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# Cutting Public Expenditure

*Has the price of the ticket become more important than the destination?*



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## Has the price of the ticket become more important than the destination?

The impact of the recession on public finances has become all too clear in recent months. Greece will have to reduce public spending by 40% this year to avoid effective bankruptcy; The Spanish are trying to reduce their budget deficit to 6% of GDP by next year. Ireland's economy has shrunk 10% as it struggles to tackle its deficit.

Here in the UK, reports in the media are reaching fever pitch about how and where the axe will fall. At the time of writing, Hampshire Constabulary had just outlined a plan to axe 1,400 posts in one of a string of budget cut announcements by police forces in England. MPs were warning that the Government's defence spending review was being carried out so quickly that the nation's security was being put at risk. Parents and teachers were seen protesting about the cancellation of the schools building programme outside the Department for Education in London which, with no lack of irony, was itself being completely renovated.

Whilst there is understandable and immense political pressure to reduce budgets, the desperate claims and counter claims about their impact so widely reported in the press, leads one to ask whether sufficient time is being allowed for public service providers to conduct these budgetary reviews in a sufficiently structured and thoughtful manner. For example, is the review process starting by making clear and careful revisions to the organization's mission and goals in the light of changed circumstances? Are proposed cuts then being aligned to and prioritized against these amended strategies? One has to wonder whether the cost cutting agenda is being pursued with such vigor that a mind set has been created that might best be described as "where we are travelling is much less important than the price of the ticket?"

Although I wouldn't altogether agree, some commercial organizations might argue that significant cost containment measures can be made without having a clear sense of where they are heading strategically, they might argue that as long as they can show their decisions have protected shareholder value, their strategy can be simply be allowed to 'evolve'. Even if this were true, Public Sector organizations wouldn't have this naïve luxury, without a balance sheet to hide behind; having a clear strategy is the only way to provide a framework in which to make difficult budgetary and re-sourcing decisions.

Let's think about it this way, when budget reduction decisions are made within the context of a clear relevant strategic framework, the organization's direction will remain visible, intact and clearly under the control of the top managers who developed that framework. If these choices are made in the absence of a strategic framework, there is considerable risk that the nature and direction of the organization becomes fragmented as it essentially is placed in the hands of the external forces that are driving budgetary decisions.

Given the urgency of the situation, it would be unrealistic to advocate a delay in the process of budgetary review while major strategic reviews are completed. The idea of vast numbers of civil servants all holed up in various government departments undertaking arcane research studies, crunching numbers and developing mind numbing models and charts would hold little appeal for our political Lords and Masters today. What might be required however, is for public service

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leaders to conduct a reasonably straightforward strategic review process designed to ensure that their vision and mission it still valid in the light of changed circumstances and if not, how their strategies should be adapted.

So how might one approach this sort of pragmatic strategic review? In our 30 years experience of helping leaders formulate and implement strategy we have learned that such reviews must be predicated on two simple principals; ensuring that you ask the right questions and that you ask them of the right people!

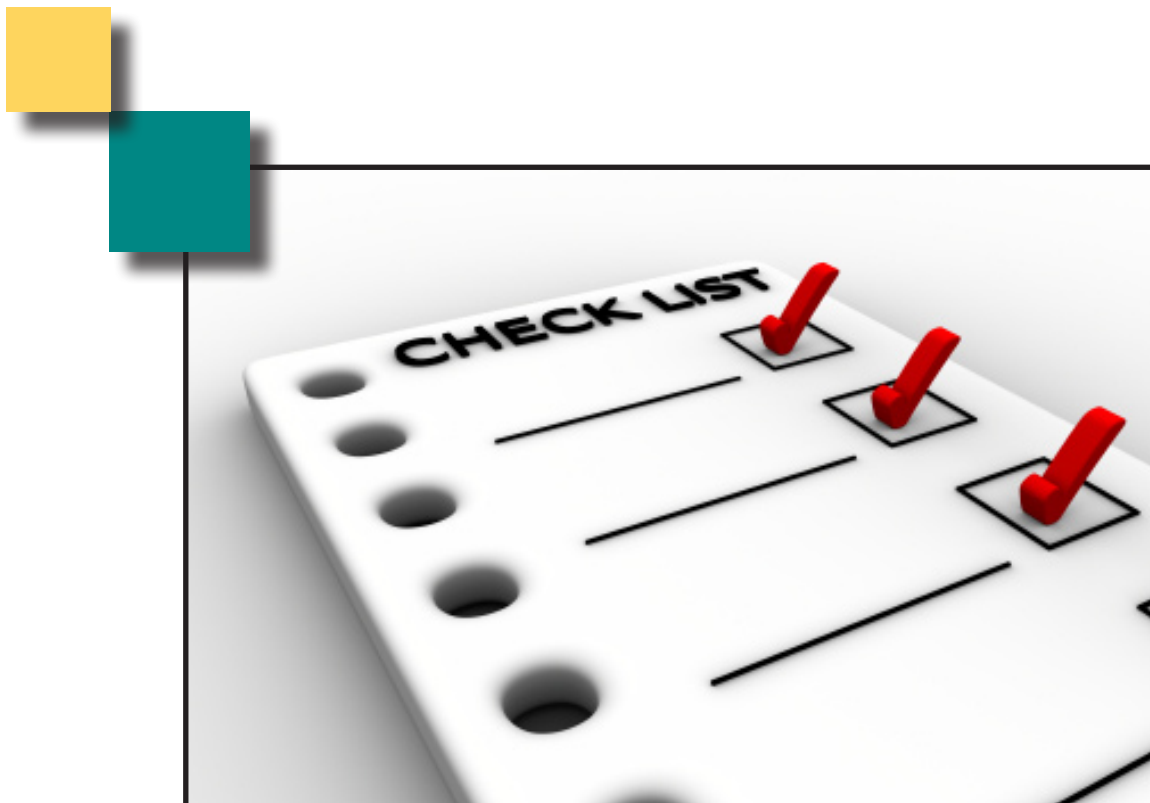
For us, the 'Right' questions will be contained within a rational decision making process designed to ensure that all aspects of an organizations strategy are properly considered. The 'inputs' for each decision building on the conclusions of the last and when taken together, representing

*"The framework of choices that determines the nature and direction of your organization",*

....this being our definition of strategy.

To ensure the best, balanced choices are made, it is essential that decisions are based on a realistic assessment of the de-facto environment and how it is likely to evolve, that the decision making process helps you explore different ideas and models in a world with no constraints and that the logic behind each choice can be made clear and visible.

Once built your "framework of choices" must allow you to explain your strategy in simple, logical and powerful terms. It is essential that others can understand why you have chosen the direction that you have, how risks and opportunities have been considered and the value that your chosen strategy will deliver. We have found the following seven questions can provide an effective structure for a strategic review.



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*1. What is the essential purpose of your organization, what are the basic principals that unify and guide everything you do?*

The first step in your review of strategy is to remind yourselves why your organization was called into existence, what is its reason for being? It is quite possible that over time, stakeholder requirements have broadened the original purpose of the organization which may have led to the essential intent becoming somewhat opaque. Refreshing the values, principals and beliefs that define your purpose will provide a strong foundation on which to base the review of other strategic choices.

*2. Given what you are here to do, how will you be impacted by the environment, what can you assume about how your environment will change?*

Good strategic choices are based on a set of assumptions about the external environment and how it will change in the future. Given the universe of variables that may affect your organization, those variables that are likely to have the most significant impact must be selected, defined and understood and again used to provide context for the review of subsequent strategic choices.

For example, a European Post Office with whom we worked based their key strategic choices on assumptions that included:

- Courier companies' range of services will expand, their delivery times will decrease and prices will drop
- Electronic communication will transform the demand for certain categories of postal service
- The Government will privatize all or part of postal operations

*3. Given the rate of environmental change, how far into the future is it reasonable to look when reviewing your mission and goals?*

When defining how far into the future you should set your strategic goals, you should think about how much time you need to allow for effective strategy implementation as well as to assess degrees of predictability about your external environment. What's the lead time for developing a new service? How long will it take design and commission a new school? For how long will budgets remain so constricted?

A European Industrial Development Agency, responsible for attracting international inward investment, told us that a five year time frame was appropriate as this matched the investment cycle for the majority of multi-national corporations with whom it was involved.

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4. *As you picture yourself in this future, what should be the range of services you offer and the scope of customers and end users that you should serve?*

It might be said without too much over simplification that any organization is the sum total of the products and services that it offers and customer groups that it serves and consequently reviewing and resolving these product and market choices will lie at the heart of any strategic review.

To help shape these choices, we developed a strategic decision making concept called “Driving Force” which allows leaders to understand and articulate the fundamental nature of their organization and how it interacts with the environment. We believe that all organizations base their thinking around one of seven different “Driving Force” paradigms. By identifying which paradigm has most influence on your decision making today and then by considering which other Driving Forces it might be possible to pursue, insights can be gained into the optimal product and market space for your organization.



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## The seven Driving Forces are:

### Products/Services Offered:

These organizations offer a set of products and services targeted at meeting a specific and enduring need. Such organizations will focus on better understanding how it can meet that need and identifying those who might benefit from the services provided. The focus that the NHS Sickle Cell and Thalassemia Screening Programme has on diagnosis and education for this specific condition would suggest them to be a Products / Services Offered Organization



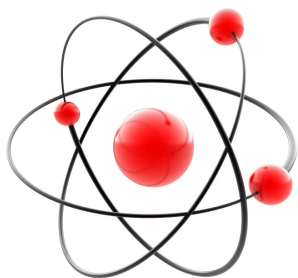
### Markets Served:

A markets served organization will not concentrate on answering a specific need; rather it will focus on a discrete customer group whom it serves. It will identify an increasingly broad range of needs that it can meet for that customer group. At the time of writing, Bournemouth Council had just announced a four week consultation giving local people a say in budgetary priorities over the next three years, this would suggest the council has a Markets Served Driving Force.



### Operations Capability

An Operations Capability Driving Force organization will not focus on a defined need or a specific customer group. At its heart will be a set of capabilities, physical, human and knowledge based which can be used in a variety of combinations to produce a range of products and services. These organizations will focus on developing their capabilities whilst seeking innovative ways to use them to add value. The approach GCHQ takes in combining intellectual horsepower with leading edge technology to produce its intelligence output would suggest an Operations Capability Driving Force.



### Technology

An organization pursuing a Technology Driving Force builds its strategic vision around a specific body of knowledge or a set of technological capabilities. It has the people and the physical resources to develop the basic technology and to apply it in innovative ways to satisfy existing, emerging or completely new needs. The focused technical expertise of the Atomic Weapons Establishment at Aldermaston would provide us with an example of this Driving Force.

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## Method of Sale/Distribution

An organization with a Method of Distribution/Sale Driving Force would be built around a set or system of distribution and sales capabilities. They will focus on building the physical and human resources necessary to fully exploit these capabilities and will develop by continuously expanding the variety of products or services that they distribute and sell. The growth in the range of products and services available through local Post Office branches in recent years suggests an organization pursuing a method of sale & distribution Driving Force.



## Low cost production

An organization pursuing a Low Cost Production Capability Driving Force has a set of production capabilities able to produce products/services at the lowest cost relative to any alternative source of provision. The organization will maintain and increase its cost advantage over private sector competitors through advanced process technology and cost-conscious management of its production. What might the NHS look like if it pursued a 'Low Cost' Driving Force, what Driving Force might best describe this organization today?

## Return/Profit Driving Force

An organization pursuing a Return/Profit Driving Force has an objective of maximizing return/profit within a certain set of risk guidelines. Whilst this Driving Force would be more unusual for a Public sector organization, examples do exist. The behavior of UK Financial Investments Ltd (UKFI), the organization that owns the public's recent investments in RBS, Lloyds and other financial institutions, would suggest a Return/Profit Driving Force.



When you have chosen what future Driving Force your organization will pursue, you have the basis for defining and reviewing all other choices in the strategic profile.

Understanding your Driving Force will allow top managers to have a central idea or concept in terms of which they can both see the future of their organization and review the product/market decisions that will or will not get them there. Finally and for the sake of strategic clarity, it is important to be specific about the products and services you will not consider as much as it is useful to define the products and markets that you will.

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*5. Within this scope, which products, services and customer groups are most critical to your organization achieving its purpose and require the most significant investment?*

Different product/market combinations will offer different potential benefits. You must determine how much effort, resources, and commitment your organization will put behind specific product/service areas in order to achieve the strategy. Making these choices will set priority for your implementation efforts and will be strongly influenced by your organization's choice of Driving Force as well as financial and political considerations.

*6. Given this product/market emphasis, what capabilities do you need to ensure success?*

The answer to this question starts the journey from strategy review to implementation planning and budgeting. You now have to think through what processes, systems, people and culture you'll need to deliver your strategy. Being clear about the relative importance to your strategy of each capability will allow more informed, logical choices about where to invest and where to cut.

*7. What financial and non financial results will strategic success deliver?*

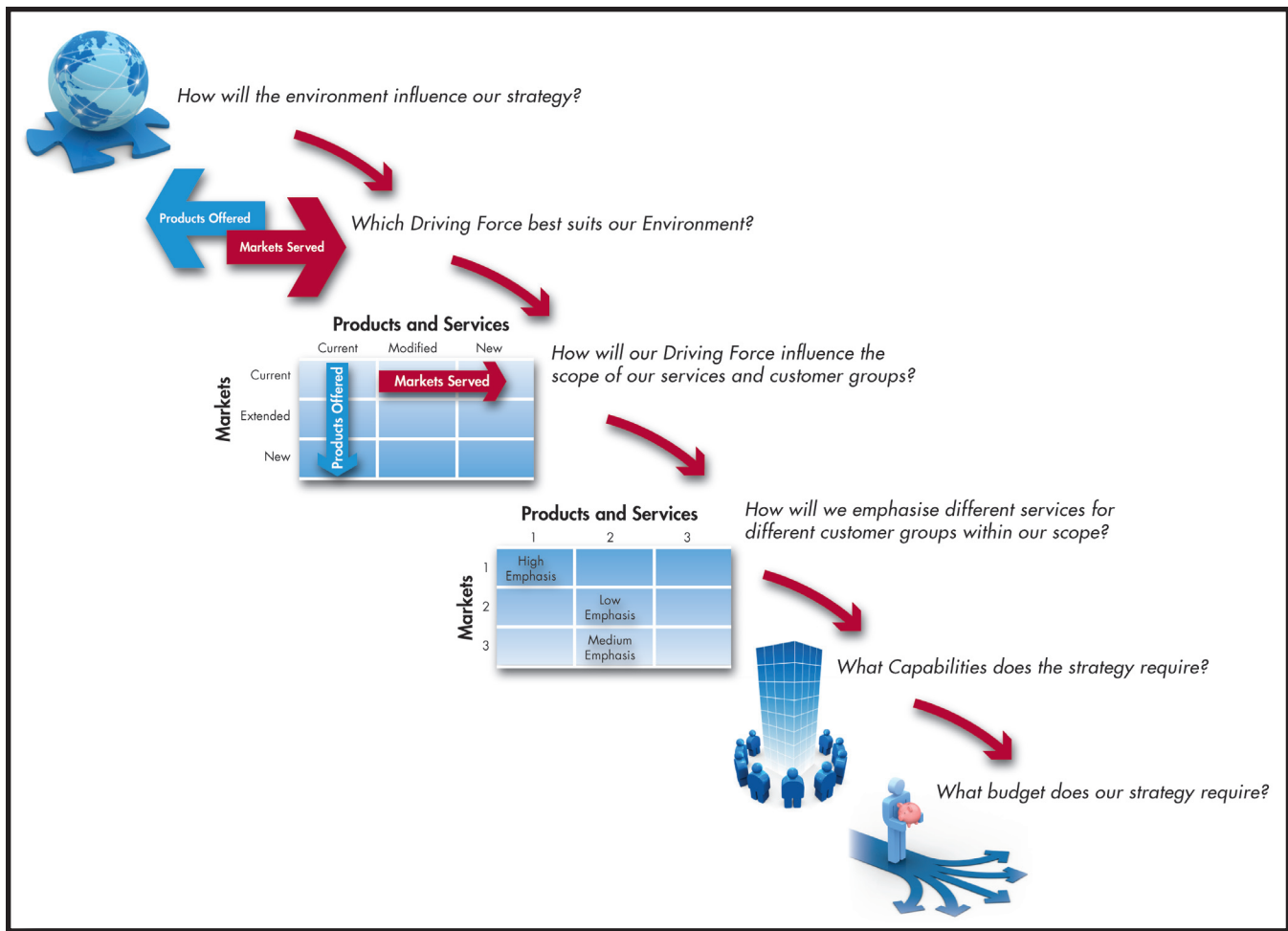
The key indicators of strategic success that you define should allow you to answer two questions;

- Are we implementing our strategy
- Is our strategy succeeding

To answer the first question will require a structured, disciplined approach to strategy implementation. A portfolio of programmes and projects should be defined to build the capabilities needed to drive your strategy forward. Metrics on programme and project progress will provide the necessary insights on strategy implementation.

As to whether your strategy is succeeding in the market, financial measures should be augmented by metrics which will allow strategic performance to be made visible. Customer satisfaction, service delivery performance might be considered. In areas of scarce, mission critical talent, the percentage of job offers accepted may qualify as a strategic measure, for example.

## The flow of interlinked choices in a strategy review



By answering these seven questions in your strategic review, you will build a clear context in which to make your resourcing choices. Perhaps more importantly in the current climate, you will be able to argue more cogently for funding to be maintained or even increased for those activities that are central to your strategic success.

In answering these questions, you have the opportunity to create consensus around strategic priorities and investment decisions. If the top team who individually are responsible for the deploying your organisation's resources, can together hammer out each difficult decision, the shared ownership and understanding created will help ensure you maintain a unified front and that implementation can be approached in a synergistic and complementary way.

You might even consider involving influencers and decision makers from outside your organisation in the strategic review. Experience suggests that going on the 'thinking' journey associated with answering our seven questions is often as important as agreeing the ultimate destination. They might even realise that the journey is so logical and the destination so attractive, it's worth the price of the ticket!



## SAM BODLEY-SCOTT

*Partner and Global Director of Strategy*

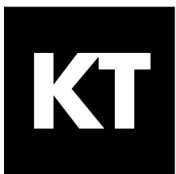
As the Global Director of Strategy and a thought leader in change management with 20 years of experience, Sam has provided corporate strategy and implementation advice to many organizations involved in large-scale transitions.

During Sam's time with Kepner-Tregoe (KT), his assignments have included: Strategy formulation and change programme design for leading European financial institutions, The design and implementation of strategic change programmes for a European appliance manufacturer, a global soft drinks company and an African industrial conglomerate.

Before joining KT, Sam worked for a major United Kingdom leisure group where he was responsible for leading the development of corporate strategy and managing that company's strategy implementation programme.

Sam holds a masters degree in service industry management. He has also co-authored a book on strategy implementation and change management. *Implementation — How to Transform Strategic Initiatives into Blockbuster Results* was published internationally by McGraw-Hill in November 2005.

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