Coordination practice

CONSOLIDATION OF SUPPORT SERVICES IN ESTONIA

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The search for efficiency and effectiveness via innovative ICT solutions has led Estonia to consolidate financial and payroll accounting and personnel records (support services). The consolidation that started in Estonia in 2009 enhanced vertical coordination. The need for better coordination of financial reporting became urgent due to the financial crisis. Firstly, the crisis showed the importance of a real-time overview of state finances. Secondly, it also urged the Government to search ways to reduce costs. The consolidation project promised both. In addition to technological change the project brought along an important structural change – support services were to be consolidated up to a ministerial level making the ministries "service providers" and their subordinate agencies "clients". The current case study gives an insight into the consolidation project during the period of 2006-2012.

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Preface

This coordination practice is a result of research within COCOPS Work Package 5: The Governance of Social Cohesion: Innovative Coordination Practices in Public Management.

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The COCOPS project (Coordinating for Cohesion in the Public Sector of the Future) seeks to comparatively and quantitatively assess the impact of New Public Management style reforms in European countries, drawing on a team of European public administration scholars from 11 universities in 10 countries.

The specific objectives of Work Package 5 are:

- To search and identify emerging coordination practices and related steering instruments in public management in European public sectors.
- To compile a case study catalogue of such coordination practices with direct utility to public managers and the research community.
- To analyse the functioning of such coordination practices and to assess their value in countering public sector fragmentation and delivering public value.

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1. THE COORDINATION LANDSCAPE	
Main country characteristics: ESTONIA	
General political-administrative structure	Estonia is a small parliamentary democracy with a land area of 45,227 km² and a population of 1.29 million. Estonia regained independence in August 1991. Since 1991, both majority and minority governments have been in power, typically with 2-4 political parties in the governing coalition. The dominating worldview of the coalitions has been neo-liberal as the two main parties carrying the worldview – Pro Patria Union and the Reform Party – have been firmly institutionalised in the political landscape and with a long record in power. The latter has been holding the position of Prime Minister since 2005 and has persisted in government since 1999 (12 years in a row). The formal head of state, the President, has a mainly representative and a ceremonial role. 226 municipalities are responsible for providing public services related to primary and secondary education, social care, spatial planning, local transport etc. 15 county governments function as regional units of the central government. The executive power of the state is in the hands of the government. A central trait of the Estonian administrative system is its reliance on ministerial responsibility. Although the eleven ministries are small, they represent strong administrative actors that have considerable leverage over the issues belonging to their areas of governance. The role of the ministries is mostly confined to policy formulation while the implementation of the policies is carried out by various agencies under their supervision. In accordance with the ministerial responsibility, all public organisations are more or less directly subordinated or linked to specific ministries. Due to the constraints on resources (money, people, expertise), the ministries' capacity to supervise and steer their subordinate agencies' daily functioning is limited. The general framework of vertical coordination relies strongly on ex-ante control mechanisms. Regardless of the investments made into developing the strategic planning, ex-post control tools are often used as an ad-hoc reaction to specific problems. Due to the complexity of the issues handled by the agencies and their frequent monopoly of expert knowledge the influence of agencies on policy-making can be very high. With a hope to foster the vertical coordination through integration and hierarchy, the administrative developments of the last few years have been dominated by mergers of institutions, measures of standardisation, optimisation and centralisation. Since regaining independence, the Estonian state has gone through major economic and administrative reforms. The radical shift of political regime from communism to democracy necessitated changes in the institutional structure of the state. Among other things, it meant reforming the mechanisms of cooperation and coordination in a situation where the

	communist party as a central coordinating power disappeared. Furthermore, Estonia inherited an institutionally fragmented administrative system with a high number of relatively autonomous individual organisations. Consequently, the general trend of reforms over the two decades has been towards aggregating the system and establishing mechanisms for steering, control and cooperation. A weak civil society and a minor role for the trade unions has allowed governments to push through considerable changes quickly and with little consultation. The accession to the EU has also been a crucial factor of administrative development. On the one hand, the administrative capacity requirements of the EU had a considerable influence on the development of administrative procedures and structures. On the other, after gaining the membership in 2004, Estonia has aimed to make maximum use of the EU structural funds, among other things, using the EU financial support for developing its public administration and training of civil servants. In recent years, the global economic crisis has induced government to look for further sources of economy and efficiency within the public administration. All of the reforms have taken place in the context of the very small size of Estonia that has also had a significant impact on the development of its state and public administration. This has been reflected in the constant search for the efficient use of resources, multi-functionality of organisations and positions, a big role for individuals as well as a reliance on informal communication and cooperation.
Coordination discourse	In terms of horizontal coordination, Estonia operates a segmented administrative system where the responsibility for public policies and programmes lies with individual ministries. Such an arrangement is also supported by budgetary and strategic planning frameworks. The central coordinating units in the system such as the Government Office and the Ministry of Finance are equipped with restricted coordinating powers and, in addition, often constrained by limited resources. However, the Government Office that mostly had the identity of a technical support unit to the Cabinet until lately has strengthened its coordinating function. It hosts the units for EU coordination, strategic planning and development of civil-service top executives. The Ministry of Finance with its responsibility for the budgetary process has the strongest coordinating power in the system. Horizontal coordination mechanisms that have been built into the system (e.g. consultation of draft regulations, management of EU affairs) are mostly based on network-type cooperation and in that way reinforce the central role of ministries in deciding over the policies falling to their areas of governance. High expectations have been related to using ICT solutions in fostering the exchange of information and positions between the institutions and to e-government in general. Nevertheless, even in cases where the policy proposals demand an official opinion of the ministries,

	they often take a formal approach and provide detailed positions only on issues directly concerning the issues in their areas of governance. The initiatives of creating more unity within the system have met with institutional resistance and have moved on slowly. Problems due to the segmented system of public administration have become more and more evident. Consequently, there is a call for better horizontal integration of policy sectors and for a whole-of-government approach. As has been recently pointed out by OECD, the Estonian administrative system's ability to work in a "joined-up fashion" has shined more in times of crisis or when a more immediate policy response has been needed than in "business-as-usual" activities. The cooperation on these occasions has relied heavily on personal contacts and informal networks. As a follow-up to the OECD report, the government adopted an action plan for implementing its recommendations. Among other things, it foresaw a continuation with the centralisation of the support services within public administration (mostly accounting and personnel records), strengthening the cooperation of secretaries generals and vice-secretaries generals, supporting rotation within public service as well as reviewing the strategic aims of the government organisations.
Policy area	The organisation of the central government is regulated by the Government of the Republic Act (GRA) adopted in 1995. The highest coordinating power belongs to the political executive – the government. In 2012, there were 13 members in the Cabinet formed by a right-wing two-party coalition. In addition to the Prime Minister, there were 11 ministers heading the specific ministries (Education and Research, Justice, Defence, Environment, Culture, Economic Affairs and Communications, Agriculture, Finance, Internal Affairs, Social Affairs, Foreign Affairs) and the Minister of Regional Affairs, who was located as a second minister in the Ministry of Internal Affairs. The sectoral policies are devised and their implementation supervised by individual ministries. The ministries are the superior bodies ranking above executive agencies, inspectorates and other state agencies. Agencies employ the vast majority of the public-sector employees and spend most of the state budget. Four types of agencies can be identified – government organisations, state agencies, public institutions and private law bodies. *Government organisations* perform state supervision and apply the state's power of enforcement. Ministries with their subordinate government organisations form a well-defined core of public administration in Estonia, which is critical from the perspective of policy-making and implementation. *State agencies* are financed from the state budget, but their main function is not to exercise public authority. These agencies are basically policy-implementation organisations that serve government institutions in the fields of culture, education, research and others. *Public institutions* are more or less autonomous public organisations created by law to serve special public interests (e.g. public universities). Finally, the state can also

	establish or have shares in three types of *private law bodies*: enterprises, not-for-profit associations and foundations. The Estonian public service involves both the civil service (central government) and the local-government service. Only the core of the public administration (ministries, government organisations and county governments) is covered by the open, position-based civil-service system established in 1995. In the rest of the agencies, people work under the general labour law. However, in June 2012, the new Public Service Act was passed in the parliament that restricts the 1995 institutionally based definition of the civil service even more and re-orients the system towards differentiating officials who are engaged in executing the public power and employees who do not have such a function. The goal has been to reduce the number of civil servants. In other respects, the reform endorses further the open and segmented nature of the Estonian public administration and aims to abolish the perceived “disparities” that there are between the civil service and private-sector employment (e.g. in redundancy benefits). The implementation of the law is expected in 2013.

2. COORDINATION PRACTICE: Consolidation of support services in Estonia	
2.1. Substance	
Country	Estonia
Area	Central government
Main characteristics of the practice	At the cabinet meeting of 29 December 2009 the Estonian Government decided to consolidate support services in Estonian public administration. Support services meant financial and payroll accounting and personnel records. Consolidation meant that by the end of 2013 all public-sector organisations would use a common accounting software for support services. The decision involved an important structural change as every ministry was to create central functional unit(s) that provided support services to their subordinate agencies. The main goal of the project was to optimise support services in public administration. A common software (produced by SAP AG – *Systems, Applications, and Products in Data Processing;* referred to as SAP) had to replace 22 different accounting softwares that were in use in Estonian public administration in 2008. An important part of the project was the introduction of e-invoices and e-documents, the creation of an Internet-based self-service interface and links between the accounting software and different core softwares of ministries. The project was expected to improve data quality and availability, to

	reduce costs, to increase transparency and to ensure an operative overview of state accounts and records in a common standardised system. By decreasing the fragmentation of the Estonian public sector accounting the consolidation of support services also contributed to the “whole-of-government” notion. Although the project was generally not referred to as a “reform”, it represented an important step towards the harmonisation of management systems with respect to ICT and reporting systems across the Estonian central government. Proposed by the prime minister and designed at the top ministerial level under the leadership of the Ministry of Finance the project represented both the network and hierarchy types of coordination. While the network-type coordination prevailed during the initiation period when different centralisation concepts were weighed and negotiated, the project-implementation phase can be characterised both by network and top-down coordination.
Background and initiation of the practice	The consolidation of support services in Estonian public administration was not built from scratch. The Ministry of Finance intended to centralise financial accounting since 2003. In that year the General Accounting Rules were adopted (they came into force on 1 April 2004), which were based on international accounting standards. Estonia started to operate a full accrual accounting system that was more demanding for accountants than previous cash-based accounting. As it was not possible to train all public-sector accountants, the quality of financial reports was uneven. In 2006 the Ministry of Finance was supported by the National Audit Office (NAO), which had found that there were altogether 1900 different accounting entities (including local governments) that provided input to the consolidated annual financial report drafted by the Ministry of Finance. The NAO proposed the Government to work out a plan to centralise financial accounting up to the ministerial level. The centralisation of accounting was written into the General Accounting Rules by the Ministry of Finance (the amendment came into force on 8 December 2006). During 2006 the number of central government accounting entities was reduced by 55 (from 375 to 320). In 2007 the Ministry of Finance had the goal to get the number down to 187 by 2008. The process did not go as smoothly as planned – by 2009 there were still 202 accounting entities. The centralisation brought out technological constraints. The analysis of the Ministry of Finance revealed that in 2008 there were altogether 22 different softwares in use for financial and payroll accounting. The Ministry of Finance suggested the adoption of a common accounting software (SAP). This would have enabled the automatic consolidation of information and a real-time overview of accounts. The other ministries and agencies were reluctant to drop their accounting softwares as these were chosen (and further developed) according to their specific needs. Accountants

	preferred using their "own" accounting softwares and the Ministry of Finance was not in the position to impose the SAP. Although the Ministry of Finance promoted the general adoption of SAP different accounting softwares remained in use. The global financial crisis that started in 2008, however, opened a window of opportunity for the Ministry of Finance. A new plan that foresaw the creation of three Shared Service Centres with a wider range of support services than just financial accounting was drafted. In addition to central government also local governments were seen as future clients of the Shared Service Centre. Finland (Kieku programme) and United Kingdom were taken as good examples of successful Shared Service Centre creators. The preliminary analysis indicated that Shared Service Centres could save up to 2/3 of relevant costs. The reform implied a reorganisation of work and a reduction of staff (mostly accountants) working within the public administration. The drafters of the plan were convinced that in order to succeed the reform must be radical (Big Bang) and compulsory for all public-sector organisations. After several Cabinet meetings in 2009 the radical plan was finally watered down as the views of the coalition partners diverged. The final decision was a political compromise. The consolidation of support services had to take place within the existing institutional framework. However, together with financial accounting also payroll accounting and personnel registers were to be consolidated. The Ministry of Finance was given the mandate to start with the consolidation process according to its tight timetable and to introduce a common accounting software (SAP) and all relevant ICT solutions (incl. e-invoices, e-documents and an Internet-based self-service portal) in all ministries by the end of 2013.
Timeframe	The consolidation of support services that was based on the Cabinet's meeting decision of 29 December 2009 started in 2010. The project was connected to the previous centralisation of financial accounting that started in 2006. The project implementation phase was preceded by the chaotic year of 2009, throughout which the Ministry of Finance sought the Cabinet's mandate to act and tried to find acceptable solutions for consolidation. The project finally agreed upon was initially supposed to end by December 2013. As unexpected drawbacks emerged the project lagged behind its initial schedule and was not finalised by the initial deadline. *As the project was ongoing at the time of writing the cut-off date is 30 November 2012.*

2.2. Structure and actors	
Basic features	The implementation of the consolidation project started in 2010. The consolidation had to reduce the number of accounting entities from 202 to 17. According to the consolidation timetable the process started with the ministries that were already using SAP. Special interministerial working groups discussed the details and solved emerging problems. The representatives of the Ministry of Finance helped to prepare the consolidation within ministries and coordinated the creation of necessary ICT solutions for the system. Although the Government had not approved the Ministry of Finance's plan to create a Shared Service Centre, the rhetoric of "clients" and "service providers" remained in use. The centralised units (usually enlarged accounting and personnel departments of ministries) were called "service providers" and ministerial agencies whose financial and payroll accounting and personnel registers were to be centralised were called "clients". In order to determine and to divide specific functions and responsibilities between service providers and clients functional models were drafted. The client the retained final responsibility over transferred functions. In principle the system intended to emulate private-sector subcontracting practices. Soon after the implementation started the problems emerged. The needs of different ministries and agencies varied to a great extent. Their accounting systems were developed according to their specific requirements and accounting departments provided managers with tailor-made financial reports. In order to consolidate the system the functional models had to cover all functions. As the functions were different in every organisation, it was not possible to create a coherent system retaining all differences. By 2011 it was clear that more standardisation was needed in order to proceed with consolidation. All ministries had their particularities, and it was not possible to include the existing variety into the SAP programme. One of the important questions that arose concerned the type of reports agencies needed for their management decisions. As agencies whose support services were to be consolidated lost their access to the accounting data, it was important to clarify the form and content of reports that they would get from the service provider. Another drawback concerned the ICT. E-invoices were not implemented and the Internet-based self-service interface was not ready. Therefore there was much duplication of work. Additionally, the Ministry of Finance discovered that the SAP version had an upgrade. The new version of SAP offered better functionality and therefore the Ministry of Finance decided to introduce the new version. The ones that had already adopted old SAP were given

	time before they also had to introduce the upgrade (an automatic switch was no possible). On a personal level the process sparked tensions, confusion and hostility. A lack of clearly stated goals and agenda caused communication problems. The Ministry of Finance faced resistance from other ministries and ministries which were responsible for the consolidation of support services of their subordinate agencies faced resistance from their agencies. Although the main conflicts were usually solved at the highest level (secretary generals or vice secretary generals of ministries), the consolidation process was far from smooth. During 2012 the Ministry of Finance tried to solve the problems that had emerged in standardisation and ICT development, and the consolidation process was paused. The Ministry of Finance also started to align budgeting principles with accounting principles as it was seen that the accrual-based accounting system was not giving much information about cash-based budget.
Main tools	The consolidation of support services and the introduction of a common accounting software were based on a Cabinet meeting decision and gave the Ministry of Finance the mandate to introduce a common software (SAP) in all central government accounting unities. Although the Cabinet's meeting decision was not a legal act, it was considered to be a sufficient basis for mandatory consolidation. Reducing public-administration costs and improving efficiency was the major concern of the project. The project was based on best practices taken from other countries and instead of context-specific policy creation and evaluation of alternatives the focus was on a quick implementation of the project. The consolidation of support services in Estonian public administration represented a structural coordination instrument. The underlying mechanism of coordination was hierarchy. However, the coordination practice lacked important features of hierarchy-type coordination mechanisms, such as rules, procedures and formalised communication lines. The project preparation phase was informal with partners chosen by the Ministry of Finance. There was no public consultation phase, partly because the project was perceived to be only an administrative issue. During the project initiation and negotiation network-type coordination was used. The implementation stage was characterised by top-down coordination and low participant autonomy. However, the creation of interministerial working groups helped to prepare and implement consolidation and created networks of specialists. ICT solutions were central to the practice. It was believed that the adoption of a common accounting software and the introduction of other e-solutions

	would lead to the coherence of the system and enable better management and an overview of all public-sector accounts.
Main actors	The change agent of the consolidation project was the Prime Minister who proposed for the Ministry of Finance to work out a plan for the centralisation of financial accounting. As the matter was discussed outside the official Cabinet meeting agenda, the Prime Minister used an informal framework to initiate the policy. The central actor in the process was the Ministry of Finance, which drafted a preliminary analysis and led project preparation and consequent implementation. During the project-preparation phase the Ministry of Finance used an informal communication, negotiation and decision-making structure. In order to proceed with the project the Ministry of Finance needed the support of Ministers. As there were different views in the Government *(concerning, for example, the issue whether or not to create a Shared Service Centre and to adopt SAP as a common platform)* the Government's final decision *(which was a watered-down version of the initial project)* represents a political compromise. The Cabinet Ministers themselves represent a network coordination structure at this case. In addition to politicians the top civil servants of the ministries had to support the project. Furthermore, the Ministry of Finance expected the secretary generals to promote the project in their respective ministries and to communicate the information down in the hierarchy of their organisation. The Ministry of Finance used informal networks to reach agreement on the project plan with the secretary generals and also continued to use the network for solving the implementation problems. During the project implementation phase the role of (agency) leaders and accountants opposing the project became important. Overt and covert resistance and tensions made the implementation of the project problematic. As the participant autonomy was low, the resistance, however, could not revert the consolidation process that was based on coordination by hierarchy. Enabling factors were also the financial crisis that peaked in 2009, pushing the Government to consider all possible saving measures, and the virtually non-existent trade union and weak civil-society culture that precluded public resistance to the project. Finally, the media did not pay much attention to the project and provided no comprehensive analysis or criticism of the project.

2.3.	Impacts and effects
	As the process is ongoing, the final results remain to be seen. The project period has been prolonged from the initial 2013 to 2015. Currently the main promises of the project to reduce costs and to automatise ICT systems have not been fulfilled. The consolidation process has been smoother in those organisations that had dealt with centralisation prior to the current project. Also these organisations that were already using the SAP accounting programme managed the consolidation process better than the others. The standardisation process turned out to be more complicated and time-consuming than was initially estimated as organisations had different expectations on the content and form of the financial reports. Some agencies have decided to keep additional registers “for their own use”. The problem tends to be that they cannot get the reports with the same level of detail from the consolidated system or they do not trust the accounting done in the centre. This creates duplication. The leaders of subordinate agencies of the ministries were generally the most hostile towards the consolidation initiative as this process reduced their power and influence. The consolidation process has resulted in the new distribution of competences creating large professional departments within ministries and removing the traditional accounting expertise from other public-sector organisations. The effects of this process on the regional development have not been analysed yet. The public-sector accountants will lose their civil-servant status after the new Public Service Act comes in force in 2013.
2.4.	**Lessons learned and policy recommendations**
	Although it is too early to draw the final conclusions since the project is ongoing, the practitioners can still learn from the preparation and the initial implementation stage of the Estonian support-services consolidation case. Firstly and perhaps most importantly, the project suffered from the lack of an adequate ex-ante analysis and thereby the goals of the project were unrealistic. Instead of considering the specific Estonian context the world’s best practices were used for benchmarking. An impartial ex-ante impact assessment of the project could have contributed to setting more accurate goals. Engaging in public consultation could have also contributed to the project preparation via constructive criticism.

	The purpose and goals of the project must be understood and accepted before the implementation process starts. The current case has shown that an inadequate communication creates confusion and resistance. Missing ICT solutions and standards have hindered the implementation of the project and created unnecessary confusion and tensions. Therefore the sequence of tasks must be logical and contribute to the achievement of the final goal. In the case of the support-services consolidation project it was evident that at least the e-invoices and e-documents should have been there first. If the project involves an important technological change and training of the end users, the IT support is needed before, during and after the consolidation phase. Many questions and problems tended to come up after the new software was introduced. During the consolidation process accountants were overloaded due to the duplication of work and suffered emotionally due to the hostility and resistance of the subordinate agencies towards the consolidation. Therefore accountants should get sufficient technical assistance and guidance during the consolidation period. If a reform breaks the existing internal control system, it has to be assured that new controls replace the broken links. The division of functions and responsibilities between the “service provider” and the “client” must be clear and understood. The NAO has noted in its audits that after the consolidation of the financial accounting neither the service provider nor the client assumed full responsibility for the correctness of the accounts. The expected economies of scale were not attained as even after the consolidation every organisation had to retain at least one financial specialist to deal with financial issues and budgeting. The extent of standardisation of financial reports has led some organisations to create back-up databases for their own information needs. This works contrary to the whole idea of simplification and standardisation. Therefore the leaders should get training about the content and possibilities of new reports.
2.5. Further information	
Data and references	The case is based on interviews with representatives of the Ministry of Finance, the National Audit Office and ministries. It also relies on documentary analysis of project background materials presented to the Cabinet meetings by the Ministry of Finance, 2009 (not publicly available). Project documentation. Available at http://www.fin.ee/?id=101002 and http://www.fin.ee/riigi-tugiteenuste-keskus. National Audit Office. 2006. Ülevaade riigi vara kasutamise ja säilimise

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