Are shared services really out of reach?

Barry Quirk considers why there are so few successful shared service projects – and suggests how we can make them more palatable for everyone

'Surely it's in everyone's interest that we all work together; so why don't we?' Why is it that almost everyone is in favour of the theory of shared services but very few have put it into practice? Why is it that getting three or four organisations to agree to act together for mutual benefit is so much more difficult than going it alone? Too often we blame the motives of those involved – they are not 'committed' enough to partnering or they fail to see the inefficiencies of the status quo. Seldom do we tackle the main underlying reason: that the economics rarely stack up for all partners and that a practical formula is needed to achieve 'win-wins'.

In local government, when it comes to achieving joint action, some people argue that 'politics' gets in the way; others claim rigid professionalism stops joint action. There are some excellent examples of cross-council partnership at present – the Cambridgeshire, Northamptonshire and Slough joint project being among the most heroic in scale and impact – but overall, they are few and far between. Are we like Tantalus in the Greek myth condemned to spend eternity with everything just out of reach? His punishment was to stand in a pool of water beneath a fruit tree with low branches. When he reached for the fruit the branches rose to prevent him from grasping the fruit. And when he bent down to get a drink the water receded beneath his stoop. Are we similarly, 'tantalised' by the prospect of major gains from shared or joint action but condemned to having these gains ever beyond our reach?

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Those councils which have successfully moved into this area have usually done so with purpose, business mission and an eye for savings. They have put organisational concerns behind service and business concerns. But they have also usually had a compelling case in terms of managerial economics. They haven't pursued partnership for partnering sake: partnering has been instrumental in achieving service and business goals. In many councils management leaders have moved their councils beyond organisational 'scheming' to the more productive field of cross organisational 'teaming'. In this way councils have tried to craft ever-deeper commitments to collaborative working that attempt to go beyond the usual varnish of traditional partnerships. This can require a lot of 'away days' and 'teaming' across organisations to build collaboration. And it is often based on the idea that while it is in everyone's interest to act together for change it is their emotional attachments to the status quo that holds them back. This line of thinking and action has merit but it implies the rational case is clear and unarguable.

I suggest here that, while effective leadership can create the conditions for successful partnering by setting a culture of collaborative working, it cannot change the underlying economics and it is this, which needs fixing. The problem, which holds collaboration back and undermines the shared services agenda, is the simple fact that very few joint initiatives produce outcomes where all parties gain fairly and equitably. If there are two parties to a deal then both need to 'win' – both should gain but the gains should be commensurate to their respective contributions. But 'win-wins' are the cover story: in truth one partner will often believe that it is being expected to put more in and get less out – a sort of 'big win-little win' which can breed mistrust. And when there are many parties to a deal the logic of large groups takes over – which generally guarantees inaction!

But there are ways through the thickets of this issue; one solution was identified years ago in the field of welfare economics. It is both a technical solution as well as one which has the considerable merit of common sense. It can be expressed in the following simple way. Winners in any solution use some of their winnings to buy out the losers' losses – without this there can be no agreement to adopt the new solution.

First, we need to recognise it is not always obvious who are the winners and the losers. Often it is self evident but sometimes it is more complex to identify who wins, who loses and by how much. Assume five councils are all managing the same function that employs an average of 30 staff each (they could be school improvement staff, environmental health staff, auditors or human resource professionals or any other such specialist functional division capable of scaling up over a larger area). Assume each Council separately has appraised the potential for savings in this function and the expected range of savings is between 5 to 10 full time equivalent (fte) staff. And now assume the regional improvement & efficiency partnership (who else?) suggests that it would be simpler for the five councils to enter an agreement such that there could be just one shared function serving all five Councils employing just 100 staff in total at a saving of an average of 10 fte staff each. What would happen?

They would separately undertake a cost-benefit analysis which would show that some councils could achieve this level of saving by acting alone. But others could not. And so while everyone had expected gains under the RIEP solution; the gains would not be equal. In conventional measures of normative efficiency (using Pareto optima) an outcome is more efficient if at least one person is made better off and nobody is made worse off. In this example, even the biggest gainers may well feel they are themselves 'worse off'; for the gains under the RIEP solution might be higher than under their own solution but they might then factor in the 'costs' to them of losing a degree of managerial direction and control over the function in the future.

These problems beset cost-benefit analysis when considering individual gains and losses compared with combined gains and losses. But a key twist in cost-benefit analysis was added 70 years ago in 1939 by Nicholas Kaldor and John Hicks in their so-called 'compensation principle'. The Kaldor-Hicks principle is that an outcome is more efficient if those that are made better off could in theory compensate those who are made worse off. For example, a voluntary exchange which creates losses to one or more parties would be a Kaldor-Hicks improvement if the buyers and sellers are still willing to carry out the transaction even if they have to fully compensate those who lose from the exchange. The key point is that any change usually makes some people better off while making others worse off, so these tests ask what would happen if the winners were to compensate the losers. This compensation principle underpins virtually all cost-benefit analysis in the field of public policy as well as in managerial economics. We use it when considering development control dilemmas and we often use it, in discussion with the Ombudsman, to consider appropriate compensation levels in cases of injustice. The question is whether it can be used to trigger more collaborative working.

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The Greek myth of Tantalus, who was condemned to spend eternity with everything just out of reach

Collaborative projects, shared services and joint ventures sometimes fail because the benefits to most do not exceed the losses to some. But in practice they most usually fail because those involved have not calculated fully whether the benefits to most will exceed the losses to some. When they do these calculations and discover that losses to some can be compensated by gains to others they can then build coalitions of 'win-wins' and win-neutrals'. Alternatively, the RIEPs and/or the Government can do the calculations for them and rather than simply exhorting joint action they can stimulate efforts by buying out losses directly; creating even bigger gains and bigger momentum for collaborative efforts.

Effective leadership creates the conditions for confident and capable collaboration but the collaboration will only work if the numbers add up.

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