

Introduction

The aim of this chapter is to show how an ideological approach to managing the public sector has driven it in the wrong direction. Between 1999 and 2009, public services received a 55 per cent real-terms funding increase, as financed by an increase of 5 per cent of GDP in public expenditure. This investment was not matched by improvement: public sector productivity has fell by 3.4 per cent compared to the private sector's 27.9 per cent productivity gain over the same period (Blond 2009). At the same time, the instruments of 'deliverology' (Barber 2007) were invented and forced upon the public sector with the aim of reforming public services and delivering improved results. The financial crisis and the consequent fiscal deficit inherited by the Conservative and Liberal coalition government of 2010 made the levels of public service expenditure of the last decade no longer affordable: indeed, within days of coming to power, the new government announced plans to implement £6bn of cuts by 2011. However, the waste created by the government's public sector reform regime now offers an unexpected opportunity for improvement. Not only has the reform programme not delivered improved services, it has actually made performance worse: a bureaucracy of specifications and inspection has driven public services in the wrong direction and sapped public sector morale. At present, the public sector is so full of non-value adding activity that there is huge potential for improvement in both service delivery and improved efficiency. In light of the failure of 'deliverology', it is clearly time to experiment with new approaches to managing the public sector. The widespread adoption of a different way of managing and delivering services based on systems principles already has a strong track record in individual public sector services, in spite of its inherent antithesis to ideology of the reform regime (ODPM 2005, Jackson, Johnstone and Seddon 2007, McQuade 2008, Middleton 2010, Zokaei et al 2010). There are now many examples of dramatically better services with significantly lower costs. Nevertheless, before the wider potential for success can be realised, the current ideology must be discarded and the reform regime must be dismantled.

'Targets and terror': the product of an ideology

For the last thirty years, public sector reform has been derived from an ideological approach imported into politics and management from economic theory. 'Quasi-markets', choice and incentives have been assumed to be the means for stimulating improvement in services. These ideas were derived from a field of study called 'public choice theory'. This took the assumptions and mathematical models of 'game theory' and applied them to the world of political science. Public choice theory is concerned with the behaviour of voters, politicians and government officials. It posits their actions on a narrow model of human behaviour where people are expected to act as totally self-interested agents. The ideal organisation for human interaction is held to be a notional perfectly competitive market, where individuals are able to contract and compete with others to earn precisely what the market believes them to

be worth. The ‘human as a businessman’ (as one game theorist¹ labelled the radical individualist at the heart of the model) is able to exercise his/her choices, preferences and appetites in this perfect marketplace and the ‘invisible hand’ ensures that each is allocated what he/she is objectively worth.

These ideas were seen as the principal alternative to the corporatist approach to managing all aspects of the economy which had prevailed in the UK after the Second World War. Successive Conservative and Labour UK governments had employed Keynesian economic policies in what became known as the post-war consensus: incomes policies, maintaining the welfare state and nationalised industries helped keep high levels of employment and steady growth. However, by the late 1970s, economic instability and fractious industrial relations led many to believe in what became known as the ‘state overload’ thesis: the state was seen as having extended beyond its reach until it had grown too big (Hudson and Lowe 2004). The public choice theorists had by this time gained influence with many right-wing UK think tanks and proposed radical free market policies to unburden the state: public sector bureaucracies would become subjected to markets and competition. Public choice theory modelled the state bureaucracies as being too ‘producer-focussed’, readily exploiting their monopoly position as state service providers and as a result delivering poor quality, standardised services to taxpayers who were expected to passively take what they were given. Civil servants were caricatured as ‘Sir Humphrey’ in the BBC satirical comedy ‘Yes, Minister’² and labelled as ‘budget-maximisers’ by the public choice theorists (Niskanen 1994, Buchanan 1978). They were thought to be acting in their own self-interest by ensuring that they increased their own sphere of influence within ever more expensive departments. The theorists believed that if the state could be opened up to competition then these public sector organisations would be forced to react to the requirements of the needs and wants of their ‘consumers’, and would therefore become both more effective and efficient.

After the election of the neo-liberal Thatcher administration in 1979, government followed these prescriptions wherever it was feasible to do so and opened up large parts of the state to competition. Many of the old nationalised industries and public utilities were privatised. Citizens were encouraged to act as consumers exercising choice in the market, purchasing stakes in the newly privatized companies or buying their council houses through the ‘right to buy’ schemes. Where the remaining parts of the public sector were seen as unsuitable for privatisation, politicians required another way to make them more competitive. The government and its advisors took to the idea of ‘quasi-markets’: the simulation of the competitive market within the public sector. In place of the profit motive which drove action in the private sector, it was thought that an artificially constructed market would provide an equivalent means to drive change into public service delivery.

Public choice theory spawned the mantras of ‘new public management’ (NPM): disaggregation, competition and incentivisation were the new ways of managing the public

¹ John Nash, quoted in The Guardian 3/3/2007

² Sir Anthony Jay, one of the writers was an avowed fan of public choice economics and has admitted that it lay at the root of nearly every episode of the comedy (Tullock et al 2000)

sector (Dunleavy, Margetts, Bastow and Tinkler 2006). There would no longer be any presumption of the existence of such an old-fashioned concept as public duty in this rational, self-interested world. The bureaucrats, who had for a long time been trusted as ‘knights’ presumed to be doing their professional best for the public, were now to be treated as ‘knaves’ who were interested only in personal gain (Le Grand 2003). Newly constructed objective targets were to be deployed which would set these knavish managers free, unburdened from their old roles as knights. They would now be expected to innovate in the manner of their private sector counterparts: numbers and rationality would replace the ‘invisible hand’ of the competitive market. NPM reforms encouraged managers to show entrepreneurship in achieving their targets: so long as the numbers were aligned in the quasi-market, this system was assumed to be working to the benefit of taxpayers and the politicians. For public sector managers, targets would act as their surrogate profit motive, and their pay and career-progression was likely to be directly linked to the achievement of their personal targets. Through alignment of these incentives and mimicry of the market, it was believed that the public sector could be guided to private sector levels of productivity and efficiency.

By the time that New Labour came to power, these conceptual models of public sector reform had been adopted into the political mainstream. When the first Blair government was elected in 1997, its victory owed much to the feeling amongst voters that public services had been run down by Conservative neglect and consequently required higher levels of investment. However, when New Labour duly raised levels of public expenditure, the investment was accompanied by a requirement for those services to earn their taxpayers’ money. A science of ‘deliverology’ was invented by the newly formed Prime Minister’s Delivery Unit (Barber 2007). Performance measures and targets supposedly offered a way of guaranteeing that money was producing results for the public. With an even greater zeal than before, targets and expenditure levels (in the form of ‘public service agreements’ or PSAs) were thrashed out between Gordon Brown’s all-powerful Treasury and individual government departments. These targets were then cascaded down through the hierarchies across the public sector. At the same time, inspection and regulatory bodies were beefed up to inspect and publish performance data on all public sector bodies (Cope and Goodship 2002). This ‘targets and terror’ approach became compared with Soviet-style systems for its severity, with some targets becoming known in the bureaucratic vernacular as ‘P45’ or ‘hanging’ offences if they were missed (Hood 2006). Meeting the targets became all important. In response to this pressure, public sector expenditure on reporting against targets and inspection began to increase: by 2006, it was estimated that, on average, each local authority spent £1.8 million on reporting their performance measures upwards to government (CLG 2006). Collectively in Leicestershire, it was estimated that public sector bodies had spent £3.6 million on preparing for inspections (LGA 2009). In addition, a new phenomenon called ‘gaming’ began to be observed where managers were being seen to have ‘hit the target but missed the point’. One example involved hospital patients being offered a date which the hospital staff knew the patient could not attend, in order to then class these patients as having refused treatment and thus remove them from hospital waiting lists and improve performance rankings (Bevan and Hood 2006). Ministers were quick to dismiss these instances as exceptional and as the actions

of a few bad apples³. Separately, a debate emerged around the perceived failure of NPM techniques to deliver. One set of commentators said:

‘The intellectually and practically dominant set of managerial and governance ideas of the last two decades, new public management (NPM), has essentially died in the water.’ (Dunleavy, Margetts, Bastow and Tinkler 2006 p468)

Undeterred, the regime moved onto what it called the next step in its reform journey, delivering ‘citizen empowerment’. David Miliband, when he was the local government minister, called it ‘double devolution’ (The Guardian 2006). This was a reflection of government’s fear of giving control to those who were delivering public services: instead, government believed it could replace the lever of the centre with the lever of the customer.

‘In local government, we are increasing the power of citizens to shape their communities and the services they receive. With local councils, we are delivering personalized services, establishing rights to minimum levels of entitlement and giving people new ways to shape their local services – from citizens’ panels to participatory budgeting – complementing the role of elected local councillors.’

(HM Government, ‘Building Britain’s Future’ 2009 p17)

In the summer of 2009, the Labour government announced legally-binding ‘entitlements’ of standards in education, healthcare and policing. Entitlements of this type were targets with added legal redress. This represents, in systems pioneer Russell Ackoff’s terms, an attempt to ‘do the wrong thing righter’ (Ackoff 2004). Labour’s move from its early promise of ‘education, education, education’ to a legally-enshrined right to educational standards demonstrated the ‘deliverology’ regime’s failure to deliver, or to recognise that it was the underlying ideological beliefs behind the methods which were at fault. In the face of mounting evidence to the contrary, the regime persisted with its ideology.

‘If both common sense and empirical evidence suggest the contrary, why does the pessimistic model of people as purely self-interested beings still so dominate management-related theories? The answer lies not in evidence but in ideology. Theories of social phenomena are, and have to be, ideologically motivated. Despite the pretence to be values-free, no social theory can be values-free. And, while no social science discipline makes a stronger claim to objectivity than economics, no domain of the social sciences is more values-laden in both its assumptions and its language than economics and all its derivatives’

(Ghoshal 2005 p83)

The damage caused by the reform regime has become apparent to all bar its architects. The political and economic ideology which informed the reform regime’s approach only served to reinforce a pre-existing set of ‘command and control’ conventional management beliefs about

³ Although a systems thinker would recognise gaming to be endemic and ubiquitous - see Seddon 2008.

how best to design and manage efficient services. These ideas can be traced back to FW Taylor's 'scientific management' (Taylor 1998 - first published 1911) and then Henry Ford and Alfred Sloan's mass production techniques (Ford 2003 - first published 1926, Chandler 1977). The practical manifestations of these managerial ideas can be summarised as three commonly held core beliefs (Seddon, O'Donovan and Zokaei 2010). As has been discussed, politicians commonly think that managers can be incentivised by the need to meet centrally imposed targets, which are in turn translated into myriad local performance indicators further down the hierarchy. Influenced by economic and managerial models developed in early 20th century mass production manufacturing, the ministers also believed that the creation of public-service factories (through 'economies of scale') will generate greater efficiency. Finally, they have been led to believe that the imposition of standardised specifications for the delivery of services would enable them to simultaneously guarantee service standards to the public and control the costs of their delivery. Through these means, politicians aimed to deliver what they considered to be the noblest yet most elusive of political ends: the optimisation of taxpayers' resources in efficient public services. The potency of their prescriptive and damaging methods was all the greater when filtered through the 'deliverology' regime: resistance was rewarded with low inspection scores and attention from central government.

An example of these ideas in action came in the 2009 Budget. The potential for £15bn of public sector efficiency savings was announced as part of the Treasury's Operational Efficiency Programme. To achieve £7bn of these savings, the report recommended the creation of more shared 'back office' services such as HR, IT and finance. The idea of separating front and back offices in services was first proposed by Robert Chase of Cornell University (Chase 1978). In essence, his argument for 'back office' service production was that creating a back office allowed a de-coupling of the service from the customer and could thus offer greater potential to operate at peak efficiency. The back office could then be run as a factory, optimising efficiency through operations management techniques such as inventory control and work measurement. In line with Chase's ideas about efficiency, public sector managers are therefore encouraged to think of services as being organised for economies of scale. The focus of management is on how best to manage resources. The managers become preoccupied with solving such problems as 'how much work is coming in?', 'how many people have I got?' and 'how long do they take to do things?'

Systems thinking: a challenge to convention

Systems thinking offers a different perspective to managers. Systems thinking as a general theory has developed in many forms since the Second World War, and has been applied in a variety of ways to solving managerial problems (Jackson 2000, 2003, ODPM 2005). Whereas conventional approaches to the design and management of work concentrate on optimising the performance of the separate individual functions of an organisation, often without reference to one another, systems thinking adopts a fundamentally different analysis, focussing on the inter-relationship between the various parts of a system. In particular, systems thinking encourages managers to closely examine 'what is the problem I am trying to

solve?’ Often examination reveals that management’s problems are not those they thought they had.

Systems thinking, as applied to the design and management of work, has its origins with W. Edwards Deming, the renowned management advisor to the Japanese during the American postwar reconstruction of their economy. Deming argued that our organisations and thus our economies were in crisis because of our beliefs in flawed management assumptions:

‘Most people imagine that the present style of management has always existed, and is a fixture. Actually, it is a modern invention – a prison created by the way in which people interact’ (W. Edwards Deming 1994 pxv)

His point was simple: we (mankind) invented management, we should re-invent it. His book (‘Out of the Crisis’ 1982) included a scathing and detailed critique of Western management assumptions. His main targets for criticism were the use of arbitrary measures to govern the way we manage work, the management of separated functions independently within an organisation and the separation of decision making from the worker. The better alternative, he argued, was that we should understand and manage our organisations as systems.

At the same time as Deming was advising Japanese industry, Toyota’s production genius Taiichi Ohno was the first person to break the mould of Western management thinking. He learned to manage Toyota as a system, developing the now fabled Toyota Production System (TPS). In his development of the TPS, Ohno made a series of startling counter-intuitive discoveries which represented challenges to management conventions. Ohno knew that Toyota could not gain competitive advantage by taking on its mass-producing US competitors (such as Ford and General Motors) at their own game - by attempting to achieve economies of scale. Through experimenting firstly with simple die-change techniques (ways of stamping metal sheets), Ohno was able to perfect the whole process until it could be reduced from taking one day down to 3 minutes. In doing so, he discovered that it cost less per part to make small batches of stampings than to produce in large batches: less units and greater variety actually meant lower costs. He found that true costs of production were end-to-end (from the start to the beginning of a process), and that more variation in his line left fewer parts tied up in inventories and work in progress. Whilst the unit cost for each product was higher, the total production costs were considerably lower (Womack, Jones and Roos 2007).

As Ohno demonstrated, systems thinking requires beginning with the study of work as a system. To echo Ohno, the first step has to be concerned with understanding. It was Ohno’s favourite word:

‘I believe it [understanding] has a specific meaning - to approach an objective positively and comprehend its nature. Careful inspection of any production area reveals waste and room for improvement. No one can understand manufacturing by

just walking through the work area and looking at it. We have to see each area's role and function in the overall picture.' (Ohno 1988 p57)

To obtain understanding of a system, it is necessary to study the way it is designed and managed. Taking this different perspective surfaces any flaws in the management's current assumptions. To illustrate, we will describe briefly what is learned from studying one service – housing benefits – as a system.

Housing benefits service – viewed as a system

In the early years of the New Labour government, Gordon Brown, then Chancellor of the Exchequer, famously asserted there would be no investment in public sector services without reform. The Department for Work and Pensions (DWP) persuaded him to invest £200 million in promulgating a new design for the delivery of housing benefits, a service provided to those in need by local authorities. It was one of the earliest attempts to impose a separate front/back office design; the front being the means of access and the back being the place where claims are processed with the two being connected via document image processing – documents received in the front-office are scanned and sent electronically to the back office.

Included in the promulgated design were targets for the front-office (how quickly people were seen, how quickly phones were picked up, how quickly documents were scanned and sent to the back office) and the back office (how quickly correspondence was responded to, how many work activities were done and the time it took to process a claim).

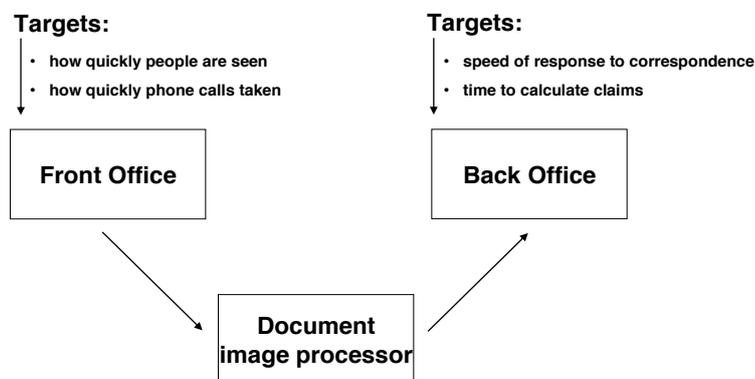


Figure 1: The DWP-promulgated design for housing benefits

When housing benefits services were studied as systems⁴ the flaws in the design became apparent. Studying demand revealed something that is intuitively obvious: no-one arrives with all of the documentation one would need to establish eligibility and entitlement. But to

⁴ For more detail on the analysis of housing benefits as a system see Seddon 2008

conform to the targets, whatever is brought in is processed and sent off to the back office. The design led to backlogs in housing benefit offices all over the country. On the advice of the DWP, local authorities employed 'backlog-busting' services from the private sector, costing tens of millions of pounds. Much of this work was concerned with finding the various electronic 'work objects' belonging to a single case to create one 'work object' that could now be used to actually do the work (establish eligibility and entitlement). This activity was exacerbated by the problems associated with electronic identification (work objects are frequently lost) and thus people were often asked to bring in things that they have brought in before. To meet their activity targets, back-office workers were more inclined to send out letters of further forms requesting more information than trying to resolve the request. The consequence was that people turned up at the front-office repeatedly in order to get their problems solved. It should be no surprise that managers felt compelled to put up posters announcing that any rudeness to staff would result in action by management.

The systems approach also reveals the true end-to-end time it takes for claimants to receive a service. It is typically an average of fifty days and it can take as long as six months. It is the design that is the cause of poor performance, and at the heart of the design is management by targets. It reveals a paradox: working to targets actually makes performance worse. But meeting targets is the way to win approval from inspectors.

The systems approach reveals what is going on in the system with the biggest clue coming from studying demand – the demands claimants place on the system. There are two types of demand that interest a systems thinker: value demand and failure demand. Value demand is 'demand we want': demand the service is there to provide for. In the case of housing benefits there are only two value demands: 'Can I make a claim?' and 'I have had a change in my circumstances'.

Failure demand is 'demand caused by a failure to do something or do something right for the customer' (Seddon 2003). Progress chasing ('What has happened to my claim?', 'I don't understand how to fill in your form'), having to bring in things that have been brought in before, having to visit repeatedly – all of these represent demands, and therefore more work, caused by a failure of the service to work from the claimants' point of view. Typically failure demand accounts for as much as seventy percent of the total demand into housing benefits services.

Studying demand reveals what a terrible service this is from the claimant's point of view. In a typical queue at a benefits front-office it will be possible to find people who are turning up for the fifth, sixth and up to tenth time. Often they have been told to bring something they have already provided as it has been lost or is stuck in an electronic queue, waiting to be processed. It is typical to learn that as many as twenty percent of the documents held in the electronic system are duplicates. Greater diligence on the part of the workers providing the service will make no difference as losing things is a system (design) problem.

The service standards in the front-office lead to a preoccupation with seeing people quickly, meaning claimants have to be processed as speedily as possible. If the quickest way to deal with the claimant is to send them off with a form or send them off home to get something else, that will be done. Meanwhile the back office becomes a repository of electronic ‘work objects’ and the job of the workers is to process a number of work objects each day. Much of this work is ‘re-work’; for example, finding the seven ‘work objects’ that belong to one claimant and bringing them together such that the proper work (systems thinkers call it ‘value work’) can begin. Each time a new piece of information comes in people have to start a case all over again as there is no continuity or case ownership, so the worker has to ask: does this complete the picture? Most often the case is incomplete and so the back office workers send out requests for more information. As a consequence the amount of work to do in the ‘back office’ grows and the volume of failure demand in the front-office also grows.

While the workers might be meeting their activity targets, the claimant is being bounced from pillar to post, time is going on and their problems are not being solved. The same phenomenon has been witnessed in local authorities all over the country; compliance with this design has created massive backlogs in the back offices. As well as employing private-sector ‘backlog-busters’ (solving the wrong problem), local authorities have been encouraged by the Audit Commission (an inspector turned specifier) and the Gershon (HM Treasury 2004)⁵ efficiency review to share and/or outsource back-office housing benefits services. It reflects the regime’s belief in economies of scale. The systems approach reveals that sharing back offices will lead to high costs and poor service; having a back office itself is a design mistake.

The systems approach is to design against demand. It is a simple but profound idea; in practice it means the customer should be able to ‘pull value’ (get what they want) from the system. Knowing the type and frequency of demands – why citizens make demands on the housing benefits service from their point of view – puts people in a position where they can design a service that works.

As already discussed, there are only two value demands in a housing benefits service: ‘I want to make a claim’ and ‘my circumstances have changed’. The former will be used to illustrate the systems approach: ‘I want to make a claim’. The claimant demand dictates the value work – the things that need to be done to satisfy that demand. In this case the value work is:

- Obtain ‘clean’ information (which fully completes the picture of the claimant’s circumstances)
- Make a decision
- Notify the claimant
- Pay (if entitled) the claimant

⁵ Gershon, P. 2004 “Releasing resources to the front line: Independent Review of Public Sector Efficiency” HM Treasury. See http://www.hm-treasury.gov.uk/media/C/A/efficiency_review120704.pdf accessed 9/12/09

Knowing the type and frequency of demands for claims, it makes practical sense to equip the people at the first point of contact with the necessary expertise to respond to the high-frequency predictable demands – demands which the organisation knows it can expect. That is to say it makes no sense to train everybody in everything; but it does make sense to ensure people are trained to deal with the bulk of the predictable work. When less frequent demands hit the system, people working at the point of contact ‘pull’ expertise from others in the organisation to help them provide service to what are, in effect, more unusual cases, for example self-employed people. This design principle keeps the ownership with the person providing the service and, consequently, speeds up their rate of learning – as they meet more ‘less frequent’ demands in their work they learn the skills and knowledge required to deal with them.

In practice many claims for benefits are tied up with peoples’ council tax obligations; it follows that the expertise required to deal with the council tax implications must be designed into the roles of people who work at the point of transaction with the claimant.

Finally, to understand how well a service is working it is necessary to measure achievement of purpose from the claimants’ point of view. It means measuring end-to-end time accurately, from when the claimant first presents to the point where they have received the correct money or been told they do not qualify. Typically the result, when taking the systems approach, is all benefits processed in an average of three to six days. It is a result far beyond current targets (28 days); so far beyond that it would not be considered achievable if it had been set as a target.

Those that have followed the systems approach find themselves in difficulty with their inspectors. The inspectors inspect against their requirements, and in a systems design they cannot see the things they expect to see (target-monitoring, plans for sharing services, etc). It should be no surprise that inspectors coerce managers to do what systems thinkers know to be the wrong things, the things they have been sent to monitor; to fail inspection does not look good in the ‘targets and terror’ regime.

The cost of failure

The failure demand found in housing benefits services is only part of the extraordinarily costly failure of services for the most vulnerable in society. A study conducted by Advice UK (Advice UK 2008, 2009) shows that the failure of the DWP and Her Majesty’s Revenue and Customs (HMRC) to provide their primary services leads to failure demand into advice agencies, local authorities, social landlords, legal services and the courts. The majority of the poor souls who are dragged through this experience are not penalised because the judge can see the failure of the process. The most vulnerable people in society are treated in the most uncivilised way.

DWP and HMRC are flagship ‘service factories’: they represent, in the Treasury’s view, the best of what is to come. These organisations have been industrialised, and industrialisation is creating distant, alienating and unresponsive services as well as unhappy demoralised public-

service workers (The Times 2007). Both DWP and HMRC have adopted ‘lean management’ techniques, wrongly being persuaded that the tools developed in the Toyota system, while solving problems associated with making cars at the rate of demand, have universal applicability (Seddon, O’Donovan and Zokaei 2010).

Chasing economy of scale is the wrong thing to do

‘Contradicting what is said in virtually all operations management textbooks used in American universities, Toyota has demonstrated that it is possible to produce small quantities of product in high varieties at mass production costs. There is no longer any reason to rule out localization of economic activity on the grounds of scale economies. Scale economy, beyond very small volumes, is a concept that should be discarded.’ (H Thomas Johnson 2008 p102)

In industrialised designs managers worry about the volume of work to be done, the number of people they have and how long people take to do things. Managers seek to reduce transaction costs by moving work to call centres and/or the internet; they seek to reduce training costs through specialising the workers and they use any means at their disposal to reduce activity times (scripts for workers, standardised routings for customers through their systems, putting services into IT systems and so on). Managers are focussed on costs and, as a consequence, they drive costs up. Studying these designs as systems reveals counter-intuitive truths:

Cost is in flow, not activity

At the heart of industrialisation is the management of workers’ activity on the assumption that activity equals cost. Moving work to call centres, the separation of front-office from back-office, the specialisation of tasks and the standardisation of work are all management activities driven by this basic belief in the need to manage activity as cost. Paradoxically, managing costs drives costs up. The cost of a service is made up of all the transactions it takes for a customer to get a service.

Demand is the greatest lever for improvement

The industrialisation of services creates failure demand; often failure demand into public services runs as high as 80% or more of the total demand. It is an easy concept to understand and thus, unsurprisingly, it got the attention of the regime and, ironically, became the subject of a government target (National Indicator number 14) in itself. The regime made the mistake of believing that forcing public-service managers to report failure demand (re-named ‘avoidable contact’) would encourage them to do something about it, when all it did was to encourage them to under-report it. The target was unceremoniously dropped in April 2010, less than two years after its introduction.

To a systems thinker, demand is a temporary measure, something you measure to understand a problem rather than something you measure to control operations. Things always go wrong; understanding what is going wrong predictably leads to productive action, and only predictable failure demand is preventable (Seddon 2009).

Studying value demand enables services to be designed from the users' point of view, enabling the user to 'pull value' – to get what they want. In that way, service improves as costs fall.

It is the system that accounts for performance

It is as Deming taught: 95% of variation in performance is due to the system (Deming 1982). It shows the futility of managing workers' activity and re-focuses management on their responsibility to design a system that delivers what customers need.

Any failure to absorb variety will drive up costs

An important feature of transactional services is the variety of demands they experience from their customers. Front-office/back-office splits, specialisation of work and standardisation of work prevent services from absorbing variety and thus these measures drive up costs (Middleton 2010).

Systems thinkers set out to design a system to absorb the variety of customer demands. As discussed with the housing benefits example, the approach is to train workers against demand, to put them in control of their work – doing it as well as improving it – and to design management roles that are complementary to the work, where action is required on the system.

Reforming the regime

David Cameron has talked of a shift to redistribute power and control from regulation and bureaucracy to local communities, engendering greater 'responsibility' (Cameron 2009). To reignite such responsibility would require recognition that the current regime fosters compliance rather than innovation. For innovation to flourish it is necessary to change the locus of control away from the specifiers and inspectors to those who have responsibility for providing the services. The very thing the reform regime has feared most (giving control to those they distrust) is the only productive way forward⁶. Getting rid of the specifiers will lead to two types of savings: the cost of those jobs and the cost of adhering to the specifications (a much greater cost).

Seddon has argued (Seddon 2008) that the Audit Commission should be reined back to 'following the money' and that any inspection on matters of management should be limited to the inspector asking one question: 'What measures are you using to help you understand and improve the work?' This would increase the reliability and validity of inspection, would rid the public-sector of the costs of preparing for inspection (estimated, for example, at £2m per local authority) and would actually make it harder for the incompetent to hide – where the reform regime has made it easier to just comply with the specifications and keep one's head down.

⁶ Blond (2010) has adopted some of these systems concepts further, combining the necessary reintroduction of responsibility of a systems design with the idea that there should be mutual ownership of organisations based around sound knowledge of local demand as part of his vision for 'Red Toryism'.

Adopting a systems approach is not about ‘giving up control’, as politicians at first fear. The fact of the matter is that public services are currently out of control, as every case of systems analysis has revealed across the public sector. For example, the reason Baby P was seen by so many people on so many occasions can be linked directly to compliance with the ‘Integrated Children’s System’, an IT system to which services were obliged to comply and which dictated the way the service was designed and managed (White et al 2009, Munro 2005).

The design of Adult Social Care services is, like the design of children’s services, an inhumane example of industrialisation. Adult Social Care (ASC) consists of services aimed at helping people to live as independently as possible. More than 1.5 million people use social care services in England. Whilst the largest group of users for publicly funded social care are the over 65s, other groups of people in receipt of social care can include those with sensory impairments, physical or learning disabilities, terminal or mental illness, problems connected to ageing, alcohol or drug dependencies. Types of ASC services can include home-care, day-care, residential care, meals in the community (commonly known as meals on wheels), car ‘blue badges’ for people with a permanent disability, equipment, and adaptations to help people live independently at home.

ASC services have been mandated to install call centres as a means of contact. Behind the call centres the separate functional services - occupational therapy, social work, home care, domiciliary care, meals on wheels, etc. – operate to their functional activity targets. Managers believe their main task to be to control the workers’ caseloads. While a service may be meeting all of its activity targets, the experience of the user reveals a completely different story: many assessments covering much the same ground, extraordinarily long end-to-end times to receive a service and, as a consequence, many people deteriorate and are pushed into care homes (O’Donovan 2010, Zokaei et al 2010). When services are delivered at peoples’ homes, they are often provided by outsourced means with the service prescribed by the ‘package’ as contracted. What ought to be the thermostat in care provision does not function as such. Instead the contracting out of care delivers care in an arbitrary time-based manner – for example, two baths a week, 30 minutes each – and will inevitably drive costs up as the service delivered fails to match the variety of need. Less activity time – as the adult becomes more independent – is not in the interests of the provider. More time – when needed – is beyond the control of the provider and will risk deterioration of the cared for and further (failure) demand on the care service.

Re-designing care services using the systems approach both maintains peoples’ independence in their communities and prevents the higher costs associated with (unwanted) residential care (Zokaei et al 2010). The potential for improvement is huge – if only the wrong-headed ideas enforced by the reform regime’s army of specifiers and inspectors can be removed.

Economy through flow – the relevance of localism

The economic improvements achieved by pioneers of systems thinking in the public sector are equivalent to those achieved by the Toyota system. By both learning to design services

against demand and learning how to manage value to service users, managers have been able to drive out costs whilst improving their services. They recognise that demand is local, not national; it is also high-variety and thus can only be accommodated by people using their professional judgement, informed by data to take responsibility for improving their work. Local service delivered by local people using real measures of achievement of purpose from the users' point of view will give all in the system the freedom to innovate, and will also provide transparency to the served, the taxpayer and central government. Disciplined pluralism should replace central planning. Pioneering systems thinking councils have witnessed unintended consequences in the behaviour and engagement of local citizens, suggesting that better service design has the potential to lead to the greater involvement of communities in their local services (Seddon 2008). The approach also has the advantage of being much cheaper. The savings accrued from no longer needing to pay for both the thousands of specifiers and the upward-reporting bureaucracy will provide an immediate and significant cost reduction. These savings, however, will be dwarfed by the benefits of ceasing to comply with the ideologically-driven command and control ideas.

Conclusion: managing public services in austerity requires study of our systems

In the face of high public debt and with a political consensus on the need for cuts, systems thinking offers a fairer and more intelligent way of using resources. Significant efficiency savings have been achieved by those who have followed the systems approach. Local authority housing repairs, planning, housing benefits and road repairs departments have all made savings of between 20 and 40%: remarkable amounts when compared with official government efficiency targets (Seddon 2008). This is without considering the aforementioned sizeable returns from dismantling the inspection regime itself. However, if the government opts for a crude approach to cost-cutting, they are likely to find that their costs go up elsewhere: to drive costs out from a system, one needs to first understand the causes of costs. The starting point for any systems success must be to study the demands being placed on services. It is the duty of politicians and public sector managers to study their own systems so that they can establish for themselves the scope for improvement and the challenges to their thinking. Following citizens' demands through the various service providers illustrates powerfully how services are fragmented and brings into clear view the ways in which central requirements impede service delivery and create costs. From this position a constructive change can occur. Those who seek cost reductions will fail, yet, paradoxically, cost reductions are a by-product of a better systems design for work. For the politicians who are far-sighted and courageous enough to break free of over thirty years' ideological assumptions about public management, the rewards on offer promise to be substantial.

References

- Ackoff, R (1999) 'Ackoff's Best' Wiley and Sons: Chichester
- Ackoff, R (2004) 'Transforming the Systems Movement' paper (Downloadable from <http://www.acasa.upenn.edu/RLAConfPaper.pdf> accessed 9/12/09)
- Advice UK (2008) 'It's the System, Stupid! Radically Rethinking Advice' AdviceUK: London (Downloadable from www.adviceuk.org.uk, accessed 7/4/2009)

Advice UK (2009) 'Interim Report: Radically Rethinking Advice Services in Nottingham' AdviceUK: London

Barber, M (2007) "Instruction to Deliver" Portico's Publishing: London

Bevan G and Hood C (2006) 'Have targets improved performance in the English NHS?' British Medical Journal Vol 332 18 Feb

Blond, P (2009) 'The Ownership State' ResPublica/NESTA

Blond, P (2010) 'Red Tory' Faber and Faber: London

Buchanan JM (1978) 'From Private Preferences to Public Philosophy: The Development of Public Choice' in Institute of Economic Affairs Readings 18: Westminster London

Cameron D (2009) 'The Big Society' Hugo Young Lecture 10 Nov

Chandler AD (1977) 'The Visible Hand' Belknap Press: London

Chase, R.B. (1978), 'Where does the customer fit in a service operation?' Harvard Business Review, Vol. 56 No. 4, pp. 137-42

Coulson A 'Targets and Terror: Government by Performance Indicators' Local Government Studies, 35:2, pp271 — 281

Cope S and Goodship J (2002) 'The Audit Commission: Delivering for Whom?' Public Money and Management October-December pp. 33-40

Deming W E (1982) 'Out of the Crisis' MIT Press; Massachusetts

Deming WE (1994) 'The New Economics: For Industry, Government, Education' MIT Press: Massachusetts

Department for Communities and Local Government (CLG) (2006) 'Mapping the Local Government Performance Reporting Landscape' CLG Publications: Wetherby

Dunleavy P, Margetts H, Bastow S and Tinkler J (2006) 'New Public Management Is Dead - Long Live Digital-Era Governance' Journal of Public Administration Research and Theory 16: 467-494

Ford H 2003 'Today and Tomorrow' CRC Press: Oxford. First published 1926

Gamble A (2009) 'The Spectre at the Feast: Capitalist Crisis and the Politics of Recession' Palgrave Macmillan: Basingstoke

Gershon P (2004) 'Releasing resources to the front line: Independent Review of Public Sector Efficiency' HM Treasury

Ghoshal S (2005) 'Bad management theories are destroying good management practices' Academy of Management Learning and Education Vol 4 No. 1, 75-91

The Guardian (2006) 'More Power to the People Urges Miliband' 21 Feb

The Guardian (2007) 'Cry Freedom' 3 March

HM Treasury (2009) 'Operational Efficiency Programme: Final Report'

Hood C (2006) 'Gaming in Targetworld: The Targets Approach to Managing British Public Services' Public Administration Review July-August

Hudson J and Lowe S (2004) 'Understanding the Policy Process: Analysing Welfare Policy and Practice' Policy Press: Bristol

Jackson, M, Johnstone, N and Seddon, J (2007) 'Evaluating Systems Thinking in Housing' Journal of the Operational Research Society no 59, 186-197

Jackson, M (2000) 'Systems Approaches to Management' Kluwer/Plenum, New York

Jackson, M (2003) 'Systems Thinking: Creative Holism for Managers' Wiley and Sons: Chichester

Johnson HT (2008) 'Lean Management and True Sustainability' in the Lean Manufacturing Yearbook (2008), Society of Manufacturing Engineers: Michigan

Le Grand (2003) 'Motivation, Agency and Public Policy: Of Knights and Knaves, Pawns and Queens' Oxford University Press: Oxford

Liker J (2004) 'The Toyota Way' McGraw-Hill: New York

Local Government Association (LGA) (2009) 'Delivering More for Less: Maximising Value in the Public Sector' LGA publications

McQuade, D (2008) 'Leading Lean Action to Transform Housing Services' in Public Money and Management Vol 28 no 1

Middleton P (2010) 'Delivering Public Services that Work (Volume 1): Systems Thinking in the Public Sector' Triarchy Press, Axminster

Munro E (2005) 'A Systems Approach to Investigating Children Abuse Deaths' British Journal of Social Work 35, pp 531-546

Niskanen, W (1994) 'Bureaucracy and Public Economics' Cheltenham: Edward Elgar

O'Donovan B (2010) 'Systems Thinking in Adult Social Care' International Journal of Services Sciences, forthcoming

Office of the Deputy Prime Minister (ODPM) 2005 'A Systematic Approach to Service Improvement Evaluating Systems Thinking in Housing' ODPM publications: London.

Ohno, T (1988) 'Toyota Production System' Productivity Press: Portland, Oregon. Translated from Japanese original, first published 1978

Seddon J (2003) 'Freedom from Command and Control' Vanguard Press: Buckingham

Seddon J (2008) 'Systems Thinking and the Public Sector' Triarchy; Axminster

Seddon, J (2009) 'Failure Demand – from the horse's mouth' Customer Strategy Issue 1, Vol 2 Winter 2009 pp 33-34

Seddon J, O'Donovan B and Zokaei K (2010) 'Rethinking Lean Service' Springer: London (forthcoming)

Taylor: FW (1998) 'The Principles of Scientific Management' Dover Publications: New York. First published in 1911

The Times (2007) 'Is this banana active?' Jan 5

Tullock G, Seldon A, Brady GL (2000) "Government: Whose Obedient Servant? A Primer in Public Choice," The Institute of Economic Affairs Readings 51 IEA:London

White S, Wastell D, Broadhurst K, Peckover S, Davey D, and Pithouse A (2009) 'Children's Services and the iron cage of performance management: exit the street level bureaucrat, enter the good soldier Svejek?', International Journal of Social Work, forthcoming 2009.

Womack, J. P., D. T. Jones and Roos D, (2007) 'The Machine that Changed the World' New York, Macmillian. First published 1990

Zokaei Z, Elias S, O'Donovan B, Samuel D, Evans B and Goodfellow J (2010) 'Lean and Systems Thinking in the Public Sector in Wales' Lean Enterprise Research Centre report for the Wales Audit Office, Cardiff University