

Closing down or merging Arm's Length Bodies

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Introduction

Regardless of the outcome of the General Election all three main political parties have committed themselves to reducing the number of arm's length bodies (ALBs). Is government ready to take the tough decisions necessary and prepared to deal with the wider implications of such an agenda? Are civil servants experienced at implementing these decisions effectively?

Key points from David Taylor (Deloitte)

There are a number of restructuring truisms that it is vital to bear in mind.

1. Closing an ALB doesn't necessarily save money
 - You have to action the "stop doings"
 - There are costs involved
 - You probably can't stop everything
2. Stopping doing things is painful and difficult
3. The skills and motivations required to lead business-as-usual aren't those required to restructure it
4. Restructuring skills will not be abundant in the incumbent management
5. Turkeys don't vote for Christmas
6. If only relatively small improvements are required, cost reduction is less disruptive
7. Savings don't just happen, they have to be the centre of attention
8. Unless you keep monitoring you will get cost re-growth

Experience shows three key factors can make restructuring successful at both a programme and project level.

1. Clarity of purpose

- Clearly define the policy objectives
- Balance delivering policy and creating an effective organisation
- Clearly articulate the rationale for the restructure
- Select strong leaders
- Build the programme framework for the restructure
- Define and implement the top-level organisation structure ASAP
- Identify costs and drive to manage them down as quickly as possible

2. Control

- Don't let the programme divert attention from managing day-to-day operations
- Appoint your best resources to managing the programme
- Implement robust planning and programme management processes
- Make planning and reporting frameworks as practical as possible
- Tackle risks and issues quickly and take the tough decisions early
- Track metrics rigorously and ensure only one set of numbers

3. Managing people

- Recognise that restructuring increases uncertainty and ambiguity for employees
- Implement the new organisational design ASAP
- Prepare the HR team early on and ensure it is skilled and fully resourced
- Identify cultural issues early
- Recognise that the skills for winding down businesses are different from those required to grow the business
- Plan for change at all levels
- Implement best in class communications

Key points from Mark Watkinson (Hay Group)

It is important to start with a fundamental review of the business model. Is the ALB still needed in its current form?

- What is the *core purpose* of the ALB?
- What is the *demand* for the ALB's services? Points to consider include target customers, customer relationships and delivery channels.
- What is the ALB's *delivery network*? Points to consider include core capabilities, partner network and delivery mix.

The context within which the ALB operates is also a key consideration

- Statutory / legal basis for ALB – will legislation be required?
- Strategic context – how does this ALB's purpose relate to others?
- Operational context – what are the operational links to other organisations?
- Value created – how does this ALB create value?

There are four broad options for major organisational change of an ALB, each of which leads to a number of questions

- Abolish: Re-deployment of workforce? Adverse impact on other stakeholders?
- Reduce: Impact on staff, workload and capability? Service offer and quality?
- Merge: Clear shared vision? Cultural alignment? Value add? Synergies?
- Transform: Radical versus Incremental? Make – buy- partner? Resistance to change?

Regardless of which option is pursued, the people issues are often the difference between success and failure

- Individual and team competence
- Reward and recognition
- Management systems and processes
- Organisation, team and job design
- Work processes and business systems
- Values and culture

Key points from the discussion

Is there a tension between leadership continuity and bringing in the appropriate change management skills?

- Important to consider the individuals involved and their specific skills
- Experience from the private sector suggests that outsiders are four times more likely to lead a successful merger than the incumbent management
- Likely that the most appropriate answer will be a combined team including some existing management and outsiders brought in to help fill particular skill gaps

In a merger situation the cultures of the different organisations is very important. How can cultures be assessed objectively in advance?

- Bring the different management teams together early in the process to help them understand their own cultures and what the main differences might be
- In the private sector sometimes cultural differences are so significant that this is enough to derail a possible merger. In the public sector it is more likely that the merger will happen anyway so this helps make sure the process runs as smoothly as possible

How long would you expect a major merger to take?

- Although every situation is different it is wise to expect the process to take at least a year (but not longer than 24 months).
- Important to have a solid plan for the first 100 days, including quick wins
- Embedding change must continue after the actual merger has taken place. This is usually the job of a dedicated post-merger integration team
- Risk is that it will drag on. From previous experience, most permanent secretaries wished they had moved faster on merger / closure of ALBs

There is likely to be political pressure to reduce the number of ALBs. How can civil servants broaden this debate?

- Being clear about the *purpose* of any plans for ALBs will be helpful (e.g., cost reduction, cashable savings, performance improvement) . This will allow a proper business case to be written on that basis
- Scope creep can be a problem, with additional benefits being included over time. This should be avoided as it is better to have a tight focus on a small set of benefits from the beginning of the process

What role should non-exec boards play?

- As for the executive team it depends on the particular skills and attitudes of the individuals

- From private sector experience can sometimes be a catalyst for change and sometimes be a roadblock that needs to be tackled

How do the issues differ when one of the organisations is much larger (e.g., when an ALB is subsumed into a department)?

- In these cases don't forget about the attitude of those working in the department. Just as for more 'balanced' merger need to consider both sides

What issues should be considered when outsourcing?

- In the current economic climate there is going to be less appetite from the private sector to take on activities. Will therefore need a very strong business case
- TUPE in particular is likely to be a stumbling block
- Be clear what the benefits are. For example, reducing headcount can often lead to increased costs if the same people are simply rehired as outside contractors