

# **Recovering Failing local authorities - Is There a Need for Turnaround Management Strategies?**

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## **Abstract**

This paper deals with Turnaround Management Strategies in failing local authorities. The paper suggests that while the New Public Management reform resulted in some achievements, some public organizations are persistently failing. Although there is no clear-cut distinction between failing and good performing public organizations, the paper points out some of their characteristics. The Paper analyzes the efforts to recover English local authorities made by the Audit Commission. These efforts included persistent measurement, inspection, and supervision directed toward local authorities' performance improvement. The paper concludes that despite the efforts the success was partial due to two main reasons: first, the lack of experience and grounded knowledge and second, the use of inappropriate strategies. The paper suggests that in order to recover an organization there is need to implement unique and distinguish strategies named Turnaround Management Strategies. In order to gain grounded information for this study, qualitative data was collected. In addition to documents that were analyzed, four face-to-face interviews were conducted with local authorities' leaders, who were deeply involved in successful recoveries.

## **Introduction**

Turnaround Management Strategies have been researched widely in the private sector as part of the organizational study area. However, only recently these strategies have been researched in the public sector and specifically in the local authorities' context. Addressing failing local authorities should have been one of the first priorities of governments. However, traditionally, failing public organizations were not a major concern among decision makers. This paper's aim is

to draw attention to the importance of Turnaround Management Strategies and their impact on local authorities' recovery. The wide interest in New Public Management created a different reality that has less tolerance toward failures (Boyne, 2002; Christensen, & Laegreid, 1999; Glynn & Murphy, 1996). As this paper would show, these changes increase the relevance of Turnaround Management Strategies.

In order to gain grounded information on this topic qualitative data was collected. Semi-structured interviews were conducted with four leaders from two English local authorities who were deeply involved in a successful recovery process over the last four years. In addition, relevant documents provided by the local authorities and from the Audit Commission website were analyzed.

### **Local Authorities Improvements**

Traditionally, public services have been perceived as deficient performers. Consumers and politicians claimed that public services have not been responsive enough to the environmental changes and to clients' needs (Cornforth & Paton, 2004). As a result and in response to the increasing criticism, the 'New Public Management', a central multidimensional reform, has changed the face of public administration (Boyne, 2002). Basically, New Public Management emphasizes modernization of political and administrative systems (Christensen, & Laegreid 1999) by implementing financial standards like, economy, efficiency, and effectiveness and, by introducing professional management committed to these standards.

The New Public Management reform created new conditions, motivations, and expectations among politicians, managers, and consumers (Cutler, 2004). Management's performance has been a major concern for government policy makers, especially in the UK (Cornforth & Paton, 2004). In

England, huge efforts have been made to encourage best practices, and to promote stronger leadership. As part of these efforts to improve performance, the Audit Commission measured, and inspected local authorities.

The Audit Commission's methodology, as described by Andrews, Boyne, & Walker (2006), scored (from 0-lowest to 4-highest) all the main areas of local government activities. These scores derive from a mixture of existing measurement systems, self-assessment, inspection judgments, and evidence from performance indicators. Since 2002 and once a year the local authorities are assessed in a process named Comprehensive Performance Assessment (CPA). The strength of CPA is that it assesses performance from various perspectives, which provide a more complete picture and a better understanding of activities (Audit commission, 2005). The rates are given relatively to ideal standards, to the local authority's former performance, and to their relative performance in comparison to other local authorities. Given this methodology, some local authorities had to be rated as failing, at least at the first measurement. In the following section we would try to point out the characteristic of these failing local authorities.

### **Failing Local Authorities**

Generally, private organizations could be easily classified as failing according to financial ratios. Conversely, identifying failing local authorities is not an easy task. Due to complexities of performance measurement, the distinction between failing and non-failing public organizations is not a clear-cut one (Walshe et al., 2004). Though it is not obvious which are the failing local authorities, some characteristics of failing public organizations can be found in the literature. Generally speaking, failing organizations suffer from unfitness to their environment and thus, unresponsiveness to their consumers' needs (Mellahi, Jackson, & Sparks, 2002). According to the

interviews' analysis the symptoms of failing organization were classified into external and internal groups.

Externally, failing organizations deal with stakeholders' criticism and poor reputation. For example, one of the local authorities had even been labelled by the public opinion as "the worst council in England". This criticism resulted in pressure from politicians to bring about a recovery (Joice, 2004). This pressure was noticed by the interviewees who described that they felt that the government put their local authority under heavy pressure to change the situation, creating in this way a stressed relationship.

Internally, failing organization's management is described as poor, centralized, stagnated, and inflexible (Balgobin & Pandit, 2001). The interviewees reported that the leadership managed the crisis unprofessionally, and in an "Old fashion" way. Internal services were neglected or completely missing. In addition, employees of failing organizations suffer from negative feelings like guilt, regret, and even shame. Therefore, they have negative attitudes; they go through discomforts and conflicts; they face lack of information and togetherness, and they feel their jobs are under a threat of discharge (Joice, 2004; Mellahi, Jackson, & Sparks, 2002). From the interviewees' point of view the attitudes of both leaders and employees toward the failure itself were of denial and resistance to change, as stated by one of the leaders: "people had difficulties to accept the governmental reports that actually said that we are a rubbish organization".

In sum, from the above description we can conclude that failing local authorities can be characterized as organization failing both externally and internally. However, these characteristics are not conclusive and drawing the line between failing and non-failing local authorities, is still a hard task.

## **Dealing with Failing Local Authorities**

As part of the New Public Management reform, continues efforts to improve the management and performance of failing local authorities in England have been made since the early 80's. However, the Audit Commission, in 2002 identified and labeled 13 local authorities as 'poor performers' and 21 local authorities as 'weak performers' (Audit commission, 2002). These 34 local authorities (23% of 150 inspected) provide quite strong evidence that in spite of the efforts, some local authorities were still failing. In order to track the achievements of recovery processes in these local authorities, it is important to follow them since the publication of this report.

Stewart (2003) claimed that the British authorities processes have led to significant improvements in performances. According to the Audit Commission (2005), since 2002, council services have improved significantly. However, the improvements were usually achieved within moderate and good performers. Within the poor performers, as rated in 2002, 39 percent have not recovered yet and are still rated as poor/weak performers in 2005 (see table 1). Within all the poor and weak performers in 2002, after 3 years of efforts, 12 percent have not made any progress, and 38 percent have made a minor progress. 68 percent of the local authorities are still performing poorly/weakly/fairly (Audit Commission, 2005).

Pointing out a recovery process as successful, like pointing out a failing organization, is not an easy task. Joice (2004) defined a public sector organization that experiences a recovery process as an *'organization moving from being poor performer to being a good performer'*. Accordingly, moving from being a poor performer to being a weak performer would not be considered as a significant recovery. Given that three years after the first publication of the CPA half of the local authorities that had failed in 2002 are persistently failing, we can conclude that this data reflects a

Table 1: Local Authorities' Comprehensive Performance Assessment over 2002 & 2005 – N (%)

2002		2005				
		0 stars	1 stars	2 stars	3 stars	4 stars
0 stars	13 (100)	1 (8)	4 (31)	6 (46)	2 (15)	0 (0)
1 stars	21 (100)	0 (0)	3 (14)	9 (43)	9 (43)	0 (0)
<b>0-1 stars</b>	34 (100)	1 (3)	7 (21)	15 (44)	11 (32)	0 (0)

Source: Audit Commission (2002-5)

partial success in recovering local authorities and there is still a need for better solutions for failing local authorities.

### **Turnaround Management Strategies**

The roots of Turnaround Management Strategies can be found in the private sector. However, the Turnaround management rhetoric is gaining popularity in the public sectors as well (see for example, Walshe et al., 2004; Turner et al., 2004, Boyne, 2004; Paton & Mordaunt, 2004; Cornforth & Paton, 2004; Joyce, 2004; Jas and Skelcher, 2005). Many of the ideas, concepts, and models that have been developed in the for-profit sector have at least some application to the public service. As Cornforth & Paton (2004) noted, as a result of imperfect and erratic market-driven processes “cycles of relative decline and recovery are commonly observed among companies...similar cycles ... occur in the public and non-profit setting”.

The cycles of decline and recovery are affected by the strategies implemented by the management, which were straightforwardly defined by Pandit (2000) as ‘*the actions taken to bring about a recovery in performance in a failing organization*’. Pandit’s definition refers to the managerial aspect of the recovery process, and to the management’s actions directed toward

achieving a successful recovery, or in other words, the Turnaround Management Strategies. According to Boyne (2004), there are three general, major Turnaround Management Strategies named the 3Rs: Retrenchment, Repositioning, and Reorganization.

Retrenchment is a strategy that deals with efficiency. It includes a reduction in the scope or the size of the organization. One of the main objectives of these steps is to release resources from unproductive sections that can be reinvested in more productive ones. As a result of this reinvestment higher quality of performance and better outcomes would be delivered to the public (Boyne, 2004). The implementation of retrenchment in a public organization might be more complex than its implementation in the private sector. Cessation or the reduction of the scope of a service would be determined not by the profitability test but other considerations will be evaluated. Although these complications might arrive there is growing evidence that suggests that retrenchment is one of the basic and common sets of activities in successful recoveries.

The second strategy, Repositioning, deals with effectiveness. Repositioning emphasizes growth and innovation (Schendel & Paton, 1976). As a response to failure, repositioning suggests to redefine the core missions and activities of an organization. Implementing repositioning includes improving the existing services or supplying brand new services to current consumers or to new variety of consumers (Schendel & Paton, 1976; Borins, 1998). The introductions of cost-effective services immediately improve the performance of the organization. Nevertheless, implementation of repositioning strategies requires creativity and managers in failing organizations are usually stuck in traditional ways of working rather than innovative ones (Boyne, 2004).

Finally, the third R is Reorganization. The strategy could be regarded as any internal organizational change, including changes within leadership personnel. The purpose of reorganization is either to support the implementation of retrenchment and repositioning or simply

to improve the organization performance. Reorganization might involve for example, changes in the extent of centralization, changes in human resources management styles, or in the organizational climate.

From the above description it is not obvious in what way Turnaround Management Strategies are unique and distinctive. It could be claimed that there is no need for distinguished Strategies for failing local authorities. Although improvement strategies might indeed make some changes in the performance of a failing organization, their ability to bring about a full recovery is limited. The following six factors would illustrate a deeper explanation for Turnaround Management Strategies' uniqueness:

1. The Aim, scope, and Proportionality– The aim of Turnaround Management Strategies is to create a radical organizational change and not a minor upgrading of the existing performance (Boyne, 2004). The scope of Turnaround Management Strategies is broader than the scope of improvements strategies and was described by the interviewees as radical. The strategies are substantial (Paton & Mordaunt's, 2004) and would probably affect all parts and stakeholders of a local authority (Boyne, 2004). In other words, to achieve a successful recovery the tools used should be proportional to the aim that the tools are meant to achieve- radical tools for radical changes.
2. Time restriction –Turnaround Management Strategies are rapid (Paton & Mordaunt's 2004), and they occur in a defined and restricted period of time. A recovery process is not an endless, ongoing routine process while improvement could be a persistent practice needed during all the organization's lifetime.
3. Urgency – Turnaround Management Strategies were described by the interviewees as urgent, because they are implemented as a reaction to a crisis or as an attempt to prevent one.

Improvement strategies are more moderate. Consequently, they may be less efficient in urgent situations.

4. Inspection & Examination – Turnaround Management Strategies are usually forced, inspected, and supervised by external stakeholders (Turner et al., 2004). The leadership has less degree of freedom to choose whether, when, and which strategies to implement. Usually, competition between local authorities, union strikes, increasing demands, or coming elections might increase the pressure to bring about a successful recovery. This situation was identified by the interviewees who claimed that the leadership was under pressures and demands from the press, the wide public, and governmental officers. The culmination of these pressures was the takeover threat over the leaders themselves.
5. The Management – Poor management is one of the significant causes of organizational failure (Walshe et al., 2004; Audit Commission). Therefore, replacement of the leadership was found as one of the most common and necessary Turnaround Management Strategies, in the private sector (Hofer, 1980; Boyne & Dahya, 2002; Walshe et al., 2004; Turner et al., 2004). Whether or not that is the case in the public sector, Turnaround Management Strategies would be usually implemented either by an experienced but poor management, or by new management who is unfamiliar with the organization.
6. The Organizational Climate – Turnaround Management Strategies would be generally implemented in a negative climate. For instance, the leadership would probably face lack of motivation, antagonism, conflicts, and resistance to change of employees, consumers, and other external stakeholders (Balgobin & Pandit, 2001; Mellahi, Jackson, & Sparks, 2002).

In sum, the nature of Turnaround Management Strategies as discussed above, differs quantitatively and qualitatively from improvement strategies. A different set of strategies is

required to recover a failing local authority than the set that is required to transform a local authority from being a good to being an excellent performer. Consequently, Turnaround Management Strategies are the key for a successful recovery process. However, any recovery process is unique and requires an adjusted and appropriate set of strategies. Combining the nature and extent of these strategies with the characteristics of the organization is essential to the success of the process. In the next section we would try to figure out to what extent these strategies are known to English managers and decision makers, and to what extent they have been in use.

### **The Reasons for the Partial Success in Recovering Failing Local Authorities**

Public sector performance is currently a significant issue for management practice and policy, especially for organizations delivering less than acceptable results (Jas and Skelcher, 2005). From the English case it is clear that there was an increasing and ongoing interest in improving performance. Accordingly, these growing interests made the government introduce a more robust intervention (Cornforth & Paton, 2004). As part of this intervention, efforts were made to recognize failing local authorities, to supply them the necessary support, and to supervise them (Walshe et al., 2004).

Although failing local authorities have received special and adapted treatment, these treatments have been introduced only lately, and previous experience and grounded knowledge were severely missing. As Cornforth & Paton (2004) pointed out, “little is known about whether, how often and why ‘normal’ cycles of decline, and recovery may be arrested”. Managers in the public sector suffer from a lack of appropriate tools for predicting a failure, preventing it, and dealing with a crisis after it occurred (Mellahi, Jackson, & Sparks, 2002; Melahi & Wilkinson,

2004; Paton, 2003). Therefore, a full and coherent understanding of the failure and recovery dynamic in local authorities is still needed.

According to Walshe et al., (2004) data and theoretical knowledge in the public sector context is missing. Detailed case studies that describe failing public organizations are infrequent. The existing study cases are mostly focused on the causes of failure, their symptoms, and the triggers for change. They are not focused on Turnaround Management Strategies and the way they contribute to recovery (see for example, Turner et al., 2004; Jas and Skelcher, 2005; Paton & Mordounnt, 2004; Joyce, 2004; Mordaunt & Cornforth, 2004). The theoretical papers do not develop explanations for a successful recovery process as well (see for example, Walshe et al., 2004; Boyne, 2004; Willmott, 1999). Above all, empirical quantitative study that analyzes Turnaround Management Strategies and tests their impact on recovery is completely missing (Boyne, 2003).

In the field, the lack of experience and grounded knowledge created a gap between the needed and the actual available tools. The vacuum created by this gap was probably filled by the implementation of known and common improvement strategies. As we demonstrated, the improvement strategies are not fully appropriate and effective for persistent failing local authorities. Therefore, it is not surprising that the English efforts resulted in partial success. Which Turnaround Management Strategies, if any, have been implemented, to what extent and, what has been their contribution to successful recoveries is still unclear.

This unclearness has not arisen incidentally. Jas & Skelcher (2005) and Cornforth & Paton (2004) explained that this lack is rooted in the governments' policy and the predominant ethos that focuses on excellence. As a result of this policy, most research dismisses poorly performing cases and strategies engaged in consistent failures.

This tendency can be recognized in the Audit Commission measurement policy, which is focused on outcomes, and does not deal with the strategies behind successful/unsuccessful recoveries. Given that, and taking into account the lack of research on this topic, the ability of the Audit Commission to give valuable guidance to failing local authorities is limited.

From here, it becomes clearer that further research is needed. In order to achieve the most effective recoveries, governments and local authorities should base their policy on grounded evidences. As Boyne (2004) argued: Turnaround Management Strategies in local authorities “have received scant attention by public management researchers”, although this is a topic of “huge practical significance”. The existing theory of Turnaround Management is currently either inadequate (Barker & Duhaime, 1997) or not existing (Pearce & Robbins, 1993). Thus, we conclude that further research to point out which Turnaround Management Strategies are effectively implemented should be carried out.

## **Conclusion**

Along with the positive changes under the umbrella of the New Public Management, some local authorities have stayed in the back. Decision makers have figured out that failing local authorities’ leadership needs adjusted supervision for recovering. At this point, a partial success has been achieved and bringing failing local authorities up to the highest standards is still a challenge. Through this paper we examined the reasons behind this partial success and concluded that unique and more effective strategies are required. Thus, a better understanding and tracking of Turnaround Management Strategies is required in order to reach full recoveries.

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