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Thinking people.

Reshaping public sector organisations
Evidence-based decisions on people, processes and structures

UK Public Sector

Introduction

The Coalition Government reduced spending in most areas of public services during the last Parliament, and even tougher decisions are expected for the 2015 Spending Round.

This is due partly to the scale of the planned reductions and because most of the 'easier' savings have already been made, but also partly because of the cumulative loss of capability that will occur.

In most public services, people-related costs dominate spending, and savings must therefore come from re-organisation and re-deployment of staff. We find that in practice, many of the savings decisions are only loosely grounded on evidence, and that most public sector leaders struggle to apply quantified analysis to the key areas for decisions. In our view, a more evidence-based approach is needed to make sure that change is sustainable in the medium and longer term.

Public sector leaders should ask:

- What is the relationship between headcount and output or outcome? Will a reduction in headcount lead directly to falling output or quality failures?

- How effective is the organisation structure? Can a layer be taken out, or support groups be consolidated?

- Where are the opportunities for improving effectiveness? Are existing staff numbers driven by inadequacies in processes, information or capabilities?

- Are existing capabilities used to optimal effect and are the right capabilities for the future being developed? Are people being deployed in the most effective way?

- How can new models of service delivery be incorporated, and what would be the impact on people of outsourcing, digital technologies or flexible workforce models?

In a number of public sector organisations, leaders have used analytics to take tough decisions on their human capital. In this paper, we illustrate some of the most common issues and decision areas that are typically faced by chief executives, change programme leaders and HR directors across the public sector.

Spending Review 2015

Spending Review 2015 imposed tougher budget reductions for this Parliament than the public sector experienced in the last.

Cuts in the past five years have already affected the lives of many civil and public servants, and many beneficiaries of public spending. But the impact of those first spending reductions in 90 years has been less than many people predicted, largely because many of the cuts to date have been borne internally by public sector organisations. Where service levels have been reduced, they have affected specific demographic groups rather than the broad majority of citizens. Within the public services, most job losses have been made through early retirement and voluntary redundancy schemes.

The reductions in this Parliament are different. The 'easier' solutions have not been completely exhausted, but they will provide much less of the answer. The low-hanging fruit of pay restraint, reductions in capital spending, and economies in overhead expenditure has largely been taken already.

Achieving the new spending reduction targets simply by cutting services and outputs will be politically and socially unacceptable.

It may seem surprising that in 2010-15, many public bodies coped with a reduction in spending of 20 per cent in real terms without a dramatic impact on output or outcomes. However, cuts of a further 20-30 per cent in 'unprotected' areas of public spending are a different matter and will require prioritisation of spending options and making unpalatable choices.

Many public sector leaders comment on the impact on 'corporate memory', capability and effectiveness caused by the combination of early retirement of experienced staff, limited promotion opportunities for the most able and the need for increased supervision for a workforce that is both less experienced and more stretched. To make matters worse, most areas of government have curtailed their investment in training and development to meet future needs.

People and organisation: four key issues

Based on assignments commissioned by our UK clients, we conclude that public sector leaders will need to make decisions around four key issues relating to their people and their organisations in the years ahead. They are:

1. **Fragmentation** – what do people actually do?

2. **Scarce capabilities** – are the right people deployed in the optimal way?

3. **Organisational efficiency** – is the organisation structured for best effect?

4. **Fit for delivery** – what capabilities do I need in my organisation, now and in the future?

Issue 1. Fragmentation – what do people actually do?

The problem

In most organisations, people's time is fragmented, even in the frontline of service provision. People are engaged in doing too many different things, and too many people are involved in the same 'work product'. This is not just a consequence of reducing headcount. It is also the result of failing to reduce expected outputs, failing to restructure tasks and processes and the need for more checking and supervision as capability has been lost.

Evidence-based analysis and possible action

Analyse the number of full-time equivalent staff (FTEs) involved with each 'work product'. Stop work or limit the work done on lower-priority tasks.

Case example

In one organisation, we found that 'customer management' jobs showed a high degree of fragmentation, with only 18 per cent of people spending the majority of their time on customer management activities. Some 62 per cent of posts were 'fragmented', with individuals dividing their time excessively between activities associated with different functions.

Figure 1 shows how people in customer management posts were spending their time.

Figure 1. Excessive fragmentation in customer management

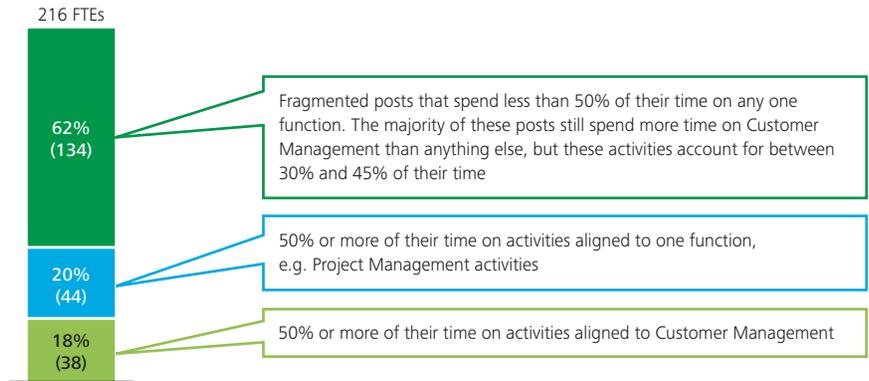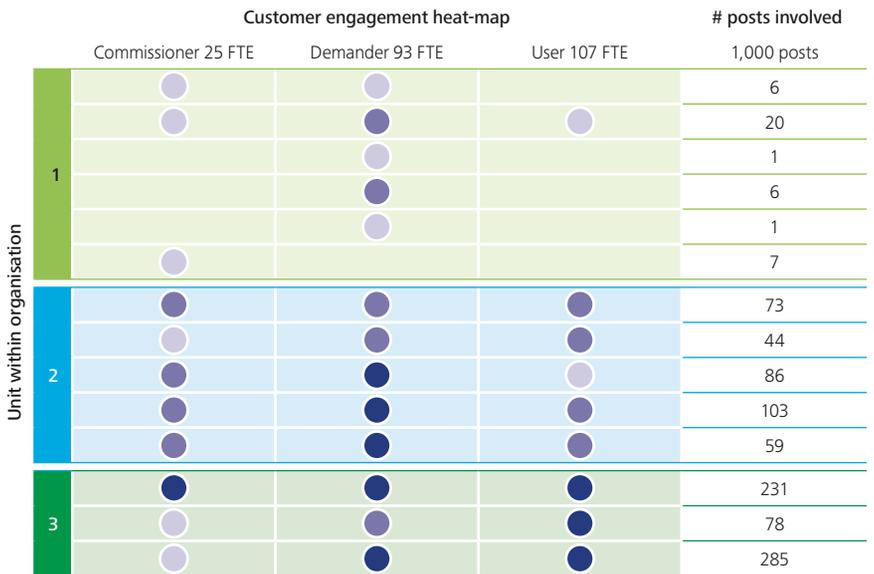How Customer Management posts spend their time in a case example organisation

216 FTEs

62% (134)	Fragmented posts that spend less than 50% of their time on any one function. The majority of these posts still spend more time on Customer Management than anything else, but these activities account for between 30% and 45% of their time
20% (44)	50% or more of their time on activities aligned to one function, e.g. Project Management activities
18% (38)	50% or more of their time on activities aligned to Customer Management

Figure 2 shows how, in an example organisation of 1,000 posts, customer engagement activities were performed in varying degrees by most staff. There was a lack of clarity about which team took the lead in engagement with each type of customer, resulting in overlaps and gaps, inconsistency and inefficiency. Customers also found alternative ways of contacting the organisation, generating additional work.

Figure 2. Excessive fragmentation in customer engagement

Unit within organisation	Commissioner 25 FTE	Demander 93 FTE	User 107 FTE	# posts involved 1,000 posts
1	●	●		6
	●	●	●	20
		●		1
		●		6
		●		1
	●			7
2	●	●	●	73
	●	●	●	44
	●	●	●	86
	●	●	●	103
	●	●	●	59
3	●	●	●	231
	●	●	●	78
	●	●	●	285

FTE effort on customer engagement:

● <1 FTE   ● 1-5 FTE   ● >5 FTE

Definitions:
- Commissioner – Holds the budget
- Demander – Determines the detailed requirements and acceptance
- User – The day-to-day user of live services

Issue 2. Scarce capabilities – are the right people deployed in the optimal way?

The problem

In many public sector organisations, the pressure on staff and the fragmentation of work across large numbers of staff, rather than clear individual accountabilities, means that tasks are often not performed by the most capable staff. Many people are working on tasks where they lack the relevant expertise, which has implications for quality, costs and outcomes. The usual response is 'more assurance or checking' which increases fragmentation.

Also, public service organisations are often structured to deliver a specific professional service, with a focus on providing public value within its boundaries. This functional delivery structure can prevent the coordination of efforts to improve efficiencies and the overall customer experience. In many cases, work should be organised around projects or customers rather than being organised around internally-defined functions.

Evidence-based analysis and possible action

Analyse the capabilities that are required and compare them with the capabilities actually deployed. Redesign key processes and allocate scarce resources accordingly.

Case example

In a public sector organisation that delivers technology-based products, the largest and most delivery-critical functions are project management and engineering, but they are not deployed effectively. Significant amounts of time are spent on activities associated with other functions, and job roles are highly fragmented. As a result, scarce skills are wasted, and people are doing work for which they are not skilled.

Figure 3 shows how, in this particular organisation, the deployment of scarce capabilities falls short of their optimal use. It shows how finance and commercial people are quite focused within their own subject matter areas. However, engineering and project management people are excessively engaged in areas outside of either engineering or project management.

Figure 3. Inappropriate deployment

|	Project Mgt people	Engineering people	Logistics people	Finance people	Commercial people
Project Management activities	●	●	●	·	·
Engineering activities	●	●	●	·	·
Logistics activities	·	·	●	·	·
Finance activities	·	·	·	●	·
Commercial activities	●	●	●	·	●
Generic activities	●	●	●	●	●
Other activities	●	●	●	●	●
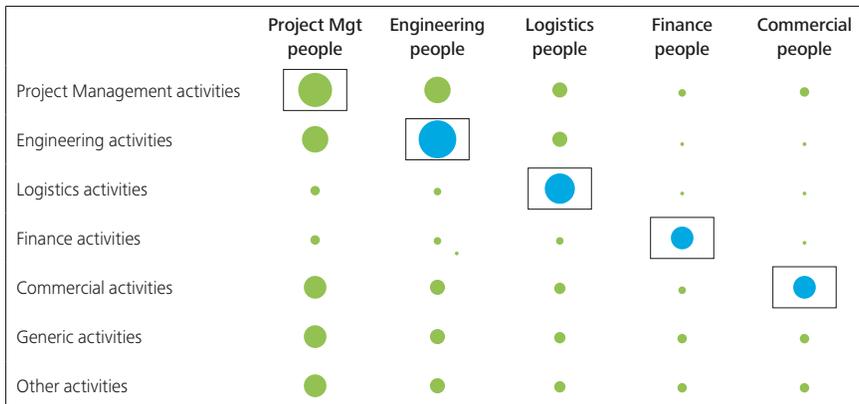
■ More fragmented time   ■ Less fragmented time

In the same organisation, we analysed the Project Management function by grade of employee to see if fragmentation is more prominent at senior grades, as one would expect. We found however, that project management people were spending excessive time on non-project management activities across all grades, as shown in Figure 4.

This underlines our conclusion that Project Management skills were not being deployed effectively in this particular organisation – which we would consider to be a common issue.

Figure 4. Scarce capabilities in the Project Management function

How the Project Management function spends its time, by grade
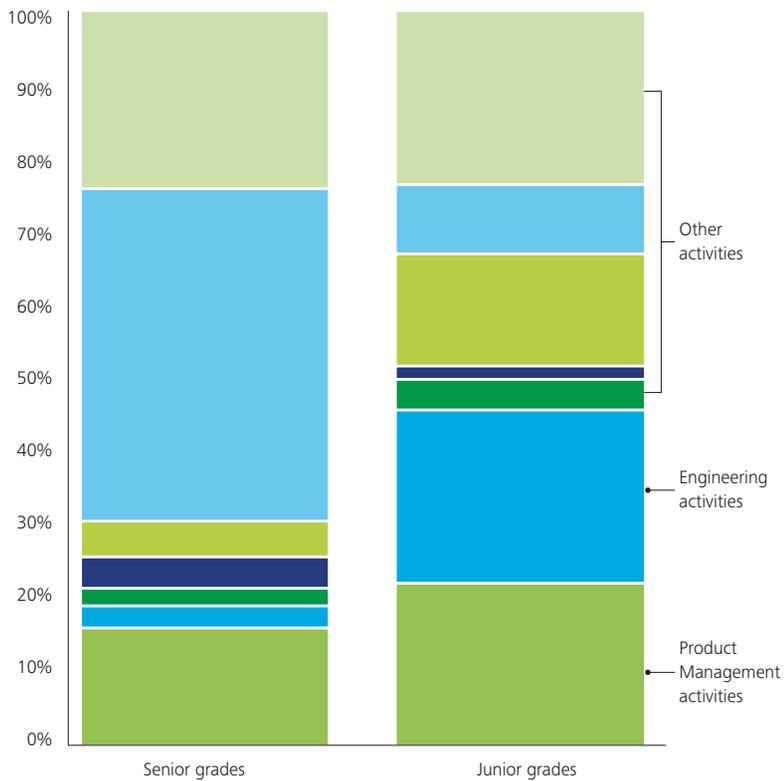
Issue 3. Organisational efficiency – is the organisation structured for best effect?

The problem

Public sector organisations may lose their focus on efficiency as they reduce headcount, allowing narrow spans of control and excessive layers in the organisation structure. We view an organisation as having a narrow span of control when it has many managerial posts with only 1-2 direct reports, and excessive layers when it has 8 or more levels of management or grades of employees. Often, these problematic organisational structures evolve as an ineffective response to poorly-designed remuneration policies whereby the organisation can only retain experts by promoting them into management posts.

Evidence-based analysis and possible action

Assess spans of control and layers in the organisation hierarchy and manage change as required.

In most organisations, we observe substantial areas of work that have grown on an unplanned basis, with senior people performing tasks that should be taken on by more junior people. Re-design organisational structure and reward systems.

Case example

Historically, most organisations are 'pyramids' in their shape, with a larger number of junior staff and few very senior staff. But increasingly, organisations are more like 'diamonds', with most employees in middle grades. A diamond-shaped organisation that we studied is shown in Figure 5.

Diamond-shaped organisations can suffer from very low spans of control, with weak career paths and development opportunities. In this example, high numbers of management roles had just one or two direct reports.

Figure 5. Organisational efficiency: the diamond shape
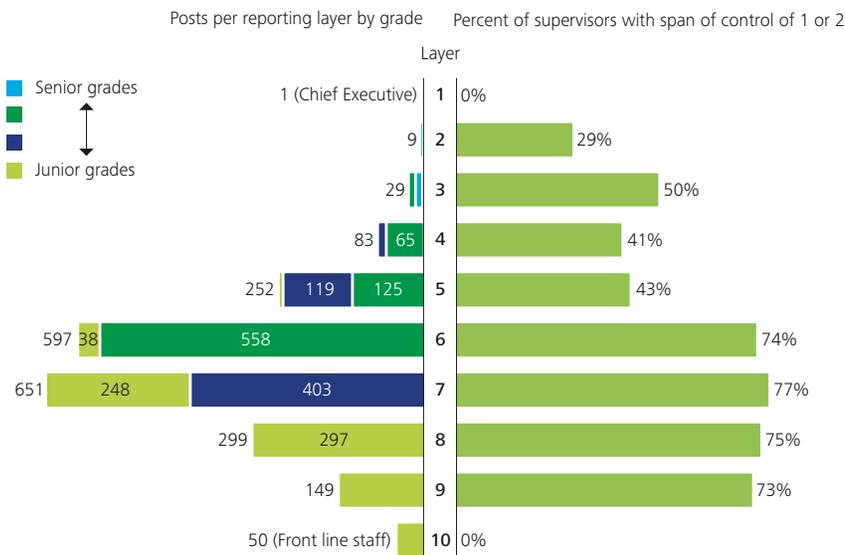
Issue 4. Fit for delivery – what capabilities do I need in my organisation, now and in the future?

The problem

Organisations need to understand the 'people impacts' of new delivery models such as outsourcing, adopting more commercial structures, building new digital infrastructures, and flexible working models. It is critically important to identify the capabilities that the organisation will need in the future in order to align future recruitment plans, the talent pipeline and development programmes.

Evidence-based analysis and possible action

Analysis of capability and capacity, especially focussing on new capabilities. Re-design the organisation around outsourcing, digital transformation or flexible working models – with changes in recruitment, remuneration and linkages across the organisation.

Case example

In this public sector organisation, they had made the transition to a more commercial organisational model in order to become a more intelligent client to commercial contractors, to tap into talent that the public sector struggled to recruit and retain, and to exercise greater financial freedoms. One of their strategic goals was to become more customer-focussed which included using digital channels as a primary means of providing service, gathering information and giving customers choices. New digital capabilities had to be nurtured in dedicated units, yet be accessible and connected across the organisation.

Figure 6 shows how, in this particular organisation, the new digital capabilities were analysed for 'fitness to deliver' across the organisation, identifying recruitment and growth targets.

Figure 6. Analysis of new capabilities

Existing capabilities	New capabilities	
Information Management Strategy & Planning	**Digital Strategy**	• Customer Experience Strategy • Digital Strategy • Insights & Vision • Strategic Innovation & R&D
Technical Design & Solution Development	**Digital Concept to Design**	• Portfolio Management • Capacity Planning • Project Management • User Experience Design • Creative Design (in Marketing) • Requirements Management
Service Transition		
Quality & Assurance	**Digital Develop to Deploy**	• Prototyping & Piloting • Technical Solution Development • Develop & Manage Customer Technology • Deployment & Training
Service Management & Security	**Digital Operate to Manage**	• Service Support • Content Management • Performance Management • Web Design & Management (in Marketing & Operate)

Conclusions for public sector leaders

The need to make dramatic spending reductions while continuing to deliver services to the public is about to place unprecedented demands on public sector organisations and their leaders. The next five years will almost certainly see shifts to new models of public service delivery, as well as progress in exploiting digital technology – not least because digital transformation can deliver savings without the same political cost that accompanies cuts in outputs and outcomes.

Designing more effective organisations and making better use of the capabilities of their people is one of the top priorities for public sector leaders – chief executives, change programme leaders and HR directors. Their judgments about the future size and shape of their organisations will be more successful when they demand specific evidence-based answers from their people and their HR departments.

The challenges are:

• **To optimise the use of scarce capabilities**
Analyse high-value and low-value work, and the impact of fragmentation; redesigning processes to use experts on tasks that only they can do.

• **To create more efficient organisation structures**
Analyse spans of control and management layers, to identify and remove inefficiencies.

• **Prioritise capability building**
Take a hard look at where money is being spent on capability building and focus more on building those capabilities which the organisation needs most for effectively delivery.

These challenges do not just require judgement calls, and change is not an art form. Decisions about re-sizing and re-shaping organisations should make use of analytical and visualisation approaches in order to base them on actual evidence.

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