

A soldier in camouflage gear is kneeling in a desert environment, holding a rifle. In the background, a helicopter is visible, and another soldier is seen running in the distance. The scene is set in a sandy, arid landscape under a clear sky.

# Leading the charge

Faced with huge demands for cheaper and more efficient support services, the Ministry of Defence is undergoing a ground-breaking transformation programme. *FM* discovers that finance is at the forefront of the change

# Change management



Pressure to reduce the cost and improve the efficiency of support services to the Ministry of Defence (MoD) has been growing for some time. In 2010, the MoD set out measures to balance its budget, including a reduction in “frontline costs by an estimated £4.3bn by 2015” in its Strategic Defence and Security Review. The following year, the Levene report “Defence Reform” recommended that public-sector-enabling services should be “delivered as efficiently, effectively and professionally as possible”.

The initiative follows numerous pledges by recent UK governments to deliver better value for money in defence spending. It also takes place in the context of the theory espoused by naval historian Cyril Northcote Parkinson that the number of defence personnel increases in inverse correlation to the number of frontline resources.

The current economic conditions mean that “Parkinson’s Law” is more likely to be defeated, says CIMA vice president Keith Luck, who is leading a private-sector management team at the MoD to drive change in these areas. “This time the agenda is about fundamental affordability and sustainability, stemming from the ongoing financial crisis; not the traditional jockeying between government departments for a greater share of an ever-growing pie,” says Luck, who is also director, strategic programmes, at outsourcing specialist Serco. “This time things really have to change. Indeed, are already changing.”

## A fresh perspective

Ministerial demands for change have increased because globalisation and the knowledge-based economy have both driven a fundamental change in the way that business services are organised, explains Luck. These developments have raised scrutiny on cost and defined the impact that “top quartile” performance for back-office services can have on the public sector, while allowing for improving best practice. “There is a real appetite for change on the part of defence chiefs, and this time around the shared service model offers a robust and proven platform for both catalysing and operationalising change,” he says.

The shared service model applied to the MoD is about “horses for courses”; tailoring the approach to

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the circumstances, says Luck. “It’s about the people who actually do the job finding new ways of working together and getting things done better, faster and cheaper. The real power of the shared service model is that fundamental change can happen progressively under the control of management. Sharing services forces change and standardisation, but for mutual adjustment one size will never fit all – any exceptions have to be understood, and be appropriate. It means that support services can be transformed through a root-and-branch reappraisal of both their rationale and design.”

The “insertion team”, encompassing staff from Serco and sub-contractor Accenture, was mandated to identify opportunities for change from within Defence Business Services (DBS), which brings together £27bn of bills processing, civilian HR responsible for 56,000 staff, vetting and security clearances for MoD and civilian contractors, and the knowledge and information function, which holds internet and intranet services, as well as all library services. “We work as if employed by the MoD, but we have the advantage of being able to ‘reach back’ to the expertise of Serco and resources of Accenture,” explains Luck. “We are implementing the solutions in conjunction with the existing staff and each of us plays a normal executive role within the organisation.

“This gives us the confidence to push back the change agenda in a way that ensures that the service won’t fall over for lack of expert and operational sources, should they be required,” says Luck. “This is very different to the usual model of consultancy, where either a plan or a turnkey solution is simply handed over to an organisation, often with the support staff having already been cut to the new, steady state level, and thus unable to cope with the actual implementation process.”

Among the challenges identified were concerns that the MoD may struggle to retain scarce skills during the redundancy process, while the scale of change was also noted as a potential cause for concern. A further factor is maintaining effective support to frontline operations, including the flexibility to cope with new military situations. “We believe that the shared services model will enable us to drive the requisite changes, while also retaining control over the overall shape and efficacy of the service,” says Luck. ▶



### Size of the prize

Luck suggests that while a relative lack of flexibility would be expected in some areas of the budget, due to the long timeline of financial commitments, there is potential for greater flexibility in personnel costs in the medium and long term. “The MoD was originally required to cut its civilian workforce by around 25,000, and the military by around 17,000. These figures have subsequently been revised to 29,000 and 25,000 respectively,” he says.

MoD expectations are for savings in line with the Levene recommendations in the order of 25-30 per cent, with customer service continuity, which will be achieved through new and better ways of working, efficiency, skills transfer and new working practices. “Shared services are expected to be centres of excellence, and the exercise as a whole acts as a ‘transformation engine’ for defence. Beyond the MoD there are also aspirations for business service growth of new services and new customers in defence, across government and in other organisations,” says Luck.

Other goals of the exercise are driving up service levels, improving management information, upskilling staff and leaving the department with options at the end of the insertion contract, adds Luck. “The transformation objectives are to create a strong platform with both efficiency and effectiveness, and then to exploit the platform by transforming other services coming into DBS to deliver more value through management information, decision support and analytics, and to enable growth.”

The target operating model is based on the DBS portal as a “single front door” for users to access DBS facilities and support, managed by customer service managers and a contact centre with the key aim of improving the user experience. Luck says: “The core of the operating model is the three elements of ‘expert services’, namely people services, finance services and the defence military intelligence centre of excellence.”

### Measuring success

Performance management (PM) of the project is based on 23 KPIs, of which four are critical, plus 200

performance indicators, all covered by a service-level agreement. The MoD approved business cases for various transformation programmes. For example, bringing in optical character recognition (OCR) technology, while operational excellence and a continuous improvement programmes are also part of the PM programme. “DBS is in a benchmarking club and Accenture is participating in the next generation business measures that the government is running. A key requirement is that we mustn’t get involved in ‘cost-shunting’, and must concentrate on reducing process and friction in competing processes,” says Luck.

Another way of assessing the project’s success has been exposure of the organisation to the dynamics of the outside world, encouraging everyone to see their activity as a service that is competing to provide the customer with something that they want. “This idea of introducing the concept of a market for services is what suddenly changes the collective and individual

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mind-sets that is needed to drive the right behaviours on the ground,” according to Luck. “Cynics will argue that MoD customers have no effective choice of supplier. But because we are now involved in pitching for work to other government departments, the discipline of preparing bids and benchmarking ourselves against competitor offerings creates a marketing mind-set that permeates the whole of DBS.”

Looking ahead, the DBS’s shared service centre will seek to recover a portion of costs by selling services “outside”. But this produces an imperative to have a better understanding of costs so that when DBS comes to look at selling its services externally it can justify its costs. For example, by having a clear idea of what an invoice costs. “This also drives good behaviour in terms of data quality – it removes ‘duff data’ from the system because of the visibility of activities to the senior level,” explains Luck. “There is an ambitious growth strategy – military HR may be implemented in late 2013 and we will also consider bringing in other parts of corporate services so a key activity is determining what the boundaries of the work should be. At present, the work is more to do with basic transactional work.”

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