

Think

outside-in

Fit for the Future – Part two of a six part series introducing systems thinking, by John Seddon. Part one appeared in the summer edition of *Management Services Journal*.

To summarise the argument of Step 1 (be prepared to change the way you think), our organisations are designed and managed as top-down hierarchies. It is this very thing – the design and management of the work – that precludes improvement. Thinking outside-in instead of top-down is much more than running customer surveys; it is to understand the nature of transactions you have with your customers. If you follow all of the steps in this series, you will discover for yourself how top-down thinking can actually impede performance. The control, for example, of costs can actually cause costs to rise. By contrast, the optimisation of flow – working outside-in – always reduces costs.

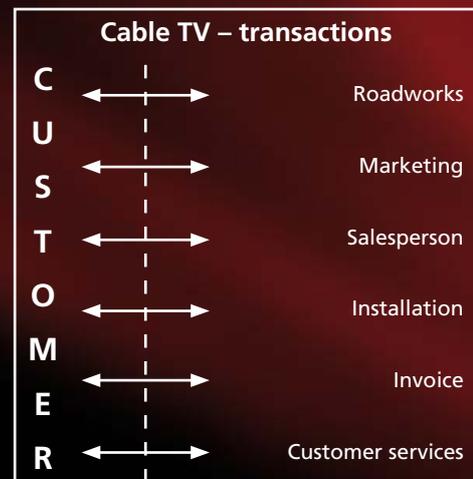
What is the purpose of your organisation? To survive and prosper of course. But the question is by what method? Your budgets can only be used to set targets; they will not help in a discussion of method. In fact if you rely on budgets as your primary management tool you will engage your peoples' ingenuity in doing what it takes to be seen to make budget, that often means cheating, distorting and parts 'winning' at the expense of other parts 'losing'. What you need is everybody working to improve performance and to do that you need the means to discuss method – how well the work works.

Change management thinking	
From..	To..
Top-down	Outside-in

Thinking outside-in leads to better methods

Think about it this way. Your customers can only take their view of you from the transactions they have with you. If those transactions are positive for your customers they will be likely to come back; if they are amazing, the customers will tell their friends. If, at every point of transaction you could understand the 'value' work – what matters to the customer – and do that AND ONLY THAT, your service would improve and you would be more efficient. Why? Because you would have no waste: good service always costs less – a concept many managers struggle with.

When you take an outside-in view of a traditionally designed (top-down) organisation, you always find an enormous amount of waste that in turn is associated with poor customer service.



Take, for example, a cable television company. Looked at from the point of view of its customers, it looks like this: Managers, taking a top-down view might think they are wise to squeeze down the costs of sub-contractors who dig up the road. But go too far and the sub-contractors will focus only on time and cost. When prospective customers want to get out of their drives how will they be treated? I know a number of examples where literally hundreds of prospective customers have sworn never to buy from 'those ignorant people who dug up the road'.

Similarly, targeting installation crews on the number of installations per day can result in a predictable volume of problem calls into customer services. In a rush to meet their targets, crews leave jobs unfinished or untidy and/or the customers don't know how to operate their set-top box. The costs of the re-work go on other departments' budgets. The solution is not to allocate the costs of re-work to the installation department (a typical but fruitless managerial response) but to work instead on optimising installation – learning what it takes to install perfectly; causing no customer calls and no re-work.

Moving on to customer services, you often find enormous amounts of calls caused by 'failures' of the organisation to get something right. Rude road diggers and poor installations might be two causes; there will be others like failure to understand the bill or failures to provide expected services. Rather than see these things for what they are – failures of the system – and acting to remove them, you generally find managers in customer services setting increasingly impossible targets for answering calls and hiring more staff to work on the 'phones. The managers of customer services are, like their colleagues in other functions, trapped by their organisation's design.

Working outside-in leads to improvement

When managers learn to think and work outside-in, the result is always significant improvement in revenue, service and efficiency. The starting place is the identification of your organisation's transactions with customers. In the next two articles I will show you how to take measures that help you understand what's happening at the points of transaction and I will give you some simple principles for working on flow.

In the meantime, if you follow the activity recommended here, you may also discover for yourself some other problems associated with top-down management thinking. These problems become evident when you study your organisation from the outside-in.

Two common examples:

Telling people what to do at the point of transaction by procedures or other methods. This only works when you can predict 'value' or 'what matters to the customers' in the customers' terms. When you cannot – which is most often the case – the procedures enshrine waste of various kinds.

Setting service standards or service guarantees. They appear attractive but in practice focus people's attention on meeting the standards or guarantees, which is not the same as responding to what matters to customers. Sometimes you find extensive standard-setting and controlling bureaucracies that in practice are adding massive costs and interfering with the organisation's ability to serve its customers.

Customers define value

Customers want service to be customer shaped – they want to do business with organisations that respond to their particular needs in ways that suit their particular circumstances. Only by having intimate knowledge of customers, their attitudes, habits, their work and so on can one start to design products and services that are truly customer-driven.

The best way to begin a customer-driven transformation is to know the nature of customer demands on your organisation, to know what 'value' is associated with those demands and to know how the organisation usually works with those demands (flow).

Activity

Using the same schema as for the cable TV company: Draw the transactions between your organisation and your customers.

Now ask yourself:

- What do you know about what the customers' experience at each point of transaction?

Taking the 'inbound' transactions – those where customers make demands on you:



About the Author

- What do you know about the type of demands customers make at each point of transaction?
- What do you know about what matters to customers (the 'value work') at each point of transaction?

Now go to the points of transaction. Listen and observe; listen to telephone calls coming in, go out with a delivery person, a salesman, or anybody who spends time dealing with customers.

- At that place look at what's happening from the customers' point of view.
- What types of demand do your customers make?
- What matters to customers with respect to each type of demand?
- Does 'what matters to customers' differ by type of demand?
- Ask the people who work there – what matters to customers with respect to each type of demand?

As you work on the activity, keep questioning 'How do we know?'. To improve for the long term you will need more than opinion and anecdote, you will need measures that help you predict and control improvements to the 'flow' of work. I call these capability measures and they will be the subject of the next article in this 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.



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.

