LEARNING FROM THE EXPERIENCE OF RECOVERY POLICY PAPER 3:

Strategies for organizational recovery in local government: retrenchment, repositioning and reorganization

'This discussion paper is intended to stimulate debate amongst those concerned with the recovery of poorly performing councils. The views expressed are those of the researchers and are based on the documents that were analysed. The ideas in the paper, therefore, do not necessarily reflect those of ODPM, the lead officials or other government bodies'.

February 2004

George Boyne, Steve Martin and Stuart Reid

Contents

Background to this paper

This paper is one of a series that is being produced for the evaluation of the long-term impacts of the intervention and recovery process in poorly performing local authorities commissioned by the ODPM, LGA, IDEA and the Audit Commission. This research is being led by the Institute of Local Government Studies at Birmingham University working in partnership with the Centre for Local and Regional Government Research at Cardiff University and MORI.

Further information about the research contact:
Ann Deehan at the Local and Regional Government Research Unit at the ODPM (Tel: 0207 944 4094 or email ann.deehan@odpm.gsi.gov.uk) or Professor Chris Skelcher, the project director, at INLOGOV: c.k.skelcher@bham.ac.uk 0121 414 4962

The authors

George Boyne is a member of the Centre for Local and Regional Government at Cardiff University and Professor of Public Sector Management at Cardiff Business School.

Steve Martin is Professor of Public Policy and Management at Cardiff University and Director of the Centre for Local and Regional Government.

Stuart Reid is a Senior Manager in the Public Services Research Directorate of the Audit Commission. At the time of publication he is on secondment to the social services department of the London Borough of Lambeth.

For further information about the Centre see:
www.clrgr.cf.ac.uk

1.0 Introduction

The issue of organizational performance in the public sector has become increasingly important in recent years. The current UK government's huge effort to monitor and measure the performance of public service providers has uncovered wide variations in the efficiency and effectiveness of different organizations. Evidence provided by performance indicators and inspection reports suggests that many public services are performing poorly (including education, hospitals, social services, transport and the criminal justice system). The government is rightly concerned to even out the apparent disparities in service standards across client groups and geographical areas. There is, in short, a pressing need to identify recovery strategies that can successfully reverse organizational decline and help to narrow the gap between the worst and the best performers.

The aim of this paper is to contribute to the quest for recovery strategies that are relevant to the local government sector. It is important to note at the outset that no systematic academic research on this topic has previously been undertaken, so there are no established theories or bodies of empirical evidence to guide our work. Nevertheless, two sources of information provide valuable insights on recovery strategies in local government. First, there is a substantial academic literature on organizational 'turnaround' in the private sector. This includes statistical analyses and case studies of firms that have recovered from financial decline. Secondly, a number of practitioner organizations in the UK have produced diagnoses of the reasons for poor performance, and have worked with service providers that are attempting to perform better. These two sources provide a basis for conceptualising a range of recovery strategies, and for assessing whether these strategies are appropriate for local authorities.

In the first part of the paper we identify models of turnaround in the private sector and review the evidence on their effectiveness. This evidence suggests that the reversal of financial decline is associated with three generic strategies: retrenchment (cutting back on unproductive activities), repositioning (moving into new products or markets) and reorganization (changing the way that companies are managed). We then review whether such strategies have been adopted by poorly performing hospitals, schools and local authorities, and assess whether they have led to performance improvement. Finally, we draw lessons on recovery strategies for local services.

2.0 Methods

The material in this paper draws on a range of secondary sources including academic literature (particularly on organizational recovery in the private sector), policy based research on public service organizations, reports by public service regulators including the Audit Commission, Ofsted and the Commission for Health Improvement, and press coverage of organizational 'failure' and 'recovery', particularly in the case of schools. Whilst there is a fairly extensive academic literature on private sector strategies, particularly in the USA, far less has been written about the effectiveness of alternative approaches to recovery in public service organizations. We have therefore adopted a fairly broad definition of what constitutes evidence on turnaround strategies in the public sector, including largely anecdotal accounts of specific organizations. Sources were identified from systematic searches of literature conducted from both Cardiff University and the Audit Commission.

3.0 Private sector models and evidence

3.1 Introduction

In this section of the paper we summarise and evaluate the findings of empirical studies of turnaround in private firms, most of which have been conducted in the USA (Ketchen, 1998). These studies analyse whether firms that successfully reverse a decline in performance differ from those that continue to perform poorly (and ultimately go out of business through bankruptcy or takeover by another company). In particular, which strategic actions differentiate between the turnaround and non-turnaround firms? No standard or universally accepted model of organizational recovery in the private sector has emerged - the empirical studies contain many contradictory models and results. Nevertheless, the broad pattern of the evidence is consistent with a '3Rs' model of turnaround. This suggests that private firms are more likely to recover from failure if they follow at least one of the following strategies: retrenchment, repositioning and reorganization.

3.2 Retrenchment

This strategic response to organizational failure consists of reductions in the scope or size of an organization. In the private sector, the emphasis is on making cuts in parts of the business that are unproductive and unprofitable. This in turn can release resources for investment in areas that seem likely to deliver higher performance. Retrenchment can include exit from markets where the firm is performing poorly, or contraction of activities in a market by selling assets or reducing the scale of operations, thereby increasing efficiency. The latter strategy was most clearly expressed in the 'downsizing' pursued by many corporations in the 1980s and 1990s (Barker et al., 1998). More recently, after a sudden collapse in profits, Marks and Spencer pursued a policy of retrenchment by withdrawing from overseas markets, selling subsidiaries and closing some of their retail outlets (Bevan, 2002; Mellahi et al., 2002).

The impact of retrenchment on recovery has been analysed in thirteen empirical studies of organizational turnaround in the private sector. Seven of these studies find that divestment of assets and/or reductions in costs are associated with significant improvements in the performance of failing firms. For example, O'Neill's (1986a) analysis of the U.S. banking industry shows that reversal of financial decline is more likely if overheads and operating expenses are reduced. Similarly, Chowdhury and Lang (1996) find that turnaround in a sample of 153 firms in 4 U.S. industries was assisted by the disposal of assets. Similar conclusions on the positive impact of retrenchment are drawn by Barr et al. (1992), Robbins and Pearce (1992), Pearce and Robbins (1994), Stopford and Baden-Fuller (1990) and Thietart (1988).

An important note of caution here is that six other studies have failed to establish any positive link between retrenchment and recovery (Barker and Mone, 1994; Barker et al., 1988; Chowdhury and Lang, 1994; Hambrick and Schecter, 1983; O'Neill, 1986b; Sudarsanam and Lai, 2001). A potential explanation for discrepancies between the results of different studies is that some investigate retrenchment as an isolated strategy, whereas others view it as the first stage in a process of turnaround (Arogyaswamy et al., 1995). In other words, retrenchment may be interpreted as a sufficient or as only a necessary condition for recovery. As yet, the empirical evidence does not discriminate clearly between these potential effects of reductions in organizational scope and size. In any event, none of the private sector studies has found that retrenchment has a *negative* impact on the performance of failing companies. Thus the balance of the evidence suggests that this strategy is significantly more likely to help than to hinder turnaround efforts.

3.3 Repositioning

Whereas retrenchment can be viewed as an 'efficiency' strategy, repositioning is an 'entrepreneurial' strategy that emphasises growth and innovation (Schendel and Paton, 1976). This response to failure involves a new definition of the core activities of an organization, by becoming more dominant in an existing market or by diversifying into new markets and products. A strategy of repositioning through product innovation has recently been successfully pursued by Marks and Spencer. In the 1990s it lost market share in clothing to new high street rivals that appealed to young shoppers (Bevan, 2002; Mellahi et al., 2002). The response was to introduce the 'per una' range of women's clothing and 'blue harbour' range of menswear, which repositioned the company by targetting a younger group of customers.

The impact of repositioning on turnaround in the private sector has been investigated in eleven empirical studies. Only two of these find that this strategy makes no difference to the prospects for financial recovery (Pant, 1991; Sudarsana and Lui, 2001). Of the remaining nine studies, seven conclude that repositioning has a positive impact on firm performance. For example, Pearce and Robbins (1994, 102) conclude that their sample of 32 U.S. firms were "more successful in their turnaround efforts when they emphasised entrepreneurial activities in the recovery response", and Barker et al. (1998) find that growth in sales is associated with improvements in efficiency. Similar results on the effects of repositioning are obtained by Barr et al. (1992), Hambrick and Schecter (1983), Harker and Sharma (1999), Thietart (1998) and Stopford and Baden-Fuller (1990). By contrast, two studies find that this strategy has a *negative* impact on recovery (O'Neill, 1986b; Schendell and Paton, 1976). Nevertheless, the general pattern of the empirical evidence is consistent with the view that repositioning is more likely to lead to turnaround than to stagnation or further decline.

3.4 Reorganization

This term applies broadly to any change in the internal management of an organization. The purpose may be to support strategies of retrenchment or repositioning, or simply to improve the implementation of the current strategy without any alteration in the size or market position of a company. Reorganization may involve changes in planning systems, extent of decentralization, styles of human resource management or organizational culture. However, the form of reorganization that is cited most frequently in the literature on private sector turnaround is the replacement of the chief executive or the entire senior management team. It has been widely argued that this is a necessary condition for the reversal of company decline (Mueller and Barker, 1997). After all, if the senior managers had been working effectively then a performance crisis would not have occurred in the first place. Furthermore, the appointment of new top managers can be an important signal that a failing organization is serious about recovery. The recent experience of Marks and Spencer again provides a useful illustration of the adoption of this strategy: retrenchment and repositioning were combined with a new chair of the board and chief executive, and widespread replacement of long serving senior managers (Bevan, 2002; Mellahi et al., 2002).

Eight empirical studies have examined the impact of reorganization on turnaround in the private sector. Six of these studies find that this strategy leads to the reversal of organizational decline. For example, O'Neill (1986b) finds that recovery is more likely if firms replace their chief executive and senior management team and strengthen their planning system; and Mueller and Barker (1997) find that the extent of change in the top management team is associated with recovery, although the full effect takes several years to emerge. Similar conclusions on the positive impact of reorganization are drawn by Harker and Sharma (1999), Pearce and Robbins (1994), Stopford and Baden-Fuller (1990) and Thietart (1988). The remaining two studies of reorganization find either that it makes no difference (Sudarsanam and Lai, 2001), or that it has a negative effect on turnaround (Barr et al. 1992). It should be noted that the latter study is based on only two firms, so may be unrepresentative of the wider picture concerning the beneficial consequences of this approach to organizational turnaround.

3.5 Summary

The balance of the evidence on private firms suggests that turnaround is influenced positively by retrenchment, repositioning and reorganization. Although the evidence is mixed and contradictory in places, a clear majority of the empirical studies find that these strategies are associated with the reversal of financial decline in the private sector. In the remainder of this paper we proceed to analyse whether poorly performing public organizations in the UK have pursued any or all of the '3R's', and make preliminary judgements on the consequences for service improvement.

4.0 Organizational recovery in the NHS

4.1 Introduction

In contrast to the extensive literature on organizational decline and recovery in the private sector, there is very little evidence about these issues in NHS organizations. There is a strong tradition of UK management research on organizational change in health services (Ferlie *et al.* 2003). However, most studies focus on longer-term initiatives such as major structural reorganization (see Hinings *et al.*, 2003 for a recent example) or internal business process re-engineering (see for example McNulty and Ferlie, 2002; McNulty, 2003). We have found very little systematic research specifically focused on recovery strategies in NHS organizations.

4.2 Turnaround strategies

The most comprehensive analysis of UK hospital trusts that we have identified is a report prepared for the NHS Confederation (Protopsaltis *et al.*, 2002) which invesitgated the causes of failure in five trusts, drawing upon interviews with managers, clinicians and 'external stakeholders'. This research also contains a discussion of the strategies for improvement that have been adopted. At the time the study was conducted, it was too early for the researchers to draw clear conclusions on whether these strategies had worked.

Protopsaltis *et al.* (2002) conclude that inadequacies in existing performance management systems mean that potential or actual failures often go undetected for long periods. They argue that policy makers and managers need to develop a much more 'sophisticated diagnosis of the problems that caused the failure' in order to 'avoid simplistic solutions'. Furthermore, accurate identification of the reasons underlying an organization's failure is a vital step in developing an appropriate recovery strategy. More work is, they claim, required to identify better markers for failure and to enable more appropriate and earlier responses to be designed. This is consistent with private sector research which suggests that rapid and decisive action is required for a successful turnaround.

The study identifies five main reasons for failure in their case study trusts:

- Poor leadership;
- Poor operational management;
- Strategic and external problems;
- Problems with internal culture and lack of clinical engagement; and
- Distraction.

An implication of the analysis is that tackling these problems through a reorganization strategy would be a necessary (but perhaps not sufficient) condition for recovery. In a number of cases interviewees identified the chief executive as having been a key cause of failure. They cited failures of leadership as: an inability to take on internal vested interests, an unwillingness to delegate, insularity and a reluctance to take decisions. In some cases interviewees also cited failures of leadership by Board members.

Instances of poor operational management included inadequate systems for managing specific tasks – for example waiting lists or discharge procedures. In other cases a lack of adequate financial management, a disregard for key targets and an unwillingness to invest in strengthening management structures were all seen as important causes of failure.

Some trusts were reported to have failed to address fundamental issues such as incomplete mergers, high costs or fragmented services. The authors note that in these cases relationships with external stakeholders were often poor and trusts have developed a 'siege' mentality.

A history of dysfunctional relationships between clinicians and management and inappropriate cultural norms were also widely seen as causes of poor performance. In particular a failure to draw clinicians into the executive decision-making structure or

conversely too much devolution to clinical 'fiefdoms' were seen as problematic. The position of the medical directors was often a particularly invidious one.
Finally, an important contributor to weak performance in all of the zero star trusts investigated by the study was that much senior management time had been devoted to large projects, such as PFI schemes or mergers. It was 'particularly dangerous where this is seen as a general solution to systemic problems' since the result was often that other solutions had been postponed or discounted.

The study also notes the importance of the role of external agencies. It notes the lack of 'early warning signals' - trusts often claimed not to have been aware of problems until they were labelled as 'failing'. By contrast the Department of Health and Government Regional Offices claimed that they were aware of problems in advance. They had not, however, taken remedial action (Protopsalitis et al., 2002).

All five trusts included in the study had undergone changes in senior management since being designated as 'failing'. In all cases the chief executive had been replaced. In some a whole new executive team had been brought in and in one case there were plans for a merger with a more 'successful' trust. The authors note that the management style needed to push through short-term corrective actions may not be well equipped to secure the long-term viability of an organisation. Finally, they argue, a narrow focus on internal processes may overlook the importance of external, strategic or cultural issues requiring more fundamental changes.

The recovery strategies developed by incoming managers in the failing NHS trusts typically featured six activities.

(i) Internal restructuring. This usually involved the creation of more structured management teams and greater, formal involvement of clinicians in management – through the creation of clinical directorates. Internal change also involved establishing clearer lines of accountability and managerial responsibility, a reconfiguration of existing roles and a strong emphasis on the implementation of trust-wide systems, processes and protocols.

(ii) Improving performance management. Incoming senior managers typically focused on measures to improve performance in terms of core targets such as waiting times, waiting lists and financial viability.

(iii) Focus on human resources. New managers also devoted considerable effort to training and development of staff and raising staff morale.

(iv) Financial analysis and control. Most of the five trusts were experiencing serious financial difficulties. Typically new management sought to ascertain the true financial situation and then adopt more 'transparent' budget-setting process designed to achieve financial stability.

(v) Attempts to change 'organisational culture'. New managers were usually associated with changes in internal culture such as clear, consistent communication, a focus on setting of goals and a desire to achieve key performance targets.

(vi) External relations. Priority was also given to improving communication and working relations with external stakeholders.

4.3 Conclusion

There are some fragments of evidence on the causes of failure in the NHS and the recovery strategies that are adopted. These strategies largely focus on reorganization rather than retrenchment or repositioning. However, the impact of reorganization on the performance of failing hospitals has not yet been established.

5.0 Organizational recovery in schools

5.1 Introduction

According to OFSTED, the symptoms of schools placed in special measures (under the provisions of section 13[9] of the 1996 School Inspection Act) typically include a combination of unsatisfactory teaching and weak school leadership. This suggests that turnaround strategies need to focus on reorganization rather than retrenchment or repositioning. As in the case of failing hospitals, it seems that this is the path towards improvement that most failing schools have pursued.

5.2 Turnaround strategies

In its analysis of the methods used to raise standards by the first 250 schools it declared to be 'failing' Ofsted set out a range of strategies but emphasised that there is no one simple route to recovery. The report argued that 'It is important to remember that a strategy which works in one school will not necessarily work in others' (Ofsted, 1999). In order to recover schools need to come to terms quickly with being labelled as 'failing' and normally had an early morale booster such as that provided by improving the physical state of the buildings. In many cases it was important for governors to replace head teachers. Action plans had also usually included measures to tackle unacceptable behaviour or truancy by pupils and training to improve the quality of teaching. The Ofsted report also emphasises the importance of having high expectations of pupils.

Stoll and Myers (1998), too, argue that there is a variety of routes to improvement and that the required courses of action vary according to the context within which a school is operating. Some schools require changes in senior management; in other cases the only solution may be to close and then re-launch a school (as happens under the 'Fresh Start' initiative), which resembles a combination of retrenchment and repositioning. School closures have though been relatively rare. Fewer than 10% of the first 800 school designated as 'failing' went down this route. By contrast a strategy of reorganization through the replacement of the head teacher of 'failing' schools has become commonplace. More than half of the schools that entered special measures since the start of the 1997-98 school year and were still in them by the summer of 1999 had advertised for a new head teacher (Howson, 1999). A survey of 875 schools in 1999 found that 50% of head teachers expected to be replaced if their school was judged by Ofsted to be failing (NUT, 1999) and anecdotal accounts of the turnaround of individual 'failing' schools frequently emphasise the role played by newly appointed head teachers (c.f. Jackson, 1997).

Thornton (1998) reports that some failing schools have attached importance to a strategy of repositioning by increasing community involvement. For example, the Sir Henry Cooper school in Hull has involved the community in supporting pupils, the creation of a credits scheme that rewards good behaviour, achievement and attendance with free school equipment and discounted trips to the cinema and local burger bars, and the using announcements by the head teacher over the public address systems at local supermarkets to remind parents about the school's consultation evenings.

There seems to be a fairly widespread acceptance among head teachers that external inspection and additional resources for schools placed in special measures contributes to turnaround. As the head of a failing school that had achieved major improvement quoted by the *TES* put it: 'The glare of adverse publicity, continuous inspections and the very real threat of closure was exhausting for our colleagues and ourselves - but it had the desired effect' (TES, 1998). Some cases suggest that a combination of inspection and intervention with capacity building is the most productive approach. Lambeth LEA, for example, developed a borough-wide scheme to encourage peer support and exchanges of good practice between the heads of strong schools and those in 'failing' schools and worked closely with the inspectors to develop improvement plans and methodologies for self-evaluation by schools (Midgely, 1999).

An analysis by Thomas *et* al. (2000) of the impacts of action plans in 61 special schools that had been placed in special measures found important differences between the (nine) schools that had been successful in moving out of special measures (i.e. were deemed to have achieved significant improvement) and the remainder. Action plans were evaluated against a checklist of criteria derived from DfEE circulars and advice and OFSTED guidance notes. Other changes were evaluated through more detailed case study work particularly in the fastest improvers. Whilst there was evidence that the schools with the poorest action plans improved least, there was only a weak correlation between overall quality of plans and level and rate of improvement. However, three key features of action plans did emerge as being important. Schools that had been most successful in achieving improvement were consistently more likely to have included in their plans:

- specific actions to be undertaken;
- allocations of responsibility for these actions to named individuals; and
- clear arrangements for tracking progress in achieving these actions.

Moreover, whilst 'the quality of the written plan itself seemed to have only minimal connection with ultimate improvement, the wider process of development associated with action planning did appear to have an impact' (p. 19). In particular the researchers concluded that the additional advice, monitoring and resources associated with being in special measures had been in important in encouraging improvement.

Thomas *et al.* identified four critical success factors that characterised schools that had been most successful in moving out of special measures:

- They had made much greater use of external consultants and advisers than those which had not. The role of HMI and 'mentor head teachers' was particularly valued.
- There had been changes of key staff, usually senior management teams. Those that had improved fastest had implemented staff changes most rapidly. LEA

advisers and assistant directors were seen as having played a crucial role in forcing the pace of staff changes.

- Staff, parents and pupils had all been involved in change processes. Staff involvement was widely regarded by the schools that had improved as having been important in turning round the negative feelings and low morale that was generally produced by the initial inspection verdict that had led to the imposition of special measures.
- A lot of attention had been given to capacity issues and in particular schools had avoided 'bunching' large scale changes.

Similar reorganization strategies have been used in the further education sector and by LEAs which are perceived to be failing. Calderdale, the LEA responsible for the Ridings School, is itself now seen by some as having achieved organizational turnaround through the introduction of an interim management team provided by the Local Government Association headed by a retired Director of Education. Its so-called 'in-house' approach to recovery has been contrasted favourably with the allegedly far more expensive out sourcing solutions adopted by some other 'failing' education authorities such as Islington and Hackney (Bunting, 1999).

Hereward college in Coventry received the lowest ever rating given by Further Education Funding Council inspectors in the mid 1990s. There were criticisms of its governance, financial management, student recruitment, quality assurance, guidance and support, accommodation and residential education programme. Two years later the college was heralded as a 'beacon' whose example other colleges should follow. A new chair of governors and a new principal were brought in. Ten percent of the staff left through a combination of voluntary and compulsory redundancies. A strategic plan was created (none had previously existed), new management information systems were put in place and processes for staff and student involvement were created. Its decline was blamed partly on past under-investment and the new management team attributed much of their success to new resources, some of which was raised by local businesses to finance new facilities (Chequer, 1997).

The Matthew Boulton college was one of the worst performing colleges in the country in the late 1990s. It, too, underwent major changes in personnel at all levels. The principal, the deputy principal, a quarter of the staff and most of the governors were all replaced and, as with many 'failing' schools, the new management team introduced new computerised management information systems which they see as having given them control over finance and enrolment (Crequer, 1999).

5.3 Conclusion

The literature on failure and recovery in schools is substantially greater than that for hospitals. The emerging findings from a variety of sources suggest that repositioning (for example through community involvement and extra resources) and reorganization (including the appointment of a new head) are associated with school turnaround. Research by Thomas et al. (2000) in particular has systematically compared reorganization strategies in schools that recovered and those that continued to perform poorly, and found that performance management (in the form of action plans) is associated with improvement. However, this is only one study and most of the other evidence is anecdotal and impressionistic. Clearer conclusions on the strategies that differentiate between turnaround and non-turnaround schools must await more rigorous analysis.

6.0 Recovery in local education authorities and social services departments

6.1 Introduction

In this section of the paper we summarise the findings of the Audit Commission's research into the effectiveness of central government intervention in failing local authority services (Audit Commission, 2002). The research examined the causes of serious and sustained service failures in local government social services and education departments, described the intervention and recovery strategies that were subsequently put in place, and evaluated evidence on the effectiveness of those strategies.

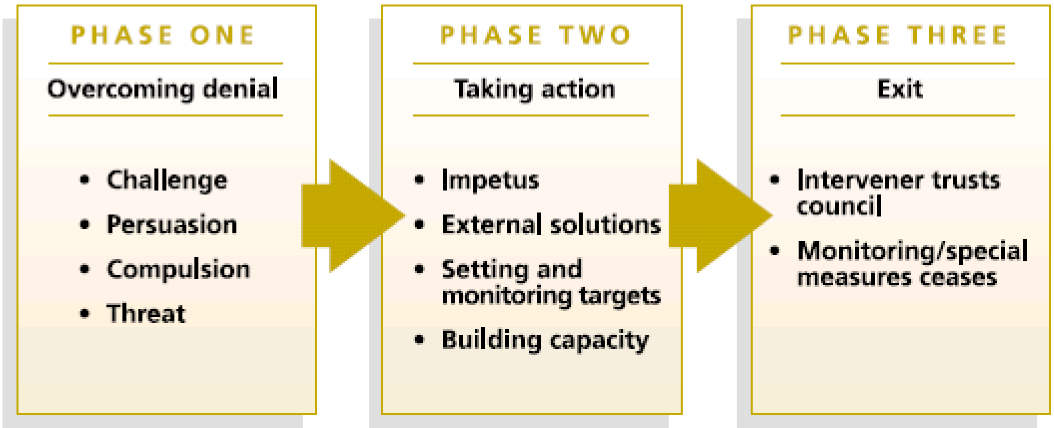
6.2 Turnaround and recovery strategies

The Commission's research found that effective interventions divided into three broad phases: overcoming denial, taking action, and exit [Exhibit 3]. Effective interventions focus first on helping the leadership of the council to recognise the scale of its problems and commit to tackling them (overcoming denial), before focusing on recovery action to improve systems and culture (taking action), and ending the intervention (exit).

The closest analogy to the approaches to private sector recovery evaluated in chapter three of this paper is the activity that takes place in phases one and two. This has included a form of retrenchment (imposing external solutions) and three forms of reorganization.

- replacement of managers and/or councillors;
- setting and monitoring targets; and
- building capacity.

Exhibit 3
The three phases of effective interventions
Effective strategies divided into three broad phases: overcoming denial, taking action and exit.



6.2.1 Retrenchment strategies: externalisation

Imposing external solutions represents the 'top rung' in the intervention ladder. It typically involves:

- the use of special measures in social services to gain political and corporate support for improvement, agreeing an action plan with the Social Services Inspectorate (SSI) and monitoring progress against targets;
- proposing outsourcing of part or the whole of an LEA's services; or
- proposing another external solution, such as the creation of a partnership board or a partnership with a good LEA.

Often the <u>threat</u> of losing provision of a service has been effective, without the need for the threat to be implemented. Politicians in particular have been generally very hostile to the loss of 'sovereignty' that they perceive to be associated with outsourcing. The threat of outsourcing can be effective in gaining politicians' agreement to other necessary courses of action which do not involve this loss of sovereignty, but which they would not otherwise be prepared to agree to - 'the lesser of two evils'. But to be credible, the outsourcing threat must be both realistic and feasible.

Outsourcing usually involves a degree of negotiation between the council and the intervener and has rarely been undertaken in the face of irreconcilable opposition on the part of the council. But compulsion, once accepted by the council, provides a focus for action and a way of moving on beyond the initial shock of a critical inspection report. A study for the Department of the Environment, Transport and the Regions concluded that 'much of the management change literature makes the point that a willingness to change often stems from a feeling that there is no other option' (DETR, 1999).

Ten of the twenty education interventions have led to major or partial outsourcing. Where outsourcing has taken place, the Commission found that it could be helpful in bringing in outside expertise to senior education posts. When asked why outsourcing had been necessary in his council, one former council officer said that three previous attempts to recruit high quality senior staff had been unsuccessful and that it was only the creation of a separate entity that finally drew fresh talent into the new part of the education department.

Outsourcing can aid service recovery by offering a wider range of skills than is currently available within the council (often including a different approach to the management of risk). A director of education working for a private sector firm found that the main flexibility he gained by transferring to the private sector was the ability to reorganise the way his staff worked much more quickly than he could when working within a council.

But there are risks to outsourcing failing services. Contracts work best when there is a strong client side and a strong contractor side; where a service has been failing, it is unlikely that the client side will be strong. In the absence of a strong client, contract management can become over focused on achieving measurable targets, neglecting the more complex management of the contractor's wider contribution to the goals of the council, including cross-cutting goals such as promoting social inclusion.

Moreover, both client and contractor need a shared and explicit understanding of their different roles. The first time that almost all of the functions of an entire LEA were outsourced, the contract included more than 400 performance indicators which were monitored on a monthly, termly or yearly basis. Although this was an attempt to ensure that all aspects of the LEA's activities were reflected in the contract, it was simply too complex to manage and the contract failed to prioritise sufficiently (it was described by the contractor as 'more of a job description than a contract'). The number of performance indicators was eventually reduced to 60 by agreement between the contractor and the council, summarised in five key performance indicators. More widely, contractors involved in education outsourcing have felt that the early contracts were complex and legalistic, adversarial in tone with much emphasis on penalty clauses, and providing insufficient incentive for genuine partnership, innovation and improvement.

Where there has been a collapse of basic financial and other systems, it can be very difficult to specify the contract, so contractors will build in a risk premium to their contract price. Contractors also have a strong preference for a 'willing partner', and view intervention work as 'high risk'. Elsewhere, the Commission has concluded that 'failing services should only normally be outsourced, therefore, when the authority is able to make a clean break and where the contractor's ability to deliver is undoubted. In other circumstances it is often better to build the service back up to a reasonable level of performance before looking at any extra benefits an external provider could offer.' (Ref. 14). Rather than 'outsource a mess', outsourcing can better contribute by allowing councils to free up management capacity by outsourcing those services that are currently performing acceptably, and concentrating their capacity on the services that are failing.

Not all external solutions have involved outsourcing. Partnership boards have been used in some education interventions where there have been concerns about weaknesses in the political leadership. Partnership boards typically comprise representatives of key groups and independent advisers, and their role is to advise the education committee or cabinet. This ensures that stakeholders' views are properly reflected in the decisions made about education and can also show local politicians a different way of working. Another variation is a strategic partnership, under which the LEA enters into an agreement with one or more private sector organisations to pool specified resources and expertise. Responsibility and decision making are shared to achieve common objectives.

6.2.2. Reorganization Strategies

Replacement of managers and/or councillors

In some cases senior politicians or managers would not, or could not, be persuaded of the need for change; in others it became clear that the current incumbents were simply not matched to the needs of the situation. In such cases, chief executives, directors and senior managers have left their council's employment, as a necessary step towards gaining acceptance of the seriousness of the service failure, and a commitment to tackling it:

Inspectors have been concerned that service directors and senior managers have sometimes been removed from post as a knee-jerk reaction and from a wish 'to be seen to be doing something'. They have emphasised that the removal of senior officers needs to be based on a thorough assessment of their competence and capacity, which might more appropriately lead in some cases to the provision of mentoring and consultancy support rather than termination of their employment.

Much more rarely, political groups have changed the lead member for a particular service in response to service failure. This is despite the fact that the NOP survey for the Audit Commission found that politicians were most likely to deny the need to change, whereas officers were usually more willing to recognise the support that intervention could bring.

Setting and monitoring targets

Intervention in social services includes a compulsory action plan containing targets which are then monitored by SSI. Many NOP survey respondents commented favourably on the role of these targets in promoting improvement:

*'Special measures helped us to progress, they gave us more focus, independent checks, and vehicles around which to build leadership, messages, communication and a clear action plan (*Director of Social Services. *Source: NOP survey for Audit Commission)*

In education, targets were used in different ways: in some cases targets formed the basis of an outsourcing contract; in non-outsourcing cases the inspection recommendations constitute the targets. In the NOP survey respondents described the formulation of success criteria and targets with the Department for Education and Skills (DfES) or consultants as a genuinely collaborative and productive experience. Again, the targets were felt to have provided focus.

Building capacity

Councils have often needed external support and guidance to build capacity within the service. Such support usually takes the form of:

- money, for example, to finance consultants in LEAs;
- advice on developing an effective action plan from the SSI business link adviser or DfES education adviser attached to the council;
- assistance with setting relevant and workable performance measures;
- time and advice provided by civil servants; and
- staff brokerage, whereby the Government department or inspectorate helps the council to find new staff.

Though views on the extent and value of support and guidance provided by the intervener varied, many did speak warmly of the assistance received:

> *'The support from the Social Services [Inspectorate] really is about my relationship with the Business Inspector and the support and advice I get from her is considerable, there's no doubt about that. (*Director of Social Services, London Borough. *Source: NOP survey for Audit Commission)*

In addition to civil service input and guidance, the DfES spent £6.2 million on consultants for the 20 councils in which it intervened between 1997 and 2001. The DfES also provided help with the transitional costs associated with setting up a partnership or outsourcing a service.

6.3 Conclusion

The recovery strategies identified by the Commission's study fall predominantly under the heading of 'reorganisation'. However, there have been examples of outsourcing and partnership working which resemble some of the retrenchment strategies implemented in the private sector. However the Commission's research did not identify examples of entrepreneurial repositioning into new markets or products.

7.0 Conclusion

In this paper we have reviewed models and evidence on organizational turnaround in the private sector, and assessed whether recovery strategies that appear to work for private companies are likely to be feasible and effective in local government. Research on private firms suggests that successful turnarounds are characterised by strategies of retrenchment, repositioning and reorganization. Failing companies that use one or more of these strategies are likely to perform better. However, it is important to emphasise that turnaround is seldom achieved quickly: the shift from failure to recovery in the private sector typically tales 2-4 years, and the larger the company the longer the process (Ketchen, 1998).

A retrenchment strategy in local government could take a number of forms. The most drastic approach would simply be to stop providing a service that is performing poorly (i.e. to exit from the market completely). In many cases this would be impossible because of statutory obligations to ensure that services are provided. A more feasible form of 'exit' is to pass full or partial responsibility for service provision to other organizations (e.g. through contracting-out or partnership arrangements). Retrenchment could also involve disposal of underused assets (e.g. land, premises, equipment) or cutbacks in 'non-essential' activities, in order to reallocate resources to services that may deliver better value for money.

As in the case of retrenchment, a strategy of repositioning in local government would be subject to statutory limits (e.g. it would not be feasible to expand the education service by building schools in other jurisdictions, or to diversify into the provision of hospitals and the payment of child benefit). Yet, even within these limits, many opportunities remain for repositioning. These include enhancing the range and quality of services, spreading existing services to cover new client groups, or providing new services (independently or in partnership) to existing client groups. Much emphasis has recently been placed on the potential benefits of such innovative behaviour in the public sector (Borins, 2001). Furthermore, service expansion is currently being facilitated by a substantial rise in public spending. If the advocates of innovation and growth are correct, then repositioning is a promising path to recovery from service failure.

The strategy of 'recovery through reorganization' can be applied directly in a local government context. Indeed, attempts to reform the culture, processes and management of local authorities appear to be widespread. Furthermore, there is strong theoretical support for the view that placing local services 'under new management' can make a significant difference to service performance (Boyne and Dahya, 2002). Yet, the pursuit of this strategy on its own seems likely to be insufficient to transform the fortunes of a failing organization. A focus on reorganization in isolation suggests that success will follow from better delivery of existing services. Although this may be possible in some circumstances, it seems more likely that recovery requires reorganization in conjunction with retrenchment and/or repositioning.

Our review of evidence on poorly performing hospitals, schools and local authorities has shown that the most common recovery strategy in these sectors is reorganization, and in particular the replacement of head teachers, chief executives and service directors. A common finding from research on schools and local authorities is that turnaround is associated with greater clarity of priorities and better performance management. This finding is consistent with evidence on the difference between local authorities with high and low CPA outcomes (Boyne and Enticott, 2004). Some poorly performing organizations have also followed a strategy of repositioning, by altering the content of their services or by attempting to engage more effectively with their external stakeholders. By contrast, we found very little evidence of retrenchment, perhaps because of the political and legal difficulties of withdrawing service provision or even scaling it down.

The existing evidence suggests that repositioning and reorganization have some beneficial effects for failing public organizations. The studies that report such results are not comprehensive or systematic, so it is important not to place too much weight on their conclusions. Nevertheless, it is useful to communicate to policy makers and service managers that such strategies appear, on the best evidence available, to offer a route to organizational recovery in local government. Exactly what form these strategies should take, how they should be combined, and under what circumstances they work best are just three of the big questions that remain to be answered by empirical research on recovery in local government.

References

Arogyaswamy, K., V. Barker and M. Yasai-Ardekani (1995) 'Firm Turnarounds: An Integrative Two-Stage Model' *Journal of Management Studies*, 32, 493-525.

Audit Commission (2002) *A Force for Change: Central Government Intervention in Failing Local Government Services*, London, The Audit Commission

Barker, V. and M. Mone (1994) 'Retrenchment: Cause of Turnaround or Consequence of Decline?' *Strategic Management Journal* 15, 395-405.

Barker, V., M. Mone, G. Mueller and S. Freeman (1998) 'Does it Add Up? An Empirical Study of the Value of Downsizing for Firm Turnaround', in Ketchen, ed, *Turnaround Research: Past Accomplishments and Future Challenges*.

Barker, V., P. Patterson and G. Mueller (2001) 'Organizational Causes and Strategic Consequences of the Extent of Top Management Team Replacement During Turnaround Attempts' *Journal of Management Studies*, 38, 235-69.

Barr, P., J. Stimpert and A. Huff (1992) 'Cognitive Change, Strategic Action and Organizational Renewal' *Strategic Management Journal* 13, 15-36.

Bevan, J. (2002) *The Rise and Fall of Marks and Spencer* London, Profile Books.

Borins, S. (2001) 'Innovation, Success and Failure in Public Management Research' *Public Management Review* 3, 3-17.

Boyne, G.A. (2002) 'Public and Private Management: What's the Difference?' *Journal of Management Studies*, 39, 97-122.

Boyne, G.A. (2003a) 'Sources of Public Service Improvement: A Critical Review and Research Agenda' *Journal of Public Administration Research and Theory*, 13, 367-94.

Boyne, G.A. (2003b) 'What is Public Service Improvement?' *Public Administration*, 81, 211-28.

Boyne, G.A. and J. Dayha (2002) 'Executive Succession and the Performance of Public Organizations, *Public Administration* 80, 179-200.

Boyne, G.A. and G. Enticott (2004) 'Are the "Poor" Different? An Analysis of the Internal Characteristics of Local Authorities in the Five CPA Groups' *Public Money and Management* forthcoming.

Bunting, C. (1999) 'Council pulls itself back from brink' *The Times Educational Supplement*, 4341, p. 13.

Byatt, Ian and Lyons, Michael (2002), *Role of External Review in Improving Performance,* London, Public Services Productivity Panel

Chowdhury, S. and J. Lang (1994) 'Turnaround Actions, Contingency Influences and Profitability: The Case for Slack and Capital Intensity' *Canadian Journal of Administrative Sciences* 11, 205-13.

Chowdhury, S. and J. Lang (1996) 'Turnaround in Small Firms: An Assessment of Efficiency Strategies' *Journal of Business Research* 36, 169-78.

Crequer, N. (1997) 'Hereward stages a grand recovery' *The Times Educational Supplement,* Issue No: 4210, p. 29.

Crequer, N. (1999) 'New team begins turnaround' *The Times Educational Supplement,* Issue No: 4314 p. 33.

DETR (1999), *Research Summary: lessons learnt from intervention,* London, Department of the Environment, Transport and the Regions

DTLR (2001), *Strong Local Leadership – Quality Public Services,* London, Department of Transport, Local Government and the Regions

Ferlie, E., Hartley, J.F. and Martin, S.J. (2003) 'Changing public sector organisations: current perspectives and future prospects' *British Journal of Management*, Forthcoming.

Gray, J. (1999) 'Four ways to improve rapidly' *The Times Educational Supplement,* Issue No: 4326, p. 23.

Hambrick, D. and S. Schecter (1983) 'Turnaround Strategies for Mature Industrial – Product Business Units' *Academy of Management Journal* 26, 231-48.

Harker, M. and B. Sharma (1999) 'Leadership and the Company Turnaround Process' *Leadership and Organizational Development Journals* 31, no. 6, 36-47.

Hinings, C.R., Casebeer, A., Reay, T., Golden-Biddle, K. Pablo, A. and Greenwood, R. (2003) 'Regionalizing Healthcare in Alberta: Legislated change, uncertainty and loose coupling' *British Journal of Management*, forthcoming.

Hood et al (1999), *Regulation Inside Government,* Oxford, Oxford University Press

Howson, J. (1999) 'Failing schools seek special talent' *The Times Educational Supplement,* Issue No: 4344, p. 23.

Jackson, (1997) 'The lessons of St John' *The Times Educational Supplement,* Issue No: 4223, p.11.

Ketchen, D. ed., (1998) *Turnaround Research: Past Accomplishments and Future Challenges* London, JAI Press.

Martin, S.J. (2002) 'The modernisation of UK local government: markets, managers, monitors and mixed fortunes' *Public Management Review* 4 (3) 291-307.

McNulty, T. (2003) 'Redesigning public services: challenges of practice for policy' *British Journal of Management*, forthcoming.

McNulty, T. and Ferlie, E. (2002) '*Re engineering Health Care – The Complexities of Organisational Transformation',* Oxford: Oxford University Press.

Mellahi, P., P. Jackson and L. Sparks (2002) 'An Exploratory Study into Failure in Successful Organizations' *British Journal of Management* 13, 15-30.

Midgley, S. (1999) 'With the inspectors on our side', *The Times Educational Supplement,* Issue No: 4316, p. 8.

Mueller, G. and V. Barker (1997) 'Upper Echelons and Board Characteristics of Turnaround and Nonturnaround Declining Firms' *Journal of Business Research* 39, 119-34.

National Union of Teachers (1999) *The costs of Ofsted inspections*, London: NUT.

Office for Standards in Education (1999) *Lessons learned* London, Ofsted.

O'Neill, H. (1986a) 'An Analysis of the Turnaround Strategy in Commercial Banking' *Journal of Management Studies* 23, 165-88.

O'Neill, H. (1986b) 'Turnaround and Recovery: What Strategy Do You Need?' *Long Range Planning* 19, no. 1, 80-88.

Pant, L. (1991) 'An Investigation of Industry and Firm Structural Characteristics in Corporate Turnaround' *Journal of Management Studies* 28, 623-43.

Pearce, J. and K. Robbins (1994) 'Entrepreneurial Recovery Strategies of Small Market Share Manufacturers' *Journal of Business Venturing* 9, 91-108.

Protopsaltis,G., Fulop, N., Meara, R. and Edwards, N. (2002) *Turning around fialing hospitals*, London, The NHS Confederation.

Pyke, N. (1998b) 'Inspectors accused of ignoring poverty link' *The Times Educational Supplement,* Issue No: 4265, p.14.

Robbins, K. and J. Pearce (1992) 'Turnaround: Retrenchment and Recovery' *Strategic Management Journal* 13, 287-309.

Schendel, D. and G. Patton (1976) 'Corporate Stagnation and Turnaround' *Journal of Economics and Business* 28, 236-41.

Stoll, L. and Myers, K. (1998) *No Quick Fixes*, Falmer Press.

Stopford, J. and C. Baden-Fuller (1990) 'Corporate Rejuvenation' *Journal of Management Studies*, 27, 399-415.

Sudarsanam, S. and J. Lai (2001) 'Corporate Financial Distress and Turnaround Strategies: An Empirical Analysis' *British Journal of Management* 12, 183-200.

Thietart, R. (1988) 'Success Strategies for Business that Reform Poorly' *Interfaces,* 18, 32-45.

Thomas, G., Yee, W.C. and Lee, J. (2000) '"Failing" special schools – action planning and recovery from special measures assessments' *Papers in Education Research* 15 (1) pp. 3-24.

Thornton, K. (1998) 'Lateral thinker, straight talker' *Times Education Supplement* Issue No: 4290, p. 20.