Rethinking the Division of Labour within Government
A necessary strategy and response in a digital age

Struensee & Co.
Feb. 2018
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INTRODUCTION

All around the world Governments are facing mounting pressure on their delivery of public services – be it self-imposed pressure as a result of ambitious programs to develop their own societies or external pressures stemming from various sources. Irrespective of the source of the pressure similar tendencies are seen across nations.

There are increasing demands on the quality of services from citizens that have grown accustomed to transparency and are seeking influence on the design of service delivery.

“Governments should take a closer look at a number of specialised functions that are being duplicated across agencies today”

These pressures are further exacerbated by a digitalisation age where governments are required to deliver services in new and smarter ways. In this new reality, Governments will need to take a closer look at how they organise themselves in delivering their services. They will need to reconsider their division of labour and cultivate economies of scale.

One example of a government trying to cultivate economies of scale is Denmark with the forming of The Danish Administrative Service Center. The Center’s transfer of a number of administrative back-end functions from various agencies to a new dedicated authority led to productivity increases exceeding 180%. The case is elaborated on page 6. Another example is the Norwegian Public Procurement platform, which exploits economies of scale to lower cost while making public procurement significantly more simple. This case is elaborated on page 7.

In this publication we argue that when reassessing their division of labour, Governments should take a closer look at a number of specialised functions that are being duplicated across agencies today. This is a luxury that can ill be afforded, particularly in small and middle-sized economies where agencies do not have the critical mass to efficiently carry out these functions – and hence end up spending scarce resources inefficiently.

Instead this publication will make the case for gradually delegating the delivery of highly specialised functions to dedicated agencies or agents according to best practice solutions. Allowing for a more efficient and more productive delivery of these specialised functions through economies of scale – and hence creating the budgetary space and focus for agencies to continue to deliver high quality services at the core of their function.

There are already numerous examples of this – some of them are presented on the following pages. But with digitalisation there is a pressure to do more and an opportunity to do so.

In this report we will take a closer look at experiences that have already been achieved across a number of small and middle-sized advanced economies. And we will present some considerations for governments to make when reviewing their own potential for a more efficient division of labour.

This report is based on research, interviews and analyses by Struensee & Co. in 2016 and 2017.
CASES: BEST PRACTICE FROM SMALL ADVANCED ECONOMIES
Case: Citizen.dk

REDUCING INCONVENIENCES

Reducing complexities in public sector services through a single point-of-contact website

Traditionally, citizens have a lot of different contact points with the public sector. It is the norm to have distinct offices and websites for different services, and the citizen would have to reach out to the entity that is responsible for the handling of their particular request.

To mitigate the inherent inconvenience in the decentral system, Denmark launched the single point-of-contact website Citizen.dk in 2007. Through the website, citizens are able to report housing data, apply for marriage, vote, apply for social benefits and much more. The ambition has been to create a more transparent system where the citizens always know where to go when they have a request since it is all located on the same website.

In the quest of making the website intuitive for everybody regardless of their technological savviness, Citizen.dk has produced video guides and guides to self-service solutions.

The result is a single-point website that contains self-service solutions for 18 critical areas ranging from child care to building permits and custody. This has allowed for cost savings in traditional physical touch-points while making the interactions that millions of citizens have with the public sector function much smoother.

Citizen.dk averages around 2-3 million visits on the website per month which is a substantial amount in a country of 5.7 million people. Furthermore, it has significantly relieved the pressure on many authorities by reducing the number of touch-points.

Exhibit 1: Consolidating 18 critical public sector areas in the Citizen.dk significantly reduces the complexity and required effort for citizens engaging with the public sector

<table>
<thead>
<tr>
<th>Examples of touch-points</th>
<th>Single point-of-contact</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passport issuance</td>
<td>Citizen.dk</td>
<td>• Reduced complexity for citizens: Citizens always know where to go regard-less of their request</td>
</tr>
<tr>
<td>Apply for marriage</td>
<td></td>
<td>• Cost savings on physical touch-points: The convenience of using the online solution has reduced the need for physical touch-points</td>
</tr>
<tr>
<td>Custody</td>
<td></td>
<td>• A successful initiative: Every month the website is visited by ~2.5 million times</td>
</tr>
<tr>
<td>Social benefits</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reaping substantial productivity gains in public administration through digitally supported shared service agency

Administrative backend functions like bookkeeping and payroll used to be decentralized in the Danish public sector where ministries and agencies had their own distinct administrative employees. However, Danish authorities realized that the decentralized design stood in the way of realizing economies of scale and constituted a disproportionate cost driver.

The decentralized structure led to great differences in productivity and quality across agencies. Some tasks are largely uniform, and digital solutions made it possible to establish a single government entity to handle bookkeeping, payroll and other standardized administrative tasks.

Therefore the Government established the E-trading platform that secures a number of administrative tasks for the vast majority of state entities. Today, SAM is handling salaries for 160 entities. Through economies of scale, process optimization, and introduction of machine learning software, SAM has managed to significantly improve the productivity of state administration while reducing costs.

One example where SAM handles tasks faster and more efficiently than a decentralized administration is in bookkeeping where automated processes now handle all standard tasks thereby only leaving exception handling to the employees.

Since forming SAM in 2008, efficiency improvements has led to a 52% reduction in FTEs needed to perform the same tasks. Furthermore, extensive mapping and digitalization has increased productivity among employees by 183%, which constitutes almost a tripling of cases handled per FTE.

Source: www.statens-adm.dk, Stuensec & Co. Research.

Exhibit 2: Significant productivity improvements and cost reductions have been realised

<table>
<thead>
<tr>
<th>Year</th>
<th>FTEs</th>
<th>Cases handled/FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>431</td>
<td>183%</td>
</tr>
<tr>
<td>2012</td>
<td>233</td>
<td>797</td>
</tr>
<tr>
<td>2013</td>
<td>217</td>
<td>838</td>
</tr>
<tr>
<td>2014</td>
<td>206</td>
<td>859</td>
</tr>
</tbody>
</table>

-52%
SIMPLE PUBLIC PROCUREMENT

Securing safe, simple and efficient public procurement

Procurement is often time consuming in the public sector with a wide range of platforms and suppliers to source from. The Norwegian e-trading platform “E-handelsplattformen” offers an e-solution for procurement, which secures compliance with procurement policies and saves time for suppliers and public agencies.

Government agencies, municipalities and ministries use the platform to purchase goods and services. In 2014, Norway passed a law stipulating that communication between suppliers and the government should be digital. In 2016, more than 300 public entities were connected to the platform. Suppliers use it to receive orders from customers and try to attract new customers by uploading their product catalogue to the platform. Thus far, 570 suppliers have uploaded their catalogues to the platform and thousands more receive direct orders through the system.

Therefore, the government established the E-trade platform secures alignment and compliance with procurement policies while saving time for both the public costumers and the suppliers. Exhibit 3 outlines how suppliers and public buyers are connected through the system.

The Norwegian public sector spends NOK 400b (USD 51b) annually on procurement of goods and services. Previously, most invoicing was conducted by paper. It is estimated that the E-trade platform will reduce costs by six to 14 percent and thus save the taxpayers between NOK 24 to 54b (USD 3-7b) a year.

The gains of using a digital procurement process are threefold:
- It is easy to secure compliance with best practice policies
- It saves time in the administration of the procurement process
- It establishes full trackability of all public procurement

Exhibit 3: The E-trading platform connects suppliers and public buyers

1. By placing orders through the E-trading platform, compliance is secured fast and easy
2. Standardised digital procurement processes save valuable time for customer and supplier
3. The digital nature of the procurement process makes it easy to track specific purchases and wider trends in the procurement process

Source: www.anskaffelses.no, Stroemoe & Co. Research
UNIFIED E-IDENTIFICATION

Improving online security and user friendliness for citizens through a unified E-Identification solution

In 2010, Denmark launched a very successful smart electronic identification and signature solution called Nem-ID (Easy Identification). Nem-ID replaced a number of manual identification and signature solutions in the public and private sector with varying degrees of security.

Nem-ID enables one single sign-on solution to access more than 200 government and private sector websites with signing or identification need. Nem-ID thereby enables citizens to very easily sign legal documents and access government services or websites with sensitive personal data.

The login application can be used from any device, independent of it being a smartphone, a tablet or a personal computer.

More than 4.4 million people use Nem-ID, which constitutes the entire adult population of the country. Users also express a high rate of satisfaction of the e-service. An image survey conducted in 2016 found that 86 percent of Nem-ID users are satisfied or very satisfied.

By creating a new an unified system, security for the end user has been considerably heightened. The solution allows for a two-factor authentication requiring a password as well as a code from either printed cards or electronic dongles. Exhibit 4 depicts the workings of Nem-ID.
CONSOLIDATED INSPECTIONS

Increasing company compliance with production standards by delegating all government inspections to just one agency

Oversight and inspections of products is an important government task often handled by numerous government agencies across branches and functions.

In a review of their service delivery in the area of inspections, the Dutch authorities found that their inspections of products often overlapped across their three agencies with an unwarranted duplication of efforts.

A typical example would be of one government authority checking if a product lived up to required safety standards while another body would check if the same product contained forbidden chemicals. This product-oriented approach was uncoordinated and inefficient.

In order to do away with these inefficient practices it was decided to establish one consolidated authority - NVWA - as a shared inspection service responsible for overights ranging from toys and electronics to public attractions and agriculture.

The consolidation of inspections was designed to pave the way for numerous process optimisations including i) the formulation of a nation-wide inspection strategy, ii) streamlined inspections across product branches, and iii) economies of scale advantages by consolidating the number of labs that make official tests for NVWA.

The concentration of inspections in one agency allowed NVWA to develop a more efficient market surveillance system where the traditional product-oriented approach to inspections was largely replaced by company-oriented inspections based on audits of the individual business’ processes.

Exhibit 5: Consolidating inspections has yielded four concrete benefits

Source: www.nvwa.nl; Stuurree & Co. Research
MAKING DATA ACCESSIBLE

Making data from various sources easily accessible through a uniform online platform

Governments compile data across a wide range of authorities on everything ranging from climate to annual reports. Traditionally, the data has been embedded in their specific authorities and has been cumbersome to collect and cross-use.

The Danish government therefore established a so-called Common Public-Sector Data Distributor in 2012, which allows the public, businesses, ministries or government agencies to easily, fast and reliably access shared basic data using only one online portal.

The Data Distributer replaced a number of data distribution solutions in the public sector offered by authorities ranging from the Geo-data Office to the Danish Business Authority and assembled these under one entity.

Basic data on individuals, businesses, addresses, real estate and property are collected, pooled and regularly updated. The data is subsequently used by public agencies and institutions (e.g. to issue building permits or pay social benefits), by the private sector (e.g. to scope out new business opportunities) or by citizens in order to gather information.

As all data is accessible in one place, different data points can easily be interlinked. Exhibit 6 shows the relevance of datalinks between data of various sources, such as, real estate data (building, technical installations), addresses (road name and number) as well as data on businesses (firm name, production unit) and individuals (ownership). Depending on the nature of the data available, it can either be accessed publicly or will require additional authentication.
Driving digitalisation at the national level has fast-tracked the digital transition

The benefits of digitalisation in the public sector can be immense. If done correctly, embracing digital solutions can make the public sector function more efficiently while at the same time delivering better services for the citizens.

Recognising the complexity of large public digitalisation projects spanning state, municipalities and regions, the Agency for Digitisation was formed in Denmark in 2011. Rather than having a multitude of public entities launch their own non-integrative digitalisation projects, the agency centralises formulation of IT strategies to ensure efficient and cohesive cross-sectoral services. Cross-sectoral digitalisation is a means to spur growth, and optimise the workings of the public sector while building and maintaining public support to state institutions.

The Agency for Digitisation has been a driving force in developing Denmark as a frontrunner in digitalising the public sector – i.e. through hard steering mechanisms such as legislation and economic prioritisation of public initiatives concerning digitalisation.

Starting in 2012, Denmark made it mandatory for citizens to communicate digitally with public authorities and to access public services online including tax, housing, employment and social services. Almost all citizens above the age of 15 were signed up to receive all communication through a digital mailbox. As a result, 90% of citizens above the age of 15 do all of their communication with the authorities digitally. Applying this method led to a high pace scale-up of digital services and resulted in considerable efficiency gains.

Exhibit 7: Consolidating digitalisation strategy formulation allows for cohesive and easy-to-use solutions that create significant efficiencies and value for citizens

- Consolidated strategy formulation: Efficient and cohesive cross-sectoral IT solutions
- Easy-to-use solutions: Citizens are interact with IT solutions that they are accustomed with at state-, region-, and municipality level
- Global frontrunner: A centralised digitalisation agency can guide the country towards international best practices in digitalisation

Simplifying communication across government agency databases

In many countries, each government agency has their own IT-system and unique databases. Users have to submit the same information multiple times, which is neither convenient nor does it constitute an efficient use of time and financial resources.

The Finnish Palveluväylä (national data exchange layer) implemented in 2015 solves this problem by providing an IT-architecture, which enables databases from institutions to communicate.

After implementing the system, users only have to submit their information to one system, after which it will be available for all connected databases and systems. Exhibit 8 depicts the change caused by Palveluväylä.

This new architecture is simplifying and facilitating transactions by citizens, companies and organisations with public authorities, improving security as well as quality of public services in a cost-effective manner.

The national data exchange layer is easily scalable and transferable to other countries. In June 2017, an automatic data exchange capability was established between Finland and Estonia, where the system behind Palveluväylä was originally developed. Both countries committed an annual EUR 2m to further develop bilateral digital integration.

The national data exchange layer also caught international interest. Azerbaijan, Namibia and the Faroe Islands are currently among the countries planning to implement it.
EFFICIENT FACILITY MANAGEMENT

Freeing up resources by consolidating facility management contracts

Governments spend a huge amount of resources on various facility management (FM) tasks. These include cleaning, maintenance of buildings, internal services, etc. In most countries, FM is organised decentrally and a multitude of suppliers handle the tasks.

In 2017, the Danish government initiated plans to consolidate all FM contracts in one in order to realise scale economies. Consolidating a range of smaller FM contracts to fewer large ones is expected to free up a substantial amount of resources over an eight-year period. These resources can then be deployed elsewhere and do more good for citizens.

In Denmark, the ambition is to consolidate a total of ~110 FM contracts across 18 ministries into a few big contracts.

The new FM structure will be managed by just one authority, The Building and Property Agency. That will help in building up professionalism and expertise in a single entity whose competencies within FM will facilitate innovation and higher quality services.

The initiative is expected to yield annual savings of 8-13% on FM services. Furthermore, consolidating FM will enable The Building and Property Agency to expose a broader range of functions to market competition which will ensure public services of an even higher quality.

Exhibit 9: Centralising facility management contracting is expected to realise annual savings of 8-13% from 2025.

<table>
<thead>
<tr>
<th>2017: Decentral FM</th>
<th>2025: State-wide FM</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decentral FM contracting:</strong> 18 ministries have ~110 locations with FM contracts</td>
<td><strong>Consolidated FM contracting:</strong> FM contracting is consolidated under The Building and Property Agency</td>
<td><strong>Freeing up resources:</strong> Expected annual savings of 8-13%</td>
</tr>
<tr>
<td><strong>Limited bargaining power:</strong> Bargaining power is limited due to the relatively small size of the majority of contracts</td>
<td><strong>Significant bargaining power:</strong> Increased bargaining power due to the significant size of the contracts</td>
<td><strong>Building up expertise:</strong> Consolidating FM contracting will build area-specific competencies within a single entity</td>
</tr>
<tr>
<td><strong>More competition:</strong> A wider range of functions will be exposed to competition</td>
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WHY INCREASE DIVISION OF LABOUR?

Division of labour can unlock significant value that can be deployed elsewhere for the benefit of citizens.

Division of labour is a key driver of public sector efficiency as it provides the basis for an optimal use of resources and competencies through specialisation and economies of scale. By giving individuals and institutions the opportunity to specialise, a wide range of drivers of value creation are enabled.

By allowing a greater division of labour in government services, a higher degree of specialisation can be achieved. This comes from pooling responsibilities for common or nearly identical functions across government agencies, or allowing for a better digital support of key service functions. Increased focus on specialisation is imperative in order to achieve a more coherent and efficient public sector.

A key payoff from division of labour is increased resilience to shocks or unexpected challenges. State-wide specialisation ensures larger volume, and thus increases flexibility in regards to unforeseen changes in supply or demand.

Besides, specialisation leads to a more efficient use of resources as institutions are able to optimise processes across all sectors, thus supporting the dissemination of best practice performance as well as realising gains from economies of scale.

Finally, a more specialised public sector ensures improved quality of public services by streamlining service levels, which creates transparency through simplification as well as improves decision making by broadening the scope of data and digital solutions.

Exhibit 10: Gains from division of labor | public sector services

- Higher degree of specialization
- Increased resilience
- More efficient use of resources
- Improved quality of public services
OPTIMISING BY SPECIALISING

Four models for public sector optimisation

Increased specialisation is a key driver for enhancing efficiency and quality in core public sector services. One way to achieve specialisation is through better use of division of labour. Today, most public sectors around the world are organised along hierarchical sector responsibilities with a distinct focus on internal processes and little coordination across agencies. Below, four models for understanding increased division of labour are illustrated.

Model A is an example of a typical organisation of government today. Responsibilities are allocated into ministerial hierarchies by sectors, leading to a high degree of control but limited use of cross cutting solutions.

Model B can be seen as first generation of public sector specialisation by utilising private sector insights on shared service centers. These often include administrative tasks, procurement, IT and other support functions.

Model C applies specialisation of various cross-sectional functions, e.g. public subsidies or oversights, thereby enabling new synergies and economies of scale.

Model D is a fully specialised public sector organisation, with only policy and core frontline services kept at ministerial level. This illustrates the most simple, efficient but also digitally demanding public sector available.

The main body of this report has consisted of cases that contain valuable best practice insights from Model C and D across small advanced economies. The cases span different geographies, different digitalisation degrees, and different functions, but what they all have in common is the potential of raising public sector productivity.

With the report we hope to inspire further efforts to ensure that society and citizens get as much as possible out of government expenditure, which in turn strengthens the competitiveness of the country.

Exhibit 11: Models for specialisation of labour

- **A**
  Model A represents the traditional public sector way of organisation with little or no functional specialisation of labour.

- **B**
  Model B illustrates first-wave specialisation, where classical sector-organisation is supported by shared service centers.

- **C**
  Model C maintains overall sector specific organisation, but apply a range of shared solutions for selected core services.

- **D**
  Model D showcases full specialisation of labour across core services and functions, realising optimal resource efficiency.
THE ROAD TO SPECIALISATION

Value is unlocked through digitalisation efforts and careful analysis

The cases presented in this report provide best-practice examples of how public administrations across the globe can utilise division of labour and specialisation to unlock significant value. Thus, the cases are examples of policy initiatives that ease some of the pressure that governments are finding themselves under, whether self-imposed due to high ambitions or as a result of budget constraints.

Not only is division of labour a great means to unlock value tied up in redundant functions and inefficient processes, it is also a great means to deliver better public services to citizens. Whether in the form of a single point-of-contact website for a wide range of public services, or new processes for consolidated administration across ministries, citizens will experience the workings of a smart central administration.

Embracing digitalisation as part of the solution is paramount. Digitalisation helps freeing up resources that can be invested elsewhere, and it can cultivate and facilitate new shared services solutions that contribute to a more well-functioning public sector.

Unlocked resources can be deployed elsewhere in the public sector to the benefit of society, and more contemporary- and efficient services will increase citizen satisfaction with their public sector interactions.

Of course, unlocking the value from division of labour and specialisation entails significant organisational alterations, and the benefits will not materialise from one day to the other. Rather, it is an investment that demands a period of transition where after significant value can be unlocked in the long run and position the administration on par with international best practice examples.

It goes without saying that not all tasks managed by the public sector will be suited for specialisation or digitalisation. Careful scrutiny and in-depth analyses of the given function is a necessity in order to ensure that the road to specialisation is a smooth one that captures value from the initiatives while maintaining the stability and trustworthiness of the public administration.

Exhibit 12: Value from division of labour

- Freed up resources from inefficient processes
- Less complex public sector services
- Resources deployed elsewhere for the benefit of citizens
- Citizens experience a better functioning public administration

Unlocked resources can be deployed elsewhere in the public sector to the benefit of society, and more contemporary- and efficient services will increase citizen satisfaction with their public sector interactions.
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