



Raising the bar

By Rowan A. Miranda and David A. Wilson

Reform-minded citizens and officials say that the adoption of benchmarking and applicable commercial best practices can reduce costs, raise quality and improve service in government. Here's how it's done.

Is it realistic to expect the public sector to perform on par with the private sector?

Given the environment in which governments often operate—characterized by, to one degree or another, dispersed authority, the absence of competition, the duplication of services, antiquated business practices and systems, lax oversight and rigidities associated with civil service and unionization—skepticism on this score is not unwarranted. Perhaps the most important difference between the public and private sectors relates to the governmental mission, which consists of a service orientation that isn't necessarily related to a customer's ability to pay.

Nonetheless, a growing number of reform-minded citizens, elected officials and public managers are coming to believe that by using benchmarking and pushing for the adoption of applicable commercial best practices, they can raise the bar for government performance and, in the process, reduce costs, raise quality and improve service. Combining the two concepts is no accident: Benchmarking and best practices are synergistic—gaps identified by benchmarking can be closed by using select best practices.

Why has the public sector's appetite for benchmarking grown? To answer this, it is useful to consider how the objectives for government reform have evolved. Historically, reform in the public sector has focused on achieving a state of "good government," where, it was envisioned, public managers and employees would faithfully implement public policy using the lowest level of resources possible. But in recent years, the quest for better government has become much more aggressive, and

competent management of public resources is no longer sufficient.

These days, there is a call for public managers to be entrepreneurial, integrate performance management in their planning and budgeting, subject services to competition and emulate private-sector best practices. Benchmarking has become a priority because previous reform attempts were foiled by unrealistic or poorly defined project expectations and by the lack of a meaningful yardstick to

measure and compare agency performance before and after a major business transformation.

Making the business case

There are other factors at work as well. Economic slowdowns and the public's growing resistance to higher taxes have brought urgency to government cost-cutting and streamlining efforts. Governments are also facing an aging workforce, resulting in retirements that may disrupt operations as critical skills and knowledge are depleted (see "Conserving government's most valuable resource," *Outlook*, June 2005). These pressures are motivating governments not only to embrace reform but to transform themselves.

Transformation in the public sector involves changing governments from high-cost, ineffective service delivery agents to lower-cost, high-performance organizations that focus on continuous improvement and customer service. And while there are many reasons for the renewed interest in benchmarking, the business case for transformation is perhaps the biggest one.

Many governments spent the past decade embarking on large-scale business transformation initiatives, including implementing enterprise resource planning systems, outsourcing operations, reorganizing agencies and reengineering processes. Some of these projects paid off, while others didn't. But for most, it was simply difficult to tell.

Today, business cases that project overly optimistic returns or don't bother projecting anything at all fail to gain organizational buy-in and/or funding support. Without information on the baseline level of performance or on how it com-

pare with peers, millions of dollars are being spent in the public sector based on "gut feeling" and "instinct" about potential benefits and savings.

Those serious about the responsible stewardship of public resources are demanding better criteria and impact assessments prior to making investments. Benchmarking addresses a common criticism of many misguided large-scale public projects—namely, "If you don't know where you're going, any road will take you there." There are other reasons to conduct benchmarking besides providing a fact-based case for business improvement. While benchmarking is often motivated by the desire to identify areas of excess cost, it's also possible that investment levels are too low. For example, why celebrate a benchmark that shows an organization's cost per employee for the HR function is among the lowest in the industry if turnover and employee dissatisfaction are among the highest? When carried out on a routine basis, benchmarking provides management with useful feedback, control and risk management information as well as a scale for setting priorities.

Benchmarking is also essential to establishing a continuous improvement program, since it allows an organization to compare its performance from year to year. Through benchmarking, organizations can compare their "as-is" operations against organizations with shared services centers or outsourced operations. Although the benchmarking concept itself has been with us for a long time, recent advances in Web-based technologies allow organizations to collect data and collaborate

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A matter of metrics

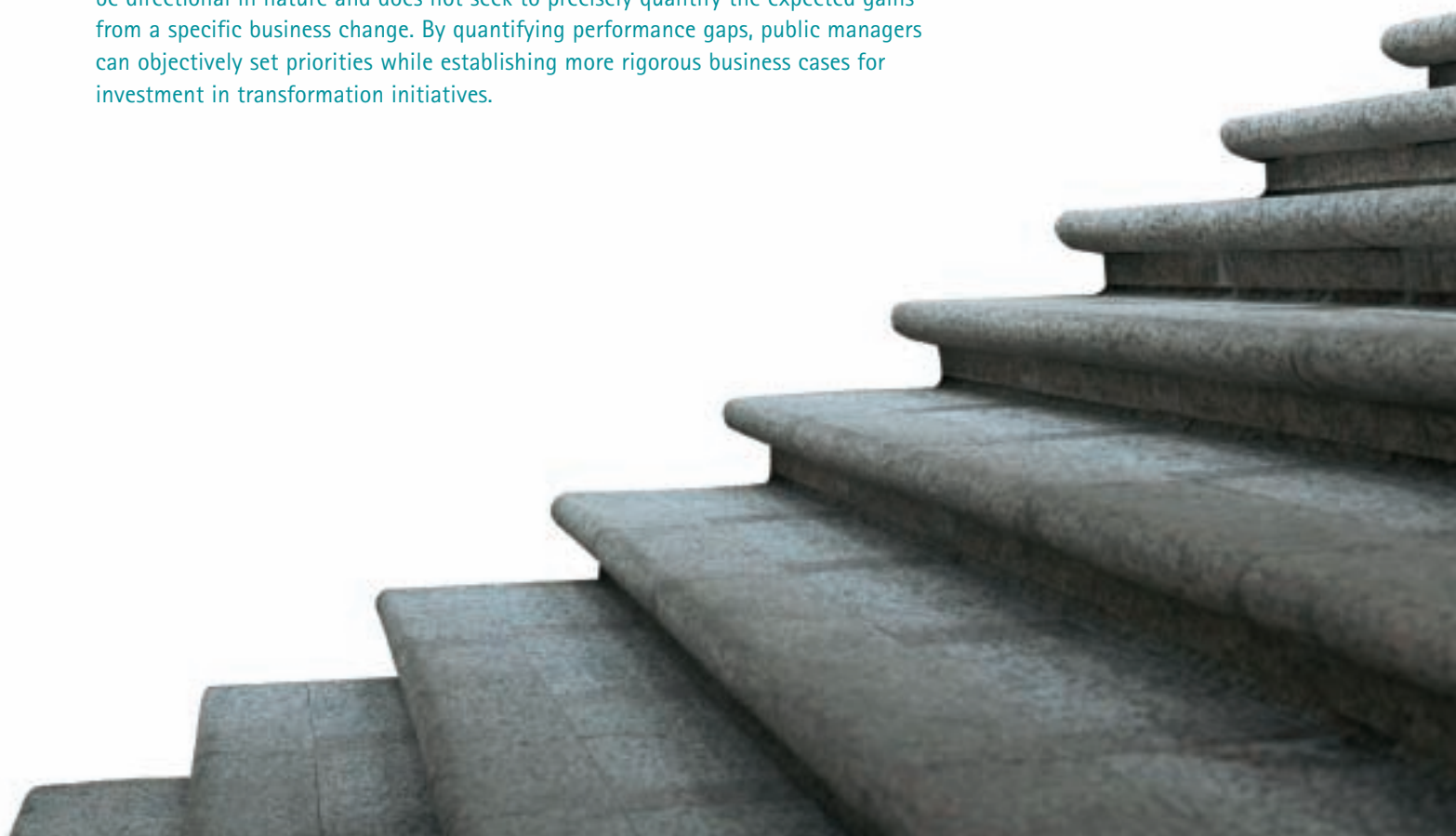
A benchmarking project is only as good as the metrics it's based on.

With this in mind, the Accenture Finance & Performance Management service line has established a cross-industry alliance with The Hackett Group for benchmarking services to support business transformation projects. The Hackett Group maintains a performance metrics and best-practice repository of more than 2,000 organizations for finance, human resources, payroll, procurement and IT. Hackett's database represents 93 percent of the Dow Jones Industrials, 76 percent of the Fortune 100 and 90 percent of the Dow Jones Global Titans.

Although governments comprise a small portion of the Hackett database, most public managers view their administrative processes (for example, accounts payable, recruitment, payroll processing) as readily comparable to those in the private sector. By contrast, for some citizen-focused services (police and fire, for example, or sanitation, employment security and defense), commercial comparisons are not as appropriate.

The Hackett approach uses strictly defined questionnaires deployed through the Web to measure the efficiency and effectiveness of "as-is" processes and functions. The resulting performance metrics are then compared against both peer group and top-quartile (or "world-class") performance (see story).

Gaps between as-is performance and peer group or world-class performance establish "value targets" (that is, the gains to be expected from implementing new technologies, practices, delivery models and processes). Although benchmarking is a far more rigorous and scientific process than operating by "gut feeling," it is meant to be directional in nature and does not seek to precisely quantify the expected gains from a specific business change. By quantifying performance gaps, public managers can objectively set priorities while establishing more rigorous business cases for investment in transformation initiatives.



Case study: Benchmarking state finances

The National Association of State Auditors, Comptrollers and Treasurers serves elected and appointed officials responsible for financial management across the 50 US states as well as in the District of Columbia and US territories. In 2005, NASACT worked with Accenture and Answerthink/The Hackett Group on a benchmarking pilot.

NASACT's leadership believed that benchmarking across the states, which had never been attempted, could be a valuable tool, and that a pilot study would be a fast, low-risk approach to evaluating the concept. A pilot study could also provide a detailed assessment of whether largely private-sector benchmarking tools were applicable to state governments, and give the association's members a better understanding of the data collection process, metrics, and level of effort and complexity involved in applying benchmarking tools.

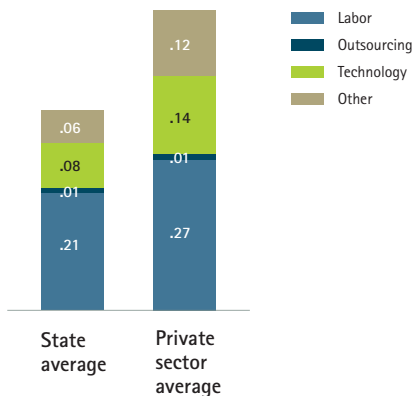
The pilot study included the governments of Alaska, Arizona, Nebraska, Oregon, Tennessee and Washington. The benchmarking pilot focused on four major financial process groups: cash disbursements, general accounting, external reporting and performance management (primarily internal management reporting).

The study was completed in eight weeks. Since the study was based on a limited sample, the findings should be considered as being preliminary patterns in the data that merit further confirmation with a larger sample of states. Keeping this in mind, the benchmarking analysis shows that total average spending by state governments on the finance function was reported to be lower than private-sector levels (although this may not take into consideration that administrative costs in government are dispersed across many departments, not all of which may be accounted for in this metric). However, the distribution of costs and resources is very different. State governments invest considerably less in technology than the private sector does, and they pay finance staff about 16 percent less. Finally, state government processes are considerably more manual than those in the private sector.

Productivity among state finance staff is significantly lower than in the private sector, especially in the areas of high transaction volume, according to the study. While states spend significant effort compiling data, reporting cycles are typically longer than in the private sector.

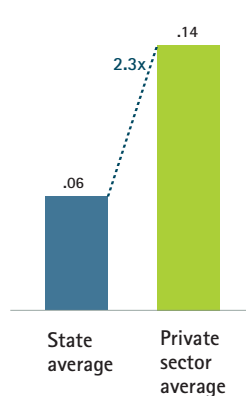
Finance cost as a percent of total expenditures averages about one-third less for the states than for the private sector.

Finance cost for the four functions as a % of total expenditures



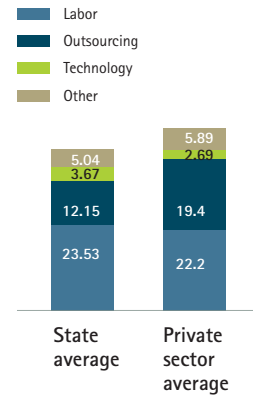
The private sector spends more than twice as much on technology as the state average.

Finance technology cost for the four functions as a % of total expenditures



On average, over half the finance staff for the state governments is focused on cash disbursements.

Finance FTEs for the four functions per \$billion expenditures



SOURCE: HACKETT-ACCENTURE NASACT BENCHMARKING STUDY, 2005

The study found substantial productivity variability between states and between states and the private sector, differences that the data suggest are sometimes driven by scale as well as by process characteristics, organizational structures (for example, decentralized versus shared services delivery), and management/legislative considerations that affect complexity. By extrapolating differences between state performance and first-quartile private-sector costs, the study projected potential cost savings of nearly \$850,000 per \$1 billion spent. High-cost states could save approximately \$2.5 million per year by achieving the performance of the average state government.

Finally, the study revealed that when it comes to reliance on best practices—especially technology-enabled practices—state governments lag behind the private sector.

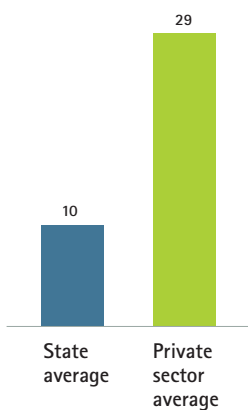
Among the implications of the study was the notion that lower compensation in state finance departments may have an unfavorable effect on the long-term recruiting and retention of top talent. There was also the strong suggestion that state governments are not positioned to respond or

adapt quickly to public or legislative demands, especially in areas such as accountability/performance reporting, timely reporting, electronic commerce and disclosure requirements.

According to NASACT Executive Director Kinney Poynter, "The state government participants found the pilot study to be a very worthwhile effort. We learned that benchmarking takes time, coordination and outside assistance—which can help provide a replicable framework." As a result, notes Poynter, "NASACT intends to develop a benchmarking database to permit state comparisons, especially to assist those state agencies that want a baseline measure of performance as they begin to invest further in ERP systems or implement best practices." (For more details on the results of the NASACT six-state benchmarking project, see the charts below.)

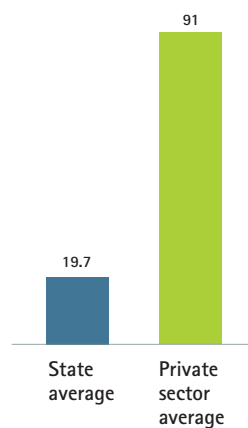
Cash disbursement (or accounts payable) transactions are typically less automated in state governments than in the private sector.

Percent of automated cash disbursement transactions



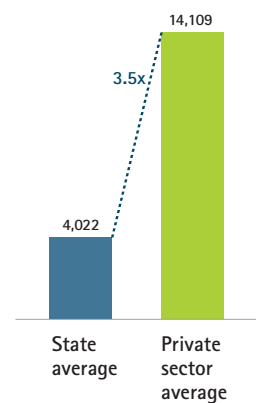
There is also a distinct difference in the level of automation for processing journal entries at the state level.

Percent automated journal entries



On average, the states' FTEs process or handle about 70 percent fewer transactions a year.

Annual number of cash disbursement transactions per FTE



Trade accounts payables and employee expense reimbursements only

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in a manner that makes a comprehensive benchmarking effort feasible and economical.

World-class status

With the exception of certain citizen-focused services—police and fire, for example, as well as sanitation, employment security and defense—most public-sector managers view administrative processes like accounts payable, recruitment and payroll as comparable to those processes in the private sector and therefore appropriate for similar benchmarking. Benchmarking itself centers around three major concepts identified by Accenture and its benchmarking alliance partner, The Hackett Group (see page 87).

Efficiency. We define efficiency as the extent to which an organization utilizes strategies, tools and processes that allow it to operate at the lowest possible cost (that is, does things right). Metrics for efficiency include staffing levels, cost per transaction, cycle times and level of systems integration.

Effectiveness. This is the extent to which an organization generates the highest possible value or service levels (that is, does the right things). Metrics for effectiveness include error rates, utilization of Web-based processes for activities such as benefits administration or vendor payment status, and percent of time spent analyzing data versus collecting it.

World-class. This is the designation given to performance of a specific process or function that is in the top quartile for both efficiency and effectiveness.

Upon identifying performance gaps, it is possible for an organization to seek

world-class status in all of its administrative operations. What's more likely, however, is that an organization will prioritize investments to areas that will foster competitive advantage, or in the case of government, provide the greatest net benefit.

Thus, while it is theoretically possible to be world class in all areas, it is also possible that organizations ranking in the lowest quartile in one operational area (timekeeping for payroll, for example) will perform at world-class levels in another (budgeting and planning). By investigating why organizations attain world-class status for specific processes and functional areas, an empirically based inventory of best practices can be compiled that consists of only those practices that are strongly correlated with enhanced performance levels.

A typical benchmarking project is undertaken in partnership with an outside performance management specialist and consists of five main steps.

1. Planning and workshop. The first step to a successful benchmarking project is a sound plan, which begins with data collection. A kickoff workshop, facilitated by the outside partner, describes the data collection process, validates the data requirements, determines process definitions (for example, what activities comprise accounts payable?) and assigns data collection responsibilities to specific individuals.

2. Data collection and executive interviews. Data collection begins immediately after the workshop and is typically an 8- to 12-week process (it can be longer or shorter depending on the scope of the benchmarking effort). During the data collection

process, periodic conference calls and meetings are used to maintain communication between the organization's data coordinators and the outside partner, and to assess the status of the data collection effort.

3. Data validation. Once data is assembled, it is reviewed for accuracy, completeness and reasonableness. One or two rounds of changes are often needed to validate the information and take other steps to improve data quality.

4. Analysis and interpretation. Once the data is finalized, it is analyzed by the performance management specialist. A review session is then conducted to discuss the initial findings and conclusions prior to channeling them into business case alternatives or recommendations.

5. Results. These are presented to the organization's executive team in a report that focuses on identifying gaps between the organization's benchmarks and industry performance. Initial ideas concerning short-term personnel, organizational, or management control actions, as well as the application of relevant best practices, are also discussed. The report includes estimates of the levels of savings or value that can be generated if the organization is able to operate at the level of the peer group or at world-class performance levels. At this point, the benchmarking and performance management specialist can develop a detailed implementation roadmap that specifies time lines, staffing requirements, consulting resources, risks and overall investment levels. In this manner, benchmarking galvanizes organizational support for the high-performance journey.

The benchmarking approach presented here contrasts with what commonly occurs in the industry.

Typically, governments may make telephone contact with a few neighboring jurisdictions or use mail surveys to collect data. As a result, considerable uncertainty enters the process about whether the benchmarking comparisons are even valid. In the best case, the comparisons that can be made are at a summary level; the government can't assess whether, for example, finance costs are too high because of accounts payable or the general accounting function.

Accenture's research has found that the high-performance businesses in an industry are also those that achieve mastery in such administrative areas as finance and supply chain management. This finding holds significant promise for governments that have operated with high-cost administrative processes or organizational structures throughout their history. The ability of governments to credibly compare their performance against that of their peers and high-performance businesses through benchmarking is a breakthrough that enables fact-based back-office transformation.

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