

# **THE BETTER WAY TO BEST VALUE**

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## BEST VALUE: BAD MEASURES AND NO METHOD

Why do we need a better way to Best Value? Because the programme for Best Value is a combination of ‘bad’ measures and no method.

- ◆ **Bad measures** – standards, costs, activity and productivity measures are not good measures for learning about and improving performance. When managers attempt to manage with such measures they can distort their system – making matters worse.

To know, for example, that 70% of a standard is achieved is to know little or nothing about performance – you don’t know what happened to the ‘other’ 30% and you don’t know whether these other 30% were in any way different to the 70%. Could each have been ‘just as probable’ events? These might seem unusual questions but they are at the heart of improving performance.

To manage with cost data can increase costs. There is abundant evidence to show that when managers set targets for cost improvements to parts of their organisation, it increases costs over the whole. ‘Management by the numbers’ is a virus that causes waste.

Many of the measures mandated by Best Value should be seen as no more than ‘indicators’ as they are described. Most are ‘rear-view mirror’ measures, they tell you what has happened but they tell you little about why. Better measures are required for learning about and improving performance.<sup>1</sup>

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<sup>1</sup> For an easy to read introduction to the problems of measurement and management read “I Want You to Cheat! The unreasonable guide to service and quality in organisations”. Or read “Measurement and Management” which can be downloaded free of charge from the Vanguard web site: [www.systemsthinking.co.uk/6.asp](http://www.systemsthinking.co.uk/6.asp)

- ◆ **No method** – there has not been sufficient help (if any) to managers about how to improve performance. The requirements to implement IiP, ISO 9000 and the Excellence Model do not constitute management methods and each of these models is subject to flaws, some worse than others. In many examples the use of these models and standards has had a negligible or negative impact on performance. For discussions of these schemes, you can download papers free from the Vanguard web site.

The better method starts with understanding the ‘what and why’ of performance as a system – something Vanguard has taken the lead in, developing methods and models for performance improvement. These have been tried and tested in commercial organisations.

## SYSTEMS THINKING PROVIDES MEASURES AND METHOD

The systems approach to Best Value provides guidance on method and measures. Understanding the ‘what and why’ of performance as a system itself requires the establishment of measures that better describe performance. In simple terms systems thinking helps managers learn a better way to design and manage work. To help managers appreciate the differences in practice, we distinguish between systems thinking and traditional management thinking:

<b>Traditional Thinking</b>		<b>Systems thinking</b>
Top-down, hierarchy	<b>Perspective</b>	Outside-in, system
Functional specialisation and procedures	<b>Design of work</b>	Demand, value and flow
Contractual	<b>Attitude to customers</b>	What matters?
Separated from work	<b>Decision-making</b>	Integrated with work
Output, targets, activity, standards: Related to budget	<b>Measurement</b>	Capability, variation: Related to purpose
Contractual	<b>Attitude to suppliers</b>	Co-operative
Control budgets, manage people	<b>Management ethos</b>	Lead through action on the system

**Figure 1: Traditional thinking vs Systems thinking**

Traditional thinking has its roots in the work of Henry Ford, Alfred Sloan, Frederick Taylor and others. The ideas developed by these people solved problems of their time and led to improved performance. Systems thinking is a step beyond these traditional ideas. It has its roots in the work of Ackoff, Deming, Ohno, Senge and others who were the first to challenge the status quo.

‘Traditional thinking’ is sometimes labelled as ‘mass production thinking’; mass production methods lead to ‘economies of scale’, systems thinking leads to ‘economies of flow’ – a quantum leap beyond economies of scale. The consequences are better service and lower costs, something the traditional manager would find counter-intuitive because improving service is usually equated with increasing costs.

The starting-place for those who challenged traditional management thinking was the fact that it caused sub-optimisation. Breaking an organisation into parts (functions), setting targets for the parts and ‘managing by the numbers’ actually makes overall performance worse. To understand just how this happens requires managers to look at how the parts work together, they have to take a systems view. When managers take a systems perspective for the first time it can reveal some disturbing things. Those who have the tenacity and open-mindedness to stay with it never give it up, for they learn that systems thinking is indeed a better way to make the work work.

Unfortunately, Government is promoting traditional thinking as ‘modern management’. It is not. World class organisations, the modern leaders, are designed and managed as systems.

In this paper we describe the fundamentals for taking a systems approach. The systems approach provides a better performance management framework for Best Value. We begin with the need for better measures.

## BETTER MEASURES REQUIRES A CHANGE IN THINKING

*“The DETR and NAW see Best Value as providing a performance management framework for local government. The nationally prescribed Best Value performance indicators (BVPIs), with associated targets and standards, are at the heart of this framework.” (“A step in the right direction”, Audit Commission, October 2000)*

Sadly the BVPIs are the ‘wrong heart’ and will not lead to a worthwhile performance management system. We first raised this argument with a representative of the Audit Commission in the early days of planning for Best Value. At a conference of Local Authorities, I (John Seddon) asked “If I can demonstrate that what you are about to do will undermine rather than improve performance, will the Audit Commission stop and re-think?” The answer, essentially, was “No.”

The Audit Commission’s representative maintained that “Performance indicators are useful if used sensibly”. The statement is an admission that ‘insensible’ use occurs. How much is there? How much is tolerable? What causes it?

Insensible use means, in practical terms, things like:

- ◆ **Distorting data** For example police forces classifying shop theft as burglary or not recording crime.
- ◆ **Distorting processes** For example hospitals offering surgery on Boxing Day, knowing that the patient will turn it down, thus returning the patient to the start of the measured queuing time.
- ◆ **Distorting the organisation** Making the attainment of PIs the top priority, in order to look good, avoid grief or to ensure the senior executive is rewarded with promotion.

There is an abundance of evidence that these types of behaviour – driven by a need to satisfy the hierarchy over improving performance – are occurring in all of our public sector organisations.

What is the motivational impact of such behaviour? It can only be de-motivating. How many police officers, nurses, teachers and Government workers are de-motivated because their worth is measured by attainment of PIs and they know themselves to be ‘feeding the system’ rather than improving performance?

The Best Value policy is ‘tough targets’ must be set. For example, for those at the lower quartile to have moved to equivalent performance to those at the upper quartile at the time of the first measure.

What do we know about the reliability of the measures? Are they subject to variation (they will be)? Is the measure the mean or average of the observations? Is this measure subject to high or low variation? What is the nature of current capability, how predictable is it? Is this a ‘high’ or ‘low’ measure within the bounds of current capability? It could represent naturally ‘good’ or naturally ‘bad’ performance – both being of the same system.

These matters were raised with the Audit Commission’s representative, but her attitude was bullish. The audience of Local Authority representatives was told that their failure to come up with performance measures meant that the Audit Commission would determine them instead. Targets and standards, she insisted, would be at the heart of the performance management framework.

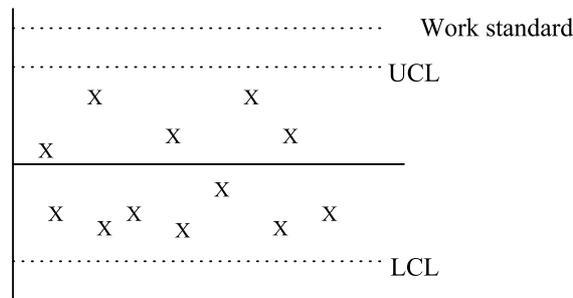
### **But what is wrong with targets and standards?**

The need to avoid managing with targets and standards needs greater clarification for it is essential to a productive performance management framework. The following text is based on part of “The Case Against ISO 9000”<sup>2</sup> which is also a good source for understanding the fundamentals of systems thinking.

If a target or standard is set at a level beyond the system or process capability (see figure 2), then nothing other than ‘cheating’ will ensure that people avoid getting grief from their managers (or inspectors).

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<sup>2</sup> “The Case Against ISO 9000 is published by Oak Tree Press (ISBN: 1-86076-173-9) and is available from the Vanguard web site: [www.systemsthinking.co.uk](http://www.systemsthinking.co.uk)



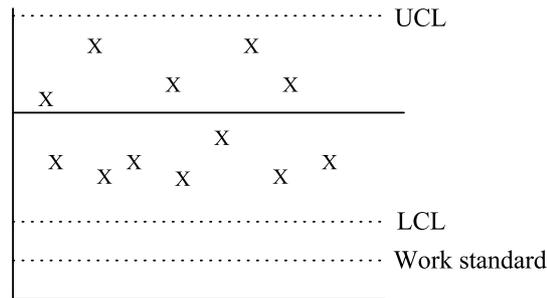
**Figure 2: Standard exceeds capability**

Capability measures tell you what a process or system is predictably achieving. The upper and lower control limits show what values can reasonably be expected given the variation between the previous observations. To improve capability beyond its current state, you have to change the system. The nature of the measure – it shows variation – invites the user to study the system. What are the causes of variation? To answer that question managers need to study flow – how the work works. Managers start to learn how the parts work (or don't work) together. It is to engage peoples' ingenuity in improving the system rather than meeting, by fair means or foul, the requirements of arbitrary measures and writing reports to feed the hierarchy.

Using measures in this way also helps managers and inspectors avoid the mistake of treating single measures as though they are different when in fact they are 'the same' – a 'high' result on the above chart is as likely as a 'low' result, they come from the same system. To report that 'high' measure as being 'achieved' is misleading. Only by taking data over time can managers and inspectors gain a true picture of what is happening.

A capability measure helps managers distinguish signals from noise. Compare how this presentation of data differs from the monthly reports that managers are used to. Such reports typically show data in a tabular form and invite month-on-month comparisons. This can mislead managers to act on 'signals' that do not exist. It makes matters worse – this kind of management behaviour typically increases variation, it worsens performance.

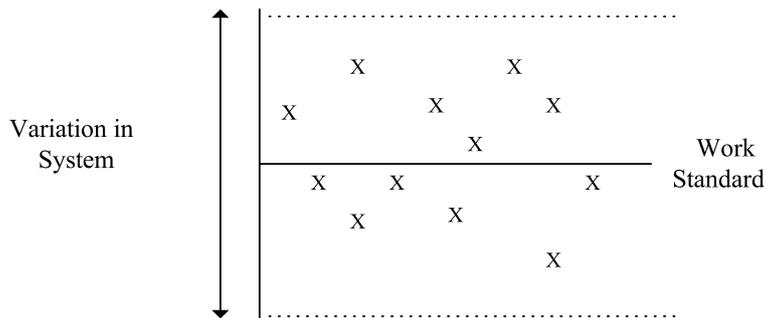
If a target or standard is set at a level which is below the process capability (see figure 3), there is no incentive to work for improvement; people slow down.



**Figure 3: Target less than capability**

In either of the above two cases, the work ethic becomes ‘make the target’, do whatever it takes to avoid negative consequences (being ‘paid attention to’). People in Local Authorities may find it hard to believe that Government or its agents might set a standard below capability but we have been given examples from the Health Service. It is an inevitable consequence of ‘one-size-fits-all’ thinking – imposing the same standards on everybody. By contrast a capability measure is not arbitrary, it tells you instead what is happening, for good or bad. It helps managers direct their attention to the right issues, they learn not to look at the people, but instead look at the system – the way the work works.

If the target or standard is *within* the limits of ‘natural’ (i.e. system-induced) variation (see figure 4), some days workers will be ‘winners’ — they will meet or exceed the standard — and some days they will be ‘losers’. It is inevitable because their performance is governed by variation in the system. By focusing on the people rather than the system, managers cause psychological damage. The associated costs are incalculable.



**Figure 4: Some days you win, some days you lose**

It is management’s task to understand and act on the causes of variation. Learning from variation is fundamental to performance improvement.

Introductions to the theory of variation, establishing measures and leading performance improvement with work teams are available in the ‘lean tactics’ series and The Vanguard Guides<sup>3</sup>.

**Capability measures lead to better decision-making**

It is central to a systems approach that capability measures are used, for they avoid managers treating measures as though they are a signal that something has changed when in fact nothing has changed. They also invite a discussion about method. To improve performance you need to focus on the system – method – how the work works.

Capability measures tell you about the predictability of something; they can be used to learn about two aspects of how the work works – demand and response. Here is an example that includes both:

*An Ambulance Trust was featured on TV as having the best performance of all. What the managers had done was simple – they had assessed the predictability of demand by geography; how many calls could they expect from each conurbation? Then they moved the ambulances to meet the expected demand. A simple but useful example of designing against demand (see page 15).*

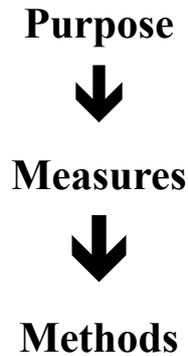
*What happened next was interesting. The programme’s presenter turned to a manager of another ambulance trust and asked ‘why don’t*

<sup>3</sup> For the Vanguard Tactics go to: [www.systemsthinking.co.uk/5-4.asp](http://www.systemsthinking.co.uk/5-4.asp) For Vanguard Guides go to: [www.systemsthinking.co.uk/5-1.asp](http://www.systemsthinking.co.uk/5-1.asp)

*you do that?' The answer was 'it wouldn't work here!' How many managers do you know who respond in this way? They do so more if they live in a culture of trading opinion, for any opinion that does not coincide with their own will be met defensively.*

*What might a good leader have asked next? It would have been better if the question had been 'where is your demand data? Do you have any? Do you have it by geography?' If such data were established, one could ask the next questions: 'are demands predictable by geography?' 'If so, what is your response capability versus demand in each of these geographies?' The consequence would be, if necessary, moving the ambulances.*

The principle issue with measurement is whether it can help us look at method. Capability data invites an exploration of method – it invites us to ask ‘what are the causes of variation?’ When genuine differences in performance occur they are known to be genuine and again one can ask why. ‘What has caused a step-wise change?’



*Figure 5*

Capability measures<sup>4</sup> relate to purpose. By contrast, the BVPIs are mostly rear-view-mirror measures. In the case above, to know the percentage achievement of a standard (ambulances on site within x minutes) is to know nothing of any real value. It also runs the risk of managers and auditors treating measures as ‘different’ when in fact they are ‘the same’ – both within ‘common cause’ variation. And they are more likely to prevent a discussion about method than encourage it. In the case of ambulances, it perhaps should be pointed out that the Government’s recent creation of a two-tier standard (percent within eight and twenty minutes, depending on ‘severity of need’) will alter the work flow. This, along with the propensity for people to use their ingenuity to be seen to achieve their targets, is more likely to make performance worse. It is an examples of management behaviour interfering with flow which is likely to lead to an increase in variation and thus a decrease in capability. Ministers are not good at management.

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<sup>4</sup> For help with choices of measures and the mechanics of constructing capability measures read the Vanguard Guides: “Using Measures for Performance Improvement” and “Creating and Using Control Charts”: [www.systemsthinking.co.uk/5-1.asp](http://www.systemsthinking.co.uk/5-1.asp)

## FROM MEASURES TO METHOD

Government wants Best Value authorities to develop a culture in which:

- ◆ *Continuous improvement is the norm*
- ◆ *The worst reach the performance levels of the best*
- ◆ *A flexible approach to service delivery is based on the needs of client groups and communities*
- ◆ *There is a focus on issues rather than traditional service boundaries*
- ◆ *The approach, while complying with the Government's framework, is implemented imaginatively, with innovation and significant local choice*  
**(“A step in the right direction”, Audit Commission, October 2000)**

The question is ‘by what method’? A systems approach provides a reliable method for the achievement of such a culture<sup>5</sup>. To take each element in turn:

- ◆ *Continuous improvement is the norm*

Continuous improvement can only be the norm if an organisation has measures related to purpose in the hands of people who do the work, such that they can experiment with method for improvement. By contrast, improving performance by reports and reviews through the hierarchy will be unlikely to produce continuous improvement, let alone a one-off improvement. Best Value performance indicators are not useful measures in this regard. The systems approach provides method(s) for the establishment of better measures.

- ◆ *The worst reach the performance levels of the best*

This is a worthy and realistic aspiration but it requires first of all comparable data. The systems approach provides two essential ingredients: capability data and operational definitions. Without these two ingredients comparison is not possible and if attempted will be likely to lead to the wrong conclusions (a current weakness of ‘benchmarking’).

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<sup>5</sup> For abundant educational resources on the relationship between management thinking, culture and organisation performance see the CDROM ‘Change management thinking’, for information go to: [www.systemsthinking.co.uk/5-2.asp](http://www.systemsthinking.co.uk/5-2.asp)

- ◆ *A flexible approach to service delivery is based on the needs of client groups and communities*

The systems approach begins with looking at the organisation as a system from the outside-in. The needs of client groups and communities are thus central to the design and management of work.

- ◆ *There is a focus on issues rather than traditional service boundaries*

As above, to design and manage work from the outside-in is to cut across traditional boundaries.

- ◆ *The approach, while complying with the Government's framework, is implemented imaginatively, with innovation and significant local choice*

Being driven by the needs of clients and communities, with the measures of performance in the hands of those who can manage performance, the systems approach is designed to foster innovation and creativity.

### **Best Value - by what method?**

In straightforward terms, the purpose of Best Value is to improve performance. But the question is by what method?

One commonly used example of guidance – in a booklet widely distributed by consultants – puts it this way:

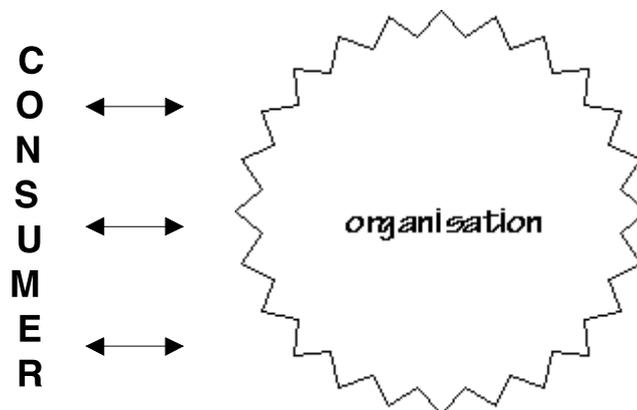
- ◆ Listen to service users
- ◆ Establish service standards
- ◆ Set targets
- ◆ Undergo audit and inspection

It looks entirely sensible but it is in fact fraught with problems.

Let's start at the start – listen to service users. If we interpret this as 'go out and ask them what they want' we may find ourselves with a rod for our backs. For example, people may say they want to see a policeman on every street corner or they want their bins emptied twice a week or they want their planning approved.

The systems approach is consistent with listening to service users but we place our emphasis on **users**, we have found it is important to see the organisation from the point of view of those who make demands on it.

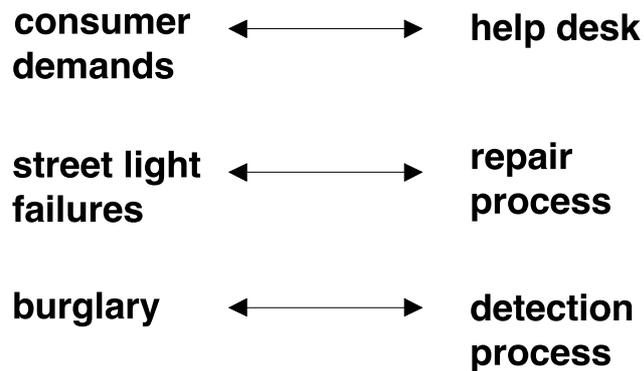
After all, what matters to users of any service? What they experience when they transact with the system or organisation that provides it. If people have a positive experience of an organisation they will talk well of it. If people are asked about 'what matters' to them without regard to their transactions they may feel they have to want something. As a consequence we may find organisations being pressured to do things which do not contribute to achievement of their purpose.



*Figure 6: Look outside-in: what transactions occur between the organisation and its customers*

If a user (or customer) makes a demand on your organisation and finds their needs met, they will talk positively about the experience.

So to think about the organisation from the outside-in is to begin firstly with demand – what are the nature of customer demands on the system? For example many authorities have established call centres, often described as a 'one-stop-shop'. Yet they have failed in their planning and management to ask the question: 'why do customers call in from their point of view?' That may sound an obvious question and many may claim that they think about the work this way. But in our experience, many people who decide to find out about customer demands construe the demands with an 'internal' perspective – 'what we do with it' rather than an external perspective – what the customer wanted.



*Figure 7: Look outside-in: design against demand*

We have found that the concept of working from demand works similarly well with demands that are not ‘customer’ demands. Street light failures are ‘demands’, crimes are ‘demands’. The object of working with demand is to learn to design against it – if a customer gets what he or she wants, service will be optimised and costs will be minimised. Some managers find this difficult to grasp. For more about the principles at work here listen to the “Lean Service” audio-tape<sup>6</sup>.

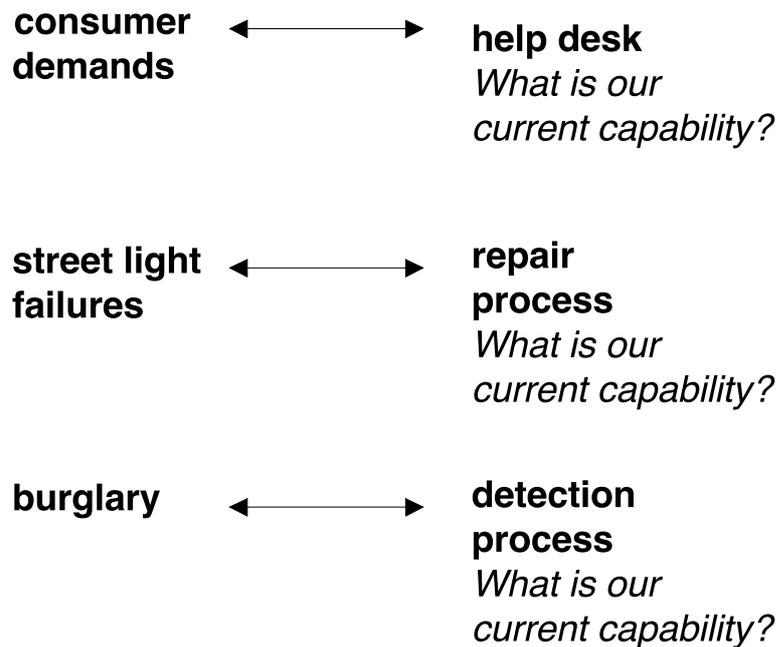
Establishing service standards can have disastrous effects. They can result in all customers being treated the same, not exactly a service attitude. Worse, they often result in people working to ensure they meet the standards regardless of the impact on the customer. For more detailed explanation of the problems of service standards read “The Vanguard Guide to Using Measures for Performance Improvement”<sup>7</sup>.

Better measures are capability measures. Rather than know the percentage achievement of a standard, it is better to know what performance is being achieved predictably – that is what a capability measure will tell you.

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<sup>6</sup> For information about Vanguard tapes go to: [www.systemsthinking.co.uk/5-3.asp](http://www.systemsthinking.co.uk/5-3.asp)

<sup>7</sup> “The Vanguard Guide to Using Measures for Performance Improvement”: [www.lean-service.com/5-1.asp#5](http://www.lean-service.com/5-1.asp#5)



***Figure 8: Determine capability versus purpose***

Capability measures lead to a discussion about method – which is where the discussion has to focus if performance is to improve. People ask ‘how predictable is this process? What causes variation?’ These questions lead to the need to gain greater knowledge about how the work works.

Traditionally-minded managers equate ‘work’ with resource - that is, after all, the picture they see in their measures. To improve performance it is assumed that more resource will be required. Systems thinkers recognise, following Ohno<sup>8</sup>, that performance equals work plus waste; thus the best way to improve performance is to cut out waste. In service organisations this means service improves as costs fall. To cut out waste requires management of end-to-end flows, to and from the customer or point of transaction. Hence capability measures invite a focus on method – how the work works.

For example: With a ‘one-stop-shop’ we may have established that 60% of demands are dealt with at the point of transaction. Provided this has been established over time and you are in a position to predict that unless nothing changes the same will happen next week, questions can be asked about those demands that are not dealt with at the point of transaction.

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<sup>8</sup> **Taiichi Ohno, the creator of the Toyota production system.**



Of even greater implications for performance improvement in a ‘one-stop-shop’ we should ask about the types demand – why do consumers call in from their point of view? How predictable are these types of demands? In such cases we should also distinguish between ‘value demand’ – the demands we are here to serve and ‘failure demand’ – demands caused by a failure to do something or do something right for the consumer. This presents a major opportunity for performance improvement and is ignored by Government advice on call centres. In Police Forces we have found failure demand to be running at alarmingly high levels. There is no reason to assume we would not find similar problems in Local Authorities. To treat all demand into call centres as ‘units of production’ is a mistake that has led to excessive costs in the private sector. By ‘benchmarking’ the private sector Local Authorities will be led to the same mistakes. Government advice (wrongly labelled as ‘best practice’) certainly pushes them in the wrong direction. For further discussion of the principles for call centre (help desk) design visit the Vanguard web site<sup>9</sup>.

### **Improving street light services**

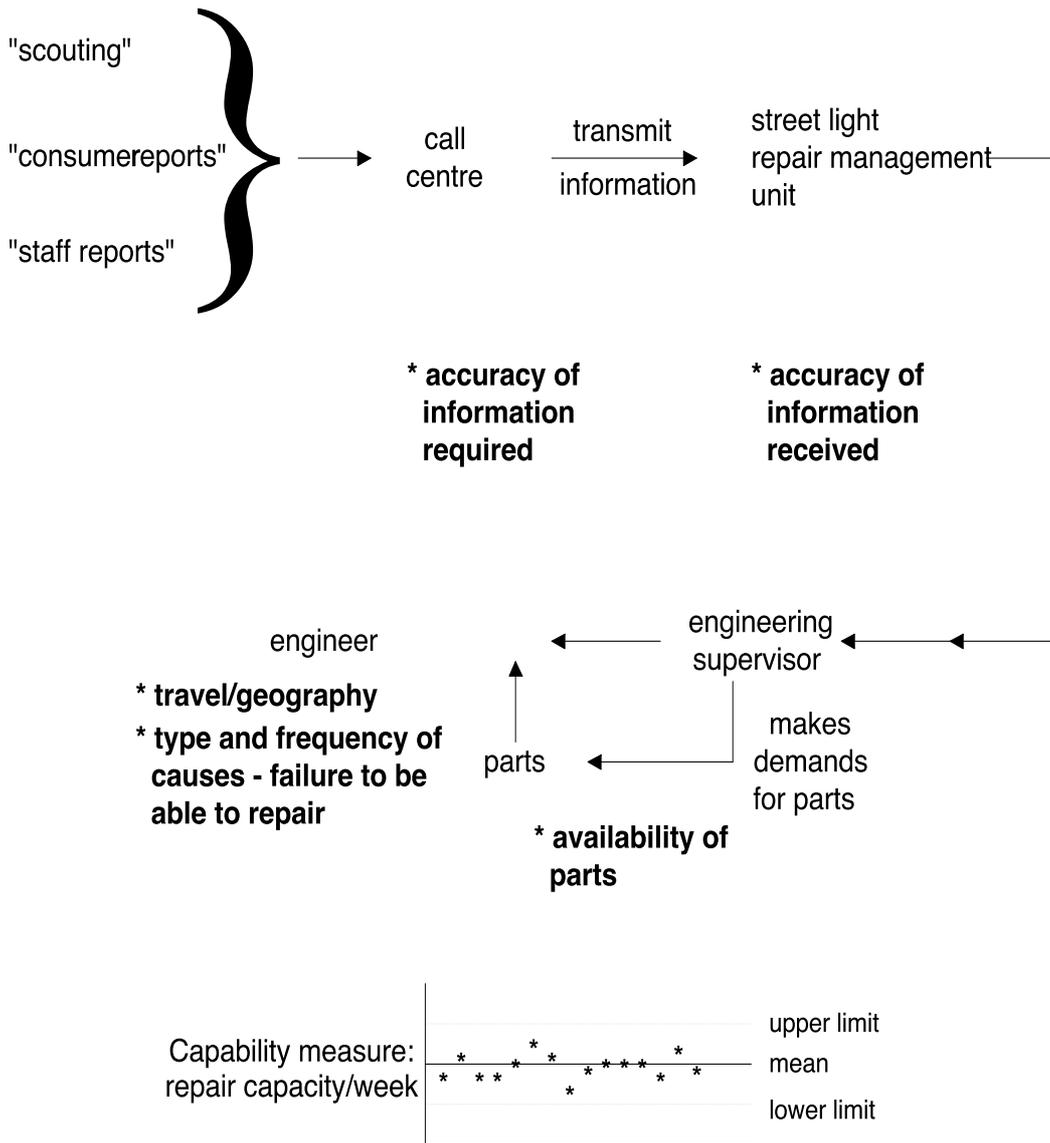
The BVPI for street lights – average cost for maintaining street lights (BVPI 95) is a rear-view-mirror measure. It should not be used to manage. To improve performance we should instead ask ‘what is our capability?’ We might take a capability measure of capacity – how many street lights can we repair in, say, a week. We might take a capability measure of speed – how quickly do we repair street lights?

The measure of capability will show variation – there is variation in all that we do – but we will now know how predictable the street light repair process is and we can begin to question the process for possible causes of variation.

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<sup>9</sup> [www.systemsthinking.co.uk/4.asp](http://www.systemsthinking.co.uk/4.asp)

**demands**



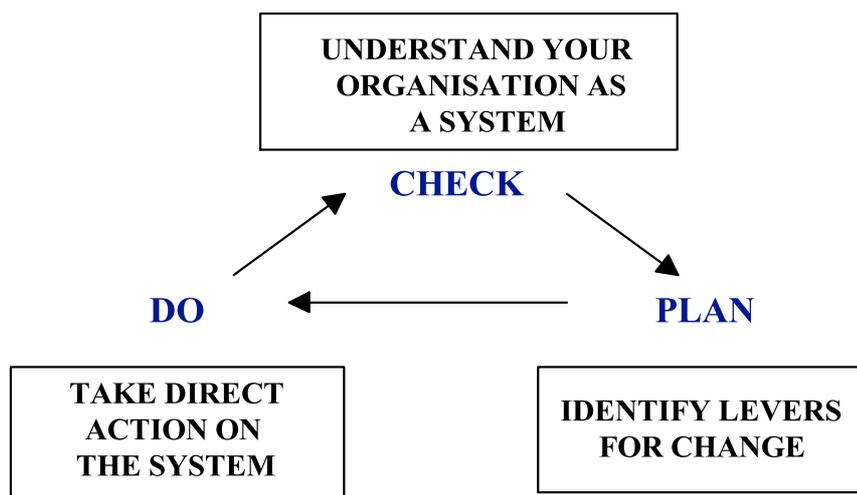
**\* possible causes of variation**

*Figure 9: Street light repair: current capability and possible causes of variation*

This is to follow the ‘purpose-measures-method’ logic. What is the purpose of this work? To repair street lights in the most cost-effective way. The measure of capability is derived from purpose, it tells us how well and how predictably we currently perform. We can then move to method – how does the work flow? Where are the possible causes of variation? What helps or hinders the work flow? If we decided to improve performance we could remove the causes of variation, cut out non-value-added steps (both are forms of waste) or we could re-design the whole process. If we did the first questions to ask would be ‘what is the ‘value’ work?’ and ‘where do we do it?’ This is the essence of the Vanguard model for ‘check’ and could be used as a template for Best Value reviews. Any actions should be associated with predictions about what the improvement will be. The Vanguard model for ‘check’ is explained in detail in the two of the Vanguard Guides – Understanding Your Organisation as a System and EFQM Excellence<sup>10</sup>, but an overview is reproduced here:

### The Vanguard Model for ‘Check’

There are three steps to performance improvement - understand the current organisation as a system, identify levers for change and take direct action on the system. These are described as **check - plan - do**.



<sup>10</sup> These can be found at: [www.systemsthinking.co.uk/5-1.asp](http://www.systemsthinking.co.uk/5-1.asp)

**Figure 10: Performance improvement through ‘check-plan-do’**

### **Check**

- ◆ What is the purpose of this process or system?
- ◆ Capability - what is it predictably achieving?
- ◆ System conditions - why does the process or system behave this way?

### **Plan**

- ◆ What needs changing to improve performance?
- ◆ What action could be taken and what would we predict will be the consequences?
- ◆ Against what measures should action be taken (to ensure we learn)?

### **Do**

- ◆ Take the planned action and monitor the consequences versus purpose.

And then go back to **check**.

### **Who should do ‘check’?**

When the people who do the work are the people who assess the ‘what and why’ of current performance, they are in a position to make informed changes that will improve performance. This not only results in improved performance, but more importantly it results in a change in culture – people are enthusiastic for change and enthusiastic to continue to make changes. This represents a challenge for any traditionally-minded manager. Traditionally-minded managers approach change as management-determined and management-imposed; it results in little sustainable change and is unlikely to result in continuous improvement. The systems approach is to assume the future requires management and improvement of the work by those who do it, *with their manager’s involvement*. The role of management changes when an organisation is managed as a system. It is an aspect of the culture change that needs to be understood and managed. If management roles do not change, the system does not change.

Here is an example of people who do the work following 'check-plan-do' in a Police Force, demonstrating how innovative people can be when given 'useful' methods:

## ***Lost and Found***

*[This example was presented at the Vanguard Network Day, March 2001]*

*The purpose of 'Lost and Found' is to match lost items to their owner. Thus the starting-place was to establish how well the process achieved its purpose. Over a twenty-month period the department received around 36,000 items of property and 30% of these were returned to their owner. The number of items returned was stable over time.*

*Having established performance versus purpose, the Lost and Found personnel mapped the flow, beginning with demand. The flow was completely manual and very cumbersome, with lots of duplication and re-work. The most interesting lessons came from comparing types of demand with achievement of purpose. Treating everything in the same way – to the same process – caused enormous waste. Over half of the items returned consisted 11 types of item (purses, wallets, documents etc) the other half being made up of around 33 types (walking sticks, umbrellas). Of the first type the team learned that predictably 55% of items would be claimed and of the second type only 8% were being claimed. The team decided that there should be two separate flows for the two different types so that more time could be spent trying to achieve purpose in the first type as it was much more predictable that a 'loser' was likely to call looking for their item. They determined that this alone would reduce waste and release resource in massive proportions.*

*Additionally, the main issues in the flow were:*

- ◆ Lack of adequate descriptions at the point of receipt, causing re-work later.*
- ◆ Items not getting to 'Lost and Found' early enough on a Monday morning. This caused 'failure demand' – customers had to call twice to see if their item had been found. Monday was also the busiest day. Imagine the impact on consumer perceptions.*
- ◆ There were 10 examples of type 1 waste (actions that added no value and could be removed immediately with no detrimental effect) that were eradicated immediately.*

*Having made these changes, the team went on experimenting with the work design to further improve performance.*

*On reflection the team could see how their conformance to departmental procedures had made them forget that their purpose was to match items to owners. The purpose had become log, store and dispose of items. They learned how the current methods actually worked against getting items back to their*

owners. *And the items that would never be returned were clogging the system with 'inventory'.*

The object of the systems approach is to remove waste. Here is a further example, this time from waste management (!).

### **Waste management**

*The BVPI - the number of collections missed per 100,000 collections of household waste is not a good place to begin a discussion of improving waste management. It is an arbitrary measure. Local authority managers tell me this can include failures caused, for example, by snowfall. People notice when it snows. They might rightly assume their bin was not collected because of the problems with the roads. This is a special cause – it would show as a point beyond the capability of the system in a capability chart. What is important to managers and inspectors alike is the capability of the waste collection system – is it known and are actions being taken for improvement? To mask the capability data with a special cause wrapped up in an aggregate measure would be to lose the opportunity to learn and improve.*

*The BVPI is a 'rear-view mirror' measure. It may have value for comparison provided we are comparing apples with apples (which is a matter of operational definitions). However, we need measures that will lead to improvement.*

*Waste collection is based on a number of rounds. People get in a vehicle and collect bins. It might be useful as a first step to establish their current capability – how long does it take to collect the bins on each round? [Note: on each round not on all rounds, data should not be aggregated] Such measures would obviate the need for the periodic 'organisation and methods' studies Authorities use for planning changes, for if a round was predictably 'slow' or 'quick', more or less work could be planned. There would be an immediate saving in expense.*

*It would be useful for each round to know the frequency of missed collections for that round. But these measures should be based on a clear operational definition. Is a missed bin one that the consumer has complained about? Did it have to be in the designated place? Does the leaving of something that should not be collected constitute a missed collection? Before any action is contemplated managers should measure the type and frequency of current customer demands associated with 'missed bins' or complaints. In making changes managers should solve the causes of consumers' problems. That would improve the consumers' experience at the point of transaction.*

*It would be of enormous value for managers to work with collectors on what 'clean' looks like – clean being achieving the purpose fully. Many issues will be beyond the scope of the 'bin teams' - those would need to be actioned by management.*

This way of working would also lead managers to work on broader waste management issues. The costs of waste collection would first be improved by cutting out waste – re-work, duplication, waste of time, resources and so on. From there the performance of waste management can only be improved by tackling the whole system. What, for example, is the impact on the costs of disposal of lower volumes of collected waste? How much would we have to spend if we collected less waste? How much waste is currently recycled? What are the economics of recycling?

Unfortunately, Local Authorities pay for the disposal of their waste in to land-fill sites according to a formula based on the size of their population. The Government should change this immediately, for it masks the true cost of disposal and prevents Authorities working on the right issues. It might be the first useful thing Government does for Best Value.

Waste management, like all services, needs capability measures if it is to be understood and managed for improvement. Managers need to be working on end-to-end flows, beginning and ending with transactions with consumers. Managers need to know what is happening and how predictable it is. They need to lead the effort in understanding the causes of current performance and the re-design of services, only by starting at ‘check’ will they develop the confidence to manage performance for improvement.

#### **More examples of ‘bad’ measures – measures that don’t lead to method**

Here are just some examples of BVPIs that do not encourage an understanding of end-to-end measurement and management – they are more examples of rear-view-mirror measures:

- ◆ Council tax: The average time for processing new claims. It is more important to know the end-to-end time for processing all claims.
- ◆ Development control: The percentage of applications determined within eight weeks. Again, it is more important to know the end-to-end time for determining all applications.
- ◆ Development control: Council operates a one stop service on all development. It is more important to know the type and frequency of demands on development and then the capability of responding to demands. From there performance can be improved.
- ◆ District Assemblies: The cost per kilometre of keeping relevant land, for which the Local Authority is responsible, clear of litter and refuse. This depends on operational definitions of ‘clear’, ‘litter’ and ‘refuse’. It would be better to know the type and frequency of demand – where are the problems, what is their size? Capability – what does it currently cost to deal with the problems?

And then work on removal of waste from the process; and also work on removing the causes. Cost per kilometre is arbitrary and leads to the wrong focus.

It is of little surprise that many Local Authorities complain of internal bureaucracies being created just to serve the Best Value regime. Many of the required measures need new methods for data capture. We should be asking whether the data are worth capturing. Will they help with understanding and thus performance improvement?

Managers will ask these questions with confidence when they learn to take a systems view – when they learn to understand the ‘what and why’ of performance as a system. All organisations are systems. It is as Deming and others taught; only when the organisation is managed as a system do the opportunities and means for improvement become apparent.

### **A better definition of Best Value performance plans**

Rather than define Best Value performance plans as having to include each Authority’s *assessment of its past and current performance against national and locally-defined standards and targets*, a better requirement would be to have each Authority declare its performance capability against clearly defined operational definitions.

Instead of the current Best Value regime we would need agreed operational definitions, standardised measurement systems and measures expressed as capability measures for all consumer-facing services.

## ARE THE FOUR 'C'S THE RIGHT FOUR 'C'S? DO THEY CONSTITUTE METHOD?

Best Value guidance suggests managers should set objectives and measures and then prioritise areas with the greatest scope for improvement. Vanguard guidance for Best Value starts with 'check' – understand the 'what and why' of current performance as a system. This will lead to establishing measures of achievement of purpose.

Best Value guidance for setting priorities amounts to what is described as the four 'Cs';

- ◆ Challenge
- ◆ Compare
- ◆ Consult
- ◆ Compete

### ◆ **Challenge**

'Why are we **doing this?**' is a reasonable question as long as the purpose is to ask what we know about what matters to users and what demand they currently present. The object should be to learn about the 'what and why' of current performance. Managers and staff find this enormously motivating. The work itself leads participants to challenge everything they do.

'Why are **we** doing this?' is a different question. It leads to questioning whether work is better done by out-sourcing it. The popularity of out-sourcing has led many to ignore the potential for improving operations; perhaps for some it is a convenient way to be rid of problems. It should also be borne in mind that out-sourcing inevitably means another party is aiming to make a profit. If the work can be done at a profit then theoretically there may be scope for doing it in-house at lower cost.

Whether work is out-sourced or done in-house, the methods for improvement remain the same.

There is no better means for 'challenge' than gaining understanding of the 'what and why' of performance as a system.

## ◆ Compare

This can be a fruitless activity. It is fraught with danger:

It may be to risk assuming that others know better. This is questionable as most, if not all, organisations in the UK are still built on traditional management principles. Many Local Authorities have, for example, ‘benchmarked’ (copied) their call centres with the private sector. It has led to enormous waste. It is to copy without knowledge.

Government promotes the concept of benchmarking. While benchmarking may be popular, it is of limited value. In so many cases we have found benchmarking work to amount to no more than industrial tourism or blind copying. It is not a good way to learn.

The systems approach to Best Value emphasises understanding the ‘what and why’ of current performance as a system. This is also the first step in effective benchmarking. Interestingly, when this first step has been taken managers and staff can appreciate the concept of ‘benchmarking against perfection’ – something advocated by world class organisations.

Further, knowledge of the ‘what and why’ of performance leads managers and staff to identify the means to move in the direction of perfection. The motivation to improve is a corollary. If, and only if, the choice is made to visit another organisation, in these circumstances people have good questions to ask – for they know the ‘what and why’ of their own performance, they know what problems they want to solve and they *know* these problems. Management is working with knowledge not, as is so often the case, opinion.

However, what is important is that many of the BVPIs, as used, are useless for challenging and comparison. To insist on challenge and comparison using ‘bad’ measures will lead to trouble.

## ◆ Consult

Consulting with consumers would seem like motherhood and apple pie. It is curious to note, therefore, that there is little evidence of organisations improving service to the extent that the user/customer notices the difference. The problem is method. The activity is only useful if the method drives operational improvement. Ask yourself these questions: How much do we spend on consumer research and how much action for improvement results from it? When you address the second question be rigorous about requiring

data to show that actions actually improved things. In many organisations you find the answers to these questions are ‘quite a lot’ and ‘not much’.

Because of problems of method in consumer research organisations often find they don’t know what to **do** to improve operational performance from the consumers’ point of view. The systems approach is different because it starts outside-in and looks at the organisations from the point of view of consumers *at the points of transaction*. If you improve service at the point of transaction your reputation grows.<sup>11</sup>

#### ◆ **Compete**

Best Value replaced Compulsory Competitive Tendering (CCT). The story goes that a Minister, having announced that Government was scrapping CCT, was asked by a journalist to explain what would replace it. The reply was ‘best value’. From there it had to be developed.

CCT was a regime that encouraged managers to be pre-disposed to out-sourcing. A number of Local Authority managers have observed that their inspectors seem to believe out-sourcing should always be considered under the ‘competition’ C.

Many people believe competition improves performance. We always ask them to consider how Toyota achieved the management of flow through four tiers of suppliers. The answer is co-operation. It is also worth considering what we know about contracts awarded at lower prices that have resulted in a deterioration of services.

There may be value in considering whether another organisation could do something that you cannot do well. But in general terms the only way to improve performance is by working on how the work works and that will not be facilitated by attention to price (cost). Out-sourcing always runs the risk of fragmenting service delivery and hence the experience of the consumer. We have seen many examples of what appears to be lower costs resulting in worse service and often this is associated with IT projects. In truth the total costs of service are rising because waste is being created (re-work, failure, duplication and so on). The Audit Commission, for example, reported an *increase of 30%* in the unit cost of passport processing following the recent systems problems. The cost to the Government was £12.6m and compensation received from contractors was £69,000. IT companies work from the traditional management

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<sup>11</sup> For more information about “The Vanguard Guide To Finding Out What Matters to Your Customers” go to: [www.systemsthinking.co.uk/5-1.asp#8](http://www.systemsthinking.co.uk/5-1.asp#8)

model. Their prescriptions may appeal to managers but do they make the work work better?

Before out-sourcing work, managers should ask how well they have learned to do it themselves. Before investing in IT, managers should learn how to improve the work as a flow and then, and only then, ask ‘could IT further improve the flow?’ These could be the consequences of the Best Value review if managers chose to use ‘check’ (understanding the ‘what and why’ of performance as a system) as their method. The consequences, in our experience, are less spend on IT and more value from it.

The 4 Cs do not constitute helpful method(s), if they can indeed be described as methods.

Professor Martin, who led the Best Value Pilot research (see page 34), denigrated the current 4C’s. He suggested they should be replaced as follows:

- ◆ Challenge with Culture Change,
- ◆ Consultation with Citizen centred councils,
- ◆ Comparison with Continual Improvement,
- ◆ Competition with cost effective services.

Rosabeth Moss Kanter, someone we like to think of as the thinking man’s Tom Peters, also has some ‘C’s, three in fact. Her Cs were developed to help managers in what she described as a ‘world gone shopping’. Her thesis is that the world is now both local and global. Above all it is customer-driven. So her recipe for management is:

- ◆ Concepts – get the best and latest ideas. To do this get the people who interface with your customers to engage every ounce of their brainpower in what do we *do* for customers and what we *could do* for customers. Service must be re-thought from the consumers’ point of view. This, she says, is more than continuous improvement – it is an initiative culture.
- ◆ Competence – get the skills and abilities of your people used on behalf of customers. This is to think about work competencies from the outside-in – it is cross-cutting in its orientation.
- ◆ Connections – develop the best relationships, partners, suppliers etc, to bring resources together to create value for customers. And this requires co-operation.

Moss Kanter’s ‘C’s help to focus on method, the Best Value ‘C’s do not. Professor Martin is right to question their value.



## **Taking a first step**

The systems approach has one ‘C’ – check. It is a method that is consistent with the Moss Kanter prescription and it will produce the results that Professor Martin seeks. The systems approach creates an energised workforce working on how to make the work work better. It is a systematic method, which includes measurement, to the review and improvement of performance. It has been of immense value to our private sector clients; we have no doubt it would be of value to public sector organisations.

## **Is the systems approach compatible with Best Value?**

Yes. To say that different measures need to be used does not obviate the statutory requirement to report on the ‘bad’ measures – they are bad if used for management (as they have been in so many public service organisations). By improving leading indicators you improve lagging indicators, but paradoxically, if you manage with lagging indicators you can make matters worse.

Best Value began with the Government’s assertion ‘what matters is what works’. The systems approach is tried and tested – it has resulted in improved performance and morale for many organisations.

Many managers of public sector organisations are actively looking for help with Best Value. Many have said they were disappointed when they went to the Warwick seminars (attended by participants in the ‘Best Value pilots’) expecting guidance only to find themselves being asked to share what they were learning. It was an admission that those imposing Best Value had no experience themselves with improvement methodology – this was to ask the ‘immature’ to behave as ‘mature’. When people are at the bottom of the learning curve they need guidance.

The systems approach solves the method and measures problems in one step, for in order to understand the ‘what and why’ of performance as a system managers need to develop measures which are leading rather than lagging (rear-view) measures. This is to emphasise understanding as a pre-requisite to improvement; it is something Government finds hard to do. Government structures are designed for ‘command and control’. If, or more probably when, something goes wrong Government reacts, naturally, by tightening controls. It is a paradox: if you do as Government dictates, you don’t deliver what Government wants.

## **WILL THE SYSTEMS APPROACH PASS THE INSPECTION?**

It is a psychological truth that inspection takes the locus of control away from those who should have control. For this reason only those who fight their corner with inspectors win, for they have refused to relinquish control. Sadly we have too few such managers, as has been demonstrated with ISO 9000 and the EFQM. Far too many managers allow themselves to be pushed by inspectors into establishing wasteful reporting and bureaucracy. The same has been happening with Best Value.

To focus on how one meets the requirements of inspection is a sign that managers have lost the plot. What, after all, is their job if it is not to improve the system? In their defence, managers need the means to argue their case. Taking a systems perspective provides the means for it leads managers to knowledge about the 'what and why' of current performance and knowledge about how to act for improvement. Moreover, working in this way, managers are able to predict the consequences of their actions. Any inspector who fails to recognise the value of working this way should be challenged. Where inspectors insist on activity that adds no value or detracts from performance, they should be challenged.

### **What do Best Value inspectors look for?**

In the publication "Seeing is Believing", the Audit Commission explained that inspectors would assess authorities in two ways; how good services are, and whether they are likely to improve. This is very good news provided inspectors do not re-interpret these principles according to their own view of what management should do (it is of no surprise that this is already happening). If Best Value inspectors had been told to focus on many features of the organisation – as they have been doing with ISO 9000 and the EFQM Excellence Model – it would be more difficult to do the right thing. The preferences and/or predilections of inspectors should not be taken by managers as mandatory. The looseness of the Best Value audit framework makes it easy for an authority to take a systems view. Managers should be clear about how they understand and work towards Best Value.

The Best Value inspector looks for:

***How good are the services?***

***In particular:***

- ◆ ***Are the Authority's aims clear and challenging?*** Clarity requires clarity of purpose of all of an Authority's core processes – those that touch the consumer. The challenge is to ensure that all resources are focused on their improvement ('challenging targets' will not help). Establishment of measures related to purpose is the first step.
- ◆ ***Does the service meet the aims?*** Capability measures (against purpose) will provide the answer.
- ◆ ***How does its performance compare?*** This relies on establishing the same operational definitions and then comparing measures of capability.

***Will they improve in the way that Best Value requires?***

***In particular:***

- ◆ ***Does the BVR drive improvement?*** It will if the Authority starts at 'check' – understanding the 'what and why' of current performance.
- ◆ ***How good is the improvement plan?*** 'Good' plans include knowledge of current performance, in particular what matters to the consumer for any core process, measures of performance capability related to purpose, knowledge of the core work flow, the identification of all forms of waste and predictions of expected performance following proposed changes. 'Good' plans should also involve those who do the work in the analysis and decision-making.
- ◆ ***Will the Authority deliver the improvements?*** Covered above. Moreover, managers will be able to report genuine improvements over time and demonstrate their means.

The systems approach provides good measures and method. Both are currently lacking in the Best Value regime.



## IS GOVERNMENT LEARNING?

The title of the Audit Commission's report<sup>12</sup> is a misnomer. Rather than "A step in the right direction" perhaps it should be titled "A faltering step".

Anything more than a superficial reading of the October 2000 report gives cause for concern. For example we learn:

*There are few opportunities taken to work with 'cross-cutting' performance reviews.*

This is due in large part to the nature of the BVPIs imposed. The systems approach will help managers develop cross-cutting measures and thus cross-cutting performance management methods because it looks at the organisation from the outside-in.

*Most local Authorities found the first year of Best Value to be difficult.*

This should be no surprise. Bad measures and no method are the principle reasons.

The same hectoring style that I first witnessed at the Local Authority conference a few years ago (see page 6), is evident in the Audit Commission's report of October 2000:

*"Some Authorities are 'playing safe'... they are setting uninspiring targets and selecting unimaginative service review groupings because they are easier and there is less risk of failure in the short term."*

Should we be surprised? Isn't this behaviour normal when people are coerced? The Audit Commission's report places blame on those whose performance is around the median:

*"Analysis of targets ... shows that it is often authorities in the bottom quartile, not those around the median, who are driving the overall predicted performance up... Some Authorities whose performance is around the median are coasting."*

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<sup>12</sup> "A step in the right direction", Audit Commission, October 2000

Leaving aside the issue of whether the targets set by those who are labelled as the worst performers will ever be achieved, the Audit Commission waves a stick at those who might be tempted to engage their ingenuity in survival:

*“Without universal evidence that Authorities are reporting honestly on performance and setting challenging targets and review programmes, it is unsurprising that the Government is reluctant to reconsider statutory performance targets as a lever for securing change.”*

We can only hope that the Government and its civil servants learn that as a lever for change, the BVPI performance targets are both arbitrary and counter-productive. It is a mistake of monumental proportions to make top quartile targets a statutory requirement without first dealing with the reliability of measures in use. Should any authority not do so, they are obliged to give a defensible explanation. That these are arbitrary and not based on knowledge is sufficient an explanation.

Of course Authorities, many of which are relatively unfamiliar with matters of performance measurement, do not (yet) make this defence. According to the Audit Commission’s report they argue that local circumstances dictate the need for different targets. When both parties appreciate the value of capability measures these arguments will disappear.

The Audit Commission claims that *“Concerns around statutory top quartile targets are important. If they are not addressed they could undermine general acceptance of the performance framework and the value of comparisons and targets.”*

The real concerns are broader than the level of targets required. Targets, standards, review and inspection do not constitute a performance framework. But more than that they do not help people see what to do. It is no wonder that Authorities are concerned about statutory targets.

*Authorities criticised the lack of guidance, lack of clarity and the timing of information. Best Value is seen by many as prescriptive and bureaucratic. People were also critical of the role of the Audit Commission and its auditors.*

In short, people are questioning what it is they are being told to do. It would have been better if Best Value had begun with questions of method rather than a loose idea of intent with a strong position on measures. Naturally, in these circumstances, the cost-benefit of Best Value is being questioned. Authorities are concerned about the costs of bureaucracy and inspection. It must be said that the

costs of inspection by the Audit Commission are very high, representing a large proportion of the smaller Authorities' budgets.

*Officers in Authorities, when asked, could not always explain how they intended to make their performance improvement plans happen. People involved in Authorities recognised that their approach was not systematic.*

Again, this should be no surprise Best Value has no method. We should worry about whether 'ambitious' targets will ever be met without a focus on method(s).

*The barriers needing to be overcome were cited as capacity and commitment.*

The 'capacity' problem seemingly means finding the time to do Best Value. The report shows concerns about Authorities' performance management systems, noting that often this has meant extra departments and staff within service units spending time 'counting and reporting' rather than 'working'. The report rightly says Best Value must be embedded in everyday work, but it gives no guidance on how. The only barriers are measures and method. Again, if you do as the Government dictates you won't deliver what the Government wants. If Best Value results in a reporting bureaucracy, it will be (and cause) waste.

The report of the first year declares that the Best Value performance plans are "*statements of intent rather than accounts of delivery*", a disturbingly true statement. We should be asking what confidence we can have about the prospects of delivery and the blame cannot be placed on Authorities, for they have done as they have been told.

Professor Martin, speaking at the Audit Commission and IDeA's meeting in Bristol last November was very critical of the changing role of central Government. He talked about how the Government had broken agreements to allow the pilot Best Value Authorities to run their course before starting on legislation. Draft legislation was in place three months after the start of the pilots, and was in the House six months later. We saw much the same with the Excellence Model in Training and Enterprise Councils – the pilot period was hijacked and the model became policy without any real testing. Government promulgates 'doing things right' but are we doing the right things? How would Government know?

Professor Martin described Best Value as 'statistical performance management'. It is what I describe as 'management by attention to output'<sup>13</sup> "It has" he said,

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<sup>13</sup> **People do what you count, not necessarily what counts – see "I Want You to Cheat": [www.systemsthinking.co.uk/5-3.asp#1](http://www.systemsthinking.co.uk/5-3.asp#1)**

“been process driven” (the process being the setting up of the Best Value infrastructure) ... checking the process, not the outcomes. “It has,” he said “been a stodgy compromise”. Best Value is a cumbersome performance management bureaucracy, made all the worse for having no good method.

He quoted Hilary Armstrong as saying: *“Best Value will steadily become what Local Authorities make of it .. but we (the Government) remain committed to driving up standards nationally”*.

In other words, if it fails the blame will be placed with Local Authorities. Yet who is responsible for promulgating the Best Value regime? Should the Minister be allowed to wash her hands of the affair?

Professor Martin expressed concern that there will be less and less local flavour to PIs. He sees a regime of zero tolerance with central prescription moving in. The Audit Commission adopts precisely this attitude towards Local Authorities. When you don't deliver what Government wants, Government looks to increase the pressure rather than ask questions of itself.

Professor Martin summarised the dangers of Best Value as:

- ◆ Style over substance (good plans, but poor service)
- ◆ Compliance with improvement (good plans, but poor product)
- ◆ Caution and risk aversion (rewards for playing safe)
- ◆ Standardisation instead of transformation (dissemination of what is deemed “good practice”)
- ◆ Anecdotal policy making (no rigorous evidence base)
- ◆ Costs outweigh gains (bureaucratic requirements)
- ◆ Ineffective intervention as opposed to capacity building

What did he think is needed?

- ◆ Local ownership. Courage to do it.
- ◆ Outcome gains must outweigh the process costs.
- ◆ Real understanding of the drivers of change.
- ◆ Identify links to service improvements.
- ◆ Consistent, credible inspections.
- ◆ Processes that are meaningful (to the public).

From the results of the Pilots, Professor Martin cited:

- ◆ Costs savings have occurred in less than 18% of the pilots.
- ◆ Improvement in service quality was up only in 27%.
- ◆ 61% said it was harder to do than plan.
- ◆ 44% said it cost more than planned.

- ◆ Cost of Best Value outweighed by efficiency gains in only 47%.
- ◆ Audit costs are between £30K and £80K p.a.

Professor Martin is concerned that:

- ◆ 50% of Local Authorities have major weaknesses in performance management.
- ◆ 86% need to improve their performance information.
- ◆ 56% of the BVPPs were designed for the external auditor, not the general public.
- ◆ National PI's squeezed local PIs out.

Is Government learning?

## **VANGUARD SERVICES FOR BEST VALUE**

Vanguard can provide a range of services to help Local Authorities with Best Value. Many papers published on the Vanguard web site are free of charge. The Vanguard Guides are illustrated with case studies, many are written as self-instructional manuals. The Vanguard Guides are priced to reflect their value to the user – they are of substantially better value than most one-day seminars managers might buy. The Guides are also printed to order, making unit costs high. If public sector organisations want to purchase multiple copies of the Guides and Tactics, costs can be reduced through purchasing a license to print your own from an electronic copy. Please contact Vanguard Consulting on 01280-822255 or [office@vanguardconsult.co.uk](mailto:office@vanguardconsult.co.uk).

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