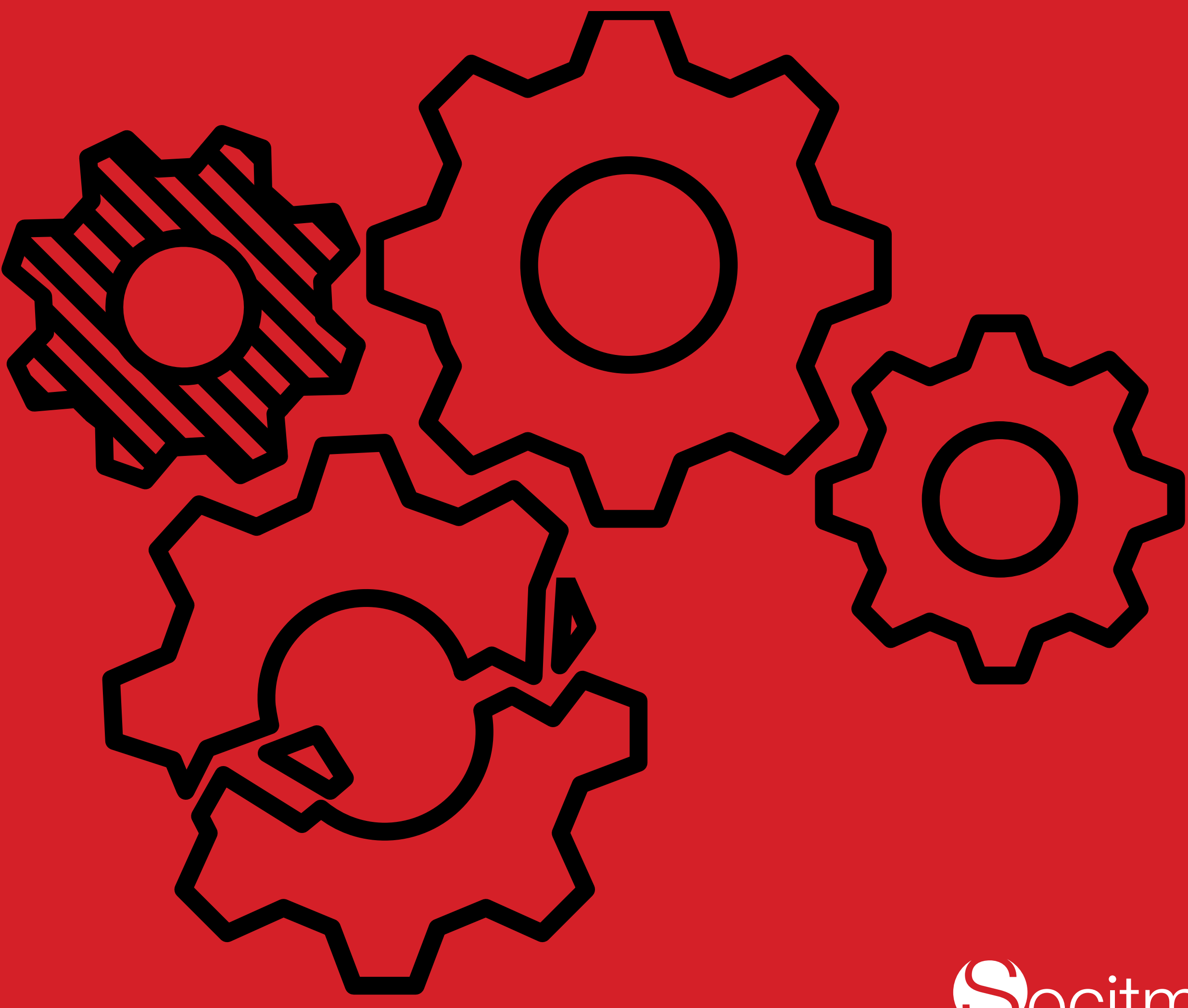
ICT shared services:
Learning from success and failure

2017/18

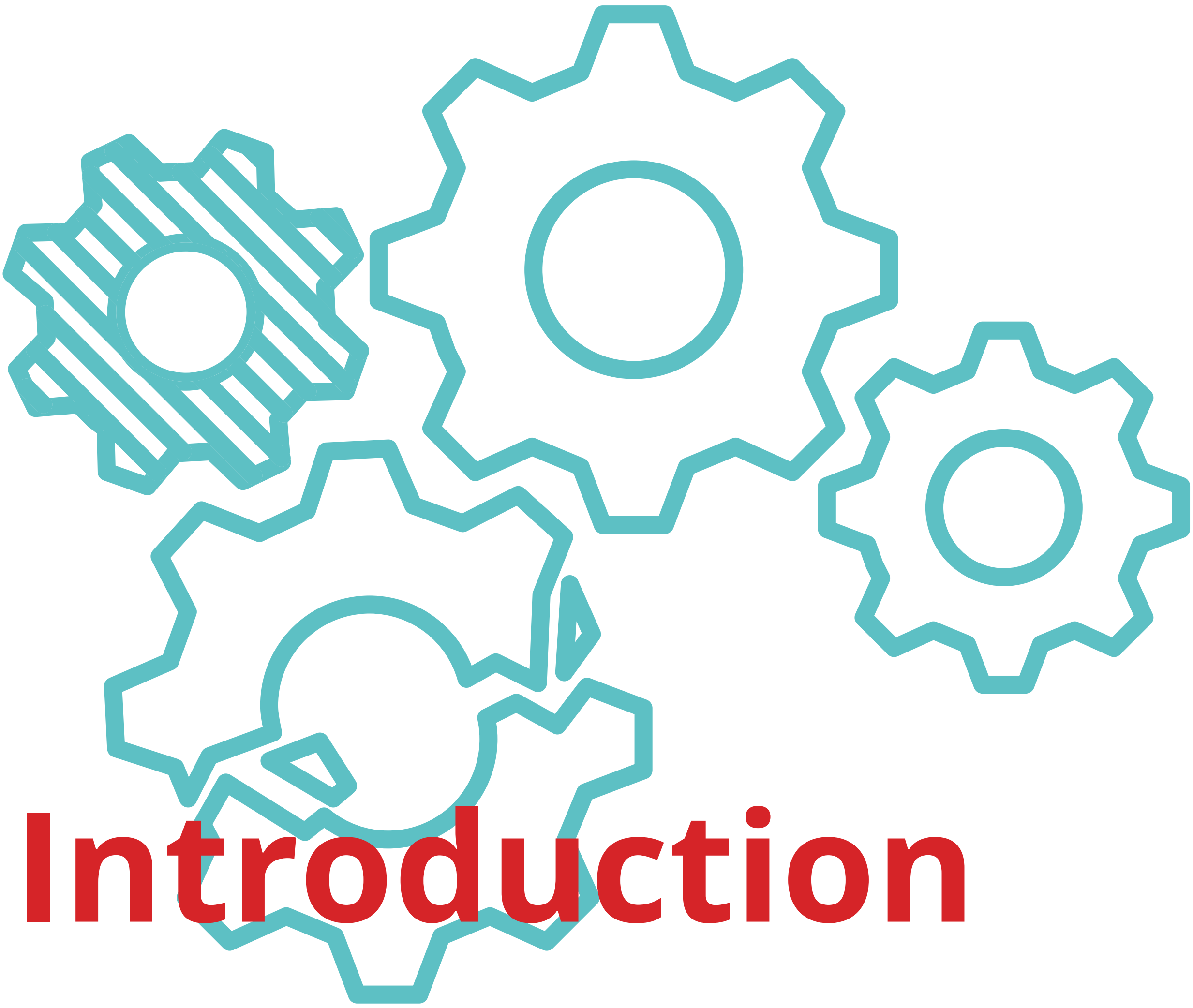
Guide 08

Reasons why shared services fail



Socitm Inform

List of guides



Introduction

This is the eighth in our series of guides offering new insights and tools to support local public service organisations and, in particular, their ICT leaders as they embrace more and deeper shared service arrangements.

This guide reveals why shared services commonly fail, illustrated by a series of anonymised examples.

Other guides in the series outline the drivers currently shaping the scope of ICT shared services, present a self-service readiness assessment tool, explore the emerging range of shared service models in practice, discover the special place of ICT as a key enabler of wider shared service initiatives, update the 'Trailblazers' from our earlier 2011 report, identify some new leading examples, present findings from a survey of shared ICT services activity, and present the common traits of successful ICT shared services arrangements and the factors giving rise to success and failure.

The final guides in the series reveal why shared services commonly fail and share some thoughts about the 'new currency' generated by shared services.

Unhinging issues

There are many issues that can unhinge sound shared services proposals. It is perhaps surprising that as many succeed as they do!

Sometimes we come across articles in the press, typically from those who have never worked in the sector, asserting that it is just an aversion to giving up power or embracing change that are the main obstacles to setting in place shared service arrangements. Whilst these may be relevant factors, they are nonetheless only two issues in a complex web facing those seeking to form shared services between councils and other partners. These assertions also typically constitute naive condemnation of the public sector, which is often grappling with more complex service, supplier and customer chains and contested political priorities than can be found in the private sector.

Of the many challenges facing shared services programmes, a number of common and avoidable problems include:

01	Unclear business cases, creating mismanagement of expectations later
02	Everyone wanting to be a seller (or acting like one) creates tensions
03	Early unplanned disruption (or fear of disruption) causing inertia
04	Imbalance of energy/pace between partners leading to frustration
05	Different customer focus resulting in a cultural mismatch

06 Disparate and competing strategic management ambitions from sharing

07 Personal agenda, loss of sovereignty and power are often problems

08 Diluted energy and pace – being held back by a partner not able to move as fast

09 Lack of willingness to compromise on points of principle that are not shared

10 Poor services in one partner organisation make integration hard if not recognised

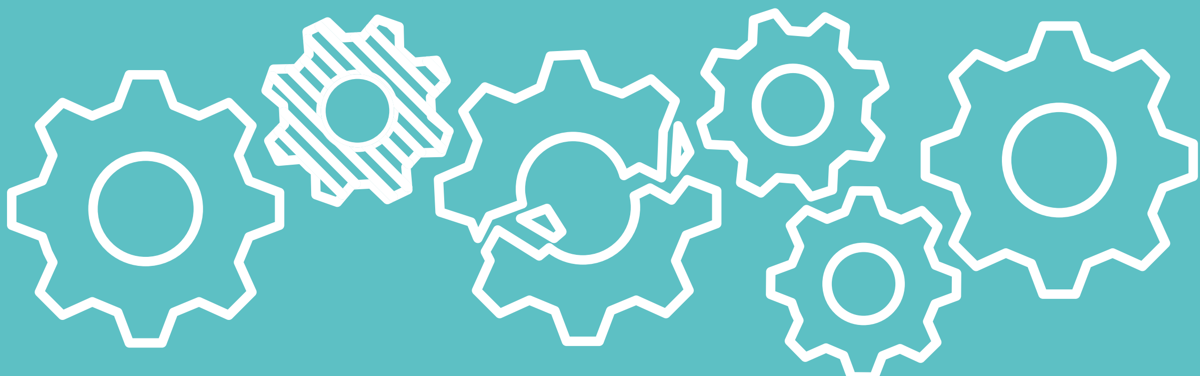
11 Lack of skills, especially in areas such as ICT where dependency lies

12 Political dogma (e.g. outsourcing/insourcing is best)

13 Lack of freedom to act, or just a difference in risk appetite between partners

14 Weak communications resulting in staff worries in one or both partner organisations

15 No clear benefits, realisation plans or weak outcome focus



National and local public service sharing

Part of the challenge lies in an on-going tension between 'national' and 'local' services. Fire and rescue services, policing, the National Health Service and most national government departments need to be able to operate locally, as well as nationally. Exceptions include the Foreign Office and Ministry of Defence.

For example, policing needs to be in tune with local needs and communities, but also must act as a national force – yet how can this be achieved? Tensions and debates have gone on (to the detriment of decision-making) for years. There are strong arguments, defined in devolution proposals, for a stronger local face in national services, provided that national integration is not lost. This is where digital operating models can assist, striking the balance between national and local.

It is arguable that at least some of the disconnection that many citizens feel with national government today lies in a failure to resolve this conundrum, partly because of political fear of devolution undermining national policy and political influence, and partly because, in practice, it is hard to do. It is also true that central government often does not understand the complexities and differences at a local level, or how to reconcile the centralisation and globalisation of shared services policies, whilst promoting localism. This is evident in a lack of consistency, let alone integration of national policies to support local integration of public services, especially across the Home Office, Ministry of Housing, Communities and Local Government, Department of Health, Department for Work and Pensions and others that has a bearing on implementing public policy locally, such as health and well-being.

Yet, with modern ICT and digital infrastructure, it is possible to create a federated model for public services, which is devolved, locally integrated, yet does not exacerbate fragmentation, overlap or a loss of national influence and control.

Shared services initiated by local government should consider the opportunities of this national/local integration, being sensitive to national issues and concerns, whilst proposing new integrated service models that benefit citizens and communities.

The Scottish Local Government Digital Office is a case in point. Adopting a collaborative model of funding from the 30 (out of 32) Scottish local authorities, it is developing simplified, standardised solutions that can be shared by its constituent authorities. By collaborating in this way, local government in Scotland is already achieving a higher level of influence, recognition and cooperation with the Scottish Government than is the equivalent case in England.

Some examples that did not work

Amongst the many examples of local government shared services published on the Local Government Association's website , and supplier references to facilitated sharing, are many success stories. But there are also many shared services that have not survived, at least in their original form.

There are a variety of reasons for this, but these failures are not well publicised: no one likes to admit they got it wrong. Not surprisingly, there were few willing to speak openly about problems, but here are seven contrasting, anonymised examples:

01: Over-dependency on key personnel

A successful shared service requires vision, drive and resilience of leadership. It is not surprising that in many cases there is a strong and charismatic leader at the heart of change, advocating, championing and cajoling others, bringing experience, optimism and confidence that acts as a catalyst for the faint-hearted or more cautious colleagues. These can be political or executive sponsors or even managers of the shared services.

But there is a downside – a dependency on key individuals, either as a leader or a specialist (e.g. technology, contracts, negotiations etc.) can create vulnerability if they leave. In one example, there was significantly reduced effectiveness and ultimately cancellation of a shared service arrangement when a charismatic leader left to take up another role. Early successes in shared services stem from trust developed between individuals. When they move on, there is a risk that trust breaks down and everything becomes much more difficult. Usually, a successful shared service model is resilient to such change, but in one example the departure of the chief executive led to a gradual erosion and finally to the collapse of the shared service arrangement.

Key learning: Having a champion for a shared programme is valuable, but you also need to assess risks and a business continuity plan that addresses the vulnerability of dependence on key people.

02: Two neighbouring district councils

Two councils had determined that sharing services would be valuable. The primary objective was to reduce management overheads and IT costs. Members and the chief executives in both councils were behind the initiative in principle and involved throughout. Over several months, a full business case was drawn up, identifying how and where savings would lie, as well as the wider potential benefits and deeper shared service opportunities that could follow.

Unfortunately, the business case took some time to debate and discuss, with many iterations and refinements required by both the executive teams and in the political arena. Part of the issue lay in the fact that one of the chief executives was soon to retire, and therefore felt unable to make significant decisions before their successor arrived. But it also transpired that there were political concerns, not voiced early on, about loss of sovereignty as well as the capability of the in-house team to lead the change.

The result of this was that despite a well-rehearsed and compelling business case, after many months of preparation, advocacy, presentation and discussion, the ideas were shelved.

Key learning: Often a compelling business case is not enough to secure approval to proceed. Ensure the decision-making process is agreed in advance – timescale and approval level, and look out for warning signals such as change in key decision-makers or repeated slippage.

03: Misaligned aspirations

Inevitably, different partners will have different expectations from a shared service programme. This is not necessarily a problem, unless these are not fully understood or are not made transparent, for whatever reason.

Difficulties can arise, in particular, when there is a change that impacts outcomes. Unless the overall priorities and vision for each organisation have been clearly stated, it can be hard to quantify the impact of such a change. That brings a significant risk of a partner feeling unable to continue in a shared service programme when changes inevitably happen.

There are a number of examples. In one case, two councils were in a shared arrangement where one wanted to become a smaller, leaner organisation that still delivered key services, whereas the other wanted to commercialise the whole organisation. These two radically different philosophies meant that the potential for sharing was never fully explored. Whilst there was a strong desire to work together, the net result was much less effective at supporting the diverging needs of the founding authorities. So, whilst the shared service was successful at one level, it never fully reached its potential.

Key learning: All parties need to be open and honest about their motivations and drivers for sharing, including ‘no go’ areas. A significant mismatch should indicate the need for a more cautious approach.

04: Local authority trading company

In this example, a district council had set up a separate operational service delivery organisation, contracted by the council to provide IT and some other services, with plans to extend this to other areas and other partners. The council was the main shareholder, providing both member and officer oversight, and the new trading organisation was given freedom to run the service, to expand and to develop services. The idea was that this partial privatisation would allow innovation, appropriate risk taking and investment in a measured way and always aligned to the needs of the public sector. Early on, a second neighbouring council joined, giving confidence, as well as added scale to the trading entity. The two councils worked well together initially, by setting up a shared pool of resources, but the arrangement subsequently proved unsuccessful.

The first problems emerged with the discovery of a significant variation in existing IT maturity and investment level between the two councils, each also exhibiting a very different appetite for risk. This created a technical and a cultural gap, with difficulties in rationalising the IT estate and agreeing a suitable 'risk and reward' model. The council that was further ahead (in most areas) did not, understandably, want to be held back or to support the other council that had, in their view, under-invested in ICT. However, the trading company was contracted to support both and integrate IT platforms to reduce cost.

There were also problems with the trading company. The team that had originally been within the council and moved to the company, lacked commercial skills or incentives, and the result was stagnation and complacency. IT solutions gradually became unresponsive and expensive, which in turn resulted in a failure to deliver the savings, innovation or the flexibility that had been hoped for. Perhaps not surprisingly, the initial enthusiasm and hopes of bringing many new partners into the fold was never fulfilled, and the shared service was, as a result, ultimately unsuccessful.

Key learning: A trading company needs to trade – it needs to be sustainable, with a sound commercial model and leadership to succeed, building business capability and competing with the private sector effectively. This is especially hard in ICT.

05: A commercial experiment

A number of councils have set up direct service organisations and direct labour organisations over the years, but these are not typically for IT where the commercial complexities, investment need and dependency on rapid change make it especially challenging.

A shared service was set up as a commercial venture to deliver IT, amongst other services, after a regional government restructure. It proved to be unsustainable, primarily because one of the participating local authorities did not guarantee enough business for long enough to allow them to get established. In this example, the inability to scale, to grow, and not having 'all your eggs in one basket' were the lessons learned.

Key learning: Moving quickly to a commercial model without rigour in market testing, due diligence of the commercial model and business risk is not advisable in most cases.

06: A district and a county council

There are a number of examples of shared services between districts and counties, typically where the county council delivers the economies of scale on a delegated basis. It is also common for a district partner to feel concerned about the scale of a county partner and the risks of their own identity and priorities becoming subsumed or diluted as a result. However, this arrangement can still work well, provided these issues are resolved openly and in advance.

In this particular case, some simple IT shared services had taken root already and proved successful in offering value. The arrangement had been built based on a strong and positive relationship between the heads of IT and an MOU. But the wider ambitions of using this as a platform to share other services became, subsequently, more difficult.

Whilst sharing IT was not a political issue, and delegated authority could have been used readily to initiate wider sharing, issues arose because deeper integration of services was more sensitive. In particular, this required wider service management involvement, and the risk of displacement of sovereignty and service priorities that, in turn, generated members' and executive officers' concerns. Discussion between non-IT service heads resulted in tensions between the county and district teams around these additional service areas, which ultimately resulted in unpicking the IT shared service and to the break-up of all formal shared service links.

Key learning: Be clear on the on-going plan for sharing, agreeing target service priorities in advance. But also recognise at each stage the journey may halt and the existing sharing model may need to be sustainable in its own right.

07: A marketing mistake

In this example, a shared service organisation was already in place and operating satisfactorily. However, it was not mature, and depended on goodwill of staff within the service, as well as the public service users. Rather than focus on embedding good practice and building reputation through great services, it was decided to rebrand, to create a new, fresh individual identity. Although well intentioned, the change proved premature, and the impact was misjudged.

Instead of creating a 'new improved' image, the effectiveness of the service reduced because internal "customers" of the service started to view and to treat the fledging combined service as an outsourced company. This caused unnecessary cultural difficulties, with the IT service being treated like an untrusted private sector supplier, perceived as motivated primarily by income generation rather than a public service ethos, yet without the commercial backing of the private sector.

Key learning: It is tempting, especially when setting up a new body, to spend much time and creative input into defining the 'brand'. This can be very helpful, creating a sense of a new identity, but it can also be a distraction and a risk if the wrong outcome is agreed.

Conclusion

This guide reveals why shared services commonly fail. It sets out a series of issues that can unhinge attempts to introduce shared services, illustrated by a series of anonymised examples.

The final guide in the series will conclude with some thoughts around the 'new currency' generated by shared services.

Acknowledgements

Principal Author:
Jos Creese

Director of Policy and Research:
Martin Ferguson

Content Commissioning Editor:
Max Salsbury

Designer:
Christopher Doyle

We would like particularly to thank our case study contributors, interviewees and Socitm members who have participated in this research.

Scottish Local Government Digital Office
https://www.digitaloffice.scot/

LGA website shared services
https://www.local.gov.uk/

Socitm Inform Programme

Tel: *01604 709456*
Email: inform@socitm.net
Website: www.socitm.net
Linkedin: Socitm
Twitter: @Socitm
KnowledgeHub: khub.net/Socitm

Reference: 18010