

Fit to Change

Public Sector Study

FUJITSU

shaping tomorrow with you



What does change entail, and how well-equipped is the UK public sector to adapt to changing circumstances?

Foreword

With public services under intense cost pressures and facing unprecedented demands, the need for organisations to adapt and respond quickly and effectively is a topic of much debate. Moreover there is no shortage of people and organisations offering their views on what "change" should look like from Downing Street to Town Hall. But we realised that no one has actually asked public sector people what they see as the drivers for change and how ready their organisations are to embrace reforms. So we decided to go out and ask them ourselves.

Our findings are fascinating: 70% of respondents agreed with the statement: "The current rate of change is too quick for UK public organisations to keep pace with." They are not alone. Harvard Business School professor, John Kotter, says that "the current rate of change within businesses is faster than the rate at which organisations are improving" and that "many organisations just can't keep up with the speed of change".

Is it all doom and gloom then? Our experience shows that this doesn't have to be the case if the public sector applies an holistic and agile

approach to reform which focuses on short-term, low-cost cultural changes and longer-term strategic reform. Incremental, well thought through change, aided by technology, may be the best way to adapt to the pressures of resource cutbacks and more diverse and demanding service users.

We believe our research with 100 chief executives, managing directors and heads of departments within central and local government can begin to answer some of the questions which linger around the need and capability to reform in the public sector. The debate is far from over but by looking at the issues systematically we suggest that, if managed well, change does not have to be daunting and can have lasting positive impact on the ability to deliver public services.

I hope you find this research valuable: a report on the public sector, for the public sector and by the public sector. I would like to thank the contributors who have made this report possible and would welcome any comments or queries you may have.

"As the Civil Service substantially reduces its number of staff, and demands from the Government's radical reform of public services increase, the question is whether the Civil Service will adapt to meet these challenges as a confident and capable organisation or shrink in both size and stature."

Peter Riddell, Director,
Institute for Government,
'An Open Letter' 5th March 2012



A handwritten signature in black ink, appearing to read 'Nigel Kirby-Green'.

Nigel Kirby-Green,
Executive Director, Public Sector
Fujitsu UK & Ireland

The pace of change *is* too fast

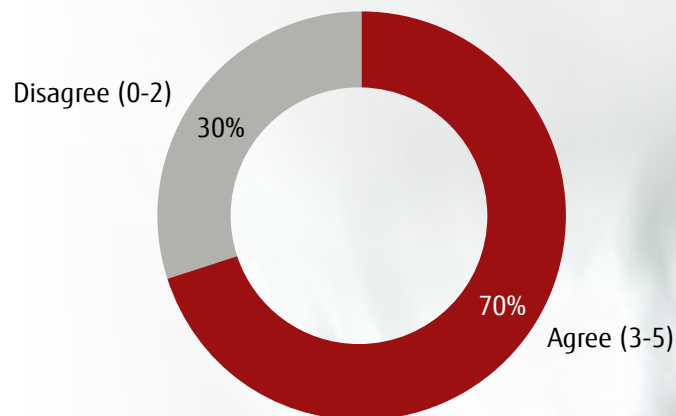


Figure 1: Is the rate of change too fast for the public sector to keep pace with?

The first, and arguably most important finding showed that 70% of respondents agreed with the statement: "The current rate of change is too quick for UK public organisations to keep pace with." In our view, it is not just the pace that is too rapid; local councils in particular are struggling with the breadth and complexity of the changes being demanded of central government.

We delved a bit deeper to look at what factors were influencing that rapid pace of change in an effort to understand the most significant challenges for the public sector.

In summary, changing work patterns were considered to be a driver for change for the vast majority of respondents (89%), followed by working collaboratively with partners and

suppliers (81%), responding to citizen demands (78%) and budget constraints (77%). Of these, the need to respond to citizens and contain costs was significantly stronger in local government responses than in central. This possibly reflects the immediacy of their contact with a frequently vocal electorate, and the reality of the government's deficit reduction plans as a result of the Comprehensive Spending Review in 2010 are being felt by local authorities much more immediately and with greater impact.

As we will show later on, our respondents felt least able to respond to the need to work collaboratively with partners and suppliers, and the need to respond to citizen demands, which is worrying as many would see these as key responsibilities of public bodies.

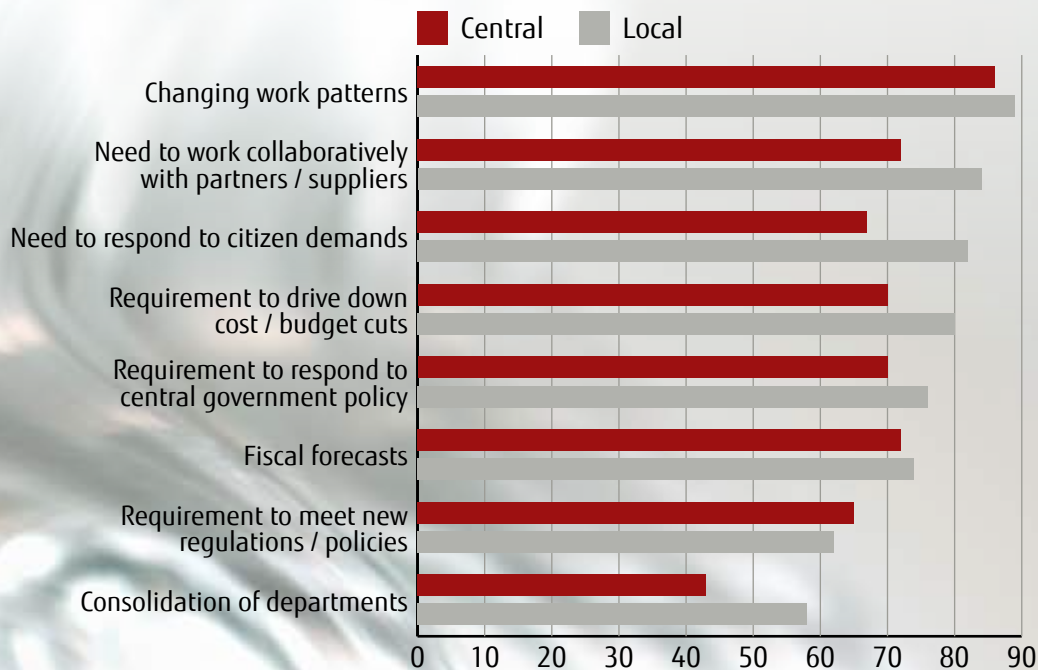


Figure 2: External factors driving the current rate of change

Changing work patterns

With a collective workforce of over 6m people and a multitude of professions, it is unsurprising that the public sector is challenged by the changing demands placed by those employees for more flexibility in the workplace. Legislative change means that all organisations have to respond to legal requirements that inform and shape working patterns: Working Time Directives, Parental Leave, Health & Safety requirements, Pension Reforms and changes to the retirement age, to name but a few. To attract and retain the right skills and capability,

public sector organisations must also offer flexible options that place additional demands on recruitment processes, workforce planning, staffing and organisational development.

In the meantime, staff are demanding more part-time roles; job sharing; and different working patterns such as term-time-only, career breaks, annualised hours and flexibility over working location. If you add to the mix the need to meet citizen demands for out-of-hours services and an increased range of services, then the job of staffing the front office suddenly seems very complex.

"Across Government we are seeing changes that underpin the drive to decentralisation, the move from big government to big society and the reform of public services. These are not isolated policies but the underpinning fabric of the Government's framework for change. The direction of travel is clear, whether we are looking at health, or education, or economic growth".

Sir Bob Kerslake,
Permanent Secretary at the
Department for Communities
and Local Government and
Head of the Civil Service

The importance of partnerships

The second most significant reported driver for change in the survey, the "need to work collaboratively with suppliers/partners", may be explained by the increasing pressure to drive cost savings through greater sharing of services, whether through private sector partners or between public sector organisations. An additional factor may be the impetus to divest services that are regarded as "non-core" or better delivered by a third party, so that those who follow this path become commissioners, rather than providers of services.

However, many of the large outsource and shared services programmes have been patchy in delivering benefits, and shared services have stalled in London. Typical services considered for sharing and/or outsourcing on a smaller-scale phased approach, now include back-office administration and transactional activity (HR, Payroll, Finance, etc) and in local government, the front office (Revenue & Benefits and Customer Services). However, in this environment, public sector organisations can potentially be dealing with a multitude of partners to deliver their overall scope of services, whilst maintaining a joined-up face to the public. Small wonder then that changing relationships with partners are contributing to the increasing rate of change.

A further explanation for the importance of the "collaborative working" as a force for change is the government's localism agenda, aimed at putting more power directly in the hands of the people and transferring power from Whitehall to

local communities, potentially bypassing existing local authority processes. In an environment where neighbourhoods and citizens have more say; public sector services are opened up to not only private sector but also charities, social enterprises and employee owned co-operatives; and individuals are encouraged to get even more involved in their communities; the need for co-operation across a new and diverse set of partners will be fundamental to success.

Examples of the changes are emerging; Selby District Council now directly employs just 14 people, having outsourced the majority of its services to external suppliers. More recently, the first major spin-out of central Government services was announced when plans to transform My Civil Service Pension (MyCSP) into a mutual joint venture were made public. Nonetheless, the people we spoke to highlighted a gap in their ability to respond to the need to work collaboratively with partners and suppliers indicating that these emerging changes are yet to take full effect. There is no one model of what localism will look like which is both a challenge but also an opportunity for radical reform at the heart of local government.

"The localism agenda now offers an opportunity for greater co-production at a local level as well. A real test of localism will be to see service users, charities, providers and commissioners working much more closely to achieve shared outcomes. But it will require leadership skills and some new ways of behaving to achieve this."

Paul Farmer, Chief Executive of MIND and participant in a new Civil Dialogue led by Civil Exchange.

Changing demographics

Perhaps unsurprisingly, citizens are also driving change for their public service providers. Local government officials (83%) slightly lead this view over central bodies (69%) in highlighting "the need to respond to citizen demands" reflecting the pressures felt at the range of frontline services delivered by local authorities. Given the changing nature of the UK population make-up, our public services must apply greater consideration to culture, language and religion – and how these factors impact the range of services available and how they are offered.

Demographic changes are presented by an ageing population and increasing numbers of people with mental or physical disabilities. Both groups have an increasing life expectancy, and need significant care and support to continue to live in their local communities. Both groups put demands on local service providers, stretching existing budgets beyond what is sustainable, driving a need to radically rethink service provision. Today's 9 million over-65s will swell to 19 million by 2060, or 24% of the total

population, with a corresponding fall from four workers supporting every one pensioner, to just two. And the dialogue isn't yet being had about the impact of this change.

These different groups also want services delivered in very different ways. While on the one hand the majority of young people would probably choose to get their information online for example – it's faster, they can access the resources they need at their convenience – there will always be an older generation that wants to talk face-to-face to a human being. A local authority will be pilloried for even considering the closure of a library; yet swathes of the population will never use one. Meanwhile, other people have never used the internet, as evidenced in our report into internet usage by the older generation.

If you combine demographic change with the influx of migrant workers in particular areas, making it difficult to forecast demands on local housing stock, education, health and child support services, then it is not difficult to see why the need to respond to citizen demands scored so highly in the survey.

The impact of austerity

It will be interesting to see what impact the announcement made by the Chief Secretary to the Treasury, Danny Alexander on 23 April 2012, has on the drivers for change. Government departments were asked to identify an additional 5% of budgets for contingency as part of measures to tighten fiscal management and will also have to monitor and share spending information with the Treasury on a monthly basis. Over the coming months, we expect the drivers of change to shift to reflect the increased focus on austerity measures, which will become part of long-term planning and are forecast now to last into the next settlement round.

Senior public sector decision-makers are operating in a unique policy environment. The Coalition's approach is radically different to that of the last twenty years, with significant changes to expenditure on welfare and particularly impacting devolved areas such as education and health. Once long-term changes to welfare payments, pension ages and social housing are felt by citizens, local authorities may face a significant increase in demand for services. Effectively, as the economy stutters, the pressures on the public sector, and in particular on local authorities, will increase.

Adapt or die – the consequences of being a change laggard

Over half of those surveyed (51%) believe that an inability to respond to change rapidly and effectively is one of the most significant risks they face today. But what constitutes that risk?

According to the people we spoke to, the potential consequences are dramatic. Those that most

concerned our leaders were the loss of funding (87%), the transfer of operations to another organisation (70%), displacement of the current team in election cycles (69%) and the negative impact on citizens (67%). Leaders should expect little security of tenure in these circumstances.

“What happens if you don’t respond to change? It’s very simple. You go out of business.”

Gareth Lewis, CIO at the Financial Services Authority

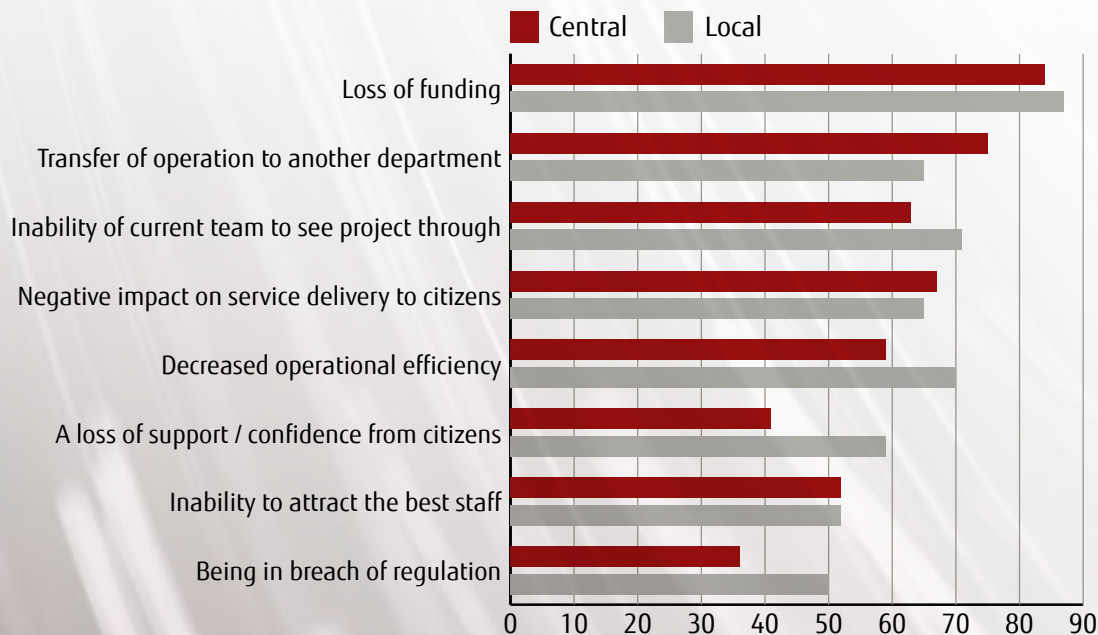


Figure 3: The risks associated with not responding to change rapidly and effectively?

"As a sector there's a whole lot of people yet to wake up to the reality of these changes"

Dr Paul Blanter, Managing Director LGSS and Chief Executive, Northamptonshire CC

The fact that the greatest fear for the public sector is a loss of funding should not be surprising following the 2010 Spending Review. Where once there was an expectation of stability and continuity, there is now nothing of the sort: there has never been so much radical change in such a short time. Private sector survivors have learned to reduce their costs during the course of the economic downturn: the public sector must do the same.

Some local authorities are making attempts to tackle the spending challenges. Northamptonshire County Council for example recently hosted a conference on funding mechanisms, actively encouraging local teams to work together to

address the challenges of budget pressures with more to come as the UK economy struggles to recover. There is some way to go:

"As a sector there's a whole lot of people yet to wake up to the reality of these changes."

Dr Paul Blanter, Managing Director LGSS and Chief Executive, Northamptonshire CC

Organisational effectiveness is fundamental in responding to and managing change effectively. Technology is a key driver, but the right people who can both communicate and deliver change are required to make it happen. There also needs to be an acceptance that some projects will fail if the status quo is to be effectively challenged.

Strength in handling change

Our researchers asked the respondents to assess their own organisation's readiness to address the change drivers; the consequence of any shortfall; the relative importance of factors supporting change and their access to these factors.

The most important factor in leading change was assessed to be strong leadership (91%). The ability for teams to follow a clear direction is crucial for change. And not just top level strategic direction: people need a simple guide to policy implementation to provide clarity on precisely what is required.

Our respondents also identified supporting requirements in the right technology solutions (83%), a culture that supports and encourages change (79%), available resource (77%), a

robust ecosystem of suppliers and partners (78%) and the right people (73%).

A short-term plan was seen as a more important ingredient for change than a long-term vision, supporting our theory that the value of long-term future planning is declining as external forces for change become less predictable.

Interestingly, when we analysed the gaps between the importance of an ingredient and how close the organisation is to possessing that ingredient, our respondents felt that they already had support from stakeholders, clear long-term vision, the capacity to change and a culture that supports change. Yet these were perceived as less important ingredients in organisations' ability to change.

"Strong leadership is a must-have. People watch the boss and then do what he/she does. If there is no strong commitment to drive change, change won't happen."

Gareth Lewis, CIO at the Financial Services Authority



Figure 4: What are the key ingredients for an organisation that is fit to change?

Weaknesses in handling change

"By self-report, which always tends to over-state positive factors and under-state negative factors, only 17% of those in the public sector are in my view at all optimistic that they are 'fit to change'. In a world that is changing more and more rapidly, these are highly distressing numbers."

Professor John Kotter, Harvard Business School

Let's examine how "fit to change" our respondents considered their organisations to be. We asked them to rate this on a scale of 1-10. The most frequent rating was 7/10 with just 17% rating themselves at 8/10 or above.

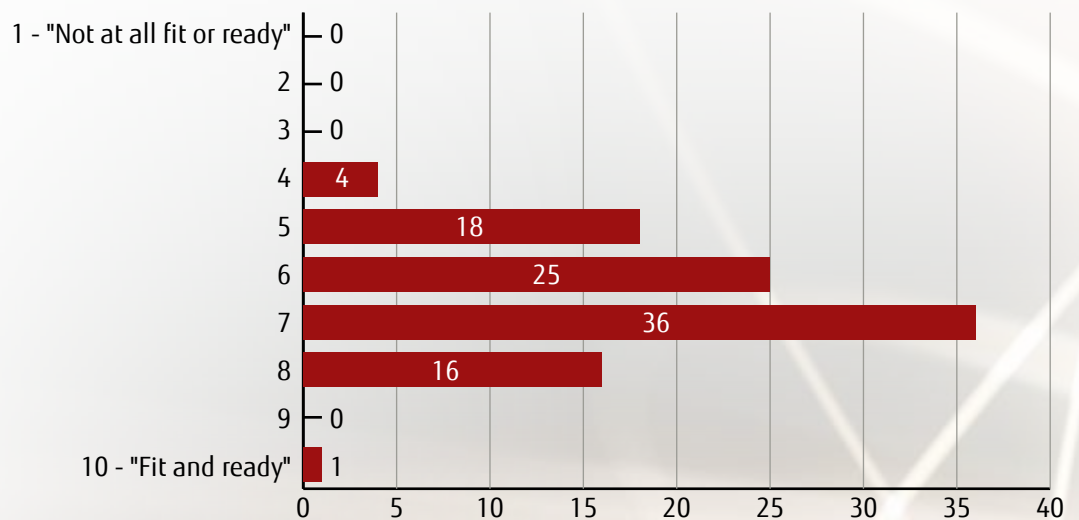


Figure 5: How fit to change are public sector organisations on a scale of 1 to 10

So where do public sector organisations feel they are lacking?

As shown on the graph below, the ingredients where perceived capability falls behind perceived importance are:

- The right technology solutions
- Short-term plan
- Strong leadership
- A robust ecosystem of suppliers/partners

When looking at the difference between what our leaders recognised they needed and their current organisational capability, by far the greatest gap was in “the right technology solutions” (83% vs. 58%).

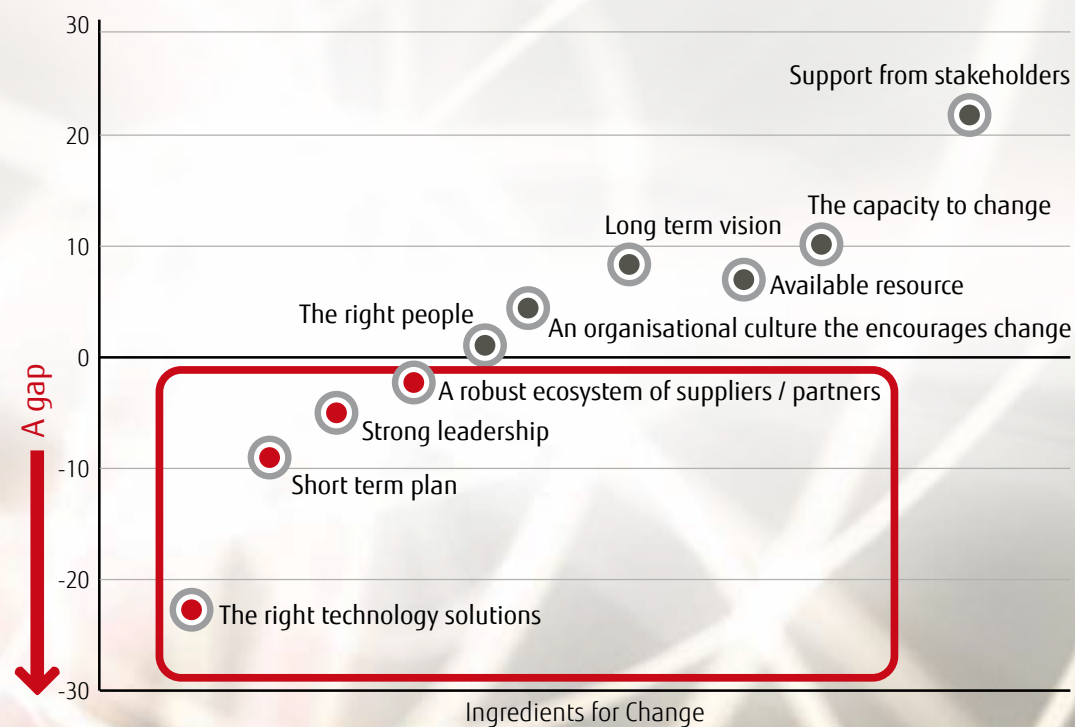


Figure 6: The gap between the importance of an ingredient and how close an organisation is to possessing it

The right technology

The availability of appropriate technology is critical to supporting the many drivers of change, particularly those driven by citizen demands such as multi-channel service and extended operating hours. These place new demands on infrastructure, such as highly-resilient access, robust security and interaction with many parties within and outside of the organisation.

However, in terms of being able to deliver the required solutions, the public sector faces many challenges. IT investment has been slashed across all public sector organisations at a time when the demands to move to digital channels have increased. Growing numbers of mobile and flexible workforces raise the demand for devices and systems that support business processes while people are on the move.

It seems that the public sector accepts the part that technology plays in supporting and delivering change, but feels unable, either through affordability or perhaps a lack of imagination, to truly leverage the benefits of good technology to best effect.

Short-term plan

Though the gap between perceived importance and perceived capability is smaller, it is still significant that organisations consider themselves to fall short when it comes to capabilities around short-term planning. There are perhaps three reasons for this:

- Policy changes and other wider market factors often arrive unannounced or at relatively short notice, leading them to be poorly managed and invariably costly in terms of both resource and budget. The teams tasked with planning and delivering change are often forced to 'go live' with insufficient time to plan and with little or no resources in terms of staffing, buildings, technical support or equipment.
- Once programmes are 'live', senior managers and many staff find themselves with a double workload, running day-to-day operations while also undertaking the strategic oversight needed to realise the change programmes. Major programmes can require years to fully embed new working practices or other changes to service delivery, which is often not factored into short or longer term plans.
- Finally, the staff tasked with advising and supporting programme changes often lack the professional skills, financial and staff resources to do so effectively, leading to a lack of clarity and lack of support for programme design and implementation.

Strong leadership

Recent research from the Chartered Institute of Personnel & Development (CIPD)¹ supports the view that strong leadership may be in short supply. It highlighted an overwhelming recognition within public sector of the shortage of leadership skills in managing change (71% of those surveyed) and in performance management skills (52%).

We also explored the gap between the relative importance of a driving factor and how well an organisation is currently able to respond to it.

The three areas in which there is the widest gap are:

- Need to work collaboratively with partners and suppliers
- Need to respond to citizen demands
- Requirement to drive down costs / budget cuts

"In today's touchy-feely culture, where 'partnership' and 'open' innovation have become mindless mantras, let's hear it for hard-nosed, clear-eyed leadership."

James Woudhuysen, Professor of Forecasting and Innovation, De Montfort University

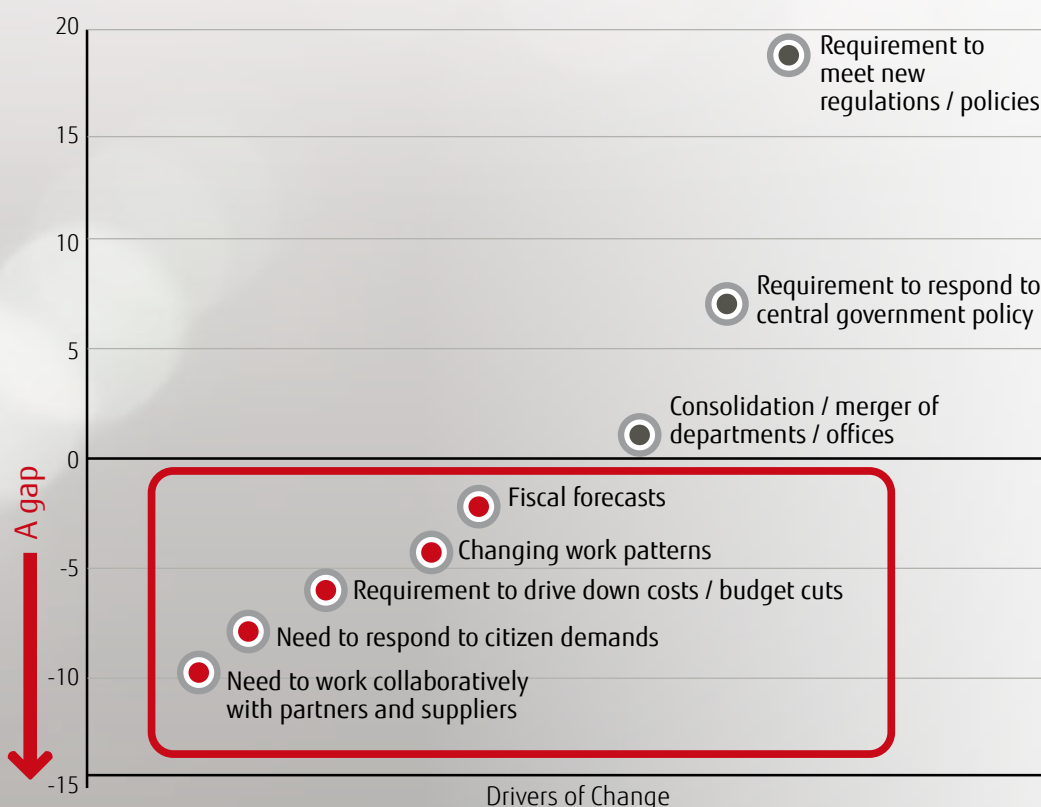


Figure 7: The gap between the importance of a driving factor and how well an organisation is currently able to respond to it

¹ Learning and Talent development, Annual report 2011 (Chartered Institute of Personnel & Development)

"If you have an abusive or antagonistic relationship between client and supplier then the project will suffer. You need good collaboration to achieve mutually beneficial outcomes. This requires a lot of hard work but the rewards are huge."

Adrian Pyne, The Gower Handbook of Programme Management

"Today's spending challenge cannot be achieved without reconfiguring ways of working at the frontline. This requires engagement rather than imposition of top-down targets with no discussion about how costs will be reduced."

"In the Hot Seat: reducing costs in public sector organisations in an age of austerity," Deloitte report

Working collaboratively with partners and suppliers

The way public sector bodies partner with suppliers is complex but can make the difference between effective and ineffective service delivery, and the difference between agility and sluggishness.

A strong supplier relationship is critical to underpinning innovative, sustainable business services, including a robust governance model, transparency, strong stakeholder and community engagement, and ethical values and behaviour. Public sector bodies which practice responsible supplychain management, working collaboratively with suppliers, both large and small, will build the most effective long-term partnerships.

Responding to citizen demands

Social researchers have noted decreasing deference in the British populous over the past 50 years. Once people were grateful for what little they were given; now shops are open for seven days with extended hours, and there is 24/7 access to websites and call centres. This gives the expectation of instant service when convenient to the consumer, not the provider. And these expectations are being transferred to public services.

Customers want to access services at a time that is convenient to them, delivered in a way that suits them and with a service wrapper they understand. When you're a public sector organisation dealing with the diversity of mobile and technology users, preference for paper, those who want face-to-face interaction and those happy to select options on a

touchtone phone, the need to adapt to meet those demands is pressure indeed. After all, simple change is simple to deliver; change where multiple channels interact is not. Our respondents concur: they are not confident that they can respond to the diverse demands placed on them by citizens themselves.

A robust debate as to how public services can meet citizen demands at an acceptable level and at an affordable cost is likely to continue for some time. Tensions caused by increased pressure on public service as a result of our ageing population and, potentially, a larger than expected number of young families due to the impacts of economic migration are well documented, but there is a lack of political will to do anything about it. Strong and robust leadership is required to tackle these unprecedented challenges.

Driving out cost

As the demands of the public sector workforce and citizens rise and change, funding is facing a crisis as never before. The real fear of national bankruptcy that followed the banking crisis of 2008 and the subsequent credit crunch, forced an abrupt revision of the view of indebtedness that could be sustained. The longer term effect on growth and tax-take is still to be clarified. The effect on budgets, however, is clear to all. As a driver of change, the result has been profound. And as it becomes clear that this is not something that will quickly blow over, fundamental assumptions about what must be provided to the public and how it is delivered are being challenged.

² Business leaders who contributed to the tips were Duncan Tait, CEO, Fujitsu UK&I; Gareth Lewis, CIO, FSA; Paul Blantern, MD, LGSS

How to change?

We combined the results of the research with the insights from our Fit to Change Panel², and also applied some of our own experience as a fast-evolving company. The result was the following ten-point list, which reveals both the kinds of characteristics businesses need to foster, and also the initiatives they should launch to improve their responsiveness to change:

1. Strong, honest, accountable leadership

Public sector leaders need to start not by focusing outwards on the organisation, but by looking inwards. Do they themselves really accept and embrace change, or is it just an inconvenience they're forced to tolerate?

2. Foster innovation

In contrast to the "lead by fear" ethos of the '90s, other research has shown that innovation is best fostered in organisations that first of all establish a sense of security in their personnel. Teams who feel confident, well-managed and secure in their jobs, will be able to plan for the longer-term and make the decisions that are required to ensure responsiveness to unexpected change. Put in place good planning for the worst case and people will come up with options to carry their responsibilities through.

3. Empower people by delegating deep into the organisation

Working practices that emphasise delegated management and delegated decision-making foster a sense of empowerment. Most change must be met effectively in day-to-day decisions, rather than by long-term strategy. Empowered organisations tend to be more responsive to the majority of environmental change.

4. Be clear on the skills you need

Make sure you truly understand the market trends and citizens' needs driving your sector in order to map out the skills and capabilities you require to succeed. If you don't already have the necessary skills, go out and recruit them, or plan to develop them internally.

5. Facilitate flexible working to release capacity

When people can work where is most appropriate for them, when tasks can be simply shared, when teams can be brought together simply to solve problems, an organisation can be far more effective and agile in its response to change.

"It's about knowing when to change – when to amend the short-term plan – and when to stick to the long-term strategy and allow change to happen around you."

Duncan Tait, CEO,
Fujitsu UK&I

"The big change is that many organisations now feel rather impotent in the face of events. Low interest rates and quantitative easing don't help; meanwhile Europe is adrift. But by filling in all the plans between short-term adjustment and long-term vision, organisations can still make the future happen, rather than just let it happen to them."

James Woudhuysen, Professor of Forecasting and Innovation, De Montfort University

6. **Communicate, communicate and listen**
If you want to ensure the whole organisation understands the nature of key challenges and the pace of change required, effective communication is vital. Change is an evolving process that requires buy-in, whether willing or not, and many organisations fail to deliver change at an early stage by ignoring the long-term communication strategy. And communication is a two-way street. Listen to citizens; listen to your staff and listen to other public sector organisations – if you are not listening you will not hear the call to change.
7. **Employee diversity**
The most important thing if you want to succeed is diversity across your employees. Different experiences, cultures and ages provide a range of insights that enhance an organisation's ability to respond to change.
8. **A robust ecosystem of suppliers**
The way you work with suppliers and integrate them into your organisation is a complex situation - but it is also the difference now between winning and losing. Your supplier ecosystem can make the difference between agility and sluggishness.
9. **The right technology solutions**
Technology is not just a means to save money and reduce risk; it can be your ticket to ensuring that when you need to move quickly and in different directions you can. It's essential that today's leadership team has an understanding of when IT should be an integral part of organisational strategy – and when investing in IT can reshape the organisation.
10. **Balance your visions**
Ultimately being "Fit to Change" is about ensuring the right balance between your long-term vision and short-term goals. Central to this is having a defined mid-term plan, underpinned by the capability and infrastructure that allows you an "at a glance view" of the frontline.

Keeping the citizen at the heart of this view should be central to public service delivery. Maintaining focus on more coordinated services, whilst helping to achieve national and local policy objectives and deliver cost savings is a challenge, even in less straitened times.

The analysis in this report is based on the insight and experiences of those in the public sector. There is much that can be done to respond to the challenges ahead and, by working collaboratively with partners, the public sector can respond creatively and proactively to change.

We want the public sector to get "Fit to Change" in 2012. Our experts can support you in identifying where big shifts within your business need to happen and how Fujitsu can help. Please get in touch for more advice and information.

About Fujitsu

Fujitsu is proud of its heritage in the UK, and we have a significant economic footprint. Today we employ over 11,400 people (UK and Ireland), in a business that has a turnover of £1.7 billion and offices across the whole of the UK. We remain as focused on delivering quality services for the public sector as when Fujitsu (then known as ICL) first worked with the MOD in 1966 and our approach of working in collaboration with our customers, delivery partners and SMEs, remains fundamental to our business.

Currently 99% of the population interact with one of our systems every day – from shopping, paying bills, making mobile phone calls, going on holiday or out for a meal, collecting pensions to registering births, getting married, applying for driving licences and vehicle tax. Behind the scenes, we enable citizens to go about their daily lives carrying out transactions supported by Fujitsu's systems and services. Fujitsu plays a key role in helping our customers to deliver their services as efficiently and cost-effectively as possible, regardless of how they are delivered – online, over the telephone, or in person.

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