



## Supporting the Turnaround of Northern Rock – Case Study by Adam Pearce

Following a 'bank run', Northern Rock was taken into temporary public ownership in 2008. That year the new CEO, Gary Hoffman, commissioned SBU in partnership with DMA Consultancy to review the bank's organisational effectiveness. An aspect of our health check was to clarify how many layers Northern Rock had versus what it needed. We determined this via 50 interviews from the front-line to the CEO. We found that the bank needed 6 layers of employees yet had 11. Half of the leaders interviewed were in jobs that were not adding value to all direct reports or were themselves compressed by the job above. After briefing the CEO, we presented our findings to the Executive Committee in March 2009. We proposed a '5-6-7' organisation design with 5 Work Levels (each with accountability space for up to one layer of leadership), 6 employee layers, and a stretch target average span of 7.0. To resolve over-layering involving two Executive Directors, we proposed changes to the top structure such as the CEO taking Sales as a direct report. We argued that the bank's ~20 grades should be streamlined and aligned to the Levels of accountability. In April 2009, the Executive Committee agreed to apply our '5-6-7 OD Model' across the business and we began training managers in its use. We also provided a leadership competencies framework differentiated by the Levels. This was further developed internally, to help get buy-in, and became 'The Northern Rock Behaviours', a document shared with employees.

During the first half of 2010, we provided awareness sessions and extra training and helped senior line managers in workshops to redesign their functions. Our delayering approach was implemented across the whole business by autumn 2010, delivering ~£8 million a year in cost-savings by deleting ~120 leader jobs. Further jobs were removed by Northern Rock deciding to downsize the business. Because our approach takes out leaders not less-expensive front-line posts, delayering using our methodology offered over a third of the £21 million reduction in total staff costs from 2010 to 2011.

In parallel, the government decided in early 2009 to split Northern Rock into two entities. Ahead of the split being announced in June, we advised the CEO on the best top structure for each entity and whether BankCo and AssetCo would have the same number of Levels as the former Northern Rock. At this point, our earlier proposal for the CEO to take Sales as a direct report was actioned. A way was also found to remove over-layering affecting the IT Director. Despite a 65% BankCo/35% AssetCo headcount split, we determined that both entities would be Level 5. For AssetCo this reflected in part a government decision to merge AssetCo's 1,350 staff with 1,000 employees doing similar work in nationalised Bradford & Bingley. The legal split of BankCo/AssetCo was on 1 January 2010 with an operational split of staff on 1 November 2010. Our Levels based OD model was used where necessary to restructure, retitle and regrade all 4,500 jobs prior to the operational split. Northern Rock provided employees with a 'Work Levels Factsheet' in summer 2010 describing this.

In November 2011, BankCo was sold to Virgin Money for ~£1 billion. The sale was completed in January 2012, with the bank rebranded Virgin Money that year. Virgin Money had 417 staff versus BankCo's 2,417. So, initially, ~85% of Virgin Money's staff were structured in line with our OD model.

AssetCo is repaying the government's loan to Northern Rock from the £28.5 billion balance in December 2007. As at March 2018, this loan has been reduced to £2.7 billion.