



State-Owned Enterprises Under Pressure: Leading to Transformation

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There was a time when tough market pressures to perform and deliver results were a hallmark of privately owned businesses. We have reflected on this in recent years, as some of the most daunting business challenges we have helped clients conquer have actually been in state-owned enterprises (SOEs).

The emphasis is on enterprise

Increasingly challenging deadlines, demands to demonstrate return on investment, and intense public scrutiny are no longer the preserve of private companies. The uphill battle for some SOEs can be steep, often with aging assets, residual legacy cultures, gaps in the next rungs of leadership, and systems and processes not suited for the current reality.

There can be precious little glory in getting the job done right in an SOE, and a common pitfall is to stay on the defensive. But there is great opportunity in the realities faced by publicly-owned corporations.

JMW has worked in all regions of the world with SOEs in a range of industry sectors including air traffic control, road, rail, defense, water and power—and we have seen these organizations triumph. The first step in their success stories is embracing the challenge of underperformance.

Common aspects of the environment that often need to be tackled in these types of enterprises include:

- An emphasis on process over performance
- Blurred accountabilities
- People not feeling empowered to make decisions
- Challenges serving different masters (e.g., customers, regulators, government departments)
- An environment of “this too shall pass” or “this can’t be done because it hasn’t been done before”
- Sometimes a sense of entitlement among a long-serving workforce

Perspective can save the day

An example comes from the water industry, a sector increasingly under scrutiny globally. In 2012, on the heels of the worst drought in Australia’s history, we began working with the newly appointed Managing Director of one of Australia’s largest rural water corporations. The Board had been very publicly dismantled and a major irrigation infrastructure project had been handed off to the organization.

“Part of what the leadership understood is that publicly owned organizations are increasingly expected to perform and deliver the way private sector entities are expected to,” explains JMW consultant Conrad Amos. “They also understood that we would encounter resignation, as well as low points, but with each low point, we looked at how to build from there.”



A new context is required

Certainly there is now an awareness in many SOEs that well-worn cultures have to shift. But organizations tend to approach these kinds of challenges with processes and systems and structural adjustments. However, systems, processes, and structures don't cause changes in peoples' thinking, behaviors, and actions.

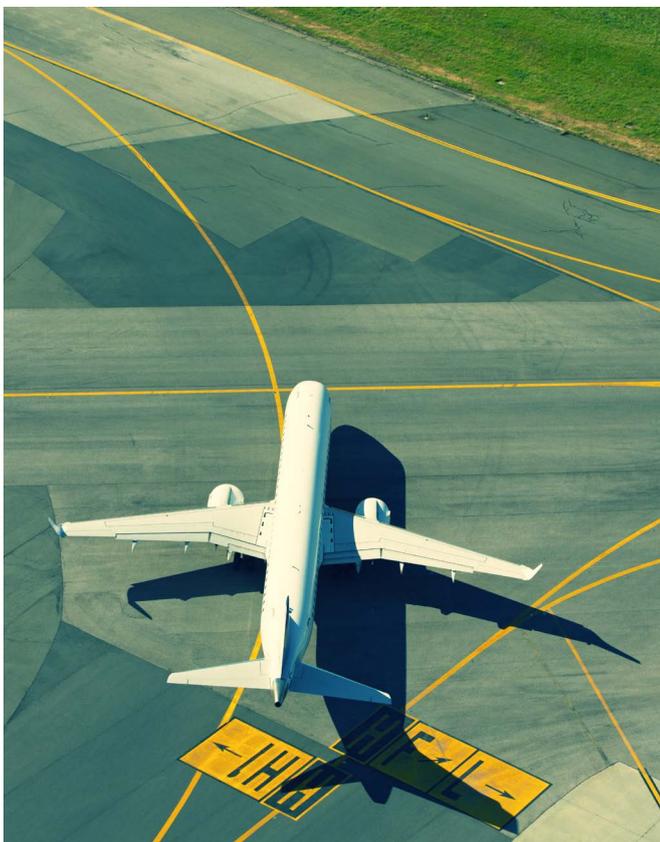
What does? A new context. With a new lens, people will begin to think, behave, and act in a way that causes different and strikingly better results than was predictable previously.

For instance, when it comes to matters such as collective bargaining agreements, a sense of the future and commerciality is required. Should a railway union push for an 8% pay increase at the risk of losing headcount? Or should they stay at 2.5% and keep the headcount status quo? There needs to be a shift in some cases between an entitlement culture and one that has more of a commercial orientation. We saw that happen with a railway client, where seemingly immovable railway men ultimately became engaged as players in the change afoot, not blockers.

There's no easy recipe for this kind of step change, but we know the key ingredient is leadership—leadership that creates a new context.

Leadership, not evolution

There is a difference between an organization that has evolved versus an organization that has been led somewhere.



Winning the “hearts and minds” of the people in the organization is required if the needed shift is going to happen. As Deborah Kiers points out: “With hearts and minds, there’s nothing formulaic about it, there couldn’t possibly be. It comes down to real and difficult dialogue and people confronting the reality they are facing. When that happens, eventually people create a ‘pull’ for change, as opposed to pushing it out to them.”

Consider the case of NATS, a public organization in the UK that had been reconstituted as a public-private partnership in 2000. The aviation industry downturn after September 11, 2001 led to a financial restructuring of the organization, followed by the critical launch of a 10-year £1 billion investment program and a complete renewal of its radar network.

Then-NATS CEO Paul Barron was in truly uncharted territory, but knew there was no time to waste in setting a new course. Looking back, one could say that NATS was at the brink of disaster. But the organization would emerge five years later with accolades as the industry’s premier provider—after turning its first profit ever, increasing 700% in share value, and delivering its first-ever shareholder dividend.

So what happened between Point A and Point B?

As Barron aptly puts it, “Transformation was the key word here. There’s also an approach, and an attitude of mind, which is borne out of civil service or government bodies, that doesn’t exist in the same way in the private sector. And transformation is far more than just making incremental change. Transformation means that somebody wants it to look and feel completely different and deliver a completely different result.”

There were inherent ways of doing things that had to change, and we worked with Paul to engage senior leaders in a training and development plan that offered—for the first time—a clear vision of where the new organization was heading. We had to liberate and inspire the people who were on the hook to deliver the most ambitious objectives of the organization’s history. After that came the heavy lifting of engaging managers and line supervisors, until nearly 200 of them had completed the leadership program, becoming integral ambassadors in the turnaround effort.

Transforming in real life

In the rare instances where legacy organizations can be brought back to life with a new identity, it starts with a lot being on the line. Those we have seen rally this way underwent radical change under expectations considered nearly impossible, and all very publicly. Their senior teams had to step out of their familiar style of managing and develop expanded leadership capabilities. Seasoned managers at the height of their career were compelled to call into question the established ways of thinking and acting that had propelled them to success in the first place.

Also unique to these successes is the determination to go down two parallel paths, building capability, culture and environment on one hand and delivering results on the other. That is what typically leaves you with a sustainable capability for extraordinary performance. It’s not about development for development’s sake. It’s not about results for results’ sake. You really have to advance both parts of your world simultaneously.

Finally, such endeavors are no small matter. And the change isn’t always pretty. From our experience, it is predictable that problems and difficulties to be dealt with will be in proportion to the complexity and magnitude of the desired future and the transformation required to become world-class. The larger the gap between today’s reality and the performance outcomes which define world-class, the larger, more daunting, more frustrating, and undesired the problems will be. And the more extraordinary the victory will be.

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