Corporate Recovery and Strategic Turnaround in Local Government – A Comparison with Strategic Turnaround in the Private Sector

Martin Jones and Peter Murphy
Nottingham Business School
Why Study English Local Government

- A unique environment with its own rules, regulations, structures and funding arrangements (Wilson and Game 2006)
- Elected representatives separate it from the private sector and other parts of the public sector (Rhodes 1988, Leach 2006, Pratchett 2004)
- "semi-independent, politically decentralised, multifunctional body created by and exercising responsibilities conferred by Parliament". (Wilson and Game 2006 p 93)
- Complex organisations providing multifunctional and unrelated services (Worrel et al 1998)
Objectives of the Research

• Drawing on research currently being undertaken by the authors into strategic turnaround in English Local Government, this (and subsequent) papers seek to:
  – Identify the themes and approaches to corporate turnaround emerging from literature in the private sector
  – Through case studies of English local authorities, identify whether there are any similarities or differences in approaches taken to strategic turnaround

• This paper is based on research being undertaken by the authors into strategic turnaround in English local government as a result of the CPA performance assessment regime undertaken by the Audit Commission between 2002 and 2009.

• One of the authors is undertaking a doctoral study into the subject area and the other was previously a lead official within the CPA regime
Private Sector Self Regulation

The Public Sector Does not have a single measure of success or failure
- Disconnect between choice and price
- Lack of choice of delivery agent
  - Financial?
  - Outputs?
  - Impacts?
  - Equity?
  - Legal requirements?
  - Political success?
  - etc

Organisational Performance Measurement
- Success or Failure
- Ability to service capital
- Ability to finance working capital
- Return on Investment
Strategic Turnaround

- An increasing field of study in the private sector
- Globalisation, advances in technology, the cost of capital, increasingly competitive and complex business environments and the increasing number of bankruptcies
- Definitions:
  - the actions taken to bring about a recovery in a failing organisation (Pandit 2000).
  - decline followed by performance improvement (Schendel et al 1976, Robbins and Pearce 1992)
  - ‘a process that takes a company from a situation of poor performance to a situation of good sustained performance’ (Brandes and Brege 1993, p92).
- Very little literature in local government and little on the sustainability of recovery and turnaround.
Literature Review and Conceptual Frameworks

Overlapping Fields

Strategic Management

Leadership

Public Sector Strategy

Local Government

Strategic Turnaround

Performance Management

Local Government Turnaround
Aspects of Strategic Turnaround (Private Sector)

- **Operating versus Strategic Turnaround** (Hofer 1980)
  - Strategic = new business models
  - Operational = focus on reduced costs/increased revenues
  - Turnarounds fail if operational used when strategic required
  - Need to understand the cause of decline

- **Strategic Adjustment or Strategic Change?** (Snow and Hambrick 1980)
  - Using familiar responses (Cyert and March 1963)
  - Overlaying past successes – over learning (Starbuck et al 1978)
  - Roast Pig (Moss Kanter 1983)

- Turnaround is a distinct phase of strategy
  - An episode in an organisations lifecycle (Mintzberg and Walters 1992)
  - If organisations were good at strategy they would not be failing
Process of Strategic Turnaround (Private Sector)

• Realignment (Filatotchev and Toms 2006)
  – Bringing together internal and external stakeholders at an early stage
  – Does the organisation have the facility to enter retrenchment?
  – If not give up

• Retrenchment followed by Recovery (Hofer 1980, Robins & Pearce 1992)
  – Efficiencies through downsizing etc – operational turnaround
  – Longer term market focus – strategic turnaround

• The role of the change agent (Khandwalla 1983)
  – Credible
  – Mobilising the organisation
  – Participative rather than ‘terror tactics’
  – Building and rebuilding links to external stakeholders
  – Sharing and open cultures
Situational Factors

- Luck and Timing
- Organisational size
  - can absorb shocks if larger
  - can put off the need to turnaround if larger
  - But rigid structures can constrain
  - And can miss the triggers of decline
- Environmental factors (causes and constraints)
- Factors of decline can impact on recovery - severe and rapid erosion of resources
Local Government
Causes of Poor Performance

Self Regulating v permanently failing organisations (Jas and Skeltcher)
- Performance fluctuates over time
- Where in control then self regulating
- Where lack the necessary skills then permanently failing

• Cognition, Capability, Capacity (Turner and Whiteman)
  - Identifying that poor performance exists
  - Having the right leadership skills
  - In sufficient quantity

• Stress Rigidity or Threat Rigidity
  - Becoming retrenched against the changing environment
  - The fallacy of past successes

• Situational Factors
  - Culture
  - History
  - Politics
Local Government Strategic Turnaround

- Replacement, Retrenchment, Renewal (Boyne 2004)
  - Key members of the leadership are replaced
  - Short term actions taken to address crisis triggers
  - Longer term actions necessary to improve performance

- Twin Track approach (Paton and Mordaunt 2004)
  - Old blood mixed with new blood
  - Negatives (eg cut backs) run concurrently with positives (eg investments)
  - Centralising financial control while decentralising in other areas to foster involvement
  - Leadership creates capacity to change rather than directing change

- Avoid reductionism (Paton and Mordaunt 2004)
  - Recognise the complexity of the environment
  - Runs counter to simplification arguments proposed for the private sector (Baden-Fuller and Stoppard 1994)
Conceptual Frameworks

• From the literature 3 key contributors to sustained turnaround were identified
  – Leadership Approach
  – Strategic Approach
  – Turnaround Approach

• Elements that could have a positive or negative impact on sustained turnaround were also identified
The Case Study Organisation

- A small English District Council
- Initial CPA Score Weak
- Moved to Excellent in 4 years
- Key Informant Interview
- Current Chief Executive
- Long Standing Employee
The Case of a District Council

• Cognition
  - No recognition that the council was weak or the reasons why
  - Self assessment prior to CPA scored as “fair”
  - Actual CPA assessment was “weak”
  - Met with shock and denial, then a desire to improve

• Permanently Failing
  - Lack of cognition meant unable to recognise change was needed
  - Inward looking, lacked wider awareness
  - Dysfunctional leadership and management teams
  - “Officer led” with members disengaged from the strategic process
  - Despite allegedly “powerful” political leader
First Phase

- Realignment
  - Elected Leader and CEO exited the organisation at an early stage
  - Member instigated request to review and resolve situation
  - Interim CEO (Intervention)
  - New Leader
  - Member training programme
  - Streamlining of management team/executive
Second Phase

• Retrenchment?
  – Not as for private sector
  – Some causes of poor performance:
    • Accumulation of significant balances
    • Poor service provision and customer care resulting from lack of investment
    • Poor of staff satisfaction
    • Poor member engagement and governance
  – Balances used to invest in:
    • Customer contact centre
    • Member development training
    • Staff engagement programme
    • Customer care initiative
  – Could this result in current problems as cost cutting measures largely not required?
Operational v Strategic Turnaround

• Operational Turnaround
  – Main focus as operational weaknesses had taken on strategic significance
  – Focus on customer contact centre and business process re-engineering of customer care aspects
  – Changes to governance processes
  – Attempt to change culture
  – Some reorganisation of management teams

• Strategic Turnaround
  – Came later on
  – Strategic plans developed but lengthy and process based
  – Now evolved to position where strategic planning is more embedded, outcome focused and evidence based (state of the district review)
  – Members now engaged with strategic process and advised by officers
  – 5 year plan on one side of A3
Leadership

- Initially fractious and dysfunctional; transactional and defending
- New “Leader” allowed changed officer/member relationship
- Interim CEO and short time permanent CEO acted as change agents (tough decisions, laid foundations)
- Current CEO from within the ranks, more stability, but still transformational rather than transactional

Strategic Adjustment? - No

- Did not overlay past solutions/successes as there were none – previous threat rigidity
- Fundamental change of approach
- Operational changes precursor to cultural shift allowing more robust strategic planning processes to be embedded
- “Quick wins” used to promote the change programme (Contact centre, Staff satisfaction, MJ awards, CPA etc)
**Situational Factors**

- Historical factors had led to entrenched position with lack of cognition
- Internal issues led to the poor performance rather than external factors
- Organisational culture developed out of the above
- External trigger of CPA to promote change

**Other Aspects**

- Turnaround as a distinct phase? – Yes
- Self regulating? – Not at first but now following evolution
- Capability and Capacity – Cause of failure but now improved through training and evolution
- Twin Track Approach – Yes, facilitated by intervention programme and use of external “friends” eg PCT, University partners
- Reductionism – focused at first but now based on complex outcome based approach
Conclusions

• Many similarities between findings in the private sector and the local authority case study examined

• Some differences, in part due to contextual issues