

Under pressure? Three Principles that help you structure your response

These are testing times. Across the world, household names in banking, manufacturing and services alike are going to the wall. Other once proud institutions are facing the humiliation of pleading for money with their governments, taking with them the largest begging bowls in history.

Here in Britain, the public sector has its problems too. Local authorities like Haringey and Doncaster have had to answer searching questions about their social service departments. Most council employees know that such high profile cases are only the tip of the iceberg of pressure, arbitrary targets and disorganisation.

At first sight, there may not seem to be an obvious connection between international private sector financial problems and public sector service failures. In fact, the reasons that organisations fail often follow a similar pattern. This article looks at some of these causes for failure, analyses why other organisations succeed and proposes three principles which can transform the way an organisation works.

The first principle; lead the organisation as a system

Many leaders have trouble seeing the wood for the trees. They will concentrate on one particular function or department of their organisation where they see a problem and try and sort it out, without looking at the system as a whole. Often the root cause of the problem will be in a completely different part of the system or in a failure of communication between two parts of it. A temporary fix can help in the short term, but the contradictions and lack of communication will go on building up until some apparently insignificant event stresses the people or processes beyond breaking point.

We found a classic example of this in the motor industry. A car manufacturer worried that customers who had bought a particular model were complaining that the sunshine roof was too noisy and sometimes leaked. The car firm faced the expense of numerous repair jobs under warranty and the wrath of hundreds of dissatisfied customers. The roof was built by a supplier as a complete unit, including the motor. The manufacturer repeatedly hauled the suppliers in to complain. The suppliers in turn blamed the people at the car company for not

fitting the roofs properly. It was only after extensive investigation that it was discovered that the problem lay with the fixing points, which were installed during a welding process which took place a long way back along the line. The company's accounting system, however, did not allow extra expenditure in the welding department to put the problem right, even though the benefits would accrue to the department responsible for installing the roofs through lower rework and to after sales warranty.

This kind of problem is all too common. The solution is to adopt a systemic approach. Systemic leaders take an overview, understanding their whole organisation as a system, working out what clients, customers and the wider environment need and want, and how best to optimise the whole organisation to serve them.

This turns much of the conventional wisdom about how to manage on its head. There is an obsession for instance with performance targets. In the private sector, these targets will normally be financial; in the public sector they can consist of numbers such as cases dealt with or hours of contact time. What these targets fail to measure is the quality of service overall and the knock on effects elsewhere. Moreover, such targets by definition only measure past performance. In a rapidly changing world, the key to future success is to keep adapting to change on behalf of the customer or wider environment, a process actually impeded rather than assisted by an obsession with targets and historic performance. Furthermore, there is endless scope for skewing figures and cooking statistics in order to make it look as if demands are being met. The focus of staff is all too easily concentrated on artificial and narrow targets instead of on serving real customers or clients.

We recently encountered a very telling example of this syndrome. In a large international transport company, a bright young area manager secured a large order. He realised that it was in the interests both of the company and the customer if the work was carried out in a different area, which was better equipped to accommodate the specific requirements of the customer. By passing the order on to his colleague, the manager earned his company a higher fee and enormously enhanced the prospect of repeat business from the customer. However, the order did not count towards his own performance targets. When these targets were reviewed, he lost his bonus and was downgraded in the company.

There is another piece of conventional wisdom that demonstrates lack of system thinking which can land organisations in severe difficulty. This is the belief that it is cost effective to outsource services to specialist companies so that the organisation can concentrate on its core business. The problem is that once you

outsource, you can lose control, particularly of quality, maybe of basic competences. The recent scandal at the Indian IT outsourcing firm Satyam illustrates the shortcomings of this approach. Satyam was found guilty of inflating the amount of cash on its books and overstating its quarterly revenues. Its portfolio of clients included no fewer than 185 of the Fortune 500 companies. These companies will find it extremely difficult to control the impact which Satyam's misfortunes might cause their businesses.

This is not to say that organisations should never subcontract. They should certainly, however, consider the downside. Losing control of vital capabilities might well cost them far more than any savings they make in lower unit costs for the service.

Leaders should therefore acknowledge that everything is connected to everything else. The crisis of 2009 gives them an opportunity to take a genuinely new approach, examining their organisation as a system including customers, suppliers and outsourced agencies, and bringing them together to achieve the purpose. This is not easy. It will be difficult to resist the pressures for short term savings. Inevitably there will have to be compromises. But this is the only long term basis for a robust system that will endure.

The second principle; create the conditions for self organisation, so that everyone wants to and can contribute to improvement

Leading the organisation as a system demands an inclusive approach so that anyone can contribute intelligently. All managers and staff need to be able to analyse their work, to feel that their opinions can get an airing, and that the bosses value what they have to say. Staff should not have to confine their ideas to their own immediate departments. They should be encouraged to come up with proposals and suggestions about the whole organisation.

Historically, some or all of these needs have been absent. In most organisations, few people have the skill to analyse their work properly and make sense of it. People work in their own separate silos with little understanding of what goes on elsewhere. They are discouraged from pointing out flaws and from suggesting improvements, and when they do, leaders do not seem to listen. *This was a large part of the problem which the car manufacturer had with its sunshine roofs.*

A blame culture also encourages people to cover up their mistakes, rather than to come clean about them and allow the organisation the chance to develop systems to stop them recurring.

Furthermore, problems may not actually be anything to do with the part of the organisation in which they manifest themselves, so blaming the messenger makes even less sense. Failure to meet a deadline for delivering a new product is probably not the fault of the salesman who promised it, but of an aspect of the manufacturing or supply process at several removes from that salesman.

The reverse can apply as well, with part of the production team being blamed for an error by the sales force. In a commercial laundry, batches of clothes were emerging from the cleaning process with stains on them. Thorough investigation of the process and the methods used by the operators yielded no explanation. Eventually it emerged that a salesman had taken an order from a firm which manufactured food dyes, and that these dyes were transferring themselves to other garments. The salesman should have known that these clothes had to be washed separately, and negotiated a higher price accordingly. By the time the true origin of the fault had been discovered, the salesman had received his bonus and the company was locked into a contract which would lose money.

This example demonstrates not only the pernicious nature of a bonus culture but also the dangers of working in silos. If you look at your system as a whole, you will be able to find out where the problem lies. The result may well be that you will abandon old methods of working and move on.

Self organisation demands that the organisation ensures that all managers and supervisors are skilled in analysing processes and maintaining performance, and that there is a standard way of developing step change improvements as needed. It is not enough that people are encouraged to contribute and the bosses to listen. Continual improvement needs relentless discipline and experimentation. The quality world has developed these tools. New leaders need to ensure that their people are trained in how to use them.

The third principle; appreciate and build upon variety, particularly of people, whilst managing variation in the workplace.

The world is a complex place, and it is always tempting to simplify. Every human is truly unique, and every process generates variation. Small organisations derive their strength from these realities. They adapt to their employees as individuals, and provide customised service that copes with informal processes. However, as most readers will know, large organisations ignore both factors. They categorise people and treat them as numbers. They invent arbitrary specifications of OK and not OK to save having to analyse continually, which they regard as a waste of resources. They only investigate when the costs of failure become too high.

The obsession with putting people into categories is illustrated by the fashion for performance-related pay. Once the leaders have lost touch with people as individuals, it seems that all they can do is to try to identify the high performers and offer them extra money if they hit their targets. All the rest get nothing. We all sense that this is nonsense, as most of the people we know want to do the best they can, if only the system would help or enable them to do so.

So here is yet another way that the traditional approach to leadership has let us all down. Not only do people have little idea of their system, or the skills to understand and improve it, they are also bribed to direct their work to achieve targets that fail to provide reliable indicators of success. *The area manager in the transport company was a classic casualty of this approach, while the salesman in the dry cleaning business benefited from it undeservedly .*

Leaders have the incentive to change this, particularly as the concept of performance related pay has never even been validated in the first place. One of the leading authorities on the issue, Alfie Kohn, pointed out in 1993 that “There are no independent papers that demonstrate any correlation between performance-related pay and long-term improvement in organisational performance.” That is still true in 2009.

The new leader can act differently. All the evidence is that neither bribery nor threats are effective ways of motivating people. Bonuses divide employees from each other and demotivate far more people than they motivate. Most people actually feel good about helping other people, about satisfying their clients and about contributing to the success of their organisation. If leaders enable their staff as individuals to do all this, they will be motivating them in a far more effective way than by giving them a pay bonus for hitting a target.

There is no alternative to a new approach

When the economy is booming, organisations can get away with quite a few inefficiencies. In a downturn, they can no longer afford them. Leaders and organisations which are willing to change, even at the price of slaughtering a few sacred cows, will find that they can generate improvements beyond their dreams.

However, some organisations will no doubt refuse to leave the comfort zone of their old ways. In some cases, this can have drastic consequences reaching far beyond the company in question. Such companies cannot be left to their own devices. They will need external stimulus to change, probably in the form of regulation.

Consider the contrast between the aviation industry on the one hand and financial services on the other. The recent successful ditching of an airliner without loss of life in the Hudson River in New York was described as “the miracle on the

Hudson.” It was not actually a miracle at all, but rather the result of the way that the airline industry is forced to work by independent regulation. Over many years each accident has been exhaustively analysed by completely independent expert bodies, and airlines are legally bound to implement their recommendations—across the world.

In aviation, near misses are also reported confidentially. The system encourages everyone involved continually to collect data to improve safety. Anything which goes wrong is subjected to intensive forensic examination. The result is that engineering is always being improved, training refined and the whole industry forced to manage for safety. Ground rules are so strong that there is no future in trying to cut corners. Other industries such as pharmaceuticals and the automotive sectors provide further validation of the need for regulation—for instance in drug trials or the provision of seat belts and airbags.

The financial industry, by contrast, is far less well equipped to avoid or survive a crash.

In financial services, you risk putting your job on the line by pointing out a near miss. Tax havens enable companies to avoid regulation in a way that is inconceivable in aviation. The financial service industry still repeats the same mistakes of many past generations.

If governments agreed internationally to insist on totally independent safety regulators, we could all sleep easier. Once the way forward is signalled, we in the quality improvement movement have the methods and tools to make the difference.

In summary, leaders should use the opportunity of the greatest stimulation to change any of us are likely to see to:

1. Understand their system and its place in the wider system
2. Develop the skills and behaviours of self organised improvement
3. Appreciate the variety of their people and the world, and help them to contribute—the very best kind of motivation there is.

Jane Seddon, Jan Gillett, Process Management International Ltd

February 2009