Raising the Bar

Improving IT Efficiency in Government

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July 2010
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Corporate IT operations are under regular, if not constant, scrutiny as companies look to maximize the return on every dollar invested. IT is expected to be on a continuous path of self-improvement, actively seeking—and finding—ways of doing more for less.

IT operations in the public sector are held to similarly high standards and are expected to run at maximum efficiency—yet hitting that target entails bridging a unique set of challenges. Government IT spans many diverse agencies (including such functions as defense, treasury, and foreign affairs), each with its own specific requirements. Consequently, the IT environments and capabilities of government agencies tend to vary significantly, with differences in technologies and standards, IT process maturity, effectiveness of governance mechanisms, transparency into IT costs and drivers, and management focus on IT efficiency. Additionally, the available benchmarking data are frequently not very useful, given the diversity of the agencies’ IT environments, making it difficult to gauge what constitutes appropriate spending levels and good performance both within individual agencies and across government as a whole.

Further, while government as a whole typically has potent levers—such as the potential to increase standardization and leverage scale—for optimizing IT efficiency and effectiveness, these levers are seldom fully utilized. This is due both to the often decentralized nature of IT decision-making within government and to the expanse of government IT operations, especially at the national level, which can make the challenges of coordination, standardization, and optimization seem daunting. As a result, government IT often has significant room to improve its efficiency.

Compounding matters, the demands on government IT continue to rise. Citizens’ expectations regarding service delivery are climbing quickly—and IT is a key enabler of service delivery. Citizens want not only more, better, and more user-friendly information, they want it to be convenient, seamless across agencies, and delivered via a broad range of technologies. At the same time, they expect the information to be secure and their privacy safeguarded. And as if this weren’t challenging enough, governments and their IT functions will have to develop these capabilities while negotiating ongoing budgetary constraints as well as other hurdles, including pressure to minimize IT’s environmental footprint.

Where to begin? A bold efficiency initiative undertaken by the Australian government offers valuable lessons. The government commissioned a thorough review of its operations to identify ways in which it could strengthen its management of IT across agencies and improve IT efficiency and service delivery. It embraced the review’s findings and recommendations and moved aggressively on implementation, with impressive results. Indeed, within a short time frame—less than two years—the government achieved a fundamental overhaul of its IT management and operations, one that translated into savings of more than AU$1 billion (roughly U.S.$900 million) without negatively affecting service delivery to citizens or businesses. How this was accomplished is worth examining—by both the public and private sectors.

Government IT Overhaul, Australia-Style

The Australian government’s first step was to commission an independent expert review of the efficiency and effectiveness of its information and communications technology (ICT). The review was to be comprehensive and examine a range of issues, including the following:

- Whether the government was realizing the maximum returns on its ICT investments and had the necessary institutional capabilities in place to do so
What the key levers were for improving returns

How the government benefited from ICT and how those benefits were measured

Whether there were opportunities to consolidate existing and planned systems and business processes

Whether the government had the right people and skills in place to support its ICT ambitions

Whether there were opportunities for optimizing the government’s use of outside vendors

The government appointed renowned efficiency expert Sir Peter Gershon, who had performed a comprehensive review of the U.K. public sector in 2003, to lead the effort. (See the sidebar “Sir Peter Gershon on Improving Public-Sector Efficiencies.”) Sir Peter was supported by a small team of five to seven full- and part-time personnel drawn from the Australian Government Information Management Office (AGIMO)—whose mandate is to manage and optimize the government’s application of ICT to the delivery of government information and services—as well as from other government agencies. Over a period of roughly five months, the team consulted with various agencies and the ICT industry to develop its findings.

Driving efficiency improvements in government brings a distinct set of challenges. Below are excerpts from an interview that BCG recently conducted with Sir Peter Gershon, a corporate leader and renowned efficiency expert, on some of the hurdles and opportunities unique to the public sector.

Stepping back and thinking across all your experience, where do you think the greatest opportunities lie for governments to improve their efficiency?

It’s quite difficult to generalize, but if you push me on it, I would say that procurement is a very rich seam for finding gains. Governments don’t naturally have within their DNA the desire to pursue efficiency when times are good. The pressure comes only when times are beginning to get constrained. What the private sector calls overhead tends to increase in the public sector when times are good, and there are always opportunities to take out overhead.

There are also opportunities to look for process efficiencies and for governments to think very carefully about which activities they really need to undertake themselves and which can be done by third parties that offer better value for the money.

What, in your view, are some of the main differences in approaching efficiency programs between the public and private sectors?

On the basis of my sample of three reviews in the last ten years, the fundamental difference I’ve seen is the lack of good management data, about the past and the future. In a well-run private-sector organization, there’s generally a lot of meaningful data—both historical data and data about projected areas of spending. That enables you to get to grips much more easily with the efficiency agenda in a quantified, focused way. Trying to get meaningful management data in the public-sector environment has been a challenge in each of the three reviews that I have done, and it just makes the thing much more difficult.

The second critical factor in the public sector is that the reviews have to be commissioned by somebody who has a very strong political base in the government—someone either at the cabinet level or a strong minister just below the cabinet level. Without that sort of backing and support, the review won’t have the ability to really engage with all the stakeholders you need to deal with.

Is that why you think so many attempts to improve government efficiency fail—or produce disappointing results?

Doing the review is the easy bit: the implementation is always the difficult part. Two things are critical to implementation: first, a program management–type approach; and second, recognition by the political leaders and officials that this is a marathon—you can’t just announce it for it to happen. It needs sustained commitment—from politicians and top-level officials—over an extended period, backed by a program management–type function to drive things forward on a day-to-day basis. If that isn’t in place, these things get no traction and nothing happens, in my experience.

1. For the full interview, please go to http://publications.bcg.com/dna_of_government_efficiency.
Diagnosis and Recommendations
The assessment yielded seven key findings:¹

- There was inadequate governance of cross-government issues related to ICT
- Agency governance mechanisms were weak with regard to ICT efficiency
- Agencies’ business-as-usual ICT funding was not subject to sufficient challenge and scrutiny
- There was a disconnect between the government’s ambitions for ICT and the current ICT skills base
- There was no comprehensive, cross-government strategic plan for managing data centers, possibly translating into as much as AU$1 billion in unnecessary spending over a 15-year period
- The government’s ICT procurement practices were neither efficient nor effective
- There was a disconnect between the government’s stated sustainability agenda and its management of ICT’s energy usage and carbon footprint

The review also identified a significant causal factor: the various government agencies had very high levels of autonomy. This limited the government’s ability to leverage broad, government-wide strategies that could potentially yield sizable synergies. (A more centralized approach to the management of IT, Sir Peter noted, was common in both the U.S. and U.K. governments as well as in large private-sector organizations.)

Sir Peter’s recommendations to address the identified challenges were endorsed by the Australian government. “This is a turning point,” said Lindsay Tanner, minister for finance and deregulation, upon the government’s decision to move ahead, “rebalancing highly decentralized IT management and focusing on efficiency, effectiveness, and coordination of government expenditure.”² The recommendations included the creation of oversight bodies to manage cross-government strategies, the development of a government-wide career structure and workforce plan, and the launch of cross-government data-center-management and sustainability strategies.

Perhaps the most ambitious recommendation, however, was to reduce business-as-usual spending by an average of 15 percent. In the remainder of this paper, we focus on the pursuit of this target, because it was the first recommendation to be implemented. It was also effected under a particularly aggressive timeline and has already yielded concrete results.

Implementation—and Challenges
Achieving the targeted business-as-usual savings was a massive undertaking. Making it particularly challenging was the diversity of ICT environments across the 53 affected agencies—and the mandate that the cuts were not to impair service delivery to citizens and businesses. “Any and all cost-cutting moves had to be very deliberate, because lowering the quality or number of services wasn’t an option,” said Ann Steward, chief information officer of the Australian government and deputy secretary of AGIMO, which was tasked with leading the implementation.³ (See the sidebar “What It’s Like to Be a Government CIO.”)

The work consisted of two parallel initiatives: identifying savings opportunities and establishing ICT efficiency benchmarks. The first of these entailed the following:

- Development of a tailored process and methodology for working with the agencies throughout the project
- Establishment of a central support team to manage the process and provide targeted support and expert advice to the agencies throughout the process

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² “IT Budgets Slashed,” The Age, November 25, 2008.
³ This quote and others from Ann Steward throughout the article were taken from an interview BCG conducted with her in May 2010.
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Development of detailed ICT baselines for costs and assets for the 53 largest government agencies

A granular examination, working in partnership with the 53 agencies, of the roughly AU$3.2 billion (U.S.$2.9 billion) in annual ICT spending that the agencies consumed

This effort netted a broad set of more than 300 cost-saving initiatives, including such actions as overhead reduction, vendor contract renegotiation, software license rationalization, storage optimization, and rationalization of desktop and laptop computers and printers. The initiatives were vetted through a strategic lens and an overarching focus on maintaining or improving service quality.

Simultaneously, AGIMO and the team developed a comprehensive ICT efficiency-benchmarking approach to enable meaningful comparisons of ICT performance across agencies. The objective here was to support the agencies in their identification of additional savings opportunities and to help inform their ICT strategies going forward. The benchmarking would also provide the government with transparency into ICT efficiency across agencies, allowing it to monitor government-wide ICT efficiencies and effectiveness over time and inform its strategies and investment decisions.

The benchmarking exercise entailed careful design (for example, the data collection templates had built-in data validation and error tracking), clear definitions, and extensive cross-validation. It also yielded useful insights immediately, such as the fact that there were significant differences in unit costs across agencies for all major ICT service categories, in agencies’ ability to leverage scale effects, and in agencies’ relative costs vis-à-vis asset and capacity utilization.

The implementation was not without its challenges. Not surprisingly, these included early resistance from some agencies, although this issue was ultimately resolved effectively. “Any cut to an agency’s budget is painful, whether viewed from an intellectual or an emotional perspective,” said Steward, “and there was some pushing back. What helped us counter that was our fact-based approach, which was derived from the benchmarking. Having a single, authoritative source of truth helped us make things understandable, credible, and transparent to the agencies. We could show them that what we were doing wasn’t just our idea—it had been validated by a third party.”

It was also critical, she said, that AGIMO demonstrate a highly professional approach and listen to feedback from the agencies. “Although we had an objective to accomplish, we worked to ensure that we took

4. Excluding the Department of Defence, which was subject to a different ICT efficiency program.

What It’s Like to Be a Government CIO

The question arises, what is it like to be a government CIO? Ann Steward, chief information officer of the Australian government and deputy secretary of the Australian Government Information Management Office, considers the role “great—and very demanding. The agenda is huge, and we’re careful about the resourcing demands in terms of the programs, initiatives, and activities we’re delivering on, as is typical in the public sector. In our case, we have to execute from a very small base as part of a government and agency enterprise that is more than ten times our size. So there are challenges common to all private- and public-sector entities, such as in delivering projects and in establishing and maintaining credibility. There are other challenges as well, including attracting and retaining suitable skill sets and levels.

“The job also requires a distinct set of personal and negotiation skills,” she says. “It requires persistent and consistent stakeholder interaction and management. It also requires a willingness to be the least-liked person at times when you really do need to drive certain policies, outcomes, and positions.

“So the job definitely has its challenges. But it’s also very rewarding, and I’ve been very fortunate in the experiences I’ve had and the people I’ve worked with and what we’ve managed to accomplish together.”
into account agency issues and concerns and that we weren’t imposing anything overly burdensome on them. We also took particular care to ensure that agencies understood that we were approaching this on a customized, agency-by-agency basis and not utilizing a single model for all. This approach and the agencies’ understanding of it were particularly important to the integrity and success of the overall process.”

Steward noted that there was also concern from industry players, at least initially. “Most of them reacted with alarm when they found that their revenues stood to be cut significantly as a result of our efficiency and effectiveness measures. But this was our new direction, per the government.”

Results
The effort has generated impressive results. Within a 12-month period, the Australian government identified and locked in cost savings in excess of AU$1 billion, to be achieved over four years with no impairment of service delivery to citizens and businesses. Consistent with Sir Peter’s recommendations, 50 percent of the savings have gone into a central fund for reinvestment aimed at further improvements to the effectiveness and efficiency of ICT business-as-usual activities. AGIMO has also established its first comprehensive benchmarks for government ICT performance in Australia and created a process to update those annually, allowing the government to maintain transparency and continue to drive improvement.

The importance of the benchmarking, said Steward, cannot be overstated. “I think one of the biggest advantages from all that has been achieved with regard to the examination of our ICT is that there is now a definitive source of truth about the majority of what happens in government in ICT, a source that can be relied upon, is up to date, and can inform the government’s decisions on investments,” she said.

Other governments, including government entities in Australia, Canada, Denmark, New Zealand, and the United Kingdom, have taken notice, and AGIMO has shared its findings and best practices with them. “We’ve had worldwide interest, and the Canadian government, for one, has launched a similar initiative,” said Steward. “It’s a great opportunity for us to help establish perhaps a first-ever global standard for IT in government. We’re very excited to see how this evolves.”

Beyond reaching the business-as-usual savings targets and establishing a benchmarking program, AGIMO has delivered on a range of other objectives as well:

- The establishment of the Secretaries’ ICT Governance Board to drive the government’s ICT reform agenda
- The design of a cross-government ICT-procurement approach
- The establishment of a cross-government data-center strategy
- The creation of a common ICT chart of accounts
- The design of principles of engagement for partnering with industry
- The launch of an ICT workforce and careers framework

More broadly, the efforts have led to a cultural transformation—indeed, a holistic transformation—of ICT within and across government agencies, centered on transparency and ongoing improvement. According to Tanner, the finance minister, this is “the most significant change in the use and management of ICT” in the public sector to date.

The work has also had implications for the ICT marketplace. “We have worked very closely with industry providers to optimize our relationship,” said Steward. “We have established a register and profile of

5. In May 2010, the government announced that 44 new IT projects would be funded; see http://www.financeminister.gov.au/media/2010/mr_262010.html.
6. The board comprises secretaries and chief executives representing central bodies, portfolio departments, and delivery agencies, as well as selected senior business executives from companies outside the ICT sector.
strategic ICT suppliers, and we actively manage it. This helps us understand how our suppliers are supporting us in terms of products and services and the quality of that support. It also helps us better manage any issues that might arise.”

All in all, Steward said, she’s very satisfied with the results to date. “I think we’ve surprised some people with what we’ve been able to accomplish. We’ve managed to deliver real change, on time and on budget, in as transparent a way as possible, all while maintaining high standards of professionalism. Out of 45 planned projects, we’ve completed 34, with 7 more due for completion by December 2010 and 1 by December 2011. These projects are on schedule. And, critically, we’ve accomplished our goals without impairing the delivery of services in any way, which was our overarching objective.”

**Key Drivers of Success**

Engineering large-scale change within any organization is challenging; the difficulty is amplified several-fold in a government environment. What are the factors that have allowed AGIMO to succeed to the degree that it has? We have identified five key actions. These are transferable, we believe, to most government-change efforts. But they also map closely to the must-haves for driving change in the private sector. The actions are as follows:

**Establish a clear, top-down mandate for the program that is understood by all stakeholders.** The cabinet decision that endorsed the Australian government’s proposed IT-transformation initiatives and targets was key to aligning the efforts of the 53 affected agencies. While not every transformation effort requires a cabinet decision, a clear and visible top-down mandate is critical and must be reinforced throughout the duration of the project.

**Establish a clearly defined, transparent, and consistent methodology.** The entire process—including deliverables, timelines, responsibilities, standards, and metrics—must be clearly defined and articulated to the participating agencies up front. Developing a consistent methodology is a particular challenge, given the diversity of agencies and their requirements and environments. Seeking and incorporating stakeholder feedback during the effort can help and further increase the methodology’s effectiveness.

**Use a fact-based approach.** Establish an agreed-upon baseline; employ recognized benchmarks and external comparisons to gain insights; document initiatives and any proposed changes to plan, including projected impact; and utilize frameworks to document risks and impacts on service delivery. Maintaining a strictly fact-based approach allows the focus to remain on the underlying data rather than on the emotions associated with particular initiatives.

**Form an appropriately experienced and well-resourced support team.** Draw on both internal and external experts; ensure that you have enough seniority on the team to build and maintain credibility for the project; and seek to recruit high achievers. The quality, breadth of experience, and seniority of the team are perhaps the most important success factors, as they determine the team’s ability to combine internal and external perspectives and to react to unforeseen situations and overcome challenges as they arise.

**Actively manage stakeholders.** Ensure senior stakeholder (for example, agency CEO and CFO) involvement in and signoff on the process. Create a sense of urgency within the agencies that need to support the change effort. Ensure consistent and regular communication with the affected agencies, and actively seek and be responsive to their input. Facilitate cooperation and knowledge sharing across agencies to recognize and leverage existing best practices.

The Australian government’s work confirms that significant improvements in IT efficiency can be achieved in the public sector, provided sufficient rigor is brought to the effort. On that note, it is worth highlighting that the government’s ICT transformation is ongoing. AGIMO has an ambitious agenda planned over the next 12 to 18 months. This agenda includes plans to leverage Web 2.0 technologies to
improve the delivery of services to citizens; drive business and economic growth; spur greater standardization of technology across government; continue to make progress with efficiency and effectiveness initiatives in desktops, telecommunications, and data centers; and identify and seize opportunities for shared-service agreements within agencies and across government where that makes sense. “We have a lot we want to accomplish, and I’m confident we can get there,” says Steward.
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Acknowledgments

We would like to thank Ann Steward and Sir Peter Gershon for taking the time to share their views with us. We also thank Kim Friedman, Gerry Hill, and Janice Willett for their assistance in the writing, editing, and design of this paper.

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