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The next generation of mission support:

From shared services to service delivery transformation

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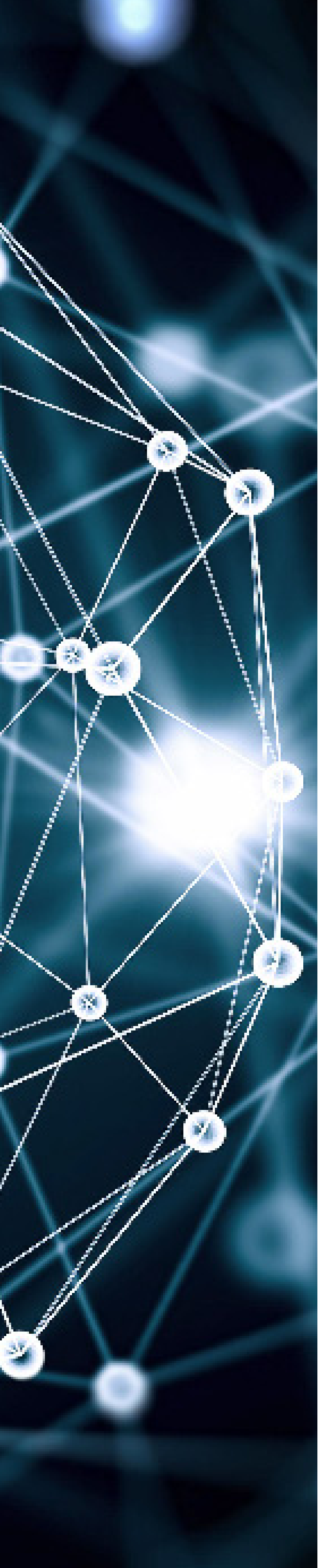

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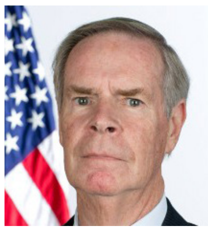

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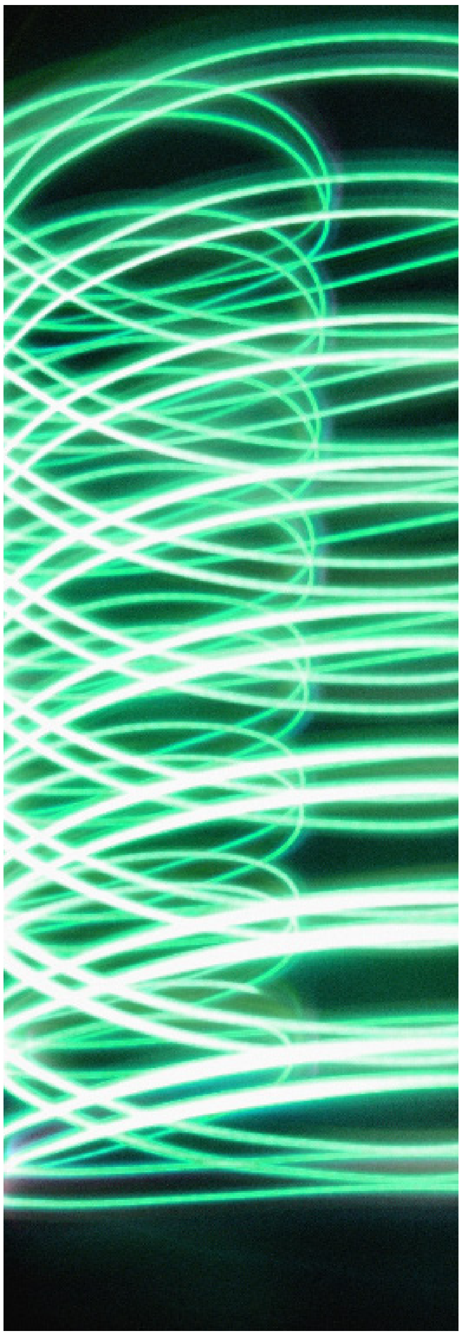
Introduction: The promise of federal shared services



For decades, the promise of consolidating common support functions—such as human capital, financial management, acquisition, and other mission support services—across multiple agencies has attracted great interest. Policy makers have long argued that federal shared services could relieve agencies of the considerable expense of acquisition overhead, technology upgrades, and maintenance associated with supporting duplicative mission support functions—potential savings estimated by the Federal CIO Council to be in the tens of billions of dollars annually.[1]

Consequently, the notion of sharing support services across agencies has been steadily promoted through numerous policies and programs over the years, ranging from franchise funds and E-Gov initiatives to Lines of Business and more. For the last decade and a half, federal shared services, in many cases, has come to mean that agencies will source their mission support needs from a handful of other agencies approved as service providers in particular areas, such as financial management, human capital, and acquisition. In certain functional areas, such as human capital, the sources have also included commercial providers.

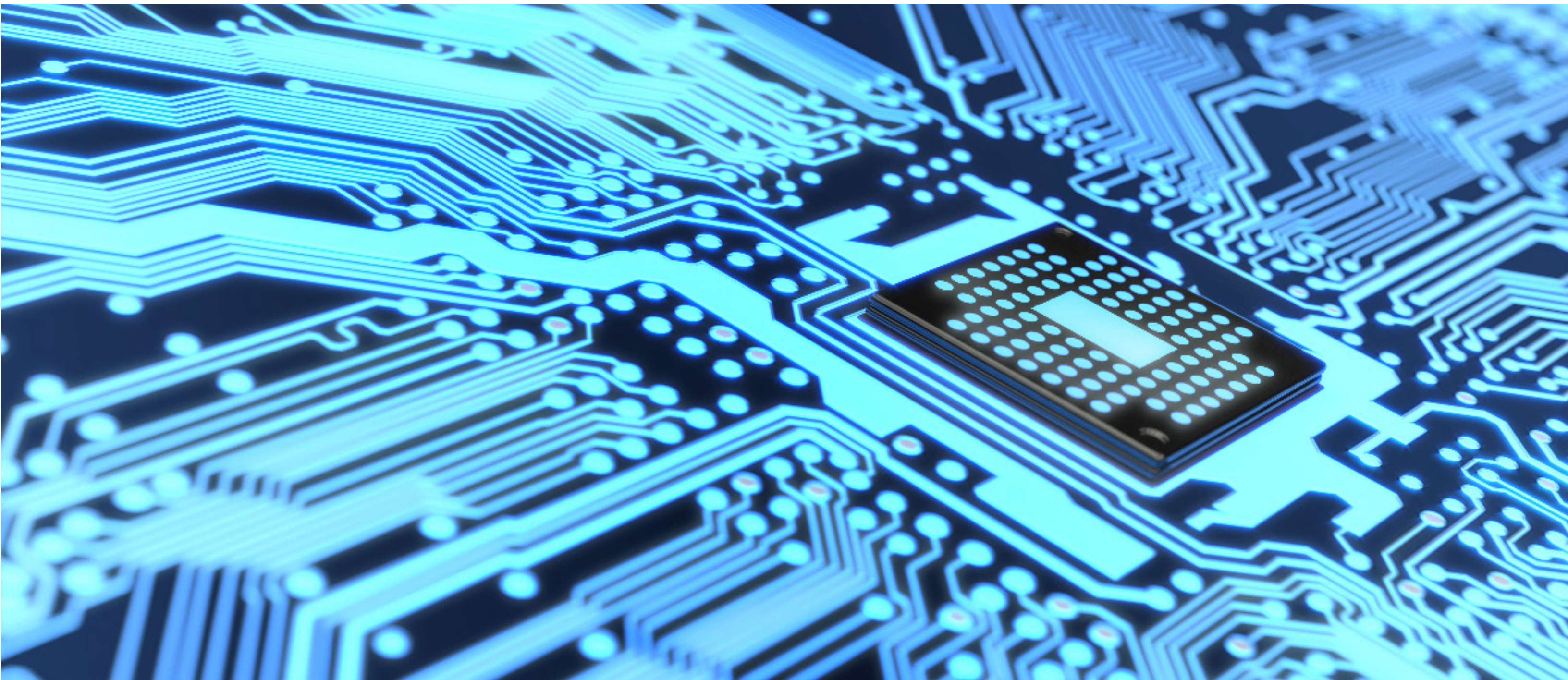
But this model has struggled to take root across government. "Sporadic agency adoption of shared services continues due to concerns about quality and expertise of providers, the lack of standard, government-wide requirements, and the challenges of transferring funds between agencies," concluded the Federal CIO Council in the January 2017 State of Federal IT Report.[2]

There are many reasons for this. Some federal service provider options are not aligned to agencies' needs (and some agencies continue to prefer bespoke solutions over which they retain control). Some providers rely on technology that isn't yet best-in-class, which would do little to help agency customers transition to more capable modern solutions. Some simply cannot scale to take on a growing customer base or a Cabinet-level department as a client. And federal service providers, due to budget structures, their organizational alignment embedded inside other Departments, and the nuances of working capital fund operations, are often constrained in their abilities to make long-term investments in service improvements, which could lead to lower levels of customer satisfaction.[3]

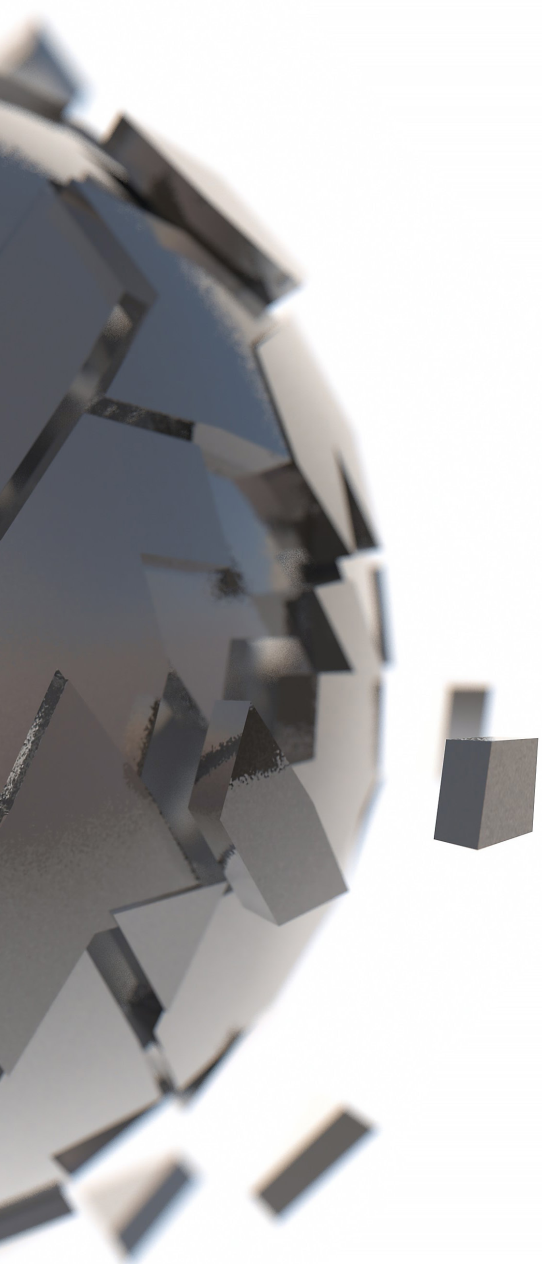
These and other challenges have made shared services slow to take root. But government agencies today find themselves at the confluence of multiple pressures and trends that bring renewed urgency to the pursuit of greater efficiencies and better outcomes. Aging IT infrastructures, limited funding for modernization, human capital challenges, cybersecurity concerns, top-down pressure for agency reforms and reorganizations, the desire among many younger federal employees for self-service work environments, and heightened citizen expectations for government service delivery are among the stressors leading to fresh thinking and new approaches. Past and current administrations continue to view shared services as a critical tool to improve the quality and efficiency of administrative services and to free resources to improve outcomes and accountability for the American people.

Agencies can overcome the traditional hurdles associated with federal shared services by pivoting to a more responsive and agile model for sourcing mission support services. To move forward, agencies will need more and better options that not only drive efficiencies but also deliver best-in-class quality and performance that measurably improve mission support. It is especially promising that the General Services Administration's Unified Shared Services Management office has developed a standard taxonomy for certain business processes—called the Federal Integrated Business Framework—that will help agencies better coordinate and document common business needs and focus on outcomes. As agencies apply this framework to standardize their internal processes, they make options such as commercial best-in-class solutions possible.

It is important to note that commercial successes with shared services were not achieved by merely outsourcing functions to someone with a more modern system or consolidating legacy solutions. Approaches currently employed by federal agencies needs to adapt for two reasons: 1) because they simply cannot keep pace with the emerging technologies now disrupting traditional methods of service delivery. These include technologies such artificial intelligence, cloud-delivered "as-a-Service" options, robotic process automation, blockchain, and cognitive technologies, among others, and 2) Technology alone never solves the problem. Adopting a single ERP platform or moving to the cloud, for example, rarely solves the challenges of improving mission support services without transformation to processes, roles and organization.



The path ahead: Service delivery transformation



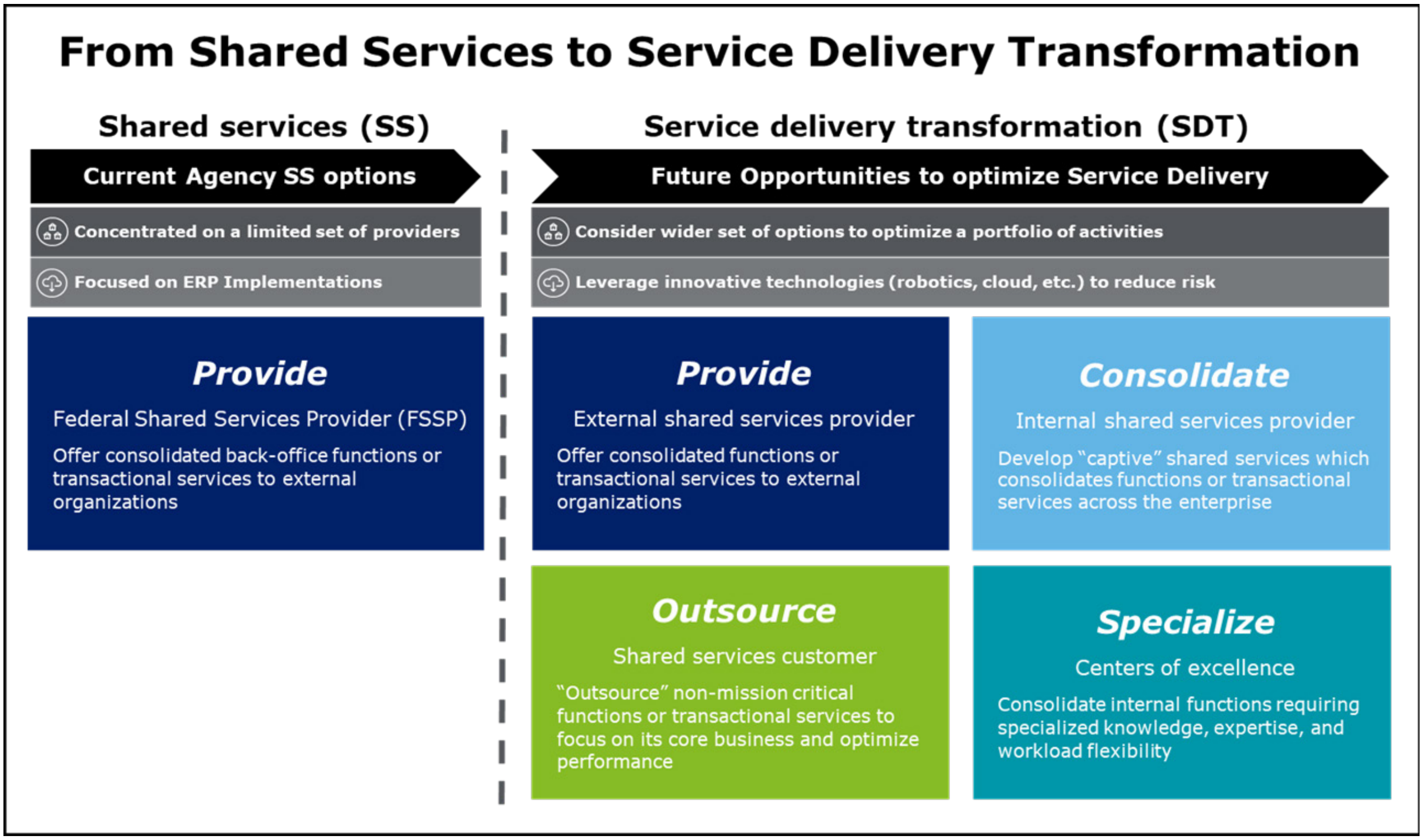
The goal of federal shared services remains a valid one: Agencies should question the necessity of duplicative back-office functions. But agencies often have lacked viable, low-risk options that deliver cost efficiencies, a minimal infrastructure footprint, and high-quality services that meet agencies' needs and offer strong, flexible business cases.

By expanding the shared service model to consider a broader mix of options—to include government, commercial or a blend of both—and conducting more deliberate analyses that are not just about technology, agencies will arrive at better decisions that deliver both significant cost avoidance and best-in-class services. Service Delivery Transformation, a label that defines a more comprehensive perspective on back-office transformation, views federal shared services as simply one category of available sourcing options within a larger service-delivery equation that may also include outsourcing and insourcing, centers of excellence, and agency consolidation (see Figure 1). Service providers could be other government agencies, commercial companies, or a new concept of a government corporation dedicated to support functions.

Employing a Service Delivery Transformation view not only enables agencies to optimize their sourcing options for service delivery, it also encourages them to examine how to integrate support services across the agency enterprise where possible to achieve maximum economies of scale and other efficiencies. As examples, significant benefits typically become more attainable when Enterprise Resource Planning systems are optimally integrated with mission systems; when common functions, such as help desk support, are shared across support services; when innovation is smartly employed to address capability gaps; and when best-in-class citizen or employee experience is incorporated as a foundational pillar in service delivery planning.

At the heart of Service Delivery Transformation is the notion that the sourcing options—and thus the decision-making analyses—are more comprehensive, enabling more deliberative methodologies that can readily point to solutions that optimally balance an agency's service and financial needs. The goal is not simply to migrate services into a single provider, but rather to find the best option for each service, regardless of where that option resides. We have found many examples of how this approach has transformed operations throughout the private sector, foreign governments, as well as state and local governments.

A great example of how this approach can be applied at the federal level can best be seen at the US Department of Commerce, which, in 2015, began looking to rationalize back-office service operations peppered throughout the department's 12 bureaus and Office of the Secretary. The department adopted a highly methodical approach of conducting in-depth baseline cost/benefit assessments and identifying consolidation opportunities for improved service delivery across the department and each bureau. It then examined sourcing options to arrive at a "build or buy" decision for whether solutions should be delivered in-house or through a third-party government or commercial



vendor. With that, the department developed a concept of operations for each service that outlined service transition priorities across each bureau; defined the desired service delivery model, including value propositions and operational models; and defined the roles, responsibilities, and organizational structure around each service. Finally, it developed phased implementation plans for each service, leading up to service delivery.

As a result, Commerce will be the first Cabinet-level department to adopt a combined service delivery model for all human resources, financial management, information technology (IT), and acquisition support systems, according to Glenn Davidson, the Commerce Department's executive director of enterprise services. To accomplish this, Commerce deviated from the traditional federal shared services path. First, it considered a wider set of sourcing options than are typically considered. Second, Commerce approached the task from a comprehensive enterprise perspective, looking across all support categories in all of its many bureaus.[4]

Service Delivery Transformation ultimately enables agencies to think in new ways about how they meet their service delivery needs. For example, with more options comes greater flexibility to address legitimate agency differences that arise from mission-specific needs. Agencies can have more ready access to modern technologies and industry best practices that deliver improved, consistent experiences and responsiveness to system users, whether they are government employees, citizens, or agency stakeholders.

And because many service options are increasingly offered in the form of software-as-a-service (SaaS), Service Delivery Transformation can deliver modern, best-in-class services for far less capital expenditure. Time tested and vetted commercial SaaS offerings tend to carry lower cybersecurity risk. SaaS vendors assume technology maintenance, refresh, and security responsibilities, so agency staffs are free to focus more on mission-critical tasks.

Addressing the challenges of service delivery transformation

While Service Delivery Transformation may solve some challenges, many traditional challenges that have stymied federal shared services and IT modernization efforts still prevail. Many agencies are hard-pressed to find capital expenditures with which to invest in service consolidation and modernization. IT projects often evolve into overly complex endeavors that exceed their budgets and schedules and underperform. Moreover, many projects, once completed, fail to deliver their anticipated value. There are approaches that can address these challenges:

The funding challenge

The federal government plans to spend more than 80 percent of its IT budget on operations and maintenance in Fiscal 2019, according to the President's Fiscal 2019 Budget. That means agencies have only 20 percent of their budgets—and, in many cases, much less—for capital expenditures (CapEx) to spend on new projects. As a result, most agencies have few opportunities to modernize and may feel stuck with their many legacy systems. This challenge is exacerbated by the fact that different buckets of budget dollars are tied to specific fiscal years or appropriations categories, limiting their flexibility to be spent on a project that span multiple years or includes development and procurement phases.[5]

As mentioned, SaaS models of service delivery provide a novel way of potentially reducing an agency's CapEx needs for modernizing legacy systems. That is because software is provided as an Internet-based service and paid for based on a customer's usage of that software, like a utility. And like a utility, the funding for that service comes out of operating expenditure (OpEx) accounts. The initial cost of interfacing with the software provider, as well as the costs of updating the technology and on-going security of the service, are spread over the customer base—thus reducing it—and amortized over the duration of the contract period, making the transition far more affordable from an up-front investment perspective.

As SaaS models are helping to lower CapEx barriers to modernization, new and innovative government funding models will soon become available to help agencies more easily address the CapEx costs that remain. The Modernizing Government Technology (MGT) Act, which became law as part of the Fiscal 2018 National Defense Authorization Act, authorizes a central modernization fund of up to $500 million that agencies can borrow against to update aging and insecure systems. The MGT Act also authorizes IT Working Capital Funds within each of the 24 CFO Act Agencies. These revolving funds can store any unspent funds—such as those typically available at the end of the fiscal year or the avoided costs resulting from an IT modernization project—that can then be applied toward other IT projects. As a result, agencies will have access to unprecedented financial flexibility that should spark a flurry of modernization activity across government and end the "use it or lose it" approach to spending that often undermines modernization investments. To make the most of this opportunity, agency CIOs, CFOs, and program managers will need to capture modernization-driven savings in a disciplined and deliberate way and proactively align those resources to priority projects.

The complexity challenge

Many federal shared services projects have evolved into overly ambitious endeavors that aim to address the specific service needs of everyone affected. This is especially so with enterprise resource planning (ERP) projects that integrate the management of an agency's core business processes for tracking and managing resources. The result is that many projects get overloaded with requirements and technical challenges, leading to increased costs, delays, and underperformance. This complexity also can take a heavy toll on a new system's users, who must learn and adapt to dramatically different technologies, processes and, sometimes, job functions. Planners should remain mindful that a key aspiration for any modernization initiative should be to simplify, not complicate, the lives of those affected by it.

Agencies could help avoid these problems by keeping a disciplined check on their modernization ambitions. Much of today's commercial off-the-shelf technology—whether delivered from the cloud as a service or installed on premises—is quite robust and configurable in most cases right out of the box. When capability gaps do arise, agencies can address those gaps with innovative solutions, such as automation technologies, blockchain technology, robotics, artificial intelligence, and others. By keeping complexity and customization to a minimum, agencies could potentially reduce program risk, their IT infrastructure footprint, and long-term costs.

The value challenge

Many federal shared services and IT modernization projects are managed by the most relevant line executive within the agency hierarchy, such as a Chief Information Officer (CIO), a Chief Financial Officer (CFO), or Chief Human Capital officer (CHCO). Employing a department-wide strategy and roadmap can more effectively realize maximum value from an investment in service delivery transformation across all functions.

Modernizing mission support services is best led at the enterprise level in order for them to be truly transformational and deliver maximum value. We suggest that strategy formulation and accountability for Service Delivery Transformation projects occur at the Deputy Secretary/Chief Operating Officer (COO) level to help ensure that projects enjoy the focus, priority, and enterprise-wide commitment needed. However, it is also critical that mission leadership and the relevant CXO-level executives are in close collaboration from the beginning to help ensure mission value is maximized. At this level of the organization, project governance both on the agency side and the vendor side will likely be stronger and more effective. The result will likely be projects that deliver greater value and efficiencies to the enterprise as a whole.

Conclusion

There is wide consensus that consolidating and modernizing back-end mission-support services across federal agencies has great potential to cut costs and improve services. But the federal shared services model needs to evolve to realize significant economic and service delivery value. By shifting the focus to designing a holistic delivery model, created in part through sourcing analysis that considers best-in-class options, and enabled through leadership at the Department level, federal agencies can better position their mission for achieving results with a back-office that delivers value.

1. See p D1 (p77 in the PDF) of the State of Federal IT Report: https://s3.amazonaws.com/sitesusa/wp-content/uploads/sites/1151/2017/05/CIO-Council-State-of-Federal-IT-Report-January-2017-1.pdf
2. See p D1 (p77 in the PDF) of the State of Federal IT Report: https://s3.amazonaws.com/sitesusa/wp-content/uploads/sites/1151/2017/05/CIO-Council-State-of-Federal-IT-Report-January-2017-1.pdf
3. See p D18 (p94 in the PDF) of the State of Federal IT Report: https://s3.amazonaws.com/sitesusa/wp-content/uploads/sites/1151/2017/05/CIO-Council-State-of-Federal-IT-Report-January-2017-1.pdf
4. See U.S. Department of Commerce Annual Report: https://www.commerce.gov/sites/commerce.gov/files/enterprise_services_annual_report.pdf
5. See Fiscal 2019 Budget (Analytics Perspectives, p223): https://www.whitehouse.gov/wp-content/uploads/2018/02/spec-fy2019.pdf

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