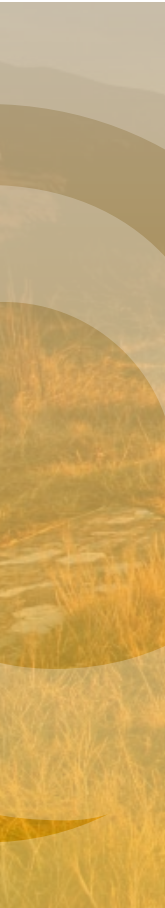


Commissioned by



Public sector M&A?

Examining the parallels
between public and private
sector restructuring



Foreword

It gives me great pleasure to introduce this report.

Xantus has worked with many public and private sector organisations over the last ten years, helping them achieve substantial change by ensuring that their information technology is aligned to their business strategy, can adapt to new circumstances and delivers value.

Nowhere are these facets more important than during the upheaval and disruption caused by restructuring. As this report argues, although the motivation behind restructuring in the public and private sectors is often very different, the practical challenges posed are very similar. Restructuring requires careful planning but, once announced, needs to be implemented swiftly. The new organisation needs to be predicated on creating value, not simply cutting costs. Decisiveness and leadership are everything: while it is important to bring your people with you, you need to show them, clearly and unequivocally, where to go.

The best CIOs and senior IT managers with whom we work exhibit these skills. Rather than taking a back seat during a merger or acquisition, they are in the forefront, ensuring that the new organisation has the technology it needs. In the public sector they play just as crucial a role: technology costs may be one of the biggest components in restructuring, but they are also – in our experience – one of the most controllable.

We hope the guidance contained in this report proves helpful.



Steve Watmough

Chief Executive, Xantus

Executive summary

All governments tinker with their structure, but as a recent report by the National Audit Office has shown, UK governments tinker more than most and more radically. The new government is unlikely to be any different: even if it resists the temptation to change the main Whitehall departments, restructuring the plethora of non-departmental public bodies in order to cut costs is inevitable. Yet, ironically, as the NAO report makes clear, changes to the “machinery of government” aren’t cheap.

Such changes are usually considered within the context of the public sector, looking, for example, at the Prime Ministerial prerogative to announce them. This report takes a different tack, arguing that we can analyse machinery of government changes as the public sector equivalent of private sector mergers, acquisitions and divestments.

We asked a wide range of people who have experience of restructuring in both the public and private sectors, but who are also able to provide an external, independent perspective, to comment on the similarities and dissimilarities. Of course, private sector experts do not have a monopoly of good ideas, nor is all private sector restructuring successful. However, the best examples demonstrate useful lessons which may help the public sector reduce the costs of change.

The purpose of this report is to identify those lessons and examine how they may be adapted to a public sector context.

While the intent behind public sector restructuring may be different to that in the private sector, its practical execution has many parallels, from challenging organisations to define their *raison d’être*, through business continuity to internal communication. Three crucial lessons stand out from our conversations: the need to focus on creating value, not just cutting costs; the importance of being able to connect the very top of the new organisation to its front-line staff; and the role of decisive, sometimes dictatorial, leadership.

Nowhere are these lessons more valuable than in the way technology is managed. Private sector organisations know to their cost that incompatible systems can have a serious impact on the time and effort involved in a merger or acquisition. But this problem pales into insignificance compared to grandstanding by uncooperative suppliers and managerial indecision. Of the three major costs incurred during a restructuring process – people, property and technology – those associated with technology are the most controllable and our report provides a small number of simple precepts to help public sector organisations do this, including:

- Carry out due diligence of the IT systems before restructuring.
- Finding smart ways to share some of the efficiencies in the new structure with your top-performing IT suppliers.
- Ensuring that the most senior people in the organisation fully understand the scale and complexity of any technology issues. Don’t be tempted to deliver only good news.
- Working directly with the staff delivering IT services.
- Planning carefully, but acting quickly, decisively and fearlessly.

Part 1: Restructuring in the public and private sectors

Between a rock and a hard place

With the National Audit Office's report, *Reorganising Central Government*, just published, politicians of all shades will be wary about suggesting that restructuring government departments is a viable way to improve efficiency.

This will constitute a significant shift for whichever party is in power after the election. The NAO counted more than 90 such changes to the "machinery of government" between May 2005 and June 2009, more than 20 a year on average. It also noted that this appears to be a peculiarly UK phenomena: 25 new government departments have been created here since 1980 (13 of which no longer exist), compared to just two in the US, both of which still exist. From the 51 organisations included in the study, it estimated these changes cost more than £780 million, much of which fell into three categories: people, technology and property. "The value for money of central government reorganisations cannot be demonstrated," the NAO concluded, "given the vague objectives of most such reorganisations, the lack of business cases, the failure to track costs and the absence of mechanisms to identify benefits and make sure they materialise."

Yet, although the evidence against restructuring may be compelling, there are several reasons why the pressure to do so will be hard to resist:

- Almost everyone accepts that there is considerable scope for simplification. "What can be the justification for having more than 150 primary care trusts?" asks Alan Downey at KPMG. "The resulting fragmentation makes it hard for any single trust to establish a critical mass of skills in all areas." The current Government has already set its plans in *Putting the Frontline First: Smarter Government*¹, listing around 750 "arm's-length bodies": "ALBs fulfil a valuable purpose, and in most cases their arm's length relationships with government strengthens their ability to deliver services that are highly effective and impartial, and represent good value for money. Nevertheless it is right for the Government to consider whether some bodies could be reformed to achieve improvements in service delivery

and greater value for money through rationalisation." The Opposition have seen the opportunity, too: "In too many cases [quangos] have got bigger and bigger," David Cameron has said. "They spend about £64bn a year, they start having their own communications departments, their own press officers; they start making policy rather than just delivering policy – and their bosses are paid vast amounts of money."²

- It is equally widely recognised that the scale of the public sector deficit means that cost-cutting is essential and the "Smarter Government" initiative recognises the scope for saving money through structural changes such as the implementation of shared services. "There will have to be structural change in the future, given the push for efficiency," says David Yip at Xantus. "Shared services are being advocated throughout government. The question is how they will be implemented efficiently, but without involving programmes that are either too big or too complex to execute quickly and which might delay the delivery of the benefits."
- Consolidation is commonplace outside central government, particularly in the health and education sectors. Since 2004, the Higher Education Funding Council for England has provided guidance on mergers for institutions under its purview: "Institutions are responding to the challenges of a rapidly changing higher education environment," it commented, "and some are discussing mergers and other forms of alliance."³
- Moreover, there are examples of very successful restructuring exercises. In 2006, the NAO itself praised the way in which five different regulators were brought together to form Ofcom. "The creation of Ofcom was a significant achievement given the complexities involved in merging five different bodies," it concluded. "This required decisive leadership, as well as rigorous management of the physical integration of the organisations and maintaining normal business. By approaching this merger as the creation of a new entity, rather than just the fusion of the five previous bodies, Ofcom has responded to the Government's ambition to create an entirely new style of regulator."⁴

¹ <http://www.hmg.gov.uk/media/52788/smarter-government-final.pdf>

² 6 July 2009, as reported by the BBC

³ http://www.hefce.ac.uk/pubs/hefce/2004/04_09/

⁴ http://www.nao.org.uk/publications/0506/the_creation_of_ofcom_wider_l.aspx

- Unprecedented pressure on costs, viable alternative models and the size of the public sector deficit contribute to a debate about what government is for and what role the private sector may play in the future when it comes to the delivery of public services. “Shared services is just one example of how the public sector is already starting to think about the way in which it can generate capital value while achieving annual reductions in costs,” argues PwC’s Neil Sutton, “and it’s quite possible that this will evolve into the creation of profit-making entities in which private sector investors could take a stake, while taxpayers reap some of the benefits.” France, he points out, has a fund used to invest in state-owned assets to preserve and generate value in those assets.

Restructuring would be worth it in some parts of the public sector, particularly health, but the government should be wary of fiddling in too many areas because the costs and disruption can be colossal

– Alan Downey, KPMG

At some point, realism has to set in, with the recognition that you can’t cut costs by 15-20% while still maintaining the quality of the services you provide in the current structure

– John Highton, The Berkeley Partnership

It was almost exactly these pressures which, in the early 1990s, meant that private sector companies started to abandon notions of vertical integration in favour of concentrating on their core business. The result has been extensive restructuring, consolidation and divestment activity over the last 20 years. In this context, it might be helpful to think of Whitehall – and indeed other public sector institutions – as the equivalent of conglomerates, with some assets that may need to be sold off in order to streamline the focus of the organisation or raise cash, and with others that may need to be combined in order to reduce duplication. Thames Valley University, for example, has invited other education institutions to bid for Reading College in a process that has direct parallels in the private sector.

The private and public sector parallels

There are, of course, ways in which the public and private sectors are very different, especially when it comes to the drivers of, and motivation behind, restructuring. Moreover, the track record of private sector companies is very mixed so far as restructuring is concerned. However, many of the practical challenges of making the restructuring work in practice are common to both. Our aim here is to highlight some of the areas where the best experience in the private sector may be usefully adapted to a public sector context.

The differences...

The remit of public sector institutions is set by political dictate, not market forces. In the private sector, restructuring decisions are driven by business imperatives and the shape of organisations is therefore driven by customers and competitors. “Contrast that with the public sector,” says Gary Ashton at ER Consultants. “There, organisations are given terms of reference and tasked with meeting certain objectives when they’re established, but there is no continuous fight for survival, as there is in the private sector.” The result is sclerosis: the accumulation of obsolete organisations, the prime aim of which is to justify their own existence.

The prime motivation behind mergers and acquisitions in the private sector is financial: companies are seeking to increase their market share by eliminating competitors, to grow through common or complementary products and markets or to achieve economies of scale perhaps by sharing infrastructures or amalgamating back office functions. For all the lionisation of business leaders, they are not the result of personal whims but are subject to the rigorous scrutiny of investment committees and the acceptance of shareholders.

Those areas of the public sector where we see the greatest restructuring activity, notably health and education, are both areas into which some degree of competition has been introduced. Universities compete for students and research grants; high-performing PCTs are able to sell services to less efficient ones. This is not the case with central government departments. Although the debate about the involvement of the private sector in the public services may change this in the future, there are currently no obvious competitors for the major functions of the state or ways in which they might grow their “revenue”. The official reasons for changes to the “machinery of government” therefore tend to focus on effectiveness and efficiency. The decision to split the old Department for Education between the Department for Children, Schools and Families (for education up to 18) and the (now defunct) Department for Innovation, Universities and Skills (for post-18 education), was based on the idea that policy and service delivery would

be better if focused on specific groups of people. Curiously, though, the thinking didn't extend to the Department for Health, where child health remains integrated in adult health. The creation of HM Revenue & Customs, in 2005, stemmed from a view that similar functions (the collection of tax) could be amalgamated, reducing duplication and costs.

"The problem with this way of thinking," says Capita's Paul Myers, "is that there isn't so much duplication in government. Departments aren't competing to offer the same products in the way that private sector companies may be doing, so the scope for efficiencies lies mainly in the back-office functions." Keith Bissett at the Bourton Group agrees and argues that the problem is reinforced by the lack of a clear "winner" in many public sector transactions. "The acquisition of Cadbury's leaves Kraft with two head-offices, one of which it can close down saving tens of millions each year. Central government restructuring usually takes the form of mergers, so there is much less scope to make one set of costs disappear."

The lack of a clear winner has other implications, too. If a private sector acquisition gives a company redundant capacity or products which don't fit, the obvious solution is to sell or close down these business units, and move on. In the public sector, it is harder to agree a basis on which functions can be dropped. That's something Abdul Uddin, at Hay Group, has seen a lot of in practice, working with various local authorities: "There are meetings and meetings in which nothing happens, because all the senior people are at the same level. The best they can typically achieve is shift costs round between them rather than make any more radical change. No one wants to be a loser."

Look at the higher education sector: the successful initiatives were the takeovers of small institutions which lacked financial viability by much larger, more sustainable ones. They weren't mergers

— Andy Shenstone, Oakleigh Consulting

...and the similarities

Despite these differences at a strategic level, there are many parallels between private and public sector restructuring when it comes to execution. Of course, these vary depending on the type of restructuring and the legal status of the relevant public body. Forensic Science Service, for example, is a government owned business providing forensic science services to the police and other law enforcement agencies which was spun out of the Home Office in 2005. As it had no underlying legislative framework and was not a statutory body, the transfer of its business to a new government company was very like the transfer of private sector assets. "It was the equivalent of a business or asset transfer which required

the deployment of the usual tools and disciplines that are used in the private sector," says Neil Palmer at the law firm, Field Fisher Waterhouse, "Other changes are very different and take place against a backdrop of 1,000 years of constitution law! However, the practical challenges are not so very different."

Mergers and acquisitions inevitably challenge the way organisations function at a quite fundamental level. "Private and public sector organisations alike have to choose between a centralist and federalist model," says Keith Bissett at Bourton Group. "What do you devolve, and what do you keep at the centre?" They raise complex questions about how processes will change and whether technology will be compatible. "Technology is one of the most significant barriers to a successful merger or acquisition," says Ben Barry at Xantus, "but it's less the technical issues that derail progress than the failure to be able to agree on a strategy." Continuity is as vital for a bank as it is for a government agency: any organisation going through a merger or acquisition has to maintain the trust of the people it serves, whether they are customers in a commercial sense or the patients of a hospital. Losing their trust can mean a long-term spiral downwards as it becomes harder to recruit the best people.

Another important reason why so many mergers and acquisitions fail, irrespective of the sector in which they take place, is that the people involved don't understand the rationale for the change or the benefits it is expected to yield. "Public sector bodies are no more homogeneous in cultural terms than private sector ones," says Colin Wilson at Boxwood. "When people think about organisational structure, they tend to operate almost exclusively in the rational space. In so far as they consider the emotional side, they put it under the separate heading of change management. You actually need to be able to deal with both aspects concurrently." A burning platform helps and here, perhaps, the public sector has more of one than it might have had in the past. "The days of 5% savings have gone," says John Dowthwaite at DMW. "Public sector organisations now looking to reduce their costs substantially will have to countenance radical solutions and that will focus people's attention as never before."

There's growing alignment behind radical solutions to the need to reduce expenditure so significantly because people are starting to realise that the alternatives could be worse

— Paul Myers, Capita

Public sector restructuring: the challenges

Beyond these parallels, there are challenges which are particular to the public sector. These fall into four broad areas:

Measurement

A retailer will know what's profitable and what's not, and drop the latter, but public sector outcomes are more ephemeral and the systems for tracking expenditure and benefits are largely absent

– John Higton, *The Berkeley Partnership*

Sensitive to past criticism, decisions to set up new agencies or amalgamate existing ones are usually translated into a clear set of deliverables and objectives. But monitoring and measuring success is less easy. How do you measure the intangible parts of government? A company has the advantage of a standard and very familiar set of metrics against which it knows it will be judged, and its internal systems are designed to gather and report this data. The public sector faces three challenges. First, there is no single, common set of metrics against which the main activities of all institutions can be judged. How would you, for instance, compare a hospital's performance to that of a central government department, or a university's to a quango's? With different sets of stakeholders demanding different sets of information, it is hard to see that this could ever be the case. Second, the systems are not always in place to track the information that is required at a sufficiently detailed level. "In merging two government departments, you may not be comparing apples with apples," says Keith Bissett at the Bourton Group, "so it's difficult to tell what's changed." Finally, there is the issue of how to interpret the numbers and manage performance against them.

The implications of this are considerable. "The private sector is better at identifying synergies and the metrics to measure success from restructuring. It has shared methodologies for capturing and reporting on the benefits," says Sara Longworth at IBM. "That also makes it easier to explain what's going on to employees and to help them understand what will be in it for them."

It's very difficult to measure success in the public sector. In the private sector, you can look at efficiencies, markets and strategic fit, but how do you measure the social function of a government department?

– David Yip, *Xantus*

Clarity of objectives

Private sector companies which are seeking to merge or acquire have one over-arching objective: to increase shareholder value. This simple litmus test provides clear guidance not only about which deals to do, but also how to do them. Public sector organisations are, by contrast pulled in many different directions. Add to this mix politics itself and it's not surprising that the rationale for some restructuring is unclear both externally and internally.

"Public sector institutions typically find it much harder to decide what is 'core' and 'non-core' to their business," says Dom Moorhouse of Moorhouse Consulting. "The most successful companies think in terms of the capabilities they need, not organisational units. Having identified these capabilities, they are also more ruthless when it comes to divesting or outsourcing those they don't need. Public sector organisations find it much harder to stop doing things."

You need to be absolutely clear where philosophy meets policy meets brand position, otherwise you end up with turf battles and internal politics as institutions fight over the areas where they overlap

– Colin Wilson, *Boxwood*

Timescales

In the private sector, the most successful deals are driven by a long-term vision rather than short-term opportunism. Both chief executives and ministers have famously short tenures, but that doesn't prevent the best private sector companies from being able to take a more strategic view. "Even when you're looking to take competitor capacity out in the short-term, success depends on long-term stability," argues Julian Mosquera at LCP Consulting. "The government divests and merges too frequently," agrees Steve Lloyd at Logica, "and it doesn't allow sufficient time to let the changes bed down. It can take an equivalent private sector organisation several years to extract value from the merger or acquisition." Governments, by contrast, have short windows of opportunity in which to act if they are to ride out the immediate and often negative consequences of restructuring before the next election.

Most private sector mergers or acquisitions only release value after 18 months to two years. The idea that you can maintain service delivery and cut costs at the same time as restructure in the public sector simply isn't realistic

– Colm Reilly, *PA Consulting*

The balance between democratising the M&A process and being able to maintain momentum is a very fine one. It's very easy to get it wrong

– Russell Poynter-Brown, Davis Langdon

Post-restructuring decision-making

But unrealistic timescales for delivering benefits sits alongside slower decision-making structures in the public sector. There are several good (and bad) reasons why this is the case.

The most obvious one is complexity: because a private sector organisation can use its focus on making money to hone its structure, it's able – at least in theory – to strip out what it doesn't need. A retail bank can simplify its range of products by deciding to pull out of a particular market, but the Department for Work and Pensions cannot choose who its customers are. "Greater complexity means more stakeholders," says Paul Myers at Capita. As the recent takeover of Cadbury by Kraft demonstrates, mergers and acquisitions have a high public profile, especially where they involve much-loved institutions or brands. But this is nothing in comparison to the level of media attention a poorly-managed public merger is likely to attract. Although in theory this should increase the personal accountability of those involved and increase the likelihood of success, the practical upshot is, according to Neil Palmer, at FFW, a "plethora of stakeholders", ranging from internal steering groups, "gateway reviews" by the Office of Government Commerce, to the Public Accounts Committee and the NAO. "Such scrutiny can be daunting at a personal level, but its biggest impact by far is to lengthen the decision-making processes of the organisation," he says.

One of the main reasons why private equity works comes down to the nature of the conversation management can have with shareholders. In public organisations, there are multiple stakeholders, so managers have to spend a lot more time giving the same messages out to all

– Neil Sutton, PwC

Speed is everything in the private sector: you need to capture the savings early on

– Paul Freeman, PCubed

Scale also slows decision-making. It is obvious to private sector companies that the larger the transaction, the greater the risks and the higher the chance of failure. Indeed, some of the biggest deals in history have also been some of the most infamous failures: America Online's 2001 acquisition of Time Warner for \$165 billion (the largest

ever at that time) has been unravelling for some time; the Royal Bank of Scotland's takeover of ABN Amro looks like hubris with the benefit of hindsight. Much restructuring in the health and education sectors is small by comparison, but changes to Whitehall departments are an entirely different proposition. When the Royal Bank of Scotland absorbed NatWest between 2000 and 2002, the result was an organisation of 60,000 people: the Department for Work and Pensions employs 110,000; the Ministry of Justice – scene of significant structural change in what is still a "young" department has around 77,000 employees.

Knowing that mistakes will mean being pilloried in the press inevitably makes public sector organisations risk averse

– Lesley Mclay, Atos Consulting

Anne White splits her time between the LSE Public Policy Group and the Institute for Government where she has been working on a project analysing "department reconfigurations" - the structural changes in the major Whitehall departments. "The analogy here is less with mergers and acquisitions than with the structure and reorganisations of a large multi-divisional corporation," she says. The Haldane Report in 1918 saw government departments in terms of functions, much as a conglomerate might have considered itself a collection of discrete, and possibly quite autonomous, business units. Since then, both public and private sector thinking about organisational structure has moved on, although at different rates. "Government thinking hasn't changed as fast because, historically, it has faced fewer disruptive pressures and less competition than the private sector," White continues. Government also lacks the ability to coach organisations through evolutionary changes: "Whitehall doesn't have the private sector's capacity to manage change well, support individuals and coach the morale of organisations as a whole. There are even bigger issues around process: in the public sector, changes to the machinery of government are usually announced with less notice and planning than in the private sector, and that puts people under a lot of unnecessary pressure."

White's research shows how things are starting to change: "Some departments, such as the Department for Children, Schools and Families, have started to implement matrix type structures and now look more like modern private sector companies. But there is still plenty of scope for looking at the alternatives to meeting customer needs without moving parts of the machine around, pooling budgets for example. There are probably less disruptive ways to create joined-up government than changes to the machinery of government."

The Institute of Government's report, Making and Breaking Whitehall Departments, will be published in mid-May.



You could argue that Jonathan Kennedy, now Northern Rock's Head of IT Service Delivery, has spent most of his working life in just one organisation. He joined the Halifax Building Society in 1991, saw it merge with the Leeds Permanent Building Society in 1995, convert into a plc in 1997, and acquire existing businesses and launch new ones. Between 2001 and 2004, through the merger with the Bank of Scotland, he was CIO of Corporate IT, moving on to work with Lloyds when it acquired HBoS in the midst of the 2008 financial crisis.

"It's very easy in any merger or acquisition to let things slip away from you," he says. "You can get so wrapped up in the detail of what needs to happen that, two years on, nothing may have visibly changed. The key things you can do to reduce the technology costs of restructuring and increase its chance of success are small, practical things, often on a simple level," he says. "If the two organisations have different desktop systems, then you need to change one over, accepting that one side is going to hate you for it. You make a decision on direction and go for it, even if some people perceive it to be a step backwards: a half-way house will be costly to run and will upset most people."

Kennedy's experience has also made him acutely aware that, while it's easy to blame the technology, success ultimately relies on the support of the most senior people in the organisation and on empowering the people who make things work in practice.

"A good example was an initiative where we had to consolidate six data centres down to two," he says. "We had just 18 months to do it because restructuring involved consolidating our estate, so we simply wouldn't have the buildings the data centres were in going forward." Decision-making had to be very quick: the governance structure consisted of one steering committee which met monthly, but which was capable of taking decisions then and there. "And it helped enormously that the chief executive appreciated both the complexity and the urgency: we didn't have to fight for air-time with the Board."

You can't tell someone to be empowered and, the uncertainty that inevitably accompanies restructuring makes people more risk averse. "You have to give them meaningful information and trust them," argues Kennedy. "But you also need to be able to see things from their perspective and get really involved in the day-to-day changes. If you can't appreciate the obstacles they're encountering, how can you engage their attention and enthusiasm? If I was working in an organisation with multiple strata of management – as there are in many public sector organisations – you can't afford to waste time trying to remove these layers. You have to cut through them, connecting the people at the bottom directly with the people at the top and ensuring the people on the front-line, whether they're serving external or internal customers, know exactly what's happening and the role they play in making the new structure a success."

Part 2: Adapting the lessons of the private sector

This section of the report looks at how important lessons from private sector mergers and acquisitions could be deployed in a public sector context.

We do not, of course, wish to suggest that every private sector merger or acquisition is a triumph or that every public sector equivalent is a failure. Research in the private sector suggests that as many as 70% of all M&A activity destroys value for shareholders and the business media is littered with high-profile and often humiliating stories of massive deals which went awry. However, the remaining 30% of deals which succeeded have valuable lessons.

“However,” cautions Colm Reilly at PA Consulting, “because the public sector is driven by different goals – by public service obligations, rather than profits and revenue growth – this means that the lessons are ones of adaptation, not straight-forward adoption.”

60% of mergers fail to earn their cost of capital in the private sector and only 20% of deal costs are recovered in the next ten years. Restructuring is not the universal panacea

– Sara Longworth, IBM

Objectives: from cutting costs to creating value

“Machinery of government changes can be driven by cost-savings, political consideration or for the need for action on big public themes, such as climate change,” says Accenture’s Indra Morris. “The key challenge is to define the question to which restructuring is the answer.” Abdul Uddin at Hay Group agrees: “It is as though politicians start with an answer – organisational change – without clearly thinking through whether this is the right response.”

But it is not just in clarity of objectives that the private sector has the edge. Bitter experience there suggests that there has to be a fundamental alignment between the organisations which are merging or acquiring, otherwise the scope for efficiency gains will be very limited. There is also far greater acceptance that restructuring involves the eventual disappearance of one organisation. “The public sector needs to break the assumption that, just because the politicians create a new ministerial role, there needs to be a new department to go with it,” says Deloitte’s Keith Leslie. He also believes – a point made also by the National Audit Office – that such changes should not happen simply at the Prime Minister’s say-so: “You have to force a discussion about what would be achieved – the public sector equivalent of an investment committee.”



There is also a case for saying that public sector organisations, like private sector ones, need to focus on the value to be created by restructuring as least as much as, if not more so than, the money to be saved. “Public sector institutions need to define their added value,” says Gary Ashton at ER Consultants. “Restructuring, in either the private or public sector, shouldn’t simply be a question of moving costs around, but of creating value,” agrees Neil Sutton at PwC.

In the absence of a single, unifying economic goal, it’s difficult for a public sector institution to know what it’s for
– Paula Sussex, Atos Consulting

A private sector company would often ask what business it is in. Those that understand absolutely what this is stand a better chance of success
– Russell Poynter-Brown, Davis Langdon

Because machinery of government changes often happen at short-notice, there is limited time to plan, yet, just as in the private sector, the first 100 days of any new organisation are crucial to its long-term success. “Often there’s so much focus on keeping everything up and running, strategic alignment is not a priority,” says Lesley Mclay at Atos Consulting. “These changes are easy to announce but difficult to do,” says Accenture’s Indra Morris. “A good due diligence process will assess what the options are, which functions you should integrate and which you should keep separate. It provides the foundation for detailed, post-merger plans.” Moreover, due diligence and planning are not just important in terms of the conclusions they reach. The process of sifting through data increases accountability and transparency. While the private sector is by no means perfect at this either – there are plenty of acquisitions which have stumbled, or worse, as a result of poor due diligence – the best companies now recognise that putting a huge amount of effort into this process pays significant dividends.

The private sector has learnt from failures in the 1990s that people making decisions based on limited information and gut feel is not enough
– Julian Mosquera, LCP Consulting

Guidance does exist for public sector managers going through a restructuring process, “but, typically, it’s the first thing read by people who have been appointed the previous week,” says Keith Leslie at Deloitte. “They should be appointed – and this should be read – six months beforehand.”

Execution: closing the gap between the top and bottom of the organisation

One of the most significant lessons the private sector has learnt when it comes to post-merger/acquisition integration is to see functions and processes in the round, to cut across the internal barriers which exist in any organisation and which are notoriously hard to breakdown except at moments of structural change. The public sector knows this, too, and some of the machinery of government changes over the last decade, such as the creation of Job Centre Plus and Child Support Agency as executive agencies reporting to the Department for Work and Pensions, have reflected a desire to focus on meeting the needs of groups of customers. However, in addition to the “silos” which break up almost all large organisations, central government restructuring also has to deal with the hierarchical distance between front-line staff and senior managers.

Now at the Berkeley Partnership, John Higon used to work in retailing: “If you put yourself in the shoes of a store manager and looked at the number of initiatives coming out of head office, none of it made any sense. The real gains that are to be made in efficiency aren’t going to be identified by people in Whitehall but by community matrons and contact centre agents.” At Logica, Steve Lloyd makes a similar point: “The Ministry of Justice is starting to look at how someone goes through the court system, to prison and then on to probation as a single, end-to-end process, which is absolutely right.” Efficiencies will come from joined-up processes, not necessarily merged organisations.

The other implication of that distance between front-line and senior staff in many Whitehall departments is that the implementation of machinery of government changes sometimes becomes an exercise in crisis management. “You can end up with a lot of sticking plasters, solving problems that stem from the failure to implement in the first place,” observes Colin Wilson at Boxwood. “People come up with plenty of good ideas while failing to recognise that it is often the implementation of those ideas, not the ideas themselves, which are at fault. A key lesson for the public sector would be to do less but to do it better.”

While such issues may be exaggerated in the public sector, they are by no means confined to it. So what solutions have private sector companies found? “The private sector takes a more pragmatic approach,” says Gary Ashton at ER Consultants, “whereas in the public sector the emphasis tends to be on oversight.” But it’s also the way that pragmatism is deployed that matters. In speaking to people who have experience of successful mergers and acquisitions in the private sector, one of the recurrent themes is the extent to which the people at the top would by-pass middle managers and talk directly to the people who do the work. “The capital issues in a merger or acquisition are nothing compared to the people ones,” says Colm Reilly at PA Consulting, “and the only way to deal with these is to spend time on the front-line with the people most affected.”

People: returning (for a while) to command and control

“You have to take the medicine quickly, however unpleasant it tastes,” says Moorhouse Consulting’s Dom Moorhouse. “Protracted internal negotiations disenfranchise everyone: bad news is better than no news.”

For the last decade, empathy has been at the heart of management. Alert to the fact that productivity is driven as much by human behaviour as by streamlined processes or new technology managers have consulted and strived to engage. But mergers and acquisitions necessarily involve fast, often unpopular decisions. These decisions start at the top: the first thing a private sector company knows it has to do is get the right leadership team in place as fast as possible and ensure that their objectives are aligned with each other and the company as a whole.

If the people at the top don’t get on with each other, it’s a recipe for disaster. You end up with a continuous stream of meetings but nothing actually gets done because they’re all too busy thinking about their own position

– Abdul Uddin, Hay Group

For a transaction to be successful, thought also has to be given to the capabilities it needs, perhaps more than to traditional organisational structure. What skills will the new organisation require? Does it have them? “One of the key lessons the private sector has learnt is the need to look on people’s skills as an asset,” argues Andy Lowe at Right Management. “Even when they’re divesting, they put a huge amount of thought into the profile of people they need to retain. Given the financial pressure the public sector will be under in the next few years, there’s a danger that the number of people are just cut indiscriminately.”

But act without thought, and there’s a danger that the wrong people are appointed, cautions Deloitte’s Keith Leslie: “In the chaos that follows any kind of restructuring, it’s tempting to appoint as many people as possible, because there’s so much work to be done – and that inevitably leads to mistakes.”

Post-merger management is like white water rafting, requiring discipline and focus

– Indra Morris, Accenture

The solution lies in strong, even dictatorial leadership. The command and control management style, rightly discredited for organisations with a relatively even keel, has its place here. “The organisation needs to know who’s in charge,” argues Paul Freeman at Pcubed. “They also need to know that it’s someone who can break through the bureaucracy that bedevils any large organisation.”

This is something that has gone full-circle. The 1990s were all about empathy, but we're seeing a return in the private sector of "old-school behaviours" – the recognition that there are occasions when you have to cut through the discussion and accept that not everyone is going to be bought into the change

– Ben Barry, Xantus

That doesn't mean companies have found they can ignore cultural issues. Quite the opposite, in fact: "You have to take a systematic approach," says Indra Morris at Accenture. "Success after a merger or acquisition depends heavily on being sensitive to the differences in culture, establishing what the culture should be in the future and working out how best to build that culture, not by leaving such things to chance."

Government departments have a common heartbeat, but their cultures can be very different. That's something you have to pay attention to: fusion doesn't happen of its own accord

– Dom Moorhouse, Moorhouse Consulting

Tony England is the Director of Service Delivery at Wolseley, the world's largest specialist trade distributor of plumbing and heating products to professional contractors and a leading supplier of building materials to the professional market, employing 51,000 people in 25 countries and with a turnover of £14.5 billion. In both his current position and in his previous roles at GlaxoSmithKline and Standard Chartered bank, England has seen more than his fair share of corporate restructuring.

"The challenge is to lead your people through the change," he says. It helps enormously, he believes, for managers to really understand the strengths and weaknesses of their teams. "As described in Good to Great by Jim Collins it is essential to have the right people on the bus in the right seats, a core group whom you can absolutely and unequivocally trust. But you also have to anticipate changes in the journey and react to changes you hadn't foreseen; you need to retain a degree of flexibility and the willingness to take tough decisions. Having flexibility in your resourcing is key when responding to unforeseen changes and demands and building relationships with firms such as Xantus can enable access to specialist resources without the need to build up our fixed costs."

By any measure, the 2008 merger of the Disability and Carers Service (which had around 6,000 staff) and the Pensions Service (with almost twice that number of employees) has been a stunning success. Both organisations had their own efficiency programmes, but even taking these into account, the merger and accompanying shift from paper to telephony and IT, have resulted in more customers being served with 40% less staff at higher satisfaction rates - currently 92%.

When Jason Feeney, now Strategy Director of the Pensions, Disability and Carer Service, looks back on the merger, what stands out is the speed at which some things happened. "There was a new chief executive at the launch and all the new directors were in place within the first three months. Merging the central overheads was complete three months after that." But, he cautions, the pace of change may be much less obvious, the further you are from the centre of the merged organisations.

"The operational arms were relatively untouched for the first 12 - 18 months. Much as you see merged banks doing, people at the frontline carried on with their vital customer service role while all the initial back office changes are being completed." Now, two years on, the new organisation is in a position where it can make quite radical changes to the overall way in which it does things. "We now have a single, holistic bereavement service," says Feeney, "which means that people don't have to contact several different agencies at a very difficult time. We're now thinking about offering a similarly joined-up service to pensioners, many of whom receive other allowances, so it would be good for them – and more efficient – for us."

Asked what has been critical to success, the first things Feeney emphasises are clarity of purpose and realism. "It's easy to forget how long it takes for messages to go from the centre to really embed on the front-line, so communication and engagement are essential, even though they are very time-consuming from a senior management point of view. There has to be a genuine passion to make things better that communicates itself to all parts of the new organisation; people on the frontline have to see the opportunities to improve things for the customers they serve. But you also have to manage expectations about how long it takes to fulfil those ambitions. The first year was about 'shaping up', stabilising the new merged organisation and seeing early signs of performance improvements). The second focuses on 'joining up' – the holistic approach to delivery exemplified by the bereavement service. Only after that do you get 'moving up': the serious transformation of the organisation. That's what we're now on the edge of."

Part 3: Adapting the lessons in practice – making technology work

The recent NAO report identified technology as one of the three biggest areas of cost in departmental restructuring, alongside people and property. “Technology has the capacity to make or break any government restructuring,” says David Yip at Xantus. “The problem doesn’t just lie in incompatible systems – if anything, this is the comparatively easy part – but in the governance, decision-making and suppliers involved in this area.”

In the context of restructuring, the extra, and often unanticipated, costs associated with IT fall into two main categories:

- **Additional set-up costs:** Where one organisation is using a Microsoft desktop and the other one based around Lotus notes, one system will have to go. Similarly, it doesn’t make sense to run both SAP and Oracle enterprise resource planning systems in the new, merged organisation. While migrating to a single application will probably save money on licences in the future, the short-term cost of the change can be considerable.
- **Failure to deliver savings:** One of the main drivers behind restructuring is to achieve economies of scale, using the same people, processes and systems to do more work. The barriers here are largely people-related, rather than technology, ones. Merging similar functions becomes difficult, if not impossible, because empire-conscious managers are unwilling to concede they have common ground or accept they can change the way they work.

Unlike the costs associated with people and property, it is possible to reduce the costs of technology, in part from applying the key private sector lessons described in the previous section of this report – a clear set of value-based objectives, pragmatic management and decisive leadership – all apply here.

Zero-based IT

Facts are essential, so due diligence of the IT function is just as important as due diligence of an organisation as a whole. “Incompatible systems can require a lot of money to fix,” observes John Dowthwaite at DMW. “Armed with the facts from a due diligence process, you can determine the best way of combining the systems and migrating users, and can assess the likely costs and timescales.” There’s more, according to Ben Barry at Xantus: “You have to carry out a complete review, not only of the applications you have, but also of the data that lies behind them. What information do you want? What interfaces will be needed to give you access to it? The danger is that you switch off one application without realising that it creates data vital to another, more important application.”

Ten key lessons from successful private sector restructuring:

- 1 Carry out due diligence of the IT systems before restructuring.
- 2 Undertake a detailed review of all systems once the immediate IT issues have been resolved.
- 3 Start from the premise that this is a new organisation: only put back in those systems which will add value.
- 4 The IT procurement team will play a fundamental role: make good use of them.
- 5 Find smart ways to share some of the efficiencies in the new structure with your top-performing IT suppliers.
- 6 Save substantial costs amalgamating processes, not just the hardware.
- 7 Ensure that the most senior people in the organisation fully understand the scale and complexity of any technology issues. Don’t be tempted to deliver only good news.
- 8 Involve staff directly delivering IT services.
- 9 Accept that some people will resent decisions and decision-makers, especially in the short-term.
- 10 Plan carefully, but act quickly, decisively and fearlessly.

But the real opportunity, Barry believes is in using the opportunity afforded by restructuring to take a step back and define what systems the new organisation will need and where IT can add the most value. “It should be run as a transformation project,” he says, “not be a case of trying to patch two creaking and redundant sets of systems together.” This was Xantus’s experience working with Birds Eye, where he and his colleagues were able to set up the entire IT function for the newly-divested entity at a fraction of its previous running costs. At Atos Consulting, Carl Bate agrees: “It’s essential to treat any restructuring as the creation of a new organisation, being exceptionally clear about what is really going to be important to the business in the future, and not simply carrying over systems because they just happen to be in place.”

In 2006, Birds Eye iglo Group (BEiG) was sold by Unilever to Permira. Having previously used Unilever's IT systems and infrastructure it now needed to establish a completely new IT environment. Limited in-house resources, strict severance deadlines with financial penalties and the need to minimise disruption to day-to-day business operations led BEiG to ask for Xantus's help.

Xantus undertook an assessment of the current state of BEiG's technology and systems, identifying the estate, risks and issues with migration to a new facility. A transformation and migration programme was put together with robust plans for infrastructure commissioning, desktop rollouts and application migration. Xantus went on to provide technical assurance of all infrastructure deliverables and manage through to physical implementation, identifying and delivering over £18m of savings throughout the programme.

BEiG now has the flexible, scalable IT solution it needs to tackle the demands of its industry. It also has tighter financial control over its ongoing ICT costs, which at less than 1% of net sales, are significantly below the manufacturing industry average of 2.4% of revenue.

BEiG's Chief Information Officer, Tania Howarth, commented that Xantus' approach to the project was "based on a genuine interest in and understanding of the issues and challenges involved" and that "the Xantus team would always do their best to provide an appropriate solution to any concern raised. If you have a team of people who deliver great things and nobody is interested – or even notices – whether they are permanent employees or consultants or third-party providers, then you know you have got it right".

The project ran for less than 18 months and Xantus continues to provide ongoing support to Birds Eye in a virtual CTO role.

You have to have the capacity to direct and take decisive action, even though this is countercultural in the public sector

– Andy Shenstone, Oakleigh Consulting

Being pragmatic, not political

A good example of this is in procurement and in the relationships an organisation has with its most important suppliers. As Carl Bate at Atos Consulting puts it, "The first thing you have to face up to in any post-merger integration situation is the vital role played by procurement."

"Large-scale IT outsourcing contracts are a feature of many public sector organisations," says David Yip at Xantus. "If you have a merger between two businesses, both of which have long-term deals in place you can easily end up in a situation where the suppliers make the transition to the new organisation as difficult as possible." There's no point, he believes, in adopting a confrontational mode because the suppliers may retaliate by reducing their service levels at a time when some organisations may actually need to improve them. "The smart approach is to present the change as an opportunity," he says, "making it clear to the suppliers that the one that can increase its efficiency the most, while maintain the same quality of service, will not only win the overall business but will share in the savings made – so there's a real economic incentive for them to co-operate."

Deciding, not consulting

"A clear vision and strong leadership are as crucial to the IT function as they are to the rest of the business," says Ben Barry at Xantus. "You have to set out the principles, switch off as many systems as possible. You can't afford to hedge your bets or try to keep everyone happy." "Technology is always a tricky issue," agrees Paul Freeman at PCubed. "In the private sector, the acquirer will generally extend its systems into the company that's been bought, not necessarily because they're the platforms of choice, but because you have to make a bet early on in the integration process and the acquiring company will know how to run its existing systems. They can adopt a longer-term solution later on, but decisiveness is everything in the short-term."

The lack of winners and losers in much public sector restructuring has an impact here. "Where a small organisation is being absorbed by a larger one, it's much easier to decide which processes and systems are going to be used," says IBM's Sara Longworth. "That's much harder where two organisations of a similar size are involved." Internal boundaries, in which people are unwilling to concede at least some of their processes could be transferred to a common platform, don't just delay integration but substantially increase its costs. "If 90% of functions are the same, why wouldn't you try to integrate them into a single system?" asks Xantus' David Yip. "This is where significant savings can be made; otherwise the only efficiency gains will be at the commodity level – consolidating boxes and wiring. Though this isn't easy to do and there are some benefits to doing so, the savings elsewhere would be far greater."



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Xantus' services are tailored to address the complex challenges faced by today's organisations. We provide client-side support throughout strategic and operational change including IT due diligence, market assessment, IT strategies and sourcing solutions, operating model design and expert programme delivery.

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