

## Briefing Paper

# Systems Thinking and the Lean Approach

October 2013

### Introduction

The purpose of this briefing paper is to provide an overview of systems thinking and the Lean approach to management in public services.

### Lean Management

The core idea of lean management is to maximise **customer value** while minimising waste. Simply, lean means creating more value for customers with fewer resources.

A lean organisation understands customer value and focuses its key processes to increase it continuously. The ultimate goal is to provide perfect value to the customer through a perfect value creation process that has no waste.

To accomplish this, lean thinking changes the focus of management from optimising separate technologies, assets, and vertical departments to optimising the flow of products and services through entire value streams that flow horizontally across technologies, assets, and departments to customers.

Eliminating waste along entire value streams, instead of at isolated points, creates processes that need less human effort, less space, less capital, and less time to make products and services at far less costs and with much fewer defects, compared with traditional business systems. Companies are able to respond to changing customer desires with high variety, high quality, low cost, and with very fast throughput times. Information management becomes much simpler and more accurate.

Lean applies in every business and every process. It is not a tactic or a cost reduction programme, but a way of thinking and acting for an entire organisation.

Organisations in all sectors are using lean principles as the way they think and do. The word **transformation or lean transformation** is often used to characterise a company moving from an old way of thinking to lean thinking. It requires a complete transformation on how an organisation conducts business. This takes a long-term perspective and perseverance.

### Systems Thinking

'Systems thinking' is about looking at the purpose of a system from the customer perspective and removing the parts of the system which do not benefit the customer. It essentially analyses work flows from beginning to end to find areas of wasted effort. Systems thinking argues that organisations should be seen as systems rather than as functional hierarchies; and that systems should be designed around 'demand' provided by the customer rather than around 'targets' provided by senior managers.

This process is described by Professor John Seddon as follows:

*“In systems language, a service organisation needs to be designed for customers to ‘pull value’ from the organisation – to get exactly and only what they want, in the most expedient fashion. Think of any service you encounter. If the organisation understands and responds to what matters to you (your nominal value), you experience good service and the organisation is likely to be delivering it in the most economic (least cost) way. If, for any reason, the organisation does not recognise and respond to your nominal value, your service experience is poorer (you have to put up with the hassle) and the organisation by definition consumes more resources in providing the service than it needs to, since it is giving you things that you do not want. If the experience is poor, it may also cause you to go away. Unfortunately, many people can’t go away from public services, even though, having been designed as command and control hierarchies, these services are insensitive to their ‘nominal value’. It is because of this that public service organisations are sub-optimal: full of waste. It may well also be because of this that people are so disengaged from local issues and local politics generally.”*

As an example, Professor John Seddon goes on to consider the implications of this for a housing voids service as follows:

*“Official guidance encourages housing organisations to set ‘local’ targets for... voids. One organisation had targets for two categories of void: short-term voids (28 days) and long-term voids (63 days). Performance for both categories was on target. However, a true measure of end-to-end time for all voids (time from void until let including time with maintenance) revealed a completely different picture: the true end-to-end time was actually anything between 34 and 100 days.*

*“(There were) some ‘special causes’, (end-to-end times) that lie well above the upper control limit (100 days). This led managers to investigate. When they discovered that these jobs were similar to others, they were learning that the system was becoming unstable. To follow the systems logic, the next step was to learn about the causes of variation. What was causing properties to stay empty longer? The main reasons were:*

*“Activity devoted to classification of work – As always, classifications have an impact on achieving the targets. So managers and contractors seek to classify as ‘long-term’ anything that might potentially take longer than four weeks. Doing this improves the average for both short-term and long-term voids. Government guidance also provides for the exclusion of ‘major works’ from voids targets, so those requiring a lot of work can be usefully classified as ‘major’. Of course, none of the activity helps in respect of achieving the purpose. The reporting regime requires housing organisations to report the percentage of houses vacant on 31<sup>st</sup> March each year. This drives even more focus on classification in January and February and, worse, drives the parties to minimise repair work during this period.*

*“Using ‘unit cost’ as a primary measure – Contractors were paid a unit cost for all short-term voids, regardless of the work involved. So a property only requiring a clean would be much more attractive to the contractor than one needing more work – which the contractor would predictably try to have reclassified as ‘long-term’. If this proved difficult, the contractor would instead attempt to reduce the amount of work to be done. Unit cost plus classification drove adversarial behaviour on both sides.*

*“Taking advantage of the notice period – The four week notice period was always adhered to even when the tenant had departed and the keys were available sooner. For example, if the void was the result of a death, the local authority would record and observe the standard one month’s notice, even if it had access to the property and could carry out works. There were many other cases where the keys were available (so work could start) before the four week notice period was up. Taking advantage of the notice period increased the number of voids completed in ‘zero time’, improving the average.*

*“Passing work to the new tenants – To minimise works time ‘decorations allowances’ would be negotiated with the incoming tenant to cut the work down.*

*“Asbestos surveys – In extremis, the contractor would invoke the asbestos policy, requiring an asbestos survey to be carried out. Any delay in obtaining an asbestos report would be used to legitimately push back the target date. This was something contractors would do when they had significant resource problems. The consequence was that work on properties for which there was no risk would be held up.*

*“A void property only ceases to be void when a new tenant is found. So the work studying voids had also to go upstream into lettings, since it soon became obvious that voids management was being affected by the lettings process. The people responsible for lettings had targets for providing nominations – potential new tenants. To make their targets, they would often nominate people who were unsuitable for the property. In the same vein, prospective tenants were advised to put as many choices on their application as possible, since they were led to believe that this would give them a better chance of being offered something. Tenants were also encouraged to believe that they should take up any offer, however unsuitable, since once they were a tenant they would at least be ‘in’ the system and could try for an exchange or management-determined move.*

*“Studying the work also revealed that people placed in special homeless accommodation were being forced to stay there for a full six months even when more desirable accommodation had become available. Six months had originally been set as a ‘rule’ for the use of homeless accommodation; the rule was universally applied and became known to tenants who wanted to know where their new accommodation was once their six months were up.*

*“All of the above had an impact on end-to-end void time. A further consequence of the design was more demands on the repairs service in the early life of a tenancy. Imagine running an organisation that predictably causes tenants to complain or report problems as soon as they move into new accommodation. Where, moreover, rent regularly becomes a problem because the people responsible for filling a void – finding a tenant – are not the same people as those who set up rent collection. The fact that voids managers focus on meeting the target to find a tenant often results in tenants’ means and methods for payment not being sorted out.*

*“If the purpose of the system was to return void properties to a standard fit for the incoming tenant, then end-to-end time from termination to letting had to be the most useful measure for understanding and improving the work, regardless of the work required. Including even ‘major works’ voids focused management’s thinking on the right issues: instead of being preoccupied with classification (‘How can I remove this from my measures?’) they became concerned with better questions: ‘Why do some properties require major works?’; ‘What are the types and frequencies of requirements to prepare properties for re-letting?’; ‘How can we organise to serve these requirements more efficiently?’.*

*“What is the ‘value of work’ in the voids process? It is preparing a property for an incoming tenant, so the more efficiently the necessary work is determined and carried out, the faster the property will be made available. In \*determining what was necessary, the local authority moved away from using a ‘standard’ and an inspection – what matters to an inspector might not be the same as to an incoming tenant. In defining the purpose of the service from the tenant’s point of view, it became clear that it made more sense to involve the incoming tenant in decisions about what should be done to the property before they moved in.*

*“In six months, voids performance improved from an average of fifty days with an upper limit of 100 days, to twenty days with an upper limit of thirty. And this was just for starters; it is not unusual for systems thinking organisations to achieve void turnarounds in a day... These managers were cutting the time to relet a property, knowing... that quality and efficiency would also improve.”*

In September 2013, John Seddon wrote in the ‘Vanguard News’ about ‘locality’ work in Bromsgrove, Redditch and Stoke-on-Trent and wrote that:

*“One of the things I went to visit recently is our work on what we call ‘Locality’. When we first started working in local public services we helped people (massively) improve the services. But we began to realise that the people who turned up in, say, benefits offices had other issues, so they also sought help from other services, often many. We started thinking about service design as dealing with peoples’ contextual issues too, regardless of which service they turn up at. Then it occurred to us that rather than waiting to see which services they turned up at, it would make sense to get out to them; to understand demand from a family / community / place perspective.*

*“So what we are calling ‘Locality’ working is studying demand from communities and developing a service that goes out to those people and families who are making demands on multiple services, and, of course, helping them. The focus of the help is determined by their perspective on what a better life looks like and places emphasis on them taking responsibility.*

*“The results are, quite simply, awesome. Not only do people get their lives back on track but the costs of achieving that are considerably lower than the costs of current service provision (which doesn’t work, see later). The most amazing result is that demand falls – yes fewer people have fewer problems. The local authorities at the centre of this work are predicting their costs will be slashed by many tens of millions and this is to say nothing of consequential falls in demand into other local services.*

*“The counterintuitive truths are that demand for public services isn’t rising, it is stable, peoples’ need are not complex but are made complex by current service design and its associated flawed thinking, and we have more than enough money to provide services that work; we do not have a resource problem. It is, as the authors of ‘This is Lean’ describe, flow efficiency that will unlock everything.”*

The former government commissioned a review of 'systems thinking' to see what this technique can provide in promoting efficiency in housing management and maintenance. The review was carried out by a team drawn from the people most closely involved in the process - the staff that actually operate it, rather than senior managers - to 'check' the system and 'redesign' it. The review looked not only at the effect on operational performance but also at the impact on residents, employees, and the organisation itself.



Three pilots were selected, a housing association, an arms length management company and a stock owning local authority, each looking at a different aspect of operations: allocations and lettings (including voids), response repairs and rent collection. All three pilots identified very substantial efficiencies and are currently applying the redesigned processes and identifying the resulting gains.

### **Systems Thinking: An Example – Camden Borough Council**

Camden Borough Council is an example of a Council that used systems thinking to achieve improved value for money in its housing repairs and maintenance service. After successful pilots in Gospel Oak and Camden Town their 'Right First Time' repairs service was rolled out across Camden to all five districts: Gospel Oak; Camden Town, Kentish Town, Hampstead and Holborn.

The Camden Plan set out the Council's ambition to deliver customer focused, value for money services by getting it right first time. By focusing on the experiences of tenants, they have been able to identify ways in which the service can be improved.

The new repairs service will adopt a more flexible appointment system, provide tenant with easier ways to report issues and the amount of time it takes for repairs to be completed will be reduced.

In 2012 the Council piloted the right first time Camden repairs service in the Gospel Oak and Camden Town districts, with up to 90% of tenants surveyed rating the improved service as good (4) or excellent (5) out of a possible 5.

Repairs completion times have improved, the number of missed appointments have been reduced and more repairs have completed in a single visit.

The new way of working includes:

- **Managing work end-to-end:** By managing jobs from start to finish, and through closer working with trades staff and contractors, the council has reduced the need for unnecessary administration, duplication or delays in the repairs process.
- **Reducing reactive repairs:** By keeping the volume of reactive repairs down by resolving as many issues as possible on the first visit. This is always the aim. However, some jobs may need more than one visit – and the new ways of working ensure that staff can carry out the repairs that are required to a high standard and deliver excellence in customer service.
- **Flexible with our customers:** Right First Time offers greater flexibility in appointment times and isn't constrained by previously used AM/PM appointment slots or targets.
- **Decisions made on the front line:** Front line staff make decisions about the work that needs doing for customers.
- **Area-based teams:** The Council uses area-based teams to learn and improve, instead of key performance indicators that may not show true end-to-end times for full repairs to be completed.
- **Working geographically:** By working geographically staff develop expertise in the properties they are working on, get to know local staff and reduce their travel time and costs.

## Case Study: Impact Housing Association

Impact Housing Association of which I am Chair, has a Key Commitment to delivering Value for Money. This is absolutely fundamental. Because they operate as a charitable organisation they need to make sure that every penny counts and leads to tangible and ambitious benefits for customers. They look at Value for Money in its widest sense and make sure:

- What they spend provides Value for Money and they get a good return from it
- How they work is efficient and effective so they don't waste time or other resources
- What they do is relevant and leads to benefits for customers
- They constantly look for new services, funding or partnership opportunities that will help existing or future customers

Impact Housing Association has embarked on a programme of 'Transforming Impact' through:

- Moving away from a top down and target driven approach
- Reviewing all areas of service to:
  - Focus on customers' needs and aspirations
  - Review systems to identify and eliminate waste
  - Benchmark with other organisations
- Achieving quantifiable savings and improvements in services, including:
  - Staffing Costs
  - Repairs & Maintenance costs

This year (2013/14) there are three particular areas that they are concentrating on:

- How to sustain parts of the business by looking at different ways of doing things. The sorts of things they are looking at are increasing business, diversifying, and greater use of volunteers. The Oval Centre in Salterbeck (the community centre on the association's main estate) is a good example of a service that they really want to support because of the local advantages it brings, and the staff team are being creative and flexible to achieve this.
- Provide badly needed additional local housing supply using the most cost effective ways to purchase or develop in an increasingly difficult economic climate. So far this year the Development Team have bought twelve new homes at competitive prices and been very successful in their funding bids for new developments - including significant numbers of extra care housing.
- Tax and other efficiencies that they could get from a different company and operational set up.

No stone is left unturned and they continue with an ongoing programme of challenging reviews that will ensure they continue to deliver Value for Money.

In September 2011 a group of staff and tenants worked together to review the organisational approach and priorities in respect to Value for Money. As a result they agreed a definition of Value for Money for Impact as follows:

*"We will achieve our aims in the most efficient manner at the best possible price and be able to demonstrate it."*

This gave a firm basis to refine the organisational value for money strategy and develop ways of demonstrating achievements in transparent ways to staff and customers alike. The group who carried out the review highlighted five ways to show outcomes:

- Benchmarking;
- Tell customers which services money is spent on

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- Highlight any profits or reinvestments
- Identify the cost and value of important items
- Show the social benefits from our work

During 2012 because this is such an important issue for Impact and their Customers, the Audit Committee received reports and updates and kept a general overview of Value for Money Progress. During the year it was recommended that in future reports should go to Board, so this has been the case for 2013.

Impact operates as a viable and responsible business. They squeeze as much as they can from their resources to deliver and develop services. They take account of all of their resources when they do this – financial, staff, property, as well as the creative working they do with their partners.

They also keep their working practices under constant review. This means they can work as efficiently and effectively as possible. They look at 'Value for Money' in its broadest sense – it is an embedded part of how they work as an Organisation.

Impact knows if they are delivering 'Value for Money' when:

- Their performance will be good
- Impact Staff and Customers will feel confident that they are providing Value for Money Services
- Impact will be able to provide examples of value for money achievements across the range of the service area.

Impact has agreed a number of ways that will enable them to demonstrate that they are delivering Value for Money. These include the following:

- Comparing costs and performance internally and externally
- By telling Customers where money has been spent in respect to services they say are important
- By showing what they have been able to achieve by making savings or improving services
- Knowing the cost and value of everything that is important
- Capturing the social benefits of work done

During 2011 and 2012, Impact embarked on a fundamental review of every single area of activity. No single area was left untouched. This programme of review was not put together into one grand plan of organisational transformation - but that has been the reality of it. This process started in 2010 and its first stage (or "iteration") was complete by the end of 2012. The main areas of review are considered below. For all of these reviews, there have been some common themes:

- Was it rigorous?
- Was it sustainable?
- Was it challenging enough?
- Was it inclusive?
- Was it transparent (in its remit and the reporting of its conclusions/actions)?

## **Demand Management**

Demand management is about ensuring that demands made by customers are focused on positive requests for services rather than on managing the consequences of service failure.

In January 2013, Anthony Zacharzewski of the Democratic Society wrote in the 'Local Government Chronicle' that:

*"Demand management is the idea that by investing in mechanisms that reduce use of services (or increase payment of taxes), councils can attain their common goal of good services at lower cost.*

*"I am writing this column after speaking at a Local Government Association workshop. It brought out different opinions on what demand management is.*

*"Some thought it was about better communications or about designing 'nudge' into services – like cashpoints requiring you to take your card before you get your cash, so you don't leave your card behind. Other suggestions included flexibility in service delivery, personalised services or service delivery through non-traditional routes.*

*"You have probably spotted the common thread – demand management is about understanding citizens on a much deeper level than local government currently does.*

*"The Obama get-out-the-vote campaign used detailed analysis and tracking to understand and target communications. By the start of 2012,, according to the MIT Technology review, the campaign knew the name of every one of the 69,456,897 Americans whose votes had put him in the White House.*

*"That sounds like a big investment, but it's worth remembering that the most labour-intensive part of this data analysis was the local presence and people to knock on doors – something where local government starts way ahead of Barack Obama.*

*"Demand management is not just about data, wording of letters, or which services are provided where. It's about finding the dispersed knowledge about citizens and communities and bringing it together in ways that those citizens and communities can trust and use.*

*"There are echoes of the Big Society here. If it is to be successful, demand management mustn't share Big Society's failings: the remoteness, the top-down politics, and the sense that it was a cynical cover for cuts.*

*"It's easy to see big hurdles ahead. But there are examples of small-scale action already underway. Some councils are ready to take bigger steps.*

*"Back at the workshop. A participant from Oldham summed up the day for me when he said that Oldham called itself a co-operative borough, not a co-operative council, because everyone in the borough was meant to benefit from and contribute to the co-operation. The same should be the aim for demand management."*

## **Command and Control**

Modern thinking appears to be moving away from traditional 'command and control' concepts towards the ideas of lean management and systems thinking.

Following reports into failures in management in the Mid Staffordshire Health Authority, Malcolm Prowle and Roger Latham wrote in 'Public Finance' that:

*"'Command and control' is the default position for politicians and public service managers. But, as the tragic failures in Mid-Staffordshire show, it is a deeply flawed delivery model.*



*“It is amazing how unprepared most new governments are when they take office. The current one had 13 years in opposition before winning power, while the previous Labour Government had to wait 18 years.*

*“Even so, they are often slow to grasp how policy-making and the levers of power work in practice. Tony Blair admitted his first term in office was less than effective because of this latter problem.*

*“The usual response by impatient politicians to this failure to effect change has been to increase centralised, command-and-control decision-making. The late Lady Thatcher, as many commentators have pointed out, was not exempt from this tendency.*

*“On assuming office, one of the issues she faced was how to reform local government finance. The Layfield Report had suggested councils might be given tax-raising powers via a form of local income tax. But this was too much for the centralist Thatcher, who declared that she wanted local government to be financed 100% from the Exchequer. When told by colleagues this just wasn’t compatible with local democracy, she opted instead for the ‘poll tax’ – and the rest is history.*

*“In the US, we might also ask whether President Barack Obama, despite his great rhetorical skills, has ever really understood the levers of power. An earlier US president, Harry S Truman, clearly did. He said that he didn’t get results by issuing orders from the White House. Instead, he spent time ‘kissing backsides to make things happen’.*

*“Modern-day politicians, by contrast, fail to recognise that just issuing instructions from Whitehall rarely produces any responses, let alone the ones they want. More sophisticated approaches are needed.*

*“But governments in many countries remain addicted to ‘command and control’. Those who have seen the TV series Yes, Minister and Yes, Prime Minister may recall civil servant Sir Humphrey urging minister James Hacker to resolve a particular problem with the words ‘Centralise, minister, centralise’. This series still remains a great primer for those who wish to understand Whitehall.*

*“The roots of command-and-control lie in the military. It can be described as management based on the idea that people do what you tell them to do, and if they don’t, you yell at them until they do and if that doesn’t work, you apply some form of punishment. This probably sounds familiar to public service managers today.*

*“But such a hierarchical, bureaucratic model is no longer fit for purpose in complex, sophisticated public services. In fact, it is often counter-productive. We see this in many failures of public policy. A prime example is the highly publicised scandal at the Mid Staffordshire NHS Foundation Trust, now in special administration, whose key weaknesses were exposed by the Francis Inquiry.*

*“One of the inquiry’s conclusions was that it was difficult to apportion blame because it was hard to see who was actually in control. This is a typical feature of hierarchical command-and-control bureaucracies. At Mid Staffordshire, those at the top tended to be thought of as the ‘planners and thinkers’; those at the sharp end were the ‘doers’. Unfortunately, this asymmetry meant that senior managers had a restricted view of what was going on, while those at the bottom received inadequate instructions.*

*“Another common factor in these hierarchies is that government and senior management respond to this lack of control by setting minimum performance standards. However, this target setting, and the monitoring and inspection that goes with it, is costly and ineffective.*

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*“The data and systems are often distorted to indicate apparent compliance. In the case of Mid Staffs, it was clear that targets set on accident and emergency waiting times meant patients were seen according to time constraints rather than clinical need.*

*“In these circumstances, as it remains difficult for senior management to find out what is going on, there is a tendency to displacement of objectives. In the case of Mid Staffs, patient wellbeing was replaced by a ‘standard’ to indicate good performance: namely, achievement of trust status by management. Staff were rewarded for their efforts only when trust status was actually achieved. The assumption was that trust status was a reasonable proxy for patient care – it was not.*

*“Where a command-and-control bureaucracy is a virtual monopoly supplier (as in NHS trusts) and clients are at an informational disadvantage compared with the professional (as in health care), organisations are frequently taken over by a ‘producer culture’. Those who manage and are employed in the organisation often believe that their interests and objectives are what matters and that they coincide with the public interest.*

*“Such organisations find it difficult to cope with significant change. Instead they are best at delivering repeated levels of the same service. This means they are often poorly prepared to deal with natural variations in demand (as in the NHS), and find it difficult to implement multiple changes.*

*“Meanwhile, the relentless pressure from senior managers to achieve performance targets and change management programmes, creates stress in the organisation. Hierarchical bureaucracies often tolerate dysfunctional behaviour because it is confused with strong and dynamic management, and indeed can promote behaviour that is bullying, self-seeking and deaf to complaints.*

*“Perhaps the key issue at Mid Staffordshire was whether the situation was unique to that trust. In our view the command-and-control approach to running the NHS contains the seeds of such disastrous events. Robert Francis’s conclusion that what happened in Mid Staffordshire could happen elsewhere seems entirely probable.*

*“One of the government’s responses to the Francis Report has been to commission a series of inquiries into other NHS trusts that show higher-than-expected death rates. No doubt it hopes that demographic factors, socioeconomic issues or the mix of conditions being treated will provide an explanation. However, by restricting the inquiries to the present rather than to historical problems, it has cut itself off from information from previous ‘whistle blowers’ in the organisations under investigation.*

*“Depending on the outcome of those inquiries, the government will face a real dilemma. If the results show that Mid Staffs really was an aberration due to individual management failings, then the clamour from patient groups for someone to be held responsible will become more strident. On the other hand, if it is shown that the situation in Mid Staffs is replicated elsewhere, it implies a serious systemic problem. Ministers will have to address whether the pattern of organisation in the NHS is fit for purpose. And whether the current reforms – which involve trying to substitute patient and community interest for producer interests – will make a sufficient change.*

*“The command-and-control model is an ineffective way to manage public services and cope with the demands for change implied by a prolonged period of financial austerity. New and radical models are needed.”*

## Conclusions

There are numerous approaches to value for money and each has their advocates. There are those who argue for economies of scale and those who argue that 'small is beautiful'; there are those who advocate shared services; there are those who favour out-sourcing and those who favour in-house provision. There are numerous examples of each of these approaches providing value for money gains and equally there are numerous examples where initiatives have failed or disappointed.

It seems clear to me that almost any approach to value for money can succeed and almost any approach can fail because what matters is the 'culture' of the organisation and whether 'value for money' is embedded in that 'culture'.

And, 'culture' is all about having a team of staff who are well motivated and empowered.

In my experience the key to motivating and empowering people is as much to do with avoiding the pitfalls as it is to do with implementing good practice.

Motivating and empowering people can be an 'uphill struggle' because it often involves changing 'culture' and challenging traditional attitudes and practices.

In Britain there are traditionally adversarial attitudes and behaviour in the workplace. Where this is at its worst, management assumes that staff are at best lazy and incompetent and at worst dishonest and that the role of management is therefore to micro-manage and monitor closely the activities of staff to ensure time is not wasted, mistakes are identified and incompetence and dishonesty are punished. In response, staff assume that the employer wishes to exploit them and will therefore only offer the minimum required to ensure that they can get through the day.

Staff structures and management practices in many organisations including local authorities and even housing associations are still based on nineteenth century military ideas. These emphasise the importance of lines of command and communication through numerous ranks from the head of the organisation to all staff. Receiving instructions from superiors and issuing instructions to juniors is emphasised rather than the importance of working as a team. Responding to superiors and achieving centrally imposed targets is emphasised in place of responding to customers. Status depends on the number of staff and size of budgets for whom managers are responsible so managers focus on increasing the number of people and the size of the budgets for which they are responsible at the expense of providing services to customers efficiently. These overstuffed workplaces are full of apparently busy people because 'work expands to fill the time available' and 'the devil finds work for idle hands'.

Motivation relies on fear of criticism and staff respond by avoiding taking decisions or initiatives, 'covering their backs' and blaming others if anything goes wrong. Where rewards are offered these tend to be based on 'inputs' – for example the number of hours that people work – rather than 'outputs' or 'outcomes'. This causes problems such as 'presenteeism' where staff attend the workplace for long hours and are rewarded for doing so but achieve little.

Systems theory argues that there is a tendency for organisations to exhibit 'entropy' and become increasingly disorganised unless there is an external stimulus that forces or encourages them to become more organised and effective. It is maintained that this is a particular problem in a 'closed system' that is typically found in a large organisation characterised by many internal transactions but fewer transactions with the outside world. In such organisations dysfunctional behaviour can emerge, for example 'office politics' in which staff spend their time in activities designed to enhance their relative status rather than activities designed to achieve the objectives of the organisation or to meet the requirements of the customers.

Classical economic theory argues that competition stimulates efficiency in organisations. If organisations are obliged to compete the least efficient will soon be exposed and will either fail or will be forced to become more efficient. It is often argued that because of this private sector organisations tend to be efficient while public sector organisations do not. This argument is often used to support the out-sourcing of public services and the creation of artificial markets within public sector organisations. This argument gained particular favour with the Conservative governments of 1979-97. However, this analysis appears to me to be too simplistic. There are large private sector organisations that operate as 'closed systems', are inefficient and provide poor services but continue to survive because of the monopolistic position that they enjoy. Similarly, public organisations can operate as 'open systems' offering good services and 'value for money' even without an artificial market being created. In practice out-sourced services sometimes offer value for money and sometimes do not.

'New Labour' did not entirely abandon these classical economic ideas but introduced its own concept of 'Best Value' alongside them. This was based on the idea that if an organisation followed good processes it would have good outcomes and that this would be achieved through a centralised system of inspection and the setting of centralised performance indicators. From 1997 to 2010 this approach was followed. It resulted in some improvements but much frustration among ministers, managers, staff and (most importantly) service users. The weakness of the approach that was it was built on the traditional hierarchical approach and therefore reinforced the weaknesses in the existing systems. It also focused attention on achieving centrally imposed targets rather than on locally arising needs, and focused resources on control and inspection rather than on delivery.

The present coalition government claims to have abandoned this centralised approach – although in practice the extent to which this is true I find debateable. However, they have created some opportunities for organisations to determine their own approaches to performance management and value for money to a greater extent than previously. Inevitably there have been a variety of responses in practice with some sticking to the 'old' methods and some embracing 'new' methods.

In my view the most successful organisations will be those that embrace a radical culture change based on abandoning traditional hierarchies, bureaucracies, departmental silos and systems of top-down command and control. Instead they will introduce systems focused on delivering services to customers; designing work systems based on delivering those services; valuing, trusting and empowering front-line staff; and giving management an enabling and facilitating role.

They will have 'flat' management structures, an appropriate number of well trained and remunerated staff, extensive delegation of responsibility and authority, ideas will be welcomed, calculated risks will be taken, successes will be celebrated and failures will be seen as learning opportunities, relationships will tend to be less formal, communication will tend to be less formal and often electronic, objectives and performance measures will be clear straightforward and customer focused, working practices will reflect customers' requirements and people will be valued for the contribution that they make to the team. These organisations will be large and small and will take decisions about matters including out-sourcing services, providing them in-house and sharing services based on evidence about what works rather than on theory. They will achieve value for money.

One organisation that has adopted this approach is Impact Housing Association where I am Chair. There are many others including some with whom I have worked as a management consultant. Such organisations will achieve value for money and will survive and prosper. Others probably will not!

Oldham Borough Council, where I have worked recently as an advisor on service charges reflects this attitude in the strapline: 'There are many players but only one team'.

**Adrian Waite**  
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The book: 'Welfare Reform: The Implications for Housing and Local Government' is available to buy separately from the seminar. It runs to 100 pages, is fully up to date and sells for £30 plus £3.25 postage and packing. Further information is available at: <http://www.awics.co.uk/TechnicalBooks.asp>

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## About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

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