DH Department of Health

Recognising, understanding and addressing performance problems in healthcare organisations providing care to NHS patients

A developmental resource for use by boards, chief executives, executive directors, clinical and network directors, and service managers

January 2006

Gateway ref: 6261

Foreword

This development document was commissioned as a result of the work of an inter-organisational, Department of Health group chaired by Dr Neil Goodwin, Chief Executive of Greater Manchester Strategic Health Authority. The working group commissioned the document from Manchester Business School and the London School of Hygiene and Tropical Medicine, and was assisted by a wider reference group.

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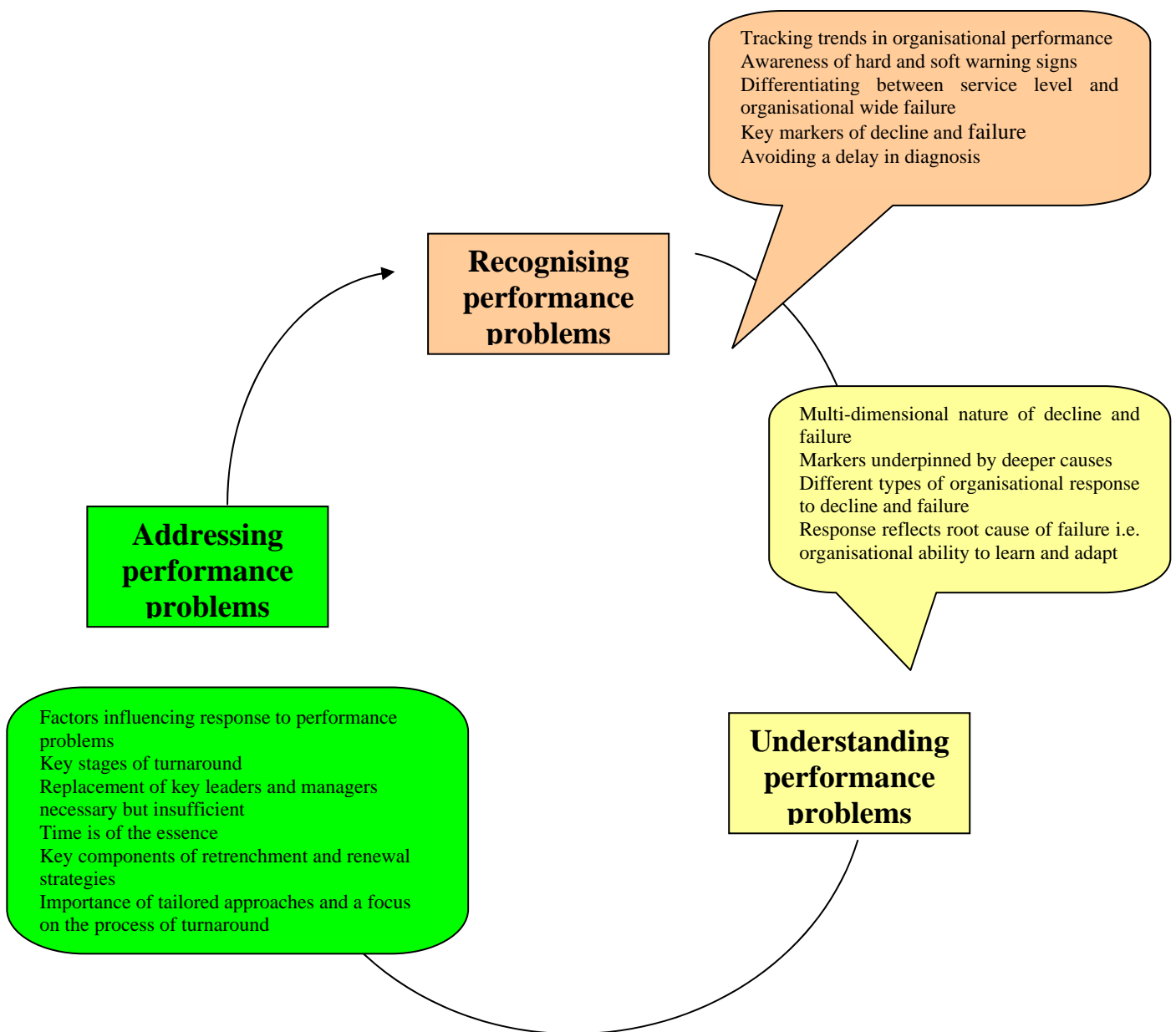# Contents

Executive Summary

Measuring, managing and improving organisational performance are key considerations for individuals and teams charged with the responsibility for leading and managing NHS organisations. But how do you know just how well your organisation is performing? Why do some organisations run into problems of performance decline and failure? And how do you identify and address warning signs of imminent decline in your organisation so that you can intervene and prevent failure before the situation worsens?

These are issues that are addressed by this resource, which has been developed specifically to support managers and leaders of NHS organisations to identify and act upon signs of performance decline and failure. Although performance decline and failure may occur at a number of different levels across healthcare, this resource is primarily focused on performance decline and failure at the level of individual trusts, across the range of primary care, acute, mental health and ambulance sectors. As such, the primary audience for the document is executive and non-executive directors of boards, who can use the resource as a diagnostic tool or process to regularly assess for signs of performance decline and take appropriate remedial action, before more serious problems occur. Additionally, the resource is useful for managers of services such as clinical directors, in which case the resource could be used as an assessment tool at a service or directorate level, as opposed to the whole organisational level. Externally, the resource could be of benefit to those responsible for commissioning and managing services, including groups such as practice based commissioners and network directors who are responsible for leading service delivery across systems. The information contained within the document may also be of interest to organisations working in related areas to healthcare, for example, councils with social care responsibilities.

The resource is based upon a comprehensive review of the literature on organisational performance decline, failure and turnaround in both the private and public sector. From this review, key messages have been highlighted and organised into three main sections that focus on **recognising**,

understanding and **addressing** performance problems (see Figure1). Each of the main messages is summarised and followed by one or more questions that NHS boards, service or network directors and managers might find it helpful to ask in relation to their own organisation and its performance. A number of case studies are also presented within the resource to illustrate some of the points that are highlighted in the various sections.

Figure 1: Summary of information presented within the resource

Tracking trends in organisational performance
Awareness of hard and soft warning signs
Differentiating between service level and organisational wide failure
Key markers of decline and failure
Avoiding a delay in diagnosis

Recognising performance problems

Multi-dimensional nature of decline and failure
Markers underpinned by deeper causes
Different types of organisational response to decline and failure
Response reflects root cause of failure i.e. organisational ability to learn and adapt

Addressing performance problems

Factors influencing response to performance problems
Key stages of turnaround
Replacement of key leaders and managers necessary but insufficient
Time is of the essence
Key components of retrenchment and renewal strategies
Importance of tailored approaches and a focus on the process of turnaround

Understanding performance problems

The information contained within the resource has not been compiled into a checklist for identifying warning signs of performance decline and failure, because as subsequent sections will highlight, organisational decline and failure is complex and multi-factorial. As such, recognition and diagnosis of failure requires consideration of a wide range of factors and a process of moving from more superficial levels of organisational assessment to deeper levels of investigation and analysis. Identification of some key symptoms or warning signs should lead to more detailed analysis to try and identify underlying and root causes and how to deal with these. The key messages and questions highlighted in this resource are intended to act as pointers to structure and guide this diagnostic process.

In the final section of the resource, some of the issues an organisation (or service/department) can usefully consider to determine how well prepared it is to identify, analyse and address possible performance problems are summarised. It is recommended that these questions be used as a template to structure a discussion around performance issues at a board, senior management or directorate/service level.

1. Introduction and background

1.1 About this resource

This resource has been developed to support managers and leaders of NHS organisations to identify and act upon signs of performance decline and failure. It is based upon a comprehensive review of the literature of organisational and performance failure and turnaround in both the private and public sector. A number of key messages emerge from the review of the literature. These are summarised in the following sections and illustrated by reference to case studies of failure and turnaround taken from organisations across the public and private sector.

1.2 Who should use the resource?

Performance decline and failure in healthcare can occur at a number of different organisational levels, for example, individual NHS or foundation trust, commissioning or whole system level. A range of stakeholder groups are likely to play a role in identifying, responding to or managing signs of decline and failure, including senior managers and board members in individual trusts, commissioners, strategic health authorities and external regulators and inspectors. This same range of stakeholder groups may also be a part of the cause of decline and failure, either singly or in combination – an important point to consider in the process of reviewing performance and assessing for potential warning signs of failure.

This resource is primarily focused on performance decline and failure at the level of individual trusts, across the range of primary care, acute, mental health and ambulance sectors. As such, the primary audience for the document is executive and non-executive directors of trust boards, who could use the resource as a diagnostic tool or process to regularly assess for signs of performance decline and take appropriate remedial action, before more serious problems occur. Additionally, the resource should be useful for managers of services such as clinical directors, in which case the resource could be used as an assessment tool at a service or directorate level, as opposed to the whole organisational level. Externally, the resource could be

of benefit to those responsible for commissioning and managing services, including groups such as practice based commissioners and network directors who are responsible for leading service delivery across systems. The information contained within the document may also be of interest to organisations working in related areas to healthcare, for example, councils with social care responsibilities.

1.3 How should the resource be used?

As the information presented in the subsequent section highlights, organisational decline and failure is a complex and multi-factorial phenomenon. As such, it is not helpful, nor possible, to produce a simple checklist by which to predict or identify potential failure and plan appropriate remedial action. Diagnosis of performance decline and failure is essentially an inductive process, whereby recognition of some key symptoms or warning signs should lead to more detailed analysis to try and understand root causes and how to deal with these. The key messages highlighted in this resource are intended to act as pointers to structure and guide this diagnostic process.

As outlined in section 1.2, the resource should be particularly useful within NHS provider organisations at board, service, directorate or network level, including networks spanning different organisations. However, it is important to note that organisations may not always be the best judge of their own performance. This is particularly the case for organisations at risk of failure, as some of the case studies in this document illustrate. For this reason, individual organisations using the resource might find it helpful to work with individuals or stakeholders external to the organisation to check out their own assessment and gain as complete a picture as possible, for example, through applying processes of three-hundred-and-sixty degree feedback. This is particularly important in relation to some of the 'softer' indicators of decline and failure, including those that are concerned with the quality of external relationships and reputation and the extent to which the organisation is aware of and responsive to the external environment (see Table 1 on page 7).

1.4 Structure of the resource

The resource is divided up into a number of different sections, which aim to highlight the key messages emerging from the literature review in relation to:

- Recognising performance problems
- Understanding performance problems
- Addressing performance problems.

In each case, key messages are highlighted, briefly described and, where relevant, illustrated by cross-referencing to one or more case studies. Linked to these key messages, a series of questions are identified that trust boards, directors and managers might find it helpful to ask in relation to their own organisation or service and its performance.

Although the key messages and questions are set out in sequential sections, the process of identifying, interpreting and responding to signs of performance decline is unlikely to take place in such a straightforward way. For this reason, users of the resource will probably have to apply the information within it in a less linear way than it is presented and it is advisable to read through the entire document before beginning any sort of organisational assessment.

In the final two sections of the resource, some of the issues an organisation (or directorate/service/department/network) can usefully consider to determine how well prepared it is to identify, analyse and address possible performance problems are summarised. This includes a section on managing relationships, managing upwards and groupthink, because relationships are an important component of leading a positive response to organisational, service or network failure. The final section presents a series of questions that we recommend is used as a template to structure a discussion around performance issues at a board, senior management or directorate/service level.

1.5 Some important considerations

This resource is based on current best knowledge about performance decline, failure and turnaround. However, this is a relatively new field of study and few empirical studies exist to date. Most of the research that is reported has been undertaken in the for-profit sector and whilst there is some evidence to suggest its relevance to the public sector, it is important to be aware of differences between the two sectors, not least in relation to causes and consequences of failure. Performance decline and failure in the public sector is typically more complex and subjective than in the for-profit sector, where a different set of performance measures, largely concerned with financial/market success, operate. Currently, public sector organisations do not operate in such a competitive, open marketplace with the resultant effect that the cost of failure may be lower than in the for-profit sector, where failed organisations usually exit from the marketplace. However, the development of public services reform agenda and the introduction of a NHS failure regime are likely to make the costs of decline and failure in healthcare more serious in the future.

With the increasing focus on performance management in public sector organisations, so too research on the subject of performance decline and failure and turnaround is growing. Hence in developing and using a resource such as this, it is important to be aware that information is not presented as 'tablets of stone'. Instead the resource presents a series of pointers and recommendations that are likely to evolve and become further refined as new research adds to current knowledge about failure and turnaround in the public sector.

It is also important to be aware of the changing context in which NHS organisations are operating. The development of the system reform mechanisms of patient choice, payment by results, plurality of provision, a new financial regime and practice based commissioning are likely to make the environment more volatile and harder to predict. Over time there will also be a reduction in the availability of financial and other external support that has often assisted organisations to avoid the sort of performance crises that can

precipitate failure. The combined effect of these policies could be to make it more obvious where organisations are failing as well as increasing the opportunities for organisations to get into trouble.

2. Recognising performance problems

Organisations grow, change, improve and decline in a cyclical way; hence fluctuations in performance over time are normal. The key to preventing serious organisational decline and failure is the organisation being aware of its performance and remaining vigilant in assessing for and responding to potential warning signs of decline and failure.

"fluctuations in organisational performance over time are normal…"

An important sign of an organisation in trouble is where a divergence occurs between actual and perceived organisational performance (Filochowski, 2004).

> **Questions:**
> - How well informed and knowledgeable do you feel about the performance of your organisation, service or network?
> - Do you track trends in performance of your organisation, service, network or system?

"Warning signs of decline and failure include a wide range of indicators, one or more of which may be present in any organisation[1]…"

Warning signs of failure may be quantifiable or hard indicators, for example performance against key government targets, ratings on a staff or patient satisfaction survey, the number of patient safety incidents reported. Equally, a range of softer or qualitative indicators can give important clues about the culture of the organisation and how well equipped (or not) it is to respond the challenge of performance problems.

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[1] 'Organisation' may refer to the overall NHS provider organisation, or refer to particular services, directorates or networks, depending upon the level at which assessment is taking place.

Organisational prompts to help identify some of these indicators are summarised in table 1 below. As highlighted in section 1.3, a combination of internal and external assessment may be important to gain a rounded view of organisational performance on these key indicators.

It is important to note that these indicators should not be interpreted in an overly simplistic way. For many of these indicators, it is not the absolute measure that is important, so much as the direction and interpretation of trends. So, for example, a very low level of complaints or errors may be an indication of problems with reporting and recording, rather than a measure of effective performance. Similarly, a low staff turnover rate may indicate stability in the organisation, but this, in turn, may result in staff becoming insular and less exposed to new ideas. This illustrates why it is important to use the indicators listed to prompt discussion, reflection and analysis, rather than applying them in a checklist style approach.

> **Questions:**
> - How often do you review the range of hard and soft indictors that are illustrated in Table 1?
> - Are there other indicators that are important to consider in your organisation, service or network?
> - How robust and accurate are the data on which you base your judgements about performance?

"Managers should be particularly alert for the appearance of several warning signs, which may at first glance appear unconnected…"

Using these prompts to structure a discussion about organisational performance should help to identify possible warning signs of decline. One or more warning signs may be present in any organisation. However, where several warning signs emerge, even if at first sight they appear unconnected, the organisation should be particularly alert and look more deeply at performance issues.

"There is a crucial difference between an organisation struggling with difficult issues in a particular service area and multi-factorial failure in many areas of the organisation's performance…"

NHS organisations are large and complex. Within a single organisation, the picture may be mixed, with good services co-existing alongside poor services. The board has a crucial role to play in differentiating service level problems from wider organisational decline and failure. This requires the board to have an accurate overview of the organisation as a whole and to be vigilant for the presence of warning signs across different service areas. The case studies presented in Boxes 1 and 2 reflect two different experiences of service level failure. The first case study (Box 1) illustrates service level failure that was underpinned by wider organisational problems. In the second case study (Box 2), the organisation was performing well at an overall level. However, failure to monitor quality at the service level led to important performance problems being missed. In both cases, the organisations were subject to external investigation by the Commission for Healthcare Improvement/Healthcare Commission.

Questions:
- Can you differentiate between service level problems and wider organisational warning signs of decline and failure?
- Do you have the range and level of data needed to make these decisions?

Table 1: Organisational prompts to identify warning signs of performance decline

'Hard'	*'Soft'*
Is the organisation: - achieving key performance targets*; and* - maintaining financial balance?	Does the organisation make use of available data?
What is the level of complaints in the organisation? • How many of these are serious, enduring complaints? • Is there a satisfactory resolution level of complaints?	How does the organisation respond to signs of decline? • What is the level of internal challenge and debate? Is the organisation 'in touch' with what is happening, both internally and externally
What is the level and severity of patient safety incidents? • Is this rate increasing or decreasing?	How likely is the organisation to be distracted by other major initiatives that are happening (for example, PFI, restructuring)? • Are strategies in place to manage potential distractions?
What do the findings from audit projects at a clinical and organisational level show?	How much potential is there for innovation, creativity and learning • Is this potential utilised?
What are the results from external reviews? • Healthcare Commission • Staff surveys • Patient surveys • National audit programmes • External auditors, such as the Audit Commission	How good are clinical-managerial relationships in the organisation? How is staff morale? Does the organisation function in a centralised or decentralised way?
Are there reviews into specific incidents underway e.g. special investigations?	What is the quality of external relationships for example: • Relationship with the Strategic Health Authority • Relationships with commissioners • Relationships with other stakeholders in the wider economy?
What is the level of staff turnover?	Do a significant number of issues get referred for arbitration e.g. in relation to local delivery plans?
Are there problems in relation to recruitment and retention of staff?	What are relationships and reputation with the local media like?

Box 1: A case study of problems in one specific service area stemming from wider problems at an organisational level

Background
The setting was an acute NHS trust, where concerns were raised in one particular service area, namely gastroenterology and related surgical services. This service area had been the subject of independent reviews dating back over a number of years. These reviews had highlighted some key problem areas, including under-resourcing of the service, a lack of leadership, poor management, poor personal and professional relationships, and poor record-keeping and audit systems. However, these problems had not been adequately resolved and an independent investigation by the Commission for Health Improvement was subsequently requested.

The investigation
The investigation initially focused on the area of gastroenterology and related surgical services. However, it soon became apparent that there were significant underlying problems with the trust's management systems. These included a large financial deficit, a lack of clinical management and leadership, poor clinical governance systems, poor board awareness of problems and a failure to integrate services following mergers and re-organisation.

The outcome
The need for an organisation-wide modernisation programme was identified and the organisation was placed on special measures (with associated external intervention and monitoring) in relation to five key areas, namely: reconfiguration, finance, organisational development, clinical governance, and clinical leadership and management.

Source: Commission for Healthcare Audit and Inspection, 2004a

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Box 2: A case study of overlooking failure at a service level due to lack of awareness at the organisational level

Background
The setting was an acute NHS trust, that operated on two separate sites and had undergone a recent period of rapid development. The trust had a two-star performance rating and a hospital-wide Chartermark, both indicative of an organisation that was generally performing well.

The issues
Despite overall organisational performance being externally rated as good, specific problems arose in the maternity services of the trust. These were subject to an external investigation by the Commission for Health Improvement (latterly the Healthcare Commission) because of a number of serious incidents and concerns raised by the public. The investigation identified specific problems in the maternity services, including poor working relationships amongst staff, the lack of a team approach, poor continuity and consistency of care. These problems were fairly long-standing and although actions had been taken in the past to try and resolve them, sustained improvement had not occurred.

Findings of the investigation
Maternity services were found to have a low profile at trust board level and were not high on the senior management agenda. At board level, the focus was largely on financial and corporate management goals, including key performance targets and capital and service developments. Insufficient attention was paid to the quality of the service provided and clinical governance and risk management systems and processes were seen to be poor at the level of maternity services. The need for non-executive board members to hold senior executives to account and to take on a stronger role of scrutiny and challenge was noted.

Source: Commission for Healthcare Audit and Inspection, 2004b

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"Markers or symptoms of failure are the most observable warning signs of performance decline and failure…"

An initial assessment of an organisation, service or network (by internal or external stakeholders or a combination of both) may reveal some obvious indicators that highlight potential problems of performance decline. In healthcare, some of the key markers to look for include the following:

- The organisation is unable to implement core targets or does not regard them as priorities

- The organisation has major financial problems, for example, poor control of income and expenditure, poor cash management (for

instance, resulting in long repayment periods), poor debt coverage ratios

- Managers have their 'eyes off the ball' due to the distraction of major developments or projects, for example, mergers or PFI developments
- The organisation behaves like an 'insular fortress', exhibiting poor external relationships, including a poor media image
- The organisation displays examples of poor staff management, for instance, low staff morale, staff turnover and recruitment problems
- The organisation operates in a particularly difficult context or health economy environment, for example, with incomplete or unresolved reconfiguration plans or with major deficits in different parts of the system.

The case study in Box 3 illustrates some of the common markers of performance decline that were observed in an NHS ambulance trust following receipt of a zero-star performance rating.

> **Questions:**
> - Are any of these markers present in your organisation, service or network?
> - Are you aware of and actively addressing them?

Box 3: A case study of performance decline in an NHS ambulance trust

Background
The setting was an NHS ambulance trust that had received a zero-star performance rating, initially as a result of an adverse clinical governance review. The trust subsequently received external support for turnaround in the form of intervention by the Performance Development Team of the NHS Modernisation Agency.

Reasons for decline
A number of factors relating to the performance decline were identified. These included a top-down management culture, characterised by central control, unclear decision-making processes and an adversity to risk. This was coupled with a lack of senior management capacity and a significant number of managers in 'acting up' positions and/or 'wearing several hats'. Managers were seen to have their eyes off the ball in terms of the modernisation agenda and were generally resistant to change. Day to day business was conducted 'on the hoof' and frequently appeared to take on a firefighting approach. Staff felt generally disempowered and poor relationships existing, both between the management and staff side and within the wider health economy.

Turnaround strategy
A long-term turnaround strategy was required, encompassing elements of replacement, retrenchment and renewal interventions (see Section 4).

Source: Harvey et al, 2004

"Diagnosis of performance decline and possible failure may be delayed because of failure to perceive the problem, or ignoring or covering up information that suggests there is a problem…"

Despite obvious warning signs of potential failure, there is good evidence to suggest that many organisations fail to act on warning signs as early as they could. This is particularly likely where the organisation has a reputation as a high performer, as illustrated by the case studies in Boxes 2 and 4.

Failure to act at an early stage of performance decline can exacerbate the problems and increase the likelihood of organisational or service failure. Again the board has a crucial role to play in recognising and acting upon warning signs as early as possible. As already highlighted, this requires the board to exercise proper oversight of all areas or organisational performance

and to operate in an environment where constructive challenge is both possible and encouraged.

> **Questions:**
> - How quickly do you act when you spot possible warning signs of performance decline?
> - Where data have suggested problems in the past, how has this been dealt with?
> - Do you operate in an environment where people are able to speak openly without fear of reprisal?
> - Do your meetings encourage constructive dialogue and debate that enables problems to be surfaced and aspects of performance to be challenged?

3. Understanding performance problems

Because performance decline is complex and multi-factorial, there are no simple or standardised ways of preventing it or managing it. Hence, senior managers and board members within organisations need to be able to analyse and understand data that will enable them to spot early signs of performance decline and plan appropriate action.

"Understanding the process of performance decline and failure is crucial to planning effective preventive, management and intervention strategies…"

> **Questions:**
> - Do you explicitly observe for warning signs of decline and failure in your organisation, service or network?
> - How knowledgeable are you about the processes of performance decline and failure?

"Markers or warning signs of decline and failure are underpinned by deeper causes, sometimes referred to as secondary and primary causes…"

The broad range of indicators of performance decline illustrated in table 1 reflects the depth and complexity of factors that can contribute to organisational failure. More obvious warning signs of performance decline and failure are usually underpinned by a combination of causal factors (see figure 2).

"Secondary causes may be external or internal to the organisation and include financial, managerial, behavioural and environment-related causes…"

Typically, in organisations that display outward signs of performance decline, further assessment identifies a lack of management controls or strategic vision within the organisation and/or changing external conditions, which may increase financial (or other) pressures on the organisation.
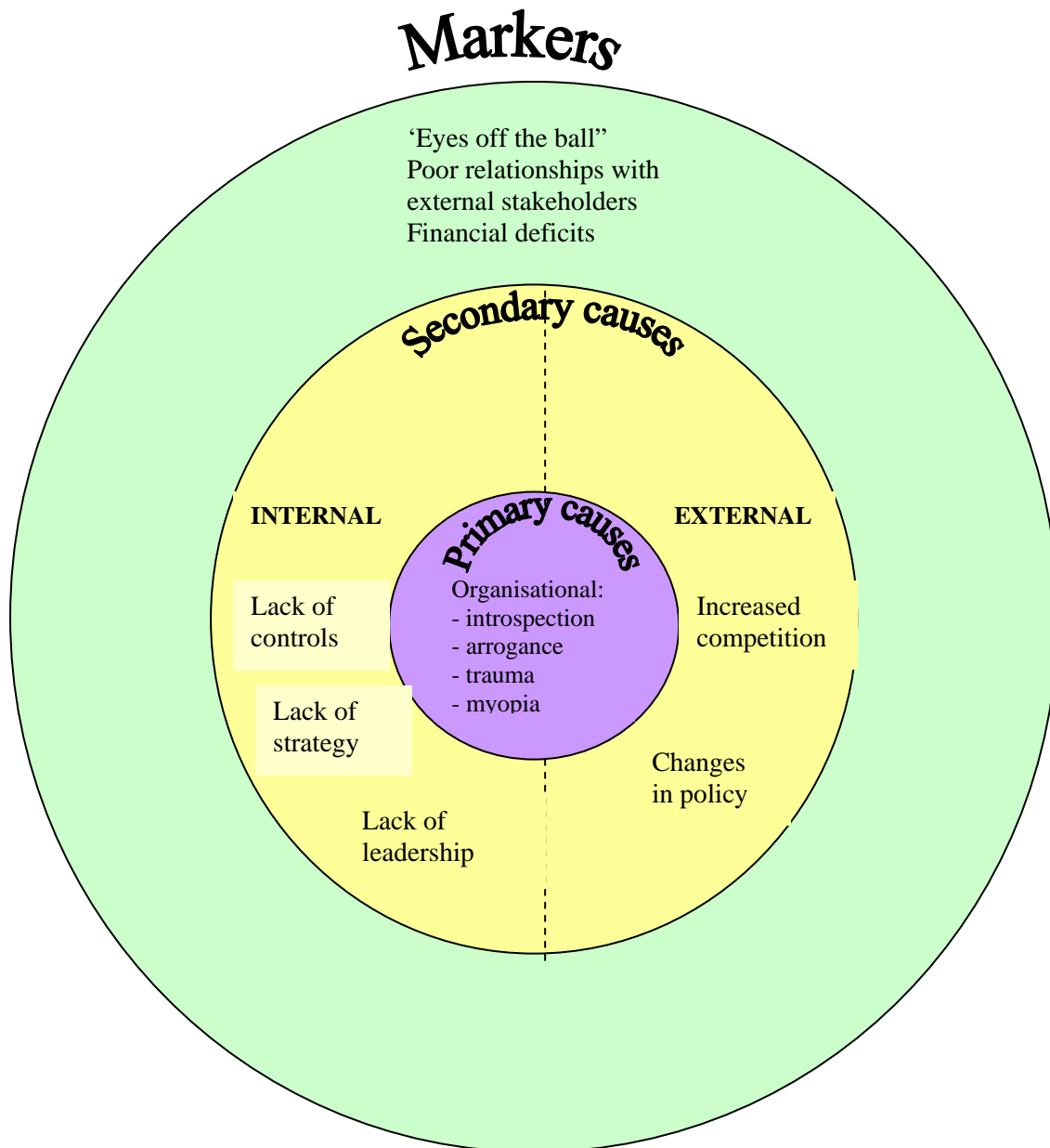
"Underpinning the warning signs and secondary causes of decline and failure, a commonly identified primary or root cause of failure exists, namely, organisational inability to learn and adapt…"

The root cause of organisational inability to learn and adapt is internal to the organisation and reflects the extent to which the organisation makes use of and adapts to available information about itself and its environment. This explains why some organisations seem to cope better with changing external conditions (for example, changing market conditions, policy-related change, changes in user preference) than others. In healthcare, the main reasons why some organisations seem less likely to learn and adapt include introspection, short-sightedness or organisational arrogance at a senior management level or because of the impact of major organisational trauma. According to Bevington et al (2004), effective boards need to display high levels of trust and challenge. If either of these is missing, or the balance between the two is not right, organisations may fail to learn because they deny the existence of problems (for example, where trust is high, but challenge is low) or because they see problems but do not know what to do about them.

Questions:

- Are any of the possible secondary causes of failure present in your organisation, service or network?
- How well do you manage or deal with these?
- How would you assess your organisation in relation to root causes of failure, i.e. organisational ability to adapt and learn?
- Is your organisation, service or network:

    Inward-looking or outward looking?

    Complacent or vigilant?

    Reactive or pro-active?

Figure 2: Markers and causes of failure

Markers

'Eyes off the ball"
Poor relationships with
external stakeholders
Financial deficits

Secondary causes

INTERNAL

Primary causes

EXTERNAL

Lack of
controls

Organisational:
- introspection
- arrogance
- trauma
- myopia

Increased
competition

Lack of
strategy

Changes
in policy

Lack of
leadership

Source: Fulop et al (2004)

"Organisational failure is multi-dimensional, typically involving a number of symptoms and causes, which are inter-connected and inter-active, such that one problem can lead to or exacerbate another…"

Organisational failure rarely results from a single cause. Typically, it is the result of a number of factors at different levels coming together, for example, a changing external environment, combined with financial pressures and leadership that is ill-equipped to cope with significant change. Often symptoms and causes of failure can be inter-connected. For example, loss of managers from a poorly performing organisation may be a symptom, in that managers choose not to work in an organisation that has problems. However, loss of managers may exacerbate the problem and become part of the cause of continuing failure.

As yet, there is not enough known about the subject to be able to say whether particular groupings of factors are more high-risk than others in terms of increasing the chances of failure. As previously highlighted, this is why it is so important that board members and senior managers keep an oversight of a range of possible indicators so that warning signs are spotted and acted upon as early as possible.

> **Questions:**
> - What processes do you have at a board/senior management level to map organisational, service or network performance across the depth and range of different indicators?
> - Are you confident that you would pick up early warning signs of performance decline and failure?

"In a position of declining performance, there are two types of organisational response, depending on the organisation's ability to halt the process of decline before failure occurs…"

Faced with a position of performance decline, some organisations are able to respond and initiate the turnaround process themselves. These organisations

have been described in the literature as 'self-regulating' (Meyer and Zucker, 1989). However, a second group of organisations do not have the capacity to initiate turnaround and decline progresses to organisational failure. Evidence suggests that this second group of organisations are likely to become stuck at the bottom of the performance curve without some form of external support or intervention (see Figure 3).

"Key differences between these two types of organisations relate to the root causes of failure, namely the organisation's ability to learn and adapt…"

Organisations that are able to respond to signs of performance decline and function in a 'self-regulating' capacity are generally:

- less concerned with maintaining the status quo;
- less likely to be operating under a 'fallacy of success' (i.e. continue to belief in or rely upon a past history of successful performance);
- more open in the sharing and use of information; and
- more likely to have sufficient internal authority to initiate change (Jas and Skelcher, 2004).

Questions:
- How well equipped is your organisation, service or network to respond to and manage signs of performance decline?
- Where do you think your organisation, service or network sits in relation to some of the characteristics listed above?

Figure 3: Organisational responses to performance decline

Performance

'Self-regulating'

'Failing'

Point of external intervention

Time
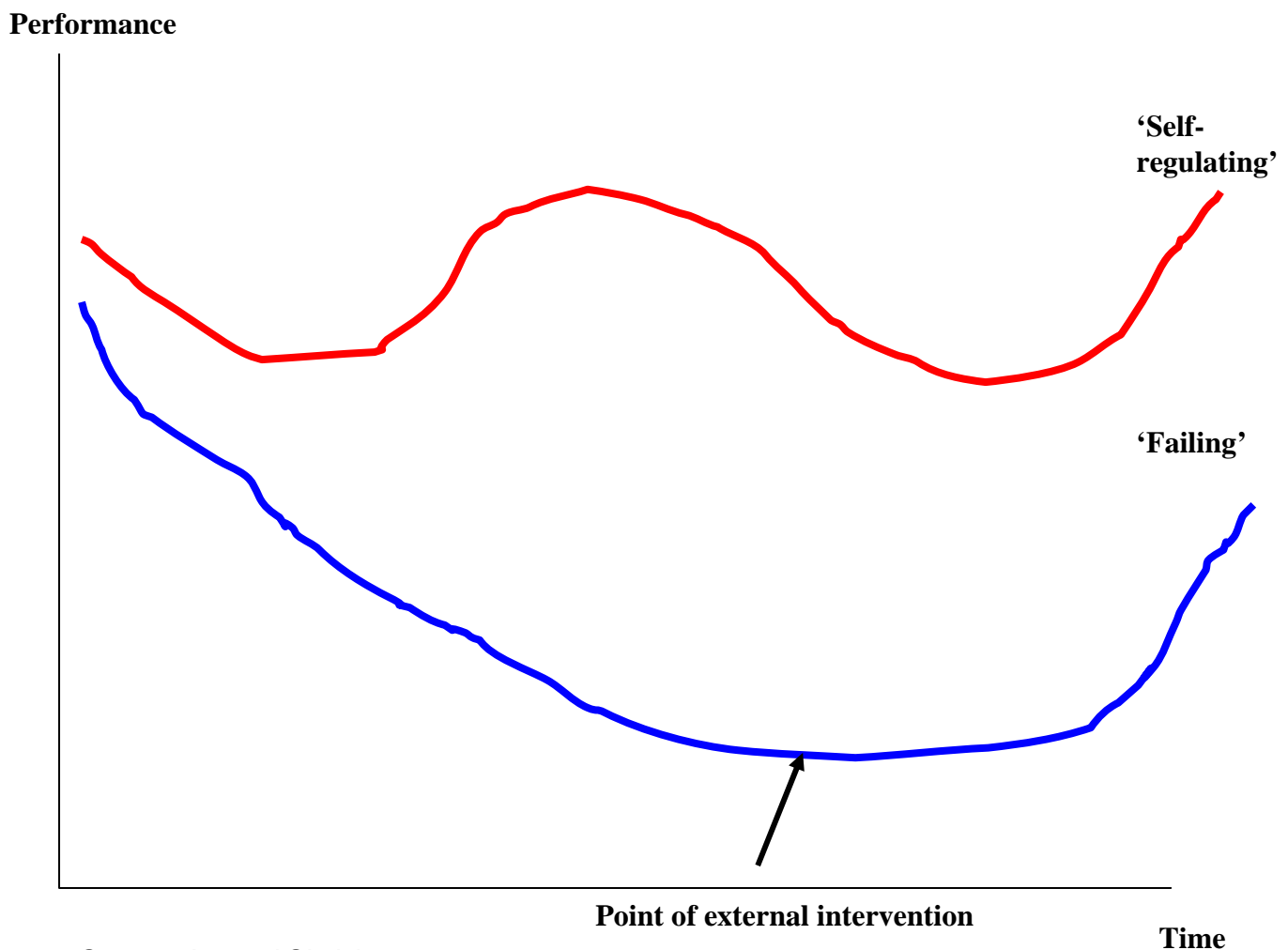
Source: Jas and Skelcher, 2004

"Organisations that are successful can fail if the management lack the strength or motivation to change in line with changing external expectations…"

Past success is not sufficient by itself to guarantee a continued high level of performance in the future. Organisations that fail to learn and respond to a changing external environment can move from a position of considerable success to potential failure if they fail to act on signs of performance decline. In relation to the root causes of decline and failure. These are typically organisations that display signs of management introspection, myopia or organisational arrogance. This is illustrated by some well-publicised examples

of performance decline in previously successful organisations, such as Marks and Spencer (see Box 4).

Box 4: A case study of a highly successful organisation that failed to recognise warning signs of performance decline

Summary
For over 100 years, Marks and Spencer (M&S) held a reputation as one of the world's leading retailers, often being cited as one of the best managed and admired businesses in the world. However, since 1998 the company has experienced a considerable downturn in its performance, as witnessed by falling profits, stagnating sales and a falling market share. The company's reputation has been damaged, with evidence of a deteriorating external image and some criticism of the company's attitude and behaviour to its staff. These are all serious warning signs of performance decline and potential failure, which the company has been slow to respond to.

Causes of decline
The decline of M&S was triggered by the changing external environment of British retailing in the 1990s, which led to M&S facing stronger, more aggressive competitors who were more attuned to changing customer preferences. However, the shift from decline to crisis is largely attributed to a number of internal factors that resulted in M&S management failing to identify or respond to the external changes and threats. Consequently the warning signs of decline and failure were ignored, denied and rationalised. Some of the main reasons why this happened included:
- a reliance and overwhelming belief in the M&S way of doing business, such as policies of buying 'British', favouring town-centre retailing, avoiding advertising, relying on its own brand and its own store card. These practices had served the company well in the past, but became a liability in the face of changing competition;
- a sense of invincibility and belief in the fallacy that past reputation and success could insulate M&S from its competitive environment;
- a rigid, monolithic culture;
- a management board that was distanced from reality and ill-informed about changing customer preferences and behaviour;
- political in-fighting that diverted the management's focus;
- minimal non-executive influence at board level.

Results
Management failure to recognise and respond to the changing external environment resulted in performance at M&S spiralling downwards. New management was brought in and a major programme of restructuring commenced. Full recovery has not yet been achieved.

Source: Mellahi et al, 2002

4. Addressing performance problems

"The type of action required when addressing performance problems depends upon the severity of the problems faced by the organisation, service or network and its ability to remedy them…"

Those organisations that function in a self-regulating way are able to recognise the signs of performance decline and take appropriate action to halt the process of decline, for example, by revising strategic objectives in the light of external policy changes or by intervening to maintain financial balance. A typical pattern of fluctuating organisational performance, as illustrated in Figure 3, is observed. However, where serious performance decline continues, external intervention may be necessary.

> **Questions:**
> - From the analysis of performance trends in your organisation, service or network, do you need to plan a formal turnaround strategy?
> - Is external intervention required?
> - Which external stakeholders or organisations do you need to work with?

"There are a number of key stages in the process of organisational turnarounds, described as replacement, retrenchment and renewal. Most turnarounds entail a combination of these three approaches…"

Replacement is concerned with ensuring the right people are in the right roles and involves bringing in new managers with the necessary skills, knowledge and experience to lead the turnaround process. **Retrenchment** focuses on short-term actions to stabilise processes and systems. **Renewal** activities are concerned with longer-term goals aimed at redefining strategic vision, culture and purpose and moving back towards successful performance in the future. The specific combination and timing of turnaround interventions will vary depending on the nature and severity of performance problems and

the organisation's ability to manage the turnaround process (see case study in Box 5). In the ambulance trust case study outlined in Box 3, a turnaround strategy that encompassed all three elements of replacement, retrenchment and renewal was required. Initial replacement activities included the appointment of a new chief executive with a very different management style from that of the previous chief executive. This promoted the development of a different culture, which was more open and empowered staff, which in turn helped lay the foundations for some of the longer-term renewal activities that were needed to move the organisation forward. At the same time, a new management team was appointed and key systems and processes were introduced as part of a retrenchment programme to improve and control organisational performance.

> **Questions:**
> - Do you have the right balance of skills and leadership in the board and senior management team?
> - What are the key areas you need to focus on to regain short-term performance?
> - Are there longer-term strategic and cultural issues that need to be addressed in your organisation, service or network?

Box 5: A case study of turnaround in an acute hospital trust

Background
This trust was involved in a major hospital rebuild resulting in management's 'eyes off the ball' in terms of key performance targets. It was unable to achieve core operational targets and underachieved on financial targets. The management was perceived as out of touch with changes in the context of the NHS, heavily centralised, with a 'bunker mentality', and decisions were perceived to be made 'behind closed doors'. There was a perceived lack of leadership and strategic direction. There was little pride in the organisation and a poor image in local media.

Turnaround interventions
The chief executive departed suddenly and the new chief executive replaced all executive directors within six months. The main focus was on modernising service delivery to improve performance. Using service redesign tools, the trust's management, with support from the former Modernisation Agency, turned the performance of the emergency department round from one of the worst performing in the country to one of the best performing over an 18-month period. 'Example setting' strategies were also used to build commitment to a new set of organisational values and change organisational culture.

Outcomes
The trust improved its star rating in the performance assessment from zero to two, and sustained this performance the following year. Services improved. Patient survey data reflected improvements in services

Source: Fulop et al (2004)

"Replacement of key leaders and managers may be a necessary first stage, but is insufficient to guarantee organisational turnaround…"

In cases of organisational failure, replacement is a visible part of most turnaround interventions and serves a functional and political purpose, sending important messages about responsibility for past failure, the need for change and expectations for improved performance in the future. This is also an important time to express faith in those who are left in the organisation. However, although replacement may be an important first step, it has to be underpinned by medium to longer-term activities concerned with stabilising organisational performance and creating an organisation that is fit for the future. Moreover, replacement is insufficient as a turnaround intervention,

unless managers with the right skill set are appointed and are given access to the necessary financial, temporal and external resources to address key performance issues, as the case study in Box 6 illustrates.

> **Questions:**
> - Are there replacement issues that need to be addressed in your organisation, service or network?
> - How are you going to manage the process of bringing new managers into the organisation, service or network?
> - How are you going to support those people left in the organisation, service or network through the process of change?

"Time is of the essence in implementing turnaround strategies…"

It is important that appropriate turnaround interventions are implemented in a timely manner. The evidence highlights dangers that are associated with delays in the turnaround process, for example, failure to implement replacement strategies where these are required, in particular an increased likelihood that organisations in decline will be unable to halt the decline and enter a more serious phase of failure.

> **Questions:**
> - How responsive do you think your organisation, service or network would be in the face of performance problems?
> - Are you able to plan and implement changes quickly where needed?

Box 6: A case study of chronic failure and ineffective turnaround interventions

Summary
This local office of a national agency experienced chronic failure over a period of 25 years. Failure was identified through under-performing on targets (200 targets reviewed quarterly), employee distrust and internal conflict. Distrust and conflict arose as a result of planned redundancies that took a long time to materialise and were announced with little indication of who might go. Many good staff left and were not replaced. The organisation was bureaucratic and professional employees worked in silos with each function reporting to counterpart in the national office. The organisational focus on local political goals made it appear poor in terms of corporate citizenship and left it out of favour with national office.

Leadership
Each new director was appointed for a two to three year term by the national office. The chosen directors were often on their journey to retirement. They operated a command and control management style and focused on local politics.

Workforce
Engineers, scientists, professional and administrative staff providing infrastructure services.

Turnaround interventions
Attempts to reduce staffing levels that were prevented by local political activity, unions active in attempts to maintain all staff posts and working conditions. These attempts were unfocused and did not indicate which staff might be targeted. Instead employees left and attrition was used as a means of reducing staffing. As a result operations were transferred to other offices and ultimately the office merged. When the national office had to close two offices, this was a prime target.

Key reasons for sustained failure
The director's post was used as a career stop for those close to retirement. Local managers made decisions independently of national office directives and as a result received weak national support. Frequent attempts at downsizing combined with a vocal union led to loss of trust between managers and employees and sustained poor performance led to a culture of failure. The national office was dissatisfied with the local office, whilst local clients liked the 'freelance', flexible approach of the organisation. Eventually, clients shifted allegiances to other office to maintain their programmes. This led to ultimate failure in the financial domain as funds were shifted to other office in the merger bid and merger was enabled.

Source: Eitel (2004)

"Retrenchment is a crucial stage of turnaround to achieve quick and effective resolution of the specific financial or clinical issues at hand…"

Whilst organisational failure may relate to root causes concerned with the organisation's ability to adapt and learn, it is essential to address the secondary causes of failure in order to halt the process of decline. This involves addressing the most important and immediate performance issues and bringing organisational systems and processes under control as quickly as possible. Typically, retrenchment activities require the use of more mechanistic, process-driven, management led approaches to address issues such as organisational structures (for example, establishment of clinical directorates, clarification of accountability and responsibility), tightening of controls and achievement of key targets.

"The renewal stage of turnaround is concerned with longer-term strategy and actions to address the root causes of failure…"

In contrast to retrenchment-focused actions, the renewal process requires more facilitative and participative leadership methods to address organisational culture and ensure staff involvement and ownership of the longer-term change agenda (see case study in Box 7).

> **Questions:**
> - Do you have the right balance of management and leadership skills to address both the retrenchment and renewal phases of turnaround?
> - Is the focus on both operational management and strategic planning reflected in discussions at board level?

"With any turnaround strategy, it is essential that there is a tailored approach to meet the needs of the particular organisational context and the specific reasons for decline and failure…"

Given that there are many causes of performance decline and failure, it is not possible to be prescriptive about the exact form and function of effective turnaround interventions. Research highlights the importance of tailored turnaround interventions that match the particular causes of decline and failure within an organisation.

> **Questions:**
> - Do you have a detailed enough understanding of the causes of decline and failure within your organisation, service or network to plan an appropriate turnaround strategy?

"The way in which the turnaround process is managed is critical to the final outcome of the intervention…"

As well as developing tailor-made turnaround strategies, it is essential to pay attention to the way the process of turnaround is managed. This is at least as important as the actual content of the turnaround intervention. The board of the organisation have a vital role to play in leading and supporting the organisation through the turnaround process. Key processes issues to consider include building a climate of high challenge and high trust, developing processes of reflection and self-awareness within the organisation and managing anxiety amongst staff at all levels.

> **Questions:**
> - How well prepared and confident do you feel as a board (or a group of senior managers) to lead your organisation, service or network through the turnaround process?

Box 7: A case study of changing the culture in a factionalised organisation

Summary
This metropolitan council had been created by the amalgamation of 11 local councils including the worst in the country at the time. It had17,000 employees serving a population of 400,000 mixed urban and rural and ethnically diverse groups. Services were poorly regarded by recipients and social and ethnic divisions were not being addressed. Whilst the need for change was accepted by some there was no agreement about what should be done or how to bring improvement about. The organisation was marked by factionalism, in-fighting and power-broking. A new chief executive was appointed to the organisation at the point of formation.

Turnaround interventions
The chief executive removed and replaced top team of senior officials over the first year. He also pursued cultural change 'relentlessly' by emphasising that the organisation existed to serve the public, making bureaucratic processes and silos unacceptable and insisting on opening up the organisation to its communities. The senior team attended all new staff inductions, held open meetings, lunched with staff, cut back paperwork, had only three staff in his office, introduced project teams to bring about changes and provided opportunities to junior staff. He also paid deliberate attention to the symbolic dimensions of his own behaviour as being consistent with his goals.

Outcomes
The council gained in reputation externally for managerial reform and policy far-sightedness. Services were improved. The senior team recognised that some improvements were slowed by compromises that maintained relations and corporate integration.

Source: Paton and Mordaunt (2004)

5. Relationships, managing upwards and Groupthink

Managing relationships is an important component of leading a positive response to organisational, service or network failure. In addition to relationships with staff, attention will need to be given to relationships with external stakeholders and to managing upwards. This is because managing poor performance or failure will frequently require change to service organisation and management, and change requires leadership. Leadership is an interpersonal dynamic process at the heart of which is influencing other people by building relationships and networks to secure agreement to an agenda for change. A successful response to managing failure will often require support from a wide range of stakeholders both within and outside the service, organisation or network including, depending on the size of the failure, some or all of the following: commissioners, patient groups, boards, local authorities, members of Parliament, strategic health authorities and the Department of Health. Media support may also be required.

To network effectively both within and beyond organisations requires more time, commitment and effort than managing within a hierarchy. The basis of good networking is the development of effective interpersonal relationships and the test of the strength of these relationships is often when disagreement or adverse events occur. Consequently, groundwork in developing and maintaining effective relationships and networks is essential.

The term 'managing upwards' is generally used to mean the process of consciously working with the management tier or external regulator to obtain the best outcome for that body as well as your service, organisation or network. Failure to secure support from up the line for a major change, such as that required in response to failure will severely minimise the probability of success for the change, the leader and the staff providing the service. At the heart of managing upwards are effective and trusting interpersonal relationships, which require clear, mutual communication.

"If one variable had to be identified above all others as being more important to success in working through networks and managing upwards, then it is trust…"

The key learning points for leading through networks and for managing upwards are summarised in Box 8 (Goodwin 2005). If one variable had to be identified above all others as being more important to success in working through networks, whether in the same organisation, across other organisations or in managing upwards, then it is trust. Trust is not any easy concept to pin down: it is something we judge in others from actions rather than their words. We develop the trustworthiness of other people by interacting with them over time and specifically, from our perceptions of their ability, benevolence, integrity and honesty. People generally know when trust exists but because it is an actions-based concept, it is difficult to hold up to the light for examination. Consequently, it is difficult to describe the trustworthy leader except in the context of actions, which becomes especially important when leading a response to failure.

Questions:
- Do you understand the value that trust plays in the work of your organisation, service or network and are there aspects of the work that could be made more effective by the development of greater trust?
- Do you understand the three main agendas of other key players when working across your networks, external organisations and when managing upwards: organisational, political and personal.

Chief executives, directors, heads of services and others in leadership positions will also have to lead teams, influence networks and stakeholders within and outside their service or organisation, as well as manage upwards to ensure ongoing organisational or political support for their plans. Teams tend to be more productive when they achieve high levels of participation, co-operation and collaboration but these behaviours are not always easy to

establish because they require the development of effective interpersonal relationships and trust. It is only by being honest with each other about challenges, coupled with providing support to each other at times of difficulty, that teams can build trust and take risks in pursuing their objectives.

"Groupthink explains why fairly competent members of a group sometimes can make poor collective decisions…"

One of the risks for leadership team working is the development of 'groupthink' or a bunker mentality (Bass 1990). Groupthink explains why fairly competent members of a group sometimes can make poor collective decisions. This is because the group is very cohesive and a unanimous view is formed solely out of a sense of mutual loyalty to themselves. The signs of groupthink include:

- one-sided discussions dismissing competition and alternative views;
- aggressive pressure on those who disagree with the team; and
- stopping listening to others such as frontline staff, external stakeholders and consumers.

The inevitable malfunctioning of the team will also result in the blurring of strategic focus and a reduction in performance as team objectives are not met in terms of timescale or outcomes. One way to counteract groupthink is to make sure the leadership team comprises diverse styles and perspectives. Consequently, the more experienced, wiser and mature leaders will know that they have to surround themselves with people who have the personal skills and knowledge to think differently and undertake tasks that the leader finds difficult or does not have the individual skills to achieve.

> **Questions:**
> - Reflect on the performance of your board, directorate or network team and consider whether it has ever exhibited signs of groupthink.

- Have you considered obtaining feedback from others within and outside the organisation or network, possibly using a 360° process so that the team is seen to be open to constructive criticism and alternative views?

Box 8: Key learning points for leading through networks and managing upwards

1 The development of long-term relationships creates the best foundation for sustainable success for managing through intra- and inter-organisational networks and managing upwards.

2 Interpersonal and inter-organisational trust is a key ingredient to networking, managing upwards and developing effective and sustainable partnership and collaboration.

3 Spending time on the development of interpersonal relationships is crucial when agreeing inter-organisational objectives for change and to developing interpersonal and inter-organisational trust, including when managing upwards.

4 Be flexible and acknowledge that some positions and views within networks cannot be changed. If possible take time to discover what is non-negotiable, and what possibly could be changed and how.

5 If possible choose the team for working across networks carefully, particularly when pursuing change, and take time to prepare them for the work, ensuring that team members have the necessary complementary skills and knowledge; ideally their own networks of influence; that they get on with each other; and crucially that each has good interpersonal skills.

6 Working in collaboration or partnership with other organisations is more challenging and complex than pursuing objectives within the same organisation. To help minimise the complexity, keep the messages as simple and compelling as possible with an emphasis on positive change and key priorities for action.

7 Luck and timing also play their part in working in partnership or collaborating with other people, services and organisations. There are likely to be moments of potentially greater influence, perhaps when other stakeholders are under greater pressure for change or to deliver inter-organisational objectives, so looking out for that opportunity is an important network leadership skill.

6. Using the resource in practice

From the key messages that have been drawn from the evidence review and the accompanying reflective questions, some of the issues an organisation (or service/department) can usefully consider to determine how well prepared it is to identify, analyse and address possible performance problems are summarised below.

It is recommended that these questions be used as a template to structure a discussion around performance issues at a board, senior management, directorate or network level. However, this template is presented only as a starting point and is likely to need further interpretation and adaptation at a local level to make it more organisationally relevant and useful to your organisation, service or network.

Recognising performance problems

Being constantly aware of organisational performance, spotting and acting on potential warning signs of decline and failure as soon as possible

Some key questions to consider:

- How well informed and knowledgeable do you feel about the performance of your own organisation, service or network?
- Do you track trends in your organisation's performance?
- What range of hard and soft performance indicators do you review and how often?
- How accurate and robust are the data you base your judgements about performance on?
- Can you differentiate between service level problems and wider organisational warning signs of decline and failure?
- Do you have the range and level of data needed to make these decisions?
- Are there any markers or symptoms of decline and failure present in your own organisation:

- Inability to implement or lack of focus on core targets?
- Major financial problems?
- Distractions, for example, due to major projects or re-structuring?
- Insularity?
- Operating in a particularly difficult context or health economy?

- How quickly do you act when you spot possible warning signs of performance decline?

- Where data have suggested problems in the past, how has this been dealt with?

- Do you operate in an environment where people are able to speak openly without fear of reprisal?

- Do you operate in an environment where people are able to speak openly without fear of reprisal?

Understanding performance problems

Being knowledgeable and aware about the causes and processes of performance decline and failure so that timely and effective preventive, management and intervention strategies can be implemented.

Some key questions to consider:
- How knowledgeable are you about the processes of performance decline and failure?
- Do you explicitly observe for warning signs of decline and failure in your organisation?
- Are you confident that you would pick up early warning signs of performance decline and failure?
- Are any of the possible secondary causes of failure present in your organisation:
  - Lack of controls?
  - Lack of strategy?
  - Lack of leadership?
  - External changes that are difficult to respond to or manage?

- How would you assess your organisation in relation to root causes of failure, i.e. organisational ability to adapt and learn?
- Is your organisation:
    - Inward-looking or outward looking?
    - Complacent or vigilant?
    - Reactive or pro-active?
- How strong and trustworthy are your key internal and external interpersonal and inter-organisational relationships including those for managing upwards?
- What processes do you have at a board/senior management level to map organisational performance across the depth and range of different indicators?
- How well equipped is your organisation to respond to and manage signs of performance decline?
- How aware is your organisation of changes in the external environment?
- How responsive is it? How willing is the organisation to change? How easy is it to introduce the necessary changes?

Addressing performance problems

Identifying and implementing appropriate turnaround interventions that meet the needs of the particular organisational context and address specific causes of decline and failure

Some key questions to consider:
- From the analysis of performance trends in your organisation, do you need to plan a formal turnaround strategy?
- Do you have a detailed enough understanding of the causes of decline and failure within your organisation to plan an appropriate turnaround strategy?
- Is external intervention required?
- Which external stakeholders or organisations do you need to work with?
- Are you able to plan and implement changes quickly where needed?
- Do you have the right balance of skills and leadership in the board and

senior management team?

- Are there replacement issues that need to be addressed in your organisation?
- How are you going to manage the process of bringing new managers into the organisation?
- How are you going to support those people left in the organisation through the process of change?
- What are the key areas you need to focus on to regain short-term performance?
- Are there longer-term strategic and cultural issues that need to be addressed in your organisation?
- Do you have the right balance of management and leadership skills to address both the retrenchment and renewal phases of turnaround?
- Is the focus on both operational management and strategic planning reflected in discussions at Board level?
- How well prepared and confident do you feel as a board (or a group of senior managers) to lead your organisation through the turnaround process?

Managing relationships, managing upwards and Groupthink

Understanding the importance of managing relationships in leading a positive response to organisational, service or network failure.

Some key questions to consider:

- Do you understand the value that trust plays in the work of your organisation, service or network and are there aspects of the work that could be made more effective by the development of greater trust?
- Do you understand the three main agendas of other key players when working across your networks, external organisations and when managing upwards: organisational, political and personal.
- Reflect on the performance of your board, directorate or network team and consider whether it has ever exhibited signs of groupthink.

- Have you considered obtaining feedback from others within and outside the organisation or network, possibly using a 360° process so that the team is seen to be open to constructive criticism and alternative views?

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