



# Interview with Commodore Simon Lister

Commodore Simon Lister headed the team responsible for Phase One of the internal restructuring programme for the Defence Logistics Organisation. Defence Contracts Bulletin editor Grahame Steed spoke to him about the background to the project and its impact on internal customers and suppliers to the MoD.

**What has been the timeline and background to the restructure?**

The Defence Logistics Organisation (DLO) Board set up a study team in September 2003. In the period from September to December 2003 we conducted a wide-ranging study of what the existing organisational difficulties were, what was best practice, what benchmarks we should be aiming towards and the background of attempts to restructure the DLO since its inception. We put a study report to the Board in January 2004 which recommended a removal of the divisional structure of the organisation based on the original environmental logistics support which continued to exist within the DLO.

The Board accepted the proposals and established an implementation team. We went into an

implementation phase that charged us with setting up the new organisation by April 2005, and for the last 13 months that's exactly what we've been doing. While the study made the case for changing the DLO, it did not go into the details of what the design of the organisation might be. The design content had to be developed, and we decided upon a two-phase approach. This was endorsed by the Board in October 2004, and we have been implementing the plan since then, addressing the people transition and process issues.

The first phase was to restructure the corporate services: to remove the original HQ and slim down, and to a degree centralise, corporate services for the DLO. The end of Phase One – corporate services standing up as a new support organisation/support teams – took place on 4 April 2005.

Phase Two started from this point, and is about getting the new organisation to perform well and generate the effectiveness and efficiency gains we know are needed and are capable of achieving in order to reach benchmark standards. This will involve people leaving the organisation, which of course fits exactly with the Gershon Review,

where we're concentrating mainly on back-office functions and improving the way we conduct much of our transactional business.

**Which benchmarks were you measuring change against – for example, efficiency or performance?**

Our shorthand for benchmarking effectiveness was the number of people involved in corporate services, because operating cost is a major element of the budget. In effectiveness terms we could only take anecdotal evidence that we were not up to scratch, and because the study team were drawn from across business we had plenty of personal experience that there was work to do. What we've done in establishing enabling service teams across the organisation is to ask them to consider their performance in a way that they hadn't done hitherto. As the enabling teams have stood up we've now exposed them to a spotlight and challenged them to make their processes as simple and effective as possible. We're now able to track that performance and challenge the teams to perform. They have had to answer questions such as who are your customers?, how do you serve them?, and what constitutes performance? Those three simple





questions really focused minds and have provided a start to the effectiveness programme on the corporate service side.

**What would you say have been the major challenges to date in restructuring the DLO?**

There are probably three challenges and they are not unique to the DLO – they are standard significant organisational change management challenges.

The first was establishing the case for change with people who have never really thought about the organisation in the way we perhaps need them to. The organisation is strongly influenced by the cultures of the precursor organisations from which it was formed. It's been quite a challenge to make the argument for combining these relatively independent or separate organisations into a single organisation which generates the kind of effectiveness and efficiency that we seek.

The operational risk the DLO manages is high, and staff are rightly very focused on supporting their customer, the Armed Forces. The customer's culture and needs are specific to their environment and that reflects back into the organisation. The challenge, as we turn the DLO into a single organisation, is to ensure it still responds flexibly and understands the needs of the separate Armed Forces.

The second challenge was establishing the baseline – how many people were working on which tasks

and for whom. Establishing which posts were filled, which were empty and how busy people were was a real challenge. We were only looking at the corporate services area with 5400 people; but even so it took us several months to get the necessary quality of data to make sure we could adapt the new structure to include the existing posts or remove the posts which were empty.

The third challenge has been to translate the theory of the restructuring design into detailed content. Getting the necessary detail into the design to make sure the risk of transferring from one structure to the next is reasonable has been a challenge. Our call was that because of the DLO's proximity to the Front Line, and the operational risk we manage, a 'big bang' approach was not appropriate, so we adopted a relentless pace towards the new structure. Measuring such a pace of change has been a challenge – but we're there.

**How will the restructuring of the DLO affect suppliers?**

Suppliers will see changing relationships going forward. The main purchasing part of the DLO, the Integrated Project Teams (IPTs), are only just coming into the restructuring scope of Phase Two.

We anticipate some restructuring of those business and delivery teams. From a supplier's perspective the relationships will change, but we're already into a degree of change anyway because of the Procurement Reform initiative. Restructuring is not an alternative to this but complementary to it, and we will work closely with the Lean Support initiatives that have been running for a while in the DLO to make our relationships with our supplier base as modern and as professional as we can.

Moving away from the traditional to the informed and intelligent purchasing we seek will be helped by restructuring, but it is too early to say what that will be. For the supplier base the structure will change, but we are not moving away from the concept of the IPT which the National Audit Office has said has proved to be a success. If we do make adjustments to the population of IPTs or what they contain – and we believe that will be necessary – none of that will challenge the basic IPT concept.

**Are you talking to suppliers as part of the research into the next phase?**

We did at the outset and will do the same in the research for

the second phase. We've split Phase Two into three parts: consolidating the gains in the enabling services that we've made so far; structural realignment of the delivery teams; and an 18-month programme of organisation effectiveness improvements. The third part contains the fine grain: looking at the way things are done and seeking clarity, simplification and speed. Out of that will come increased effectiveness and efficiency, and we will seek best in class organisational performance.

Phase Two will be complete in two years, which sounds like a long time, but we are talking about over 3000 people leaving the organisation, and that takes time to manage fairly and properly in accordance with Government policy. The real challenges are changing behaviours and ways of working. So when we say it is a restructuring project, restructuring is almost a misnomer. Restructuring is just one small component of achieving the kind of effectiveness improvements we need.

We've already looked at how the BBC handles its accounts and transaction centres and have been very impressed by that. The HR team are conducting a Defence-wide transformation programme and introducing business partners and service delivery organisations for transactional business, and I know that they are watching and being guided very closely by best commercial practice.

The overall aim of restructuring is that the DLO emerges as a best in class logistics organisation, and a best in class organisation full stop. It should be an organisation that is not only capable of continuous improvement, but also burning to do it; burning to always look at the way we do business and improve it as a whole. There are many areas of the DLO that are already in that condition, so now it is a question of making the whole organisation do that.

**Which other organisations are in the class that you are comparing the DLO to?**

We need to look at logistics, purchasing and engineering support organisations like ours. Much of our early work on benchmarking was focused very much on corporate services. I think we need to go out and benchmark the organisation's performance in other ways, and because we've now got emerging clarity on our performance, we can

start to make rather more quantitative assessments of our performance and identify where opportunities for improvement exist.

**How likely is it that there will need to be another major restructuring in another four years' time?**

We believe that the structure that is going to be put in place will be relatively enduring because it has inbuilt flexibility. We've removed old barriers to adjusting the organisation to fit the task in hand, so in overall terms we see the structure lasting for some time to come. You could say four or five years is the lifespan of any structure.

If I was to gaze into a crystal ball I would say that in four or five years time we will be working more closely with the Defence Procurement Agency over a wide range of functions and activities, but again the DLO will be designed to accommodate these new functions.

**What have you taken from the private sector and applied in the changes in the DLO, and what do you think the private sector, or a very large contractor, could learn from what you have achieved here?**

We've learned to identify our costs and drive them out whenever we can, but not to the detriment of effectiveness, and the organisation has recognised the need to inculcate a performance culture.

The most important thing we've learned from the private sector is that because of a lack of a profit motive in the public sector, we must seek alternative means to motivate people, to drive down unit and production costs and drive up quality. Being honest about our performance, being rigorous about defining what is required and measuring whether we are doing it or not is the biggest import from the private sector.

The power of a customer orientated culture is also obvious to me, and it's something we treat lightly at our peril. It is because of customer orientation that the organisation has succeeded to date. We've made a good fist of it because of that clear focus and good connection with the customer. Our industry knows it very well indeed; it's something I've felt very strongly about, and long may it last.

**Thank you for talking to MoD DCB.**