

# Changing Management Thinking

By John Seddon

Chaired by: Mike Carmody



Q2002

**A World Quality Congress**  
46<sup>th</sup> EOQ Congress, UK



Transcription provided by WordWave International with corrections by Seddon – one would have thought the IQA would ensure Deming was spelt correctly ;-)

It is relevant to note that as I (John Seddon) was preparing to speak the Chairman said we were here to discuss the future of auditing, a member of the audience shouted out he was here to listen to the future of quality – the correct session title.....

Seddon speaks:

Thank you, Mike. Good morning.

I want to talk to you about there being a better way to make work work - a way of improving service at the same time as reducing costs. A lot of managers would stop at that moment and go, "No, no, you can't be right because surely if you improve your service, costs go up". It's because of how they think. They equate better service with higher cost.

I want to show you quickly a bit of the history of what I have learned and how this came about. I want to give you a bit of a quick run through of what's going on in our most modern organisation called 'the Call Centre', and then I'm going to show you one case study of an organisation that has changed using these methods. I have many, many more. And then, finally, I will get on to whether there's a future for auditing, and there is none, just so we all know.

I'm an occupational psychologist. As Mike said, I was studying programmes of change in the 1980s. You know the kind of thing - put people through a customer rah-rah, put them back into a system that won't let them do it, or put them through quality training, give them loads of tools and send them out to do projects. They do quality 4.00pm Tuesdays and then it stops. The problem I learned is that the theory implicit in the tools is diametrically opposed to the theory of the firm, so what do you suppose wins?

From that, I started studying the work of Deming. He impressed me. He said, "You must not run your organisation as a functional hierarchy. You must understand it as a system". But Deming didn't say much about how to do that. Taiichi Ohno, however, taught me a lot about how to do that. Taiichi Ohno built the Toyota production system. If you don't think that's an impressive system, let me tell you this. The number of man-hours it takes to build a Lexus is less than the man-hours used in repairing a top of the line German luxury car at the end of the line, after they've made it. That's how impressive this is. It's a different way of thinking about the design and management of work. If you want to improve your performance you basically have to change your system. If you're going to change your system, you have got to change the way you think. That is essentially the proposition.

So, where did it come from? Well, there's an interesting story in a book by Anders Broms called Profit Beyond Measure. I recommend people to read the first third of that book, but that's all. The rest of it I don't have a lot of time for. They talk about what happened in 1982 when the guys running Ford went over to Japan to find out how they did it, make cars cheaper that don't break down, and Taiichi Ohno, who was running the Toyota production system, said, "Well, that's funny. We learned it from you". And he was talking about the Highland Park plant. This is the famous, 'Any colour you like, as long as it's black' where Ford halved the cost of making cars and doubled the wages for the workers and everyone went, "Ah, that must be good management".

Well, when Taiichi Ohno studied this plant, what he saw was every 20 minutes a black one came off the line, and what he saw was that it represented a sort of heartbeat or a pulse through this system. So, he went back to Japan with this idea that if you are going to make cars you have to worry about flow. That's not what the Americans thought and the differences between the two modes of thinking only became apparent when the world wanted variety - "I don't want a black one, I want a red one" - and this was the American solution to the variety problem and this is still the solution, mass produce in batches. And if you don't believe me, fly in to Barcelona and look at all the cars, or walk into John Neal's Unipart building and look at all the Rovers in the car park next door. That's what you get when you mass-produce in batches, so you make all black ones, change the whole system around and make all red ones. To do that, you need a management factory. Anders Broms called it an information factory, but it's more than that because people are doing things. I call it a management factory.

And the key issue here is that these people separate decision making from work. These people in the management factory are there writing the specifications, doing the auditing, doing the planning, the warehousing and all of the scheduling that you need to mass produce in batches. This, of course, is where ISO 9000 got born. This is the Japanese solution to the problem - put variety in the line. And I guess you can see what's missing from this slide. Yes, there is no management factory, because it's a completely different philosophy about how you design and manage work. What happens in this system is you don't make a car unless there's an order, and as soon as there's an order everything flows in order to put that together and they can achieve that, with a motor car, in less than five days. That's quite incredible, isn't it? And I think the point is this, that if you work with these ideas in organisations that don't make cars, it won't take you 50 years. But the problem is, it's a challenge to our current thinking.

So, let me just summarise the distinctions between these two ways of thinking about organisations. I'm sure you are all familiar with the stuff on the left. We think about organisations as top-down hierarchies. We separate decision making from work. We design work into functional specialisms. We tell managers, "Your job is to manage people, manage budgets, worry about your production measures, measures of activity", all these kinds of ideas. Because that belongs, if you like, in the Henry Ford mass production paradigm.

Taiichi Ohno said, "No, don't worry about that. Think about your organisation, not top-down, but outside-in. Design against demand. Integrate decision making with work". So, you need different measures. Measures that can help people who do the work to control and improve the work. It is hugely motivating. It builds adaptive systems because as demand on the system changes the people change the system. In the typical 'command and control' design when demand changes we don't notice for years until somebody finally has a big problem and then we try to shift the tank. The systems approach builds adaptive systems because they design against demand.

Now, let me just go through quickly the simplest case: the call centre. One way to explain this is if you think that way, as all of our financial services companies do, I have to tell you, and you decide that telephony allows you to build call centres, which they all did about ten years ago, well, what do you do? You send all the guys in white coats - the O&M department - out to measure how many calls come into your branches and how long they take, and that sizes the work. And then you get rid of

the people who cost you £14,000 per year in your branches and you hire people at £8,000 per year and you give them the telephone work.

The organisations tell you, the customer, that this is all about improving service. It is not, it is about reducing cost. Now, I was working with a bank ten years ago where they planned, in that way, for three centres with 1,000 people in each. And they had an unanticipated rise in the level of demand and so they opened a fourth. And demand carried on up and they opened a fifth. By this stage, the Chief Executive was very exercised about cost - because that's what drives them, cost - and he's saying, "Look, you said, the costs would fall, that we would have three and now there's this many". The managers running the call centres, they were all saying, "Boss, it's like the M25". Now, for those of you from overseas, the M25 is a little motorway around London. The day they opened it, it filled up. They said, "We couldn't anticipate that customers would use it so much. Clearly, the customers like using it because they keep ringing. We're getting more calls". And then I get involved and because I think that way, all I want to do is go around to the call centres and sit in and listen to what's coming in on the phones. When we think about demand in call centres, there are two kinds of demand. There's what I would call 'value work' - this is what we're here for, "Can you sell me a product? Can you help me? Can you give me advice?" That's value demand, and the other kind of demand is what I call 'failure demand' which is caused by a failure to do something, or do something right for a customer. Does that make sense to you? Like progress chasing, "Oh, why did you do that to me?" In other words, it's caused by the system.

Their failure demand was running at 46%. That's how they got to five. People would ring and say, "Oh, I want to talk to so and so in the branch" because you ring the branch number and they route it through to a call centre, and you say, "Oh, no, don't worry, Mr Seddon, I can deal with you." And you go, "No, no, I want to talk to so and so in the branch" so eventually you might get put through but the people in the branch, they wouldn't pick up the phone because that was the other guy's work and they got fired, remember? So, we don't pick up the phone - that was their work. An attitude created by intervention.

So, then the people in head office who are clever, they said, "Oh, what we need to do then is provide an electronic mechanism for the people in the call centre to send messages down to the branch". So, they put a PC in the corner and the messages go on the PC and then the problem is that the people in the branch don't go and look at the messages on the PC. So, then they decide that what they'll do is have the PC ring a bell every time a message comes. You think, "We pay these guys all this money to do this kind of work?" But actually they created the demand themselves.

So, that's the first issue in the design of call centres. All call centres treat all demand as units of production, and it isn't. They're all preoccupied with how many bums on seats against the volume of demand. Once you've studied demand, you can start optimising the system and the first, and the greatest, lever you've got for change is to turn off the causes of failure demand. This is so simple, isn't it? I earn a fortune doing this kind of stuff and it's almost brainless. Cable companies in the UK, they buy these big IT systems. They send out bills people don't understand, so people ring up to say, "I don't understand my bill". The managers in the management factory see an increase in the volume of demand into the service centre and what do they do? They put more staff in there. Is that the right answer? No, the right answer is send them out bills that stop them ringing up, isn't it? Isn't that easy? Well, only if you think that way.

The second major mistake in the design of call centres, and this is the reason they are sweatshops. I don't know if you heard the radio the other day. There was a programme saying, "Call centres - are they still sweatshops?" And the call centre industry says, "Oh, no, no, no, we've got out of all that. We're far beyond all that. We give our people aromatherapy at lunchtime. We treat them nice. We've got big HR policies". HR is just a bunch of techniques for dealing with the symptoms from this paradigm, basically. I always say to the people in HR, "There's always time to get yourself a proper job". I won't tell you what I say to auditors.

But what they do is they treat people as though they can be held responsible for the work they do. So, because the planners have planned that you can do 100 calls in a day, so long to do a call and all that stuff, that becomes your work standard. And if yesterday you did 105 and then today you do 85, what happens to you today? Well, you get paid attention to. In the bad old days when managers were bullies you'd get the crap beaten out of you. Now that the managers are coaches, they turn up and give you therapy, and my problem is that they turn up. Because when you plot call centre worker activity data over time into a capability chart, what you find is that it's stable. The agent could do anything from 80 to 120 calls in any day and the variation is in the work, something Deming taught us.

When you get team leaders working with their agents with data in that way, you get focussed on improving the system. What causes variation in the work? How can we tackle that? Most team leaders in call centres today, because they work in that paradigm, are focussed on managing the people. That's working on the 5%. It's so incredibly stupid and yet these are the simplest organisation forms that I work in and yet they are the most reluctant to change because they have this paradigm completely stamped through their being. Those that do change make rapid change and it has a rapid impact on the bottom line.

So, that was a simple case - the call centre. I want to show you another example. Let me tell you that you might not run your organisation as a system, but you can study it as a system straight away. That is what we call starting at check. This is not Deming's plan-do-check-act cycle because if you say, "Let's start at plan" and you stick managers of a traditional persuasion in a room and start with plan, they'll do what they always do, which is share opinions and end up with whoever shouts the loudest. Check or study is: we might not run this as a system today. We can study it as a system. And you get so much learning out of that. It means looking outside and understand demand, value and flow, all the things that I talked about before. Then when you get to plan you should be able to predict what will improve and then you do it. It's really as simple as that.

This is the model that I've developed for doing check. I first developed this about 15 years ago in IT break-fix systems. You know, "My computer's broken, would you fix it, please?" We haven't found a boundary for this model yet. It's working with police forces, social services, oil pipelines in the desert, just about everywhere we go. It basically goes like this. You first must look at this system in customer terms and say, "What's the purpose from the customer's point of view?" That's a really simple idea, you see, because if we sort out purpose from the customer's point of view we can understand that in the future the customers will pull us away from the competition. That's basically what happens because the longevity of the enterprise is determined by the patience of the customer.

You have to look at your system from the outside in. In other words, the customer can only take a view of the system from the transactions they have with it. So, if you

were a cable company, for example, what are those transactions? Well, you dig up the road, you send a marketing pack, you send a salesman, you install the kit, you send a bill, they make a call to customer services. You need to know the type and frequency of customer demands at all these different points of transaction, and then, thirdly, you need to know the current capability in responding to those demands.

The truth. These are numbers and these are things that you cannot get from all the data in the current management factory. You have to get it by getting out in the work and studying the work. Having done that, you're then interested in the workflow. And there are two kinds of work going on in the flow. There's the value work, which is defined by the demand, and there's waste, which is caused by us. In fact, it is caused by the current management factory, essentially. That's there because of the way we think. And we think in certain ways so we put in certain system conditions - like measurements, like roles, like hierarchy, like process design - because of how we think about the work. And so you see in this model, we've got the same basic idea - if you want to change your thinking, study the system, and study the system from the current point of view of how it performs for the customer.

Well, that's the model. We haven't found the boundaries of it yet. Let's show you one application quickly. I want to show you an application in the social housing sector because this week Tony (the UK Prime Minister) is saying, "The public sector isn't improving so we're going to do it to them harder" basically. I think it's the first sign of madness, isn't it? "It doesn't work, so we'll try harder".

I've been trying to tell these people that there's something wrong with the way in which they currently work. The whole target setting and inspection regime is the primary cause of demoralisation that's causing the current exodus of public sector workers, and yet you're going to see a public sector case here where the workers have improved the system enormously and are dead happy to go to work. And so I write to John Prescott and I say, "Hey, we could be doing this. It's the same everywhere. There are 450 housing organisations doing repairs". And, of course, they go, "No, no, no. We want to know what are the right targets".

You don't need targets. The government set targets for housing repairs on things like percentages. The standards are something like the percentages of emergency, urgent and normal repairs you do in 24 hours, 1 week and 1 month. These numbers that tells you nothing because you don't know whether the others, that Are not done in the specified time are the same or different. You'll only find out if you run them in a capability chart. If they are the same, then to act on those as different is a mistake. If they're different, then that's a different issue. But, the data in this form tells you nothing.

What matters to customers when they're getting their house repaired is very simple. It's, "Do you repair it and do you do it right?" But I want to just show you this, that this organisation, unfortunately, had done an assessment against the EFQM excellence model. I don't know if you know where this came from, but this is, "Man falls off a horse in America. European managers take two steps backwards." That man was Malcolm Baldrige, friend of President Reagan. The Baldrige award came to Europe and we, of course, developed our own - the Excellence Model. There's no evidence that this works. This organisation had done an assessment against this. I could go on at length about this. It's one of the diseases currently. But, their assessment was as follows: Their service was good because they were meeting all their service standards and BVPIs, best value performance indicators (Government targets). Their processes are good because they've got ISO 9000. They knew they

had low morale. They thought they'd train their managers as coaches and in the leadership box it says, "Good leaders have visions and missions" so they thought, "Well, we better do some of that then".

Now, I am going to show you that that's the wrong answer. When you look at it as a system, you first say, "What matters to customers?" You find that what matters to customers, one of the big issues, is time. And here is a capability chart of actual time to effect repairs. Now, the most incredible thing you learn from this is that while they're meeting all their best value performance indicators, the truth is completely different. You see, what BVPIs, what all targets force people to do is use their ingenuity to make the target. So, if a job's going outside the target they close it and open a new one. But, it's bigger than that. A job to a customer, like do my window, is a job. But when you get inside this system, it's four jobs because we need a glazier, we need a carpenter, we need a plasterer, we need a painter. So, we treat four jobs against all our own measures. Now, from a customer's point of view that's one job.

Now, you can see in this chart that things appear to be getting worse. So, just to cut a long story short, we cut the data in two places. We said, "What happened here and what happened here?" You see variation is increasing. These charts help you learn. And what happened here is they put in a new management structure to go chase the BVPIs. Great lesson, isn't it? Put in more management, increase variation, sub-optimize the system. And what did they do here? They put up a call centre because Tony and the government are telling them, "You've got to have better access to your services, so have a call centre" and look at what happened to the system. Massively sub-optimized the system. "Ah, yeah, but at least now we know".

Now, we've got data achievement of purpose so let's go and have a look at what happens in the flow. Very simple flow. Tenant calls the call centre and says, "My toilet's broken". The call centre prepares a works order, gives it to the supervisor who gives it to the tradesman, get materials, fix the problem. You would think, "Hey, what could go wrong with that?" Well, this is everything that's going wrong with that. High levels of failure demand into the call centre, "Where is the guy? He didn't do it". Because of target times, supervisors and workers are cancelling work orders. Every morning the tradesmen have to queue for materials. Highly predictable, but they have to waste time every morning.

When they do the works order, they basically diagnose the problem. It's an interesting thing this. You've got someone who doesn't know a toilet - a tenant - talking to someone in the call centre who doesn't know a toilet about what the toilet needs. They put that down on something called a schedule of rates and it becomes the worker's work ticket against which the worker's going to get paid. Whoever invented the schedule of rates should have been shot, and it's all over the country. And then, of course, the worker goes out and does the work and he reworks it, the schedule of rates, because it's not the correct diagnosis and it determines his pay. That also means that it will determine where he goes first, because he's chasing his pocket, what he gets paid. It also means the supervisor will determine who gets what work - favouritism and all of that - and it also means that, clearly, you're going to have problems of access. Having agreed access at the first point of contact, the worker changes the decisions about what they're going to do.

Now, the interesting thing about that is when you review this slide you can see now in that system all the things that were previously invisible to management who are sitting in the management factory. None of this stuff in red is visible if you're sitting

there looking at numbers associated with cost and activity. Can't see any of this, this is all flow.

So, that's an example of doing check. Having done check, what do you do next? This is really simple. You say, "What's the value work?" When you think about this against demand, what are we trying to do? We're trying to diagnose, we're trying to get access and we're trying to fix things. So, the people who do the work do check and then redesign it against this basic idea.

There are a number of examples of this around the country now. My favourite is the one in Newcastle. That was actually Newcastle data there. This is the people who do the work who have done this. They can design the work. They say, "What we're going to do is we're going to locate people into geographies - estates - because we've worked out that demand is predictable by geography". That's cool. And when the call comes in it goes to the call centre and then the people in the call centre route it straight to a worker who's on the estate and the worker talks to the customer and agrees to turn up immediately or a little later in that day. Because they've understood the nature of demand into the system, they've stocked in their vans the things they need and most of the problems they fix on day one. A few problems they have to reschedule to fix on day two.

This system is now running at 100% repairs completed within eight days, as opposed to an average of more than 50 days. That's the future of quality - redesigning the work against demand. Dead simple, but very scary because it means you've got to throw away everything that we used to believe about management, that we decide and you work.

So, I would ask you, in truth, how good was their service? Well, it was crap. How good were their procedures? Well, they were crap, too. If the managers turned up to present their vision and mission, what do you suppose the workers would say? I think the second word is 'off'.

So, what have I been saying to you this morning? We don't have enough knowledge in our organisations. And you don't get knowledge by studying other people. You get knowledge by knowing how to look in your own system. That's the whole idea of check. Taiichi Ohno taught me, "Don't go benchmarking. The only benchmark you need is perfection and you can only find that by looking in your own system. It's a question of do you know how to look?" Benchmarking is like industrial tourism. People don't even know what questions to ask but they have a jolly nice time.

You use the people doing the work to do this because, you see, you're going towards a future where decision-making is going to be integrated with work, so you start right there. You don't do what we normally do with change, which is people work it out in the management factory and then launch it on them and then worry about resistance to change. Stupid people, they just created it.

If you're interested in this, there are plenty of papers on my site that you can read later. I just want to talk about this because on my journey learning all of this I've come across all of these bits of junk. I don't think ISO 9000 would exist, currently, if it hadn't been for marketplace coercion. You comply or we don't buy. There is no evidence of its efficacy. When looking into the history, it's something that started in the Second World War because we had problems with bombs going off in the factories. It is no more than a bad theory for the control of output. It's got nothing to do with quality. Even the year 2000 revision doesn't get close. It maintains a



separation of design from process. It just shows how little these people understand about quality. Quality integrates design with process. Well, at least it does in the Toyota system and I'm a great fan of that approach to quality. I don't think ISO 9000 has got anything to do with quality, and without coercion it wouldn't have grown. And, as Mike said, I wrote a whole book about that so you can read that at your leisure later.

The EFQM excellence model, I've talked about that briefly. There is no evidence that it works and yet, again in our public sector organisations, people have been coerced to use it. For me, it's a complete waste of time. Rather like ISO 9000 and all of these things, it suffers the problem of being a specification. If you want managers to improve - and we all do - would you have someone write down a specification and then tell them to do it and have them inspected by a third party? Where would you want the locus of control if you want managers to change? You'd want it with the manager, with the individual. That's what you get when that person goes out and studies the system from a different point of view. You don't get that with any of these models. You get compliance with these models. You also get factories of people feeding the model. The Inland Revenue, they've got 40 people whose job it is to do the excellence model. It's pathetic. It truly is pathetic. And when you go into these organisations and study them as system, you find with both ISO 9000 and the excellence model that these models have caused them to do things that actually make them worse and, secondly, have prevented them from looking at the things they should look at in order to improve. Every time, and if you doubt that, if you think you can show me one that's really improved, I'll have that bet with you and if you're right then I'll send £1,000 to a charity of your choice. It's a bet I've been running for ten years and I've never had to pay yet.

Charter mark. John Major thought we could improve by publishing service standards and then creating a bureaucracy. What a load of absolute rubbish. So, you find plenty of organisations now that have got a charter mark and they've got bureaucracies serving that system. The managers are happy because they've got charter mark, because the Chief Executive says they've got to get it, and the people are demoralised and the service is crap. It's so simple to improve service if you design against demand, but you go into all kinds of local authority situations where they have got a charter mark for their arts and venues thing, and people find it very difficult to pay for tickets. And you think, from a customer's point of view, what's going on here? Well, of course, they've met their service standards. That's all right then, isn't it?

Best value is policy on the hoof. After compulsory competitive tendering, a minister was asked, "Well, you've canned that, what's next?" They said, "Best value". Best value is bad measures, no method. It's all targets and arbitrary targets of no value whatsoever. That's why our public sector is not improving. I gave you a case of that. And IIP I've left alone in my career because it's the HR one, and you can't upset these people too much, can you? But, let's face it, what IIP gets you to do is to go out and ask - they do a survey - "Are you communicated with enough? Are you trained enough? Do you get enough feedback about how you're doing?" And what are the answers that anybody would give you in any system to those questions? It's, "No, no, and no" so you end up with interventions to do those things, and yet those aren't the things that will help you improve performance.

So, I think all of these things are complete junk but it's because of where I come from. You'd only understand how they're junk if you can understand how to take a systems view of organisations. I spend my time helping managers get away. I'm a

psychologist so I'm very sensitive to the nature of the change from getting off what you believe. Unlearning is the prerequisite to learning. And that unlearning can only happen when you have what Dan Jones calls the journey of shame, when you start studying things in your organisation that you realise that you're responsible for what's happening here. The Japanese have a phrase, "The fish rots from the head".

I was in the Middle East just recently and Professor Imai was there. He tells this joke, so I'm going to tell you this joke. It's a very Middle Eastern joke. He says, "There's three geezers waiting to be executed - a French man, an American and a Japanese. And they said, 'What's your last wish?' The French man says, 'I'd like to drink a bottle of the best Chateau bottled wine'. Then they said to the Japanese guy, 'What's your last wish?' He said, 'I want to give a lecture on Japanese management theory'. So they say to the American, 'What's your last wish?' He said, 'Would you kill me before he starts?'"

And, of course, the reason I like the joke so much is that these people who believe these things on the left believe that they're absolute. Everything that you see on the left there has occurred by happenstance. There is no theory. What Taiichi Ohno and Deming gave us - the stuff on the right - is a theory about how work works. You can apply this theory to any kind of work. And the interesting thing is that in you applying the theory you learn. So, in my career I found that everybody who has picked up this way of thinking about the design and management of work stays with it, simply because it's a better way to think about the work, end of story.

And yet, we have this doctrine over on the left that has given rise to things like ISO 9000. It came from that world. It's part of that belief system. And it's flawed. The whole specification and inspection industry is part of that belief system. You don't need inspection in these systems on the right. You design inspection out because you understand how to design prevention because you design against demand. It's a really simple set of ideas but profoundly spooky to anybody who's grown up in that other world.

So, that's what I came to talk about. If you want to improve your system you've got to change your thinking. An interesting way of looking at this is that in any system you can think about the system having this relationship on the right, here. Most of our organisations, as they're currently run, have a kind of *de facto* purpose that takes them away from good economics. You spend your time worrying about meeting your targets and meeting your activity measures and so on, and what you end up doing is sub-optimising your system. You spend your time worrying about compliance, you actually sub-optimize the system. When you understand to derive your measures from purpose, which means a completely different set of measures like I showed you in that simple case, that actually liberates method. It's a kind of an interesting idea because the ISO 9000 school is not into liberating method. Otherwise, what are these white-coated anal people going to do with their lives? They want method all written down in books so they can start what they do. But you find in a systems approach a completely liberal attitude towards method because you want the freedom to be experimenting with and improving the work where the work happens. The thing that gives you control is that there are measures related to purpose wrapped around that that give these people, and therefore the system, much greater control of what's going on in the work. It's a completely different way of thinking.

That's about it. If you're interested in these ideas, there's a load of articles on this website. But I have to say, at this stage, did you have any questions?

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