

Advisory Alert: Turnaround “apps” for the public sector

Introduction

In an age where problems have become increasingly complex, the need for more sophisticated and practical solutions has become the priority. Nonetheless, solutions can also come in simple and cost effective ways such as “apps”.

Government leaders, too, are looking for solutions: they need the turnaround solutions that will restore fiscal stability, stimulate growth and solve government problems. Puerto Rico is no exception to this need. With the major economic and public policy challenges faced, the government now more than ever has the need for pragmatic solutions that would turnaround the current situation.

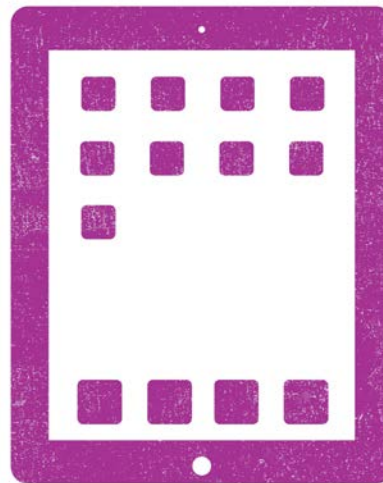
Grant Thornton has developed a whitepaper describing some turnaround “apps” — proven successful models in the corporate world — that can be applied in the public sector with relative ease.

The platforms

A successful restructuring process calls for a clear action plan. Restructuring activities must be objective and analytical – in other words, apolitical. Nevertheless, to be successful, an appreciation of the political landscape is required.

Despite the fact that every restructuring project is unique and must be approached with a fresh perspective, there are some main components or applications that together, create a strategic framework for executing turnarounds in the public sector.

- Strategy
- Operations
- Finance
- Leadership



When executed, this set of “apps” offer government officials the structure and tools to work towards achieving fiscal stability, stimulate growth, address priorities and resolve complex economic and service issues in their respective political environments.

It is crucial to emphasize that there is neither a shortcut to success nor a one-size-fits-all solution. Focusing only on one aspect of the framework will not result in a sustainable solution. Likewise, leadership will not sustain by itself without the thorough and balanced application of the other components.



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Strategy platform

The corporate world and governmental institutions share one trait alike: they both have a mission. In the case of government, its mission is defined in local charters and constitutions. Government leaders interpret the mission and establish strategy by setting forth public policy projects but still, government units “need to adopt corporate-like strategic planning in order to allocate scarce resources and manage constituents’ expectations most effectively.”

Strategy app #1: Determining core services

Defining and prioritizing a government’s necessary and not-so-necessary services should be at the center of any restructuring effort. Governments need to first engage in a strategic assessment of those services they must provide and those that choose to provide. In the case of those services mandated by either law or public policy, the scope or extent of the services (to what level) shall be determined.

Strategy app #2: Core competencies and priorities

Analyzing the many tasks within the activities that government provides exclusively or its core competencies, such as public safety and public works, helps prioritize scarce resources.

The effectiveness of these programs and core competencies is evaluated based on empirical metrics. Essential programs particular to a community or proposed initiatives must face the scrutiny of prioritization such as: the annual cost of the program, how many jobs it provides in the community, will it help improve general population indexes, what are the opportunity costs of not providing the program, and is there an alternative to it.

In addition, services that are “nonessential but enriching for the community” can provide an opportunity for a government to perform like a business. Therefore, allowing it to generate

profits from these services and create more benefits for its constituents.

Operations platform

Managing an effective operation is essential to a government unit. As with any organization, efforts must be placed towards those activities that the organization has determined as core to its purpose and support its strategy. Operational improvements include a wide variety of elements; including among others, organizational and process design.

Operations app #1: Scope of service

What are the fundamental tasks of the given program or service? Analyzing a government agency’s depth and breadth of programs and services enables choices to be made that allow an organization to stay true to its mission while identifying services that can be pared down or consolidated.

Operations app #2: Organizational design

The organization of employees can have an enormous impact on the economic efficiency of a government unit. Thoughtfully and selectively de-layering the organization can flatten the hierarchical or vertical structure, simplifies the decision-making process, improves morale, cuts expenses substantially, creates better communication channels and increases overall efficiency.

Operations app #3: Process design

Process design considers how services are performed. Significant expense savings may be achieved by streamlining and consolidating processes through various techniques such as developing technology solutions, combining similar tasks and outsourcing functions. This is commonly known as “business process reengineering”.

Operational improvement decisions must be based on “data and analysis” not on political choice. A single set of data must be available to all stakeholders.

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Finance platform

Financial distress is considered as the primary reason for the need of a restructuring process. Structural imbalance between revenues and expenditures in the general fund is the government equivalent of unprofitable operations in the private sector.

Statutory requirements for a balanced budget which prohibit unbalanced operations, requirements have found ways to be met through funding current operating losses with long-term debt.

Finance app #1: Long-term financial planning

Government entities and distressed businesses often share the absence of long-term financial plans. Long-term planning forces government leaders to foresight; think beyond the next election cycle and anticipate economic challenges that may arise, which in turn will lead to an appreciation for developing contingency plans and establishing cash reserves.

Transparency is often considered a challenge within public finances and “readily understandable financial reporting”. It is recommended to institute “clear and consistent information based on generally accepted accounting principles” which in retrospect allows a more democratic and organized planning process.

The Government Finance Officers Association wrote about building a financially resilient government through long-term financial planning¹ and referenced Jamais Cascio, a senior fellow at the Institute for Ethics and Emerging Technologies, who

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<http://gfoa.org/sites/default/files/GFOABuildingFinanciallyResilientGovernment.pdf>

identifies the following eight essential characteristics of any resilient system:

- Diversity – Avoid a single point of failure or reliance on a single solution
- Redundancy – Have more than one path of escape
- Decentralization – Centralized systems look strong until they fail catastrophically
- Transparency – Share plans and preparations, and listen when flaws are pointed out
- Collaboration – Work together to become stronger
- Falling gracefully – Failure happens
- Flexibility – Be ready to change when plans fail; do not count on stability
- Foresight – Think and prepare



Finance app #2: Cash flow planning

Understanding liquidity in the context of government operations is important to ensuring that essential activities can occur without interruptions. A heightened sense of importance around working capital management is of critical value. A rolling 12-month cash flow forecast, much like the 13-

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week rolling cash flow tool used in the private sector could help government officials achieve an effective use of working capital.

Leadership platform

A successful turnaround requires a strong leadership guided by the values of courage, decisiveness, credibility, tolerance, persuasion and an unwavering commitment to achieve the most good for the most constituents.

Leadership app #1: Turnaround coach

In private sector turnarounds, an “outsider” with no stake in the outcome of the restructuring other than to create stability and return the business to profitability is often brought in. But an elected or appointed government unit leader cannot simply cede authority to an outsider; but he or she may do well to hire an “auxiliary authority” in the form of a turnaround adviser who can rise above political considerations and stay focused on strategy, operations and finance.

Having a turnaround advisor who assists government officials by providing unbiased advice can help government leaders stay focused on strategy, operations and finance separate and apart from political considerations. Moreover, an experienced outside adviser can ensure that the fact gathering and data analysis process, an important component in reaching agreement on restructuring activities, is done in a way that avoids political tinkering.

Leadership app #2: Pain sharing

Reaching consensus in a turnaround can be difficult and normally requires each party to agree to concessions for the sake of the greater good, a process known as “sharing the pain” in restructuring industry parlance. While the public sector is not always incented to “share the pain,” if the goal is to effect lasting and permanent change in a difficult situation, taking a strategic approach to prioritizing

programs and services and implementing a give-and-take approach in negotiations, can yield a successful outcome.

Conclusion

The ever increasing complexities of governing and economic markets require a new, fresh and unbiased approach to leadership. But the expectation that “new problems can be solved by continuing to repeat the standard operating practices of the past” will only result in frustration and turnaround “solutions” that do not benefit the most constituents.

The current system as it is calls for immediate action. Public office leaders must face, rather sooner than later, the fiscal crisis. The platform fundamentals of strategy, operations, finance and leadership provide a reasoned and structured framework to tackling crises as well as instituting necessary long-term changes.

To download a copy of the full white paper of the *Turnaround apps for the public sector*, please click [here](#).

Call us to make an appointment with one of our experienced advisors. We will be glad to assist you.



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