

## Trend Five: Efficiency

### Pursuing Cost-Savings Strategies in a Resource-Constrained Era

Fiscal austerity will be an enduring challenge for public managers for the foreseeable future, but it can also create an environment and incentives to rethink traditional approaches to mission support and service delivery. Government executives can harness major technological shifts and adapt proven public-sector and commercial best practices to make their agencies both more efficient and more effective. Doing this enables them to also conduct operations and provide services with greater speed.

In this environment, identifying innovative ways to reduce costs across multiple categories of government spending (e.g., appropriations, user fees) while maintaining and improving performance will be a critical catalyst. Pursuing efficiency as a way to drive change in government identifies opportunities for savings across agency budgets. It also works to change operating models so federal agencies realize long-term efficiencies through the constant search for faster and better ways to deliver services.

#### Realizing Cost Savings While Improving Performance

In 2010, the IBM Center published a widely circulated report, *Strategies to Cut Costs and Improve Performance*, that outlines savings strategies in seven different areas:

- Consolidating IT infrastructure
- Streamlining government supply chains
- Reducing energy use
- Moving to shared services
- Applying advanced analytics to reduce improper payments
- Reducing field operations and moving to online self-service
- Monetizing government assets

*Strategies to Cut Costs and Improve Performance* identifies leading commercial practices that, if applied in the federal government, could contribute to up to \$1 trillion in reduced federal operations costs over a 10-year period. This is significant given that mission support cost in government for enterprise activities such as personnel, contracting, and supply chain management historically averages about 30 percent of total operating costs. In the private sector, these costs typically average about 15 percent. Regardless of these differences, employing commercial best practices where appropriate has the potential to improve government back-office operations, resulting in significant cost savings.

*Fiscal austerity will be an enduring challenge for public managers for the foreseeable future, but it can also create an environment and incentives to rethink traditional approaches to mission support and service delivery.*

Since the release of this report, the fiscal challenges facing government executives have become even more pressing, with an impetus to reduce costs and allocate savings to mission priorities. Constraints imposed by sequestration, continuing resolutions, and debt ceilings have made “doing more with less” and “operating smarter with less” an ongoing reality. Even if a larger agreement is reached regarding long-term spending, that agreement is likely to maintain a tight hold on current discretionary budgets for agencies. The opportunities that can emanate from these seven strategies and similar approaches can be leveraged to make the delivery of information and services more rapid and more effective.

## New Strategies for Achieving Cost Savings

Across government, new strategies for achieving cost savings are in high demand. This goes beyond simple cost-cutting to helping the public sector redirect cost savings into investments in key priorities, including through gain sharing and other savings retention approaches. The imperative to do more with less has never been stronger; government executives can learn from each other as well as from the private sector how to survive and possibly thrive in this environment.

**Emerging Opportunities to Save Costs.** There are emerging opportunities to save costs through improvements in how agencies manage technology, process, organization, and data:

- **Technology.** When used appropriately, technology can streamline operations and allow employees to shift from transactional processes to strategic insight and customer service. For example, cloud computing allows agencies to move away from spending money on multiple, redundant physical data centers or re-creating applications. Infrastructure and applications that once needed to reside in a fixed location under the control of the organization can be quickly, easily, and securely accessed, generating savings both in upfront capital and ongoing operating costs. Cloud-based services allow agencies to optimize their existing IT assets simply by reducing their physical inventory. Finally, leveraging the cloud can allow agencies to focus internal resources on making mission and program operations more efficient and effective even in an environment where funding is tight.
- **Process.** There are great examples of the power of streamlining processes such as claims and payment processing, supply chain management, and emergency/disaster response. Best practices provide clear lessons in how to increase mission effectiveness at a lower price. For example, applying shared services to a broader range of government activities can allow agencies to reduce duplicative back-office operations across multiple bureaus; this allows for enterprise-wide management of finance, HR, acquisition, and other mission support functions. Forthcoming opportunities for shared services optimization are likely to move into front-office activities where agencies share common missions, such as education, environmental protection, or health care.
- **Organization.** The model of an effective organization is changing as technology and process enable new management approaches to drive effectiveness. Rather than following a hierarchical structure where collaboration across boundaries is difficult, government executives can capitalize on lessons from entrepreneurial firms and move more toward a collaborative, virtual team model of program management and service delivery. This allows colleagues to work together effectively regardless of their “home office” location, reducing bureaucratic overhead and fostering new

ideas. The Presidential Innovation Fellows projects are good examples of the benefits from this new, virtual cross-agency organizational structure.

- **Data.** Information can also be used strategically to analyze service patterns to identify wasteful processes that can be streamlined to reduce time and costs (e.g., grant application processes). Increasingly, agencies are using analytics to predict and prevent problems that drain time and resources, such as identifying improper payments in advance of rather than stopping them after the fact. Applying analytics to administrative data sets can also help to determine the cost-effectiveness of alternative interventions.

## Generating Value and Driving Mission Effectiveness

An IBM Center report, *Fast Government: Accelerating Service Quality While Reducing Cost and Time*, brings fresh insights and illuminating examples on how government executives, by focusing on time and speed, can deliver real and lasting benefits through increased mission effectiveness and lower costs. It outlines strategies and tools that government executives can leverage to fundamentally change the way they do business through a focus on cycle time reduction and elimination of non-value-added activities. *Fast Government* examines the role of time in bringing value to the public sector, and focuses on process innovation, disruptive technologies, predictive analytics, and other ways that leaders can make government processes work faster.

*Government executives, by focusing on time and speed, can deliver real and lasting benefits through increased mission effectiveness and lower costs.*

“Fast government” includes a variety of approaches:

- Making time a key performance metric in government efficiency and effectiveness initiatives
- Using technology and leveraging innovation to automate repetitive tasks
- Accelerating the delivery of government goods and services through process innovation that redesigns business processes to require fewer steps (such as moving from 10 signatures to three)
- Finding new ways to perform a given set of tasks more quickly (such as through the use of Lean Six Sigma to move from an assembly-line approach to a parallel process)
- Creating interactive services for citizens so they can solve their own problems, rather than having to ask the government for information and help (such as creating a website rather than sending out information)
- Using predictive analytics to reduce or eliminate entire processes (such as preventing improper payments from being made, thus reducing the need for resources to investigate and reclaim payments)

Overall, if managers include time as a key performance metric, they will look differently at their operations, and will continually challenge employees to find ways to reengineer processes to remove tasks that do not add value to the customer. Several initiatives in government have set goals that used time as the driving performance metric, and this focus changed thinking and behaviors. For example, until nearly a decade ago, agencies had been required to submit their audited financial statements six months after the end of a fiscal year. When OMB set a goal of submitting audited financial statements six

weeks after the end of the fiscal year, agencies had to completely rethink their processes, not just speed them up incrementally.

In addition, a number of tools can be used to speed government initiatives. One is the use of deadlines. By leveraging cutting-edge technology and analytic techniques adapted from the intelligence community, the Recovery Accountability and Transparency Board was able to track the spending patterns of \$840 billion in Recovery Act monies and use predictive techniques to prevent waste and fraud. As time went on, the Board reduced the time it took to identify questionable spending from five days to under five hours. Other technology tools are also making it possible to rethink how government can deliver faster services and products. For example, the intersection of mobile technology and open data initiatives can speed both government operations and public services. When the National Agricultural Statistics Service moved from paper-based surveys to the use of iPads to collect data, they not only sped the release of their data, but also saved \$3 million.

## Measuring and Capturing Cost Savings

It is important that government executives establish baselines from which to measure savings. The first step in understanding how much can be saved involves understanding the full baseline costs, often called total cost of ownership. Understanding the total costs within a federal agency is different from and often more complex than in the private sector. Most government programs run off a cost baseline that includes a subset of appropriations for the larger department, salary and expense accounts that are not associated with the program, and sometimes working capital or franchise funds: piecing these sources together to understand current costs is not a trivial exercise.

Once the baseline is understood, a second challenge involves developing financial models and methods that can capture savings off the baseline accurately. The federal government has experimented occasionally with “share in savings” contracting as a way to operationalize this measurement; this is a framework that incentivizes companies to achieve the measured savings over time. State and local governments have more experience than the federal government does when it comes to establishing a savings measurement structure.

Even if clear savings opportunities emerge and there is financial transparency for the opportunity, barriers exist that impede savings capture and reinvestment. Federal budget law requires that agencies have sufficient funds on hand to cover the costs of a contract upfront (including termination costs); this requirement makes the use of a gain-sharing approach less attractive. In addition, federal agencies must generally spend all of their money in a given fiscal year, while savings often take months or years to materialize. Overcoming such barriers will likely require the use of prototypes and pilots to demonstrate the art of the possible, with agencies working in partnership with their congressional authorization and appropriation partners to build support for pilots and understanding how success can scale more broadly.

Government can also collaborate with industry to draw out ideas for savings, perhaps using challenges and prizes as a way to promote innovation. Contracts can be written to create incentives for industry partners to dedicate a portion of their activities to innovative, rapid experimentation, finding better ways to achieve results while lowering costs.

## Conclusion

Given the budget realities of today, it is critical to identify opportunities for efficiency, measure and capture savings, and reward those who deliver cost savings. The tools to make government more cost-effective are familiar to any student of government transformation efforts over the past several decades. At the heart of any effort to make government work faster, better, and cheaper is a focus on the people who make government processes run. The most amazing technology in the world will not save time or cost, or improve performance, if the people who manage and support the processes do not know how to use the new systems or do not support their adoption. Stories are legion about employees who created manual workarounds rather than adopt new technologies—and about improvement initiatives that failed to deliver the predicted results because of resistance by employees.

Therefore, it is essential that government executives ensure that federal employees are provided the skills and capabilities to succeed in becoming more efficient, so they can see the results of their efforts from end-to-end and receive rewards and recognition for success. Doing this can also help identify further opportunities to save money, ways to record those savings, and a continuous drive for cost-effective improvements that benefit all citizens.

### Resources

Desouza, Kevin. *Challenge.Gov—Using Challenges and Prizes to Spur Innovation*. IBM Center for The Business of Government. 2012.

Joyce, Philip G. *The Costs of Budget Uncertainty: Analyzing the Impact of Late Appropriations*. IBM Center for The Business of Government. 2012.

Kay, Luciano. *Managing Innovation Prizes in Government*. IBM Center for The Business of Government. 2011.

Prow, Charles, Debra Cammer Hines, and Dan Prieto. *Strategies to Cut Costs and Improve Performance*. IBM Center for The Business of Government. 2010.

Prow, Charles, ed. *Fast Government: Accelerating Service Quality While Reducing Cost and Time*. IBM Center for The Business of Government. 2013.

Wyld, David. *Moving to the Cloud: An Introduction to Cloud Computing in Government*. IBM Center for The Business of Government. 2009.