for commitment to the change, interview participants noted that some of the behaviour was not so supportive. The following examples were provided:

- information provided by the transition team was not fully cascaded down through middle management to all levels of staff within the agency
- good staff that should have been transferred to Shared Services were retained within the agency
- a willingness to transfer the work, but not the staff.

Transition team members who were interviewed expressed a number of frustrations:

*“Transition teams were all very committed. But I saw resistance across the board. There was fear. Some people saying they would leave- there was resistance to moving locations. Agencies resisted resource allocation. They thought it would all fall apart and we would return to normal. The expectation bar was raised. There was cynical commitment by many providers and receivers of corporate services. Some leaders appeared publicly committed but not in their action. Communications would not always cascade or flow down into organisations as they were intended to. There was a blocking of information. We could tell from the staff actions which top levels were supportive and which were blocking flows of information”*

*“In the agencies the level of commitment was poor. At the micro level demand for quality and service was higher than they would have expected from their own agency. At the executive level they would give criticism without looking at their own side of the process. Agencies would form committees without a Shared Services representative, ignoring the expertise that they provide. Agency Heads would publicly support the Shared Services but would still go to staff previously responsible for the function rather than to the Shared Services”*

Interview participants observed resistance from the members of agency Audit Committees, who expressed concerns over loss of control over processes and increased risk in the control environment. This was experienced as frustrating for the transition team members interviewed who noted that a shared service control environment is usually substantially lower risk than others, and that the Committees had previously paid transactional processing little attention.

It was further observed that agency Chief Financial Officers had concerns over allowing Shared Services to prepare financial statements, even though this would provide a more consistent result and increased access to subject matter expertise.

## The impacts on individuals – the reality

At the individual level, the impact of the changes varied with a number of factors coming into play including the individual's role; their level and agency; whether they were a receiver or provider of services; and whether they were retained within the agency or transferred to Shared Services.

The responses have been organised under the categories “Shared Services staff” and “Staff receiving services from Shared Services”.

### Shared Services staff

Shared Services staff interviewed identified four concerns.

#### Relocation

The major concern, which was mentioned by nearly all staff interviewed, was the relocation. Interview participants who moved into Shared Services focused much more on the issue of having to relocate than on change of role, team or career opportunity. This was especially the case for staff who transferred out of ACT Health and who lost their PBI tax status, which had a substantial impact on their personal financial situation.

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#### Identity

Loss of identity was another significant impact noted by interview participants who transferred out of the larger agencies such as Health, Education and Justice. These interview participants strongly identified with the particular organisation they had worked in, rather than their functional role in corporate services. They experienced sadness at the loss of their sector identity in the transition to Shared Services.

It was noted that many Shared Services staff were confused about their identity and behaved as if they still belonged to the agency they had been transferred from.

“Some still struggle with remembering they are not an agency but part of Shared Services especially when they live and breathe with one agency”.

#### Impact on role

It was explained that many staff that moved to Shared Services remained in the same team doing the same role with only their location changing. This is the case for Finance, ICT, capital procurement and payroll as teams are still arranged to service particular agencies. Recruitment and goods and services, however, work more at the whole of government level.

“Initially HR roles did not change a lot, as staff were arranged on an agency basis. Staff who had been specialists had to broaden their tasks and knowledge and quickly acquire new skills. It was found that some staff were less skilled than had been expected. Some functions were still in agency teams for example, payroll. Recruitment was impacted the most, as the processes involved many people. Initially the service was not of a high standard – the volumes were significant. Payroll had already been dealing in high volumes. Initially the morale was low due to high expectations and high volumes”

“Some didn't want to be there. The finance staff were happy as they were still in the same team and there was enough of them. There were more issues if people's current roles included both strategic and operational tasks. The changes and issues regarding location were huge”

### Lack of benchmarking and insufficient staff numbers

Shared Services interview participants described the transition as initially hard, particularly as fewer staff than were required were eventually transferred from the agencies. This was compounded by a perceived lack of benchmarking of pre-transition arrangements.

“One of our biggest problems was not collecting benchmarks and baselining the existing arrangements. It would have been smoother if everyone had approached it positively there would have been less anxiety. We started with 25% less staff being transferred from the agencies than we needed which made it tougher for those that were there so they then left and we had to recruit”

“There was a lot of fire fighting in the first year. But people knew what they needed to do and got on with it.”

### Working relationship

Interview participants noted that the nature of the agreement between Shared Services and the agencies also made it hard and caused the Shared Services staff a lot of frustration.

Initially the relationship was not experienced as a partnership and was described as an “employer” (agencies) – “employee” (Shared Services) dynamic. Interview participants perceived that Shared Services was consistently held responsible for time delays and inaccuracies that were not always within their control.

“At first the view was “let’s get up and running and get through to the end of the year”. For a long time we were doing what the agency wanted, there was no attempt at standardisation until 2008. Now rewriting service level agreements they

were very grey about who did what. The Shared Services had the hard bits. There was an employer employee mentality – it’s now more of a partnership. Problems are always blamed on the Shared Services when agencies are often the bottleneck”

Some interview participants, particularly those in procurement, were concerned that agencies did not value the service being provided.

“It depends who you ask. Agencies can create time delays and are not always aware that Shared Services has “saved their bacon”. Agencies are not always aware of what good practice is and have unrealistic expectations “

“Sometimes Agencies are more interested in speed with procurement rather than excellence”

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### Complex accountabilities

Interview participants highlighted the challenge in transitioning from one line of (internal) accountability to several agencies external to their organisation; accountabilities were now outwards rather than just upwards.

“Within the Shared Services it was very conciliatory. It was a service provider – it was not a shared partnership. The leaders had no drive to step into the gaps. The middle management had to stick to the service specifications, there was no flexibility to take initiative and meet the requirements. The Shared Services did not actively listen to the clients. I was very committed but with a level of frustration. I had to constantly defend the Shared Services to nine different agencies who would escalate issues. It took a lot of effort but also galvanised people. There was a different perspective of a good job being done in the Shared Services rather than outside the Shared Services”

### Overcoming challenges

Interview participants observed that issues began to be addressed once relationships were formed and trust was built.

“A lot was mitigated by informal rather than formal consultation. It was about building relationship and trust”

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### Staff receiving services from Shared Services

Three themes emerged in the interviews with participants receiving services.

#### Relationships and communications

Interview participants receiving services from Shared Services spoke of similar initial frustrations. Again these tended to be overcome once new relationships were established. Many receivers of services missed the personal contact they had been used to.

“Knowing where to go whether internally in the agency or to the Shared Services was difficult at first”

“The setting up and conversations beforehand were good. The agreements were still fuzzy. From our side I found we set up a relationship with the managers of each of the Shared Services and told them what we needed. In the end it was hard work we had to put the effort into the relationships”

“I didn't experience much difficulty using the Shared Services. Contacts remained the same. Working out where to go (agency or Shared Services) was complicated at first. I formed new relationships. I found a wonderful lady in Shared Services recruitment and rang her every time. I think a lot of people tended to be like this and hung on to them once they found someone helpful”

### One size fits all?

Some interview participants said that Shared Services did not fully understand their agency's business and noted that business specialisation in Shared Services is required:

“Recruitment is a bit of an issue, it takes a long time which is a source of frustration for Health, we have to put more pressure on”

“They are not plugged in enough to our Department to understand our imperatives”

“They need to understand Health better. Nurses need to be recruited quickly. It is a matter of life and death. Its high profile, it's big, it has the biggest budget”

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### Impact on roles

Some receivers of services reported that the shift to shared services had added tasks to their roles. They noted that a lot of time was spent interacting with Shared Services.

“My role has changed a bit. I sometimes find it hard to find information. It adds time to my role as I have to keep chasing the Shared Services or nothing happens”

“My role didn't change. It was more difficult to contact people; there was a reduction in personal contact. The Shared Services wanted to communicate by email, they became anonymous. There was not much ownership regarding finance processes”

Conversely, others reported that under the new arrangements their roles had changed enabling them to focus on their core responsibilities.

*“I lost control of some parts of my role but they were not core functions and it made me focus more on the core activities and not worry about back office and numerous staff. Managing is much easier, more strategic. But responses are not so instant”*

For some more senior staff who remained in the agencies to focus on and perform the more strategic parts of human resources or finance, the loss of the transactional elements of their previous roles exposed their lack of skills in the more strategic areas. Their ability to perform the new more strategic roles became an issue.

## The Outcomes

Interview participants were asked whether they believed that the intended outcomes sought from the implementation of shared service – of providing more quality services, greater career opportunities and savings – were reached.

The majority of responses suggested that the actual outcomes have not been formally reported to staff, and that staff had gained their own impressions based on their own experience rather than through being provided with any official data or evidence.

On this basis, the majority believed that the intended outcomes had been reached to some extent, although not all were sure what the intended outcomes were. Some interview participants said that not all agencies would see it as a better outcome.

### Corporate services quality

Many of the interview participants thought that the quality of corporate services had improved but noted that it had done so gradually over time and that some functions work better than others.

Some participants noted, however, that they thought the expectations of receivers of services are now much higher than they ever were when the services were provided within the agencies. Many miss the personalised, face to face service which they say they previously had.

### Savings

In the 2006/07 Budget the corporate services budget of individual agencies had been cut to achieve the expected savings that would arise from the implementation of shared services. Therefore many interview participants, especially those who were part of the transition team, believed that the predicted savings had been achieved.

*“Definitely in the first 12 months. The team knew what the targets were and that they were reached. Tracking budget shows that the savings were reached”*

However other interview participants either did not know whether the savings had been achieved because they had not been provided with the detailed financial information or they were doubtful whether savings had been achieved at a whole of Government level.

Many identified cases of grow back within agencies. “Grow back” is when agencies re-establish the provision of corporate services or components of corporate services within their agency. This is most often seen around the boundaries between the agency and the shared service provider with duplication — processes and procedures being performed in both the agency and the provider.

There were concerns that in some cases funds which were intended for expenditure on agency core business and service delivery functions were now being spent on corporate service tasks within agencies, which should be performed by Shared Services. It was perceived that grow back had happened predominately in the larger agencies.

Interview participants reported that additional tasks are now being performed around the interface with Shared Services. It was explained that staff have been employed in the agencies in a liaison role between managers in the agency and Shared Services, to act as an agency “go to” rather than all staff in the agency interacting directly with Shared Services. It was reported that processes have also been added at the interface, with documentation being copied and retained in the agencies due to fear of it being lost in Shared Services.

“Grow back happened, there’s a lot of time and effort wasted at the boundaries. There’s a lot of smoke and mirrors regarding the savings due to grow back “

“Yes we were able to demonstrate this as our savings were built in to our budgets \$22m ongoing. The agencies know they had a reduction in dollars and Shared Services only charged them a set fee. But there has definitely been some regrowth; agencies have built up subsidiary systems – safety nets – so there are not savings on a Whole of Government basis. Some functions continue to be done by agencies even though funding has been removed”.

Interview participants at the senior leadership level observed that it was unlikely that grow back involved a substantial number of staff, as the bulk of the staff transferred were from financial transaction processing and payroll and agencies no longer perform these tasks.

### Career opportunities

There were no firm views put forward as to whether the creation of Shared Services had enhanced the career opportunities of staff.

Some interview participants believed that opportunities had increased for staff, but only for those involved in the tactical and transactional operations within Shared Services not for those working at a more strategic level. Others believed there to be limited turnover within Shared Services and noted it was functionally siloed. On this basis, they suggested it was unlikely that career opportunities would have increased.

“In some cases yes at the processing level but at the higher level it’s probably limited in scope. Accounts receivable and accounts payable probably yes, but financial reporting probably not as it limited the function. When it was in the agencies, the roles were much broader”

“I don’t see that it has, it makes no difference. There are still many silos”

“There’s still a long way to go. Centralisation of expertise in workforce should offer increased career opportunities”.

“Yes people can specialise more than in a general role there are opportunities especially as procurement is a growing field”

## On Reflection

Interview participants were asked to look back and reflect on whether there was anything that they now consider could have improved the experience for the individuals involved in the transition.

### Insufficient attention paid to the agencies

Participants commented that the main focus was on Shared Services and how the processes within it would operate. There was limited focus on the parts of the process that were left behind in the agencies. In hindsight, more attention could have been paid to these remaining parts and how the interface would work.

*“On reflection we were very process focused on the processes of the Shared Services, we did not support the agencies well”*

### More information required

Interview participants observed that there was limited information beforehand. People wanted more clarity about how the transition was going to work before it was implemented. It was not until it was up and running that people really understood.

### Wider communication of strategic objectives

According to interview participants, the strategic objectives could have been communicated more widely. It was felt that many staff did not understand them.

*“People moving in wanted more clarity about how it's going to work. They did not realise until it was up and running for a lot of it. But it could have been figured out if a bit more research had been done. The resources and planning for change management within the agencies was limited. With more effort, it might have been better”*

### A need for baselining

Some participants considered that the initial analysis regarding numbers of resources and volumes was flawed. They believed that the existing services should have been base lined and benchmarked so that the effect of the changes, in terms of savings and increases in quality, could be measured.

*“Ensuring the capturing of all tasks undertaken by staff targeted to relocate are identified, assessed and the outcome agreed before the move.”*

### Managing staff losses

In the restructuring of roles there was a layer of management that was no longer required and 10 to 12 relatively senior staff lost their jobs.

Interview participants noted that this caused some backlash from Chief Executives and suggested that, in hindsight, leaders believe that this could have been better handled if there had been more communication.

## What makes the ACT different?

Interview participants were asked why they thought the shared services initiative seemed to be working in the ACT whereas similar initiatives had been problematic in other jurisdictions.

### **They cited a number of reasons including:**

- existing common systems
- ICT and procurement had already been centralised
- strong leadership and the support of the Ministers who have multiple portfolios
- the small size and geography of the ACT
- strong existing relationships and similarities
- the ability to easily meet face to face.

“The ministers are very involved almost at the day to day management level with the organisations. The Agency Heads meet monthly – very connected in. It’s fairly new [since] 1989, not long enough to establish empires, open to innovation, flatter structures”

“Primarily the size, it makes sense. It’s a 20min car ride if you need to see someone. We all bump into each other- it’s about relationships”

“ICT and procurement had already been done and some lessons had already been learned for example, communications being important”

“Size - Commonwealth agencies are already big enough to achieve economies of scale within the agency. ACT Shared Services has shared ownership, its urban, can have regular CFO meetings face to face – most work in Civic. Strong informal networks. They have the capacity to communicate effectively. There are only 40 organisations, with 5 to 6 key departments. There’s a standard culture. History – they came from one department. Central systems could be put together quite quickly”

Interview participants reported that the ACT team were able to draw upon the experience of, and seek assistance from, the Queensland, Western Australian, Northern Territory and South Australian Governments, all of which had already commenced implementation of shared service arrangements. It was explained that there was an inter-jurisdictional forum which met regularly to exchange information and focus on particular issues, for example payroll or awards consolidation.

A senior interview participant summarised the situation in other jurisdictions:

“The failure of other jurisdictions was due to lack of consistent support from the top, taking a long time to succeed often with changes of government occurring during the implementation and due to the complexity of systems environments. Some have not succeeded due to a failed systems implementation rather than a failed shared service implementation. Others have sought unrealistic savings targets.

## Future directions for ACT Government shared services

Interview participants expressed full support for retaining the shared service arrangements; even though there has been some grow back there was no suggestion that there should be any return to completely devolved corporate services. It was noted by participants that the shared service initiative is still evolving and can be improved. In particular, it was noted that the relationships and process arrangements between Shared Services and the agencies require some work.

As noted earlier, participants observed that many Shared Services staff still identify more with the agencies they service than with Shared Services. Further, Shared Services is siloed within functions. Again it is noted that work is still being done in this area.

We understand that relationship managers are being trialled for ICT to provide agencies with a “one-stop” approach to overcome the issues of there being too many points of contact within Shared Services. Work is also in progress on the service level agreements to move more to a single partnership agreement between each agency and Shared Services, which will set out the expected performance levels of both parties.

The recent review “Governing the City State: One ACT Government – One ACT Public Service” February 2011 identified a number of issues that resonate with our case study findings.

### **The review report made a number of recommendations for the future of shared services in the ACT. These included:**

- Relocating Shared Services at the centre of Government and attaching it to the Finance Directorate.
- Acknowledging that there is general support for the shared services model but that more can be done to embed and enhance the reforms commenced in 2006. In particular there is scope for improvement in relation to procurement, information technology, and provision of the next layer of people and performance services; a need to modernise and combine legacy information systems; and a need to simplify employment and industrial frameworks.
- Shared Services continues separate from the ACTPS Strategic Board and that the Board’s terms of reference and subsequent service standard agreements be reviewed to reflect the division of policy and operational responsibilities
- The inclusion of some other functions, such as management of fleet vehicles and operations injury management, within Shared Services be considered.

# WHAT DOES ALL THIS MEAN FOR FUTURE IMPLEMENTATIONS OF SHARED SERVICES ARRANGEMENTS?

We have identified a number of lessons from the ACT Government's implementation of shared services that may be useful for future improvements and to other organisations embarking on a similar change program.

## Leadership matters

Whilst leadership in and of itself cannot enact major change, the championing of change, combined with communication, and other change strategies does make for more effective change. This case study shows that the leader of the change program was very effective; it also shows that leadership within agencies is very important. A system-wide leader still needs a coalition for reform throughout the system, embedded in organisations, to make large-scale change work. A strong message right from the top of Government also provides a big imperative to make things happen and achieve successful outcomes.

## Relationships matter

Pre-existing relationships between staff involved in change programs can be used to leverage more effective change outcomes. It reminds us that in enacting change we do not start from 'ground zero', but rather have complex formal and informal structures and systems in place that have the potential to be mapped, understood, and used strategically in change implementation. In particular, it is important to identify individual staff who play a strong 'natural' (informal) communication role and ensure that the communication strengths of these individuals are maximised.

## Communication matters

Our case study reinforces this. Communication about the nature of the change, the purpose, and how well (or not) goals are being achieved, is central to buy in, building change coalitions, and feeding back that the efforts associated with change were worth it.

## Reasonable responsiveness to agency business needs

Different agencies will have different needs and any model of shared services needs to be sensitive to the nature of business undertaken by these organisations. For example, our case study work clearly showed that Health needed rapid response HR services to ensure that Health staff could be engaged quickly. Are such provisions for this type of service captured in service agreements currently? Is there an opportunity to do this retrospectively as the learning process develops? There is no reason why a shared services organisation is unable to deliver such a service, but it needs to be built into service agreements so that expectations are clear.

Other observations made which may provide useful insights for other large scale public sector shared services initiatives include:

### Baseline data

The ability to provide a narrative of change, whether goals have been met, and diagnose where additional efforts may be directed, is critical to effective change. Expectations of service levels can also alter profoundly as the model changes from a locally-delivered to a centrally-delivered approach. Change agents need to be able to reiterate where improvements have been made, and identify where expectations have altered. As mentioned, whilst actual services may change, baseline data can be very helpful; for example, how long does it take from a request to advertise for a position for the advertisement to appear? How quickly are enquiries responded to? These are not difficult data to collect pre- or post-change, and can provide important diagnostic indicators as change is implemented.

### Local-central tensions

A hard pull of services into a shared model will, almost inevitably, lead to some formal or informal duplication locally. In our work on the case study, the common term used for this was “grow back”. Finding the balance between shared and local

activities is a perennial problem with no simple solution; rather it is tension that must be managed in any change process, and in ongoing operation. Critical issues that emerge from the data are whether there is direct duplication; whether this “grow back” reflects new roles which enable more effective central-local communication; or whether this “grow back” is simply the re-emergence of people who had been hidden during the height of the change process.

### Creating silos

Our case study work suggested that silos have emerged within the Shared Services organisation. The reality of the situation may be that there is a co-location model rather than a deeply embedded shared service model emerging. There was some sense that over time this would break down as new people came and others left; however we suggest that there is a danger in allowing a silo model to develop. The more embedded this way of working becomes, the harder to change it will be.

## IN CONCLUSION

In providing this case study we highlight that there are unique factors that characterise the ACT Government shared services initiative, which make it more amenable to this change.

It may be that these are specific factors that will not translate into more generic advice that can be used to guide similar initiatives in other jurisdictions. For example, Ministers in the ACT commonly hold multiple portfolios which means they are more likely, we suggest, to see the benefits of shared services compared to their counterparts in other jurisdictions who are responsible for a narrower span of activity.

Notwithstanding these differences, we believe that many of the findings of this case study can be usefully extrapolated to other jurisdictions.



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