



# Capability Review of the Department of Trade and Industry



# Foreword

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The purpose of departmental Capability Reviews is to use honest and robust assessments of future capabilities to identify the specific measures that are needed if central government departments are to play their part in enabling the UK to meet the considerable challenges of the future.

Over the course of the last generation there has been a transformation in the UK economy and wider society. In the era of globalisation, international trends in, for example, migration, production techniques and energy consumption have a profound effect on an outwardly facing nation like the UK. Global competition places a premium on productivity and flexibility. Harnessing new technology, developing new, high-value skills and embracing change have all enabled the UK economy to respond to these challenges, but only because companies, communities and individuals have had to learn to adapt to rapid change. As the pace of change quickens, skills and flexibility will become even more important.

Just as these trends have required a major change in the behaviour of all parts of UK society – corporate, community and individual – the challenges of the future require a response from government too. If the State, through public services, is to enable the UK to thrive over the decades to come, public services and those who deliver them must also become more flexible and adaptable, more individual, more expert and more professional.

And the environment in which public services are delivered is also changing fast. Migration, an ageing population and changing lifestyles are amongst the factors that have made the UK population – the users of public services – more diverse than ever before. The nature of public services means that often the normal, market-based ways in which suppliers learn what customers think of services are only partly available. But technological and lifestyle changes mean that the public's expectations are rising, as those who use services rightly demand something tailored to their needs and delivered in the way most convenient for them.

Equipping public services for these challenges requires a transformation of the nature of government. The Capability Reviews mark an important part of this process for the centre, with an examination of what the needs going forward are for each government department.

Underpinning each review is how each department can play the role of enabler. In the modern era of technological change and consumer choice, it is not for government to control or prescribe what people want and receive.

Instead, a clear vision of what the centre should do is fundamental. High-level targets are an important tool, but the centre cannot and should not seek to micro-manage everything. Instead, the centre needs strong strategic capability to set and review priorities, as well as robust systems for managing performance and tackling areas of weakness. Getting the right skills in place, particularly operational skills, is of critical importance. Equally crucial is ensuring that policy is designed in a way

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that uses the experience of what works for customers and providers. These are the themes of the Capability Reviews.

Each Capability Review has been carried out by the Capability Reviews Team, in the Cabinet Office, with a team of external reviewers assembled specially for the department under review. These reviewers have been drawn from the private sector, the wider public sector and board-level members of other government departments. The teams' wealth of experience provides external challenge and insight as well as contributing to sharing best practice across Whitehall.

I would like to thank and acknowledge the support of the review team for the Department of Trade and Industry (DTI), without whom this report would not have been possible. The members of the team were:

- Alistair Neill – Chief Executive, Merthyr Tydfil County Borough Council
- Jonathan Vickers – Non-executive director of several public sector organisations
- Pavita Walker – Consultant in leadership, talent and diversity
- Vanessa Lawrence – Director General and Chief Executive, Ordnance Survey
- Stephen Marston – Director General, Department for Education and Skills

This report is just the beginning. The real challenge for DTI comes in implementing what has been identified as needing to be done. Key actions which address areas for improvement have been agreed between the Cabinet Secretary and the Permanent Secretary of the Department. The Capability Reviews Team will regularly review progress and provide support to help ensure that DTI is on track to deliver.



Sir Gus O'Donnell KCB  
Cabinet Secretary and Head of the Home Civil Service

December 2006

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# The Department's response

**The Department has responded to the findings of the review and identified four key strands of action. The Cabinet Secretary will use these to hold the Permanent Secretary to account on progress.**

## The Permanent Secretary's response

My board colleagues and I welcome this report. It comes at the right time to help us address the future challenges for the Department of Trade and Industry (DTI).

The Department has an important role: 'Creating the conditions for business success and helping the UK respond to the challenge of globalisation'. Its success is integral to the achievement of wider government policies and the future of the UK economy. The scale of the challenge – and opportunities – of globalisation for the UK is immense; so too is the issue of secure and sustainable energy. It is therefore right to look at ourselves critically to ensure that we have the capacity, as a department, to make a difference in these areas, working effectively with others across government and in the economy.

The Department has come a long way in the last few years, building on the reviews established by Patricia Hewitt and Sir Robin Young. We do many things well, as the Capability Review report recognises: the investment in science; the focus on knowledge transfer and innovation; our use of analysis and evidence; the way we exert influence within the European Union (EU); attracting inward investment; the effective delivery of results, notably by our agencies and delivery partners; and much else besides. We believe these activities have helped to improve conditions for business in the UK.

We have taken action over the last couple of years to become a more focused, efficient and agile department: we are on track to deliver the Gershon efficiency savings over the period covered by the Spending Review of 2004; we have reduced headcount in the core Department by 25 per cent, and established the 'Project Pool' to enable us to respond flexibly to new pressures; and our Two Roofs programme has been praised for the efficient way we have used office space in London. We have recently announced further restructuring in a number of areas, aimed at doing things more effectively and efficiently, which (taken together) will reduce our headcount by a further 300.

But we recognise that this is not, and will not be, enough if we are to be confident in having the capacity to play a really effective part in government's role in meeting the long-term challenges that the country faces. My board colleagues and I accept the review report findings and are determined to use them to build on our strengths and address our weaknesses. We need to ensure that we are more than the sum of our parts. We will focus on visible and decisive action in four areas, rooting it in the business and performance management of the Department.

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## Clarity of purpose

We welcome the recognition in the review report that DTI's strategy aimed at promoting the UK economy is backed by a strong evidence base. But we also recognise the need to ensure that everyone in DTI is clear about the Department's objectives and how their activity contributes to them; that clarity about our aims and objectives enables us to work effectively with other parts of central government and more widely; that we simplify the range of objectives we seek to address; and that we use this approach to allow us to prioritise more effectively. To this end, we will:

- by summer 2007, agree in the forthcoming Comprehensive Spending Review a set of objectives for DTI that are comprehensive, clear and deliverable;
- on the same timetable, actively engage with other government departments on the delivery of joint objectives;
- make clear through our business planning process for 2007/08 the links between our objectives and the outcomes we are expecting from people and teams within DTI;
- ensure as part of business planning that we have arrangements to prioritise activity in DTI and to monitor our performance against our objectives; and
- over the next 12 months, communicate our objectives clearly and effectively to people in DTI and those we work with outside the Department.

Clarity about our role and purpose will help staff see better the link between their activities and the overall picture. It will put DTI in a strong position in its relations with other parts of central government and, importantly, with those who are our delivery partners outside central government.

## Leadership – 'it starts with me'

We welcome the fact that the review team found in DTI excellent examples of leadership. Strong, confident and effective leadership – from the Board and throughout the organisation – is essential if we are to meet the challenges that will come with our Comprehensive Spending Review objectives. Since I arrived just over a year ago, I have brought in several new board members. The new Board recognises its leadership responsibility and is working to improve the way it demonstrates it. We accept that people do not see enough of us acting together corporately on issues and taking a consistent line on delivery, performance and leadership throughout the Department. To this end, we:

- are already working on our own development as a team. We will complete the initial phase of this by March, and we will continue this and build on it through 2007 to create the culture we require in DTI;
- will, over the next 6 to 12 months, make clear our expectations of other senior managers in DTI, developing them as we have developed ourselves. We will be explicit about the standards we expect and will strengthen the alignment of performance and reward;
- will, over the next 12 months, build on existing work to identify our skills needs for the future and ensure our recruitment, retention and development strategies reflect them; and

- will, over the next 12 months, substantially improve the understanding amongst DTI staff of leadership and their personal responsibility for it.

We also take very seriously the issue of diversity in our organisation, and are committed to delivery of our diversity strategy over the next two years.

## Standards and responsibilities

There needs to be a clear link between the objectives agreed for DTI and our business plan, describing how we will deliver them; there needs to be a simple and clear process for board review of performance against the plan; and, like any large organisation, there need to be standards that support them. This is what we mean by ‘standards and responsibilities’.

Our procedures and values need to be straightforward for people to comply with. The DTI’s core commitments – reach out, be courageous, value people – remain relevant to staff and should help us to get this right.

To this end, we will:

- within the next 12 months, produce a clearer and more focused ‘balanced scorecard’ covering our performance against targets and our progress in developing the capability of DTI;
- within the next six months, introduce a timetable for board-level and group-level reviews that will challenge performance by groups in DTI;
- use this process to communicate board-level and group-level action on performance;
- be clear about our expectations for corporate behaviour whilst committing to procedures that are light touch and delivering progress within six months;
- over the next 12 months, collect and publish management information that monitors performance against corporate standards; and
- celebrate success.

Through these changes, we intend to make a significant impact on performance and corporate behaviour in DTI.

## Delivery

We welcome the review team’s ready identification of examples of excellence in delivery throughout DTI – in policy areas and in service delivery. That is recognised by many of those who deal with DTI, whether customers of our agencies, those involved with complex legislation such as the Companies Act 2006 or difficult policy areas covered by the Energy Review.

Equally, we recognise the finding by the review team that we need to make greater use of the strengths we have across the Department and our delivery partners.

And, in particular, we need both a clearer model for our relationship with over 40 bodies that form part of the 'DTI family' and better strategic engagement with these bodies so we are delivering the right outcomes for ministers and our customers. We should build on our delivery strengths, and reinforce the linkages across the different bodies and across parts of the core Department. We need to learn from the successes in DTI and its delivery partners.

To this end, we will:

- review our delivery arrangements against a 'business model' that is a smaller, more strategic core Department sets strategy and policy; service delivery is primarily carried out by our delivery partners; and it is organised in the interest of customers;
- over the next six months, take immediate steps to achieve greater strategic engagement between DTI and its delivery partners;
- within the next 12 months, engage with senior managers of delivery partners to ensure two-way learning and sharing of successes;
- within the next 12 months, conduct a dialogue with our delivery partners about alignment of business processes, performance management and priorities within the DTI family; and
- over the next two years, use the strengths of the DTI family to further develop DTI's position on delivery and its relevance to government services as a whole.

Running across all of these actions is the need to communicate effectively about our plans. We need to ensure that our staff understand clearly what we are committing to and their role in delivering it. We will aim to have a sound understanding with other departments in Whitehall of the range of DTI's responsibilities. And we will ensure that DTI's role in delivery is understood more widely outside government.

I am under no illusion that it is easier to write and say what is covered in this response than it is to deliver it. The test will be whether the business community, our customers, staff and delivery partners notice the difference in the way we operate. My board colleagues and I are determined to focus on the key actions that matter and that will be effective in ensuring that the Department does have the capacity we need for the future – to strengthen the contribution we make to the competitiveness of the UK economy and help businesses respond to the global challenges the economy faces.



Sir Brian Bender KCB  
Permanent Secretary  
Department of Trade and Industry

December 2006

# 1. The Department

**The Department of Trade and Industry (DTI) plays a key role in ensuring a successful UK economy. The Department has a challenging and broad set of objectives, designed to secure business success in a global market.**

The Department has a long history, but the DTI as we now know it was established in 1983 with the merger of the Department of Industry and Department of Trade. There have been several changes in focus and remit in the intervening period, most notably the establishment of a joint directorate of international trade with the Foreign and Commonwealth Office (FCO) in 1991, and the absorption of the Department of Energy in 1992 and the Office of Science and Technology in 1995. The latter brought responsibility for funding science and innovation, currently worth around £3bn per year. In the same year, DTI inherited the responsibility for industrial relations from the then Department for Education and Employment. There have been some further exchanges of function with the Cabinet Office.

The Department has worked hard over the past five years to improve its effectiveness and impact. In 2001, the then Secretary of State oversaw a review of DTI. This led to a restructuring and re-branding of the Department in 2002. A strategy for DTI – the first comprehensive strategy of its kind – followed in 2003, along with the introduction of more effective business plans.

In 2004, the Department published a five-year programme of priority actions and policies to develop a strong, knowledge-based economy and a contribution to sustainable development. This new strategic framework, and an understanding of the areas in which the Department could make the most difference, led in November 2005 to the revised statement of purpose:

‘Creating the conditions for business success and helping the UK respond to the challenge of globalisation.’

The Department pursues this purpose through four strategic objectives:

- funding, promoting and exploiting world-class research, science and innovation;
- supporting successful business in the UK and abroad;
- ensuring fair markets that are efficiently regulated; and
- ensuring secure, sustainable and affordable energy.

Much of what the Department does is at the heart of political and economic debate, including work on issues such as: securing sustainable energy, the impact of Europe on competitiveness, inward investment and outward investment overseas, the minimum wage, and encouraging innovation. The Department also manages a wide range of government assets and liabilities. These include nuclear liabilities and residual liabilities from the coal, steel and shipbuilding industries. It also manages the Government’s interests in public corporations, such as Royal Mail, British Nuclear Fuels and the Royal Mint.

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The Department (including UK Trade and Investment (UKTI)) employs around 3,500 staff, less than 1 per cent of the Civil Service. The majority of these staff are based in London, but there are also offices in Aberdeen, Sheffield, Billingham, Harwell and Cardiff. It has annual running costs of approximately £330m and a total annual budget (in 2006/07) of £6.6bn. Around 50 per cent of this is spent on science and research. The overall DTI budget is about 1.3 per cent of total government expenditure.

The Department delivers some of its objectives through five executive agencies (the Small Business Service (SBS), Companies House, the Patent Office, the Insolvency Service, and the National Weights and Measures Laboratory). Changes in the role of SBS mean this will cease to be an agency from 31 March 2007. These agencies currently employ approximately 4,900 staff. DTI also sponsors some 30 executive non-departmental public bodies (NDPBs). These include the eight research councils and eight regional development agencies (RDAs). The Department also sponsors a further 30 advisory bodies and tribunals. Collectively, these organisations employ a further 19,500 staff.

The Department works with a broad range of stakeholders from inside and outside the public sector and in close partnership with a number of government departments. These include HM Treasury (HMT), the Department for Environment, Food and Rural Affairs (Defra), the Department for Transport (DfT), the Department for Work and Pensions (DWP), the Foreign and Commonwealth Office (FCO) and the Department for Education and Skills (DfES). Parts of DTI work to more than one department. The Chief Scientist, for example, while based in DTI alongside other science functions, has a cross-government role and reports to the Prime Minister. The Chief Executive of UKTI also sits on the FCO Board.

The Department's top-level governance consists of a Management Board, chaired by the Permanent Secretary, and comprising eight directors general, the Chief Executive of UKTI and three independent board members (IBMs) from outside Whitehall. The role of the IBMs is to provide independent challenge to the Board.

Following a review of DTI governance in March 2006, three sub-committees now support the Management Board. The Executive Committee makes decisions on high-level business planning and management issues, the Operating Committee is responsible for operational decisions concerning how the Department is delivering on its strategic priorities, and the Audit and Risk Committee oversees the work of the internal and external auditors and reviews the annual financial statements.

The Department has recently implemented a number of successful innovations. The 'Project Pool', for example, allows staff to be moved quickly and flexibly across the organisation into priority areas. The Department's Two Roofs programme (moving to two main sites in London) and flexible desking policy in open-plan working have reduced the London estate by 30 per cent. Staff believe the new working arrangements are a success.

## 2. Current delivery challenges

**The Department has made progress towards delivering its Public Service Agreement (PSA) targets since 2004. It is ahead of schedule on its Gershon efficiency savings. It has delivered significant headcount reductions and made progress towards relocating posts outside London. DTI has contributed to notable delivery successes in other areas.**

The Department has 11 PSA targets (significantly more than most departments) set out in the 2004 Spending Review. Five are joint targets with other departments.

1. Raise the rate of UK productivity, improve competitiveness and narrow the gap with competitors – a joint target with HM Treasury (HMT).
2. Improve the relative performance of the UK research base and increase the overall innovation performance of the economy.
3. Promote fair competitive markets.
4. Lead work to deliver the goals of the Government's energy policy:
  - reduce greenhouse gas and carbon dioxide emissions (with the Department for Environment, Food and Rural Affairs (Defra) and the Department for Transport (DfT));
  - secure energy supplies;
  - eliminate fuel poverty (with Defra); and
  - ensure competitive energy markets.
5. Ensure that the EU secures significant reductions in EU and world trade barriers.
6. Build an enterprise society in which small firms of all kinds thrive and achieve their potential.
7. Make sustainable improvements in the economic performance of all the English regions, and reduce the gap in growth rates between them. This is a joint target with Communities and Local Government.
8. Improve the business performance of UK Trade & Investment's (UKTI's) international trade customers and maintain the UK as the prime location in the EU for foreign direct investment. This is a joint target with the Foreign and Commonwealth Office (FCO).
9. Bring about measurable improvements in gender equality.
10. Promote ethnic diversity, cooperative employment relations and commitment in the workplace, whilst maintaining a flexible labour market.
11. Reduce the UK's civil nuclear liability by 10 per cent by 2010 and establish a safe, innovative and dynamic market for nuclear clean-up.

Following machinery of government changes in May 2006, the Women and Equality Unit moved from DTI to Communities and Local Government, taking with it the responsibility for PSA 9 on gender equality.

## DTI has made progress towards delivering its PSA targets since 2004.

DTI is on course to meet 6 of the 10 PSA targets for which it is now responsible. Most significantly:

- the latest data suggests that the UK's productivity gap has narrowed in relation to the US and France, and closed with Germany; and
- the UK remains second in the world only to the US for the number of world science citations. The UK is also more productive in this regard than any other G8 nation.

The position on the other four PSA targets is mixed:

- the Department is behind trajectory on delivering the overall goals of energy policy. It is on target to deliver reliability of energy supplies and meet greenhouse emission targets, but there is slippage against the carbon dioxide emissions target and the fuel poverty target will prove challenging;
- securing reductions in trade barriers is dependent on the Doha Development Agenda negotiations which were suspended in July 2006;
- the Department has not yet assessed progress against the April 2005 target to promote ethnic diversity, cooperative employment relations and greater choice and commitment in the workplace; and
- the Nuclear Decommissioning Authority came into existence on 1 April 2005 with a target to reduce civil nuclear liability and establish a market for clean-up. No deliverables are scheduled until the end of 2006/07.

## The Department is ahead of schedule on its Gershon efficiency savings. It has delivered significant headcount reductions and made progress towards relocating posts outside London.

- The Department has a target to achieve Gershon efficiency savings of at least 2.5 per cent a year, equivalent to £380m by 2007/08, of which half will be cashable. DTI is ahead of trajectory. By September 2006, the Department had delivered around £304m, of which £234m is cashable.
- DTI had reduced the number of posts in its headquarters and Government Offices by 1,062 in April 2006, two years ahead of schedule. This exceeded the overall target of 1,010 by March 2008. The Department has relocated 288 posts outside London, against a target of 685 to be achieved by March 2010, ahead of its intermediate milestones.

## The Department has contributed to notable delivery successes in other areas.

- The UK is second only to the US in research and continues to increase its share of world citations. Current value of the 20 spin-out companies floated on the stock market is close to £1.5bn.

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- DTI contributed to a businesslike, impartial European presidency, with tangible results, including achieving political agreement on the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulation, saving businesses over £600m.
  - UKTI spent £65m on four key trade development schemes, enabling over 6,000 businesses to upgrade their international marketing strategies and generating £1.1bn additional net benefit. In 2005/06, 1,220 inward investment projects created 34,077 new jobs, and safeguarded a further 55,789.
  - DTI delivered the Energy Review, setting a framework for secure, sustainable energy for the UK. While there has been a 21 per cent increase in GDP since 1997, energy consumption has increased by just 2 per cent.
  - During 2005/06, Business Link produced practical advice and help to over 670,000 businesses. Businesslink.gov.uk attracted over 500,000 visitors a month, doubling the proportion of repeat visitors of the previous year.
  - Businesses will save an estimated £250m a year following simplification and reform of company law.
  - The Department's executive agencies continued to flourish. Companies House and the Patents Office produced operating surpluses whilst providing low-cost and high-quality services. The Insolvency Service made nearly 10,000 businesses pay something towards their debts, collecting £12.4m and increasing enforcement by 33 per cent while reducing enforcement costs by 12 per cent.

## 3. Challenges for future delivery

**The Department has a critical role to play in ensuring economic prosperity in a period of transition to an open, globally integrated knowledge economy. DTI has set out a vision and strategy for how this will be achieved. The Comprehensive Spending Review (CSR) 2007 provides an opportunity to agree new and better outcome targets. DTI delivers through long and complex delivery chains in which direct measurement of effectiveness is difficult. DTI operates in a context of political uncertainty, reductions in departmental headcount and budget pressures.**

The Department has a critical role to play in ensuring economic prosperity in a period of transition to an open, globally integrated knowledge economy.

DTI has a critical role to play but not the sole role. Other government departments sponsor major parts of the economy, such as financial services, food, pharmaceuticals, tourism and leisure, defence, and local government. Major policy areas of interest to business – including the environment, skills, taxation, better regulation and transport – are the responsibility of other departments. There is a significant interface with the work of HM Treasury (HMT).

For its part, DTI will focus on:

- maximising the impact of the UK's investment in science, ensuring that business takes full advantage of innovation;
- supporting successful business in the UK and abroad, through close working with regional development agencies (RDAs) and UK Trade & Investment (UKTI);
- ensuring fair markets that are efficiently regulated;
- completing the Energy Review and implementing its recommendations to ensure secure and sustainable energy;
- encouraging participation and the development of skills in the labour market and workplaces;
- securing successful progress in world trade negotiations following the failure of the Doha development round; and
- securing the future success of its shareholder interests, particularly in the Royal Mail.

DTI has set out a vision and strategy for how this will be achieved. The Comprehensive Spending Review (CSR) 2007 provides an opportunity to agree new and better outcome targets.

The 2003 Prosperity for All strategy, the supporting evidence base and the Department's five-year programme, Creating wealth from knowledge, published in 2004, set out a compelling vision for how DTI will deliver its objectives. The Business

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Plan 2006/08 sets out the priorities and objectives for the next two years, and explains how DTI will deliver its Public Service Agreement (PSA) targets. CSR 2007 provides an opportunity to agree a new and better set of PSAs with a clear set of targets and priorities based on meaningful outcomes for the subsequent three years. It is also the platform to clarify roles with partners when delivery is shared. In particular, the respective roles and responsibilities of HMT and Number 10 need to be clarified to assist DTI in this process.

### **DTI delivers through long and complex delivery chains in which direct measurement of effectiveness is difficult.**

The Department's overarching aims are highly aspirational and long term. They are achieved through complex delivery mechanisms in which DTI's influence can, at times, be limited and unclear. The baselines, outcomes and the link between inputs and outcomes are often unknown, and the costs and benefits of delivery are difficult to track. DTI has to work through and with others in loose partnerships, making appropriate links amongst the government departments, stakeholders and agencies with which it deals. This can potentially lead to confusion and overlap.

### **These challenges need to be met in a context of political uncertainty, reductions in departmental headcount and budget pressures.**





The Department operates in an environment of constant political debate about the best way to deliver its services. Both the leadership team and the staff are aware that there is an appetite amongst some for the abolition of DTI, or for a marked change in its priorities. This review has concentrated on the future challenges facing DTI rather than on the broader government challenges of supporting business in a global economy of which DTI's role is just one part. Whilst the line is not a hard and fast one, and this review recognises the challenges of joined-up delivery, it has not considered whether the objectives would be better served through changes to the machinery of government or through structural changes. This review recognises, however, that this is a future challenge that requires broader strategic debate.

The current financial position for DTI is difficult. The Department is examining how it could achieve savings through efficiencies and by narrowing the focus of its activities. It is planning for a reduction of administration costs of five per cent per year in real terms in each of the CSR years, and a further reduction in headcount. The Department has to manage ring-fenced budgets effectively within its overall financial settlement.




# 4. Assessment of capability for future delivery

- The Department’s capability for future delivery was assessed as ‘well placed’ in four of the ten elements in the model of capability. These were: ‘base choices on evidence’, ‘build common purpose’, ‘plan, resource and prioritise’ and ‘manage performance’.
- Four elements were assessed as a ‘development area’. These were: ‘set direction’, ‘ignite passion, pace and drive’, ‘build capability’ and ‘develop clear roles, responsibilities and business model(s)’.
- Two elements were assessed as an ‘urgent development area’. These were: ‘take responsibility for leading delivery and change’ and ‘focus on outcomes’.
- There were no areas of ‘serious concerns’.




## Leadership

|           |   |   |                         |
|-----------|---|---|-------------------------|
| <b>L1</b> | Set direction                                       |    | Development area        |
| <b>L2</b> | Ignite passion, pace and drive                      |   | Development area        |
| <b>L3</b> | Take responsibility for leading delivery and change |  | Urgent development area |
| <b>L4</b> | Build capability                                    |  | Development area        |

## Strategy

|           |                          |   |                         |
|-----------|--------------------------|---|-------------------------|
| <b>S1</b> | Focus on outcomes        |  | Urgent development area |
| <b>S2</b> | Base choices on evidence |  | Well placed             |
| <b>S3</b> | Build common purpose     |  | Well placed             |

## Delivery

|           |   |   |                  |
|-----------|---|---|------------------|
| <b>D1</b> | Plan, resource and prioritise                               |  | Well placed      |
| <b>D2</b> | Develop clear roles, responsibilities and business model(s) |  | Development area |
| <b>D3</b> | Manage performance  |  | Well placed      |

The model of capability is shown at Annex A.  
 The assessment categories are shown at Annex B.

## 5. Capability Review findings

### Leadership

The Department's leadership team has worked hard over the past five years to provide renewed direction and focus. It has begun the process of transformation required to make a step change in leadership capability. DTI needs to clarify the leadership culture and behaviours required to deliver its future challenges, and embed these in the organisation. The Board and senior leadership need to be more aware of the impact of their leadership, and more visible in leading change and making the vision and strategy a reality. The Department needs to do more to identify and develop the skills and competencies it needs for the future.

The Department's leadership team has worked hard over the past five years to provide renewed direction and focus.

- The senior leadership team has recently refined and communicated a new departmental statement of purpose, building on previous work to redefine a strategy for DTI. There are clear links between the statement, revised strategy and Public Service Agreements (PSAs), and business planning.
- The Department has been through significant change and downsizing to reflect priorities. This has brought a sharper focus to some parts of the organisation.
- The Board has met the challenge of financial deficits and efficiency targets.
- Key stakeholders believe that the Department has an important role to play and comment favourably on good relations and the calibre of senior staff.
- Staff and the senior leadership within operational units demonstrate passion and commitment to their work.
- Stakeholders acknowledge that the Department performs well in response to new challenges and crises.

The leadership team has begun the process of transformation required to make a step change in leadership capability.

- The Permanent Secretary inspires confidence in staff, stakeholders and partners, and there is wide acceptance of a positive direction of travel.
- Individuals with a broader range of skills and expertise – including in finance, HR and commerce – have been recruited to the senior leadership.
- High-quality independent board members (IBMs) have been recruited to challenge the Board and provide expertise.
- The Department's people priorities 2006 set out a clear ambition to develop strong leadership and effective management of change. This builds on very positive improvements in the Department's approach to nurturing and developing talent, including the New Leaders programme for the Senior Civil Service and the internal Fast Stream Advanced Development Programme.
- The Management Board has set itself a further target of being more visible to staff.

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- Heads of Management Units (HMUs) meet monthly to consider cross-cutting leadership issues.
  - The Department volunteered for, and was the first in Whitehall to be successfully re-assessed to, the new Investors in People (IIP) standard.

### DTI needs to clarify the leadership culture and behaviours required to deliver its future challenges, and embed these in the organisation.

- In an environment in which DTI's role is misunderstood, the Board needs to do more to champion DTI as a whole and engender a greater sense of strength and confidence amongst the Department's leadership and staff.
- Stakeholders describe DTI not as one organisation but as a number of organisations held together in a loose federal structure. There is little agreement within DTI on how best to lead this federation to gain maximum value from the various links and associations that exist within it.
- Some IBMs would welcome clarification of their leadership roles and more opportunity for cross-fertilisation of ideas.
- Business plans and strategies do not drive corporate behaviour, and a small but significant number of the senior leadership team openly express only a weak loyalty to the Department.
- Whilst recent improvements have been noted, surveys show a large gulf between DTI's leadership team and those they lead in the perceptions of effective leadership.
- The process for embedding good leadership behaviour, with appropriate rewards and sanctions, is not being applied systematically.

### The Board and senior leadership need to be more aware of the impact of their leadership, and more visible in leading change and making the vision and strategy a reality.

- There is insufficient corporate ownership of the overall vision, strategy and purpose of the Department amongst the leadership team. The Board does not articulate a compelling and coherent view of the future in a way that inspires confidence and removes uncertainty about operational direction.
- Board members and the senior leadership team are not always recognisable to staff.
- The Board has recognised the need to improve its management of change and its visibility, but still needs to do more to make this a reality.
- There is a perception amongst staff that change is an intellectual exercise rather than a force for improved performance.
- There is little evidence of a coherent change agenda or a visible guiding coalition for change.
- Staff and external stakeholders feel that DTI's vision and purpose are used retroactively to put a story to what DTI does, rather than to proactively shape what DTI needs to do.

## The Department needs to do more to identify and develop the skills and competencies it needs for the future.

- Whilst work is in hand to identify the skills needed for the future, there is a perception amongst staff that functional policy experience and knowledge are valued over leadership, delivery and communication skills, and the ability to influence.
- Whilst staff report an improving culture of coaching and learning, DTI has yet to meet its commitment to be a Department that is high-performing and that manages poor performance with regular, honest and constructive feedback.
- Steps have been taken to bring a range of different skills and backgrounds into the Department, but DTI still needs to broaden its talent pool.

## Strategy

**The Department has worked hard to develop a clear strategy backed by a strong evidence base and effective analytical capability.**

**DTI needs to use this capability to ensure effective prioritisation and appropriate trade-offs between policies.**

**The Department needs to take a more strategic, customer-focused approach and further strengthen common purpose with its major stakeholders, including other government departments.**

## The Department has worked hard to develop a clear strategy backed by a strong evidence base and effective analytical capability.

- The Department's four strategic objectives flow from its strategic framework. This supports business planning and ensures that staff are clear about what is expected of them in their individual areas.
- A comprehensive evidence base and regular assessments of the UK's economic position accompany the strategy. There is an ongoing programme of appraisal and evaluation, and a full inventory of evaluations.
- The Department has improved its evidence base and analytical capacity, and the Chief Economic Adviser has a seat on the Board.
- The Department has proposed that it should concentrate on fewer and more measurable PSAs, with clearer outcomes.
- DTI is mapping future economic and scientific trends through the DTI 2020 and Foresight programmes, and there is a 10-year strategy for scientific and research investment.
- Several stakeholders report favourably on how they are consulted about and involved in DTI's work, and the extent to which their needs are understood.

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## DTI needs to use this capability to ensure effective prioritisation and appropriate trade-offs between policies.

- Horizon-scanning and analysis take place, but they are not yet used to the fullest extent possible to inform future business and strategy.
- Many stakeholders perpetuate a perception that DTI has not yet made the transition to working within a knowledge economy. The Department needs to do more to change this perception and to communicate the realities of working in a modern economy to its stakeholders.
- The Board and ministers recognise the need to have more and better strategic discussions and to concentrate on performance and outcomes rather than short-term tactical and financial issues.
- The Department does not make full use of its excellent evidence and analysis to make difficult decisions, to help it resolve inherent policy tensions, and to make trade-offs between short- and medium-term goals, for example between energy, sustainability and business development.

## The Department needs to take a more strategic, customer-focused approach and further strengthen common purpose with its major stakeholders, including other government departments.

- The Department is strongly task-focused, and performs many of its tasks well. But it needs to do more to ensure that it has an appropriately strategic, customer-oriented approach, in order to choose the right activities to pursue.
- Some arm's length bodies (ALBs) and other delivery agents do not share a sense of common purpose and complain of the lack of an appropriate strategic framework in which to work.
- There is little evidence of learning and sharing best practice between the Department's delivery chains, ALBs and partners, and those who sponsor them within DTI.
- The Department needs to focus more on the outcomes of its relationships with other departments and stakeholders in order to deliver the most successful outcomes, rather than focusing on the quality of its relationships and how it responds to stakeholder concerns per se.

## Delivery

**The Department is making progress against PSA targets in a challenging environment. It has delivered efficiency improvements and headcount reductions ahead of schedule and has ambitious plans to improve its corporate support.**

**The Department is not clear about the business models needed to meet its future challenges.**

**DTI needs to deliver on its plans to strengthen corporate discipline and the use of data to enable the Board to make key management decisions.**

The Department is making progress against PSA targets in a challenging environment. It has delivered efficiency improvements and headcount reductions ahead of schedule and has ambitious plans to improve its corporate support.

- The Department is demonstrating progress against the Government's long-term objective of raising the rate of productivity growth, improving competitiveness and narrowing the productivity gap.
- The Department is on track to deliver an ambitious efficiency programme, workforce reduction and relocation targets.
- There is evidence of strong performance in many of DTI's non-departmental public bodies (NDPBs) and other ALBs. Over half of DTI's expenditure goes to science and innovation, which are key to DTI's objectives, and perform well.
- Challenging cross-government priorities, such as the Energy Review and the Company Law Reform Bill, have been delivered.
- DTI's role in Europe is highly regarded by stakeholders.
- The Department has some good and some satisfactory internal procedures to support delivery. The Department recognises that these need to improve further.
- The Department has a number of high-quality plans in place to improve corporate services and drive corporate discipline. These include financial management, information management, and HR and performance management; the Department recognises the importance of delivering all of them.
- The Department is also developing means through which it can assess the effectiveness of delivery through ALBs (such as the regional development agencies).

The Department is not clear about the business models needed to meet its future challenges.

- Whilst the Department's NDPBs work to specific objectives and business plans, there is an inconsistent approach to monitoring amongst their departmental sponsors. Relationships are often characterised by financial control rather than by joint strategic priority-setting and follow-through. Some NDPBs report unnecessary micro-management and others report 'benign neglect'.

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- To ensure that it uses the right business models, the Department needs a clearer understanding of how its own levers contribute to outcomes, as well as how those levers employed by other departments and ALBs contribute. This is particularly the case when delivery is shared amongst two or more departments or partners.
  - DTI needs to do more to develop its own internal business model to meet the needs of the knowledge economy, for example by linking the science and innovation spend to the objectives of the Department's other business units.
  - The delivery landscape can be complex, with multiple players and agencies involved, for example the various streams of interaction with business, and the overall consumer protection and fair trading landscape.
  - Opportunities for better customer segmentation, streamlining and rationalisation within a clear strategic framework have not been fully explored.

**DTI needs to deliver on its plans to strengthen corporate discipline and the use of data to enable the Board to make key management decisions.**

- The revised governance framework is not yet fully functioning. More needs to be done to clarify the new roles and responsibilities, to increase understanding and to ensure that the framework has real impact.
- The Board needs to do more to monitor progress on delivery. Too much attention is given to focusing on the accuracy and comprehensiveness of status reporting, rather than on problem-solving and corrective action.
- The detailed and comprehensive balanced scorecard needs to focus on fewer key outputs, performance indicators and risk, rather than on day-to-day business and inputs.

## 6. Key areas for action

**DTI has a valuable role, and is well placed in a number of areas relating to strategy and delivery. The review identified four key areas for further action which are critical if the Department is to respond successfully to current and future challenges.**

### Area for action 1 – use the vision, role and purpose to set priorities and drive the business for the future

- The Department should use its vision, role and purpose to drive the direction and performance of the organisation. Currently, these do not provide a day-to-day focus on outcomes for individuals. This leads to a loss of impact, inconsistent delivery, loss of confidence and a weak sense of corporate belonging.
- The Department should be more confident in its role and purpose, and more visible in communicating a compelling and coherent view of the future and of the direction for future success – both within and outside the organisation.
- The Department should do more to engage in strategic discussions with other government departments (notably HM Treasury) on the most appropriate future shape of the Government's approach to business support.

### Area for action 2 – improve the capacity for developing strong, confident, visible and decisive leadership and for building future capability

- The senior leadership team needs to continue its focus on developing as a team, working across divisional and organisational boundaries, and being seen to act more corporately in support of the Department's strategy.
- The Department should be clearer to staff about who board members are, and do more to unify the roles and purpose of the Board's membership – particularly those who report to structures outside DTI.
- More attention should be given to establishing corporate objectives and defining and rewarding an appropriate set of leadership behaviours.
- Particular thought should be given to the model of leadership necessary to derive the most from DTI's federal structure. This must recognise the power and value of leaders within the delivery chains, and also the part they can play in the collective whole.
- A proper balance between functional management and corporate leadership should be ensured on the Board, and this should be reflected in the time that leaders allocate to these tasks.
- The leadership and management deficiencies set out in the staff attitude survey and the Investors in People re-assessment should be addressed.
- The Heads of Management Units should accept more responsibility as a key leadership team within and outside the organisation.
- A more corporate approach to the management of change needs to be developed. The Board should be more active in leading ongoing cultural change, through consistent, visible and repeated actions.

- DTI should press ahead with plans to identify the diversity of skills and competencies needed to deliver future challenges. The Department should particularly consider the skills of communication, influencing and change management in the wider skills portfolio.
- DTI should take stock of recent improvements in general levels of competence in project management, finance and economics, and also consider the need for further development in these areas. The Department should ensure that new skills imported or seconded into it are properly used.

### Area for action 3 – ensure that business models are appropriate for delivering excellent joined-up services and for enabling agencies and non-departmental public bodies (NDPBs) to operate within a strategic corporate framework

- DTI should grasp the implications of its federal structure and manage it actively to maximise its potential.
- The Department needs to determine explicitly the right model for each delivery chain. It should assure itself that current business models, processes, practices, cultures and behaviours are fit for enhanced performance in the future.
- The Department must become customer-led, rather than producer-led. Better customer segmentation should reduce customers' potential interactions with DTI and its partners.
- Silo working should be eliminated by making better links across delivery chains. This should include an active learning network for sharing best practice and making the most of shared services and stakeholder relationships.
- Ambiguities over responsibilities for strategy, financial and performance management, stakeholder engagement and relationship management amongst arm's length bodies should all be eliminated.
- DTI should make clear where agencies and NDPBs are empowered and autonomous, and where it must exercise control itself. Where greater autonomy is deemed appropriate, this should not be at the expense of corporate working and a shared sense of strategy and purpose.
- DTI should take the lead in bringing stakeholders together in strategic forums and help delivery chains to drive common purpose.

### Area for action 4 – consolidate the corporate behaviours, systems and discipline needed to drive high-level performance and prioritisation

- The processes and culture that support the performance management system should be reviewed, to provide a better platform for the Board to drive high-level performance and prioritisation.
- Personal performance management should be aligned with the achievement of the Department's objectives and with the building of future capability.
- A step change in personal performance management needs to take place: straight and honest conversations and adequate feedback should be at its heart.

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DTI needs to demonstrate the importance attached to this behaviour by the Board, using appropriate rewards and consequences.

- DTI should be clear about how the various business process reviews that are underway interrelate, and be certain that they are leading to a coherent set of changes that will support performance management in the Department. These changes will need to be managed in a coordinated way.
- Independent challenging of the evidence and analysis on which the Board is asked to make decisions should continue to be championed. The role of independent board members (IBMs) must be clarified, and they should be supported in the appropriate way.
- DTI must further develop both programme and project management to ensure appropriate prioritisation and risk management and the effective delivery of the right products.

# Annex A: The model of capability



The model of capability has been designed specifically for the Capability Reviews. It was developed through consultation with senior leaders in Whitehall and external experts. The model is deliberately selective and designed to focus on the most crucial areas of capability – leadership, strategy and delivery.

The reviews provide an assessment of capability for departments, identify key areas for improvement and set out key actions to address these areas.

The scope of the reviews is to assess the capability of departments’ senior leadership in the areas above, using the model of capability. The model enables judgements to be made against 10 elements across leadership, strategy and delivery, using an underlying group of 49 questions.

Each review has been carried out by the Capability Reviews Team with a team of external reviewers assembled specially for the department under review. These reviewers have been drawn from the private sector, the wider public sector and board-level members of other government departments.

The Capability Reviews Team will regularly review progress and provide support to help ensure that the department is on track to deliver.

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## Leadership

### Key questions that test current capability

#### L1 Set direction

- How do you set a clear direction and articulate the vision to provide a compelling and coherent view of the future?
- How do you take difficult decisions, and do you follow them through?
- How do you generate common ownership of the vision amongst the board, the department and delivery owners?
- How do you maintain focus when faced with crises/system shocks? How do you balance this with the need to keep the vision up to date when circumstances change?

#### L2 Ignite passion, pace and drive

- Are you seen as role models in the department, inspiring the respect, trust, loyalty and confidence of superiors, peers and staff? Do you talk, listen and act on feedback and thereby demonstrate an understanding of the business?
- Do you display passion about meeting delivery outcomes?
- How do you engage personally with customers and staff in the department and across the system?
- How do you maintain energy and enthusiasm? How do you inspire staff to be proud to work for the organisation?

#### L3 Take responsibility for leading delivery and change

- Do you drive delivery by taking responsibility, welcoming challenging feedback on performance and learning lessons from successes and failures?
- How do you role-model an effective corporate culture of teamwork within the system? Do you and the senior leadership team act as an effective guiding coalition and initiate work across boundaries to achieve delivery outcomes?
- Do you accept the pressing need for change? Do you demonstrate your personal commitment to that change?
- How do you manage change effectively? How do you champion and drive through that change, addressing and overcoming resistance when it occurs?
- Are you open, honest, courageous and unflinching in delivering tough messages to your ministers and the department?

#### L4 Build capability

- How do you nurture talent and encourage innovation in order to build capacity?
- Do you have a leadership development/promotion process that is fair and transparent?
- How do you manage the performance of everyone by rewarding good performance and tackling poor performance?
- Do you get enthusiastically involved in identifying talent and building capability in individuals and teams?
- Do your culture, behaviour and staff profile reflect the diversity of the customers you serve?

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## Strategy

### Key questions that test current capability

#### S1 Focus on outcomes

- Do you have one overarching set of clear and challenging outcomes, aims and objectives that will improve the overall quality of life for customers and benefit the nation?
- How do you work with ministers to develop strategy?
- How do you negotiate trade-offs between 'priority' policies?
- How do you work with other departments and partners external to government when developing strategy?

#### S2 Base choices on evidence

- How do you understand what your customers and stakeholders want?
- How do you identify future trends and plan for them? How well do you identify and manage the associated risks?
- How do you innovate by developing creative solutions to challenging problems? How do you ensure appropriate ambition?
- How do you choose between the range of options available?
- Once a strategic challenge has been identified, what process do you follow to address it, and who is involved?
- How do you ensure that your decisions are informed by sound evidence and analysis?
- How do you design systems that deliver your strategic objectives? How do you consider whole systems and understand the cost base?

#### S3 Build common purpose

- How do you align and enthuse the different players in the delivery chain to deliver?
- How do you remove obstacles to effective joint working? How do you share learning in order to ensure the strategy is delivered?

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## Delivery

### Key questions that test current capability

#### D1 Plan, resource and prioritise

- Do you have the right skills, resources, structures and plans necessary to deliver the strategy as part of a clear model of delivery?
- Do you prioritise (and de-prioritise) and sequence deliverables, taking account of a proper risk management strategy, focused on change management priorities?
- Are your delivery plans aligned with the strategy? Are they robust and regularly reviewed?
- Are your delivery plans consistent with each other? Do they form a coherent whole that will deliver your strategy?
- How do you maintain a focus on efficiency and value for money?

#### D2 Develop clear roles, responsibilities and business model(s)

- Is the purpose of the departmental centre and headquarters functions clear?
- How do you ensure you have clear roles and responsibilities, rewards and incentives, which are understood across the delivery chain? Do they reflect the business model(s), and are they supported by appropriate governance arrangements?
- How well do you understand your business model(s)?
- How do you know whether you have the right balance between centralised and decentralised services?
- How do you identify and agree accountabilities and responsibilities for delivering desired outcomes across the delivery chain? How do you make sure that they are clear and well understood by all parties?
- How do you negotiate and contract with delivery agents, stakeholders and partners? How are these agreements documented and shared?

#### D3 Manage performance

- Do you have high-quality performance information supported by research and analytical capability? Does it allow you to track performance across the delivery chain?
- Do you actively respond to performance issues and follow them up?
- How effective is high-level programme and risk management across the delivery chain?
- How do you ensure and maintain effective control of the department's resources and the quality of its outputs?
- How do you know that your delivery chain understands customer needs and the drivers for satisfaction, and responds to them?
- How do you ensure that your delivery chain captures and realises benefits?
- How do you feed this information back into the development of your strategy?

## Annex B: Assessment categories

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**Strong** – good capability for future delivery in place, in line with the capability model. Clear focus on the action and improvement required to deliver transformation over the medium term.



**Well placed** – well placed to address any gaps in capability for future delivery through practical actions that are planned or already underway. Is making improvements in capability and is expected to improve further in the medium term.



**Development area** – the department should be capable of addressing some significant weaknesses in capability for future delivery by taking remedial action. More action is required to close those gaps and deliver improvement over the medium term.



**Urgent development area** – significant weaknesses in capability for future delivery that require urgent action. Not well placed to address weaknesses and needs significant additional action and support to secure effective delivery. Not well placed to deliver improvement over the medium term.



**Serious concerns** – serious concerns about current capability. Intervention is required to address current weaknesses and secure improvement in the medium term. (NB only used infrequently, for the most serious gaps.)







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