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# How the U.S. Government Can Cut Overhead

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Booz & Company

06/26/2007

a strategy+business exclusive

# How the U.S. Government Can Cut Overhead

By using in-house agencies to provide services to other departments that need them, the federal government is saving tens of billions of dollars and learning what some in the private sector already know.

**by Kristine Rohls and Dave Mader**

The many benefits of overhead optimization do not apply only to the private sector. Major strides are also being made by public-sector institutions to implement these concepts. A case in point is the United States government, which has been focused on reducing its general and administrative (G&A) costs for nearly 15 years, beginning with the "Reinventing Government" program headed by then Vice President Al Gore in the mid-1990s. These efforts were reinvigorated in 2001 with the Bush administration's E-Government initiatives and again in 2004 with the announcement of the Line of Business (LoB) task forces charged with identifying and consolidating similar services being performed across multiple agencies.

The federal government's take on overhead cost reduction differs somewhat from that of the commercial sector, but the broad concepts still apply. Shared services is a good example. Although the federal agencies may call it by a different name, they are implementing its basic tenets all the same. In this case, the cross-agency G&A services being consolidated and streamlined are called "LoBs." Nine have been identified to date: Financial Management, Human Resources Management, Grants Management, Case Management, Federal Health Architecture, Information Systems Security, Geospatial, IT Infrastructure Optimization, and Budget Formulation and Execution. Others are in the process of being identified and will join this roster in the years to come.

The immediate objective of the LoB initiative is to enhance cost savings and performance through standardized and streamlined business processes that evolve through competition. Ultimately, the goal is to identify opportunities to reduce the cost of government and improve services to citizens through business performance improvements. The route to achieving these goals is analogous to that of any commercial shared-services undertaking.

The shared-services providers, in the case of the U.S. government, are most commonly in-house federal agencies deemed to be "Centers of Excellence" in particular LoB service areas. So, for example, the Treasury Department (specifically the Bureau of the Public Debt) is a Center of Excellence for certain Financial Management services. The Department of Health and Human Services is a designated CoE in Human Resources Management.

Agencies identified as Centers of Excellence act as fee-for-service providers to other agencies. Together, the customer agency and the service provider agency draw up a service-level agreement — commonly referred to as an interagency agreement or memorandum of under-

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standing — specifying the services to be delivered, the requirements and parameters, the unit cost and total cost, the cost assessment methodology, and the time frame for service delivery. The federal government has not typically utilized traditional charge-back mechanisms, instead relying on demand management mechanisms to develop budgets and allocate funds to appropriate service providers. However, executives and managers across the government are seeking more effective and accurate methodologies for managing service relationships and costs.

Once the ink is dry on this agreement stipulating a new business-to-business relationship between the provider agency (or private entity, in some cases) and the subscriber agency, the real work of implementing the memorandum of understanding and monitoring its progress begins. Successful implementations start at the top and remain a senior priority. Key performance indicators are identified, tracked, and communicated, and external and internal benchmarks and best practices are monitored routinely. This notion of measuring and monitoring the actual cost of doing business for specific services is relatively new to federal agencies, but it is essential in determining whether the organization is best served by in-sourcing or outsourcing.

As with any other shared-services initiative, the expected results are threefold:

- Economies of scale, skill, and experience
- Streamlined systems planning, implementation, and operations
- Product and service innovation.

What differs between the private- and public-sector approach to shared services is not so much the objectives, process, or expected results, but rather the context.

First, the size of the cost savings opportunity available to the U.S. government is orders of magnitude larger than that available to even the largest corporation, even if head-count reductions are less palatable and therefore more controlled. The U.S. government's IT outsourcing spend is closing in on $50 billion, and the potential market for federal administrative services is estimated to be at least that large. Projected cost savings from ongoing financial management and HR system consolidation alone is estimated at $5 billion over the next 10 years.

A second material difference is the nature of the constituencies served by the public and the private sector. Both sectors are called on to maximize value while minimizing costs, but for commercial enterprises, the path to that destination is more straightforward and less consumed with consensus building. Government initiatives are subject to the vagaries of election cycles and shifting political agendas, and government officials are obliged to appease many masters — legislators, regulators, industry, and the electorate — all of whom have some control over the purse strings and many of whom advance contradictory agendas. Decision making involves more input from more parties and is necessarily slower and more heavily documented.

Finally, the parameters imposed on sourcing decisions and reward sharing are far stricter in the public sector than in the commercial sector. Offshoring, for example, is simply not an option for the U.S. government. In the private sector, there are incentives for hitting targets and fulfilling the terms of the service-level agreement, but considerably less latitude is available in designing such incentive schemes in the public sector, although some models are emerging. A more realistic approach is to modify the annual personnel evaluation process to explicitly include certain competencies that align with the objectives of the shared-services initiative.

There is no doubt that the U.S. government starts down the road to administrative services optimization from a difficult position. Federal agencies are rife with non-standardized and manually intensive processes supported by a patchwork of legacy IT applications performed in multiple geographies and remote locations. Many agencies are necessarily decentralized and, as a result, bureaus and offices operate as separate businesses with their own budgets.

However, there is also no doubt that an immense prize awaits the U.S. government — and, by extension, its tax-paying constituents — as it moves along the overhead cost optimization continuum. +

## Resources

Vinay Couto, Frank Galioto, Dave Mader, and Jens Schädler, eds., *Optimizing Overhead: From Cost Center to Competitive Advantage* (s+b Books, 2007): The book from which this article is excerpted. www.strategy-business.com/ohreader

National Partnership for Reinventing America Web site: Provides extensive details, reports, and conclusions from Vice President Al Gore's program to "create a government that works better, costs less, and gets results Americans care about." http://govinfo.library.unt.edu/npr/index.htm

Results.gov Web site: Covers all of the initiatives of President George Bush's effort to improve the efficiency of government, a more private sector–oriented approach than under the Clinton administration. http://www.whitehouse.gov/results/index.html

*strategy+business* magazine
is published by Booz & Company Inc.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.

Originally published as "How the U.S. Government Can Cut Overhead"
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