

Worksession

MEMORANDUM

March 10, 2011

TO: Government Operations and Fiscal Policy Committee
FROM: Dr. Costis Toregas, Council IT Adviser
SUBJECT: Organizational Reform Commission Recommendations on Procurement (#13)

Expected to attend:

Fariba Kassiri, Assistant CAO
Philip McGaughey, Chair, Interagency Procurement Coordinating Committee (IPCC) and Director of Procurement, Montgomery County Public Schools
David Dise, Director, Department of General Services
Other subject matter experts will be available to comment on issues as appropriate.

Summary of staff recommendations to the GO Committee for ORC recommendation #13:
 Agree with CE recommendation

Procurement

#13 Create a Procurement Shared Services Center with a centralized procurement schedule and catalog

ORC recommendation:

- *To increase opportunities for significant cost-savings in the purchase of goods and services across multiple agencies, we recommend the creation of a Procurement Shared Service Center that would utilize a centralized procurement schedule and catalog.*

The County should take a phased approach to creating a central procurement schedule and catalog of goods and services. ... centralized procurement of vehicles and paper has been recommended by CARS. However, these procurements are being consolidated within an existing entity (County government for vehicles and MCPS for paper). This collaboration is beneficial, but it is not a true shared-service model. Beginning with a comprehensive list of common goods and services, a Shared

Service Center would be the central purchasing authority for these items. Among the items: office supplies, telecommunications equipment, professional services, and furniture. The catalog would be overseen by a single procurement authority that would serve each of the various departments and agencies, and the Council.

We believe that municipalities should also be able to take advantage of this Shared Service Center. The catalog should coordinate with the Metropolitan Washington Council of Governments and other such organizations.

CE response to ORC recommendations:

County Executive's Position: **Support**

ORC suggests its recommendation can be achieved in the short term within the Executive Branch. However, to be fully effective, all County agencies should be involved to ensure coordination and employ tactics to address differing enabling laws that form the basis for the various agencies' procurement authority. The two areas for savings possibilities are:

- Combined purchasing power and potential elimination of positions due to fewer procurement activities.
- Combined purchasing power and shared services on goods and services across agencies to leverage the County's combined buying power, provide efficiencies and maximize the resources of the limited staff in each agency.

Action Steps:

- Bring together the key players from each agency to agree on the implementation method. I recommend, through the Cross Agency Resource Sharing (CARS) Procurement Subcommittee, utilizing the existing Interagency Procurement Coordinating Committee (IPCC) for implementation, thereby minimizing delay and upfront costs that would diminish savings.
- The CARS Procurement Subcommittee will identify a position from existing resources to appoint, for twelve months, as the County's temporary Shared Service Center coordinator. To underscore the mutual investment in this outcome, the cost of this position should be shared among the participating agencies. This way, partisanship is avoided and the position can be jointly but independently directed by all the involved agencies. The Subcommittee within thirty days will report, in writing, to the CARS Executive Committee identifying a Coordinator and providing a detailed timeline and critical steps of the implementation plan.
- The Coordinator will work with the CARS Procurement Subcommittee to develop the task priorities with the goal of full implementation within twelve months. In some cases shared contracts may begin immediately with any savings being realized in FY12.

Council analyst discussion:

Since the Executive provided his response to the ORC recommendations, two other organizations have provided comment: MCPS and M-NCPPC. Relevant portions of their responses are reproduced below.

MCPS (February 23, 2011 memo from Jerry Weast to Members of the Board of Education):

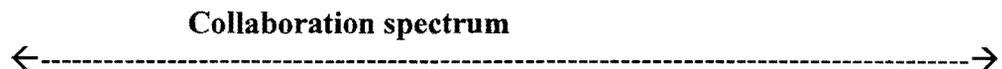
Create a shared service center that would serve all County agencies with a centralized procurement schedule and catalogue (Page 24).

Although the commission recognizes the extensive cooperation already implemented by agency procurement units, it recommends that the County establish a Shared Service Center for centralized purchasing of common goods and services, including telecommunications equipment, office supplies, and furniture. A single procurement authority would serve all agencies. According to the commission, this change would save \$100,000 annually. The report does not review or assess the impact of conflicting legal requirements for procurement among the various agencies. It does not show how sharing procurement functions would increase the quality and timeliness of existing services, particularly considering the low level of identified potential savings.

M-NCPPC (February 28, 2011 memo from Françoise Carrier to Montgomery County Council):

The M-NCPPC does not explicitly address the Procurement recommendation.

There is a continuum of possible collaborative efforts in the procurement arena. The graphic below gives a visual impression of this continuum



Degree of collaboration	Low end	Medium	High End
Defining actions	Individual actions by each organization, informed by the others	Activities carried out by one entity on behalf of all in a narrow area (paper, vehicles)	Shared Services, where the function ceases to exist in each and is vested either in one of the organizations or a stand alone, new entity

On the low end are coordinated activities, under which each agency executes its own procurement function but is informed by the actions of others. This model is current practice in many counties including Montgomery County. The existence of the IPCC (Interagency Procurement Coordinating Committee) helps exchange information and ensures that agencies benefit from each other's expertise. The current report from IPCC defining their first and second quarter FY11 progress is provided in ©1-2.

In the medium space of the procurement continuum, and in environments where trust and professionalism exist, responsibility for negotiating and procuring specific commodities is undertaken by only one agency, while others use the end result. Green vehicles, paper, and green cleaning products are the current target in IPCC's work plan, showing commendable activity in this arena by the agencies.

The high end of collaboration is the organization of a shared services entity which would generalize the model of the medium collaboration to all products and vest the responsibility in a unique organization serving all others.

The Shared Services model is not easy to deploy. It requires, beyond trust and professionalism, a strong shared IT infrastructure not yet available in Montgomery County, as well as enabling legislation in some instances. ©3-6 provide the title page and Executive Summary of a recent report identifying, more explicitly, success factors needed to implement a shared services model in government.

The existence of the IPCC and the early collaborative projects undertaken by the procurement agencies are an indication that collaborative procurement is already underway, and the CE's common sense recommendation of a way forward establishes a simple pilot through which to gauge the ORC recommendation's potential, without major difficulties in implementation. The shared funding mechanism for the coordinator is particularly creative and should encourage the collaborative spirit (as well as perhaps challenge cross-agency budgeting!). A similar model exists for staffing the ITPCC, but funding in that instance is provided by a single agency (MCG). Coordination across agencies should have a full-time focus, and the CE's recommendation will do that.

Suggestion for Committee consideration:

Agree with CE recommendation.

MEMORANDUM

January 3, 2010

TO: County Council

FROM: Interagency Procurement Coordinating Committee (IPCC)

SUBJECT: FY11 First and Second Quarter Reports

The members of the IPCC are: (1) Philip J. McGaughey, Jr., Chair IPCC, Director of Procurement, Montgomery County Public Schools; (2) William T. Anderson, Procurement Officer, Housing Opportunities Commission; (3) David E. Dise, Director, Department of General Services (DGS), Montgomery County Government; (4) Pam Jones, Division Chief, DGS, Office of Procurement, Montgomery County Government; (5) Nancy Keogh, Director of Procurement, Maryland-National Capital Park and Planning Commission; (6) Cathy Martin, Acquisition Director, Washington Suburban Sanitary Commission; (7) Dr. Janet Wormack, Director of Procurement, Montgomery College.

In accordance with the approved FY11 IPCC Workplan, attached is the progress report covering the period from July 1, 2010 through December 31, 2010 (first and second quarters).

1. Coordinated Training (Cross Training Program)

During the reporting period, the IPCC sponsored several cross-training events. Ken Taylor, DGS, Office of Business Relations and Compliance, presented a seminar on the County's MFD and LSBRP laws. This purpose of this session was to train purchasing on how to engage these types of businesses in procurement processes.

Purchasing staff from all of the IPCC membership participated in a Green Procurement Seminar sponsored by the IPCC with leadership and coordination provided by Montgomery College. This seminar provided best practices on how to purchase environmentally preferable products, and included speakers from the private, governmental, and educational organizations, including representation from the local, small, and minority business community.

2. Establish a Workgroup to Explore Shared Services/Consolidation Options in Procurement and Design an FY12 pilot

The IPCC, as part of its FY11 Workplan and as a Procurement Subcommittee of the Cross Agency Resource Sharing (CARS) Executive Committee, developed short and long term strategies as follows:

The committee developed short-term (FY12) and longer term (beyond FY12) strategies of opportunities for cross-agency resource sharing.

As a short-term strategy, the IPCC members recommended issuing the following new cooperative procurements, which can be bid through a single agency and where agency requirements will be consolidated:

- #1: Vehicles including "green" vehicles to be managed through the county government;
- #2. Paper to be managed through the public schools; and
- #3. Environmental preferable products or "green" cleaning products - managing agency to be determined

The Procurement Plan for the purchase of the 3 cooperative are in progress. The members also recommended continuing to cooperatively purchase gasoline, electricity, natural gas, medical benefits, life insurance and dental services to the extent possible.

As a longer-term strategy, the IPCC members agreed that a consortium purchasing "shared service model" based on the best practices of other intergovernmental entities may be beneficial and in the best interest of all of our collective agencies, especially in consideration of each entity's legislative requirements and legal authorities. The IPCC members recommended and presented to the CARS Executive Committee, exploring consortium purchasing of other potential goods and services such as courier and delivery services, alcohol drug testing, employee background investigations, cell phones and any other goods or services recommended by CARS committees as next steps.

3. Cooperative Purchasing

A cooperative bid was issued during this period for the purchase of road deicing salt for use during the winter storm season. The County, as the lead, coordinated the procurement for this cooperative effort. Award of the contract by the County was made on November 29, 2010.

This cooperative effort will yield a savings for Montgomery County, Montgomery College and the Montgomery County Public Schools totaling \$739,775 annually, dependent upon actual annual usage.

In addition, this cooperative effort had a broader reach and included participants from the members of the Metropolitan Washington Council of Governments agencies as well as Montgomery County local municipalities.

In summary, this report reflects that the IPCC continues to seek out opportunities to streamline processes, achieve cost savings, and maximize resources through cooperative procurement and training efforts. The next report due in March 2011 will include further cooperative procurement efforts as outlined in the FY 11 Workplan. The IPCC continues to meet on a regular basis and work collaboratively for integration of best practices and improved efficiencies.

2008

COMPETITION, CHOICE, AND INCENTIVES SERIES

Success Factors for Implementing Shared Services in Government

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3

EXECUTIVE SUMMARY

As governments continue to be under increased scrutiny to improve efficiency and be ever more vigilant with their use of public funding, they are increasingly adopting alternative models and approaches to providing services. Business organizations address similar issues of efficiency and accountability on a daily basis and, consequently, have developed methodologies that could be applied in a governmental setting.

One innovative approach gaining acceptance within business organizations is the use of shared services. This entails the consolidation of administrative or support functions (such as human resources, finance, information technology, and procurement) from several agencies into a single, stand-alone entity with the singular objective of providing services as efficiently and effectively as possible (Rahman 2005). Implementing a shared services approach involves complex structural changes requiring diligence and extensive time and energy. When properly implemented, however, the benefits have the potential to be immense.

There have been numerous reports of successful implementations within the private sector. The implementations have reported both cost savings and improved efficiencies. Shared services has the potential to provide similar benefits in governmental organizations. In fact, numerous federal, state, and local governmental agencies have reported successful shared services implementations that have resulted in improved services, efficiencies, and cost savings.

This report presents key success factors that can be employed by government in implementing shared services. The data was collected through inter-

views, focus groups, surveys, discussion boards, and analyses of relevant documentation. Research participants were individuals who were either involved in a governmental shared services implementation in the past or are currently engaged in a shared services implementation. These individuals provided robust responses to our survey questions and were often willing to engage in lengthy dialogue to share their insights and understanding of the implementation process. The respondents represented all levels of government—local, state/provincial, and federal/central governments—and were from the United States, Canada, Europe, Australia, and Asia.

While participants made numerous suggestions as to factors to consider and approaches that had proven successful for their organizations, five areas were consistently mentioned and emphasized by individuals at all levels of government, regardless of which services the organization was planning to share. Consequently, as identified in this report, the five key success factors for a successful shared services implementation are:

- Strong project management skills
- Senior-level support
- Effective communication
- Strong change management
- A phased approach to implementation

These five areas require attention early in the planning so that the appropriate mechanisms can be developed and built into the implementation process.

Success Factor 1: Strong Project Management Skills

Project management is composed of the tools and techniques used to organize and manage resources so that a project can be successfully completed within defined scope, quality, time, and cost constraints. Shared services initiatives need clearly defined goals for the implementation and strong project leadership, not only at the senior level but also at the project team level. A carefully chosen project team should facilitate the planning process and serve as the liaison between the various constituent groups. For the implementation to progress as smoothly as possible, there is a need to unambiguously define an appropriate governance structure and assign responsibilities so that individuals can be held accountable for the progress of necessary tasks.

Although most research participants indicated that their greatest challenges were “people” oriented, it is clear that exceptional planning, budgeting, and scheduling is of critical importance to the success of a shared services implementation. Strong project management was a recurring theme in the examination of documents as well as the survey responses.

Success Factor 2: Senior-Level Support

Senior-level support entails someone willing to champion the shared services project and sell the concept to constituencies. This leader should have both credibility and tact. Senior-level support further ensures that both financial and human resources will be made available to support the project.

Having senior-level support was consistently identified by research participants as being absolutely critical to the success of a shared services implementation. Individuals at the senior level of the organization willing to champion the shared services cause cannot be underestimated. These individuals sell the concept to all constituencies and ensure appropriate funding levels for the project.

Success Factor 3: Effective Communication

A comprehensive communications plan should be developed during planning and executed throughout the planning and implementation process. A

communications plan should address three elements (Saia 1999):

- The audience and their communication needs
- The most effective means of communicating with this audience
- Who should deliver the message

A recent Computing Technology Industry Association (CompTIA) survey indicated that the most common reason an IT project fails is due to poor communication (Rosencrance 2007). Communication among the constituent groups should start in the information-gathering process and demonstrate the collaborative nature of significant cultural and organizational changes. After noting that “communication can never start early enough,” one research participant further indicated that “employees will fill the void caused by a lack of information.” Many participants also mentioned the need to listen to concerns and to adequately address any issues raised by constituencies.

The method of communication will vary depending on the involvement of the various constituent groups. Some forms of communication, such as newsletters and e-mail, are convenient and able to be transmitted to numerous individuals simultaneously. While these forms of communication are convenient, the research participants expressed concern that people are inundated by e-mail and other printed materials. Most participants stressed the need for face-to-face communication to alleviate confusion and ensure that affected parties are receiving a clear message. Meetings allow individuals opportunities to voice concerns and clarify areas of confusion. Open communication during the planning and implementation should convey how the various constituencies will be affected. Employees are often fearful of the impact that a shared services implementation will have on their job. These fears need to be addressed and allayed as soon as possible in the process.

The organization should establish a governance structure that facilitates appropriate communication. Most frequently, participants described a three-tiered approach to internal communication: communication with and among the strategic leadership, communication with and among the mid-level management,

and communication with and among the technical and/or operational personnel.

Success Factor 4: Strong Change Management

The complex structural changes often required by shared services initiatives require special attention during the implementation process. On more than one occasion, research participants indicated that their organization should have begun their change management efforts earlier. Change management provides a structured approach designed to transition an organization from its current state to the desired future state.

Change management efforts should begin very early in the planning and implementation process. In fact, a comprehensive change management plan should be developed during the planning stage of the implementation. Marchewka (2006) proposed a formal change management framework that included four stages:

- Assess the organization's willingness, readiness, and ability to change
- Develop a strategy for change
- Implement the change management plan and track progress
- Evaluate experiences and address lessons learned

Success Factor 5: A Phased Approach to Implementation

There are three approaches to system implementations:

- A direct cutover approach
- A parallel approach
- A phased approach

In general, most participants recommended a phased shared services implementation. This means that while the entire shared services implementation may be planned at the same time, most participants recommended taking the systems online in a phased process or incrementally. A phased process was deemed more manageable and less risky than a

direct cutover approach, or "big bang" approach, whereby all systems go online simultaneously.

Staying the Course

There will be times during a shared services implementation when technological transitions do not go smoothly or employees or other constituents express dissension. "Staying the course" will be necessary. While flexibility is needed during the implementation, it is important for managers not to get discouraged and for them to continue on the selected course.