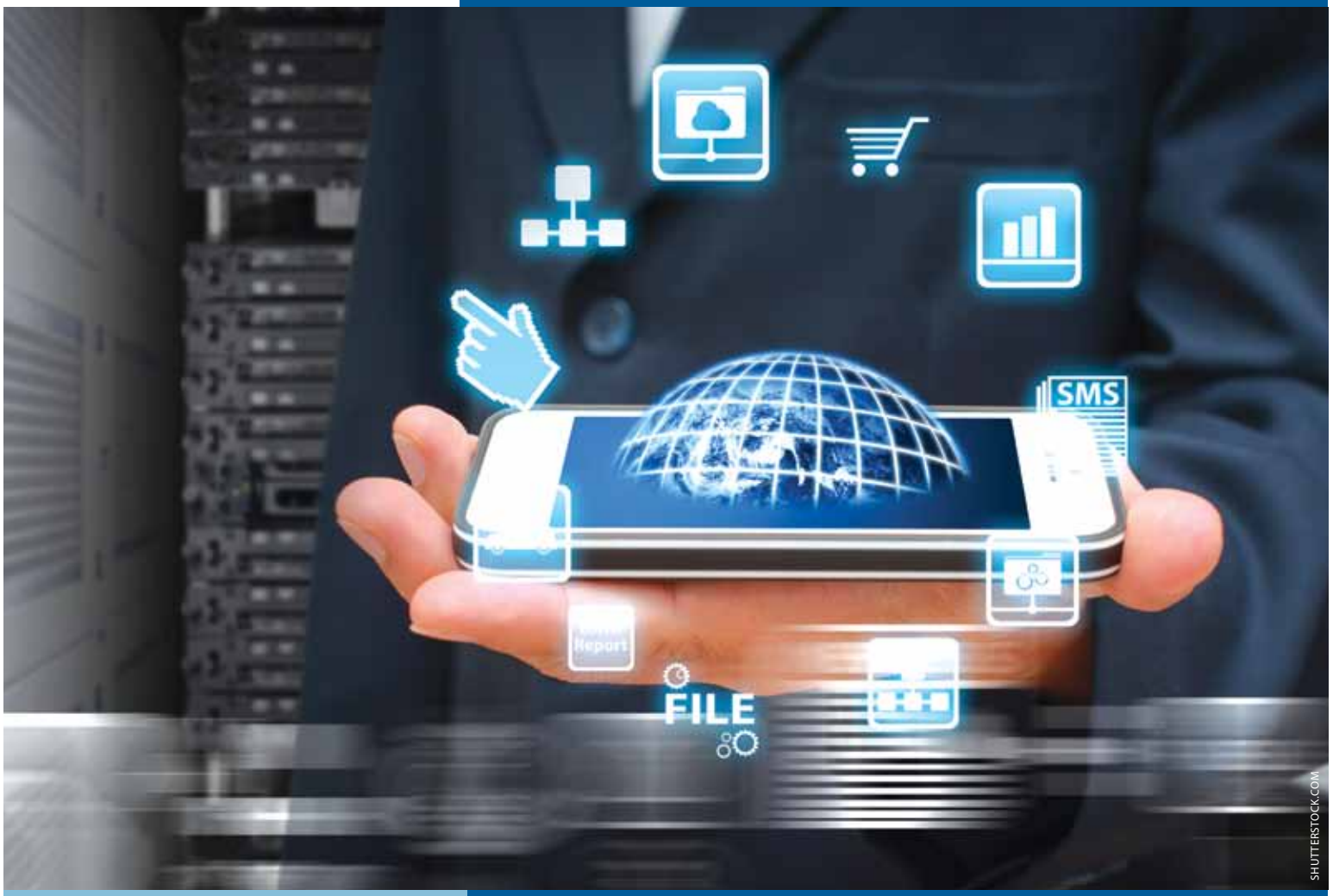
A STRATEGY PAPER FROM

CENTER FOR DIGITAL GOVERNMENT

Shared Services in the Spotlight

Continuing fiscal challenges are causing states and localities to view shared services in a new light



SHUTTERSTOCK.COM

Shared Services in the Spotlight

Continuing fiscal challenges are causing states and localities to view shared services in a new light

The outlook on shared services within the public sector is rapidly changing for the better. As states and localities today continue to grapple with issues like long-term reduced funding, growing expectations for access to information, the need to do more with less and the duplication of IT operations within multiple agencies, shared services are becoming increasingly attractive — if not essential.

Why? Shared services derive economies of scale, help address budget challenges, reduce redundant and obsolete solutions, enable states to cut costs while improving service quality, bolster security and allow new services to be rolled out more quickly. In short, shared services help address many of the challenges currently facing the public sector.

Government agencies around the world are pushing for a shared services approach as they anticipate savings and observe increased efficiency in the private sector. A recent Center for Digital Government (CDG) research survey on shared services in the public sector makes it clear that shared services will be a high priority over the next 12 months. The survey found that 93 percent of state and local government respondents indicated they were interested in, planned to or had already implemented some type of shared services program.[1]

Shared services are clearly gaining considerable momentum — becoming less talk and more action. States and localities are realizing that the sooner they adopt a shared services strategy, the sooner they can reap the many benefits that they offer. When asked which benefit would most likely influence their organization's decision to adopt shared services, 50 percent of respondents to the CDG survey indicated cost savings as their No. 1 response and 24 percent indicated improved services.

This CDG white paper further examines how state and localities are starting — and succeeding with — the transition to shared services.

Making the Transition

Implementing a shared services strategy can lead to significant benefits; that said, like any large-scale IT project, it is not a simple undertaking. Public sector entities looking to implement shared services must address certain factors unique to government.

- Moving from a demand-based culture to a supply-driven service culture can be challenging for a government entity.
- Election cycles and shifting political agendas can make the necessary commitment to long-term change difficult.
- A lack of investment resources can limit funding for projects.

However, contrary to popular belief, lack of budget is not the primary obstacle preventing states and localities from moving to a shared services model. The CDG survey found that the main hindrance was more likely to be governance (43 percent) than funding (14 percent). Other obstacles included a lack of leadership (14 percent) and resistance to change within an organization (29 percent).

While such issues clearly present challenges within the public realm, they are hardly insurmountable. With the appropriate leadership and change mechanisms in place, public organizations can achieve the same benefits from shared services as private organizations.

The advantages make transitioning to shared services well worth the effort; the benefits far outweigh any perceived challenges. In the past, shared services implementations often never got off the ground, and

implementations that did move forward suffered from flaws in business cases, technology choices, governance or ongoing political sponsorship. These issues, however, are avoidable with the proper approach.

The following examples show how two governments, one state and one local, significantly improved their operations by implementing shared services effectively, overcoming obstacles along the way and reaping the benefits.

Improving Operational Inefficiencies: Shared Services in Alaska

Alaska recently implemented a shared services approach to improve service to its citizens. Alaska is the largest state in the United States by area, but it is the least densely populated. Despite its small population, the state requires a large information technology infrastructure to ensure all statewide departments and agencies are connected. Due to infrastructure and operational inefficiencies and widely distributed facility locations, Alaska's systems were taking many months, sometimes years to deploy.

"Because of funding issues, we were taking the typical siloed approach," says Corey Kos, Alaska's enterprise architect.[3] "The biggest challenge for the state was the time it took to deliver services. We had hardware which needed to be configured and stood up, but we could not get everything ready to deliver services at the rate that end users needed it. There was no efficient use of resources."

The state also faced challenges due to varying departmental standards and procedures, overall operational inefficiencies and a lack of unity among the different data center teams. A new statewide data center infrastructure was needed that would permit greater agility and scale for operations. After performing an analysis, Kos determined the best solution was a shared services approach that would integrate servers, virtualization, management, and access and storage networking in a single system.

Today, the state provides unified service delivery for all applications to end users. The system accelerates and simplifies application deployment with greater reliability, and an end-to-end network ensures that the data and applications running on the network and through the data center are secure. The system has enabled Alaska to provide agencies and organizations statewide with hosted

Recap: What are Shared Services?

"Shared services" (also known as Information Technology as a Service, or ITaaS) refers to the provision of a service by one part of an organization or group where that service had previously been found in more than one part of the organization or group. Therefore, the funding and resourcing of the service is shared and the providing department effectively becomes an internal service provider. The key is the idea of "sharing" within an organization or group.

Sharing services means more than just centralizing or consolidating similar activities in one location. Sharing services also means running these service activities like a business and delivering services to internal customers at a cost, quality and timeliness that is competitive with alternatives.[2]

services, such as State of Alaska Messaging Services and a new enterprise resource planning (ERP) solution for the Division of Finance. As a result, IT department productivity has increased by streamlining operations and accelerating the speed of infrastructure deployment.

"Time to delivery has been the biggest benefit," says Kos. "Before, the time from when we specked the hardware until it was in production was three to six months. Now we can bring several servers a day online and currently have almost 500 servers deployed. The speed of deployment and the wide variety of options provides the various departments and agencies with a new level of satisfaction."

The cost savings to the state have been substantial. "We are seeing significant savings in the hardware and data center space," says Kos. "We were also able to drop the rate we charge internally for services by nearly 50 percent. I expect that number will continue to decrease as we increase the number of groups sharing the platform."

The state has also realized savings through reduced hardware purchases and lower power and cooling bills.

Shared Services and the Cloud: Similarities and Differences

The concept of shared services is not new. In fact, shared services have been steadily evolving toward greater virtualization and Internet accessibility over the last decade. But today, cloud computing adds a new dimension to shared services' ability to reduce costs, gain operational efficiencies and provide a portal for end user self service.

Shared services and cloud computing have several similarities.

- Both are business models for delivering standardized services to multiple customers (though cloud generally refers more to technology services, while shared services refers to the entire range of back-office administrative functions).
- Both leverage economies of scale to drive down services costs for all customers.
- Both free customers from owning and operating their own service infrastructures or applications, thereby enabling improved focus on enterprise core missions.
- Both provide customers with improved cost predictability and control, along with safer modernization paths in which costs and risks are borne by external service providers.
- Both enable more rapid provisioning (self service in some instances) of customer requirements.
- Both enable improved visibility into business activities and performance management capabilities.

The primary difference between cloud computing and shared services is how savings are achieved. Utility pricing is a unique feature of the cloud. Acquiring service from a commercial cloud provider through utility pricing can dramatically drive down the cost of underutilized IT capacity by enabling end users to pay only for what they consume.

Conversely, shared services savings are realized through reduced direct labor costs as business processes are standardized, streamlined and consolidated. Indirect savings accrue through reduced space, energy and supervisory costs. Meanwhile, technology cost savings are realized as legacy systems, software licenses and system maintenance costs are replaced by a single system operated and maintained by the shared services organization.

Strengthening IT Infrastructure in Melrose, Mass.

The city of Melrose, Mass., located just north of Boston, recently adopted its own shared services approach, which is also producing significant benefits. Previously, the city utilized a dated IT infrastructure that was not keeping pace with citizen demands. Though the city's population is just over 28,000, many of its citizens commute to Boston daily, where they had grown accustomed to the high-speed technology services regularly found in large metropolises.

"We had a hard time meeting constituent and customer expectations," says Jorge Pazos, chief information officer for the city of Melrose.[4] "They came to municipal government and it was like going back to the 1970s."

Melrose leaders faced challenges in keeping the city's technology services up to date and functioning at full capacity. The Melrose school district alone required a significant amount of networking infrastructure, with 1,300 computers spread across seven buildings. The city wanted to maintain an active, cutting-edge network that was both efficient and financially sensible.

Melrose's leadership decided to consolidate the city's infrastructure using a shared services model to achieve cost savings. They also wanted a system that could be expanded later, as Melrose officials were not sure how many servers, how much memory or how much storage the city might need in the future. By using a shared services approach, the city standardized IT processes and combined servers, networking and management into a single system. The configuration of the system is completely programmable, which helped facilitate the consolidation of Melrose's data centers in a simplified manner.

Immediately following implementation, Melrose began to see improvements in application deployment. City IT workers found that the process of rolling out applications transformed from a weeks-long, multi-step ordeal into something that could be done before lunchtime.

Today, Melrose has an efficient and scalable IT system that is providing flexible, accessible technology to its residents. Moreover, the city can better scale its own technology environment, allowing for data flexibility. Finally, because costs have been reduced, Melrose can now redirect its budget to other critical needs.

"We are seeing significant savings in the hardware and data center space. We were also able to drop the rate we charge internally for services by nearly 50 percent. I expect that number will continue to decrease as we increase the number of groups sharing the platform."

– Corey Kos, Enterprise Architect, Alaska

Shared Services Best Practices

Kos and other experts suggest a number of best practices to ease the transition to shared services in the public sector.

Identify (and clarify) budgetary requirements upfront

In Alaska, Kos had to constantly wrestle with the "financial side of the house" because government funding streams often made consolidation difficult. At one point Alaska was looking at implementing 20 to 30 projects, each with different requirements. "I was able to look at all those projects and say, 'If you give me the funding I can do it all in one swoop,'" says Kos. "And while the logic was there, making that happen was more of a challenge than I anticipated."

When his team did succeed at consolidating systems, the increased costs immediately raised red flags. "What people didn't see was that we dramatically reduced costs across a broad range of customers, so we had to articulate that," says Kos. "This is a shift in services, so it is important that the financial side understands that. My advice is to gather that data ahead of time."

Figuring out how to charge for services was also a challenge. "This was truly standing up something new

— a consumption-based cloud service offering versus our historical 'pay for services that we host for you' model. It was a paradigm shift," says Kos. "We had to figure out rates and then get accounting to understand what we were doing. Creating rates within state government to recoup costs was also a struggle."

Manage workforce issues closely and transform the internal culture

Because working on complex projects with several different personalities can be a challenge, Kos thought ahead and picked a cross-functional group to work on his project. "I grabbed the hosting team's best engineers and the best engineers from the network services group, and had them work together as a team," he says. "That enabled them to take a 'greenfield' approach. Understanding each other's needs was a good first step toward getting them to forget about the way it's always been done, so we could start fresh."

The Future of Shared Services

According to the CDG survey, services was the area where respondents felt they most needed a different model of delivery (19 percent), followed closely by disaster recovery and backup (17 percent) and web applications and portals (16 percent). So what's next for shared services in government?

Overall, the future looks bright. As momentum builds, government agencies with the right shared services foundation in place could see additional advantages,

The Center for Digital Government (CDG) recently conducted a survey of nearly 100 public sector CIOs, IT directors and other information technology experts regarding the status of shared services initiatives. Here are some highlights.

93% of respondents indicated they were interested in, planned to or had already implemented some type of shared services program.

67% use their central IT organization as their shared services provider.

50% indicated cost savings as the primary reason for adopting shared services in their organization.

19% named services as the area most in need of a new delivery model within their organization, followed closely by disaster recovery and backup (17%).

including community clouds shared by several agencies and departments. These combinations of hybrid/private clouds, distinct cloud infrastructure compositions (private, public or community) and existing agency IT assets in a center-of-excellence model could give public sector organizations the ability to share a vast range of cloud services, instead of just a restricted few.

Fulfilling the Promise of Shared Services

It appears technology has finally caught up with the will to share services more efficiently in government. The focus has shifted from servers to services. Progressive agencies have evolved, streamlined, optimized and virtualized. They are utilizing turn-key shared services environments to launch new services and drive IT consolidations within their respective states, allowing IT staff to utilize their energies in more strategic ways.

That said, government's siloed structure and cautious culture are still characteristics that must be addressed. Some government agencies today continue to operate within an industrial-age organizational model hampered by redundancies and inefficiencies. Shared services are fundamental to realizing the streamlining and consolidation necessary to achieve significant savings while also enabling transparency and performance improvements throughout government.

While obtaining the capital for an initial shared services implementation may be a challenge given today's budget environment, uncontrolled deficits and citizen concern over government inefficiencies mean that perhaps the time has come to make fundamental transformation a priority. Through shared services, agencies may eliminate duplication of cost structures, reduce risk, procure needed services, implement new capabilities and innovate in a rapid and cost-efficient manner.

Shared services are here to stay, and their growing popularity among government agencies signals great promise for the future. To fulfill that promise, it is important that agencies are aware of available shared services and platforms so that they can build shared services into their strategic and investment planning processes. States that redirect their focus from servers to services can reap many benefits — including the chance to be viewed as innovator, rather than a follower.

Best Practices for Implementing Shared Services in Government

- Create a strong governance structure that includes user departments and service-level agreements
- Define a clear vision, business strategy and operating model
- Build a strong, detailed business case based on measurable returns
- Create the shared services organization as a stand-alone entity
- Measure performance

Endnotes

1. All research presented in this white paper is from the 2013 Center for Digital Government Shared Services Research Survey unless otherwise noted.
2. "Shared Services," Wikipedia, http://en.wikipedia.org/wiki/Shared_services.
3. All quotes from CDG interview with Corey Kos, March 6, 2013.
4. All information from "Self-Sufficient Community Improves Readiness Connectivity with Upgrade," Cisco case study, 2013.

Cisco is the worldwide leader in networking that transforms how people connect, communicate, and collaborate.
Learn more at **www.cisco.com**.

CENTER FOR DIGITAL GOVERNMENT

The Center for Digital Government, a division of e.Republic, is a national research and advisory institute on information technology policies and best practices in state and local government. Through its diverse and dynamic programs and services, the Center provides public and private sector leaders with decision support, knowledge and opportunities to help them effectively incorporate new technologies in the 21st century.
www.centerdigitalgov.com