As we head into another major wave of unitary creation, local government must address two key issues; how to manage the process and how the new council should operate. Hay Group’s latest research draws out the lessons of previous restructuring to suggest tactics for successful change.
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It looks good on paper

The business case for unitary authorities is that “a single tier of local government could provide better accountability and greater efficiency.” As we head into another major wave of unitary creation, with 26 proposals submitted and a dozen or so currently confirmed, it is important that we learn the lessons from previous ventures in order to ensure vibrant local democracy and high quality service delivery.

Hay Group’s study of the 46 unitaries, created in two waves by 1998, has revealed that the highest performers have successfully addressed two major challenges.

The journey
Firstly, and unsurprisingly, the process of restructuring, splitting and merging departments creates turmoil which unsettles staff and distracts from performance. In our review, we discovered a tendency to focus on basic personnel and operational details. However, the most successful authorities – with the least disruption – focused more on strategic human resource demands: communication, culture, engagement and leadership.

Our research across several sectors (industry, education, further education and health) confirms that the intangible assets* at the heart of organisational success suffer more but are protected less during major organisational restructuring. For instance, over half of leaders who failed to conduct a leadership capability review described their post-merger climate as ‘destructive’.

The destination
Secondly, a basic review of the performance of the new unitary authorities shows a significant and growing divergence in overall service and value for money. A persistent minority continue to this day to underperform the counties they replaced. Clearly, we are not comparing like for like; the scale, resources and context of the new unitaries are different. But that is exactly the point. High performing unitaries have pioneered new models of service delivery which take account of these factors.

For the new unitaries to avoid disruption and sustain performance they need to replicate the level of due diligence...

* For more information about intangible assets, see page 5.
into the human factors taken by the best unitaries and make bold steps to transform the basic operating model of local government. In this short paper we examine the challenges, suggest solutions pioneered in successful authorities and outline a clear set of priorities for those leading unitary creation.

As well as our recent study in local government, we draw on our European-wide survey of mergers and acquisitions in the private sector for broader lessons about significant organisational change. These studies demonstrate that few organisations in any sector have cracked the code of successful mergers – less than 10% of private sector mergers deliver the value that was expected of them; and in the education sector our research shows that over half of all school amalgamations result in a sustained decline in standards.

**Methodology**

We surveyed the performance of 46 existing unitary authorities, using public sources, and conducted detailed interviews with line and human resource directors in six of the most successful. We also drew on project work in organisational design with two other local authorities for our blueprints and recommendations.

This paper is cross referenced with a number of other Hay Group research projects. These include: *Dangerous Liaisons* – our work with La Sorbonne reviewing the 100 largest private sector mergers across Europe; *Staying on Track* – a study of school amalgamations; *Charisma & Collaboration* – a look at political leadership; *The Connected Leader* and *Decisive Collaboration* – both investigations into collaborative working; A detailed case study analysis of strategic partnerships in the public and private sectors to be published in May 2008. These additional studies are available from Hay Group’s website – [www.haygroup.co.uk](http://www.haygroup.co.uk)
The journey: maximising integration

Finding the right path
It is a truism that major change is unsettling. “I’d only want to go through it once in my career,” said one interviewee. It lessens engagement and loyalty, encourages conflict and turns leaders inwards to focus on politics and relationships rather than communicating with the community and delivering results. “Bringing teams together from district and county councils is a big challenge,” says one HR professional who has been through a unitary merger process. “It can take a while for people to understand new loyalties. There is an inevitable distraction from performance management, and uncertainties are created about important staff issues – like who people will be working for and where they will be working.”

Sustained communication with the world outside the senior leadership team is a distinguishing characteristic of all successful restructuring. In one authority, for example, “the Chief Executive at the time clearly communicated his vision right from the start – he organised events on Saturdays and in the evenings where we literally got up on the platform and told employees how we saw the new authority. They then asked him the predictable questions about where would they be working, for who, and how much for – but at least there was a vision being communicated.”

There is a story that needs to be told to front line staff and citizens about why the change is happening, the benefits that will come and how much progress has been made. Achieving and sustaining a level of belief in this story about the benefits creates the confidence to engage with change.

In the absence of this story, the void is filled with speculation, rumour and fear. As one senior director recalled “Statements like ‘the county’s not fit for purpose’ and ‘it doesn’t work’ were constantly being made in the press. This had an effect – staff were disheartened, anxious and insecure about the future.” If these themes become established, major stakeholders become unsettled and begin to criticise the process. In turn this diminishes the morale of staff and drags leaders into fire-fighting mode; communicating the vision slips further and a vicious cycle sets in. We saw this in the last wave of unitary creation, we see it frequently in school amalgamations (leading to parental opposition) and it is a common factor in the failure of private sector mergers (leading to customer defections).
Trust, loyalty, belief and strong relationships are all examples of the intangible assets that play such a big role in organisational success. Yet, because intangible assets are hard to measure, and therefore seemingly hard to manage, they are often neglected in favour of more tangible areas. In the last wave of unitary creation, some authorities focused on personnel and operational detail – harmonising terms and conditions, sorting out line management relationships, appointments, TUPE. These are necessary but insufficient.

Protecting the intangible assets – and therefore minimising disruption – during the creation of a new authority therefore depends on two achievements: the rapid creation of a single culture across the new organisation (establishing guiding principles) and an uninterrupted narrative on the progress and benefits of change. Interviewees spoke of the importance of “Engaging with the workforce as quickly as possible. Effective communications both before and after the merger, so people are on board and know where they’re going”.

Hay Group’s research on mergers suggests that intangible assets are often neglected during major structural changes – because they are hard to measure and manage.

We divide intangible assets into three classes:

- **Organisational capital** – culture, structure, knowledge
- **Relational capital** – brand, networks, client loyalty
- **Human capital** – leadership, productivity, engagement

The creation of unitary authorities frequently threatens this capital unless it is carefully nurtured.

**Intangible assets**

Organisations are used to auditing and protecting their tangible assets – money, capital, infrastructure – but it is the intangible assets that frequently create more value.
Ten steps for managing structural change

Our research into what the more successful unitaries did during their merger shows they had 10 distinctive tactics.

1. Create the new leadership team quickly, freshly drawn from the best talent in all the legacy organisations. Consider recruiting external candidates. Delays in creating a leadership team are one of the prime causes of turmoil and confusion during restructuring. Where appointments can’t be formalised, creating a shadow top team to steer the integration is a useful substitute. One interviewee commented “People were clear from our choices that we knew where we were going and that we simply wanted the best people, wherever they came from. It built trust.”

2. Establish and equip a dedicated integration team with a powerful senior leader with clear authority to act, widespread respect and the willingness to make tough calls. In fact, this role is good preparation for the chief executive role and could form part of the succession plan.

3. Maintain a fast pace of integration overall, seeking the 80% perfect solution that can be implemented completely and quickly rather than delaying in pursuit of perfection. “We couldn’t do everything exactly as we wanted it, and delays and silences made people nervous. Sometimes, we just wanted to announce a clear achievement.”

4. Be totally honest about the new principles, roles and success criteria – the short sharp shock model which gets conflict out of the way quickly. This includes the swift removal of resistant managers. “Be clear about your management structure right from the start so people know where they will or won’t fit in” said one interviewee. In explaining the secrets of their success, another executive commented “We immersed the new people in our principles right from the start; they could either see clearly how to succeed or they could make a swift decision to look somewhere else.”

5. Identify the critical roles for the transition and the destination and reach out to their holders directly to understand their concerns and convince them they have a clear future. “We had two dozen mid-level roles that we couldn’t afford to have disrupted. Each job holder had an informal mentor on the senior team.”

If young and talented staff think all the new posts are a ‘done deal’, then they will swiftly become disenchanted and eventually leave.
6. **Identify, isolate and protect critical existing projects** and initiatives at all costs, to sustain their momentum during transition; applying specific short term incentives to retain and focus their managers if necessary.

7. **Select the best talent from across all organisations, and prioritise excellence above either equity or loyalty.** If young and talented staff think all the new posts are a ‘done deal’, then they will swiftly become disenchanted and eventually leave. It needs to be shown that there is everything to aspire for. To support this, the most successful authorities used open, objective and rigorous selection and assessment processes to match people to jobs.

8. **Take steps to secure mature contributors.** It is too easy for those over fifty to view restructuring as a prompt for early retirement, yet the loss of this experience can be hugely disruptive. One tactic is to clearly separate management and technical roles, and ensure technical roles are adequately rewarded. This can help to retain staff who don’t want to take on new management accountabilities but still have a great deal to offer.

9. **Translate the abstract principles of the business case into a relatively small number of tangible local changes,** then build and incessantly repeat a coherent story about these benefits. What’s better about the new way of doing things? What are the challenges? What’s got to go? What’s ‘in it’ for people? “You need an absolutely clear vision of where you want to be, and tell this to everyone” said one executive.

10. **Communicate often and early.** Talk about the content or goals of change but also the process. As one interviewee said “Sometimes we’d just get up there and tell them nothing had happened since we last spoke! It scotched rumours of conspiracies.”
Appointing the leadership of HR early and creating a partnership with the chief executive is essential. Underpinning these requirements is a combination of strong leadership and a pivotal early role for human resources (not just in dotting the Is and crossing the Ts, but in identifying, selecting and securing the talent that will keep the authority functioning during the transition and beyond). Appointing the leadership of HR early and creating a partnership with the chief executive is essential. One interviewee spoke of the need for “appointing the most talented people to the HR posts – the best people for the new organisation, not the old one.

Successfully navigating the change requires not only clear organisation design and clear assessment of staff capabilities (to enable the best matching with jobs), it needs open and honest dialogue about the process taken, criteria used and decisions reached. As with all changes, speed is essential. For comparison, private sector mergers which neglect the intangibles take 2 and a half years to achieve full integration. Those that appoint a new management team as early as the due diligence stage are more than twice as likely to reach full integration within a year. Yet the political and regulatory process imposes its own delays – the importance of strong political leadership is also therefore clear.

With an effectively managed change process, focused on the intangible human factors of relationships, talent and principles, leaders have more time to look outside, disruption is minimised and the foundations are created for a more radical reassessment of the structure of the authority – the destination.

Intangibles Checklist
The following questions will help you build up a strong picture of your intangible assets.

1. Which roles are critical to your sustained performance over the next three years?
2. How much are those roles affected by the restructuring?
3. Are the holders of these critical roles clear about your plans?
4. Who can you least afford to lose because of their talent, potential or knowledge?
5. Are they clear about their future?
6. Who has responsibility for ensuring they are engaged?
7. What benefits could the changes potentially offer talented staff?
8. Have you identified the senior leadership roles you will need in the new structure?
9. How long will it take you to populate them?
10. Do you know which senior managers are engaged with the vision and which are not?
11. What proportion of time are you spending on design versus communication?
The destination: how new structures and culture unlock real benefits

Even if the change process has been navigated successfully, experience from outstanding authorities suggests that performance will only be sustained by a radical re-working of the model. This, of course, makes the change process more painful and increases the urgency of managing the intangible assets well.

In this section our argument begins with the proposition that unitaries need a new model of delivery to properly exploit economies of scale. The most effective methods currently being pioneered involve a large measure of collaboration and partnership but, to actually unlock real benefits from this, authorities will need to transform their culture and structure to support partnership. We conclude with a method for thinking about new operating models which can forge a powerful consensus for change.

Performance and scale
The case for developing a new model is made through examining the performance of unitary authorities on CPA ratings. Since measurement began in 2002, we have seen a widening gap in performance amongst unitaries. The top quartile are getting stronger and consistently hitting fours, the bottom quartile are, on average, weakening, and now consistently scoring twos. Thus, although there are many examples of strong performance, this means that, overall, unitaries tend to under-perform county councils. What’s the difference between the two camps?

There has been considerable debate over the validity of CPA ratings, and in the next few years councils will be assessed according to the Comprehensive Area Assessment, which evaluates how councils perform in relation to all local services (e.g. PCTs and Police Forces). Can we compare a huge county council, like Kent, with a small unitary authority that delivers services to far fewer in a much smaller geographical area? Probably not, says one Head of Personnel for a south western unitary: “Unitaries are more difficult than either County or District Councils. Objectively they all have the same services, but in terms of ‘feel’ they are more like district councils. There is a tremendous mixture of services – education, social services, housing,
planning, often all concentrated in a much smaller area, with less resources than the large county councils.”

Unitaries tend to be smaller therefore, and with fewer economies of scale. Very often the efficiency gains offered by removing levels of duplication are small, overwhelmed by the complexity of managing the full range of services across a smaller area. Unitaries cannot duplicate the county operating model on a smaller scale and hope to deliver the same performance. The next wave of unitary creation should be seen as an opportunity for radical innovation, drawing on the lessons of the most successful of those created in the 1990s.

The building blocks of a new business model are widely accepted:

- a whole-hearted shift to a commissioning model of delivery, incorporating public, private and voluntary/community participants
- the development of shared services provision in alliance with other authorities (according to the LGC, 147 councils have signed such deals so far)
- using the smaller scale and direct relationships to energise local democracy and manage expectations.

The rationale for these proposals is that they focus the authority’s resources on the functions it is now uniquely positioned to provide. They also open the way for the large cost savings likely to be demanded in the current economic and political climate.

**New cultures**

Commissioning and shared services have a common theme. They both require the authority to forego direct control over elements of service delivery in return for access to wider resources and talents. And it is in this that we see what distinguishes the successful unitary authorities. It is not in the legal and contractual details of the new relationships (important though they are) that success lies, but in the profound cultural and behavioural shifts required to make things work. The role of the authority is shifting from management and delivery to leadership and co-ordination. “The client – contractor – consultant relationship has been overcome. The language used is now *we*” said one interviewee.

From our review of the successful unitaries, the key lessons on the cultural level for making the new models work are:

- Leadership needs to change its focus from ‘how’ to ‘what’ – defining outcomes and freeing partners and providers to pioneer new methods based on their expertise. Only by outsourcing detail is capacity created to focus on strategy. This requires an unprecedented level of trust in partners.
- The critical new skill is **performance management**. This will involve a shift to metrics based on outcomes rather than inputs; heavy upfront investment in clarity about both these
metrics and accountabilities; effective and objective sources of data; consequences for failure to perform (which require real alternatives to current relationships) combined with incentives to improve results (such as gainsharing or bonuses for stretch goals) leading to a genuine sharing of risk; regular feedback and dialogue.

- **Effective relationship management** takes far more time than is commonly allocated (up to 60% FTE per major partner according to a recent Hay Group study). Authorities need to adopt account management strategies with regards to their major partners – allocating sufficient time from senior roles to this activity. The NAO, for example, also defines effective collaborations as those where there is a significant investment in the relationship itself.

- Given the importance of individual relationships in building trust and understanding, they also need to actively **plan for succession in key relationship managers** to avoid disruption.

- Collaboration is not an end in itself. **Poor collaborations damage belief** in the concept and create resistance to future partnerships. Any collaborative effort without clear and conservative outcomes, and well defined membership, should be eliminated from the portfolio. There is a need to build trust through limited and low risk joint activities – but it is more rather than less important that these collaborations should have clear outcomes.

- **Professional identities** persist as a major barrier to cross-cutting collaboration. Local authorities need to establish new and shared loyalties focused on client groups and communities rather than areas of knowledge. This needs to feed through into selection, induction, training, individual performance management and leadership practices.

- Where commissioning and shared services cross the lines into private sector provision, **local government needs to redefine its relationship to profit**. Rather than something to be avoided and reduced, this is a critical tool in directing the behaviour of partners and securing their wholehearted commitment.

Rather than plunging straight into new processes and contracts, the next wave of authorities will need to build on best practice from the last wave and emphasise these **cultural foundations of collaboration**. This opens the way to commissioning and shared service relationships which unlock real efficiencies and free up the authority’s capacity to lead rather than swamping it in a mass of detail and conflict. The evidence would suggest that, for some authorities, this culture change has not been achieved so far.

**New skills**

Part of culture change lies in identifying, developing and rewarding a new set of behaviours and skills – until people...
do something different, nothing real has changed. Successful partnership working will therefore see performance management and development systems explicitly recognise new attributes.

As one director of commissioning noted “Staff have collaborative working competences written into their annual objectives and partners are invited to provide feedback on performance against behaviours.”

In a wide-ranging study of successful collaborators in government, for example, we identified the following characteristics distinguished the high performers:

- tenacity and flexibility
- enthusiasm for the work
- attention to detail
- intolerance of boundaries
- planned and thoughtful influencing
- listening first
- building trust through meeting commitments
- professional and personal humility

Another way of putting it is that strong collaborative relationships are built on trust, reciprocity, utility, warmth and ease of maintenance.

“Strong collaborative relationships are built on trust, reciprocity, utility, warmth and ease of maintenance...”
### Partnership Checklist

1. Have we plans in place to cover the succession of personnel in key relationships?

2. What role do partnership competencies play in our main human resource processes?
   - Recruitment
   - Performance management
   - Development
   - Succession planning

3. How many of our activities are specified in terms of measurable outcomes?

4. How many under-performing collaborations do we have on our books? How can these be eliminated?
   - Measurable achievable goals
   - Clear membership and accountability
   - Strong working relationships and respect
   - Efficient use of time and resources

5. Do we have the strategic leadership capacity to create the required clarity?
   - Strong, compelling stories about the goals of change
   - Passionately held principles
   - Detailed expectations combined with feedback
   - Ability to hold people accountable

6. For which relationships do we need the benefits of partnership?
   - Mutual dependence and longevity
   - Unpredictable, uncertain, rapidly changing requirements
   - Mutual innovation and insight required
   - High risk / high impact of failure and mistakes

7. What incentive do our partners have to improve their performance? What’s in it for them?

8. Are we exhibiting the qualities of effective relationships ourselves? Are our partners?
   - Trust
   - Reciprocity
   - Utility
   - Warmth
   - Ease of Maintenance

9. Is relationship management an accountability of specific roles?

10. Does each major relationship have a clear owner?
Every organisation design is founded on an underlying (if often tacit) logic which encodes principles and priorities into the daily operation of the service.

New operating models

Followed to its logical conclusions, the new emphasis on partnership working and demand management should lead to a very different operating model for the local authority, which embeds the new principles, skills and expectations in a radical new structure.

There is a danger, however, in moving too quickly to detailed organisation design without thinking through the principles which you wish the design to embody.

Every organisation design is founded on an underlying (if often tacit) logic which encodes principles and priorities into the daily operation of the service. This includes, for example, decisions like the location of staff and support functions (central or distributed), the autonomy of individual units and who predominates in matrix relationships. Most importantly, however, it specifies the orientation of the basic building blocks – to locality, service, citizen, etc. These need to be aligned with how people today conduct their lives and use services rather than historical legacy or administrative convenience.

Time spent making the operating model or logic explicit, rather than proceeding immediately to detailed design, can make this a much more conscious choice.

For unitary authorities, time spent discussing an operating model – the principles which underpin structure – is a priceless opportunity to stimulate radical thinking – to create structures which not only enable but invite partnership and to properly align with local citizens and users in ways which enable them to raise efficiency, understand needs and manage demand.

One example of an operating model, produced in collaboration with a unitary authority, is included opposite. From this, informed decisions about specific structures and roles can be taken quickly and accurately. Of equal benefit, the process of developing an operating model (which begins with decoding the vision) makes principles explicit, constructively unearths disagreement and builds consensus among the senior leaders involved. All, as we have seen, of huge importance in managing a major restructure successfully.
Operating model

- Core business processes (potentially shared or outsourced)
- Manage citizen demand
  - Marketing communications, contact centre
- Delivery
  - Direct, voluntary, private sector or direct/ALMO
- Small core
- Local communities
- Service users
- Access channels
- Listening to and managing citizen demand
  - Community leadership
- Decision-making units (supply/demand planning, design, commissioning)
- Strategic core of Finance, HR, IT, legal and Property
- Executive management
- Political leadership
- Steering and enabling processes
- Steering
  - Corporate / departmental planning
  - Performance strategies/ targets
- Enabling
  - Transactional Finance, IT, HR, Legal, Property shared or outsourced
- Executive management
- Political leadership
Conclusions

From the evidence of the pioneers, there are two keys to success in establishing new unitary authorities.

The first lies in managing the process of change itself by focusing more attention on the intangible assets of the authority, particularly the engagement of key staff and relationships with external stakeholders. Speed and honesty are the distinguishing characteristics of leadership in these environments – neutralising the inevitable conflicts that arise when there are winners and losers from change, and focusing attention back on communication.

The second lies in unlocking the underlying cultural and structural barriers to efficiency gains. All authorities are exploring tactics like commissioning and shared services; not all are seeing the benefits they would like. For some, the costs of collaboration seem to be outweighing the supposed benefits. But collaboration cannot create capacity without a different approach to leadership and relationships, without a new culture focused on different priorities.

These two keys are connected. The ability to engage in productive partnerships is an intangible asset. It is built on the courage and commitment of staff to adopting new ways of working, on long term relationships, on insight into a community’s priorities. It is too easy for these essential assets to be damaged during transformation, setting back the cause of reform many years. Ultimately, authorities need to prioritise the human side of change – identifying and measuring these assets and adopting explicit strategies for their protection and integration. In doing so, they will find their ability to capitalise on change much increased.
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