

# Managing financial challenges through engagement: Lancashire County Council



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## Introduction

This IPA case study explains how Lancashire County Council managed the challenges it faced following the Comprehensive Spending Review by focusing on employee engagement. Through developing what came to be called the Lancashire Way, they managed to meet and even exceed their savings targets, whilst preserving the quality of services and maintaining staff morale. This case study demonstrates the potential power of employee engagement to deliver savings and improve services in the public sector.

The author, Professor John J Oliver OBE worked with Lancashire County Council in developing their response to the Comprehensive Spending Review.

## About the IPA

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## Preamble

Like many public sector organisations in early 2010, Lancashire County Council (LCC) found itself at the mercy of the forthcoming Comprehensive Spending Review (CSR). The financial crisis inevitably made this likely to be the most challenging budgetary reduction the public sector had ever faced. LCC knew it could be looking at cuts of up to 25% over a three year period.

Given the magnitude of these changes, the CEO at LCC, Phil Halsall, became acutely concerned at the impact they could have on morale and the future effectiveness of the authority. He argued that the traditional slash and burn approach of top-down dictated actions on such a scale would alienate the workforce. As a consequence the council would struggle way beyond the timeframe of simply taking the necessary cost out of the business.

Accordingly a plan was drawn up to address the challenges of the CSR through a process of employee engagement which became known as the Lancashire Way. Here, instead of presenting the workforce with a detailed description of what was going to happen over the three-year period, the council simply outlined the financial challenge and sought to involve each area in finding their own solutions. All employees were meant to contribute.

Designing a means to tackle these huge reductions was never going to be easy. The council, like most big organisations, already had a track record of change programmes over many years and had not been too successful. Employees, and many in management alike, were acutely cynical of new initiatives and not likely to respond favourably to yet another one in such a difficult situation. Morale was already compromised by a massive equal pay review. Despite there being many more winners than losers, the reaction was generally negative as pay reviews are wont to be.

Two decisions were made which characterise Lancashire's approach to employee engagement. Firstly it was recognised that the prime movers in any culture change programme had to be management themselves. In any organisation management, past and present, are the major contributors to the prevailing culture. In a large, public authority this was certainly likely to be true. There seemed therefore to be major dangers in going to the workforce and promising change without fully understanding how to get the full management team, from the CEO to the most junior supervisor, to deliver it.

The first decision was therefore to focus immediately on changing the general managerial paradigm in the authority to one which put people management at the heart of what they did, 24/7. The traditional technocratic approach had to migrate to one based on a chain of activities from simple motivational skills at one end to a suite of increasingly sophisticated continuous improvement techniques at the other.

This sounds simple but in practice this had to be done reasonably quickly across an organisation of some 20000 employees, excluding those employed in the delivery of

education. The range and complexity of the services delivered by the council were also unhelpfully huge.

The intention was, without formally announcing the change to the workforce at large, to progressively introduce a more people-centric philosophy across all in management. Employees would hopefully gradually experience a more positive improvement in the working ambience around them. This would be far healthier and less risky than banging a big drum about the brave new world coming towards them, and then in all probability losing credibility as the change emerged too slowly to match expectations.

The second major decision was to consciously avoid presenting the Lancashire Way to the management group as any form of structured initiative. It had to be seen as a basic shift in philosophy where the general mindset of management had to change. This was simply “the way we do business around here now”, placing employee motivation and personal accountability at the heart of the LCC manager, irrespective of seniority or status.

Whilst it was intended to provide an extensive support infrastructure to managers so that they understood the requirements of the new way, the principal driver of behavioural change was to be self- development through self-realisation.

Another key influence on strategy was a decision made by the Board to rely entirely on voluntary redundancy to achieve the necessary headcount reductions. Although the ramifications were likely to be challenging, the Chief Executive felt that any downsides here would be far outweighed by the benefits on morale and employees’ sense of security over an extended period of disruption.

## Process

There have been six discrete elements to the Lancashire Way:

- educating and convincing management
- self-realisation through management style questionnaires and peer reviews
- simple values/behavioural sets
- extensive recognition processes
- improved communication channels
- continuous improvement

## Educating and convincing management

A comprehensive series of workshops was organised to introduce the top 1000 managers to the concept of employee engagement and the Lancashire Way. Some 400 copies of “Growing Your own Heroes” (oak tree press) were issued to ensure a consistent understanding and

implementation. Extensive use was made of the “Macleod report” with all managers encouraged to access the report electronically. Summaries of the report were also widely circulated to ensure that the evidence to support employee engagement was fully appreciated. This was important as the risks of it being seen as another flavour of the month had to be minimised. Time here was really of the essence.

Initial training at senior level was conducted by Prof John Oliver who cross referenced the successful work undertaken nearby at Leyland Trucks, Runshaw College and Blackpool NHS Trust, all case studies in the Macleod report. Thereafter senior directors, including the Chief Executive Phil Halsall and Environment Director Jo Turton, undertook keynote roles to reinforce commitment and ownership.

The task of educating all people managers in the authority is now complete. Two intensive half day workshops were designed to bring all influencers up to speed on how the necessary employee engagement was to be achieved. Both were very well received.

Leadership programmes have been revised to major on the fundamentals of employee engagement. LCC already had an excellent provision in both programme content and in a supportive and professional HR and training department. They were quickly able to adapt their offerings to suit the approach.

## **Management Self Awareness**

As indicated earlier, the emphasis is placed very much on managers taking on the responsibility for self-development. In addition to the myriad of training opportunities noted above, subordinate and peer appraisal have been introduced through the simple management style questionnaire/ peer review processes used at Leyland and elsewhere. Managers are encouraged to seek to understand their “shadows”, the way they influence people around them through their conscious and unconscious behaviours. The processes were successfully trialled with the top 500 and have now being rolled out to all people managers in the authority. By early 2013, almost all managers were routinely measuring their shadow of influence with many on their fourth iteration. The general view is that the process has been most helpful in helping them improve their ability to motivate and engage their staff.

## **Behavioural sets**

The successful approach to establishing an accessible and memorable value/behavioural set, pioneered by Runshaw and used successfully at Blackpool NHS trust, has been replicated at

LCC. Using a limited number of one-word values agreed by a facilitated focus group of junior staff, the behaviours of the Lancashire person and the Lancashire manager have been developed. By gently cascading the concepts into the organisation, it is hoped to generate positive peer pressure to encourage employees to engage in new opportunities for continuous improvement.

## Recognition

Repeated staff surveys at LCC exposed a real need for employees to feel more valued. Again using a facilitated staff focus group, procedures for individual and team recognition were developed. Each directorate has implemented this energetically resulting in real positive feedback.

This is now being actively linked into the continuous improvement process (see later). Recognition in its purest form (i.e. not confused with reward systems) is seen to be a powerful enabler of encouraging engagement.

Over a hundred of the new team recognition events had taken place by early 2013. This has resulted “feeling valued and appreciated by the council” increasing from 39% to 52%. “Enjoyment of job” has at the same time improved from 68% to 91%

## Communication

The introduction of the Lancashire Way coincided with a reorganisation of the council's communications functions, including the creation of a dedicated Internal Communications Team within the new central Communications Service. The council has developed a new approach to communication, which has begun to deliver improvements to communication with staff – both in terms of the channels used and the content delivered on them.

There has been a focus on getting face-to-face communication working effectively at all levels in the organisation – within teams, and between senior management (including the Management Team) and employees. For example, the chief executive hosts an extensive conference series for all employees, as well as smaller, localised events to facilitate front-line staff.

Meanwhile, they've also used electronic communication to good effect, with a new website encouraging two-way dialogue with the Management Team, while also increasing their visibility and the transparency of their work and decisions. They run frequent online Q&A sessions, and the Chief Executive sends out a fortnightly email to all networked staff, which is well received for its simplicity and honesty.

## Continuous Improvement

The concept of continuous improvement allied to employee engagement may be increasingly familiar to manufacturing operations in the UK but is rarely practised in public-sector organisations like LCC. Great care has been taken to develop practices which suit both the culture of the council and the relative newness of the philosophy. The emphasis has been placed on simplicity, avoiding at this stage broader techniques such as TQM or EFQM. Following training from Leyland Trucks (recent Shingo prize winners), in-house programmes have been delivered to good effect. Each directorate now has a range of CI activities going on throughout their services. Big ticket CI projects are obviously essential given the challenges on the council. However, getting employees involved in more modest, bite-sized exercises is also a priority and lots of good practice has been reported.

Building up to an embedded CI culture, where it is seen as routine and integral to day-to-day working, is key to real employee engagement. It satisfies underlying desires for interest, intellectual satisfaction, self-esteem, ownership, personal accountability and a lot more beyond.

Progress has been a little slow as may have been expected from such a large, complex organisation in the grip of acute financial problems. However there are now lots of good examples of employees taking ownership of the change process and really making a difference. The use of quality time type initiatives, where employees stop their work for a couple of hours and look for improvement opportunities, have helped to increase the awareness of both CI and the engagement process. However in mid- 2013 the 10% Challenge has been rolled out from the very top attempting to provoke a step change in employee engagement through delegating ownership and responsibility for the next phase of the CSR. This is a huge and closely monitored exercise designed to succeed.

## Measurement

There are two absolute measures of the success or otherwise of the Lancashire Way:

- Staff morale and perceptions about working life at the council, as measured by routine staff surveys
- Achievement of corporate goals, particularly those stemming from the CSR.

On both accounts LCC appears to be on course. Despite the fragile climate within the public sector in the UK, the executive team decided to survey staff attitudes in June 2011. The technique they used was to take the previous survey and realign it to a more cultural audit looking at the key factors identified in the Macleod report. Not satisfied with a simple statistical output, the council added directorate-level focus groups to distinguish between

symptoms and underlying causality. This process has been well received at all levels and has served to underline the executive team's determination to move to a more people centric organisation.

The outcome of the survey was perhaps, given the general unpleasantness in the public sector, on balance surprisingly positive. Employees generally expressed a great affiliation for the organisation and enjoy working there. The relationship between individuals and their immediate supervisors was remarkably good.

Progress here continues to be monitored by interim sample surveys. Soft measures, such as frequency of recognition, will be restricted in number but used vigorously to maintain progress.

However the only real test of the Lancashire Way, given the draconian challenges of the CSR, is whether or not the financial savings were made whilst at the same time service levels maintained or improved. Remarkably against a very aggressive target of £179m, some £220m has been saved by the end of financial year 2012/3. This represents in excess of 25% of total costs.

Measures on the quality of service provision and customer satisfaction have been maintained despite the upheaval caused by the CSR task. Employee reactions have been very healthy as well. Responses to the question "I enjoy my job" rose from 68% to 91%. The proportion of employees with zero absence likewise improved from 40% to 54%.

Managers now feel very comfortable with a paradigm based on engagement and employee motivation. 86% feel that the Lancashire way approach is making a positive difference to their fortunes. This has been enthusiastically demonstrated at the workshops noted earlier. In addition it is pleasing to note the positive contribution made by the trades union from the outset, enabling a harmonious tripartite endeavour from management, representatives and employees alike in getting to grips with an unpleasant but unavoidable task.

## Architecture

Implementing something as comprehensive as the Lancashire Way in an organisation as large and complex as the county council was never going to happen by accident. Accordingly, a strong architecture has been constructed to ensure it is applied with vigour, enthusiasm and consistency.

The project is managed by the council's Management Team – its equivalent of the Board, the most senior decision makers in the organisation. It does help that the chief executive is widely identified as being both the originator and driver of the philosophy.

Day-to-day management is provided by a project director drawn from the Management Team and a project team. The latter operate in very much a part-time capacity as they all have their day jobs. The emphasis is very much placed on individual directorates to implement their own action plan within a limited set of guidelines. These directorates are huge concerns in the own right with massive complexities. There is no scope for a one-size-fits-all solution here! All have their own steering groups.

Each directorate has a lead person, who acts as their “Lancashire Way” conscience, ensuring that each element is introduced in the optimal manner for the area. These leads have become very influential and meet as a group to debate and formulate strategy.

## Status

Initial progress was unsurprisingly slow as managers grappled with the practical implications of employee engagement against a backcloth of unfamiliar and often unpleasant change. However, the pace has accelerated since the turn of the year with all directorates showing progress and some generating their own momentum. The roll-out to all in people-management positions beyond the top 500 is under way and should be in place for the end of the first quarter 2012.

The 2011 survey and focus group work provided the opportunity to launch the philosophy to the workforce at large in the final quarter 2011 as the solution to many of the concerns raised by them. However, the low-key approach characteristic of the work so far has been maintained. The objective is to let employees experience the changes around them without any fanfare or grand pronouncements. The latter could be counterproductive.

There are many reasons to now be optimistic about the success of employee engagement at Lancashire County Council. Despite some initial scepticism, there are few concerns that this is the right way to go. The project management activity, from the Management Team through to the Leads, has been first class with little in the way of disagreement and a total absence of the politicking or inter-departmental rivalry which can be the norm in big companies. The basic elements for success are now all in place. LCC will be a place to visit this time next year.

## Key Learning Points

- Employee engagement has to start at the top. Senior decision-makers have to become exemplars.
- Continuous improvement is the natural outlet for engagement. Done correctly, it fulfils the social requirements of the workplace for individuals as well as satisfying the corporate need for ongoing improvement.

- A formal architecture staffed by enthusiasts is essential. The key role played by the Project Director, Jo Turton, has been pivotal in its success. Likewise the directorate Leads, recruited to maintain momentum by steering individual functions in a consistent one –county manner, has proved to be far more valuable than anticipated.
- Having an HR /training function 100% behind the concept helps enormously. The proactive involvement of Corporate Communications has also aided general understanding.
- The elements of the Lancashire Way have to be kept simple, especially in the early stages. Only complete transparency will overcome the natural suspicion and mistrust about such a fundamental change in the management paradigm. This particularly applies to CI. Start simply and add sophistication when the time is right.
- The concept is simple: it is the execution which is complicated. Constantly listen and review to ensure unforeseen obstacles are avoided.

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