

## STRUCTURE

# Lessons From the Private Sector

Government social services organizations have a lot to learn from big business about becoming 'smarter.'

*By Nicole Gardner and Edward Blatt, Ph.D.*

**F**OR IBM, THE EARLY 1990s was a time when the financial viability of the entire corporation came into question. As a multibillion-dollar enterprise with a strong history of leadership, innovation and success, the company found itself in a major financial crisis. Following IBM's most profitable year ever in 1990, the company was on its way to losing \$16 billion by 1993. But this financial crisis provided a new lens from which to view the possibilities of what the company could be.

In many ways, governments are faced today with issues remarkably similar to those faced by IBM in the early 1990s. With thousands of employees, bloated budgets and a sluggish economy, governments must find a way to restructure their approach to providing benefits and services. They must find a way to gather and use information about clients and programs; create a holistic, enterprisewide view of their clients along with the capacity to evaluate needs; and control waste, fraud, abuse and error. Social services organizations must, in short, become smarter by becoming more instrumented, interconnected and intelligent.

There is, perhaps, a general impression that the public and private sectors are very different. The private sector, after all, is concerned primarily with pursuing profit through competition. The private sector sells products and services to customers. The public sector, in contrast, implements policies that are usually characterized as benefiting society—it pro-

vides programs and services for citizens that the private sector would likely fail to provide efficiently or equitably. But the two sectors are, in fact, more alike than they are different. The private sector can be every bit as bureaucratic, inefficient and ineffective as the public sector. The public sector, given the opportunity, can be just as innovative, creative and flexible as the private sector. And the two sectors are struggling with many of the same challenges.

How does government meet these challenges and take advantage of new opportunities? By becoming more integrated and streamlined; by becoming easier to work with; by delivering the right services at the right time and place to the right constituents the first time; by using data and information to inform policy and manage change; and by focusing on outcomes. IBM calls this "becoming smarter." Below we describe some of the key aspects of this approach.

### **Consolidate, Standardize and Modernize IT Infrastructure**

Government agencies spend billions of dollars annually on technology products and services. For most, the costs of operating information technology systems are higher than they need to be—in some cases by more than a factor of two. The U.S. federal government, for example, currently spends approximately \$76 billion, according to the Technology CEO Council, to support its widely dispersed IT assets. According



to Gartner, 20 percent to 30 percent of that spending—\$150 billion to \$200 billion over the next 10 years—could be eliminated by reducing IT overhead, consolidating data centers, eliminating redundant networks and standardizing applications.

Social services organizations could realize similar savings if government departments and agencies employed proven methods to reduce overall costs of IT ownership.

**Cloud computing technology** uses the Internet and central remote servers to maintain data and applications. It allows businesses and individuals to use applications without installation and to retrieve their files at any computer with Internet access. This technology allows for much more efficient computing by centralizing storage, memory, processing and bandwidth. If you have a Yahoo e-mail account or use Google, you've been on the cloud. Government agencies that have moved to cloud computing have generally achieved 25 percent to 50 percent savings associated with IT operations, according to a Brookings Institution report, "Saving Money Through the Cloud."

**Consolidation and standardization** of applications and infrastructure is another proven way to reduce IT costs. Washtenaw County, MI, saved taxpayers about \$2.5 million and solved significant space, power and reliability challenges by consolidating applications and infrastructure in the government data center. The Indiana Office of Technology standardized the state's PCs and estimates that the new equipment will reduce costs by more than \$345,000 annually, according to a 2010 report from the Technology CEO Council. They expect to save an additional \$307,000 in power costs per year.

By consolidating, standardizing and modernizing, government can address many costly technology challenges, including obsolete and ineffective IT systems and software, poorly integrated applications, minimal Web-based constituent access and limited data-analysis capabilities. But perhaps more importantly, they can do this while improving operations, Web-based citizen services and government transparency. Government employees will save time, increase productivity and be able to help citizens get the information they need more quickly.

**Advanced business analytics and information sharing:**

Benjamin Franklin is quoted to have said: "There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government." Unfortunately, there is an abundance of examples to support his assertion. Medicaid has been the fastest-growing item on many state budgets for decades.

But state and federal efforts to uncover and stamp out the astounding amount of fraud in the program have lagged. Experts estimate that abuses of Medicaid eat up at least 10 percent of the program's total cost nationwide—a waste of \$30 billion a year, according to the *City Journal* article "How to Stop Medicaid Fraud: For Starters, States Should Try" ([http://www.city-journal.org/html/16\\_2\\_medicaid\\_fraud.html](http://www.city-journal.org/html/16_2_medicaid_fraud.html)).

Errors cost taxpayers millions as well. According to a 2007 Cornell University study, "The Cost of Worker Misclassification in New York State," for example, on average about \$4 billion in unemployment insurance taxable wages were underreported in New York state each year for the four-year period 2002-2005 due to misclassification each year. For that

same period, the underreported unemployment insurance taxes totaled \$175.7 million.

By delivering comprehensive, actionable information directly to staff desktops, governments can realize a variety of benefits, including:

- » Reduced fraud, error and abuse
- » Minimized audit risk
- » Improved use of outcome measurements
- » Effective allocation of financial resources
- » Efficient tracking of key performance indicators
- » Balanced scorecard reports.

Governments can no longer rely on static, aggregated statistical reports. They need dynamic business analytics systems that are fully integrated into their everyday workflows. Focusing resources on the riskiest parts of the eligibility process and using information and risk models intelligently can result in faster and more efficient decisions that benefit both the organization and citizens.

**Advanced business analytics** have allowed many government organizations to eliminate fraud and error, and improve efficiency. The U.S. Social Security Administration provides an example of one way business analytics are being used to improve efficiency, through the screening of Disability claims. By looking at an initial claim, an assessment of the likelihood of success is made and if the claim looks likely to be successful, it is fast-tracked. This means that disabled Americans with the most severe disabilities are approved for benefits in about 10 days instead of waiting the previously typical three to four months.

At the other end of the process, SSA's Disability recertification also has intelligence applied. Instead of insisting that all claimants undergo a full medical review, those unlikely to have regained mobility receive a mailer for a lower-level assessment. By eliminating unnecessary medical exams and the related admin-

istrative overhead, SSA was able to save millions of dollars between 2001 and 2006 and has continued to accrue savings since then.

In California, Alameda County Social Services is using advanced analytics, real-time reporting and dashboards, which enable caseworkers to find the immediate status of any child, as well as the staff members, support services and programs associated with that child. Reports are generated in minutes rather than weeks or months, and more than \$11 million has been saved through greater efficiency, while helping provide a safer environment for children.

Centrelink, the Australian government's statutory agency for social services, provides online benefits determination and payments to individuals on behalf of 27 different government agencies. The estimated annual savings due to **improved data sharing** has totaled \$765 million. Service Canada, which offers single-window access to a wide range of Government of Canada programs, has merged more than 70 services from many disparate agencies, through online, phone and in-person service delivery channels. The estimated annual savings from that effort total \$292 million.

### **Organizational change and management best practices:**

IBM has learned over the years that meaningful change is not about the equipment per se, but rather the new systems and approaches it allows and enables. But how are these new approaches and systems identified?

**Business process management** provides governance, methodology and tools with which to provide continuous improvement in an organization's agility and performance. For example, streamlining the entire Medicaid process in the United States could lead to significant cost savings. Based on private sector experience, such improvements can be expected to yield savings of at least 5 percent of costs.



**Organizational change management** is a methodology and set of tools that provide a framework for managing the effect of new business processes, changes in organizational structure or cultural changes, and the resulting impact on employees. IBM's Component Business Model, for example, simplifies the way organizations look at their operations by extracting executives from the process "rut" and helping them get at the real sources of value that drive their organizations. With CBM, executives can identify the unique, stand-alone building blocks that comprise the overall enterprise. Viewing business activities as autonomously managed components helps decision-makers cut through the historical boundaries that build up along organizational, programmatic, departmental, citizen, geographical and informational lines.

It was organizational change management that allowed Centrelink and Service Canada to revamp their programs and save so many millions of dollars. By taking the component view, executives can pull back from granular process analysis to view business activities holistically, finding similarities and grouping like with like. This helps them see through the complexity and redundancies that often go unnoticed with a process-centric analysis.

### **Innovation vs. Business as Usual**

Government social services organizations are faced with a great challenge and an even greater opportunity. They must achieve new levels of savings while simultaneously improving services to citizens. They must become more efficient while becoming more effective. They must change core principles and culture, and move from a siloed collection of independent agencies to a unified and integrated enterprise with common goals and values, and a common vision for the future.

Can they take advantage of developments in technology to become smarter? Can a system of individual, siloed agencies transform itself into a unified enterprise that leverages the strengths of all its pieces to take advantage of economies of scale, shared services and a redefined common culture? Can government apply the lessons learned by IBM and other private sector companies over the past 20 years? It not only can—we think it must.

*[You can take a virtual tour of IBM's "Smarter City" and see the company's vision for intelligent social services at <http://www.ibm.com/thesmartercity>.]*

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