**Transformational Change
in Network Rail
March 2011**

Adventis
moving minds

Alan Erskine
Managing Partner
Adventis Consulting
Email: alan@adventisconsulting.com
Telephone: +44 (0) 20 8878 3454
Mobile: +44 (0) 7850 737548

Contents

1 Introduction

This report describes the findings from a short review of transformational change in Network Rail (NR). The review was undertaken in February 2011 by Adventis Consulting on behalf of the ORR and DfT Rail Value for Money Study.

1.1 Review Objectives

The Rail Value for Money Study has reviewed NR's Transformation Programme and found it comprehensive. However, concerns remain about the ability of NR to deliver the necessary changes quickly enough to achieve the objectives of Control Period 4 (CP4) and beyond.

Adventis was therefore invited to undertake a short assignment with the following objectives:

- Carry out an independent desk-top assessment of how effective NR has been historically at delivering capability improvements, particularly those that rely on driving changes to behaviour and skills down throughout the company.

- Assess the overall implications for the feasibility and likelihood of success of NR's current plans for CP4 and further efficiencies expected in CP5.

1.2 Review Method

This review was undertaken as follows:

- A report on Railtrack dating from 2000 and reports on NR, dating from 2003 were reviewed and compared to identify long standing issues and the rate of change.

- Papers on the current NR Transformation Programme were reviewed, a meeting was held with the NR Director, Corporate Development and a follow up meeting held with the NR Head of Technical Planning.

- The current Transformation Programme was compared against a best practice framework and a recent similar programme in the Highways Agency.

- Conclusions and recommendations were derived from the findings.

2 Management Summary

The Directors of NR believe that transformational change is a pre-requisite for achieving their business aims, including the targets for CP4 and beyond. For supply chain and investment delivery, this means tackling many complex and long standing issues.

The current management team, including the outgoing CEO, have made good progress with these issues. In particular, creating a process-led organisation, streamlining the business, developing the National Centre, creating and bringing to life the Promise and Principles, aligning the leadership and engaging with the business.

Looking ahead, the Transformation Programme is well conceived and is tackling the right things. If NR continue in the same way there is a high likelihood of success. However, there is more critical work to be done and some areas of concern.

Arguably, the next stage of the Transformation Programme will be the toughest yet. Changing behaviour at operational levels, identifying and replacing people who cannot change, redesigning very complicated processes and making the new ways of working stick.

There are also risks to be managed. In particular, the outgoing CEO was synonymous with the programme and the baton needs to be passed on seamlessly.

Responsibility for the change has passed from the CEO and Corporate Development Director to the Operational Directors. NR needs to avoid any sense that the "work is done".

The new vision for the business needs to be dovetailed with the move to a decentralised structure. Management need to demonstrate how the two initiatives are aligned to prevent people from abandoning the Promise and Principles.

While good progress has been made, there are significant supply chain and investment delivery issues which were identified more than 10 years ago, but which NR have only made demonstrable progress with in the past three years.

This may be because NR were working on other priorities, such as bringing the maintenance organisation in-house. It may be the result of cumulative efforts up until then. Either way, NR cannot allow the pace of improvement to drop back to the 10 year average.

The Transformation Programme compares well against best practice change enablement. However, to achieve its objectives NR should consider placing greater emphasis on identifying and replacing people who are unable to change their behaviour.

Given the criticality of culture and behavioural change to the achievement of CP4 and the challenges ahead, there is a question about whether the ORR should be monitoring this aspect more closely than it has in the past.

3 Network Rail Transformation Programme

We have information on the on-going NR Transformation Programme that we compared with the findings from previous reports. This is based on a slide pack presented to the Value for Money Study, a meeting with the NR Director, Corporate Development and a follow up meeting with the Head of Technical Planning.

The Transformation Programme should be viewed in context as the latest chapter in NR's work to dramatically improve its performance. This started when NR acquired Railtrack and a three phase plan was developed, which comprised:

1. Stop the rot – managing cost and improving train service performance.

2. One way – organisational and structural change to reduce costs further and improve the standard and consistency of service to customers.

3. World class – transforming the organisation into one that is acknowledged by customers and funders as a delivering a world class service.

The first two phases resulted in major changes including bringing 17,000 maintenance employees in-house and a major headcount reduction programme based partly on individual alignment with the future vision of the company. This resulted, amongst other things, in a 27% reduction in NR's cost base during CP3.

NR developed the Transformation Programme as a pro-active response to the financial challenges of CP4 and in response to feedback from customers, suppliers and their own people. They identified some tangible things that needed to change:

- The company was structured into functional silos.

- Some of the key processes were confused.

- People were focusing on their part of a process rather than the overall outcome.

- It was taking a long time to do straightforward things.

The first step was to create the structure of the Transformation Programme.

One of the key strands of the Transformation Programme, alongside other aspects, was Organisational Effectiveness. This included:

- Streamlining, which looked at spans of control and layers of management and reduced them accordingly. This led to a savings of 520 posts.

- Process led organisation (PLO) which restructured the business around its key processes from planning to operations.

- The National Centre, which will bring together people who are involved in the same processes and facilitate cross-functional collaboration.

The streamlining strand ran for 15 months and has now closed down.

The PLO was based on a lot of research and evaluation of options. This identified that many people are involved in each step of the core business processes and there are multiple factors causing delays and loss of efficiency along the way.

One of the problems was that people were only responsible for their part of a process and were loyal only to their functional silo. They completed their responsibilities and then passed the task on without considering the end to end performance. The PLO was put in place at the end of 2009. It is now the responsibility of the process managers to implement the principles in their organisations. The PLO will be enabled by the National Centre which has been created to provide an environment that facilitates cross-functional collaboration.

Towards the end of 2009, the NR Directors believed that they were on the right path but it was now time to look at the human dimension of the change. In particular, they believed they were lacking a clarion call for the organisation to rally behind. The Promise and Principles statements were therefore evolved from conversations between the Directors and are seen as fundamental to the future of the business.

The NR Directors also recognised the need for supporting behaviours. The Top 100 managers were taken off site several times to discuss the Promise and Principles. Could they back it, did it have resonance, could they sell it? There was strong support so they rolled the idea out to the top 350 managers and had the same conversation. The support was strong although the top 350 wanted safety put first in the list of Principles. The engagement process was finished in December 2009 and the Promise and Principles were born.

During the first half of 2010 the NR CEO and Corporate Development Director conducted the "Promise Tour"; addressing 4000 managers in town hall style meetings around the country, 100-150 people at a time. They explained about the Promise and Principles and got people into the dialogue. The conversation was about how do we start and how do we make it real?

Various other initiatives have been taken. For example, the staff survey has been amended to include questions about the Promise and Principles. The first survey reported strong agreement and support.

The Promise and Principles have also been built into the appraisal process. However, it is too early to say if anyone has been removed from the business because of non-compliance. A tool-kit has been provided to managers including handouts, videos and other collateral to enable them to cascade the message. The induction process has been re-designed, as has the recruitment process in order to recruit against desired behaviours. More change enablement interventions are planned.

The next step is the detailed work required to re-design business processes to align with the PLO and continue to drive the culture and behavioural changes down through the organisation. Work on both of these aspects is being led by operational managers.

NR have highlighted two key concerns going forward.

Firstly the change of CEO presents a risk because the outgoing CEO was synonymous with and visibly led the Transformation Programme. People will need to be convinced that the programme will not end as a result of his departure. We understand from NR that the new CEO fully supports the Transformation Programme

Secondly, the policy of decentralising the business, introduced by the new CEO, needs to be dovetailed with the concepts of the Transformation Programme. For example, at present it is not clear exactly how the PLO will transition to the decentralised structure.

We would add a third concern, which is the switch of responsibility for the Transformation Programme from the CEO and Corporate Development Director to Operations. While it makes sense that operational managers need to take full ownership for the changes, NR needs to avoid any sense that the "work is done".

4 Desk Top Review

This section describes the findings from our review of reports.

To understand NR's track record of transformational change we reviewed a number of external consultants' reports. These were:

- McKinsey & Co, "Supply Chain Management Project", 2000
- Accenture, "Review of NR's Supply Chain", 2003
- At Kearney, "CP4 Procurement Opportunity Assessment", 2007
- AMCL, "Best Practice Review", 2007
- AMCL, "Best Practice Review Update", 2009
- AT Kearney, "Assessment of Excellence in Procurement (AEP Study)", 2010
- Atkins, "Asset Management & Supply Chain Management Assessment of GB Rail", 2011

Our findings and observations from each report are presented below.

McKinsey & Co, "Supply Chain Management Project", 2000

The McKinsey report was commissioned by Railtrack and provides a very detailed analysis of the supply chain management and investment delivery processes at the time. The report looks specifically at three categories of spend: signalling; civils and structures; and professional services. It also examines general themes including: tendering processes; supplier management; and information management.

The report takes an end-to-end process view of investment delivery and identifies a large number of issues and opportunities. It generally highlights the waste of time and money created by the complex and fragmented way in which the business was operated at the time.

Key themes include: planning uncertainty and the impact on the supply chain; protracted feasibility/design development; cost escalation during project implementation; poor site productivity; high costs of tendering; supplier management; lack of a total cost of ownership perspective; lack of unit costs and should cost information; slowness to adopt new technologies; and inadequate information systems.

The report advocates a transformation in the strategic, organisational and operational approaches to supply chain management and investment delivery. It specifically recommends realigning the investment delivery processes from planning through to implementation and changing the organisation structure to support this process orientated view.

The report recommends tighter control of individual category supply chain strategies and associated improvements in supplier management processes including performance management. It advocates new category specific sourcing teams. The need for new information systems and strengthened skills and competences are also identified.

Accenture, "Review of NR's Supply Chain", 2003

The Accenture report was commissioned by the Office of Rail Regulation (ORR). It is much shorter than the McKinsey & Co report. It also serves a different purpose, because it aims to compare NR's supply chain capability with best practice and validate the efficiency assumptions in NR's business plan at the time.

It has some similarities to the McKinsey & Co work as it examines key spend categories. In this case: Maintenance; Track Renewals; Electrification and Fixed Plant; Signalling and Telecommunications; Structures and Operational Property; the National Logistics Unit (NLU); and Professional Services. Enablers such as Organisation, People and Information Technology are also reviewed.

Many of the themes from the McKinsey & Co findings are carried forward in the Accenture report. For example: planning uncertainty; lack of sufficient contract management in the field; lack of supplier performance management; costly and time consuming process for introducing new technology; high cost of bidding for work; cost escalation due to changing design, scope, standards or specifications; need for better information systems; and the need for better skills and competencies.

There is evidence of NR starting to tackle some of the issues in the McKinsey & Co report. For example, Accenture identifies that NR has re-assessed its approach to major signalling contracts. It also notes the introduction of the New Maintenance Programme. However, because of the nature of the report, Accenture does not make specific recommendations on how NR should tackle the opportunities. For example, there is no mention of the need for transformational change in NR's organisation and processes.

AT Kearney, "CP4 Procurement Opportunity Assessment", 2007

The AT Kearney report was commissioned by NR. It is similar to the Accenture report in that it aims to identify and assess procurement efficiency opportunities across NR.

The report identifies some key dependencies required to deliver the full opportunity. Some of these are familiar from the previous reports such as: planning uncertainty; scope changes; category management; insight into supplier activities and cost drivers; understanding how different functions of the business impact each other; processes to capture and compare work cost elements; deeper skills; and cross-functional working.

AT Kearney also identify themes that will have a bearing on longer term efficiencies. These include the balance between silo and cross-business organisation structure; whole life costing; strategic supplier management; widening and developing the supplier base and in-sourcing/outsourcing. By implication AT Kearney are saying that these dependencies and themes have yet to be fully addressed at the time of the report.

AMCL, "Best Practice Review", 2007

The AMCL report was commissioned by ORR and the work was done in 2006. It is different from the preceding work as it looks at NR from an asset management perspective. By comparing NR with a proprietary Asset Management Excellence Model it aims to highlight gaps between NR and world-class asset management.

The report provides some potential cost savings that could be achieved by getting closer to the world-class standard, but this is given less prominence compared with the earlier reports. The report concludes that NR's asset management maturity is at least comparable to that of other major infrastructure owners in the UK at the time.

It is more difficult to compare the AMCL report with the previous ones because the language and methodology are different. However, AMCL measures NR in 20 areas and shows the relative maturity of each. While many of the areas scored favourably, some of the activities with lower (i.e. less mature) scores have some resonance with earlier findings.

For example, Asset Management Plans is amongst the lowest maturity scores at the time of the report. However, the low score appears to be a reflection of the quality and completeness of asset plans rather than a comment on robustness or uncertainty.

Asset Maintenance, Asset Costing and Accounting and Asset Data and Knowledge all have relatively low scores. The weaknesses within these activities appear to be inter-related. For example, problems with information systems seemed to be frustrating efforts to capture maintenance unit costs which in turns hampers work to develop and manage whole life costs. The problems reported with data quality and extraction echo the findings in the earlier McKinsey & Co report.

Another relatively low scoring activity was Contract and Supplier Management. The weakest areas within this activity were concerned with assessment and management of supplier performance. The same issue was identified by all previous reports. However, AMCL noted that a new system for recording and reporting on supplier performance was under development (SAMS).

Some interesting points are raised in the Organisational Structure and Performance activity. AMCL identifies that below top management level, responsibilities are less clear, processes are more informal and there is less likelihood of cross functional collaboration except in the most directly related activities. The mixed quality of the information available to support decision making is again highlighted as a problem.

AMCL also reports that the launch and implementation of change has not traditionally been well handled in NR. The need for new tools to measure and manage culture change is also identified as a requirement. It is noted that work was being done on this but had not progressed far.

AMCL, "Best Practice Review Update", 2009

AMCL reviewed NR again in 2009. This report quantified the progress to date by measuring NR in similar activities and comparing the scores with those achieved in 2006 and with an anticipated improvement level that was set in 2007 (the asset management vision).

At this stage the score achieved for Asset Management Plans had improved although some problems are reported. In particular, cost efficiency assumptions made in the SBP were not achieved and so planned work volumes proved to be unaffordable.

The scores for Asset Costing and Accounting, and Asset Data and Knowledge had both improved. A number of successes with asset information systems are highlighted, such as the RDMS system. The report also notes that the asset information and asset systems workstreams due to start in 2008 as part of the Asset Management Improvement Programme were delayed due to being moved into the Transformation programme.

The report identifies maintenance delivery as one of the activities which has improved the most. Changes in information systems are highlighted as one of the main reasons for the improvement. Specifically development of Ellipse and use of hand held computers in signalling.

For the Contract and Supply (Chain) Management activity NR's score stayed approximately the same. The report notes that a major re-organisation of commercial strategy was underway but it was too early to gauge the impact of the change. The report identifies the Gateway process as a key development but notes that it would be a year or so before NR has the trend data it needs to evaluate contract performance.

Compared to the review in 2006, stronger controls and greater transparency of the commercial process had been achieved. There was also a greater degree of flexibility in the way contracts were being developed with suppliers.

With respect to Organisation Structure and Culture, AMCL reports good progress since 2006 to bring top tier managers up to speed with the organisation's cultural aspirations. However, the report identifies that these aspirations are not fully articulated or being reinforced sufficiently amongst managers at other levels at the time of the report. This is the same point that that was made in the 2007 report.

The report also identifies that NR relies heavily on cascade techniques for disseminating information and as a consequence the messages that people receive are shaped by the personal styles, knowledge and experience of managers. Other than the results of the Q12 surveys, there appeared to be little reliable feedback on how well managers are doing.

AT Kearney, "Assessment of Excellence in Procurement (AEP Study)", 2010

AT Kearney reviewed NR again in 2010. The report follows the same methodology as the 2007 work and examined the extent of progress. The report identified "considerable improvement" in the intervening three years. Some of the biggest improvements are reported in Operating Process Management and Category Management.

The report also identifies various initiatives which had been completed since 2007 or were on-going at the time. The completed ones include initiatives in: Commercial Strategy; Supplier Account Management; Supplier Performance Management; and Learning and Development.

Recommendations for improvement are made in a few areas including Category Management, Supplier Management, Performance Management and Human Resources. However, these appear to be mainly of a "further development" nature rather than fundamental issues.

Atkins, "Asset Management & Supply Chain Management Assessment of GB Rail", 2011

The Atkins report was commissioned by the Rail Value for Money Study and the work was undertaken in 2010. The report is different from the preceding ones because it examines the whole industry. However, the findings on infrastructure contain relevant points about NR.

The report does not make reference to earlier reports but does pick up on some similar themes. There are several familiar issues, although in most cases the report identifies that work is at least underway to try and resolve them.

For example, poor planning and visibility is identified as an issue but the report acknowledges the on-going work in the Efficient Project Governance Initiative to try to lock down remits. It is also notes that centralisation of access planning and planned reduction of the access planning horizon should mean that designs are more robust at time of booking.

Maintenance productivity is identified as an area in which there had been some recent improvement. This is a long standing issue that goes back to the very earliest reports that we reviewed. At the time, recorded productivity was targeted at 60% and tracking at 53% for FY 10/11. However, it had been as low as 37% in FY 09/10, so the improvement was relatively recent.

The reports highlights how the recent investment by NR to bring more design work in-house was enabling integrated designs to be produced from the outset of projects. This was helping to resolve the problems caused by NR's historically disjointed approach that had resulted in poor scoping, redesign and re-work and led to increased overall costs. This is one of the issues identified by McKinsey & Co and Accenture.

NR's slowness to adopt new innovations is also identified. The nine years that it will have taken to introduce the Modular Switch concept when it is fully implemented by 2013 is provided as an example of this problem. However, the report identifies a renewed vigour to innovate by NR with some recent success including Building and Civils GRP products, helical piling, combined heat/power schemes, polystyrene embankments and platform infills.

The issue of information systems is also raised. The reports identifies the large number of discrete asset information systems in use at the time as a potential problem and notes the ORR's concern over the extent of paper based systems still being used.

The report identifies that NR had recognised a number of issues in its Contracting and Procurement processes. For example, inflexible governance processes, unclear consequences of poor performance, unaligned processes, post contract award changes and asset performance management. According to the report it was evident that significant changes had been made by NR in the previous 18 months. These include improvements to the strategic sourcing process, introduction of category management and a strategic supplier account management system.

Maintenance cost management is identified as an area with further potential. The report acknowledges that NR had made significant investment to gain a clear understanding of maintenance unit costs and cost drivers. Poor coding was identified as one of the main issues. The report notes that while good progress has been made there was still some way to go.

The report identifies NR's overly convoluted and onerous tendering process as an ongoing issue, with several contractors suggesting that this remains a problem. The reports identifies that the issue had been recognised by NR and will be addressed as part of the Efficient Programme Governance initiative within the Transformation Programme.

The report includes an acknowledgement from NR that further development work is required to embed good asset management practice at the coal face of the business with the local delivery teams, correcting local work practices/workarounds as a result of unclear output requirements, addressing cultural issues and enabling trade-offs between asset types. The importance of maintaining momentum and improving competences are also acknowledged.

There is a reference to recent major organisational changes in NR aimed at standardising the way things are done but the report notes that the majority of these changes are still in their infancy.

NR Transformation Programme Update Presentation

We reviewed the Transformation Programme from an update presentation provided to the Rail Value for Money Study.

From the limited information we have, the Transformation Programme appears to be tackling many of the themes which have been highlighted in earlier reports.

In particular, the process-led organisation links very strongly to the recommendation in the McKinsey report to realign investment delivery processes from planning through to implementation and change the organisation structure accordingly.

The project strands within the programme also appear to reflect several of the issues which have been repeatedly identified in various reports.

For example, the Efficient Project Governance strand aims to achieve faster, slicker end to end processes, reduced bureaucracy, avoidance of man-marking and excessive reporting, better process compliance, reduced contractor overheads, reduced uncontrolled project scope changes and reduced claims. These were all highlighted in the earliest reports.

Workbank Planning is another project that resonates strongly with previously reported issues. The project aims to lower the cost of unit delivery and reduce access disruption by smoothing and stabilising workload to maximise labour and plant utilisation, reduce levels of aborting plans and associated development costs, increase lead time of confirmed work for contractors, and increase planning horizons to reduce level of change within the forward workbank.

Modular switches and crossings appear again in the Transformation Programme as a project strand. The slowness with which NR is able to adopt new technologies is identified in several of the previous reports dating back to 2000. Modular switches and crossing has been used as an example of this issue on several occasions.

Access planning is another issue that has been identified for several years. There is a project strand in the Transformation Programme dedicated to this topic.

The same applies to maintenance workforce productivity and utilisation. This issue has been repeatedly reported and has a dedicated project strand in the Transformation Programme. Standardisation of delivery methods, using Lean techniques, improving unit cost information, better works planning, simplifying the planning process, making the best use of available working time in possessions are also issues which are mentioned in some of the earliest reports.

Overall assessment

From the reports we have reviewed there are many issues which NR has taken a long time to make demonstrable progress with. However, the rate of progress appears to have increased significantly since 2008, with much more achieved since then, than in the preceding years (See Figure 1). It is not possible to say whether this is the result of the cumulative efforts of the preceding years or more recent management action.

Figure 1 Issue Timeline

	Year			
	00	03	07	09/10
Planning uncertainty	■	■	■	▢
Protracted design/development	■	■	■	▢
Cost escalation during implementation	■	■	■	▢
Site management/productivity	■	■		▢
High costs of tendering	■	■		■
Supplier performance management	■	■	■	▢
Total costs of ownership	■	■	■	▢
Access planning	■	■		▢
Unit and target costs	■		■	▢
Slowness to adapt new technologies	■	■		▢
Category management	■		■	▢
Information systems	■	■	■	▢
Skills and competencies	■	■	■	▢
Process led organisation	■		■	▢
Culture change	■	■		■

■ Remains an issue

▢ Remains an issue but evidence of improvement

The illustration does not provide an exhaustive list of the issues being addressed and the pace of change is not completely uniform.

From our detailed review it seems that many of the longest standing issues are those which are closest to the coal face of the business and require the most amount of behavioural and cultural change to deliver.

Arguably they also represent some of the most complex processes in NR, with multiple stakeholders and many interrelated issues that need to be addressed while at the same time continuing to deliver the service.

If this is the case then it means that the toughest challenges of the Transformation Programme are yet to come as it moves from top-down initiatives to the detailed work of changing how the day to day operations are managed.

5 Comparison with Best Practice

This section describes the results of our comparison of NR's Transformation Programme with a best practice framework for change enablement.

Comparison with best practice framework

Our knowledge of the NR Transformation Programme is based on reviewing slides from a progress update presentation and a short meeting with the NR Director, Corporate Development. NR also provided us with a copy of the communications toolkit used by their managers to brief their teams. Our knowledge is therefore relatively limited.

However we have compared what we know with an experience-based, best-practice framework. This is illustrated below.

Best Practice Change Enablement
Determine organisation's readiness and case for change
Articulate compelling vision for change
Build leadership capacity and stakeholder involvement
Deploy two-way, multi-audience communications strategy
Build individual and team capacity to change
Design change architecture – address coordination, involvement and transition
Align culture and change process
Align organisational design, performance management and HR systems

To make the comparison we have subjectively assessed the NR Transformation Programme against the framework. Our assessment for each element is described below.

Determine organisation's readiness for change

We have no information available regarding the extent of work that was done to assess the readiness for change within NR. However, the case for change does appear to be well developed. The logic is very straightforward. The NR Directors believe that the organisation must change or it will not achieve its financial and performance objectives. There is considerable evidence to support this assertion in the reports that we reviewed in Section 4.

NR also appears to have done the necessary work to ensure that the case for change is clearly understood by all stakeholders and that people feel supported enough to make the change happen. The two-way conversation with top managers, the Promise and Principles tour and the resources provided to enable managers to cascade the message, are all examples of the good work that has been done to communicate the need for change. The results from the staff survey suggest that the message has been accepted and taken on-board by NR's people.

Articulate a compelling vision for change

The vision for the transition also appears to have been well developed. The Promise and Principles provide a clear focus for what the organisation is trying to achieve. They also provide a vision of what the organisation wants to become. This is communicated in a practical, easy to understand way, that speaks to everyone in the organisation.

NR's vision for the future also includes major changes in the way it does things. In particular the desire to create a process-led, cross-functional organisation. This will have a more direct impact on people than simply signing up to the Promise and Principles. It remains to be seen how well this change will be accepted and how consistently it will be interpreted in practice. However, NR can argue fairly that they have done the necessary work to achieve a consistently understood and shared vision for the future.

Build leadership capacity and stakeholder involvement

NR has invested considerable time and effort in aligning its leadership with the business vision. The change was led visibly by the CEO. The Promise and Principles were developed in a dialogue with the top 100 managers and then rolled out in a similar process to the next 350 managers. From the information we have, it is reasonable to assume that these managers now own the vision and accept responsibility for driving it forward.

It is not enough to simply own the vision in an emotional sense. The managers also need to have the skills to drive the change. NR has created an Executive Leadership Group (ELG) and Senior Leadership Group (SLG). These people have been selected according to their ability and commitment to NR, and the vision for change.

It would be unusual if all NR managers were found to have the necessary skills and aptitudes to drive the transformation. We have no information on the numbers of new managers who have been brought in or people who have exited the business because they do not match the new requirements. However, we do know that management layers have been streamlined with the loss of 520 posts.

Deploy two-way, multi-audience communications strategy

NR has undertaken a major exercise to communicate the Promise and Principles to senior managers and staff. This has included consultations with top 100 and top 350 managers and the cascade of information from these managers to lower levels of staff. Managers have been provided with a toolkit to help them communicate the message and facilitate a two way conversation about what it means.

We are advised by NR that this communications process is on-going, with further business briefings planned. However, we do not have the full details of what this involves.

Build individual and team capacity to change

At this stage the main action taken by NR to increase peoples' ability to enact the business vision is the creation of the National Centre, which we understand is due to open in 2012. This has been developed primarily to facilitate cross-functional working and support culture change.

In addition to the National Centre, we understand that there is work underway to re-design business processes and align them with the vision. This is being led by operational managers, presumably because they understand the complexities and need to have full ownership of the outcomes. The results of this work should further strengthen people's capacity to change.

Design change architecture – address coordination, involvement and transition

NR has developed and delivered a well structured Transformation Programme involving people throughout the organisation, including the most senior executives and managers. The programme covers all aspects of the business. The project strands are coordinated and consistent with the overall vision.

It is also important to have a means of measuring progress, particularly with culture change which NR see as critical to achieving their financial objectives. NR have adapted the existing staff survey to incorporate feedback on the Promise and Principles. It may be appropriate to develop a more detailed way of measuring culture change.

<u>Align culture and change process</u>

This element of the best practice framework concerns work to develop new cultural values and behaviours appropriate to the business vision. The Transformation Programme has comprehensively engaged with the top 350 managers and provided the tools and resources for this engagement to extend throughout the lower levels of the organisation.

The next phase of the change process will be led by the operational managers, which is appropriate. However, we do not have any detailed information about how these managers intend to embed the desired behavioural changes beyond what has already been achieved.

<u>Align organisational design, performance management and HR systems</u>

NR has taken major steps to align its organisational design with the business vision by creating the process led organisation structure. This is designed to remove functional silos and create collaborative working. We understand this new structure was developed through detailed internal consultation and scenario testing.

From discussions with NR we also understand that HR systems for recruiting, training, assessing, measuring and rewarding people have been or are being changed to align with the business vision and facilitate desired behavioural changes.

Comparison with Highways Agency Transformation Programme

To add a further dimension to our assessment of NR's Transformation Programme we have compared it with a similar initiative which has been underway in the Major Projects Division of the Highways Agency (HA). Our information on the HA programme was obtained in a meeting with the HA Director of Major Projects in March 2011.

Whether the HA programme can be considered best practice is a matter of opinion. However, it addresses some very similar issues to those being tackled by NR and is generally considered to have been a successful programme. It is certainly credited with having enabled HA to negotiate a better than expected settlement for the major capital element of its next strategic review period (SR10), which starts in April 2011.

The HA programme started in 2008 and is considered by HA to have been completed. The programme was a response to the Nichols review which had been commissioned by the Government following criticism by the National Audit Office and the Public Accounts Committee of HA's capital delivery performance.

The Major Projects Division of HA is different from NR in many ways. For example, it is smaller scale and operates a thin client model with heavy reliance on third party consultants and contractors to deliver road schemes. It has 350 full time employees but delivers a £1bn per annum investment programme.

Many of the issues within HA at the time were similar to those reported in NR. The themes tackled by the programme are familiar from the NR reports. These include: planning certainty, speed of investment delivery, escalating costs during project implementation, supplier performance management, contracting strategies, category management, lean methods, skills and capabilities of people, modular solutions, unit and target costs, standardisation, information systems, culture change and more.

At the time of the Nichols review, HA was piloting the concept of Managed Motorways as a way of adding capacity to the network. Historically the emphasis had been on road widening as the main means of increasing capacity to meet economic growth. The emphasis is now on motorway management; using technology to manage the capacity of the road network by controlling traffic flows.

This change provided the opportunity to shorten the time taken to deliver schemes. For example a typical road widening scheme takes up to 12 years including a lot of time spent on statutory consultation. HA managed motorway schemes typically take 3-4 years and are more likely to be about implementing major capital schemes such as new traffic information technology.

This change also provided a positive context for HA's transformation programme. For example, solutions and delivery processes could be commoditised to a greater extent. This then makes development of standard solutions and target costs more feasible. However, the change demanded a move away from silo working to much greater cross functional collaboration. The culture and processes of the organisation had to be transformed to make this happen. A very similar situation to NR.

The approach taken to the programme was similar to that being taken at NR, although there are some subtle differences of emphasis. As a result of the Nichols review, a number of senior managers exited the business and a number were also recruited from outside the public sector, but we are not aware of exactly how many.

As part of the programme a lot of training and development was provided to managers and staff. This covered programme and project management as well as commercial skills. People were assessed and scored against the new requirements. They also had to re-apply for their own jobs. Those with the wrong skill-sets were re-deployed to other parts of the business where their skills could be better utilised. Again, we have no specific information on how many were affected.

A "Road Academy" was also developed in collaboration with Warwick University to develop the industry leaders of tomorrow within HA and its supply partners. The Director of Major Projects told us that, in his view, a willingness to strengthen the Major Projects leadership team (to enhance both delivery and commercial capability) was a key factor in the success of the programme.

The HA executives leading the programme spent a lot of time engaging with suppliers. Approximately 30% of the Director of Major Projects' time was spent ensuring that suppliers took their share of responsibility and were bought into making the necessary changes in their own organisations.

A library of unit costs was developed and this was used to set tough target costs for suppliers to reach. This then fed into work to develop leaner more efficient delivery solutions and processes. Standard solutions were developed, including modular components which are tested off site in order to cut down on-site installation times. For example, gantries now take 12 minutes to install using rolling road blocks.

Overall assessment

From our review of previous reports, the Transformation Programme is tackling all of the main issues facing NR. It also compares favourably with our best practice change enablement framework. It is well conceived, well structured and comprehensive. It is also making good progress.

It could be argued that some of the toughest challenges are still to come. In particular, re-designing very complex and involved processes and permanently changing behaviour and culture at the coal face. However, that is not to devalue the good work achieved to date.

The Transformation Programme is being done in a similar way to our benchmark example in HA. The main difference is that the HA programme seems to present a more forceful and tougher approach. For example, there is more evidence of people being evaluated and replaced where necessary. Also, stretching target costs have been developed and imposed on suppliers in order to force innovation and collaboration.

We raise this point as a constructive comment. It is up to the Directors and Managers of NR to set the right tone for the Transformation Programme according to their more detailed knowledge of the organisation and its people. The ability of NR to adopt a more forceful approach if required, is not in question.

6 Conclusion and recommendations

In this section we present our conclusions and recommendations from the review.

Conclusions

The current management of NR, including the outgoing CEO, have made good progress in tackling many complex supply chain and investment delivery challenges. Looking ahead, the Transformation Programme is well conceived and is tackling the right issues. If it continues the way it has been going, there is a high likelihood of success.

Having said that, some of the toughest challenges are, arguably, yet to come. In particular, re-designing complex processes and changing behaviours and culture at the coal face. We agree with NR that culture change is essential to achieve its business objectives.

For this to happen quickly enough NR may need to adopt a more forceful stance. The Transformation Programme has been presented in an inclusive way that invites people to make the change happen. However, it would be unusual if everyone was able to adapt to the new demands.

To achieve its targets NR may have to replace those that are not willing or able to change, including employees and suppliers. While there is evidence of this happening at the early stages of NR's existence, more work is needed to investigate this aspect of the Transformation Programme more fully.

There are also risks to be managed. In particular the outgoing CEO was synonymous with the programme and the baton needs to be passed on seamlessly. We have been assured by NR that this is happening and that the new CEO fully supports the Transformation Programme.

Responsibility for the change has passed from the CEO and Corporate Development Director to the Operational Directors. NR needs to avoid any sense that the "work is done".

The new vision for the business needs to be dovetailed with the move to a decentralised structure. Management need to demonstrate how the two initiatives are aligned to prevent people from abandoning the promise and principles.

Many of the supply chain and investment delivery issues being tackled by the Transformation Programme were identified over 10 years ago. Much of the progress that has been made has been achieved in the past three years. This may be because NR were working on other priorities, such as bringing the maintenance organisation in-house. It may also be a result of cumulative efforts up to then. Either way, NR cannot allow the pace of improvement to drop back to the 10 year average.

Despite culture change being seen as critical to NR's success, it has not been monitored historically by the ORR. If the ORR wants to be confident that NR will deliver CP4 and beyond, culture change should be on the regulatory agenda.

Recommendations

Given these conclusions we can make the following recommendations:

- Undertake further work to understand how detailed process re-design and behavioural change is being addressed going forward.

- Examine the impact the change is having on NR's people and what the business is doing to ensure their capabilities are aligned with the new requirements.

- Examine NR's plans for ensuring the Promise and Principles and the concepts that underpin the Transformation Programme are transitioned to the new CEO and the decentralised structure.

- Consider closer monitoring of progress with culture change in future.