The Vanguard Periodical

The Vanguard Method in Financial Services

Edition One

VANGUARD

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The purpose of The Vanguard Periodical: *The Vanguard Method is creating new knowledge in management theory and practice. In this periodical leading practitioners share their insights and experiences of working with service organisations that are achieving substantial, rapid and innovative change.*

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Contents

The Vanguard Method in financial services

Barry Wrighton

Welcome to the first edition of the Vanguard Periodical

Much of what you read here will probably challenge your current view of how things work in the financial sector and may, at first sight, seem counterintuitive. However, once understood you will see that the issues are not complicated, the solutions are straightforward and the resulting improvements to the bottom line and customer satisfaction will amaze you.

Moreover, the improvements achieved through the application of the Vanguard Method in sales revenue, reductions in failure demand and elimination of wasteful activity can all be realised without the risks associated with traditional change programs. The 'big bets' so often requested of senior managers can be designed out and in their place small investments based on knowledge and data designed in. Small controlled changes resulting in big effects with minimal risk for all – what's not to like?

Gaining the knowledge required to take these small actions is a process of learning that you take at your own pace and, when you are ready to act, you will be able to predict the outcomes of the redesigned processes. In general insurance claims, the result of applying this kind of redesign is to reduce the indemnity spend by millions and send NPS ratings through the roof. The control will come from governance designed in through better measures used by people making the changes.

When the same 'get knowledge – redesign – make normal' route is followed in any financial services sales system, customers will 'pull' more from the product and buy more products. Customers end up buying more than a room full of your best sales agents could ever 'sell'. Sales improvements of 30-50% are typical.

The good news does not stop with improvements to the delivery of core services. Support areas such as IT, HR and finance can all benefit from the application of the Vanguard Method. Later in this journal you will read how a group of IT managers learned their way to adding value to the core of the operation. It is a great example of what happens when the industry wide reliance on IT-led change is broken. The shift from IT as the main agent of change to one providing post-change support always has an immediate and dramatic reduction on IT spend. Once people from IT 'get it', their contribution can be huge. One client with an approved budget of £15m for changes to a pensions system struggled to spend £500,000 once managers understood and acted on the major

Charles Eames, designer of those iconic aluminium and leather chairs found in so many boardrooms, liked to say, 'Never delegate understanding'

system conditions governing performance. 'Understand the system – improve the work – 'pull' IT/digital' is a formula that works every time and will without fail achieve a massive return.

Charles Eames, designer of those iconic aluminium and leather chairs found in so many boardrooms, liked to say, 'Never delegate understanding'. It's advice those who occupy his chairs would do well to heed. In the articles that follow you will read how leaders have gained levels of understanding that go way beyond that which can be learned from 'Red-Amber-Green' reports. When leaders study the work in their system, the knowledge they gain frees them from a reliance on assumptions and data that is unhelpful at best, misleading at worst. Simple concepts like resolution and 'one-stop', defined in customer terms and learned empirically, liberate service delivery from the tyranny of command-and-control thinking. Knowing where to start can sometimes be the most daunting issue for managers. The good news for leaders in financial services is that the ideal place to begin the learning journey exists in every organisation in every sector we have worked in. Any substantial contact centre for customers has everything you need to gain the insights required to start leading action on your system. When senior executives did this in a life company they learned that the functional design of service did not match the demands placed on the system by customers.

When they led a service redesign to deliver the predictable service elements that mattered to customers, an 80% efficiency gain was registered that resulted in an NPS rating above 95%.

So when it comes to taking action on what's been learned, you and your fellow leaders can choose where to focus your efforts based on an understanding of the true causes of failure demand and wasteful activity in the system. As we saw earlier, the control delivered by small controlled steps judged against good measures mean there is no need to bet the farm on any one action or programme. The process of identifying these causes will also provide the source for new design solutions

and engage the people who need to decide how the solutions will work and the best way to implement them. Momentum for change is designed in, resistance and dysfunctional behaviour designed out.

We need our financial services organisations to succeed in their efforts to reinvent themselves. The kind of change needed to rebuild trust and faith in the sector can only be achieved through the adoption of new principles that break with those that have led to the mistakes of the past.

The new principles must provide guidance on how customers experience service, how roles are designed to create value for customers, or add value to that work, and they must ensure that better measures are in place to judge how well the organisation is working against its purpose defined by its customers.

It is tempting to believe that doing things better will be enough to achieve the transformation customers are looking for. Deep down I think we all know that real, successful transformation will only be achieved when the whole financial services sector learns how to do better things.

I hope you enjoy the rest of the journal and look forward to welcoming you at our event in March.

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We need to change the way we think about banking

Patrick Hoare

Current strategies for controlling costs aren't working. If banks care about profit, they must change the way they think about management

I started working for The Leeds Permanent Building Society in 1992. It was a different time and now feels like a different world. I was happy in work, as pretty soon I'd learnt to deal with most of the customers' requests on my own. We didn't measure it, but I'd guess that 99% of customer demands were dealt with at the first point of contact; efficiency was high, costs were low and service was good. Low costs – now that was something that was measured.

In the early 1990s, the only measure I remember receiving attention was the cost : income ratio (cost per pound of revenue made) and, for those interested, we kept it below 40%; if memory serves, we got it down to 38.6% in 1993. This was an explicit drive for the whole company that everyone bought into, and we used it to rate ourselves against other banks and building societies.

From being the one explicit driver, the cost : income ratio has now disappeared from view into the notes at the back of the annual accounts. In 2014, KPMG reported cost:income ratios at five major banks of between 51 and 87%, with the depressing long-term trend set to continue. Between 2009 and 2014, the UK banks' cost : income ratios deteriorated faster than in any other developed nation (see graph page 9).

How can this be when banks spend so much time, effort and, yes, money on controlling costs? What strategies are being put in place to bring about improvement, and is there any evidence that they work? Let's look at some of them and the thinking they are based on.

1. Reduce costs by setting up 'centres of excellence' where roles are specialised and risk can be carefully managed and mitigated

The skills I used in 1992 have largely been transferred to remote service centres, ever bigger in size and smaller in numbers. This trend is based on a belief that economies of scale will reduce costs, a belief that has also led to service centres increasingly being outsourced and offshored. But we're missing something here.

Something that used to involve one person (for instance agreeing and processing a secured loan) now requires input from up to 10 people, lengthening the time to complete the transaction and driving up customer frustration beyond recognition. The result is mushrooming failure demand (knock-on demand caused by the organisation doing

90% of IT projects fail to deliver

something wrong or incompletely for the customer the first time), which is then dealt with by drafting in extra resources. Needless to say, the cost: income ratio soars. 'Economies of scale thinking' needs to be replaced by 'economies of flow thinking'.

2. Drive change and cost control through central functions like IT

Large IT and change programmes designed to reduce long-term costs command huge budgets and are run by central teams remote from the reality of what happens on the front line. The programmes have plausible intentions, but 90% of IT projects fail to deliver. IT and change teams drain money and resource, while headcount is removed from a bemused and harassed front line. Since the initiatives are never used to study the system from a customer's perspective, the real issues go unearthed and undealt with. In sum, the return from the massive IT spend is disappointing at best. Once again the current thinking – putting IT first as an instrument to drive change through to the customer – is exactly back-to-front, creating huge extra costs.

3. 'We can drive improved performance by strengthening support functions'

IT and change programmes aside, I have seen a big increase in bank 'support' areas. Organisations have come to believe that the key to improvement is through performance management – managing people. Back in 1992, in an environment of low cost : income ratios and flat-rate bonus schemes for all, six 'personnel reps' were sufficient for an entire company. Compare that to today's small army of people dedicated to HR, performance management and bonus calculations. In some places, HR teams are outsourced and/or offshored and re-christened HR Direct. I see a similar growth in risk, audit and compliance teams, all adding substantial cost but no value. The problem is not the people, stupid; it's the system!

4. Cost cutting by channel management

The thinking here is that moving customers to cheaper channels will reduce costs. If a transaction costs 67p online, £2.81 by phone and £9.50 face-to-face, pushing the online offering seems a plausible response. Yet it fails to take into account two things.

First, not all customers want to use online banking channels exclusively, and those that don't will take their business elsewhere. Second, unless it is informed by understanding of demand and what matters to customers, the design of the banks' internet offering is likely to be poor, meaning that frustrated customers have to visit the branches anyway to get what they require. Better to design against demand and free up customers to use the channel of their choice. Concentrate on creating value for customers, not cost per transaction.

5. 'We need help – we can't do this for ourselves'

As a consultant myself, I'm flabbergasted at the number of consultants employed by the banks these days. Some of the big consultancy firms have had teams in some banks for years. What is the return on these contracts? The justification must be that it will save money in the long term – but is that really happening? With a different level of thinking, banks can learn to study their systems from a customer's perspective and unlock massive potential for themselves, at the same time saving a huge bill from the men and women in sharp suits – a double benefit.

Concentrate on creating value for customers, not cost per transaction

6. Increase revenue by selling more products

The startling upshot of all this? Overall, the major banks show a 227% increase in costs between 2000 and 2012. Meanwhile the cost : income ratio, at best stable, for most banks continues on its merry upward trend.

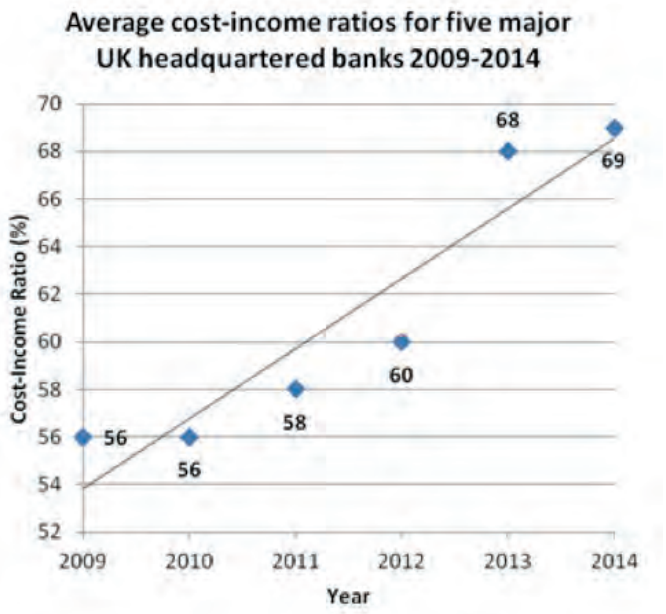
And, it's set to get worse.

I recently had the dubious pleasure of spending six weeks with a project team tasked with the digitization of a bank. The top line was this. A team of 45 was put together in London, more than half of them external consultants and most of the remainder bank colleagues from areas such as 'change', 'compliance' and 'risk'. The two token frontline colleagues were largely marginalised. We were asked to imagine customer journeys using personas, dream up what a perfect journey would look like and then play that journey out in front of 'live' customers (paid to come in and answer loaded questions). The 'creative' consultants drew up storyboards and imagined how a customer could walk past a bank and be sent a phone alert telling them about the latest products available online, while a business case was drawn up to show how many frontline staff could be culled on the back of these great ideas. So, huge costs and no study or understanding of demand or how the current system works for customers.

As W. Edwards Deming asked many years ago, 'Doesn't anyone care about profit'?

Doesn't anyone care about profit?

When I began work in 1992, I had no targets and I worked with a set of principles based around 'Customer First'. Morale and customer advocacy were high; staff turnover, fines, complaints and cost : income ratios low. Since that time, the drive for standardisation and centralised control and a fierce focus on reducing costs has perversely driven up costs inexorably. My conclusion: instead of worrying about costs, volumes of customers and market share, banks need to move back to a focus on the the measure that says it all: the cost : income ratio.



Source: KPMG 2015 'Banking results 2014: A paradox of forces' April 2015, p11

The past 20 years have seen a wholesale destruction of banking morale, reputation and cost : income ratios. In the next 20 years that needs to be reversed by a return to customer-shaped profit centres where potential and innovation are unlocked, central support is available on a subservient 'pull' basis and the system is governed by principles and measures related to customer purpose. Using the right principles alongside 21st century technical and other advancements, properly employed, makes a return to cost : income ratios of 38.6, or perhaps even lower, entirely feasible. What's needed to achieve them is not transformation through large investment programmes, but a change in management thinking. Are the banks prepared to embrace it?

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The purpose conundrum

Toby Rubbra

Becoming customer-focused isn't a matter of adding a few customer-related initiatives to what is already being done. Leaders must be brave enough to ask why their organisation became un-customer focused in the first place

For leaders in service organisations struggling with poor Net Promoter Scores (NPS), multiplying complaints, mounting regulatory pressures and disruptive incomers threatening their market share, 'becoming more customer-focused' seems the obvious remedy. To this end, their usual first step is to appoint managers with customer-facing roles and large budgets to drive what they might call 'client-centricity'.

Yet as if the challenges of meeting their own function's arbitrary budgetary objectives and targets weren't enough, the new structure now confronts them with the need for yet more internal meetings to implement and monitor customer initiatives at the behest of the fresh-minted customer directors.

But hang on a minute. In the rush to implement solutions, no one seems to be asking why the organisation became un-customer-focused in the first place. Nor are they questioning whether building what is in effect a new function or sub-function, complete with budgets, strategies and projects, will solve the underlying problem.

The challenge of change

Herein lies the first challenge. If the organisation sees itself as basically successful – in the same position as, and no better and no worse than competitors – there is no compelling case for fundamental change.

The leaders' organisational worldview – basically that articulated 250 years ago by Adam Smith, based on division of labour and functionalisation to increase productivity, with attendant management 'norms' of standardisation, specialisation, inspection and extrinsic motivation – remains intact. Part of this functionalised worldview is that operations and customer service are separate, so that there is one director for ops and another for customers. In this perspective customer service is a bolt-on to existing operations which assumes that problems such as poor NPS and rising complaints can be fixed by bringing more resources into play – someone taking responsibility for the customer, managers getting 'back to the floor', training the front line or carrying out stricter inspection.

Organisations become un-customer-focused because they are torn between two different purposes – serving the customer and serving the shareholders

Actually, the problem goes much deeper than that, to the very heart of management thinking. In today's functionalised organisations, managers can't see that the sub-optimisation of service that shows up in complaints and weak customer loyalty is inherent in the way the work is designed, and the way the work is designed reflects assumptions about purpose – what the organisation is there to do.

A question of worldview

Basically, organisations become un-customer-focused because they are torn between two different purposes – serving the customer and serving the shareholders. The problem with trying to serve two different purposes at the same time is that each has its own distinct worldview and its own set of action strategies for management. The balanced scorecard that often sits precariously in the middle between the two only compounds the difficulty by insisting that both are equally important. Why would one treat two differing compasses with equal priority in trying to reach to the same destination?

The prevalent worldview among managers today is that the purpose of the organisation – what it is there to do – is to make money for shareholders. Hence their primary purpose (compass) becomes to 'deliver profits through increasing revenue and reducing costs'. With the latter hard-wired into personal objectives, promotion and personal wealth it is unsurprising that management ingenuity is focused on sales incentives and the rigorous control of operational costs, rather than on satisfying customers and their needs. Yet the relationship between the customer and the solution is naturally and crucially intimate. Focusing on managing the budget and meeting internal targets has the opposite effect to the one intended, causing existing customers to leave for other organisations that look after them better, and dissuading new customers from replacing them. Perversely, it drives organisations to become un-customer-focused.

Becoming really customer-focused

To create a customer-focused organisation – and to prevent it becoming un-customer-focused – it is necessary to abandon this worldview and replace it with different one.

As a consequence of focusing on the customer, the brand, market share and profitability all improve

In the alternative worldview, there is a systemic relationship between customers, the core work and the purpose of the system. There is no split between them. When the purpose is to deliver what matters to customers rather than what matters to shareholders, the organisation drives by a different compass. It focuses on delivering these outcomes and doing so by only doing the value work necessary to deliver what matters. In this way we ensure that our customers get what they want when they want it and, if we are ruthless about just doing the value work, costs fall as waste and failure are driven from the system. As customers talk well of us, more arrive. As a consequence of focusing on the customer, the brand, market share and profitability all improve.

Becoming customer-focused, then, isn't a matter of adding a few customer-related initiatives to what is already being done. That is just an attempt to paper over the fatal flaw at the organisation's heart – the confusion over purpose, over ends and means. To become more customer-focused, leaders have to change the worldview that, although not explicitly articulated, is implicit in the measures being used and currently governs how the system is configured and performs for the customer. The only way to change a worldview is the acquisition of knowledge. To acquire knowledge, leaders have first to be curious enough to ask why their organisation was not customer-focused in the first place.

The only way to change a worldview is the acquisition of knowledge

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An inside job

Keith Bennett

Keith Bennett, an experienced Vanguard consultant, took an opportunity to work on the inside in a bank. What follows are his reflections on being an internal consultant

Good things come in threes….

It looked like the perfect job.

It had everything I was looking for:

1. A bank that wanted to be a systems thinking organisation, using the Vanguard Method.
2. An opportunity to use my knowledge and experience to help to improve service, reduce costs, increase capacity and work towards achieving the corporate goal.
3. An excellent package: competitive salary, award-winning pension scheme, share scheme, generous holiday allowance…

I had been a Vanguard consultant for five years, working with leaders and the front line as an 'external' consultant, helping my clients to 'see' from the customer's point of view and to understand the 'what and why' of service delivery. While every job was different, for me there were two common themes: first, the enthusiasm and passion for change generated by teams using the Vanguard Method, and even more the excitement when they witnessed the results; and second, my heavy-heartedness at leaving in the knowledge that I wouldn't be there to see them develop and to witness their continued drive towards 'perfect'. If I took up an internal permanent role, I reasoned, I could experience similar enthusiasm at the successes, at the same time as helping with the challenges that the organisation would normally face in my 'external' absence.

I got the job. I was to be an internal consultant, helping leaders, managers and frontline staff to understand their current performance and redesign their systems to achieve their purpose and do what mattered to customers – the consequences of which would be better service, lower costs, greater capacity and improved morale.

I couldn't wait to get started

On hearing my news a good friend and colleague at Vanguard offered me some words of wisdom: Remember, he said, if you're an internal consultant you'll have all the knowledge required to help the bank study and redesign its services – but you won't have the full authority to make it happen, and that can be, well…challenging. I thought I understood what that meant.

The customer was to be at the heart of everything the bank did

Three days in

For the first three days I was immersed in the bank's values induction programme. I had played the induction games, did the encounter group stuff, fell backwards into a colleague's arms, participated in the cathartic 'drama' which had been designed to demonstrate how we'd all learnt what the values meant and so on. This was all, of course, in the full knowledge that learning to live the values wouldn't make a blind bit of difference to the customer's service experience. But I had to give the organisational development folks their due – they didn't know what they didn't know and had, undoubtedly, designed the induction with the best of intentions. And, after all, the values were completely focused on the customer; *the customer was to be at the heart of everything the bank did.*

With the induction box firmly ticked, I had an opportunity to meet those that I'd be working for and with.

Three directors

There were three key directors. I met with Directors One and Two soon after starting. They had apparently worked with the Vanguard Method before and had hands-on experience in previous roles. They were looking forward to working with my colleagues and me. Based on their approach and enthusiasm so was I. They both talked eloquently of the corporate goal – to be a systems thinking bank – and how this bank was going to be *different.* A bank that would have the customer at the heart of everything we did, that had clarity of purpose from the customer's point of view, that had measures that would show how well we achieved purpose and did what mattered to customers, and managers who spent time in the work.

'And you'll be helping the teams to study their work and dropping in regularly to understand what they are learning and to assist with some of the analysis; *and* helping to remove obstacles to the redesigns; *and* helping to make the redesigns sustainable?' I asked. 'Absolutely', they said. Fantastic.

Director Three was harder to pin down. Two scheduled meetings were cancelled at the last minute. OK, these things happen. Finally a third meeting was arranged. He didn't show. When we did eventually meet it was by chance on a train journey to another of the bank's sites. We were both speaking at a welcome event for new starts. He was to talk about leadership, I was to talk about working on the work.

The head of service was one of those people that cuts a swathe through an open-plan office, gesticulating wildly as they go, leaving a trail of fluttering papers in their wake

Our messages could not have been more different. He talked about targets and working on the people, I talked about demand and measures that related to purpose and what mattered to customers. It was the first red flag.

I'd long known the absolute necessity of having an 'engaged' leader to head a successful intervention. Like all Vanguard people I knew that commitment is fine, but if leaders don't spend time in the work they just won't get it. When leaders don't get it they see our work as a project, something that they can delegate to an 'improvement team', something they'll get reports for, and updates on, at meetings…

I mentioned my observations about Director Three to my own manager. She assured me that Directors One and Two 'got it', having had previous experience of the work. Director Three might take a bit longer.

But soon more red flags started appearing…

The bank was in the throes of migrating customer and service data from an all old IT platform to an all new one. But the new IT platform had a very *traditional* design. Hang on, I thought; surely we were going to be a *different* bank, not one that did a lift-and-shift IT system design? That's what Directors One and Two had told me – and part of Director Two's remit was IT. *Traditional* IT designs get traditional results, not *different* ones.

Under the plan, each of the bank's services would in turn migrate from the old platform to the new. The first would be the savings service, which is where my work would start – helping an internal consultant colleague and team to study the new business savings 'system' before the IT migration took place. We were to do 'check'.

The three-legged stool

Vanguard people know that getting knowledge about the what and why of current performance requires what is referred to as a 'three-legged stool' - a leader, a manager, and a team of frontline staff - to study their system. Everyone needs to arrive at the same learning place at the same time. Without any one of these three legs the stool will fall over and the work likewise.

We had agreed a team design: it would consist of a manager and a group of frontline staff, and the leader would be the 'head of service'. The directors agreed that they would brief the head of service on her role in participating in and supporting the team.

The head of service was one of those people that cuts a swathe through an open-plan office, gesticulating wildly as they go, leaving a trail of fluttering papers in their wake. She was too busy to talk when we first met, but suggested I organise a 'catch up' for later. That 'catch up' took some time…

One team member commented that this was amazing stuff – this bank was going to be different to everywhere else that he'd worked!

The 'check' team started its work. There was just one problem - the head of service never turned up. The team was not surprised – the members had already worked 'for her' before I joined. Still, the data was compelling and the team were lapping it up. As with all 'check' teams they had learned that not all demand represented 'value' – in fact, in savings they discovered that in telephony every other call was failure demand, that is, the knock-on demand created by a failure to do something or do something right for the customer the first time round.

Learning a method to study the system had invigorated the team, as it always does. Members said they couldn't believe how broken the system was and, more importantly, how easy most of it would be to redesign. I had to keep reminding them: we're just here to learn, to get knowledge, before we even start to think about redesign.

But their enthusiasm never faltered. One team member commented that this was amazing stuff – this bank was going to be different to everywhere else that he'd worked! Even in the study phase, they could see instantly that by making a simple change to a document they could 'turn off' a significant number of calls. That's what the head of service needed to experience too, at first hand, by listening to calls.

Despite repeated requests, however, the answer was always the same: 'Sorry, I've just been too busy. I'll try to pop in next week'.

Directors One and Two agreed to have a word and get the head of service 'in the room' with the team. They also undertook to see the team and understand more about what they were doing themselves – as had been promised many weeks ago.

It didn't happen. The directors did have a word, but the head of service didn't turn up, and nor did they.

They had *all* been too busy. Another red flag.

I was starting to become concerned. I wasn't seeing what needed to happen. There wasn't a lot of commitment, never mind understanding. Had I made a mistake? One night I wrote down the pros and cons of staying with the bank. I focused on the pros: I really should hang in there, it was still early days. In the months to come I referred to the list so often that I had to laminate it to stop it wearing away.

It became a habit: every night I'd do a quick review of my 'Why I need to stay at the bank' list in an attempt to persuade myself not to walk away. I mentioned my laminate habit in a 'What have I done? I think I've made a mistake' call to another friend and former Vanguard colleague. He laughed… a lot.

I made a last-ditch attempt to get the head of service to experience just some of what the team was learning. I explained that if she

I wanted her to experience first hand the large number of unnecessary calls that customers were having to get something done that should have been done before; failure demand

hadn't 'seen' it for herself the team's subsequent work of redesign wouldn't make sense. She would simply end up rationalising, justifying and defending her position.

Saturday mornings were good, she said – so we chose one on which to spend time together listening to calls from savings customers. The lines opened at 8.00am. I arrived at 7.45am, coffee in hand. But 8.00am came and went, as did 8.15am and 8.30am. She didn't show. I asked a couple of managers when they thought she might be in – they told me I'd be lucky, they'd never seen her on a Saturday…

Why was it so important that she listened to live calls? What did I want her to hear?

Well, I wanted her to experience first hand the large number of unnecessary calls that customers were having to get something done that should have been done before; failure demand. Of course we could have listened to recorded calls together – but I already knew from the team's work that the failure demands were predictable, and I wanted her to hear them live. This would have been a start, making her curious, leading her to spend time and discuss with the team, getting her to understand that the issue was the system, not the people, and that the real culprit was the management thinking that had created the system.

But it didn't happen.

And there was no sign of the directors either.

Three little words can make a massive improvement

When customers deposited money in their new savings account they were informed that a Certificate of Deposit would be issued by return. But, predictably, customers would call a week or two weeks later to ask where the certificate was. Now you might think they were right to feel that was quite a long time – but that wasn't the real reason we got the demand.

If and when customers got through the security questions and actually spoke to an agent (many didn't), the conversation would go like this:

Customer: Hello, I'm just wondering when I'll be getting my Certificate of Deposit?

Agent: Certainly, I can help you with that. When did you make the deposit?

Customer: On 1st August

Agent: OK. Yes, I can see it was sent to you on 3rd August.

Customer: I have a letter dated 3rd August but I haven't received a *certificate*…

Agent: Isn't there a print-out with the letter?

Customer: Yes, so there is.

Agent: That's your Certificate of Deposit.

Customer: Oh. I was expecting a *certificate* – that's what my welcome pack said and it's what I was told on the phone when I opened the account.

Agent: No, the *print-out* is your certificate.

Now, is there anything else I can help you with?

Adding the words 'Certificate of Deposit' to a print-out would eliminate at a stroke tens of thousands of calls that were a waste of everyone's time and effort

You get the picture. Adding the words 'Certificate of Deposit' to a print-out would eliminate at a stroke tens of thousands of calls that were a waste of everyone's time and effort. That would free up capacity to deal with the calls that we did want. You know, the calls that sounded like: I want to open an account, I want to make a deposit, I want to withdraw funds and so on. That's right, the ones that we really were here to deal with.

Easy. A no-brainer.

Well, not quite.

Monday morning arrived. No apology from the head of service – but she did say she would be interested to see my *report* on my findings from Saturday. I politely explained that a report wouldn't help her get it – on which she walked away.

And that was that. As I knew she would, when the head of service, having spent *no* time studying the work from the customer's point of view, heard what the team had learned studying the system she rationalised away the findings. And when it came to the simple step of turning off the highest frequency failure demand by using a principle of 'sending customers documents that they can understand', she told the team it couldn't make the change 'because there's a freeze on all IT changes'.

The addition of three words - 'Certificate of Deposit' - would cost too much money.

The bank's new IT platform had been developed by a third party which had control of all changes. Because of the contractual set-up any change to an existing document would attract a charge.

So who put the freeze on IT changes?

The directors. They had implemented a total stop because the budget had been exceeded.

But how much was this perceived saving actually costing us in unnecessary calls serviced, capacity uselessly consumed and value calls going unanswered? The perceived saving was costing money.

I spent more depressing evenings staring at my laminated card. As part of the feedback to the directors on what the team had learned, we listened to recorded calls. The directors nodded their heads and winced in all the right places. Afterwards they said that while they understood the team's excitement about what it had found and wanted to fix, they had to temper the enthusiasm – they had undoubtedly done

The disappointment was palpable

a great piece of work, but these things would take time to fix. One team member asked about labelling the print-out 'Certificate of Deposit'. The directors reiterated that IT changes were frozen – the document would not be changed.

The disappointment was palpable. The team was told that its high-level redesign would be given 'due consideration'. One member asked me 'Why have we done all this work? I thought it was to make changes, improve our service, give us better work to do? Why won't they do it? Why can't they see how stupid they're being?' Another team member said, 'I wish I'd never 'seen' at all, I'd rather still be in the dark and not know how easy this can all be'.

I watched the team members go back to their work. In the days that followed, they admitted they were starting to think the bank was no different to any other – and their leaders and managers were just like all the others they had worked for.

My heart sank. I consulted my laminated 'Reasons why I should stay at the bank' – and tried again not to give up.

Then it happened. The final red flag.

It wasn't so much that the first migration of customer data fell over, dramatically – it was the response to the crisis from the directors. It transpired that the 'robust pre-migration testing' had involved no more than 100 accounts. No, really, 100 accounts. The bank's telephony system was haemorrhaging with failure demand: I can't access my account, why has no one phoned me back? Waiting times went skyward. The crisis lasted weeks. I had heard many, many distressing calls.

The directors' solution was to bring in additional resource in the form of non-banking personnel. What mattered in their view was just answering the phones, not providing the expertise required to meet the demand at the point of transaction. The net result was tantamount to: 'Hello, how can I *not* help you?'

The non-banking personnel were trained in the basics – they were taught to offer platitudes such as:

- Yes I'm *really* sorry to hear that.
- I understand how you feel.
- We have a lot of customers experiencing difficulties right now.

And finally an in-built handoff:

- I'm really sorry (again), but all I can do is pass a message on to my colleagues to phone you back.

Needless to say the handoff resulted in more work, an even larger backlog – and because it took so long for colleagues with expertise to get back to the customer, another round of failure demand in the form of: why has no one phoned me back? As the crisis broke I sat down with Director Two. I had an outline plan that would help stem the flow of calls. It involved analysing the type and frequency of calls,

The principles for a successful intervention remain the same, whether the change agent is internal or external

Never take a leader's understanding for granted – only believe it when you see it

understanding the knowledge required to deal with the failure at the point of transaction and then *rapidly* equipping colleagues with the skills to deal with it, meanwhile establishing the root cause and how to fix it.

After listening briefly, the 'committed' director told me that 'what I had to understand was that in times of crisis, systems thinking and all that stuff is out the window – we just need to satisfy the regulator that we are answering calls, end of'.

That evening my laminate went in the bin. A 'competitive package' was no longer enough to keep me at a bank that was otherwise just like all the rest. I left and was fortunate enough to be able to return to Vanguard.

What would have kept me at the bank?

If I'd worked for leaders – directors who spent time in the work, understanding what prevents perfect and working tirelessly with their management and frontline teams to remove the obstacles that prevent delivery of real value to customers.

If that had been in place, everything else would have followed – I and my colleagues could have helped leaders, managers and frontline staff to improve service, reduce costs, and create capacity, thus achieving my purpose – what I had been hired to do.

Three main learning points

What did I learn from the experience? Probably nothing completely new – but it did confirm that the principles for a successful intervention remain the same, whether the change agent is internal or external.

1. Just because an organisation says it will be different doesn't mean that it will be. 'Commitment' by leaders is not enough – it must lead to action and action must lead to learning and understanding. Only then can decisions then be based on knowledge.

2. If leaders won't spend time truly understanding the links between their thinking about the design and management of work and performance – then don't start work with a team. Once people have learned to see, they can't unsee. There is nothing worse than helping frontline staff to 'get' what's wrong and why and then have leaders not change the system because they don't understand that it is their own thinking about the design and management of work that is the invisible barrier to change.

3. Never take a leader's understanding for granted – only believe it when you see it.

And maybe just one more…. a laminated list of 'reasons to stay in your job' really is a strong signal that something is seriously wrong.

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The assumption presumption

Steve Thorne

Assumptions aren't data. Companies that confuse the two risk sub-optimisation at best, at worst dangerously misjudging their own performance

Why do businesses make key decisions based on assumptions rather than actual data?

It is a question I find myself regularly asking, particularly when working with clients in the financial services sector. Commonplace as it is, the practice is misleading and inherently risky.

Dangerous assumptions

For example, a common assumption relates to service level agreements. The assumption is that the agreed service level equates to a good level of service - if the specified service level is being hit, performance must be good. Data on the achievement of service levels is almost always readily available.

However, when I ask for actual data on what customers predictably ask for, what matters to them and how well the system currently achieves it, it's a different story. In fact I've yet to work with an organisation that could provide that information without an intensive exercise to collect it from scratch.

That's alarming enough. Even more alarming and damaging is that when customers complain of poor service, the organisation frequently responds by arguing that it must be the customer's problem – after all, the service level is being met so how could it be the organisation's fault?

Another common operating assumption is that higher volumes will automatically translate into better results – for example, more outbound calls will result in increased sales or more arrears collected from customers in debt.

In these systems, data is readily available about activity – the 'dialer spin rates' (the number of calls made by automated dialer IT systems), how many times the phone is answered and such like. Yet tying together actual data about the type and frequency with which customers bought or if not why not, or the type and frequency with which customers paid and if not why not, often requires a whole new exercise to learn about these important levers for understanding and improving the system.

Assumptions vs data

How and why does this perilous over-reliance on assumptions arise?

One common response is that in a large and complex business real data is hard to collect and calculate. That may be true, but even so it should set alarm bells ringing. Shouldn't the organisation be focused on learning how to

'Dad, why is it that in the world of science most hypotheses are disproven, yet it seems from our discussions that most hypotheses in the business world somehow find a way of being proven'?

capture and use actual data to make informed decisions, rather than presuming that untested assumptions are the right ones?

Another less obvious and more alarming possibility emerged from a conversation in which a friend relayed to me a question his science-student daughter had posed over dinner: 'Dad, why is it that in the world of science most hypotheses are disproven, yet it seems from our discussions that most hypotheses in the business world somehow find a way of being proven?'

Good question

Is there so much pressure in modern business to make the budget and hit the targets that organisations prioritise 'proving' hypotheses over doing the hard work of learning how to improve the real data? In other words, if the data suggests that the decision to use the assumption was wrong, the temptation is either to adjust the assumption or manipulate the system based on it to make the outcome come out right.

Thus, if the system is failing to hit the service level target, the easiest solution is to adjust the service level or stop the clock. Or if the 'abandon-rate' target is not met, the temptation is to adjust the average handle time – and then be surprised that call volumes increase, because more and more customers call back to pursue problems that were not properly fixed the first time round.

Far from leading to better understanding and hence improvement of performance, this manipulation of the assumptions just serves to further sub-optimise the system.

Worse, the assumptions get translated into apparently objective 'data' which seemingly show the organisation achieving the goals it has set itself. As it is passed up the line, the fudged 'data' becomes the basis on which more and more management decisions are made.

This is dangerous territory, and much more common than might be expected.

Please don't misunderstand me. I'm not saying that testing a hypothesis is not important or useful. Quite the contrary, it's a fundamental principle for a learning organisation.

A better alternative

So what's the alternative to proceeding by assumption?

The first priority is to be clear about the real purpose of the system, from the customer's point of view ('outside-in', in Vanguard parlance). The second is to adopt measures that are directly linked to this purpose.

The easiest solution is to adjust the service level or stop the clock

The first priority is to be clear about the real purpose of the system, from the customer's point of view

In the case of a claims-type system such as motor insurance, measures might include the end-to-end time, from the claimant's point of view that it takes to fully settle a claim, and the type and frequency of barriers to settlement. In many cases settlement delays create extra costs (in additional need for hire cars, for instance), so linking these measures to the actual consequences for cost is crucial.

If measures are unrelated to purpose, they will not only not reveal how well the system is doing what it is supposed to do, they will create a new, de facto purpose that distorts and sub-optimises the system, as above.

Measures to connect actions with consequences

It is also essential to learn how to capture and use actual data to learn what your system can predictably achieve and the variation within it, usually involving capability charts (for more on this see the Guide to Creating Capability Charts on our website, www.vanguard-method.com). This will suggest opportunities for action that can be tested and measured to understand the relationship between action taken and consequences for performance. It provides a scientific and systematic means for identifying ways to improve performance, by connecting actions with consequences.

For example, in an arrears-type system, why and how often do customers go into arrears, and what kind of customers have done so in the past? Understanding why customers have fallen into arrears enables the organisation to make decisions based on data, not opinion or assumption, about where to act. For example, the underlying cause may often lie elsewhere in the system – such as, problems with statements or direct debits. In that case the obvious point of intervention would seem to be pro-active work to reduce the number of customers falling into arrears, and requiring expensive chasing, in the first place. Data over time will show the consequences of trying different prevention methods.

Ending the numbers game

Acting this way challenges the organisation to use its ingenuity to interpret and act on actual data, rather than spending its time developing elaborate assumptions that risk clouding rather than clarifying opportunities for improving performance. The predictable result is learning where and how to improve performance systematically and sustainably.

So ask yourself, how much of your organisation is spending its time playing numbers games that hide real performance, rather than helping you to learn?

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The RAG trade

John Dunnion

Applying traffic lights to business is as dangerous as driving blind. To see clearly, organisations must first understand their purpose from the customer's point of view

When Lester Wire, a Detroit policeman, was trying to solve the problem of reducing car accidents at city junctions in 1912, his invention of red and green traffic lights seemed like a really good solution.

Eight years later, William Potts, another police officer, added a subtle improvement – the amber light. This allowed drivers and pedestrians alike to make the necessary adjustments for the impending change ahead.

Problem – solution. Job done.

And so it was. More than a century later, the first thing every new driver is taught is Wire and Potts' colour scheme: red for 'stop', amber for 'prepare' or 'caution', and green for 'go'. Yet, as proud as they would have been of their device, our police officers would probably be rather more surprised to discover that many multi-million pound organisations have co-opted their simple signalling sequence to manage processes in their complex multilayered businesses.

On the surface, using red-amber-green (RAG) traffic lights to monitor the state of business processes seems like a perfectly reasonable and rational approach – inspired, even. Let red indicate 'immediate action required', amber 'investigative action required' and green 'no action required' – and managers have an immediate visual signal that something does, or doesn't, need to be done. What could be wrong with that?

Plenty. In business this approach was born in the manufacturing sector, then going on to colonise project management before finally installing itself across the service industry, where it has been sold by glib salespeople – the RAG rogue traders, as it were – as the silver bullet: the all-purpose answer to the problems of service management.

But that is to start at the wrong end. The real culprit is not the answer but the question: What is the problem to be solved?

RAG doesn't work. Worse than that, it makes performance worse – every time

If the problem is defined as, 'I need a simple system to highlight what my business performance is, when compared against a number or arbitrarily agreed limits (usually service level agreements, or SLAs)' – then, yes, RAG is the answer: tick!

If on the other hand the problem is defined as, 'I need a system that gives me measures that will help me to understand and improve my business and its performance' – then RAG fails miserably.

I have worked with front-line workers, managers and leadership of dozens of service organisations and witnessed the impact of RAG management on them for more than 20 years. On that basis, there is only one conclusion possible.

RAG doesn't work. Worse than that, it makes performance worse – every time.

In point of fact, and even scarier, in almost 100% of cases green is actually red.

Imagine the chaos if that was the case in traffic management. It would not take long to fix it. Why? Because the result is obvious, tangible and visible. Car crashes can't be ignored.

In services, car crashes happen every day; but they go unseen. At least by the leadership, that is – they are only too visible to the people on the front line. The customers experience them, so they see them too. The damage is palpable. But managers and leaders remain oblivious.

Applying traffic lights to business is as dangerous as driving blind. Here's why. As with all targets, 100% of the time it surreptitiously alters the purpose of the organisation using it. The avowed purpose will be, 'Put customers first!', or some variation on that theme. Using RAG, the de facto purpose becomes, 'make it green.'

'Make it green' is the constantly-repeated mantra. As a result, making it green becomes the day job of everyone from the front line up.

Does it matter how green is achieved? Not really. Does it matter how customers are affected? Not really. Does it matter that morale is being eroded? Not really. Because what matters is that the light is green.

'Make it green' and the pressure goes away. We pat ourselves on the back and congratulate ourselves on being effective and efficient leaders and managers. Relax. No action is required.

And if it's red? Well, that's another matter. Let the games begin.

Everyone I have worked with, from front-line administrators to senior leaders and all those in between, knows that RAG management is a nonsense, an illusion

The justification game

This is the most common game. It is based on the medieval practice of locking offending villagers in the stocks and pelting them with rotten fruit.

Some poor team manager has to stand and invent excuses why his or her group has not 'made it green'. Staff absence, illness, holidays, bank holidays, unexpected levels of demand, training, work complexity and backlogs form the basic pick'n'mix of excuses that are rolled out every week. Threats and insults are hurled back, usually over a conference phone, and apologies and promises are made. The whistle blows and the game is over. Until Groundhog Day comes around again and the process is repeated, ad nauseam.

The alchemy game

The alchemy game is used to turn red to green. This sleight of hand involves preventing the light from going red by pausing, stopping, resetting, returning, reversing or rejecting work in a way that still allows the SLA to be met, regardless of the effect on the customer or the resultant overall increase in the end-to-end time to deliver the service. This is the inevitable result of thinking about work as transactional. It's 'widget management', as in, 'The widget was dealt with within three days. 'Dealt with' and 'completed' of course being two different things.

The 'kidding-yourself-on' game

A remarkable thing about RAG management is that everyone knows it is junk. As a practitioner of the Vanguard Method who has worked in some of the largest service organisations in the UK and beyond I can say unequivocally that everyone I have worked with, from front-line administrators to senior leaders and all those in between, knows that RAG management is a nonsense, an illusion. The most basic analysis always shows the same thing: arbitrary targets being met in the only way it is possible to meet them, by rational manipulation and gaming.

Never once have I seen an example of RAG management leading to better service, greater efficiency, higher morale, or lower operational costs.

The obvious question then is: why do we continue to be slaves of this thinking, and this approach to the design and management of work?

The reason is simple. It is endemic, an integral part of the traditional command-and-control thinking that pervades the service industry. We know it's useless – shrug – but that's the way it's done.

Here is a real-life example of the futility of the pursuit of green in action:

It is 16:45 hours on a typical Tuesday afternoon in the busy contact centre of a well-known high-street bank. To achieve 'green' the resource desk must be able to report that 80% of inbound calls are being answered by agents within 20 seconds. The clock is ticking.

The service level shows that currently just over 78% of calls have met the standard. This is bad news. Questions will be asked. Someone will be answerable. The light is not flashing green.

What is to be done?

The team can't play the justification game because it did that last week and had to commit to achieving the 80 : 20 standard.

So it's the turn of the alchemy game. To anyone in the know, what happens next is entirely predictable. The staff on the resource desk carry out a quick line test. They start calling available operators to 'Check that their telephone lines are fully operational'.

Quickly realising it is the resource desk calling, agents duly answer, naturally within the 20-second deadline. Just as naturally, the line-checks cease as soon as the 80% service standard is reached. The traffic light has gone green, occasioning a big sigh of relief from the resource desk for a job well done. Senior managers congratulate themselves for decisive action taken the previous week at the justification-game meeting. In the real world, of course, the front-line staff are shaking their heads at the sheer bampottery of it all, and the customers – yes, you'd forgotten about them in the middle of all this, hadn't you? – they still can't get through and are pressing 1, 2, 3 and 4, furiously wishing they could just speak to someone who could help.

So if RAG doesn't work, what does? What is the alternative?

There is a straightforward answer to this. The Vanguard Method has taught us that all the measures any service organisation needs can be mined from two things:

1. What is the purpose of the organisation from the customer's perspective?
2. What matters to the customer?

Only when the business can clearly articulate the answer to these two key questions can it start to define the necessary measures – measures that will absolutely help managers to understand and improve the service the business provides; that front line staff can use to improve the work; that allow managers to make better decisions; that properly inform the business strategy; and that help identify and act on the real risks that the business faces.

I own up to a personal bugbear: if there were one term that I could remove from the vocabulary of business, it would be MI – Management Information. I detest

Everyone in the organisation needs data; everyone needs to be involved in shaping the organisational direction

the inference that only management needs data. Everyone in the organisation needs data; everyone needs to be involved in shaping the organisational direction. Ignoring the people who are closest to the customer and systematically excluding them from the decision-making process is one of the biggest mistakes that businesses make. It is like severing the spinal cord between the business brain and the business body. Successful organisations work to keep them tightly connected, continuously learning, improving and moving forward together using measures focused on a clear purpose and continually delivering what matters to customers.

Leave traffic lights to solve traffic problems. That's their purpose. What is yours?

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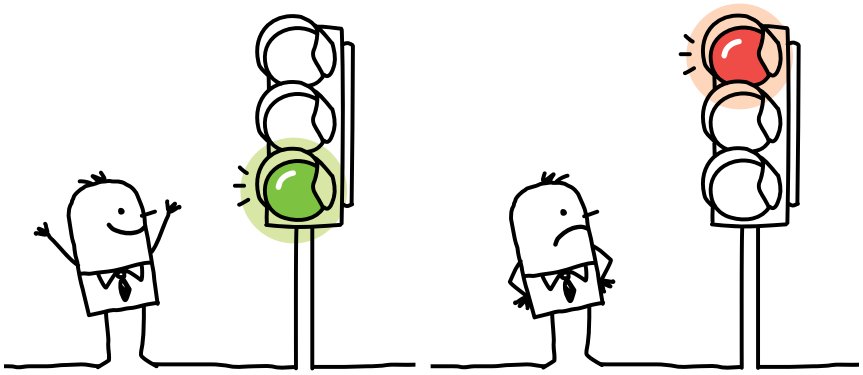

Raiders of the lost art

Dougal Mather

Understanding the complex project environment archetype helps managers to design a truly customer-shaped process

'Hello… hello… anyone…? 'The customer's voice reverberated into space. Jack Travers sighed. He had done this many times before. For all his skill at navigating the automated system, he found himself thinking ruefully of Indiana Jones trying to gain access to the Temple of Doom.

Travers had no need for more doom in his life. He had plenty already and it was in his kitchen after a pipe had burst five weeks ago. The receiver sputtered to life… 'Good morning, Mr Travers, you're speaking with Sean. How can I help you?'

Odd question. Travers had made it clear the help he needed the first time he'd called to alert his insurer to the flood. It wasn't that unusual: his kitchen was inundated, and he wanted it back as soon and as tidily as possible.

What he got instead was a crick in the neck from phone marathons and a procession of people traipsing through the front door with measuring tapes, dictaphones, mobile printers and cameras. Lots of work had been done in the shape of notes taken, trips made, reports written, photographs checked and saved, but nothing so far in the way of making good the damage or laying tiles. It had taken a week for the drying equipment to be brought in for a start.

In his darker moments, Travers wondered what proportion of insurance premiums go to pay for this kind of busyness. It's a good question.

What drives this travesty of helpfulness? Not malice or indifference. Most people working at the coalface of insurance claim systems are eager, at least at first, to help callers in need (whether that's still true after years of fighting the above might be a different matter).

The driver is, in fact, not unique to the insurance sector, but one linked to the fundamental archetype of the system, and a very common one: the 'complex project environment'.

The importance of archetypes

When thinking about services as systems, it is useful to consider some basic archetypes. Understanding the archetype helps guide towards likely points of leverage for improvement.

Along with complex projects, two other basic archetypes are:

- Transactional systems. For example, making a one-off payment. Here, the most direct route to improvement is bettering one-stop capability.
- Flow-centric systems. For example, the bank bereavement centre described in Will Pyke's article, 'Casino Banking.' In flow-

centric systems much can be leveraged from studying processes and redesigning to eliminate non-value creating waste.

He found himself thinking ruefully of Indiana Jones trying to gain access to the Temple of Doom

The complex project environment differs from these simpler systems in a number of ways.

First, projects or cases deliver individual and unique outcomes to the service user. The Travers kitchen is unique in size, shape, damage and materials; a bespoke approach is required for its restoration.

Second, they entail processes that cannot (by traditional means at least) be completed quickly. Satisfying demand is not a matter of a one-stop phone conversation; multiple interactions are the norm and a succession of actions must be put in place, generally involving third parties and subcontractors – in this case Sean and his colleagues, a surveyor, a firm with drying equipment, and later carpenters and other tradespeople to make good the damage. Some form of IT workflow system is generally used to control the work. It hasn't escaped Travers' notice (how could it?) that despite copious computerisation every new person he speaks to requires another full briefing on his situation and previous contacts. Who out of this list truly creates value is a worthy question to reflect on.

Despite copious computerisation every new person he speaks to requires another full briefing on his situation and previous contacts

Neither claims systems, nor even wider financial services, have a monopoly on the attributes above, which in the wild may be met in a wide variety of businesses and services, in both public and private sectors – for example, housing allocations and voids; general and life insurance claims; mortgage fulfilment; legal work; town planning; social work; environmental health systems; installation and repair programmes; pension claims; and IT development.

Why does this matter? Here's the thing. Disguised within what many people consider to be 'regular' operations, complex project environments are rarely recognised as different. And this lack of recognition may go a long way to explaining why conventional performance indicators and improvement schemes fail to yield the hoped-for results or staying power. They are not typical transactional or flow-centric systems, and treating them as if they were will stymie their performance every time.

To understand why, let's look at the prevailing leadership beliefs within complex project environments and how they create shared norms.

Flooding operatives with new work is the number one driver of 'bad multi-tasking'

Multitasking slows customer resolution, damages productivity and drives up frontline stress

Belief 1: The sooner we start, the sooner we finish

Unpicking this belief is key to unlocking performance in complex project environments. Flooding operatives with new work is the number one driver of 'bad multi-tasking' – the continual picking up and putting down of work without completing it.

The consequences are cherry-picking, leading to mushrooming failure demand: In any service where many cases are open and few get completed, people constantly get in touch to check on progress. This kind of communication may consume 80% or more of a system's contact capacity, turning it into a kind of Petri dish in which 'work' breeds.

Belief 2: Showing progress on a variety of tasks is important and worthwhile

It's a purpose thing. What's the purpose of the system? To show progress or to get cases closed to the satisfaction of the customer? All too often ends and means are confused. When clarity is wanting, workers sink beneath the waves of bad multi-tasking, little knowing that they are expanding the workload in the process. Far from improving throughput, multitasking slows customer resolution, damages productivity and drives up frontline stress.

Belief 3: Workers need targets to make them effective

Targets take many forms: due dates, SLAs, KPIs, call answer times. Arbitrary and treating the work as standard, each in its own way pushes activity rather than the achievement of purpose: pushing activity towards easy cases to make the numbers, piling fresh cases on the front line.

The core issue lies with what they are conceived to do. The focus is on getting work started, only to neglect closing cases efficiently and happily. No one measures the massive effects of this apparently minor difference in focus in terms of increased failure demand, lost man-hours, executive-level complaints, distress and inconvenience in pay-outs, cost of revisits, let alone the huge cost to morale of keeping people busy but not effective.

Many managers swear that people love targets. The truth is that they crave to know where they stand. When a target is the closest thing to that feedback, people cling to it. It is vitally important to inform both business and employees where they stand by replacing arbitrary performance indicators with measurement that relates to the purpose of the system and what matters to its customers, and is sophisticated enough to take into account the natural variation inherent within it.

Belief 4: Functionalisation equals productivity

Ever since Henry Ford, managers have divided work into segments to facilitate control, quality, ease of training and replacement, to name a few. Anyone having studied a service as a holistic system knows it is folly.

In complex project environments, functionalisation distorts priority and focus. Operatives become more concerned with 'is this my department, or can I pass it on?' than with 'how do I resolve this from the customer's point of view?' Process has become more important than service user. As ever, the absence of end-to-end measurement contributes to the dysfunctionality. Splitting measures by function invariably inflates time and cost and in so doing buffers those in the system from the realities of the customer's actual experience.

Workflow systems linking separated front and back offices compound these difficulties by paradoxically making the work that counts invisible – most commonly by adding cases to queues to make the targets for getting them 'on the system', or by leaving them to languish as open allocated cases that are not being driven forward to completion. Conventional management will have the mechanics in place to sweep up the latter from time to time, scouring reports for 'deadwood' or cases about to breach service agreements, but only after the event (and cost)...

Making a complex project environment work

So how could you choose to act differently in a complex project environment system? What would need to change in order to benefit performance, cost and morale? As in any other context, change is dependent on the ability to let go of accepted conventions in the face of counterintuitive truths.

Thus, pushing work at the front line doesn't change the reality that a team can only deal with what capacity allows. The purpose of these systems is to close cases efficiently and to the satisfaction of the consumer, not to keep people busy for the sake of it. Targets should be replaced by measures related to purpose. And with all due respect to Henry Ford, functionalisation is actually the problem, not the solution.

Some new goals to help break from the damaging norms are shared in the table below.

Convention	Goal
Keep everyone busy fire fighting	Focus on unblocking and closing cases
Functionalise and split tasks	Develop your resource to a position of case ownership and end-to-end understanding of the service
The sooner they'll start the sooner they'll finish	Experiment with limiting or choking the release of cases to operatives
Pick off easy cases first	Develop a clear and enforced priority rule and stick to it
Drive work by targets	Switch to a programme of capability measures directly relating to purpose and what matters to customers
Attend to cases dictated by workflow	Make visible all open cases and ensure everyone know who's responsible for which. Focus managers on unblocking and problem solving
Accept problem cases will take longer	Insist on escalation of blocked cases removing the option of going on to something new without it

Process has become more important than service user

Many managers swear that people love targets. The truth is that they crave to know where they stand

Replacing the misguided management initiatives discussed above can lead to transformational leaps in service, cost and morale.

Making that initial step change is not, however, the whole extent of the challenge. It has got to last. Better still, keep improving. An enormous part of sustaining this change is keeping resolutely in mind the new operating principles and goals. In addition, though, there are two key areas to sustainability that leaders should pay special attention to.

Making change sustainable

First, stringently measure and re-measure throughput (volume of cases in, versus volume of cases out). If public enemy number one is bad multi-tasking caused by employees being flooded with open cases, constant vigilance is needed to ensure that those toxic conditions aren't being recreated.

If new projects/cases are coming so fast that even slowing their release is incapable of preventing a backlog, consider whether there is a real capacity issue. If there really is more work than can be absorbed, piling it on will not get it finished faster, however unwelcome that may be to those up the line.

Conversely, if raw capacity is not the problem, there is a need to take aggressive action to rid the system of all feasible waste.

Second, repurpose all managers away from the usual functions of allocating, report writing and target maintaining. Send them out into the work with those involved in live cases, learning how to unblock them and stop other cases from becoming blocked in the first place. Managers may initially not thank you for it, but customers will. So will others as durations shorten, satisfaction rises and costs fall, while a bond forms between the front line and managers who get to grips with the barriers preventing them from providing the service they know they should be capable of.

What if...

Now, none of these beneficial impacts can be realised unless we recognise that we're in a complex project environment in the first place. Fall at this first hurdle and the all too likely consequence is the familiar vicious circle of 'stretching targets', shorter handle times and when that fails, big-ticket spending on non-value-creating IT that on the contrary worsens service performance.

But what if an insurance company were to take the measure of the archetype and design a claims process that was customer-shaped at its heart, set up with capacity to meet predictable demand and staffed against it?

...Discovering his kitchen disaster, a future Jack Travers gets in touch

You do have to be able to recognise a complex environment when you see one

with his insurer. He is pleased to connect directly with a human being, who seems to understand the urgency of the need to get his kitchen up and running again – he or she also being confident that the more effectively the purpose is met, the lower will be the indemnity spend and operating cost for the company.

First and most importantly, the agent listens, with the sole aim of understanding what Travers is most concerned about and putting together a course of action that meets that need. Of course, in real life things aren't simple: not every claim is legitimate. But in that case the agent can 'pull' the necessary support and expertise to make the decision on the spot, rather than leave it hanging for later.

Once Travers has explained his needs and and the initial steps have been determined, it is all about execution: getting the right resource to the right place at the right time for the client, with a single-minded focus on completion. No more photos, recorded interviews, reports or duplicated measurements – only what furthers safety, drying out and making good, all having regard to the daily imperatives of family life.

As the relieved Travers family gets back to normal, the agent at the contact centre who has handled the case end-to-end has only to enquire if the claim could have been handled better and store the lesson for the next time. At the same time, managers studying flow are working to identify further scope for joined-up action that will continue to reduce failure demand. Instead of beating up on subcontractors, they are working with them on issues to reduce end-to-end time and recall rates and improve their ability to arrive with exactly the right materials and tools to perform the job.

A pipedream? No. Many companies have seen just such results with many services bold enough to seek the benefits of a different approach.

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When IT get it

Maarten Goedee

When financial services organisations find themselves under pressure to reduce costs or improve customer service, IT is their normal 'go-to' solution. Yet the results are consistently underwhelming

It is common for IT systems to be delivered late, go over budget, be de-scoped and, perhaps worst of all, when finally installed make the job of serving customers harder. As recent high street banking system failures demonstrate, IT changes can paralyse even the least complicated of customer transactions, paying money in and out. It's fair to say that customers' experience of financial services is dominated by how the IT works, whether through direct interaction online or via agents all too often telling us 'Computer says no'.

Not surprisingly, the most vocal champions of IT-led change are those with a vested interest in IT being used as widely as possible. Whether development and support activities are provided by internal IT/digital departments or, as is more common these days, external outsourcers, both need large budget allocations to stay in business.

The amounts involved are hardly trivial. According to research by Celent published in *Computer Weekly*, European banks spent £41bn on IT in 2014, rising to £42.23bn in 2015 and £46bn in 2017. It's easy to see how IT budgets in individual institutions can run into the hundreds of millions and why every major financial services outfit has a highly paid Chief Information Officer or Chief Digital Officer on the board to be accountable for the spend.

Are these huge capital and salary spends justified? Or is there a way of 'doing IT' that achieves better results at lower cost? According to our clients, the answers are respectively a resounding 'No' and 'Yes'.

When IT 'gets' the better way of doing IT, the normal IT/operations dynamic is transformed, making possible results beyond anything the parties would dare to expect. This is because, when all the mumbo-jumbo and hype is stripped away, the real issues facing IT in financial services are:

- Establishing the function's real purpose.
- Learning how to do IT better and better IT.
- Creating better ways to judge how well the first two have been achieved.

Leaders in IT who focus on finding answers to these questions are thin on the ground, but their numbers are beginning to grow as they start to see the sense in changing the way they determine 'what to do'. They recognise that traditional approaches have not served them, their organisations or, most importantly, their customers well. Whether the task is project activity to create new platforms or making changes to existing ones, the typical process of business-case submission, change request, business and technical analysis followed by specification and 'gating' steps to release development and implementation funds is at the heart of IT failures.

This is the process promulgated by the organisations with most to lose if there were changes, i.e. the major IT hardware, software and service suppliers – and the process makes perfect sense if you accept the assumption that operations people are capable of articulating what will improve service to customers and that IT people can translate what they hear into workable solutions. Working to a specification does serve a purpose in that it gives IT suppliers, whether internal or external, a get-out-of-jail-free card in the form of 'We delivered what you asked for' – but in all other respects the assumption is flawed.

Is there a more productive way of applying IT? We think there is. When people in IT are willing to look at the system outside-in, from the customer's point of view, using the Vanguard Method, they discover a different perspective on the source of change within the organisation. They learn that their purpose is not to deliver IT, hardware and code, but to add value to 'the work', that is, make it work better for the customer. They learn, often to their dismay, that the measures they have been working to – 'delivery on time', within budget and to specification – are paradoxically locking them into an unhelpful paradigm that is actually costing their organisation millions.

The first step in achieving this change in perspective occurs when IT staff begin to understand how 'the work' works for the customer. To do this, they need to spend time in the work with people who deal with customer demands and in places where customer's 'digital' demands end up when they are inadequately met. This analysis, or 'check', will allow them to see how and how well the current IT delivery model works from the customer and user perspective. They can then take an objective view of how they interact with the rest of the organisation and how well that relationship is working; knowledge that helps them redefine how IT should work with, and add value to, the core departments handling customer demand. It becomes a joint activity with people in the operation, with a focus on collaborative learning.

During this initial phase, the IT department of one of our clients learned it had separate lists of overlapping IT change requests and project specifications from different lines of business. The requirement to give customers valuations on their products was duplicated on each list and would have formed a part of the development work undertaken on the different projects. The IT department was aligned and structured according to the different lines of business, so different people in IT were responsible for managing the departmental and product-based lists. The functionally-derived lists hid common demands from view. When the people undertaking the study looked at the lists from the customer's 'outside-in' perspective, they could see common themes and requests.

Discovering that no one in the operation can clearly explain how any of your proposed IT solutions will benefit customers can be a sobering and salutary experience

In another client, the IT team took change requests and project specifications back to the operational owners to get their view on how the proposed solutions would help deliver value for customers and how the benefits would be measured. It soon became obvious that few of the projects would help frontline staff deliver what customers wanted. Discovering that no one in the operation can clearly explain how any of your proposed IT solutions will benefit customers can be a sobering and salutary experience.

So from a starting assumption that, of course, the current method delivers what operations needs, it is a relatively short step to people being willing to give up their current method in order to learn how to do better things with IT.

There is only one way to do that, and it is by direct engagement of IT people with those who actually do 'the work'. The result is an attitudinal change in which IT no longer views itself as a stand-alone department remote from and waiting for 'orders' from those on the front line. Instead the focus is on adding value to and creating value for 'real' customers.

There have been many attempts to improve conventional IT delivery models. The latest great white hopes are approaches known as 'Agile' and 'Lean Startup', which as their names suggest attempt to speed up and streamline the traditional model. But there are potential problems with both, since neither automatically starts from an outside-in analysis of predictable demand from the customer's point of view. What Agile lacks and Lean Startup ignores is a means of establishing whether what is being worked on helps to improve the core business. Smaller specifications delivered more quickly is not a fundamentally different thing for IT to do.

To 'get' this – to avoid having IT working on the wrong problems – the first essential is to resist the temptation to start with a 'specification' step and instead to replace it with an 'understand' step. Understanding the 'what and why' of current performance as seen by customers is crucial, since it provides everything IT needs to see what *isn't* required.

Most financial services organisations have invested heavily in workflow management systems to log, scan, sort, batch, queue, allocate and measure work and worker activity. These tasks tend to be highly valued by management but, paradoxically, are often a major cause of failure demand. When 'the work' is studied using the Vanguard Method, the impact of workflow systems and how they make things worse for customers and frontline staff becomes immediately obvious. Listening to or reading what customers ask for at major points of contact (contact centre, helpdesk, sales support) reveals how other

IT systems also disrupt flow and in so doing cause the customer problems, resulting even more failure demand that is then logged, sorted, batched, queued and allocated. It is not uncommon for this Kafkaesque cycle to go through many iterations before a simple request is resolved.

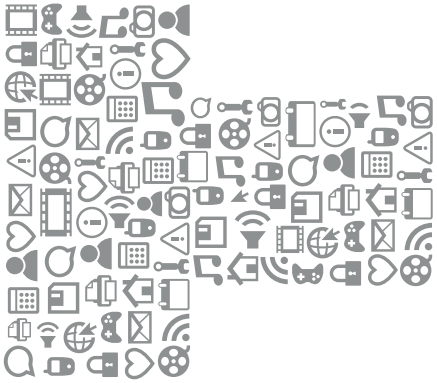
Having learned what not to do, IT people, alongside operational staf, need to identify what is required to improve the customer experience without the aid of IT. The temptation to jump in at this stage can be extremely difficult for IT to resist. But the rule is that redesign must take place before any IT development is undertaken. This avoids building unnecessary functionality into the new platform and eliminates any ambiguity surrounding the respective roles of IT and people in the redesign.

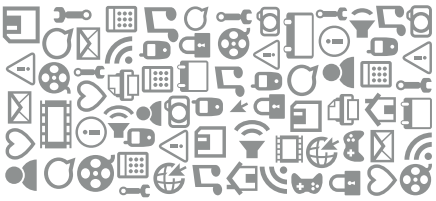
So rather than creating a workflow system to manage the tasks associated with resolving issues for customers – the normal solution – IT might simply need to design out failure demand (demand caused by a failure to do something or do something right for the customer) by improving brokers' access to existing systems. The result is IT 'pulled' by the customer, through the redesigned work into a simple, elegant solution that is both great value and is greatly valued. 'Understand – improve – pull IT', replaces 'specify – create – deliver – iterate', as in the Agile model.

To judge how its work adds value to the users, IT needs to adopt purpose-related measures designed by people in the front line to help them 'improve' the experience for the customer. For example, if what matters to customers is how long it takes to settle an insurance claim, IT will judge a change or system against the operational criterion of end-to-end time. As traditional targets and goals are replaced by measures reflecting the experience of customers, IT can clearly see the impact of its interventions on the wider business.

IT is simple. At its heart it is just bits and bytes, ones and zeros. Financial products are simple too, just records held in accounts with algorithms applied to increase or decrease rates of return or take away or add to a balance. The real complexity, and potential competitive advantage, lie in how financial services organisations interact with their customers and what matters to them. In that sense, IT's most important function is to not get in the way of customers pulling what matters to them from the organisation in the most timely and most efficient fashion. That's not too much to ask for, is it?

Not surprisingly, the most vocal champions of IT-led change are those with a vested interest in IT being used as widely as possible





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Casino banking and cans of cider

Will Pyke

The design of the system, not the efforts of individual workers, is the dominant factor in performance

Sitting at a table on an early-morning train to Manchester, I was intending to use the journey to do some work. That was before three smartly dressed, articulate young compatriots joined me and proceeded to order half-a-dozen cans of cider – which turned out to be their 'work' for the trip.

Wondering why the cider at 7am, I clocked that one of the three was wearing playing-card cufflinks. From that I assumed they'd spent the night in a casino and had had a hard night battling the odds. I was right about the odds but wrong about the casino.

It turned out that my festive companions worked in the complaints-handling department of a major retail bank, based in Scotland. They were celebrating the end of their last day's (or rather night's) work for the week and were on their way home. High pay for anti-social hours enabled all three, who lived in England, to make the weekly commute to Scotland and still take home generous pay. Their motives for the lifestyle varied: one was saving a deposit for a house, another paying off student debt, the third living 'the high life'.

Their job success hinged on completing three complaints cases a night. Over the course of the first three cans of cider they proceeded to compare notes on their standard methods for meeting the targets with the least possible effort.

How to meet targets (1)

The favoured method involved getting to work before their supervisor to allocate themselves their first case for the night. This meant that when the boss arrived, they were already halfway through their (self-chosen) first case. Choosing easy assignments with minimum calculations enabled the three amigos to polish off their first cases while the boss was still occupied with her admin – allowing them to cherry-pick their second cases too. They could then let their boss allocate their final cases from 'the difficult pile', secure in the knowledge that they could finish even the toughest ones in the half of their shift remaining. By completing a 'hard' case every night, they'd be seen not only as diligent and efficient, but also as 'team players'. Best of all, though, their strategy ensured they always hit the three-a-night target.

Over the course of the first three cans of cider they proceeded to compare notes on their standard methods for meeting the targets with the least possible effort

So where's the harm, you may be thinking – a little gaming of the system, but the required work is getting done

So where's the harm, you may be thinking – a little gaming of the system, but the required work is getting done, isn't it? For sure, three cases are being performed. But productivity is being manipulated, so the figures are unreliable. Cherry-picking may mean that some cases are ignored altogether, while the relationship between manager and workers seems to have taken on a latent parent-child dimension.

More worrying is that I've observed similar behaviour – cherry-picking and other means of gaming the productivity numbers – in almost every organisation that employs activity targets (that is, targets based on measures of efficiency – service levels, number of rings to pick up a phone, hours or days to respond to a call – as opposed to overall effectiveness). The exceptions have displayed related but distinct dysfunctions.

How to meet targets (2)

For example, in the bereavement-handling back office of a large retail bank – where the accounts and financial holdings of deceased customers are closed down or otherwise resolved at the request of surviving relatives – the staff were again working to an activity target: in this instance three 'cases' an hour. As in the complaints-handling example, the workers had worked out ways of achieving the target even though, in this case, the IT system prevented cherry-picking. Instead, workers would send out letters requesting information already on file or clarifying points already understood, fulfilling their target but not the relatives' wishes, and building a backlog of unfinished work in the department.

The frontline workers weren't necessarily being insensitive. Under pressure of the 20 minutes a case, it was easy to miss that their branch-based colleagues had noted these details upstream. Newly-hired staff on probation were under additional pressures, since failure to meet their target by the end of their induction meant they would not obtain permanent contracts.

In haste, volume targets were often met at the expense of quality. Most of the mistakes were small, but in the circumstances even minor errors such as continuing to send out a mortgage statement in joint names could be deeply upsetting – and customers often phoned in to say so.

Treating quality as a separate issue to the enforced productivity, different teams specified procedures for 'error-proofing' common mistakes and then inspected both the work of the workers and that of the checkers. The wasted effort was significant, while error rates remained unchanged over time as their

underlying cause – haste – was 'designed in'. In one of the most ironic features of the whole setup, quality and error rates were themselves subject to targets, with predictably perverse consequences.

The worker or the system?

The problem in these examples is assuming that the workers can be held exclusively accountable for their work. That is – in the complaints-handling example – assuming that a colleague completing fewer than three cases a night is incompetent or 'shirking', while a colleague who chalks up better than three is a 'hero'. In this way performance is personalised, while many other explanations for differences in the quantity of work produced by individuals is ignored – for example, clarity of instructions, complexity of the complaint, number and nature of the product holdings, nature of the calculations for redress payments (where applicable), degree to which IT supports the work and the ease of accessing and using it, presence or absence of activity targets and degree of knowledge and skill of the worker (resulting in turn from selection and training processes of the organisation), and the motivation of the individual (linked as it may be to the hours of employment, nature of the work, environment and a myriad of personal factors).

The same assumption – that workers are the dominant factor in performance – is at the heart of forced-ranking ('rank-and-yank') performance-management systems, in which 'lowest' performing colleagues over a period are 'managed out of the business', in other words, fired.

Yet we know from the writings of W. Edwards Deming among other authors that performance variation between individuals in any team is governed by the system in which they work. In simple terms, people need three things to do a good job: information about what to do and how well they are doing it, equipment that is fit for purpose and simple to use, motivation undistorted by external incentives, and an interesting job to do. Where these elements are in place, the creativity of colleagues and managers can be brought to bear on improving work, rather than gaming it.

Don't game the work: improve it

In such an environment our three amigos and their boss might jointly be working on improving the reliability and consistency of the redress calculations or the decision-making of colleagues, or eliminating the cause of the complaints in the first place. In the bereavement-centre example, colleagues and managers could work together to resolve cases in the most timely fashion, anticipate predictable follow-on requests from solicitors for tax deduction and interest payment certificates, and improve access of colleagues to 'specialist' product information that is not ordinarily accessible via the IT platform.

Without consideration of the system in which people work, 'performance' will likely be attributed to them. Even though they are well aware of many of the causes of performance variation, the primacy of activity measures – reflecting an underlying preoccupation with cost – and the rigidity of performance-management practices – reflecting a belief in the primacy of personal determinants of performance – mean that those individuals will do whatever it takes to survive in the system of work in which they find themselves, even if it means playing dice with productivity and the quality of the work.

All of which is to say that I didn't get much work done on my way to Manchester. But I did have an interesting journey.

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The work is not the problem

Jeremy Cox

In any organisation, the systems of work and management are different but connected. Only when managers understand the relationship between the two can the potential of change be realised

Managers think their job is to manage change. Real leaders know that the real task involves changing the way we manage our organisations. Two systems, one organisation.

There are two systems to act on to bring about change in organisations. The first, 'the system of work', is the way everyday work is carried out: how customers access services and the way work processes operate to fulfil customer demands. For example, this could be mortgage processing in a bank, supporting vulnerable adults in a social care service or responding to emergency incidents in the case of fire or ambulance services.

There is usually significant scope for improvement here, and when staff and managers work together to redesign the system of work using the Vanguard Method, organisations achieve improvements way beyond anything that would be expected from a conventionally managed organisation: lending and claims decisions made in minutes, housing repairs and benefits applications done in a day, vulnerable lives turned around, demand turned off in healthcare, – all at lower cost and with higher staff morale.

But there is another system, deeper and often invisible, which is 'the system of management'. It is made up of the assumptions and thinking behind everyday management decision-making, and manifests itself in the organisational infrastructure that brings these assumptions to life. Its components are 'hardwired' processes for how staff are rewarded, how performance is monitored or how services are commissioned, and there are governing assumptions behind these processes too: what do we believe about what motivates people? How should measures be used? How do we set and monitor performance against budgetary goals?

Making the distinction between process change (which managers always say they want) and management system change (which they usually haven't thought about) allows for a profound insight –throwing new and sharp light on where and how to take action, and creates a giant step towards becoming a more effective leader. The opportunity is this: managers think their job is to manage process change, real leaders know that their job is to change management.

Think about the annual business-planning process in your organisation and draw it out on paper. The process is based on traditional command-and-control assumptions that separate decision-making from work and assume organisations are best designed as top-down, functional hierarchies. In a typical organisation, the picture will show an annual cycle with a 'golden thread' linking corporate strategy to business-unit plans and targets, and then down to individual performance objectives. There will be scheduled reports and meetings to feed 'management information' back up the food chain. There will be rating and reward systems for staff, with associated form-filling, appraisal meetings, and HR staff to co-ordinate them.

If you stand back from the picture, what you will see is the outline of the system of management, and how that governs the system of work. The diagram below is a simple model of how the two systems work together.

Just as there is significant opportunity to drive improvement through redesign of the system of work, the system of management is ripe for recasting too. In a large financial services organisation, we saw business change and IT projects 80% of the change budget was spent on management overhead and only 20% on designing, testing and implementing changes to core flows. The change that this system delivered was, in the client's words, typically 'late, expensive and wrong'. We often refer to the 'management factory', a place where meetings happen, reports are discussed and budgets are tracked against plans. These are elements that in themselves create no value for customers and rarely contribute positively to the core work.

A key opportunity to improve is sadly hidden to most managers because like the water a fish swims in, the system of management is invisible to them. Managers typically change the system of work in an attempt to improve

In a typical organisation, the picture will show an annual cycle with a 'golden thread' linking corporate strategy to business-unit plans and targets, and then down to individual performance objectives

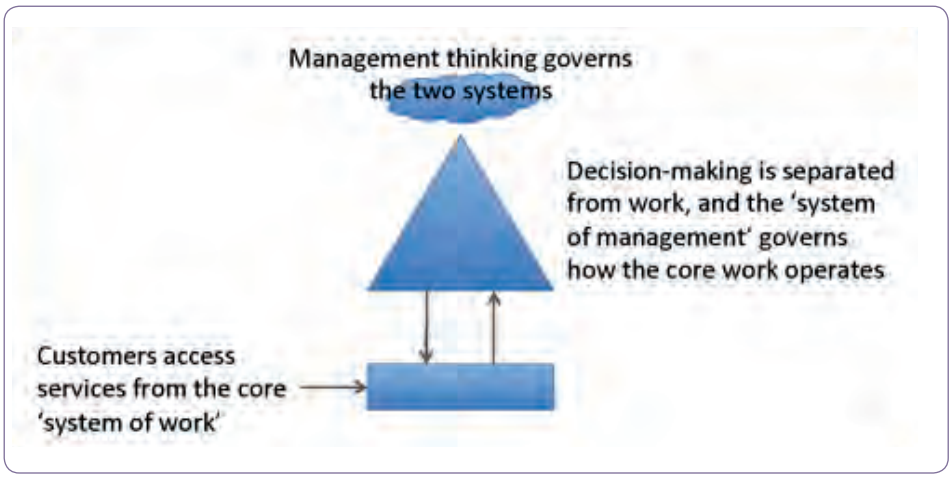


Figure 1. A conceptual model of the two systems

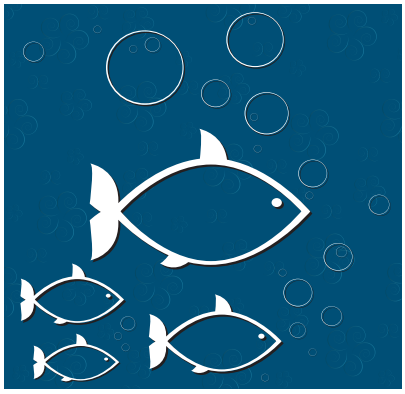
performance, for example by encouraging channel shifting or automation of processes. But changing the system of work will not yield sustainable performance improvements if the management system that governs it remains flawed.

Many organisations remain wedded to the idea of targets. Unfortunately, we know that the use of targets in a hierarchical system only engages people's ingenuity in managing the numbers rather than improving their methods. People's attention turns to being seen to meet the targets – fulfilling the bureaucratic requirements of reporting that which they have become 'accountable' for – at the expense of achieving the organisation's purpose. In simple terms, all this effort constitutes and causes waste – inefficiency, poor service and, worst of all, low morale.

The notion of a target is plausible. In principle, there is nothing wrong with individuals having targets that they may set themselves – lose weight, run further, get another job, earn more money. But targets in a hierarchical system are imposed with authority by people who are generally detached from the work being carried out. Targets are therefore arbitrary. They may suit a plan, but they do not start from a knowledge of capability – what the system predictably achieves and why.

When targets produce unintended consequences, as they always do, managers react to the symptoms by doing more (adding targets) or less (subtracting targets, de-coupling incentives from targets) of the wrong thing. But doing the 'wrong thing righter' is not the same as doing the right thing. Unfortunately, leaders who grasp the damage wrought on their organisation's performance by targets are forced to confront a dilemma because doing something different at the level of work requires de-constructing the system of management that creates and underpins the target regime. Arriving at this insight is by no means guaranteed – it is impossible for most managers (and government ministers) to imagine an alternative because of the degree to which targets have become embedded in our collective mindset.

The financial services sector has had its own well-documented problems with targets and incentives leading to dysfunctional – and indeed illegal – behaviour. Systemic mis-selling ranging from private pensions and endowments to PPI has led to multi-billion pound compensation pay-outs and huge reputational damage. The solutions from companies and regulators alike have been consistently to bear down more stringently on the system in which people work through regulation, control of bonus payments and by encouraging team-based rather than individual rewards.



A key opportunity to improve is sadly hidden to most managers because like the water a fish swims in, the system of management is invisible to them

A fundamental re-think would require both the acceptance of the counterintuitive truth that it is inherent in targets to cause sub-optimisation and the active dismantling of the organisational infrastructure that creates, sustains and enforces the target regime. I recently met a manager whose organisation used targets and incentives to drive sales of PPI compensation claims to people who had been mis-sold PPI by banks using targets and incentives to manage their sales operations. If you worked in that system every day, do you think you would get the irony of your situation?

Systemic mis-selling ranging from private pensions and endowments to PPI has led to multi-billion pound compensation pay-outs and huge reputational damage

Three key issues with the system of management

A flawed system of management causes many problems.

First, it damages everyday performance of the core work.

Consider the following examples:

- Top-down performance management causes systemic sub-optimisation and demotivation, as 'what do I do to get the sale (and meet my target)' invariably wins over 'what is the right thing for me to do for the customer?'

- Supplier relationships based on contractual specifications or Service Level Agreements (SLAs) drive processes that are aligned to contract requirements rather than customer needs. This has the effect of worsening service and increasing costs (for example 'variations' in IT or facilities contracts used to generate revenue).

- The productivity focus of operations often has the paradoxical effect of reducing efficiency. In a telecoms company's repairs operation, managers paid attention to productivity data in the belief that higher fault closure numbers would equate to a higher level of performance for their customers. When examined over time, it was clearly demonstrated that this behaviour was in fact driving up demand: it was discovered that faults were being reported to be closed on the system without actually being fully completed. Customers were thus re-entering the system and becoming increasingly irate that their problems remained unresolved.

Each of these issues has underlying structural 'system of management' roots. Improvement requires that the underlying management structures are re-designed in parallel with process (system of work) redesign – the two must be treated as indivisible if permanent improvement is to be achieved.

Second, the way managers change or 'improve' the 'system of work' damages performance tomorrow:

- An experiment with redesigning insurance sales demonstrated that sales could be increased with a 1:14 return on investment. Investment was impossible, however, since annual planning, budgeting and bonus systems demanded operating expense reductions, not investment, and could not be challenged.

- Frontline work in financial services and other organisations is frequently offshored/outsourced to reduce operational cost.

Redesign of work from the perspective of customer value predictably results in improved service at lower cost, with work being repatriated. The top-down drive to offshore persists, however, since an unreformed system of management continues to mandate counterproductive cost driven change initiatives.

The counterintuitive takeaway from these examples is not that we need to do change better, but that we need to change the way that we approach change. Instead of separating decision-making from work, managers must learn to both study 'how the work really works' and then lead improvement activity in situ, with emergent change based on knowledge.

The third problem lies in the cost of a misfiring management factory.

Organisations routinely waste vast amounts of money on management capacity devoted to doing the wrong thing. One client discovered that much HR resource was being consumed by programmes that contributed no value to the service delivered to customers.

Through redesign focused on only doing value work, it reduced the strain on HR capacity by 50%. Outcomes of this order are not unusual, but are only achievable by changing the system of management.

The intervention challenge

To act on the system of management, leaders need to study the impact of the system of management on both customers and the system of work that delivers service to customers.

Our examples illustrate that the 'system of management' is hardwired through organisational processes for planning, objective-setting, performance monitoring, managing change and the like. Those physical processes and system conditions are themselves a product of ingrained management thinking, and to change this is to engage people in discovering counterintuitive truths. The intervention challenge is thus not twofold but threefold: to help leaders learn how to redesign the 'system of management' in parallel with redesign in the 'system of work', and to gain the counterintuitive insights that reframe their underlying assumptions about the design and management of work.

The hardest of the three is the last – opening leaders up to the 'eureka moments' that in turn trigger a rethink and redesign of the two systems that govern the way that all of the organisation's work operates. It's all very well to tell colleagues that all they need to start the process is to be willing to change the way they think. In itself, this is a perfectly correct analysis of the situation, but it is not very useful as an approach to intervening to get people to change. The first golden rule of intervention is that if the issue is likely to yield counterintuitive conclusions, the starting point is without exception what the Japanese call 'genchi genbustu': going to see for yourself, figuring out what is going on in the system of work and therefore what is causing it in the organisation's system of management. The second golden rule is to resist the temptation to explain your revelation to others and insist that they too must go and see things for themselves. Only when they have discovered for themselves the connection between change in the system of work and change in the system of management can the tantalising potential for transformational organisational improvement begin to be realised.

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