

# Broadcasting Board of Governors

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## Grantee Merger Assessment

11/10/2011

This report has been edited to redact pre-decisional FY 2013 budget information. This budget information is strictly embargoed and may not be released until the President's budget is completed and transmitted to Congress.

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## I. Executive Summary

The Broadcasting Board of Governors (BBG) recently approved a strategic plan which included an initiative to explore the feasibility of consolidating the three grantee organizations Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), and the Middle East Broadcasting Networks (MBN) into a single corporate structure, sharing a unified administrative and legal framework. Deloitte Consulting LLP ("Deloitte") was tasked to do an assessment on the merits of this potential merger for the BBG from both a strategic and economic perspective.

The study included creating a definition of the integrated organization, understanding qualitative benefits and risks of integrating, as well as estimating savings and costs to implement. Further, Deloitte was tasked to develop the high level roadmap and potential timeline for the merger. Finally, Deloitte was tasked to summarize the considerations related to the potential integration of Voice of America (VOA) and the Office of Cuba Broadcasting (OCB) that were raised through the assessment.

### Key Findings:

- Today RFE/RL, RFA and MBN are three separate private 501(c)(3) organizations with combined resources of approximately \$240 million and approximately 2,000 full time employees and contractors. All have a common mission to act as a surrogate media outlet in countries that do not have an open media environment; additionally, unlike RFE/RL and RFA, MBN is charged with providing context about America, its people, and policies.
- Aside from Arabic services to Iraq, there is no overlap in language services among the Grantees, or in bureau locations. With just a merger of the Grantees, there is no potential to eliminate duplication of language services beyond that already planned. A combined entity framework can set the foundation for achieving substantial synergies with respect to the large overlap with VOA language services, which is unanimously supported by all Grantee Presidents.
- There are several potential benefits of a merger of the three grantee corporations:
  - It would serve as a first step in the execution of the Board's Strategic Plan that calls for consolidating and streamlining management and administrative infrastructure. A merger would create a single grantee management team which would facilitate coordination with the BBG in pursuit of its strategic objectives.
  - It creates more financial transparency and demonstrates to stakeholders that BBG leadership is committed to allocating resources as efficiently as possible and eliminating waste - potentially garnering support and trust.
  - It creates an enforceable structure for more formalized content sharing, advancing the Board's strategy to harness original reporting from across the language services to create a global news service with rich programming.
  - It creates resource savings over time with the elimination of duplicative administrative and technical infrastructures and pooled purchasing power (e.g., for equipment, services, and insurance). This is a key benefit in our current economic environment.
  - Positive reaction from Congress if new services, technologies and broadcast medium can be achieved without an increase to the top line.
  - Annual run rate savings of \$9M, or about 10% can be achieved on approximately \$90M of addressable spend which is approximately 38% of the aggregate Grantee budget. Savings could expand to nearly \$14M annually with aggressive facilities consolidation.

- Risks of integrating the Grantee corporations include:
  - Possible negative reaction from Congress if a merger of the Grantees impedes the flow of content to audiences.
  - Uncertain result of merging a partially unionized workforce with non-unionized staff.
  - A potentially broader impact of digital and physical security threats in a merged environment if not mitigated.
  - Potential disruption to current foreign business licenses and relationships in host countries.
- Over five years, the cumulative net savings from merging the Grantee organizations is estimated to be approximately \$30M to \$40M. There are cumulative savings of \$35M to \$50M available with one-time costs of \$8M to \$12M. The savings result from a small headcount reduction of approximately 45-50 resources, plus non-headcount savings related to sourcing efficiencies, and facilities and technology infrastructure consolidation. Longer term, there are opportunities for additional headcount reduction if facilities are more aggressively consolidated.

Conclusions: Deloitte believes that the merging of the Grantees does have merit, and does make sense strategically and economically. We heard in numerous discussions with leaders across the Grantees that current structure is a product of the evolution of the Agency, is not ideal, and would not be the logical approach if one were starting fresh. We agree with that perspective. The current siloed structure is not an optimal foundation for the new strategic direction envisioned by the Board.

From an operational perspective, we see no roadblocks that cannot be overcome. The vast majority (around 75%) of the resources of the Grantees are devoted to content and programming, so their day to day roles will not change. Merging the administrative processes, policies, and supporting systems will be no more complicated here than in any other merger of a similar scale.

In the current economic environment, continuing to operate three separate organizations with redundant executive management teams, administrative infrastructures, audits, etc. seems to be an inefficient use of taxpayer resources. The potential annual savings of \$9M to \$14M could be redeployed toward journalistic initiatives that advance the Board strategic vision.

As with any merger there are risks associated with the potential decline in employee morale. These can be mitigated by swift decision-making and a strong change management program. Delaying a decision about the path forward will create uncertainty which can dampen employee morale. In addition, delays will stall the advancement of the Board's strategic plan and cause the organization to miss out on significant potential savings.

The legal considerations related to the merger have been addressed through a separate initiative and are summarized in a separate report.

Recommendations and Next Steps:

- We recommend that the Board approve the merger of the Grantees, and proceed with the design of the new organization and the implementation planning. Based on a typical merger timeframe of about 6 months from a decision, we believe that the Board should target a "Day 1" in July 2012.
- To pursue the larger savings available by reducing duplication of language services, as noted earlier and broadly supported by Grantee leadership, we recommend commencing a study on

the feasibility, benefits and costs of VOA/OCB de-federalization, reportable at the Board's March 2012 meeting to explore 3 items:

1. The "quick hit" opportunities available from partially integrating some VOA/OCB operations into the Grantee structure without de-federalization. The objective of this study would be to identify initiatives that could be implemented in parallel with the Day 1 of the Grantee merger in July 2012.
2. The next tranche of opportunities that would become feasible in FY13 without de-federalization.
3. The feasibility of VOA/OCB de-federalization, including benefits, risks, and financial implications.

## II. Project Objectives and Methodology

Objectives and Scope: Deloitte was asked to develop an assessment of the pros and cons of integrating the three Grantee organizations, RFE/RL, RFA, and MBN, including a vision of what the integrated organization would look like, estimated savings and costs to implement, as well as qualitative benefits and risks of integrating. This effort did not include a detailed evaluation of the costs or benefits of integrating VOA or OCB services, nor did it address the scope of the functions provided by Technology, Services, and Innovation (TSI), Office of Marketing and Program Placement (OMPP), or Office of New Media, etc...

Methodology: To complete this process, Deloitte conducted interview and “blueprint” working sessions with over 50 individuals across the three organizations. Representatives of each organization were included in the blueprinting sessions to discuss the pros, cons, and vision for a potentially integrated organization. The following functional areas were addressed in these sessions:

- Finance and administration
- Technology (broadcast operations and IT functions)
- Human resources
- Communications
- Content and Programming

In addition to the collaborative working sessions and interviews, Deloitte reviewed key background material from each organization including but not limited to:

- BBG Strategic Plan
- Grant Agreements
- Budgets
- Inspector General reports
- Organization charts
- Web sites of each organization

At the request of the BBG, Deloitte visited the headquarters of each Grantee to see the operations, infrastructure and environments. Visits were made to RFE/RL’s location in Prague and D.C., MBN’s locations in Springfield, VA and Newington, VA, and to RFA’s location in DC.

Finally, Deloitte performed analysis drawing upon its prior merger experience and proprietary benchmarks to estimate potential synergies, risks, potential risk mitigation strategies, and costs to integrate.

### III. Current State

Currently there are three separate Grantee organizations operating as independent corporations. The mission of each is to provide full, accurate, and timely news reports in countries where that standard of news would be otherwise unavailable. In addition, MBN is charged with providing context about America, its people, and policies. Below is an overview of the language services they provide, their financials, headcount, and locations.

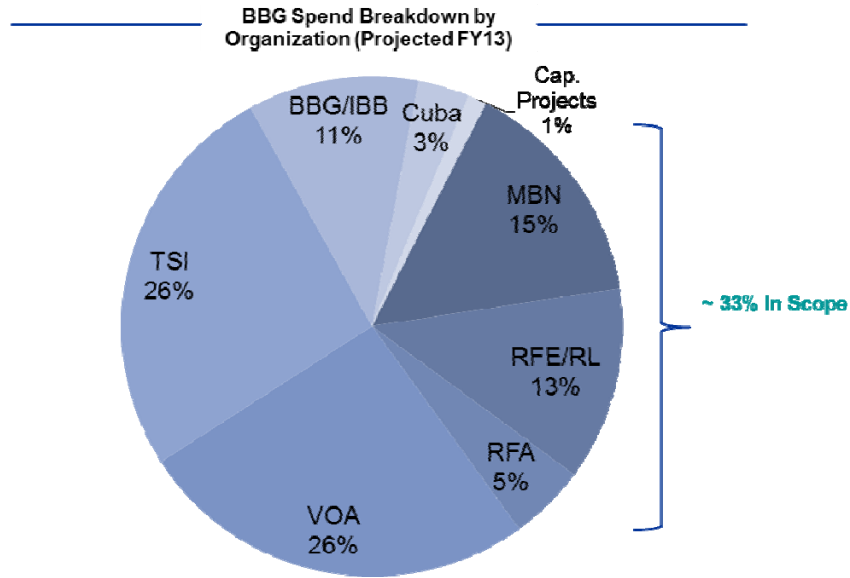
Language Services: Collectively the Grantees produce and distribute content in 37 languages. Both RFE/RL and MBN produce Arabic content in radio and on the web. The language services are reviewed annually to ensure that their continuation is in line with the mission of US International Broadcasting. Review of the language services was not within the scope of this assessment.

Table 1: Language Services

RFA Languages	RFE/RL Languages			MBN Languages
1. <b>Burmese</b>	1. Albanian	11. Crimean Tatar	21. Romanian (to Moldova)	1. Arabic
2. <b>Cantonese</b>	2. Arabic	12. Croatian	22. Russian	
3. <b>Khmer</b>	3. Armenian	13. Dari	23. Serbian	
4. <b>Korean</b>	4. Avar	14. Georgian	24. Tajik	
5. <b>Lao</b>	5. Azerbaijani	15. Kazakh	25. Tatar	
6. <b>Mandarin</b>	6. Bashkir	16. Kyrgyz	26. Turkmen	
7. <b>Tibetan</b>	7. Belarusian	17. Macedonian	27. Ukrainian	
8. <b>Uyghur</b>	8. Bosnian	18. Montenegrin	28. Uzbek	
9. <b>Vietnamese</b>	9. Chechen	19. Pashto		
	10. Circassian	20. Persian		

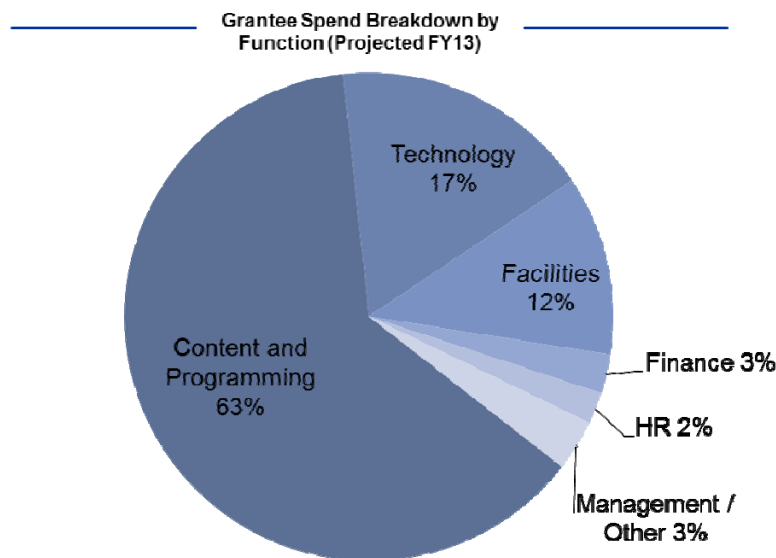
Financials:

Figure 1: BBG Spend Breakdown by Organization (Projected FY13)



Collectively, 63% will be spent on content and programming. This includes language service staff, studio managers, camera crews, etc. The budget addressable for potential savings (excluding content and programming) is about 37% of the aggregate budget of the Grantees.

Figure 2: Grantee Spend Breakdown by Function (Projected FY13)





Locations: Of the full-time resources, approximately 41% are located in the greater Washington, DC metro area, 24% in Prague, with the remaining 35% dispersed across the markets served.

There are 5 locations in the Washington, DC metro area, one facility in Prague, 20 RFE/RL bureaus and 5 MBN bureaus (Cairo, Baghdad, Jerusalem, Dubai, Beirut), and 7 RFA bureaus (Phnom Penh, Taipei, Seoul, Hong Kong, Bangkok, Delhi, Dhamsala).

**Table 3: Grantee Locations**

Area	Grantee	Location	Square Feet	Number of people
Washington, DC	RFA	2095 M Street	~63,000	~265
	MBN	The Washington Bureau (400 N. Capitol St.)	~ 3,400	~15
		Boston Blvd, Springfield, VA	~37,800	~425
		Cinderbed Road, Springfield, VA (Radio Sawa)	~20,000	~ 110
	RFE/RL	1201 Connecticut Ave	~27,000	~ 40
Prague	RFE/RL	Vinohradska	~226,000	~510

The following is a map of the locations of the Grantees, including the bureaus.

**Figure3: Grantee Geographic Locations**



## IV. Definition of the Potential Integrated Organization

The proposed consolidation would integrate the three grantee organizations into one entity with many market-facing brands, to streamline operations and reduce costs in accordance with the BBG’s Strategic plan. The following describes underlying *key principles* and the *operations* of an integrated organization. The specific legal structure of the proposed consolidation is still being assessed and will require conclusions of external legal counsel to finalize.

Key Principles: There were several key principles that were consistently articulated throughout the visioning discussions with the Grantees. These are things that all believed should be the ‘guard rails’ of any potential integration.

- There should be no change in the journalistic mission of the organizations – the current markets and audiences should continue to be served with the content appropriate for them.
- The existing market-facing brands should remain intact as they are critical to success. The relationship between the brands and the grantee entity is different across the three organizations. For MBN, the brands (Alhurra, Radio Sawa, Afia Darfur) are the externally known identities, while for Radio Free Asia the brand and the organization are one in the same across its market. RFE/RL has individual brands by service that will be critical to maintain.
- The new organization should maintain an entrepreneurial spirit and ability to remain nimble; avoiding bureaucracy.

Operations:

Function	Description of integrated organization
<b>Executive Leadership</b>	The new entity would have a single executive management team (President, CIO/CTO, CFO, content leader, etc...) Today, there are three executive teams, one for each organization.
<b>Content and Programming</b>	<p>An unequivocal requirement for a merged organization is that the brands, mission, and language services / content of the legacy Grantees remain intact.</p> <p>An integrated entity would have a single content and programming leader. However, the department would be divided into geographic regions, each with an editorial leader.</p> <p>Language services would continue to set their own editorial agendas, based on their market requirements. Newsgathering would continue to happen in the same “bottom-up” fashion it does today within each organization.</p>

Function	Description of integrated organization
<b>Content and Programming (continued)</b>	<p>The new entity would continue to be responsible for fulfilling the US International Broadcasting mission and following the journalistic and ethical standards and processes of the BBG/IBB.</p> <p>An integrated organization would formalize the processes and infrastructure for the sharing of content across geographic regions. However, each language service would retain the autonomy to choose the content it selects to use. There would also be processes established to coordinate assignments and coverage for key events (e.g., sending correspondents to a news event) across the individual language services to avoid duplication of coverage and optimize resources.</p> <p>The integration of the organizations would facilitate the Board’s strategy of harnessing original content for a global news service. Today RFE/RL has a central English language newsroom that selectively chooses content to translate for sharing across services and to highlight on its website. RFA also selects a small portion of its content for its English language website. MBN currently does not have an English language web component. Decision on continuation and/or broadening English language content – and the audience it serves – should be determined to inform any further implementation planning.</p>
<b>Human Resources</b>	<p>An integrated entity would have a single HR department that would operate under a standard set of processes and policies. While the HR function would be centered at the entity’s headquarters, there would be representatives in all locations with a critical mass of employees / contractors (e.g., 30-40) with some reps potentially shared across smaller sites that are in close physical proximity.</p> <p>Policies would be standardized where feasible, and at minimum, harmonized. The HR function would create and maintain one set of job descriptions, harmonize pay scales and benefits packages while ensuring they are geographically appropriate, and create a common performance management framework that could be used globally (but accommodating regional differences and requirements as needed).</p>
<b>Finance</b>	<p>The new entity would have one finance function that would operate under a single set of processes and policies. These functions would be centered at the entity’s headquarters. However, resources will be geographically deployed as appropriate to meet the needs of the employees and contractors (e.g., business managers at bureaus). In addition, the entity could take advantage of labor arbitrage opportunities by placing transactional resources in a lower cost location (e.g., payables or payroll clerks).</p> <p>There would be common classifications of resources and expenses, one annual budget, integrated financial reporting reflecting the financials of all three legacy entities, and a single audit.</p>

Function	Description of integrated organization
<b>Communications</b>	<p>The integrated entity would have one communications department. The scope of this department would be public relations, community outreach, and internal employee communications including intranet</p> <p>Much of the work of this department will be communications to the local communities and governments in areas where the integrated entity operates. Therefore, while it would be a centrally managed group, there will be local communications staff on-site at the larger locations, with shared or virtual resources in smaller venues.</p> <p>This group would also be the liaison to the BBG/IBB communications department. This group would not do stand-alone Congressional outreach, but will work closely with BBG/IBB to ensure one common voice to stakeholders.</p>
<b>Technology</b>	<p>The entity would have a single technology leader. The scope of this function will include both broadcast technologies as well as traditional IT activities.</p> <p>The new entity would migrate to common back office systems, and have a common set of operating standards, processes and policies (e.g., data security and retention, privacy policies, etc.). In addition, there will be a unified WAN connecting key locations.</p> <p>Technical resources would be shared where feasible (e.g., equipment, production facilities). However, because the production facilities are in different locations today, the synergies that can be gained in the near term by sharing technology is constrained. However, over time if facilities are consolidated, additional efficiencies will be available.</p>

Function	Description of integrated organization
<b>Administration, Security, Sourcing*</b>	<p>The new entity would have one administration function that would operate under a single set of processes and policies. The scope would include facilities, security, sourcing. These functions would be centered at the entity's headquarters, but would have resources geographically dispersed at sites as needed.</p> <p>Facilities would be planned centrally (e.g., location decisions, lease negotiation). On-site services (e.g., mailrooms, maintenance, etc.) would be managed locally at the locations of the new integrated entity.</p> <p>Regarding security, the integrated entity would have centrally defined standards and policies that are mindful of the geographic differences and security threats across the markets. Local sites would be responsible for managing and monitoring the security processes.</p> <p>Sourcing would be managed centrally, using one set of standards and approval processes. Where feasible, goods and services should be sourced under master service agreements to gain economies of scale in purchasing. This will not be feasible in all geographies however due to the breadth of the entities locations.</p> <p>Procurement responsibilities would be split between headquarters and local sites. Local sites will require autonomy to source and purchase goods and services that cannot be sourced centrally, but should follow standards and approval processes set centrally.</p> <p><i>(*Note: sourcing and procurement could also be housed within finance. This decision can be made during the next phase of planning)</i></p>
<b>Legal</b>	<p>The integrated entity would have one legal department. This group would be sized based on the volume of work and the cost/benefit of using external counsel.</p>

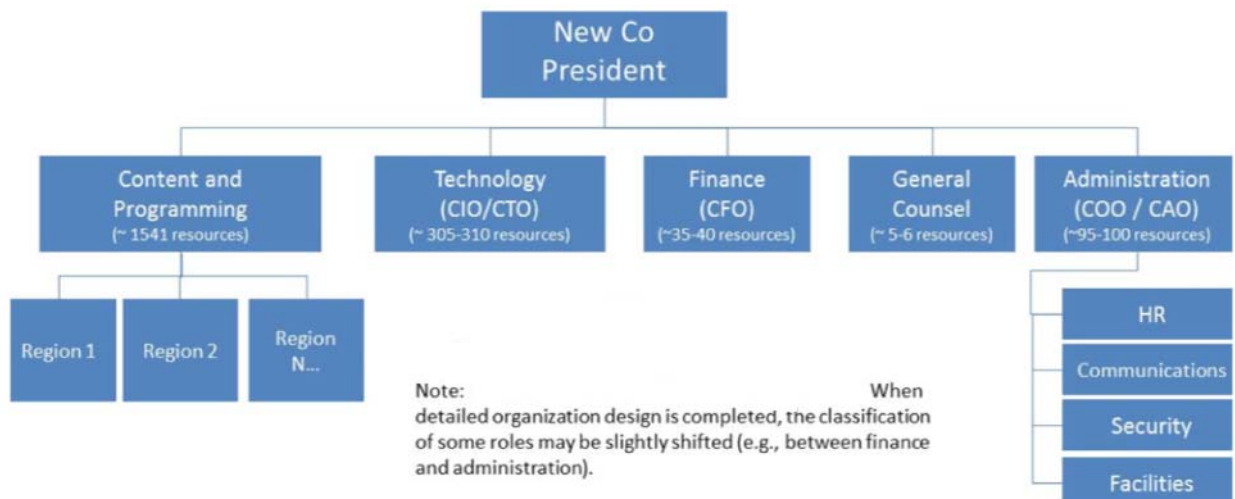
## V. Potential Integrated Organization Structure

The primary organizing principle of the new integrated organization would be by function, with a secondary division by geography. An illustrative integrated organization chart follows with the estimated number of full-time resources indicated in each of the major functional areas.

It should be noted that the number of resources in content and programming across the Grantees would not change as a result of integration. This is because there is almost no overlap today in the content produced by the Grantee organizations. As the 3 levers of the recommended VOA study (noted in Section I. Executive Summary) are created, the substantial overlap of the VOA language services could be layered into this structure.

The other functional areas reflect a combined headcount savings of approximately 45-50 full-time resources resulting from integration. This number reflects about a 10% reduction of headcount in the addressable functional areas. With aggressive facilities consolidation additional headcount savings may be feasible. The details of the savings are discussed in Section VII - High Level Financial Summary.

Figure 4: Potential Integrated Grantee Organization



The senior executive team of the new organization will continue to work closely with their functional counterparts within the BBG/IBB, operating within the overarching standards and processes set by the CFO, CTO, and General Counsel of BBG/IBB.

In the next phase, it will be necessary to determine a) the reporting relationship between the President of the new integrated Grantee entity, the IBB CEO, and the Board and b) whether the new entity requires its own separate Board or will simply report to the BBG.

## VI. Risks, Obstacles, Challenges

There are five primary potential risks that were identified from discussions with the Grantees.

Congressional reaction: There is uncertainty as to reaction from Congress. The proposed merger has positive actions in doing more with less, but has the potential to disrupt content if not managed carefully.

Cultural differences: The three organizations have cultural differences. MBN is a primarily a television focused entity and produces content in a single language, Arabic. RFE/RL and RFA are primarily radio entities (though expanding into other media) and produce content in many languages. Because RFA is much smaller in employee count and budget, it sees itself as a more tightly knit community than the others. It also operates with the least sophisticated resources of the three (e.g. production facilities, technical resources). Bringing together the cultures of these three organizations will require a focused change management effort. Mergers bring uncertainty and change, so there is a possibility that employee morale could suffer resulting in an increased risk of employee turnover. Decision-making delays can exacerbate this situation; employees who are uncertain of the path forward and their role (or lack thereof) in the new organization may be more likely to seek other opportunities.

Unions: A significant portion of RFA's workforce is unionized, while RFE/RL has 8 unionized employees and MBN has no unions. A deliberate plan is required to ensure that all parties' interests are represented in the planning.

Security: Because of the nature of their work, each organization comes under threat (both physical and digital). Today, when one organization is attacked, the others are unaffected. If the organizations are combined, a threat could affect the scope of the entire operation. For example, if systems are combined and there is a digital attack inspired by RFA's content, programming and employees in the Middle East and Europe could be affected as well. That said, there are mitigation strategies that could be employed to address this risk.

It is important to note that Legal considerations (such as impact on applications for business licenses and resultant application of requirements of local laws) are being addressed by Baker & McKenzie LLP in a separate study.

## VII. High Level Financial Summary

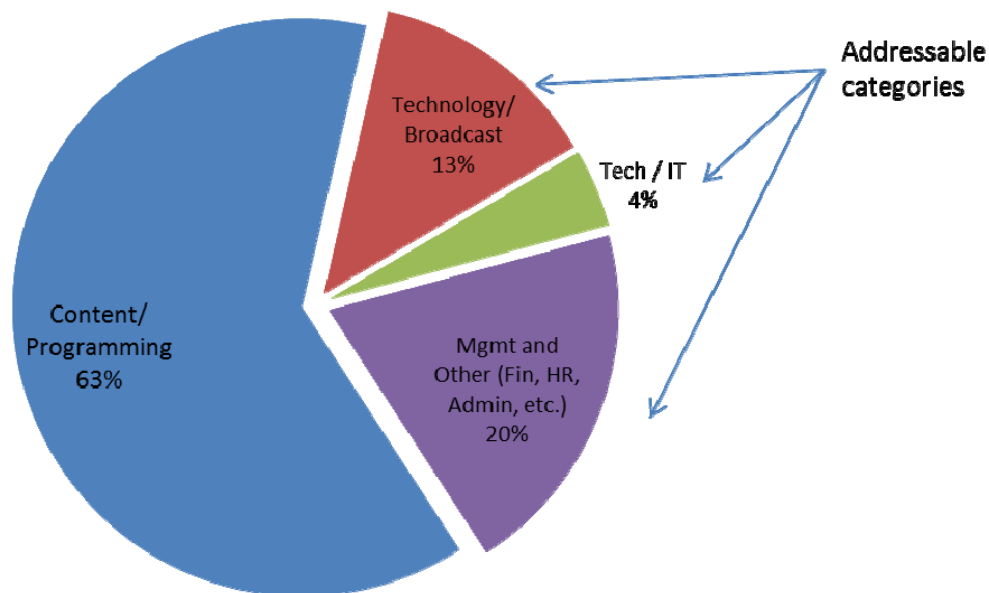
There were two key assumptions made to estimate the financial impact of merging the Grantees:

- Content and programming resources are not deemed to be addressable opportunities.

Because there is almost no overlap in the language services that the Grantee organizations produce, the resources dedicated to content and programming would still be required. Content and programming headcount comprises 76% of total headcount. About 8% of resources are management and administrative. The remaining 16% are classified as Technology resources, and includes both those that support broadcast technology as well as back office technology. The broadcast technology resources are directly supporting content production (e.g., studio crews, master controls / control room, directors, camera crews, teleprompters, ingest). The other technical resources support more traditional IT functions (e.g., user help desks, back office systems). In all the Grantees, these technical resources play multiple roles, so it is difficult to get a precise division of resources, however broadcast resources make up the majority (likely 75%+).

It is in the management and administrative categories and in the more traditional IT functions where integration is most likely to yield efficiencies. In the broadcast technology area, the opportunities for synergies are largely dependent on what location strategy is chosen because these resources need to be on-site where content is produced. If production locations are eventually consolidated, there would be opportunity for efficiencies in this area as well. Near term with separate production locations, it is unlikely that meaningful savings can be achieved in the Broadcast technology area.

Figure 6: FY13 Budget Grantee Spend Breakdown by Function





Content and Programming spend makes up 63% of the proposed FY13 budget. This includes both personnel costs and related general operating expenses. This leaves approximately 37% that is addressable to consider for integration savings.

Summary of Saving Initiatives and Costs to Achieve: We have estimated that the annual savings achievable from merging the Grantee organizations is approximately \$9M to \$14M once full integration has been achieved. The one-time costs to complete the integration are estimated to be \$8M to \$11M. The high end of the range assumes significant facilities consolidation, which would enable the organization to pool technology (broadcast and IT), facilities resources, and HR resources. Should the existing separate facilities be maintained, this opportunity is more limited. The specific timing of costs and savings will be dependent upon when key decisions are made. Costs to achieve can be spread out depending on the timing BBG and the integrated Grantee choose for major initiatives.

**Table 4: Merger Savings and Cost Summary (All figures in \$M)**

#	Initiative	Item	Conservative		Aggressive	
			One-Time Costs	Annual Savings	One-Time Costs	Annual Savings
1	Staff reductions	Management Savings		\$1.5		\$1.6
		Finance/ Admin Savings		\$1.2		\$1.3
		HR Savings		\$0.0		\$0.2
		Facilities Staff Savings		\$0.1		\$0.2
		Communications		\$0.2		\$0.3
		Tech/ Infrastructure Savings		\$1.1		\$2.1
		Total Staff Savings		\$4.2		\$5.8
		Total Severance Costs	\$2.1		\$2.9	
2	Contract & vendor consolidation	Savings		\$0.8		\$1.2
		Costs	\$0.0		\$0.0	
3	Technology efficiency savings	Savings		\$2.6		\$3.3
		Systems Consolidation Costs	\$2.5		\$3.0	
4	Facility consolidation	Savings		\$1.3		\$3.4
		Costs	\$0.6		\$2.7	
Transaction & Integration Costs		Legal Due Diligence*	\$0.7		\$0.7	
		Financial Due Diligence	\$0.3		\$0.3	
		Integration Costs	\$1.5		\$1.5	
		5% Cost Contingency	\$0.2		\$0.3	
<b>TOTAL</b>			\$8.0	\$8.9	\$11.4	\$13.7

\*Note: Preliminary estimate. BBG/IBB is working with external legal counsel to obtain an estimate of legal fees

The following are the underlying assumptions for the savings and cost to achieve:

Staff Reductions:

- Management Staff Reductions – Grantee consolidation could eliminate an estimated 13-14 high-level management staff positions, including two Presidents, several VPs and other management support roles. These savings could begin to be as soon as the new leadership structure is executed, and fully realized in the first full fiscal year after merging.
- Finance/Admin Staff Reductions – Grantee consolidation could eliminate an estimated 14-15 finance/admin staff positions, including finance management, accounting, and procurement personnel. These savings could begin to be as soon as the new finance organization structure is executed, and fully realized in the first full fiscal year after merging.
- HR Staff Reductions – Grantee consolidation is not estimated to reduce overall headcount for HR in the near term, however would likely result in a different mix of positions required – eliminating for example two Director Roles, but increasing the staff at various locations should no facility changes be assumed. The consolidation is likely to require job roles and benefits plans to be redefined and broadly, and HR policy will need to be revisited. If facilities consolidation occurs, there may be an opportunity to reduce 1-2 HR positions.
- Facilities Staff Reductions – Real estate consolidation could yield approximately 3-5 facilities staff headcount reductions. In the near term for example, savings would result from offices in the Washington, DC metro area being consolidated. These savings could be realized quickly if existing space is subleased and facilities consolidation begins upon execution of the merger. If facilities consolidation is delayed until the nearest term leases expire, savings will begin to be realized in FY14 and fully realized in FY15.
- Communications – Grantee consolidation could eliminate 2-3 communications positions. These savings could begin to be as soon as the new communications organization structure is executed, and fully realized in the first full fiscal year after merging.
- Technology Staff Reductions – Grantee consolidation could eliminate an estimated 13 technology staff positions. These savings could begin to be realized as soon as the new technology organization structure is executed, and fully realized in the first full fiscal year after merging. The location/facilities strategy will affect the degree of opportunity in this area. On-site technical resources are required in facilities where production takes place and where there are significant groups of users. Because of the 24x7 nature of some of the operations, shifts are also required which increases overall staffing needs. With fewer locations, it may be possible to streamline the technical staff by up to 25 resources.
- Costs to Achieve Staff Reductions – Estimated costs to achieve the identified headcount reduction savings is approximately \$2.1M to \$2.8M in severance costs. The timing of the severance costs will depend on the execution date of the merger and how aggressively the organization chooses to reduce headcount.

### Contract/Vendor Consolidation:

- Savings – Grantee consolidation will reduce outside contract costs by an estimated \$0.8M to \$1.2M (10% to 15% of addressable spend based on Deloitte benchmarks), including news and video content contracts, licenses and copyrights and other sourcing efficiencies. These savings will begin to be realized as contracts are renegotiated and spend reduced. A merger would bring new opportunities to renegotiate with vendors in the current economy.
- Costs – There is no cost to achieve these savings as they will be the result of direct negotiation timed with normal contract renewal cycles. There may be situations where a business case can be made to break a contract early even if penalties apply, but those opportunities should be evaluated on a case-by-case basis and should be self-funding.

### IT Efficiency Savings:

- Savings – Today the Grantee's each maintain their own back office systems and IT infrastructure. Each grantee has its own IT procurement functions and different vendor contracts. Consolidation could reduce IT systems spend by an estimated \$2.6M to \$3.3M (20%-25% of addressable spend based on Deloitte experience), including savings on telecommunications, equipment, IT operations and software licenses/upgrades and maintenance fees. These savings will begin to be realized as contracts are negotiated, IT operations are integrated and system integration begins to create efficiencies. The facilities strategy can have significant impact on this opportunity because the fewer the facilities the greater the potential savings.
- Costs – The costs to achieve these savings are estimated to be \$2.5M to \$3.0M, for integrating back-office systems and telecom/data network infrastructure of the three Grantees. These costs are typically incurred in the first 18 to 24 months after a merger. Subsequent technology projects such as integrations of other systems should be self-funding.

### Facility Consolidation:

- Savings – A minimum estimated annual savings of just approximately \$1.3M can be extracted for facilities. This can be achieved through consolidation of offices in the Washington, DC metro area. If subletting was not pursued, given the current timing of these leases savings could begin in FY14. Longer term, additional facilities savings estimated in the range of \$3M may be available should the integrated entity choose to consolidate further and share production space. Deloitte's experience is that up to 30% of facilities costs can be reduced when facilities are consolidated during a merger. A more detailed study of potential locations could be undertaken to fully understand the costs and benefits. A larger consolidation effort would require significant investment to relocate and build out production studios.
- Costs – The costs to achieve the facilities savings are estimated to be \$0.6M up to \$3M or even higher depending on the location selected, degree of build-out required, and the specific facilities relocated (e.g., production facilities versus office space). Costs will be incurred when the organization decides to execute the location strategy it selects.

Transaction and Integration Costs: Grantee consolidation will result in an estimated \$2.7M in transaction and integration costs. These costs include a preliminary estimate of \$0.7M in legal fees. BBG/IBB is working with external legal counsel to obtain an estimate of legal fees; \$0.3M in financial due

diligence; \$0.23M in cost contingency, and \$1.5M in external integration services which involves project management and implementation of the initiatives required in each functional work-stream to merge the entities and to ensure realization of cost synergies. Integration service costs are dependent upon how much is taken on by existing staff and how much is contracted externally.

## VIII. Advantages and Disadvantages

Advantages: There are several advantages to integrating the organizations:

- Lays a foundation for executing the Board’s strategic vision for enhanced content: A merger would create an organization better suited to carry out the Board’s approved strategic vision of better leveraging original content from across the language services. A merged entity could formalize the structure and incentives for sharing content and other resources. Today the organizations have little to no incentive to work together on initiatives. They recognize that collaboration could be beneficial, but are hampered by the pragmatic reality of being in separate organizations with no formal structure and incentives to work together.
- Foundation for further transformation: A merger would lay a foundation for other elements of the Strategic Plan such as the global news service
- Streamlines management and reduces redundant administration: As the combined organization has a common mission, it is difficult to justify the cost of separate executive teams and administrative infrastructure.
- More uniform disaster recovery: Today the Grantees have differing levels of disaster recovery capability. If integrated, physical sites could provide mutual backup and disaster recovery for each other, potentially reducing reliance on outside vendors. While technically this could be done without merging the entities, there are no formal incentives for the groups to work together on this.
- Fewer agency transactions: There will be two fewer audits, budgeting processes, and other transactions to conduct if the number of overall entities under BBG/IBB oversight reduces from five to three.
- Greater transparency of financials: Today each organization classifies staff resources and expenses slightly differently, making it difficult to compare them. If integrated, the new entity would move to a single set of financial reports with one classification scheme.
- Pooled purchasing power: Today the Grantees do all of their own negotiating with vendors based on their individual scale (with the exception of the Akamai contract, and some ad hoc collaboration). The combined scale will likely enable better negotiating leverage which could translate into dollar savings in categories such as insurance, health care benefits for employees, equipment, and software.
- Savings: We estimate savings of approximately \$9M - \$14M annually with a cost to achieve of about \$8M - \$11M.

Disadvantages: There are also several disadvantages to integrating the organizations:

- Integration investment required: To integrate the entities will require up-front investment. This additional budget may be difficult to obtain in the current economic environment. There is also an investment of staff time and effort to accomplish the integration.
- Inconsistent buy-in across the Grantees: The merger is perceived by some as not worth the effort for the savings since collectively they only make up around 30% of BBG spend. There are also some that believe the current organizations are not “broken” so there is no reason to change their structure. The lack of buy-in could stall the integration process if a strong change management effort is not in place.
- Cultural impact and potential loss of talent: This scope of change can be difficult on an organization and some resources may decide to leave, especially if a significant relocation is

involved. This is always a risk in a merger situation, and can be mitigated through change management and retention incentives.

- Management attention required: A merger requires significant management time and effort. Unless carefully managed, the integration effort could distract the management team from journalistic initiatives that are important to the mission of the organization.

Alternatives: There are some alternatives to merging the Grantees that could enable savings. However, none of the alternative will provide the same level of benefits of integration. They also do not contribute as much to furthering the execution of the Board's strategic plan.

- Informal collaboration via working groups / councils: The Grantees could work together informally (e.g., through a "CIO/CTO council" or a "CFO council"). These working groups would come together at regular intervals, identify and evaluate projects on which they could collaborate, and then implement. Typically this is an "opt-in" model where the members can choose which of the initiatives they will actually implement for their organization.
  - The issue with this model is that there are no real incentives for collaboration. When organizations choose to opt-out of an initiative, sometimes the benefits for the remaining entities are no longer achievable due to lack of scale.
- Individual Grantee optimization: The BBG could focus on improving grantee operations individually to save money. The areas that may yield savings could be different for each Grantee. The operational areas that could be reviewed for opportunities include but are not limited to:
  - Location strategy: There may be opportunities to relocate to less expensive facilities (e.g., suburbs versus downtown DC). This of course must be balanced against the one-time costs of the move.
  - Spans of control: The Grantees could look for opportunities to reduce management so that spans of controls are in line with leading practices
  - Alternative service delivery models: This includes investigating the use of outsourcing for administrative functions such as payroll.
  - Language service rationalization: Grantees could work closely with VOA to refine the scope of the each organization's coverage.
- Shared services: In this scenario, administrative services such as finance and HR could be consolidated into either a) a new separate shared services entity, or b) into one of the existing Grantees. Resources performing those administrative functions could be moved out of the existing Grantee organizations. While the Grantee organizations would remain separate, they would be focused on content and programming. They would receive common administrative services from the new entity or from the Grantee that becomes the service provider.
  - This model only achieves a small portion of the advantages that integration yields. Because the current Grantee organizations would still exist, there would need to be an executive management structure at each of them (though perhaps reduced). There would also still be three sets of financials, budgets, etc. that would require oversight and review by the BBG/IBB. Finally, unless an existing Grantee became the service provider, a new entity would need to be created. This is inconsistent with the strategic vision approved by the Board and so is not recommended.

## IX. Observations on De-federalization of VOA/OCB and on TSI

VOA, OCB, and BBG/IBB make up approximately about 66% of the overall spend on US International Broadcasting, or more than double the spend of the Grantee organizations combined. A full view of synergies opportunities across US International Broadcasting cannot be understood until these organizations are reviewed as well.

Throughout the assessment period, several themes emerged from the discussion regarding VOA, OCB and BBG/IBB:

- While there are almost no content overlaps among the Grantees, there are significant overlaps with VOA. The Grantees believe that magnitude of the synergies available by addressing this overlap is greater than the benefits to be gained by just integrating the three Grantees.
- All senior Grantee leadership indicated that the merger of the Grantees had merit if VOA was included due to the potential savings resulting from elimination of language service duplication.
- It is unclear whether de-federalizing VOA is actually feasible or even desirable. Additional work is required to determine the pros and cons, and financial impact. Issues that must be included in the study are:
  - Potential loss of major backers: BBG funding is for a Voice of America that could be perceived as a governmental, rather than an NGO function.
  - National security: If VOA constitutes communications essential to national security, privatization may not be feasible.
- In the near term, there are opportunities to find efficiencies with VOA, such as co-location to reduce costs. These opportunities are being addressed on an ad hoc basis.
- The Grantees have an interest in taking on some of the distribution functions of TSI, especially if TSI is considering outsourcing them to a 3rd party. The Grantees would like to have the opportunity to 'bid' on this work before it goes to a 3rd party as they believe they can offer more cost effective solutions. They also would prefer to have great control over the distribution function to ensure their market needs are met.
- There is question of whether the TSI backbone transmission infrastructure could be more efficiently operated by a grantee, rather than federal, organization. A reversal of the client/provider relationship between the federal and non-federal organizations could be explored in terms of efficiencies.

## X. Conclusions

Deloitte believes that the merging of the Grantees does have merit, and does make sense strategically and economically. We heard in numerous discussions with leaders across the Grantees that current structure is a product of the evolution of the Agency, is not ideal, and would not be the logical approach if one were starting fresh. We agree with that perspective. The current siloed structure is not an optimal foundation for the new strategic direction envisioned by the Board.

From an operational perspective, we see no roadblocks that cannot be overcome. The vast majority (around 75%) of the resources of the Grantees are devoted to content and programming, so their day to day roles will not change. Merging the administrative processes, policies, and supporting systems will be no more complicated here than in any other merger of a similar scale.

In the current economic environment, continuing to operate three separate organizations with redundant executive management teams, administrative infrastructures, audits, etc. seems to be an inefficient use of taxpayer resources. The potential annual savings of \$9M to \$14M could be redeployed toward journalistic initiatives that advance the Board strategic vision.

As with any merger there are risks associated with the potential decline in employee morale. These can be mitigated by swift decision-making and a strong change management program. Delaying a decision about the path forward will create uncertainty which can dampen employee morale. In addition, delays will stall the advancement of the Board's strategic plan and cause the organization to miss out on significant potential savings.

The legal considerations related to the merger have been addressed through a separate initiative and are summarized in a separate report.



## XI. Recommendations, Next Steps and High Level Roadmap/Milestones

### Recommendations and Next Steps:

- We recommend that the Board approve the merger of the Grantees, and proceed with the design of the new organization and the implementation planning. Based on a typical merger timeframe of about 6 months from a decision, we believe that the Board should target a “Day 1” in July 2012.
- To pursue the larger savings available by reducing duplication of language services, as noted earlier and broadly supported by Grantee leadership, we recommend commencing a study on the feasibility, benefits and costs of VOA/OCB de-federalization, reportable at the Board’s March 2012 meeting to explore 3 items:
  1. The “quick hit” opportunities available from partially integrating some VOA/OCB operations into the Grantee structure without de-federalization. The objective of this study would be to identify initiatives that could be implemented in parallel with the Day 1 of the Grantee merger in July 2012.
  2. The next tranche of opportunities that would become feasible in FY13 without de-federalization.
  3. The feasibility of VOA/OCB de-federalization, including benefits, risks, and financial implications.

**Roadmap and Milestones:** We have identified the key milestones if BBG decides to proceed with the integration of the Grantees. The timing estimates are preliminary and will depend on the decisions made.

Function	FY12												FY13				FY14			
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Overall / Exec Management	◆ Integration decision		◆ New company Executive structure complete			◆ Oversight / Congress socialization complete			◆ Management consolidation complete											
Legal	◆ Preliminary Legal Due Diligence complete					◆ Legal Due Diligence / structuring complete			◆ Consolidation transaction complete ◆ Legal department consolidation complete											
Content	◆ Begin designing infrastructure and processes to share content								◆ Content and programming leadership in place				◆ Content sharing platforms and processes in place							
Technology / IT / Ent. Apps							◆ IT integration planning complete			◆ Consolidated Finance Systems Go Live ◆ Consolidated HR / Admin Systems Go Live										
Facilities / Real Estate	◆ Location strategy assessment				◆ Future state facilities business case complete				◆ Real Estate consolidation execution begins											
Finance	◆ Begin harmonizing finance and accounting processes					◆ Processes Harmonization complete			◆ Finance Process Consolidation Complete											
HR	◆ Now high level org, roles & responsibilities defined				◆ Detailed Org design complete ◆ HR/Admin processes standardized			◆ End State Organization In place ◆ HR/Admin processes cutover complete												
VOA/OCB De-federalization Assessment	◆ Launch VOA/OCB de-federalization assessment				◆ Quick hit opportunities Identified (without de-federalization) ◆ Complete de-federalization assessment			◆ Implement quick hits ◆ De-federalization decision												

**Day 1**

## XII. Appendix

Date	Meeting Length	Location	Topic	Attendees
10/4/2011	4 Hours	Washington, DC	Kickoff Meeting	IBB staff and Deloitte Team
10/4/2011	1 Hour	Washington, DC	Project Planning Meeting	Dick Lobo, Jeff Trimble, Marie Lennon, Marc Mancher, Lisa Glover
10/5/2011	1.5 Hours	Washington, DC	Communication	Diane Zeleny, Maria Demeke, Melissa Davis
10/6/2011	2.5 Hours	Washington, DC	TSI Content Distribution Overview - Session 1	Joydeep Mukherjee, Lisa Glover, Jennifer Eng, Terry Balazs
10/6/2011	2 Hours	Washington, DC	Finance Overview	Maryjean Buhler, Thomas Martinez, Marc Mancher, Lisa Glover, Joydeep Mukherjee, Asad Hussain, Dave Congdon
10/6/2011	1 Hour	Washington, DC	Legal Overview	Paul Kollmer-Dorsey, Ray Briggs, David Congdon, Maria Demeke, Ashley Pyle
10/6/2011	1 Hour	Washington, DC	Strategic Plan Overview	Bruce Sherman, Paul Marszalek, Lisa Glover, Asad Hussain, Jennifer Eng, Marc Mancher, David Congdon, Ray Briggs, Maria Demeke, Joydeep Mukherjee
10/6/2011	1 Hour	Washington, DC	TSI IT Overview	John Johnson, Joydeep Mukherjee, Jennifer Eng
10/10/2011	3 Hours	Washington, DC	Interview with RFE/RL President	Steve Korn, Marc Mancher, Lisa Glover
10/11/2011	1 Hour	Washington, DC	Finance Data Follow-up	Thomas Martinez, Asad Hussain, Dave Congdon
10/11/2011	1 Hour	Washington, DC	IBB Coordination Committee, Cost discussion	Kate Knepper, Joydeep Mukherjee, Jennifer Eng, Asad Hussein, David Congdon
10/11/2011	2 Hours	RFA (2025 M St)	Interview with RFA President	Libby Liu, Marc Mancher, Lisa Glover, Maria Demeke
10/11/2011	2 Hours	MBN Springfield, VA	Interview with MBN President	Brian Conniff, Marc Mancher, Lisa Glover, Maria Demeke
10/11/2011	2 Hours	Washington, DC	Interview with Dennis Mulhaupt	Dennis Mulhaupt, Marc Mancher, Lisa Glover
10/12/2011	1 Hour	Washington, DC	Interview with Victor Ashe	Victor Ashe, Marc Mancher, Lisa Glover
10/12/2011	1 Hour	Washington, DC	OMP Overview	Gary Thatcher, Joydeep Mukherjee, Jennifer Eng

Date	Meeting Length	Location	Topic	Attendees
10/12/2011	2 Hours	Washington, DC	Content Distribution Overview - Session 2	Joydeep Mukherjee, Jennifer Eng, Terry Balazs
10/17/2011	3 Hours	Washington, DC	RFE / RL Overview	Beth Portale, Michael Marchetti, John Giambalvo, Marc Mancher, Lisa Glover, Asad Hussain, Joydeep Mukherjee, Jennifer Eng, David Congdon, Kelly Sullivan
10/17/2011	1 Hour	Washington, DC	TSI Technology Group Overview	Andre Mendes, Marc Mancher, Joydeep Mukherjee, Jennifer Eng, Kelly Sullivan
10/18/2011	1 Hour	Washington, DC	RFE / RL Communications	Maria Demeke, Melissa Davis, Deirdre Kline, Letitia King
10/18/2011	2.5 Hours	MBN Springfield, VA	MBN Finance Overview	Asad Hussain, William Clancy, Kelley Sullivan, Brian Scarrow
10/18/2011	2.5 Hours	MBN Springfield, VA	MBN Technology Overview	Kelly Alford, Lisa Glover, Joydeep Mukherjee
10/19/2011	2 Hours	RFA (2025 M St)	RFA Finance /Admin Meeting	Patrick Taylor, Dick Smith, Asad Hussain, David Congdon
10/19/2011	2 Hours	RFA (2025 M St)	Human Capital / Communications Blueprint Meeting	Donna Black, Alan Tanenbaum, Jack Welch, Karen Henderson, Maria Demeke, Melissa Davis, Beth Portale, Kelly Sullivan, Norm Thompson
10/19/2011	2 Hours	RFA (2025 M St)	RFA Finance /Admin Meeting	Dick Smith, Patrick Taylor, Maryjean Buhler, Asad Hussain, David Congdon
10/19/2011	1 Hour	Washington, DC	Office of New Media Overview	Robert Bole, Lisa Glover, Jennifer Eng
10/19/2011	1 Hour	Washington, DC	OMPP Overview	Doug Boynton, Jennifer Eng
10/19/2011	1 Hour	Washington, DC	TSI Meeting	Joydeep Mukherjee, Gerhardt Straub
10/19/2011	1 Hour	Washington, DC	TSI Meeting	Joydeep Mukherjee, Mark Filipek
10/19/2011	1 Hour	Washington, DC	TSI Meeting	Joydeep Mukherjee, David Shiben
10/19/2011	30 Minutes	Conference Call	RFE/RL IT Follow ups	Joydeep Mukherjee, Luke Springer
10/19/2011	2 Hours	RFE/RL (1201 Connecticut, DC)	Assessment Legal Issues	Ray Briggs, Asad Hussain, David Congdon, Paul Kollmer Dorsey, Bernadette Burns, Ann Noble, John Lindburg, Kelley Sullivan
10/19/2011	2 Hours	Washington, DC	Content and Programming Working Session	Jeff Trimble, Jay Tolson, Julia Ragona, Paul Marszalek, Lisa Glover, Jennifer Eng, Steve Springer, Steve Redisch, Daniel

Date	Meeting Length	Location	Topic	Attendees
				Nassif
10/20/2011	3 Hours	Washington, DC	Finance Blueprinting Session	Kelley Sullivan, Maryjean Buhler, Thomas Martinez, Patrick Taylor, Dick Smith, William Clancy, Beth Portale, Michael Marchetti, John Giambalvo, Brian Scarrow, Asad Hussain, Dave Congdon
10/20/2011	2 Hours	Washington, DC	VOA Viewpoints	David Ensor, Steve Redish, Marc Mancher, Lisa Glover
10/20/2011	1.5 Hours	Washington, DC	Initial Observations Discussion	Jeff Trimble, Marie Lennon, Marc Mancher, Lisa Glover, Kelley Sullivan, Paul Marszalek, Ray Briggs, Asad Hussain, David Congdon, Lisa Glover, Maria Demeke, Joydeep Mukherjee
10/20/2011	2.5 hours	RFA (2025 M St)	RFA IT Meeting	David Baden, Chad Hurley, Libby Liu, Joydeep Mukherjee, Lisa Glover
10/21/2011	3 Hours	RFA (2025 M St)	RFA Content and Programming	Dan Southerland, Susan Lavery, Lisa Glover
10/21/2011	2 Hours	RFA (2025 M St)	RFA Technology Overview	Joydeep Mukherjee, David Baden, Chad Hurley, Lisa Glover
10/21/2011	2.5 Hours	RFA (2025 M St)	HR Blueprinting Session	Lisa Glover, Maria Demeke, Karen Henderson, Alan Tanenbaum, Donna Black, Patrick Taylor, Dick Smith, Letitia King
10/24/2011	3.5 Hours	RFA (2025 M St)	Technology Blueprinting Session	Kelly Alford, David Baden, Chad Hurley, Luke Springer, Chris Carzoli, Lisa Glover, Jennifer Eng, Kelly Sullivan
10/25/2011	3 Hours	Washington, DC	CFO Working Session	Kelley Sullivan, Maryjean Buhler, Patrick Taylor, Dick Smith, William Clancy, Michael Marchetti, John Giambalvo, Lisa Glover, Asad Hussain
10/26/2011	2.5 Hours	RFA (2025 M St)	Technology (Follow up)	Kelly Alford, David Baden, Chad Hurley, Luke Springer, Chris Carzoli, Lisa Glover, Kelly Sullivan
10/27/2011	1 Hour	MBN Springfield, VA	MBN Meeting	Brian Conniff, Lisa Glover, Kelley Sullilvan
10/31/2011	1 Hour	RFE/RL Prague	RFE/RL Facilities and Technology	Luke Springer, Beth Portale, Chris Carzoli, Ron Crozier, Lisa Glover,

Date	Meeting Length	Location	Topic	Attendees
			Overview	Marc Mancher, Kelley Sullivan
10/31/2011	1 Hour	RFE/RL Prague	RFE/RL Corporate Meeting	RFE/RL leadership, Lisa Glover, Marc Mancher, Kelley Sullivan
10/31/2011	2 Hours	RFE/RL Prague	RFE/RL Technology Continued working session	Luke Springer, Beth Portale, Chris Carzoli, Ron Crozier, Lisa Glover, Marc Mancher, Kelley Sullivan
10/31/2011	1 Hour	RFE/RL Prague	Meeting with RFE/RL Steve Korn	Steve Korn, Lisa Glover, Marc Mancher, Kelley Sullivan
10/31/2011	2 Hours	RFE/RL Prague	RFE/RL Content Meeting	Julia Ragona, Jay Tolson, Lisa Glover, Marc Mancher, Kelley Sullivan, Beth Portale
11/1/2011	1 hour	RFE/RL Prague	RFE/RL Daily Newsroom meetings	RFE/RL newsroom staff, language service directors, Lisa Glover, Kelley Sullivan, Beth Portale
11/1/2011	2 hour	RFE/RL Prague	RFE/RL Admin and HR meeting	Dale Cohen, Dagmar Aserova, Lisa Glover, Kelley Sullivan, Beth Portalee
11/1/2011	1 hour	RFE/RL Prague	RFE/RL Security meeting	Dale Cohen, Bill Key, Lisa Glover, Kelley Sullivan, Beth Portale
11/7/2011	2 hours	RFE/RL (1201 Connecticut, DC)	Content and Programming	Jeff Trimble, Jay Tolson, Julia Ragona, Paul Marszalek, Lisa Glover, Steve Springer, Steve Redisch, Daniel Nassif, Susan Lavery, Steve Korn, Dennis Mulhaupt, Deirdre Kline, Rebecca McMenamin, Maha Rabie, Bill Sabatini, Kelly Sullivan