

Management Insights

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More Hidden Keys to Reforming Support Services

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Everyone is looking for opportunities to save money. Internal services are often the first target because they usually have no external constituencies. How can we reduce administrative costs? In my last column, I argued that "old thinking" about these issues — for example, using consolidation to achieve efficiency, focusing on cost without consideration of service quality or benchmarking service costs against those of other jurisdictions — will only produce the same dilemmas. The last column went on to propose basic principles of "new thinking" in the form of lessons learned from the study of internal services over the past 25 years.



The first lesson was to *start by getting specific about the results you want from your internal services*. Don't start by asking the question: What can we cut? I suggested four key results that I hear executives most often articulate for internal services: High quality services, compliance with rules and regulations, an enterprise perspective and the lowest possible cost.

Now, I'll show you the conflicts inherent in the four results described above and how new thinking can help manage those conflicts.

Lesson 2: These purposes may conflict. Develop strategies for managing those conflicts.

Efforts to win compliance with important rules and regulations may conflict with efforts to deliver better service. Applying an enterprise perspective may conflict with tailoring internal services to the unique needs of a specific department. Further, service outcomes and compliance outcomes are believed to be a function of how much a jurisdiction spends on these things. Who decides how much?

Beware of those who say: "You have to find a balance for these objectives." That is just another way of saying: "Live with the messes that the old thinking creates."

By contrast, new thinking brings in the possibility of strategies that actually take advantage of these tensions. For instance, rather than organizing work around functional areas like human resources,

information technology or general services, Canadian provincial governments organize around results: All compliance and enterprise policy functions are located in the Treasury Board Secretariat while other organizations provide services to the ministries and agencies. This way the two organizations can clearly focus all their energy on the result — both seeking to maximize their results at the least cost.

Lesson 3: Focus on value, not cost. Cost isn't the bottom line. Rather, results produced relative to cost is the real bottom line. We call this ratio, value. I recently saw a mayor celebrate the savings "found" by reducing procurement staff. Everyone thought it was great. The only problem was the mayor got in big trouble with the voters because the city was very slow in responding to snow emergencies. The city was slow because reductions in procurement staff led to 18-month turnaround times on the purchase of snow removal equipment. Value brings the concept of cost together with the results produced.

Lesson 4: Strengthen accountability for value. Consolidation focuses on cost yet it actually weakens accountability. It is difficult to find strong accountability mechanisms for service quality from big central bureaucracies. On paper, centralized bureaucracies are "efficient," but they are also designed to be hungry beasts bent on empire building. They quickly become inefficient.

On the other hand, when marketplace dynamics of choice and competition are strategically deployed, accountability for both cost and service quality can be made very strong. Yet you need multiple producers of internal services to create such dynamics — the very diversity that is proclaimed to be "inefficient."

Why are we so quick to repeatedly deploy the Soviet model? We know it to be a miserable failure. By contrast, we know markets — when carefully managed — can work well. The federal government, for example, allows any agency to sell administrative services to any other agency. This franchise model gives managers a choice of which procurement, personnel or payroll function to use even though they all operate under the same federal government "franchise."

In summary, there are huge opportunities in getting better value from internal services. Some of our clients have achieved savings in excess of 20 percent while improving service quality and compliance results. The Soviet approach is not the answer.

In the final column of this series we will explore a series of concrete specific tactics for applying these lessons to internal services. I will show you how to start the process of getting better value and how to create a culture of innovation and cost effectiveness.

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