

ting much of what is taken for granted at the centre. It is the strength  
e results that provides a platform for arguing with the regime, as an  
asing number in the public sector now do.

### *reform regime takes a dim view of people*

more fundamental level, the reform regime is based on negative  
ptions about people in general and public servants in particular.  
reeing specifications assumes they don't know what to do, don't want to  
ge and need to be coerced or incentivised to act. The same assumptions  
hared by command-and-control thinkers, to whom I turn next.

## Chapter 4: The present style of management

*Most people imagine that the present style of management has  
always existed, and is a fixture. Actually, it is a modern invention –  
a prison created by the way in which people interact.<sup>34</sup>*

W. Edwards Deming

Along with the ideologies of the economists, the present style of management  
is the second major influence on the public-sector reform regime. I describe  
it as 'command-and-control' management. While command-and-control  
thinking shares many assumptions with the economists (about markets,  
competition and the nature of people), it builds them into a framework for  
managing organisations; command-and-control thinking is a collection of  
ideas about how work should be designed and managed.

Command-and-control thinking sees organisations as top-down hierarchies,  
where work is designed in functions, managers make decisions and workers  
do the work. Managers make decisions using budgets, targets, standards;  
they seek to control the workers with a variety of management practices –  
procedures, rules, specifications, inspection and the like. The management  
ethic is to manage budgets and manage people. Deming was authoritative  
on the ills of command-and-control thinking; his observations remain true  
today.<sup>35</sup>

It is important to note that by command and control I do not mean being  
bossy, a common misinterpretation. Some of the best systems thinkers  
I know are bossy; they are bossy about the right things. When I use the  
term command and control I mean how we think about the design and  
management of work.

<sup>34</sup> Deming, W. Edwards (2002) *The New Economics: For Industry, Government, Education*. MIT Press, Massachusetts, p. xv.

<sup>35</sup> Deming, W. Edwards (1982) *Out of the Crisis*. MIT Press, Massachusetts.

	COMMAND-AND-CONTROL THINKING
PERSPECTIVE	Top-down, hierarchy
DESIGN	Functional specialisation
DECISION-MAKING	Separated from work
MEASUREMENT	Productivity output, targets, standards: related to budget
ATTITUDE TO CUSTOMERS	Contractual
ATTITUDE TO SUPPLIERS	Contractual
ROLE OF MANAGEMENT	Manage people and budgets
ETHOS	Control
CHANGE	Reactive, projects
MOTIVATION	Extrinsic

Figure 4.1: Command-and-control thinking

Command-and-control management was not invented at a single moment in time. Its development has been gradual. It is not so much a theory as a collection of ideas that solved problems at different points in time – ideas that have solidified into norms.

Adam Smith (1723-1790) advocated the division of labour as the means to increased productivity. In his book *The Wealth of Nations* (1776), Smith took as one of his most famous examples the manufacture of pins. Whereas one worker could make 20 pins a day, 10 people dividing up the 18 steps required to make a pin could turn out 48,000.<sup>36</sup>

The historian Alfred Chandler describes a hierarchy of responsibility and control being introduced in response to a train crash in the United States in 1841.<sup>37</sup> The idea was to prevent similar incidents by controlling operations through the division of responsibilities and authority, with reporting and checks. The ideas were enshrined in an organisation chart. Today we think of hierarchical organisation charts describing responsibilities and controls as normal.

<sup>36</sup> Smith, A. (1998) *The Wealth of Nations*. Oxford University Press, Oxford. First published 1776, pp. 12-13.

<sup>37</sup> Chandler, A. D. (1977) *The Visible Hand*. Belkap-Harvard, Cambridge, MA.

Frederick Winslow Taylor (1856-1915) developed 'scientific management'.<sup>38</sup> He brought the notion of method and work study to management, spawning 'Organisation and Methods' departments in every large organisation. Taylor established 'method' as the province of supervision.

Max Weber (1864-1920) developed the theory of bureaucracy. He described an ideal bureaucracy as containing six central elements:

1. Clearly defined division of labour and authority
2. Hierarchical structures of offices
3. Written guidelines prescribing performance criteria
4. Recruitment to offices based on specialisation and expertise
5. Office-holding as a career or vocation
6. Duties and authority attached to positions, not persons.<sup>39</sup>

Weber saw bureaucracy as the most purely rational and efficient form of organisation. Yet he was pessimistic about the impact such a form would have on workers. He could see the dehumanising effects of his 'iron cage'<sup>40</sup> of bureaucracy which 'succeeds in eliminating from official business love, hatred, and all purely personal, irrational and emotional elements which escape calculation'.<sup>41</sup> He was right to be pessimistic; customers and workers are human.

Certainly one of the most important developments was Henry Ford's mass-production system, the impact of which was to enshrine command-and-

<sup>38</sup> Taylor, F. W. (1998) *The Principles of Scientific Management*. Dover Publications, New York. First published 1911.

<sup>39</sup> Gerth, H. H. and Wright Mills, C., eds (1991) From *Max Weber: Essays in Sociology*. Routledge, Oxford, pp. 195-9, p. 295.

<sup>40</sup> Commonly attributed to Talcott Parsons' 1958 translation of Weber, M. *The Protestant Ethic and the Spirit of Capitalism*, p. 181: 'In Baxter's view, the care for external goods should only lie on the shoulders of the "saint like a light cloak, which can be thrown aside at any moment". But fate decreed that the cloak should become an iron cage.' (Charles Scribner's Sons, New York) See [http://en.wikipedia.org/wiki/Iron\\_cage](http://en.wikipedia.org/wiki/Iron_cage) [accessed 3 March 2008].

<sup>41</sup> Gerth, H. H. and Wright Mills, C., eds (1991) From *Max Weber: Essays in Sociology*. Routledge, Oxford, pp. 215-6

control thinking as good management, or 'best practice' in today's parlance. In the early part of the 20th century his black Model Ts flowed out of a factory that worked like a grand machine, men and materials in harmonious flow. His innovations halved the costs of production and allowed him to double workers' wages. Ford's assembly lines caught the world's attention; the mass-production factory brings efficiency and efficiency means you can compete. Mass production became the norm.

While such mass-production systems brought happiness to customers and shareholders, the same was not true for the workforce. Despite higher wages, Ford's new system suffered from stupendous labour turnover. Newly hired workers lasted an average of only three months. Many walked off the job without any formal notification and were presumed to have quit after missing five days of work: the notion of the 'five-day man' was born and accounted for 70 per cent of the workers leaving Ford.<sup>42</sup> Mass-production systems were and are monotonous, demoralising places to work. Trade unions grew out of the 20th century problems of mass production; current management-union practices serve to maintain the dysfunctional relationship. The relationship won't change until the system – the way work is designed and managed – changes too.

The ideas from which command-and-control thinking emerged have in common the notion that work organisations should be broken into functional parts, giving people in those parts direction about what is to be done and how it is to be reported. The purpose is to 'command' and 'control' operations. The measures in use are the measures of the operations, the costs of the many functional activities. The workers work in functional roles as designed by management and behave according to the requirements of management. Command and control represents the division of labour between decision-making and doing the work.

Today command-and-control thinking rules everywhere. Services have become 'industries'. Call centres, 'front offices' and administration 'back offices' are nothing other than mass-production factories built to deliver services. This way of thinking has been introduced to the public sector in the name of modernisation. It is not at all modern, but, more importantly, it

<sup>42</sup> Buchanan, D. and Huczynski, A. (2004) *Organizational Behaviour: An Introductory Text*. Pearson Education, Harlow, p. 441.

doesn't work very well. Service factories are subject to many of the same discontents as Ford's production lines. When you learn to take a systems view, you discover that this form of managing activities in factories, whether producing services or material goods, leads to a failure to understand and deliver the organisation's purpose.

### The core management paradigm

At the centre of command and control is a core management paradigm. In service organisations, managers worry about the following things:

- How much work is there to do?
- How many people do I have?
- How long do they take to do things?

So managers think of their job as a resource-management problem. They are preoccupied with service levels – how long it takes to pick up the phone or respond to a letter, how many things are done in three, five or however many days. At the same time, they audit the worker's work, assuming this to be 'quality control'. It is not hard to see that this is a factory view of service work in which managers share the assumptions of their progenitors that people need to be commanded and controlled. Scripts, procedures, targets, standards and compliance govern the way the organisation works.

To manage in this way, managers create a separate management factory over and remote from the work; the place where managers gather information and make decisions. The factory is bound together by information technology, used to design and control processes and report measures of activity to the top. Computers are used to record and move documents about, and to provide scripts and 'decision-support systems' to front-line workers in a misguided attempt to dumb them down and make the machine the intelligence in the system.

In such systems, the focus of management is on cost. Mass production promises economies of scale. To 'manage' – and I place the word in inverted commas because it is a deluded, if beguiling, form of management – managers manage the cost of activities. How long do calls take in the

call centre? How long does it take to process a transaction in a back-office factory? What are the costs of these activities? How can they be reduced? Unfortunately and counter-intuitively, focusing on cost drives costs up. Managers need to learn to focus instead on value. This runs so counter to current notions that to understand it we need to begin by questioning some underlying assumptions of today's management.

## Fundamental thinking problems

When you start to take a systems view of organisations, you learn that command-and-control thinking is shot through with fundamental problems. Here are the most important ones:

### 1. *Treating all demand as though it is 'work'*

A manager of one of the world's largest banking operations told me that if he could reduce the average handling time in his call centres by 30 seconds he could deliver millions to the bottom line. He was making a fundamental mistake. He assumed that all work – all customer demand on his operations – was 'value work', the work his call centre existed to do. For a bank, 'Can I have a loan?', or, 'Can you help me pay a bill?' are examples of value demand. In reality, a large proportion of the demand into the manager's call centres was failure demand – demand that is the unwanted side-product of a failure to do something or do something right for the customer. 'I don't understand this charge', or, 'Why haven't you paid my direct debit?' are examples of failure demand – demand that produces waste because it shouldn't occur at all. Studying his bank and others, we have found that 40 or even 60 per cent rates of failure demand are common. This manager's focus on reducing costs would drive up costs, but it was something he could not 'see'.

His mistake is to treat all demand as equal 'units of production': work that has to be done. But much of it is valueless, cost-creating work generated by a failure of the organisation to deliver services that work from the customer's point of view. And that should be one of the foci for management. Understanding how poor service design creates more demand into the front end is the beginning of understanding the organisation as a system.

I first wrote about the phenomenon of failure demand in 1990.<sup>43</sup> I am pleased to note that the idea has spread, but concerned that the idea is merely subsumed within command-and-control thinking (there is now an official target for reducing failure demand...) instead of leading managers to realise that the phenomenon is systemic. Failure demand can only be removed when you change the way work is designed and managed.

### 2. *Failure demand – a lever for improvement*

In most local-authority call centres, a systems approach quickly reveals that as much as 80 per cent of the demand handled is failure demand. The call centres were created because they were mandated by the regime, ministers assuming that access was synonymous with service. Most council services don't work very well. Any service that doesn't work very well attracts high levels of failure demand. The rush to build call centres to comply with official requirements simply moved the waste (the failure demand) from the services and institutionalised it in the call centre. This has happened all over the country – an extraordinary waste of public money. As more and more local authorities have learned to see their organisation as a system, some have been embarrassed to discover that their 'beacon' status was ill-deserved.

In fairness, many local-authority managers genuinely believed that call centres were a good idea, especially if they could be set up as a 'one-stop-shop', providing service or problem resolution over a number of areas in one visit. There is little doubt that as the new technology arrived, the providers encouraged council managers to measure activity and service levels – all things calculated automatically in the new telephony IT systems and fostered by the regime's IT 'experts' and 'e-service' guidance.

As well as providing these sorts of (dangerous-if-managed-with) data, the IT systems provide other features. One in frequent use is a device that limits the number of callers in a queue, the rest hearing an engaged tone. The 'service-level' measure (the number of calls picked up in three rings) thus only identifies how long it takes to answer the people allowed to queue. It doesn't tell you anything about the true numbers of people calling in. In this case, the 'cheating' is built into the software. In one example, managers found that, while their reports showed calls answered were in the order of

43 Seddon, J. (1990) *I want you to cheat*. Vanguard Press, Buckingham.

700 a day, the true demand into the system was almost 5000 calls a day. But the service level, as officially calculated and reported, had won it 'beacon' status.

Because they are focused on activity, not purpose, managers have been led by their IT providers, and the regime's guidance, to believe the best way to handle an increase in demand is either to make workers handle calls faster or put in more staff. But they are trapped in the wrong paradigm, treating all demand as work to be done and focusing on reducing the costs of the transaction. To illustrate the folly: we have seen how private-sector organisations 'offshore' calls to low-wage economies in pursuit of lower transaction costs. If and when they learn that one lower transaction cost can actually drive up the number of transactions – the calls the customers have to make to get a service – they change their point of view. They are learning that the true cost of a service is end-to-end from the customer's point of view; to focus on transaction costs is the wrong way to manage.

While private companies that have learned that lesson are pulling out of 'offshoring' contracts, the public sector is being encouraged to plunge in. This is a natural extension of thinking about services as things to be mass-produced in factories. While so far little public-sector work has been actually sent offshore, under official encouragement (some might say coercion) a great deal of it has been outsourced to the new service factories built by private-sector contractors. The contracts have been set up on the basis of transaction costs, which appears to make sense, but, as we have seen, ignores the reality of failure demand. Indeed, given the way the contracts are written, it is in the interests of the service providers for demand to grow; they earn more money, making profits from eating the *muda* (waste) of the host. And the waste, in the shape of the failure demand, is locked in for the life of the contract.

The notion behind all this factory development is 'economies of scale'. I wonder if ministers read the newspapers. In the motor industry, the exemplars of economies of scale such as General Motors and Ford are struggling to survive. Toyota, meanwhile, continues to grow. If we had to give it a label, we might describe the Toyota phenomenon as 'economy of flow' – something very different from, and far superior to, economies of scale.

To think 'flow' in systems terms, is to think 'outside-in' – to work back from the customer. It is only by understanding demand that you can evaluate flow – the means by which a service is provided – and that is an area completely lacking in government guidance. Architects of the guidance think they are concerned with the customer's experience of the service, and indeed encourage managers to focus on, for example, the percentage of calls resolved at the point of transaction. However, when you study council call centres as systems, you find workers routinely reporting an activity (phone call) as 'resolved' when in fact they mean, 'there is nothing more I can do'. In these cases, 'resolved' does not mean resolved from the caller's but the producer's point of view. At one authority, senior managers boasted that 80 per cent of calls were being resolved at the point of transaction. In fact, when measured from a customer's point of view, the resolution rate was less than 5 per cent. As it happens, this local authority had 'beacon' status, which meant it was 'benchmarked', and eventually no doubt copied, by other local authorities.

It is the regime that awards beacon status, which thus represents the regime's requirements, not those of the customer. The regime has become the producer interest. 'Reform' means doing as you are told; set up a call centre, measure service levels and staff activity; do that, win awards. The regime does not foster knowledge; it fosters compliance and copying without knowledge.

Local authorities that have learned to take a systems approach are now studying demand to tell them what is not working for citizens. They improve the services so that the unwanted calls stop coming in. From there they can decide whether to deal with the different types of calls (value demands) in call centres or use the call centre as a switchboard. They are learning to design their system against demand and achieving significant improvements by managing demand and flow. By removing waste, they increase capacity, improve quality and lower cost. Often they find they don't need that expensive, features-laden new IT system. It is easy to see why: the cost of service is in flow, not transaction; and failure demand, representing poorly designed flow, is under the organisation's control.

Managers discover these things only when they learn to study demand, i.e. why customers call. The requirement of a service organisation is to absorb

the variety of demand coming in (the starting-place of the systems approach); it is essential to know what the demands are. Learning to work this way is to discover that demand is the most important lever for change.

However, there is one large problem. Over and above the need to change their mindset, working this way requires managers to ignore official guidance, which is, unsurprisingly, based on command-and-control thinking, all derived from the core paradigm I describe above. Service levels (how many calls picked up in three rings) and activity measures (how long people take) are assumed to be good management practice and, disastrously, now have the status of setting the standard for council call-centre management. Not content with mandating organisation design – call centres, back offices, etc. – the government has prescribed work design too: procedures, targets, standards and other requirements against which public-sector managers are inspected. On top of that comes a plethora of ‘guidance’. Ignoring the guidance is a risky game and sometimes a losing one – from bitter experience, local-authority managers know that guidance easily morphs into ‘mandates’ through inspection. The inspection industry has become an instrument of the regime, a political instrument. Like ministers, it has lost focus on what works. Instead, inspection is concerned with compliance. It is now an integral part of the dysfunction.

To return to the typical local-authority call centre: beacon status or not, it is likely to have high levels of failure demand. People progress-chase benefits payments or planning applications because those services work poorly at giving them what they want. It is a system problem – the reasons behind why the services work the way they do are the targets and other specifications that drive them. We first saw this with benefits processing in Chapter 3. Failure demand can’t be removed without redesigning the service; the service can’t be redesigned to operate properly (that is, from the customer’s point of view) without removing the arbitrary measures (targets and standards) and replacing them with more useful measures, measures derived from the work.

One of the most alarming causes of failure demand is the government’s drive for shared back-office functions. Working with big consulting firms, many local authorities have moved what is thought to be ‘like’ work into centralised administrative areas (‘Why have administration in every

department? Departments could share centralised administration’). The move is always part of a plan to ‘release efficiencies’. What soon transpires is that much of the administrative work is part of a service flow; moving the work to a central location removes continuity, creates waste (handovers, rework, duplication), lengthens the time it takes to deliver a service and consequently generates failure demand. The efficiency report will claim a saving in the administrative functions (lower activity cost), while the costs of dealing with failure will appear on another budget. It isn’t long before managers deprived of their local administrative support find ways to recreate it, if only to make their own lives easier.

We have seen the same approach used in local-authority call centres. Consultants are hired to ask council managers which phone calls being received in their department can be transferred to the new call centre. This is to see telephone work as a functional specialism, unconnected with any particular service. But of course most calls *are* connected with a service, and when the ‘telephone’ activity becomes disconnected from the rest, waste follows as surely as night follows day.

Mimicking a fad in the private sector but with a several-year time lag, government has lately pressured councils into installing Customer Relationship Management (CRM) systems. CRM has notoriously failed to improve performance in the private sector. (My own bank spent a reported £6 million on a CRM system but still behaves towards me as though it doesn’t know who I am.)

In local authorities, CRM mostly amounts to IT systems that enable call centres to keep records of why people called. Managers often assert that it is helpful to know someone has called before, and to be able to track their service request on new electronic document management (‘work flow’) systems, since they can now tell callers what is happening with their issue (more on work flow shortly). This is institutionalising waste. It is the height of absurdity to spend money on identifying that someone has called three or more times to try to resolve an issue or get a service; far better to design services that work for customers in the first place so they don’t need to make the calls at all. CRM and work flow systems have principally served to

institutionalise waste in public services: busily documenting and managing useless failure demand. But they are regarded by the regime as essential for modern public-service management.

Work flow systems are the glue of a front-office/back-office design. Work flow involves scanning documents to create electronic work objects which can then be moved around according to a set of rules that lays down the right process for each object. The system will also give managers information about the number of objects in departmental work queues, enabling managers to move resources to bust backlogs. Such systems have been deployed extensively in the private sector, where they dutifully provide the supporting infrastructure for managers preoccupied with what I described earlier as the core paradigm (how much work, how many people, how long do they take?).

In fact, when you study the flow of work through so-called work flow systems, it is apparent that 'work flow' is a misnomer. They ought to be called inventory-building or work-expansion systems, because that is what they do. I have already described how failure demand can clog up such systems: work objects representing citizens' problems are routed to work queues in the offending departments, then routed to the right officer, investigation ensues, the answer is sent back to citizen either directly or via electronic means – a work object sent back to the front office – and all of this is waste. If the service worked, none of this would need to occur.

At the front end of work flow systems, someone usually has to make a 'sort' decision: who should this go to? Inevitably, work objects get misdirected and rerouted, sometimes many times, since problems are often not departmentally-shaped. Objects in work queues are frequently duplicated; seven items may in reality be a single one – continuing correspondence created by the problems in the service design. Thus if managers are preoccupied with resources versus work they will be (and are) misled. Managers react to 'backlogs' which are not really backlogs (they are deluded by what they call their 'work state' measures). Extra resources are brought to bear – and, guess what, uncannily they just seem stay in place beyond the crisis. Such systems are full of waste that managers cannot see, because their measures of activity keep them blind, and the work, because it is electronic, is invisible. Command-and-control thinking creates service designs that build and hide waste.

Disastrously, the regime promotes these false design assumptions, illustrated by a local e-government guide for decision-makers.

The key benefits of work flow:

- More responsive services
- Less manual processing
- Improved efficiency and effectiveness
- Greater transparency and monitoring of work
- Improved consistency and quality<sup>44</sup>

This is bad guidance. When work flow systems are designed and built on command-and-control assumptions, services become less responsive. It is easy to see why: the built-in rules prevent the system from absorbing the variety of customer demands, and the focus is on activity rather than achievement of purpose. While it is true that there is less manual processing, there is more activity than before, because of the waste created. The appeal of 'transparency' (knowing where things are, who has what to do) and monitoring (how many do they do?) is the stuff of command-and-control management and a key part of the appeal of such systems. As for improved consistency and quality, it shows how the regime thinks: it likes the idea of standardised services. But standardisation constrains a system's ability to absorb variety, so if demand shows variety (as it does in most local-authority services) and it is driven through standardised processes with rules (as workflow does), something has to give. What gives is service quality.

Today, many local-authority services are comparable to the worst of those in the private sector. Citizens find it difficult to get the service they want and are obliged to work hard to do so. This is because local authority managers have followed the advice from the regime. Phil Hope, Minister for e-government, highlights a further example:

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<sup>44</sup> Enterprise Workflow: Pocketbook 1, A guide for decision-makers. Local e-gov National Projects, 2004.

The introduction of CRM should be a catalyst for more changes in management processes and rethinking of citizen interactions to deliver seamless services.<sup>45</sup>

What does the minister know about CRM? He will have been told CRM is a must, because the local authority:

- will be able to record all service requests and create electronic records (is any of this value work?)
- can track citizens' requests (failure demand)
- integrates CRM with other IT systems (more spend on IT systems, institutionalising the waste).

The minister has been briefed. And he has been sold a pup.

### *3. The folly of managing activity*

One of the wrong-headed features of 'modern' local authority call centres is the focus on measuring workers' activity. This may seem logical. Managers may know from activity statistics that people can handle, say, 100 calls a day or take an average of three minutes a call. Managers will have taken a view on the volume of calls they expect and they will know, on average, how long people take to deal with calls, so it would appear to make sense for managers to do all they can to ensure people deliver the anticipated activity. So team leaders pay attention to activity statistics, monitoring workers and doing 'one-to-ones' with those who fail to meet their targets. The assumption is that performance is all about people. But this, as Deming pointed out, is to focus on the wrong things:

I should estimate that in my experience most troubles and most possibilities for improvement add up to proportions something like this: 94 per cent belong to the system (responsibility of management), 6 per cent special.<sup>46</sup>

<sup>45</sup> Phil Hope MP, speaking at National CRM Programme Event, 17 March 2004, London and reported in eGov monitor [online]. Available from: <http://www.egovmonitor.com/features/crmreport.html> [accessed 3 March 2008].

<sup>46</sup> Deming (1982), p. 315.

To draw attention to the system, Deming encouraged managers to study variation and its causes – in this case, the things that make calls last longer or end sooner. Here are a few causes of variation in a call-centre worker's performance: the nature of the call, the type and mood of customer, whether processes have been designed from a customer's point of view (and as managers don't study demand, that is unlikely), whether the IT system is working today, whether people in other departments have told customers things they didn't tell people in the call centre, and so on. These are the things that affect performance and should be the focus of management attention. Managing people's activity is an incredible waste of management resource; worse, this style of management demoralises workers. Having found that their goodness or badness is judged by whether they meet their activity statistics, they usually learn how to cheat their numbers to avoid attention. The workers' focus is survival, not contribution and improvement; their ingenuity is driven by the system to work against its purpose. Managers find it hard to see things that way. When close monitoring of people gives them evidence of cheating they claim it as evidence of the need for the controls (or more controls). Managers develop a jaundiced view of their people.

This phenomenon – that it is the system that governs performance – is at the heart of the long-running antagonism between workers and managers at Her Majesty's Revenue and Customs (HMRC). It has been widely reported that the new organisation design (labelled 'lean'<sup>47</sup>) breaks the work down into its constituent parts (functional specialisms) and allocates workers specific types of activity to perform. Staff complain that this leads to repetitive, monotonous work. Managers (and consultants) assume that specialisation will drive improvements in productivity. Workers are monitored hourly for compliance with the required activity ('Did you do the requisite number of tasks?').

Designing work this way leads to more handovers; handovers lead to waste, and this increases the likelihood of failure demand, always a potent form of waste. As Toyota's Ohno taught, the more work is sorted, batched, handed over and queued, the more errors creep in. And there is rework: every time a file is opened it has to be read. More steps mean more reading, and the risk is introduced that it might not be read carefully enough to be understood

<sup>47</sup> It is command-and-control 'lean', trying to make use of tools developed to solve problems in manufacturing within a command-and-control organisation design.



on any occasion. This will be all the more likely if the worker is working to activity targets. The more errors created, the longer it takes from the customer's point of view, and the more failure demand you can expect.

In 2007, the National Audit Office reported<sup>48</sup> that more than 1 million people had paid the wrong amount of tax in the previous year because HMRC either got their tax code wrong or made errors of calculation. It said some £157 million had been overpaid by 540,000 taxpayers – averaging £290 a time – with pensioners being particularly vulnerable to mistakes. At the same time, underpayments amounted to about £125 million – averaging £250 a time – leaving many people facing surprise extra bills when HMRC realised its mistake.

The report revealed that the introduction of what was described as a 'car assembly line' approach to taxation resulted in big increases in errors in the first six months of the operation. Nearly £10 million is reported to have been spent on introducing the 'lean' system. And, tellingly, the report revealed that six people now handle different parts of an individual's tax return against two previously. It should be no surprise that the system is producing errors. The mistake is to treat taxation as though it is comparable to manufacturing. Service organisations are not 'assembly lines', they are different kinds of systems. I shall return to the problems of HMRC in Chapter 11.

Working on people's activity will not solve the problem of errors, which are a product of the system and the way work is designed and managed. Managing people's activity will engage their ingenuity in surviving in that system. People's ingenuity should be engaged in improving the work, not surviving in a bad system.

#### **4. Preventing the system absorbing variety**

Many of the practices commonly found today in public services effectively stop the system absorbing variety. Of course, having no knowledge of demand is *de facto* a way not to absorb variety and measuring workers' activity focuses the worker on activity times, not customers, so that too will prevent a system absorbing variety. We have seen how targets and the design

<sup>48</sup> National Audit Office Press Release on HMRC Standard Report 2006-7, 12 July 2007. Available from: <http://www.nao.org.uk/pn/06-07/0607626.htm> [accessed 3 March 2008].

of work have the same effect in benefits and house lettings. CRM systems, scripts, and rules (for example, the Verification Framework) do the same. More examples will follow.

It is because they cannot absorb variety that public-sector organisations have massive waste. Ignorant of the phenomenon, the regime is promoting more and bigger mass-production service factories. Sir David Varney is one of the leading influences; his recent report argues for more use of technology and more service factories.<sup>49</sup> I shall return to his gloomy vision in Chapter 11.

Customers of these service factories can 'see' the waste: they know, for example, how many times they need to call or turn up to get a service to work from their point of view; they are irritated by interactive-voice-response systems that fail to get them to someone who can help them; they are infuriated by service workers who follow their scripts or procedures and fail to listen to or solve their problem. Sometimes they blame the service workers, but it is not their fault.

#### **5. Negative assumptions about people**

Workers and managers in command-and-control designs find their ingenuity engaged in survival because their goodness or badness will be judged by their compliance with the regime's requirements, whether it is taking the requisite number of calls in the call centre or meeting arbitrary targets handed down by government. Working in such a regime takes value out of the work. It is not intrinsically motivating.

Instead, the assumption is that people will only respond to extrinsic forms of motivation. Like the economists, command-and-control thinkers assume workers to be lazy, self-interested and needing extrinsic forms of motivation to drive them. It is to believe in what researcher Douglas McGregor called 'Theory X'; whether it is delivered through the velvet gloves of a 'coaching' management style or an assertive, dominating, even bullying manner, it is essentially authoritarian.<sup>50</sup>

<sup>49</sup> Varney, D. (2006) 'Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer'. HM Treasury [online], December 2006. Available from: [http://www.hm-treasury.gov.uk/media/4/F/pbr06\\_varney\\_review.pdf](http://www.hm-treasury.gov.uk/media/4/F/pbr06_varney_review.pdf). [accessed 4 March 2008].

<sup>50</sup> McGregor, D. (2006) *The Human Side of Enterprise*. McGraw-Hill, New York. First published 1960.

THEORY X	THEORY Y
Views workers as shirkers, who dislike work and will avoid it wherever possible	Views workers as naturally inclined to put effort into their work, just as they are to put effort into their play or rest
Workers must be coerced into working towards goals set by the organisation	External controls are unnecessary, as workers will show self-direction in the pursuit of organisational objectives
People need to be directed. It is assumed that they are unambitious, will avoid responsibility and seek security above all else	People usually accept and will often seek authority
People are self-centred and resistant to change	Most people are capable of using their own ingenuity to solve organisational problems
People are generally gullible	Most people are only given the chance to use a small proportion of their intellectual capabilities in the workplace

Figure 4.2: Theory X versus Theory Y

McGregor argued that Theory X was a self-fulfilling prophecy. When people are subjected to Theory X management, they behave in unproductive ways. Managers wrongly assume this behaviour is representative of people's inherent nature. It reinforces their belief that people cannot be trusted and need to be controlled. Others have agreed:

Unlike theories in the physical sciences, theories in the social sciences tend to be self-fulfilling... a management theory – if it gains sufficient currency – changes the behaviour of managers who start acting in accordance with the theory. A theory that assumes people can behave opportunistically and draws its conclusions for managing people based on that assumption can induce managerial actions that are likely to enhance opportunistic behaviour among people.<sup>51</sup>

Being treated this way, public-sector workers' and managers' morale has been sapped. Controlling people actually worsens service, since in systems terms

<sup>51</sup> Ghoshal and Moran (1996), referenced in Ghoshal (2005) 'Bad Management Theories are destroying good management', in *Academy of Management Learning and Education*, Vol 4, No. 1, p. 85.

it prevents the system from absorbing variety. It creates an organisation of unhappy people working in poor services. People, of course, are the key to absorbing variety. Systems designs put people at the heart of the enterprise, enabling them to contribute.

The criticisms of command-and-control thinking in this chapter were informed by taking a systems view. Learning to see the organisation as a system leads to practical alternatives based in a different philosophy.