PROSPECTUS
PUTTING STRATEGY TO WORK

8 topics 8 views

Insights for 2006

Vincent Barton
Katie Burke
John Crimmins
David W Duffy
Justine McCarthy
Diarmaid Ó Corrbuí
Deirdre O'Mara

Member of Eurogroup Consulting Alliance

Our business is about helping clients think and plan for the future. The objective of this publication is to provide our clients with ideas, insight and views on areas that might shape and inform that thinking. *8 topics: 8 views* will be published annually.

DAVID W DUFFY MANAGING DIRECTOR

Prospectus is Ireland's leading independent strategy consultancy.

It focuses on offering clients a full range of strategy services including: strategy development and implementation, governance and organisation, sectoral reviews, M&A integration, business case development, market appraisals, programme and project management, action learning and commercialising research.

Prospectus works with organisations in financial services, food, healthcare, research, technology, public sector, professional services, third-level institutions, voluntary and community and not-for-profit sectors.

Prospectus has carried out a number of significant industry reviews for government, most notably *The Audit of Structures and Functions in the Irish Healthcare System* and a *Strategic Development Plan for the Irish Dairy Processing Sector.*

Prospectus is an IMCI (Institute of Management Consultants in Ireland) registered consultancy and a founding member of the Eurogroup Consulting Alliance, a pan-European alliance of independent management consulting firms headquartered in Paris and represented in most countries in Europe.

Healthcare – *Old rules, new rules*

The healthcare landscape has changed dramatically in the last two years and will continue to do so. New and varying types of structures, relationships and roles will emerge to meet existing and future needs.

Vincent Barton

Much attention from observers of the Irish health system over the last two years has focused on the high-profile aspects of organisational reform – who is taking the big job, where will HQ be, who is now responsible for which major function? An understandable enough reaction in a time of major change. Some commentators have concluded from this apparent focus on the operational concerns that little is really changing in the healthcare landscape. In our view nothing could be further from the truth. For a whole range of reasons – some of them far removed from organisational reform – much is shifting in the workings of our health system, in a way that will have a direct impact on all of us who use or work in Irish healthcare.

Two forces in particular are combining to cause a fundamental shift in the way our healthcare is being thought about and delivered. The first relates to the investment approach by the principal funder of healthcare in Ireland, the government. Traditionally the State looked firstly and almost exclusively to publicly-owned or independent, but largely publicly-funded, organisations to provide the services it needed. This reflex has weakened in recent years. Increasingly, public budget-holders have begun to look towards buying a result, in a way which is increasingly blind to the legal status of the provider (statutory, independent, for-profit or charitable).

The second trend is the increasing number of organisations, many of them not established healthcare players, who are looking at the health system reform and are struck by the opportunities it offers for them to play a new role. In particular, the consolidation of the public health service into a unitary national structure has thrown into relief possibilities which were formerly hidden. For organisations or individuals with some established relationship with the sector, this thinking often starts with the question – can we do something more, or something different to what we have been doing up to now in healthcare? But, interestingly, we are also seeing many organisations with no health background looking at the system and spotting functions or services which they already perform elsewhere, and which they might do equally well under the health umbrella. For the latter the question is – why do you need technical healthcare expertise to deliver that particular function, or can we do it as well or better?

As a result, we are seeing some intriguing new evolutions in terms of who does what in the health service. It also needs to be firmly stressed that as many public organisations as private groups are reconsidering their roles in this way. Just some examples: public hospitals seeking to own or operate long-stay facilities; medical supplies distributors looking to push beyond the hospital gate and possibly go right to the point of delivering care, in hospitals or at home; just-in-time suppliers of components to the IT sector who can see where their specialist supply chain management skills could equally be deployed right across the health system; public hospitals selling on specialist technical skills to their peers; state development finance agencies taking on the procurement of major health infrastructure projects; health insurers becoming service providers in their own right; private acute care selling services to public patients through the NTPF, and public acute facilities moving to partner with on-campus private operators.

Interesting times for all those in healthcare who are looking for innovative ways to meet patient demand, to acquire a new service, to offer scarce staff new career opportunities or generate alternative streams of income. But are there wider implications of this trend? Well, new rules are required for certain to match the proliferation of new roles. In particular, all of us who use the health service will be looking to really effective mechanisms which ensure that there is a focus on the quality of the services being provided, not just the price. Up to now functions such as this have been largely absent in Irish healthcare. A strong and early impact for the recently-established Health Information and Quality Authority will be vital if these trends are to deliver their real promise.

Article at a glance

- Two years into the health service reforms some distinctive new trends are emerging.
- Public and private funders are looking for new ways to buy service.
- At the same time both public and private service providers are looking for new roles.
- The role and impact of HIQA will be vital to support these changing roles.

Successful projects – *It's not rocket science*

Massive IT project overruns and failed projects have highlighted the need for better mechanisms to manage the delivery of projects. Effective and efficient project governance, risk management and communication is increasingly important to customers, sponsors and stakeholders.

Deirdre O'Mara

Project management, as a management discipline, underpins much economic activity. In industries as diverse as pharmaceuticals, software and aerospace, projects drive business. In the public sector, it is effective project management that translates politicians' promises of new roads, schools and hospitals into gleaming new constructions that improve everyday life!

However, two things are clear from recently documented public sector IT project overruns. The first is that the cost is high and secondly, there is considerable scope for improved project management. Public sector IT projects have become synonymous with being over budget and late.

All kinds and sizes of organisations in both the public and private sectors should sit up and take note. Projects are the means for action and require strong governance, a systematic approach to risk management and a consciously planned communication process. Much focus and progress has been made in developing project management tools and techniques to understand, plan and manage complex projects. However, many organisations do not necessarily appreciate the importance of project governance, risk management and communication.

An experienced and highly competent project manager can make a challenging project a complete success, provided he or she is supported by senior management, and mechanisms are in place to manage its delivery. For large, complex projects or a portfolio of projects, the establishment of a steering group is good practice. This group is comprised of key business stakeholders, whose role is typically to provide strategic direction, set clear goals and deliverables, resolve key issues, agree how risk should be managed, and make informed and timely decisions.

The project manager is accountable to the steering group, reports project status to this group and provides information to support decision-making. Such project governance creates a climate in which the project is managed from a foundation of accurate, data-based facts, rather than the misleading optimism that sometimes arises from fear of reporting bad news.

Risk is a significant factor in the decision to perform a project. Risk identification and management involves conducting an assessment of the possible events that could disrupt a project, analysing the possibility of occurrence and estimating the impact on the business. As projects are managed in an increasingly dynamic and uncertain environment, organisations must develop a systematic approach to risk management that proactively anticipates most problems and finds solutions for the rest. A continuously updated checklist of the things that often go wrong is a good starting point for managing risk.

Effective communication is a critical, if not the most critical, contributor to project success. One of the issues organisations need to consider in managing and extracting value from projects is informing the various stakeholders about the benefits of the project. Effective communication is candid, clear, at the right level of detail, timely, relevant to the interests and needs of the participants, involves the right people, and ensures mutual understanding of content and conclusion. Much communication is informal and oral; however, written communications are needed to document issues, action plans and key decisions made. Meetings should be well structured and their outcomes documented.

In his book, *The Circle of Innovation: You Can't Shrink Your Way to Greatness*, management expert Tom Peters said, "Turn every job into a project". Project management gives new definition to work, but requires putting governance, risk management and communication measures in place to support its success. Don't become the victim of a failed project, after all it's not rocket science!

Article at a glance

- Two things are clear from recently documented IT project overruns and failed projects – costs are high and there is considerable scope for improved project management.
- A strong recognition of the increased importance of project management, in both public and private sectors, is emerging.
- Projects are the means for action and strong project management skills, transparent and fact-based reporting are a prerequisite.
- Effective and efficient project governance, risk management and communication are critical success factors.

Investment in research – *How do we get a return?*

Creating a knowledge economy will be a major challenge for Ireland. A significant and sustained investment in R&D will be required to make this happen. However, this on its own is not enough.

David W Duffy

Ireland has invested significant amounts in research in its bid to move to a more knowledge-based economy and assist in delivering on the objectives of the Lisbon Agenda for Europe. Gross Expenditure on R&D increased from €856m in 1997 to €1792m in 2004 at current prices, according to Forfás.

This investment has been made almost exclusively in public infrastructure in our universities and public laboratories. The kick start provided by this investment through Science Foundation Ireland in particular, Health Research Board, IDA, Enterprise Ireland and other state agencies has brought about a change in how we think about research, but not how we link it to sustainable economic development.

This investment will assist in making Ireland a more competitive place in which to do business, at the higher end of the value curve. It will also help to anchor the internationally-recognised manufacturing and service base located in Ireland through next generation technology and technologists.

The next challenge for Ireland is to ensure that we get value (however defined) from this extraordinary increase in research funding. Not all research will result in a direct benefit to the economy, but as we increase our investment, we need to ensure that an appropriate portion is linked to enhancing our competitive positioning internationally.

From a government perspective, this would include developing a highly skilled labour force, attracting inward investment seeking access to our research capability and increased competitiveness as a result of greater levels of innovation.

The benefits for the research institutes generating Intellectual Property (IP), which can be commercialised are significant, but are longer term in nature. They will be more credible in trying to attract world class researchers and industry to participate in and fund collaborative research programmes, provide better opportunities for staff and greater visibility for the researchers through applicable results. The benefits for the scientists are also considerable. This could include an enlarged network of contacts in the economy, at a political level and with other research institutes, enhanced reputation through the delivery of sustainable technology activities, proof of concept for market-oriented ideas, and new ideas and incentives through co-operation with entrepreneurs.

However, to enable these benefits to happen, there will have to be an investment in the structures, processes and skills to actively facilitate the commercialisation of research. This can take many forms. They range from technology transfer departments in universities, to wholly owned technology transfer subsidiaries of the university, to joint ventures with private enterprise, to name but a few. The challenge for Ireland now is to develop organisational models which will assist in the commercialisation process. Many of the skills required for the commercialisation process tend to be in scarce supply in a university or research institute. Consequently, a joint venture/technology partnership with external commercial organisations that can provide these scarce skills should be encouraged to provide the required and necessary impetus.

For example, in Germany two universities, four state research institutes and three polytechnic organisations with over 3000 scientists have come together in a joint venture with private enterprise to bring about a more structured and scaled approach to the commercialisation process. The joint venture provides access to a dedicated team with the same shared objectives, supported by professional management, confidentiality and flexibility, long term commitment, a market led approach, proactive IPR management, an innovation culture, corporate finance and legal skills, and an intimate knowledge of EU research funding programmes and funding available from the private sector. This joint venture has raised an additional €100m of public and industry funds for research in these institutions over a three year period and produced eight start-ups.

To reap the rewards of our investment in research, we now need to invest significantly and quickly in the infrastructure to bring the good ideas to market.

Article at a glance

- Ireland needs to focus on how it will get a return from its R&D investment.
- Investment is required in the structures and processes to facilitate the commercialisation of research.
- Joint ventures/technology partnerships with external companies with the right skills will fast-forward the commercialisation process.
- This investment is required now.

Action learning – *A fresh approach to management development*

Dissatisfaction with traditional approaches to management development training is giving rise to the need for an action learning approach, where, managers learn by doing – by addressing real and relevant strategic initiatives in their organisation.

Diarmaid Ó Corrbuí

Does the following sound familiar? Your organisation's strategy has identified a number of critical strategic initiatives that must be taken to respond to your changing environment. However, despite significant investment over the years in management development and training programmes, your organisation's track record in effectively delivering strategic change is at best patchy.

Traditionally, these weaknesses have been addressed by either bringing in consultants to assist the organisation with strategy development and implementation or by trying to skill up managers and staff through management training programmes. Some organisations have tried both solutions, but have not always been fully satisfied with the results. Management development training very often gets a jaundiced reaction from many managers and the value and relevance of many development programmes is questioned. As a result, the take-up by managers of management development training programmes can be poor and the changes to performance and behaviours of those who participate in the programmes difficult to detect.

Many senior managers are increasingly becoming concerned about the need to get more value from their spend on management training and consultancy. Engagement of consultants would generally follow the classic consultancy model, where the scope of the assignment would be focused on the achievement of particular organisational goals or initiatives. The skill development of the client personnel who worked alongside the consultants has tended, if at all, to be a by-product of the consultant's working style rather than a core objective.

Strong management consultancy and project management skills, together with a focused and structured knowledge-transfer working style, can make a major difference in improving management skills and capabilities when used as part of a specific management development programme that also seeks to address strategic organisational challenges. A response to this growing requirement of organisations to obtain greater value and impact from their investment in management development training and consultancy, has been the emergence of action learning programmes. These programmes will enable staff to learn by doing, while tackling major strategic issues and challenges facing the organisation.

Action learning is a fresh approach to management development and training. It is focused on developing the skills of your management and staff through a structured programme that addresses real live strategic issues for your organisation.

The programme starts by assessing your organisation's strategic objectives and major challenges. The next step is to determine the skills and training needed to achieve these goals. This is then followed by the development and delivery of a suitable just-in-time skills development programme to enhance your staff's capability to deliver on these goals. The aim of the action learning programme is to train your staff to such a high level that they are equipped to successfully address similar challenges in the future.

An action learning programme is built around ensuring that a number of critical success factors are addressed in the identification and design of a customised programme. These factors include identifying suitable but achievable projects for the action learning programme; getting active senior management involvement; selecting enthusiastic project sponsors with decision-making authority for the projects; achieving a balance between action and learning; setting explicit learning goals for each project. There is also a need for ongoing communications, monitoring the results of the programme; setting realistic expectations and ensuring clarity of roles between the different stakeholders in the process

Action learning is a collaborative approach to addressing strategic issues and enhancing the management skills of your staff. A key success factor for action learning is having clarity about the business goals and development goals to be achieved. Once this clarity is achieved, the learning by doing process should help your organisation achieve the double benefit of achieving strategic objectives and developing the capabilities and competencies of your employees.

Article at a glance

- Many organisations are underwhelmed with the outcomes and value obtained from their investment in traditional management development programmes.
- They are looking for more effective ways to develop and equip management to successfully meet the strategic challenges they face.
- An action learning programme, using a learning by doing philosophy, can help your organisations to address major strategic issues.
- It provides a structured management development environment for your staff and ensures that tangible business benefits are enjoyed by the organisation.

Not-for-profit sector – *A roadmap for the future*

The not-for-profit sector makes a huge contribution to Irish society. This article provides our view on the major challenges facing the sector in the future.

Katie Burke

Whatever label you give it – voluntary and community, non-profit, not-for-profit – this is a sector which is of huge importance to Irish society. Organisations which fall under the umbrella of the not-for-profit sector are active in almost every aspect of social endeavour – health, social services, education, housing, arts and culture, sport, community development, environmental protection, advocacy, overseas assistance and human rights. The activities these organisations conduct range from delivering services, to peer support, sharing information, influencing policy, building capacity and networks.

The breadth of the sector means that it can be difficult, and even misleading, to talk about it as a sector. Some of the challenges faced by not-for-profit organisations are determined by the activities in which they are involved (advocacy, health, education, etc), yet many of the issues they face are common to not-for-profit organisations, in general.

Not-for-profit organisations have a tradition of innovation – for example, in terms of caring for specific groups who have been neglected by the State, or offering multi-denominational education. Once these activities have been well established by the not-for-profit sector, should the sector encourage the State to take on responsibility for providing some of these basic services as well as funding them? This could free up some not-for-profit resources enabling them to innovate in terms of new services and activities.

High standards of governance, transparency and accountability are now expected of not-for-profit organisations. For some organisations, this has been prompted by, or indeed resulted in, a change in legal status; for others, it reflects the desire to have good practices.

In addition to the traditional focus on selecting CEOs, securing funding and setting high-level policy, the best boards of not-for-profit organisations provide professional expertise across a range of areas, represent the interests of their organisation and provide the more rigorous management and performance oversight that funders increasingly demand.

Service users, members and funders demand high standards from staff and volunteers today. A commitment to the cause among staff and volunteers is no longer sufficient. A challenge for not-for-profit organisations is to improve standards and practices while retaining their ethos and flexibility, valuing their volunteers and avoiding bureaucracy.

Strategic planning has begun to take hold in the Irish not-for-profit sector, or at least in parts of it. It is a process which involves getting agreement from the board, management, staff and volunteers on what the organisation is about, where it wants to go and how it should get there. The process is sometimes very revealing (for example, in terms of clarifying the objective and aims of the organisation), often laborious, yet usually worthwhile.

Funding (or lack of it!) has long been an issue for the not-for-profit sector, which traditionally has received the majority of its funding from the State. The White Paper *Supporting Voluntary Activity* (2000) estimates that State funding for the voluntary and community sector amounted to €1.267bn in 1999.

Looking ahead, not-for-profit organisations need to identify and secure funding from a more diverse range of sources (such as foundations, individual donors, corporates, and philanthropic organisations). Diversifying sources of income should help not-for-profit organisations to generate a more sustainable funding stream which can better weather the ups and downs of the general economy and of individual donors. In the United States, where philanthropy is much more developed, philanthropic funding to the not-for-profit sector was estimated at 2% of GDP in 2000. If, over the next decade, Irish philanthropy was to reach even 1% of GNP (GNP being a better indicator for Ireland than GDP), this would amount to €1.24 billion (based on 2004 Irish GNP figures). In other words, income from philanthropy could almost equal the level of State funding to the not-for-profit sector.

The more not-for-profit organisations communicate and collaborate with each other, with statutory agencies and funders, the stronger the voice of the sector, in general, and the louder the voice of the constituencies represented by different not-for-profit organisations. A willingness to genuinely share experiences and collaborate should make for a vibrant not-for-profit sector which challenges the status quo and continues to innovate and champion new causes and activities.

Article at a glance – the major challenges

- Innovating, in new activities & services.
- Investing in good governance & organisational infrastructure.
- Strategic planning.
- Securing funding from diverse & sustainable sources.
- Collaborating within the sector, with statutory agencies & funders.

Hospital strategies – *A process with unexpected benefits*

Increased competition among hospitals has caused many to engage in strategic thinking exercises. Surprisingly, the benefits often relate more to the strategy development process itself.

Justine McCarthy

"What do you want to achieve or avoid? The answers to this question are objectives. How will you go about achieving your desired results? The answer to this you can call strategy."
—WILLIAM E ROTHSCHILD

Despite the Rothschild logic, the majority of hospitals in Ireland have not undergone a strategic review until relatively recently. Strategy development was left mainly to central government agencies while hospitals took a more short-term view, focusing their efforts, understandably, on stretching their annual budgets and managing the daily challenges of running a hospital. To find the time and the money to develop a strategy was considered a luxury few could afford while the benefits were unclear. However, in the last twelve months an unprecedented number of hospitals have being developing strategies across the country. Why the sudden activity? Each hospital will have its own specific reasons, but a strategic review is often triggered by an organisational or environmental change. The Irish healthcare landscape is undergoing significant change at present, so maybe it is not so surprising to see the sudden activity after all.

For one, competition among hospitals is on the increase, providing the impetus to think strategically about the future. The factors feeding this increased competition are varied. The arrival of private healthcare operators, for example, is no doubt forcing publicly funded hospitals and traditional private operators to review their existing service offer and position themselves for the future. Increased clarification on policy direction, via Comhairle Reports and other policy documents, has also forced hospitals and other service providers to jockey for position, developing business cases to ensure they, rather than their peers, benefit from decisions and recommendations made.

Policy makers and funders have played a direct part in upping the competitive stakes. Initiatives such as the budgeting system have resulted in a stronger focus on performance and hence competition for funding. In addition, health funders now insist on a strategic rationale to back up specific funding requests. In the future, business cases will need to be clearly linked to the corporate view of where the hospital is focusing its efforts – its strategy. Service-specific competitions, such as the recent radiotherapy bid process, have without doubt heightened the rivalry among hospitals too.

Although generally we have found hospitals recognise the need for a strategy, it is not something that is welcomed with open arms, far from it in fact. Thoughts of jargon-filled meetings and lots of blue sky thinking often hamper its initiation altogether. However, it is often a new experience for those involved with unexpected benefits, arising out of the challenges inherent in the strategy development process itself.

For example, anyone involved in managing a hospital knows how difficult it is to reconcile the demands of management and clinicians. A strategy meeting often sees interesting debates between the two parties who would not normally be sitting around the same table. This mix of backgrounds highlights different, but equally weighty views, and draws attention to the varying levels of people's ability to think strategically and creatively. After the strategy development process, the experiences of debating with and listening to people from different levels and departments in the hospital have proved enormously beneficial to hospitals attempting to reach agreement on future service priorities. A strategy process also raises fundamental questions about the hospital and its mission. The group must explore options and make choices by asking questions such as: Does how we are organised and the services we provide support, what we want to deliver to the market? Do we want to solve our A&E problems or do we want to be the very best in a particular specialty?

The benefits from a strategy are wide-ranging, from unleashing the talent and commitment of staff, to generating novel ideas, to the clarity of thought around where the hospital wants to go. From our experience, it is clear that a strategy is more than a document which sets out a hospital's direction. It is a rare opportunity to think in a different way. The challenge for hospitals is to sustain the momentum built up, combining innovation and pragmatism, while at the same time adhering to the Rothschild logic.

Article at a glance

- Increased competition is forcing hospitals to examine their future role and service offering.
- The strategy process itself brings surprising benefits including the opportunity to think creatively and build momentum among staff.
- The challenge is combining innovation and pragmatism, and at the same time sustaining this momentum.

Third Wave consolidation in European retail banking – *Impact on Ireland*

There has been relatively little cross-border activity in European retail banking to date. But are the market conditions and pressures emerging which will force this process to accelerate, with all the risks that go with it?

David W Duffy

In the past several years, there has been a flurry of consolidation activity among the European retail banks, which has been prompted by the existing banking structure and revenue pressures. Fear of being taken over by an international giant has created an appetite among retail banks for substantial growth, primarily as a defensive measure. Since organic growth is often not sufficient to protect the banks from international takeovers, further European consolidation is likely. This trend is also evident in other sectors of financial services such as life and general insurance, where shrinking margins are forcing consolidation in the sector. Indeed, some of the consolidation has been driven by North American institutions using acquisitions in Ireland as a platform for expansion into Europe, with some success.

Consolidation generally occurs in sequential waves. In the first wave, consolidation occurs within the sector itself. In Europe, many countries witnessed a reconfiguration of the classic three-pillar banking system. That is, where there were formerly separate banks for savings, commercial, and cooperative activities, consolidation among the banks meant that these activities would now be offered under the same roof.

In the second wave, consolidation occurs at the national level. The largest European banks have grown by national mergers, and as a result, some European countries are characterised by high market shares of the top five banks, whereas in Ireland the concentration is even greater. Many European countries have now reached their (legally permissible) potential for national consolidation.

Given that the national markets are saturated, the third wave of consolidation leaves many banks looking externally for consolidation opportunities. Cross-border activities become more likely and relevant when there is a high degree of consolidation in the national market. However, to date, large cross-border mergers in Europe have been the exception. There are several reasons why this cross-border activity is an attractive investment for the retail banks. Larger institutions benefit from economies of scale, risk diversification, and revenue synergies through cross-selling opportunities. Experience in the home market can be transferred to other European retail banking markets, as a result of hopefully, similar customer behaviours. However, given the cultural diversity in Europe, this is no guarantee of success.

In Ireland over the last few years, we have seen acquisition activity by UK, Dutch and Danish banks, which have brought welcome competition and greater choice for the consumer. This is likely to continue, but on a niche basis.

However, there are many barriers to the further consolidation of retail banking in Europe. There are still regulatory, fiscal and cultural barriers, which make it difficult to realise synergies from European consolidation. There are other markets in the world, such as Central and Eastern Europe and Asia, which are more interesting in terms of profitability than Western Europe. The European Commission supports banking consolidation as a way to ensure the stability of EU financial markets, and has introduced the Financial Services Action Plan to help reduce or eliminate many of the integration barriers in Europe. It may not be enough, though. The experience of BBVA and ABN Amro are good examples of how difficult it is to complete a European cross-border acquisition.

Consolidation is just one of many options available to banks to increase efficiency, profitability, and market capitalisation. Of the 87% of European financial institutions in growth mode, only 9% are planning to grow through acquisitions. 50% will use cross-selling of products and services to existing customers and 41% will use new customer acquisitions. 13% of banks are in cost-cutting mode, using process improvements, redundancies and outsourcing to reduce expenses. Source – *EMEA Retail Banking Study 2005* (EFMA, SAP).

Where does retail banking go from here in Ireland? Growth for the existing Irish banks in the Irish market is limited. Growth for the next few years will come from the buoyant economy, fuelled by property-backed, but low risk, lending and increased consumer spending. Once this slows down, the pressure will be on for real performance in tougher market conditions. The true test is yet to come for the domestic players. This may provide opportunities for further consolidation here, but is likely to be initiated from outside the country, probably sooner rather than later.

Article at a glance

- Given that many national markets have a high degree of concentration, the pressure for cross-border consolidation increases.
- However, only a limited number of European financial institutions will use this avenue to fuel growth because of the risks involved.
- Buoyant market conditions in Ireland provide a defence against consolidation in retail banking, but it will come, when the returns diminish.

Corporate Governance – *Defining responsibilities, changing mindsets!*

There is limited interaction between the public and private sectors when it comes to corporate governance. But both sectors of the economy could learn a lot from each other once there is a willingness to do so.

John Crimmins

In March 2005, a government-commissioned review into the management and administration of the Department of Health and Children's policy of charging persons in long-stay care (*Travers Report*) found that 'the MAC or Management Advisory Committee (senior management team) [had failed to act] as a cohesive, effective and positive force of operational management, policy development and organisational leadership in the Department'. This finding in itself was not surprising, as it has long been recognised that a lack of clarity exists around the role and functions of the MAC in most government departments. But, what was surprising, and continues to be, is that in such a heavily regulated and formal environment as the civil service, the operation of the senior management team appears to be ad hoc and its decision-making processes undefined and opaque. Furthermore, it is difficult to reconcile this position with wider efforts within the public sector to improve transparency and accountability around all State activities and decision-making processes, for example, the Freedom of Information Act 1997, *Mullarkey Report* (2004), *Public Procurement Guidelines* (2004) etc. All of these have assisted in improving levels of accountability and transparency. However, it is contended that until such time as the anomalies surrounding the role and functions of the MAC are addressed, including acceptance of collective responsibility by senior management, all other public sector modernisation initiatives can be merely viewed as tinkering, with a high probability of failure.

So having said all of this, where do the mutual corporate governance learning opportunities exist? At its most basic level corporate governance has been defined as being '…about [ensuring] appropriate structures and processes are in place at the top of the organisation for decision-making, accountability, controls and behaviour' (*Cadbury Report* 1992). Various studies and reports since Cadbury have added to this definition, providing greater levels of clarity on specific aspects of the roles and functions of management teams, both individually and collectively; on how senior management teams should relate to their respective Boards; and how external representation at a senior level (non-executive directors) can enormously benefit decision-making processes within an organisation. It is here that the public sector can learn most from its private sector counterparts on how external knowledge, experience and expertise can be used to improve internal processes and develop collective and timely decision-making capabilities.

From the private sector's perspective, it may not be immediately obvious as to what it can learn from the public service given their divergent environments and cultures. However, it is suggested that the public sector's central role in developing regulation and policy and actively participating in the political arena presents many opportunities for senior private sector executives to learn how this process works and how they can influence and mitigate the impact of regulation on business.

Yet despite the obvious benefits of closer interaction, why do so few examples of governance cross-fertilisation exist. In general, senior public servants view private sector motives with suspicion and private sector executives consider senior public servants to be detached from the realities of the business world. Breaking down these prejudicial barriers will not be easy, but is essential. Whether this happens through public/private Non-executive Director Exchange Programmes or changes to recruitment practices is irrelevant, all that is important is that it happens.

In conclusion, corporate governance shortcomings within the public sector can be summarily addressed through an examination of decision-making responsibilities of the MAC and the development of formal exchange programmes. But, for more fundamental changes, a considerable shift in attitudes will be required on both sides of the divide if the mutual benefits from an improvement in corporate governance standards are to be experienced by both the private and public sectors.

Article at a glance

- A lack of collective responsibility, transparency and accountability for decisions made by senior management teams within the civil service contradicts good corporate governance practice.
- Success of future public sector modernisation initiatives will depend upon the role and functions of Management Advisory Committees being clearly defined.
- Potential exists for sharing corporate governance experience between the public and private sectors.

Prospectus
Parkview House, Beech Hill
Clonskeagh, Dublin 4
Ireland

Tel + 353 1 260 3122
Fax + 353 1 260 3130
strategy@prospectus.ie
www.prospectus.ie

Member of Eurogroup Consulting Alliance