

Buying force

by Rob Cooke

Procurement shared services model works

A COMMON PROMISE BY politicians is to make government run more like a business. It sounds like a smart idea – profit and loss make every private enterprise accountable. But, not every solution that works for a private sector company can succeed when you replace revenues with taxes and shareholders with citizens.

Governments are not driven by a profit motive, since the services they provide are determined by legislative mandate, not market desires. However, a number of private sector strategies can be successfully deployed to make government operate, if not like a business, more efficiently.

One of them is shared services – a strategy initially adopted by large multinational corporations to reduce costs and increase the efficiency and effectiveness of internal back-office service functions. Shared services have been so successful that a number of governments – including the provincial governments of British Columbia and Alberta – have already adopted many of its features.

Shared services is about consolidating critical but non-core services such as finance, human resources, information technology and procurement into stand-alone business units whose sole mandate is to provide these services back to other ministries or departments.

For governments, procurement shared services – which includes processes such as sourcing, purchasing, warehousing and logistics – are receiving significant attention. These services are consolidated from multiple government departments and ministries into a single, stand-alone organization.

Why are procurement shared-services functions growing more popular? Because these programs have a track record of delivering:

- reduced procurement service cost,
- increased organizational efficiency,
- improved contractual relationships, including better contract terms with vendors,
- enhanced procurement services and client satisfaction with those services, and
- empowered ministry and department management, freed from managing procurement staff and services and better able to focus on their core programs.

While large businesses have relied on shared services for over several decades, their use in government is still at an early stage. Alberta and British Columbia have been pioneers of procurement shared services and their experiences tell a great deal about the opportunities and pitfalls of these efforts.

Typically, the scope of a shared services model is one of the first decisions that must be made. Shared services can encompass a wide variety of agencies over a large geographic area – but could also be focused on a few functions. While it might be wise to assume lower expectations for a less ambitious venture, an ambitious scope should be tempered with realistic expectations for a staged deployment. Alberta and British Columbia took different approaches to a similar task.

Alberta – Don't avoid problems; fix them

In Alberta, the procurement function was not included in the initial shared services strategy and the establishment of the Alberta Corporate Services Centre (ACSC). Eventually, the government transferred the procurement function into the ACSC and established a services unit, consisting of 100 procurement services experts,

focused on corporate purchasing, government contracts, over-threshold spending, standing offers, surplus goods disposition and strategic sourcing.

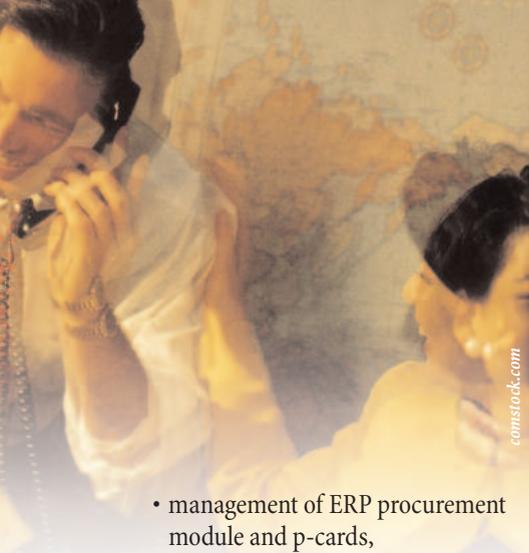
So where did Alberta run into early problems? Government officials say that while it was not difficult to identify the key buyers who needed to be brought into the shared services structure, a key challenge was to identify the hundreds of people who do casual buying, then inform and assist these people in using the new shared services model. Many of these casual buyers were not identified and continued to conduct purchasing in the ministries.

Another challenge was drawing attention to the real value of the shared services model. In order to expedite buying and avoid what are perceived to be time-costly processes, ministries developed a number of creative solutions, which may compromise compliance. These kinds of clever budgeting techniques skew the way a shared services organization operates and, therefore, tends to discourage agencies from becoming more efficient.

Not surprisingly, there was also resistance from some employees due to a perceived loss of local flexibility and control. However, the senior executive recognized the value of cost savings and the staff eventually recognized the value of improved service.

These types of implementation issues are common to both governments and businesses. What's impressive about Alberta is the way they overcame them within the shared services model. Alberta reacted rapidly to initial shortcomings and moved aggressively to expand the scope of the project, as needed, to make it work. The end result is a unique and evolving shared services procurement model that includes:

- common templates for RFPs and RFQs for use by ministries,



- management of ERP procurement module and p-cards,
- services performed by the ministries (generally, if under a cost threshold) as well as contractors, and
- established rules and a clear governance structure.

Alberta's advice to other governments considering this route is to bring all corporate or specialized procurement into the organization at the outset. In addition, it believes agencies must look beyond near-term cost savings via consolidation to the longer-term value of strategic sourcing and improved service.

British Columbia – Finding value in an ambitious approach

The British Columbia government consolidated procurement services including supply, printing, distribution centre, strategic acquisitions and intellectual property management, into a broader government shared services strategy.

Key features of the British Columbia approach included:

- creating a procurement council with multi-level membership, providing overall advice to the shared services group,
- building a procurement reform process to encourage continuous improvement, and
- providing procurement 'curriculum' to all levels of government to educate on procurement practices.

Instead of taking a go-slow approach, British Columbia dove head first into procurement shared services and found that the key to overcoming initial resistance and institutional inertia is to provide good services that ministries want. The more efficient and customer-focused the shared

services model became, the more rare "off-contract" buying became.

Achieving these results required British Columbia to keep in front of clients and vendors on a continual basis to identify issues, trends and changing expectations. Provincial procurement officials say that the key to their success was being proactive in addressing needs.

British Columbia officials articulated two other lessons from their shared services experience: 1) Don't be disappointed if your clients don't do cartwheels over their excitement for the new model – it's a pretty ho-hum process; and 2) Identify high-impact areas for immediate and visible success, as this will build commitment for subsequent improvements and modifications.

While British Columbia has seen a great many successes in its shared service model, it faced its share of challenges as well. Like many businesses, British Columbia has a history of using "charge-backs" for many of their services – charging a fee for the delivery of services such as printing and mail services through what is reported to be a very efficient electronic charge-back process. In both the government and corporate arenas, charge-back fees can become bureaucratic nightmares that don't deliver the culture change promised.

There can also be a great deal of resistance to paying fees. In British Columbia, it has been difficult for ministries to accept paying for advisory services that were previously considered free as they were hidden in allocations.

An area where British Columbia has found greater success is in differentiating the governance of the service from the delivery of services. The people who develop policies and ensure compliance should not be the same people responsible for carrying them out. In British Columbia, the procurement governance function is in the Controller General's office in the Ministry of Finance, completely independent of the shared services function.

Finally, while it might sound like a good idea to make use of the shared services organization optional, this cannot be allowed. To make shared services work, ministries and departments must be mandated to take full advantage of the shared services organization. While Alberta started off exempting some key departments from the

shared services model – to negative effects – British Columbia moved aggressively and completely down the shared services road – not just in procurement, but in a wide range of services – and, therefore, found results more quickly.

Making it work

For a shared services model to have success in the public sector, it is vital to overcome initial resistance through consistent and complete communications with all affected personnel. In Alberta, there was a great deal of initial resistance – local officials wanted to retain flexibility and control. Unfortunately, this objective ran counter to the overall aim of shared services. For shared services to work, it is important that the organization in place can meet all procurement needs through more effective and improved services.

Getting there is not easy. There must be visible leadership and support for the shared services unit from top management.

But it can work. While governments and companies are not alike, successful shared services models share common traits. They have:

- developed a shared services culture – one that understands and meets the needs of its many customers,
- demonstrated service quality and a commitment to gaining acceptance.
- moved beyond centralization, taking on the best characteristics of decentralized units by serving the needs of clients, and
- ensured visible and credible leadership in place.

In the end, what makes government and business alike is people. Serving customers, taxpayers, stockholders and voters all comes down to providing exemplary services at the lowest feasible cost.

It's something government and business can learn from each other – every new method that helps meet human needs efficiently has value – and procurement shared services is quickly becoming a proven model that can work for any enterprise. *mm*

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