

Fit

for the future

Part three of a six part series introducing systems thinking, by John Seddon. Parts one and two appeared in the previous two editions of *Management Services*.

Think capability

To summarise the arguments of the first two steps: The major disease of 20th century organisations is in their design and management. If we want to achieve a quantum leap in performance, we have to be prepared to change the way we think. In step one I exposed the problems associated with designing and managing organisations as top-down functional hierarchies. In step two, we began to look at the organisation in a better way, from the outside-in. If you conducted the exercise as suggested you will have a schema of the transactions with your customers and at each point of transaction, some ideas about the nature of customer demands. We will take this exercise further. But let me first introduce the idea of capability.

Change management thinking	
From..	To..
Top-down	Outside-in
Functional measures	Capability measures

Capability and prediction

The concept of capability is equivalent to prediction. If you want to improve an organisation, it helps enormously to know what

is predictable about what is currently going on between your organisation and its customers. The simplest way to think about capability or predictability is in terms of demand and response – what demands do customers make at the points of transaction and how does your organisation respond? If you can improve your organisation's performance at each point of transaction, your profit and loss account will improve – always.

So the first question you should ask is: What is predictable about customer demand?

While conducting a demand analysis in a mobile telephone service provider, it became immediately apparent that a lot of customers were ringing in complaining about a letter demanding they send in their direct debit mandate. The customers' complaint was that they had already sent it. A walk through the work flow revealed the following: New customers' direct debit mandates arrived along with their contracts in a head office department. The mandates were then sent out to the customers' banks for authorisation. Banks were taking time to return the form. Meanwhile, the customer management IT system would regularly sort for those customers who were on contract but did not have payment facilities arranged. The computer system would send a standard letter to these customers. Incredibly, the organisation was predictably upsetting at least a third of its new customers.

This is an example of what I call 'failure demand', or 'demand we don't want' – you might be surprised at just how much failure demand exists in traditionally designed organisations.

If you can improve your organisation's performance at each point of transaction, your profit and loss account will improve

Activity

Using your schema of the transactions between your organisation and your customers (from step 2)

Go to the transactions where customers place demands on your organisation. Listen to the demands they make and sort them into two types – value demand (the things you want customers to make demands for) and failure demand (the demands that reflect a failure of your organisation to do something right).

To do this properly may take you a few days but, in the long run, it is vitally important to get a reliable view of customer demand. The ultimate purpose of the work will be to turn off failure demand and optimise the way your organisation deals with value demand – but that is for later in the series.

On your list, would you expect to have examples of failure demand? For example, progress chasing, complaints and so on? Is this work currently generally accepted as a normal part of doing business? If so, imagine the costs.

Having established the types of customer demand, the next thing you want to know is their predictability.

The mobile telephone example (above) and the next example show one way of establishing predictability – establishing a relationship or interdependency between parts. You can 'see' what is happening and why, hence you can predict that this will continue until the relationship is changed:

Conducting a demand analysis in a business-to-business printer revealed a high volume of customers calling in to say their printing had not arrived. A walk through the process revealed that the notification of when to expect their printing was sent to customers by the scheduling department. As much as 80% of the work would subsequently be re-scheduled by any of three departments further on in the work flow.

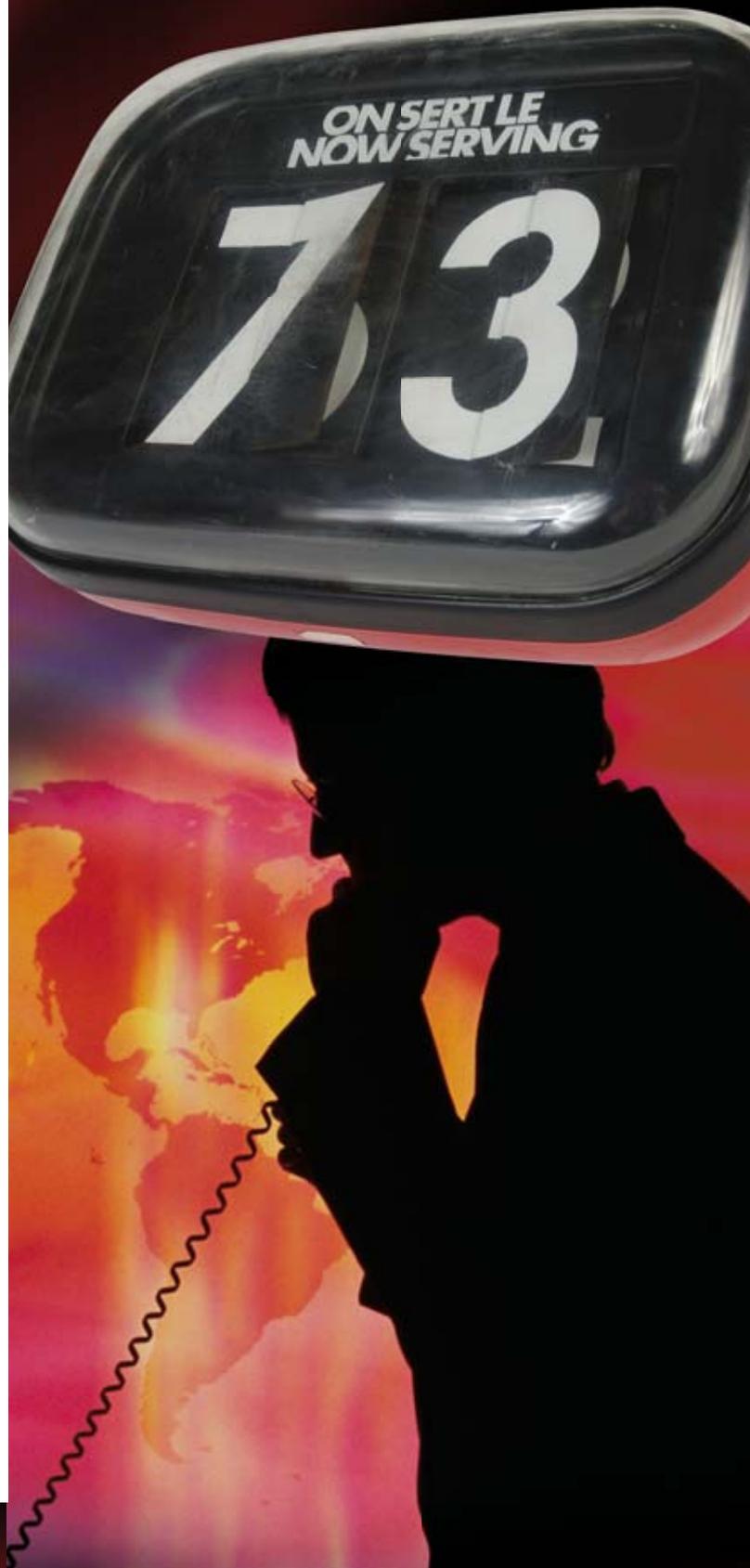
The second method for establishing predictability is to take measures over time. Count the number of times a day or week that a particular type of demand occurs. You know you have a reliable view when you can predict the nature of demand in the next day or week. You may be inclined to rush this part of the work, especially as you will start to see things that are going wrong. Don't, it is vital that you first establish predictability, for otherwise you may act on something that is unpredictable and make things worse – a common mistake.

Now we turn to establishing the predictability of response.

Activity: Returning to your schema

For every type of demand you customers place on your organisation, what measures can you find that tell you how well your organisation RESPONDS?

In most organisations we find few measures that inform managers about the predictability of responses to customer demands. Instead we tend to find 'internal' measures which tell you little or nothing. In the above examples, it took time to establish response measures – they were not in use in the organisation. The measures that were in use in each case, were measures of a different sort. In the telephone company, managers measured activity (calls per man per day). In the printing example, managers measured revenue against targets. Such measures not only prevented managers from understanding demand and response, they made response worse



In most organisations we find few measures that inform managers about the predictability of responses to customer demands

– something we return to in step five ('Think System').

It is important to bear in mind that view we want to take is 'outside-in', the customers' view of the organisation. So your measures of response should best be measures of how well the organisation does things for customers, for example, time to fix something, time to respond, time to quote, percentage of demand resulting in sales, percentage of problems solved on first call and so on.

And finally, there will be one other type of transaction you will need to study:

Activity: Returning to your schema

Go to the transactions where your organisation DOES THINGS TO OR FOR customers. What measures can you find which tell you how well these things work?

We call these 'outbound transactions'. The most obvious outbound transactions are marketing and sales. However, they are not the only ones. Delivery is an outbound transaction. Failure to deliver on time and to specification will cause waste (customer complaints, fall in customer loyalty, re-work, duplication of effort and so on). Invoicing is another outbound transaction. Get it right – what the customer expects – and the flow will be smoother, more customers will pay on time.

Have you heard the oft-said: "I know about half of my marketing budget works, the only problem is I don't know which half". Whenever I hear this I ask: "How do you know it's half?"

An analysis of the sales department in an organisation showed the same expenditure, year on year on each of four methods for attracting new customers. Each method was then evaluated, using historic data, to see what worked – how and how well each different method produced customers. One method was far superior to the others and should have attracted more investment.

Once again, managers were focused on the wrong things – in this case total sales revenue. They should have been working to understand the performance of each of the sales or 'customer acquisition' processes.

Summary

If you know what is happening at the points of transaction between you and your customers, any subsequent improvement will improve service, reduce costs and increase the probability that customer will keep doing business with you.

This is a very powerful analytic tool. It is concrete: people may argue over what we should or should not do for our customers, but they cannot argue over what we actually do. It is vital to get capability data before taking a look at how work flows through your organisation – the next step in the series.

This series 'Six steps to improving productivity' is based on *The Vanguard Guide to Understanding Your Organisation as a System*, published by Vanguard Education.

Downloaded from www.lean-service.com – improve service and cut costs

About the Author



John Seddon is an occupational psychologist and management thinker credited with translating the Toyota Production System (TPS) for service organisations.

John began his career researching the reasons for failures of major change programmes. This led him to W Edwards Deming, whom John credits with introducing him to the importance of understanding and managing organisations as systems and Taiichi Ohno who showed the

practicality and power of doing so in manufacturing. The economic performance of the TPS is legendary. John has translated the principles behind the TPS for service organisations. In service organisations change can be much faster than in manufacturing, but managers firstly have to change the way they think.

In his time John has been a leading critic of management fads, in particular ISO 9000, which he describes as being based on bad theory. Most of his criticisms of management and their fads are based on his view that it is management thinking that needs to change. John has been an ardent critic of the government's approach to public sector reform, in particular the adverse consequences of targets and specifications. These, he says, are components of the 'command and control' philosophy which, he argues, is a failing management paradigm. John proposes instead managers learn to adopt a systems perspective.

John is a visiting professor at the Lean Enterprise Research Centre, University of Cardiff. He is an entertaining, controversial and informed speaker. John's latest book *Freedom from Command and Control* and other publications are available from the Vanguard web site: www.lean-service.com or direct from Vanguard, Villiers House, 1 Nelson Street, Buckingham MK18 1BU.