

TRANSFORMATION 2011

Applying Systems Thinking to transform your organisation.

*Look after your customers, rethink your processes,
engage your people, reduce your costs, benefit society.*

Introductory notes - draft. This is a draft transcript of James Crawford (the Conference Chair's) introduction to TRANSFORMATION 2011 in May 2011. The event presents new thinking, methods and case studies, based on Deming's system of management, for organisations seeking a radical transformation. This was the 12th annual event, sponsored by The Deming Forum and Vanguard. James is a Director of Touchpoint Change and a member of the Deming Forum Advisory Board.

Session Introduction – Wednesday 25 May 2011

Welcome to TRANSFORMATION 2011.

We are here to explore a new way of managing our organisations. During the next 2 days we will take a look at the shortcomings of our current methods, consider alternatives and learn more about a tried and tested approach that we all recognise but that flies in the face of much of what we do and even what business schools teach.

There is much discussion and disagreement about what is wrong currently:

- Indian entrepreneur Ratan Tata (who is now the biggest manufacturing employer in the UK) was quoted on the front page of The Times on Saturday that in his view its a work ethic problem. British managers are lazier than Indian managers. Indian managers are successfully growing their businesses as they work "in a war like situation" whereas the British do not "go the extra mile ... they knock off at 5pm to catch a train home". He doesn't say whether he has any French operations. Others disagree and say that we should improve our work life balance as the purpose of society is about quality of life, family and community.
- Whether or not we are lazy, British workers are the most critical employees in the world, according to research. Most believe they could do a better job than their boss. A poll of 9,000 workers in 52 countries carried out by recruitment firm Monster, found that fewer than one in five thought their manager was more capable than them. Two out of five described their employer as "totally incompetent".
- Others say the problem is cash. Small businesses say there is not enough investment in SMEs and that loans are hard to come by. A report out this week said that the banks are missing their lending targets agreed with the government. However they say that with profits down and bonuses up there is simply not cash enough left. And anyway, they say, the government wants banks to adhere to new regulations and strengthen their balance sheets.

- UK and European governments believe that by introducing this new regulation competitiveness and compliance will improve. You have heard the examples from important milestones in human history: Pythagoras theorem 24 words, The 10 commandments 179 words; American declaration of independence; 1322 words, The EU Directive for the sale of cabbages: 26,253. The latest regulation this week is Denmark banning Marmite. I'm not sure how many words that took.
- Education is another battleground with arguments raging about whether exams are getting easier each year or whether students are getting more intelligent. Either way the results in the UK get better and better. They have the opposite problem in the US. Arizona was recently ranked as the worst state with students receiving dismal scores on their math and reading tests. It found that the vast majority of high school students in the State (96.5%) would be unable to pass a basic citizenship test if they needed to. An education system that produces students too dumb to be American?
- So what should we do? The Labour party say that we should spend more money to get ourselves out of recession. The Conservatives say we should spend less to get ourselves out of the deficit. The Lib Dems say that what matters most is to change the way we vote for the 2 other parties, but the general public disagreed on May 5th. Although I understand the Yes vote did quite well on second preferences.

Clearly there is a political dimension as we debate the kind of society we are trying to create and how we manage the trade offs, but our biggest challenge is to adopt a better way of making our choices work in practice, to learn from our mistakes and to continuously and steadily improve.

Research consistently shows that however many books there are on leadership and management, 70% of business and IT projects fail to achieve their planned benefits. Similarly most of our deep rooted problems in society stubbornly remain however many new policies are developed by government. Far too few companies manage to transform themselves and then enjoy year after year after year of consistent success. The public sector fails to reform despite the needs of the public and exhortations of politicians.

Best efforts or harder work are not sufficient. We need a new way of managing.

But there is a better way. There are several disciplines that describe how the world actually works in practice and point us in the right direction if we are to. The management thinker Deming first brought them together in 1993 and described them as a system that would transform the prevailing style of management. We will explore each of them during this workshop but I briefly want to introduce them so you know what to look out for:

I normally start with Systems Thinking.

In a nutshell ... **Having a clear purpose, taking a holistic view of the organisation and its stakeholders and managing everything together to achieve success**

The academic definition of systems thinking is a little boring with its concepts, principles, axioms and tenets. But when we talk about systems thinking it is very practical and stimulating and applies directly to your organisation and the problems you face. More of that a little later.

The second is Variation – **Appreciating that all measures vary constantly, discerning the difference between significant variation and random variation – to take the right action**

Reports in 2008 claimed that staff in Job Centres were being compelled to fiddle figures and hit arbitrary targets, to a clamour of complaints from the Conservatives. Reports in 2011 claimed that staff in Job Centres are still being compelled to fiddle figures and hit arbitrary targets, to a clamour of complaints from Labour.

You have heard the expression “what gets measured gets managed” but a misunderstanding of variation is a root cause of many organisational issues and we explore that more this morning.

Thirdly we look at psychology - **Understanding why we all behave as we do, how we can work together better and how everyone could take more pride in what they achieve**

On Monday this week in Iraq, a spokesman for the Coalition said “the sacking of Taji Prison’s director and his administration after the escape of prisoners had been nothing but to cover up the failure of those behind the escape of prisoners ... the incidents “are evidence for the existence of major loopholes in security plans”.

But how often do we try to motivate, reward or blame individuals when actually a whole host of factors played a part? We will look at how to enable each person to give of their best.

The 4th area is all about the learning process – **Testing our assumptions, developing sound theories and plans, fostering innovation and focusing on consistent organisation improvement.**

In February this year on Radio4: CEO and Author Margaret Heffernan said: “We are all stupider than we need to be. We are guilty of wilful blindness in our private and our professional lives, preferring the familiar, the known and the comfortable, with insidious effects.”

We are all making decisions as managers and every decision has underlying assumptions or theories – *if we do this then that will happen*. Given that we succeed or fail on the quality of our decisions, this is arguably the most important area.

The disciplines Deming identified are the ones that will focus us on the right action. So we are here today to explore all of this with a very stimulating team and with each other. There will be plenty of time to think, discuss, challenge and disagree.

We have a new format for this year. Today is a brand new interactive and collaborative workshop. We will explore Dr. Deming’s elegant theory for leadership and its application to surviving and thriving in the world today.

Tomorrow we hear about putting it into practice. We have a series of case studies from organisations who are working with Deming’s system of management to help you survive and thrive where you are.

Session Introduction – Thursday 26 May 2011

Over the last 12 months since TRANSFORMATION 2010, have things really changed?

I was surprised to pick up a paper this morning to see that it could almost have been written on this date last year:

Bankers in trouble, bonuses controversial, another record month for government borrowing, food prices higher, MPs expense claims, inconsistent care in the NHS, the Liberal Democrats losing the May election, Gordon Brown hasn't been seen for days.

Even the ash cloud has returned. Or as the Telegraph reports, the so-called "mythical ash cloud". Ryan Air sent a plane up on Tuesday with a flight path into the Red Zone to prove that it was safe to fly. Once it returned safely the Minister appeared on TV to say they were irresponsible, but state that true to form the airline had cut corners and missed the Zone entirely.

We have taken more of the same action to address our problems; bailing out other countries, printing more money, squeezing public services, passing carbon reduction laws, starting wars and sacking peers in the House of Lords. But we are not out of the woods:

- Some remain worried about our economic problems claiming that many banks are still technically insolvent (Moody's downgraded several more this week), levels of debt are unsustainable, and there is seemingly little growth apart from energy bills. The solution to the high levels of debt seems to be to encourage the banks to lend more. Our national debt has gone up by £10m since breakfast time and will reach the dubious milestone of £1tn by the 1st of August. Every penny of which we taxpayers will have to pay back, with interest. That is about £40k for each of us. David Cameron is finding it hard to stimulate GNP so is considering the introduction of the measure of GNH – gross national happiness.
- Others are most concerned about environmental issues - pollution, carbon reduction, green energy. Government argues that nuclear energy is safer and lower carbon than the alternatives but has denied planning permission just to be sure.
- Some are fearful of terrorist attacks, unsure as to whether the wars we fight will make the world a safer or more dangerous place. One Coalition efficiency saving last year was to chop up our Nimrod fleet and aircraft carrier, hoping not to need them anymore. Less than 3 months later we were caught short as they tried to attack Libya with equipment we no longer had.
- Others are more concerned with more routine problems in government – improving healthcare, creating jobs, reducing crime, tackling inequality, and debating recently whether prison inmates should be allowed to vote for MPs. Never mind that, we still have a law that says it is OK for MPs to work from prison as long as it's for less than a year. Lords are more privileged; they can work from prison for as long as they wish.
- Others still are more concerned about the end of the world. We survived one near apocalypse last Saturday. Their Leader has now rescheduled the event for Oct but don't let that prevent you from booking next May's conference.

However few believe that the prevailing style of management is going to help us thrive. Despite all our efforts, to quote Karr in 1849, "it seems that the more things change the more they remain the same."

But is there an alternative? What *would* it take for us to transform? That is what we are here to explore.

We started to look at this yesterday, taking a wide look at the theories, thinking and prevailing style of management that has led us to where we are now, for good and for ill.

That's where the work of Deming and other Systems Thinkers comes in. Deming's work is particularly powerful as it lays out a framework by which we can assess any other method of improvement and test our own plans against it. In his 1993 book *The New Economics* he argued that just four disciplines are the key to understanding management in a new way.

We looked at those yesterday and I want to quickly recap for those who maybe were not here yesterday before we hear our first practical case study. Deming officially described it as a system of profound knowledge. That's a bit of a mouthful so I tend to refer to it as his system of management.

In no particular order the first is Systems Thinking.

One of the tenets of Systems Thinking is that a system must have an aim. We heard on yesterday's Ackoff video that a system also has properties that none of its component parts has. It must work in a joined up way to deliver its aim, all of the elements or sub systems working together seamlessly. Hence different teams, departments and organisations will need to cooperate for the aim to be achieved. In the private sector this is the supply chain.

In the public sector it could be a whole range of bodies set up at different times and for different reasons by different politicians. Hence thoughtful and effective leaders are required to coordinate and improve the way the whole system works.

The next is Psychology. Author Bay Jordan highlights the demotivating nature of performance related pay in his new book *The Deadliest Toxin*. He argues that "financial incentives are badly conceived, unfairly awarded and inconsistently applied". He then states "The fact is that incentives do not ... engender the continued extraordinary effort that they are designed to. They do shape the systems and the culture in which that activity takes place ... but in a toxic way."

So what is an alternative? Starting from the assumption that many people are promoted, sooner or later, to positions that exceed their competence, researchers at the University of Catania, Sicily, used mathematics to prove that organisations could become more efficient if they decided to promote by picking names at random out of a hat.

The author Jonathan Kellerman wrote about a violin making. He visited a workshop and was surprised that when he tapped a block of raw spruce it resonated. The violin maker explained, "the music's already in the wood. My job is not to screw it up". From what we heard yesterday, management's job is a bit like that. Most people are already motivated to contribute and take pride in their work. A manager's job is not to screw that up.

The third is Variation – close to Deming's heart as he was a preeminent statistician before the second world war and published a number of papers.

Yesterday we saw how a combination of arbitrary targets and a misunderstanding of variation causes chaos in organisations. We need to look slightly deeper than the headline numbers and a Process Behaviour Chart is a simple tool that, in the words of its author Walter Shewhart, "gives the maximum amount of accurate information at a glance".

This enables us to distinguish between the significant few “special causes” that require a specific response and the insignificant many “common causes” that require a more holistic strategy. One of our speakers last year, Davis Balestracci, suggested we adopt it and once we ask Why 5 times we will understand the Who.

The 4th area is all about learning – and how much we should rely on the knowledge we trust. Deming said that “For every problem there is a solution that is simple, obvious and wrong.”

Author Margaret Heffernan said in her new book *Wilful Blindness*: “We can't notice and know everything; the cognitive limits of our brain simply won't let us. That means we have to filter or edit what we take in. So what do we let through? What do we leave out? And why?”

This is where psychology meets the Theory of Knowledge and helps us to see our blind spots. David Kerridge said that if we're actually trying to do the wrong thing, the only reason that we may be saved from disaster is because we are doing it badly.”

The remarkable thing is that these 4 disciplines are evolving all the time as we research and learn more and more. That new learning is analysed and tested and is available to us – a far richer picture than was available to Deming in 1993, particularly in the fields of systems and psychology.

But there is, I think, a 5th area of Deming's system of management. Compassion. There was a deep humanity at the heart of Deming's approach and he knitted everything together with a concern for people and a belief that every organisation and individual has a right and a duty to give of their best and contribute to society.

One of my favourite quotes is from Dr Ishikawa, famous for the fishbone diagram. He said, “Quality is based on respect for humanity”.

A Vanguard article written by John Seddon that was retweeted this week looked at the concept of Benchmarking, or Industrial Tourism as John calls it. It starts “ It is normal to assume that visiting other organisations might teach us something, I used to think so too. It was Deming who first stopped me short, with his assertion that benchmarking is copying without knowledge, and thus has inherent risks. Taiichi Ohno, the man who created the Toyota Production System was even more strident: *managers who study other organisations are looking in the wrong place, he said, everything you need to know to improve performance is in your own system, but you need to learn how to look.*”

And that leads us on to our programme for today. 4 case studies from 4 organisations that have found a better way and are working hard to embed it.

Conference closing remarks, Thursday 26 May 2011

That brings us to the end of our conference. We have covered a great deal of ground, examined some complex issues, explored a straightforward but profound framework for change and started to apply it to the challenges of our own organisations.

Many thanks to our speakers who have provided the insight and ideas for us to learn from and discuss. I have distilled a few key messages that jumped out for me over the last two days:

- Peter Lachman from Great Ormond Street Hospital argued that understanding variation is a critical starting point for transformation – both natural variation (what patients need, which is surprisingly stable) and artificial variation (how we make matters worse, which is hugely costly). Huge improvements in patient outcomes, cost and safety have been demonstrated.
- Neil Alexander and Ian Gilson told us about the transformation of social housing repairs. By following the customer and uncompromisingly designing their service against customer needs, repair times have come down from 15 days to 2 days so far. They work in an environment where the customers are demanding, the organisation is innovative and their suppliers oblivious.
- DS Tim Metcalfe, Brian Russell and Kevin Jones from the counter terrorism unit explained how they were applying Deming's system in a very different environment. A systematic approach to collaboration, learning, testing and reviewing has had a huge impact on the way the 43 police forces and 9 CT units work together. They also mentioned Deming's point about ceasing reliance on Inspectors to ensure quality. In their case the suppliers (of terror plots) innovate, government is demanding and the customers are oblivious.
- Shona Murray of Aviva explained that if we don't manage our organisations as a system our staff will turn their ingenuity to fighting off attacks of management and hitting arbitrary targets in any way they need to. Systems thinking has improved performance, strengthened controls, reduced costs and improved morale.
- One of our delegates, David Lansdown, suggested that "austerity presents an opportunity". Most organisations know they need to do things differently and need a more holistic and effective method to work with. Taiichi Ohno said that "everything you need to know about performance improvement is in your own system. You just need to know how to look". This is a good time to introduce a more profound change.
- Finally, Nigel Clements yesterday quoted Deming and said that "the job of a leader is to accomplish the transformation" – the job of all of us as we go back to our places of work.

That brings us to a close. Many thanks to all of you for your contributions and enthusiasm during the collaborative sessions and to our volunteers and organising team who give up their time and energy because they are passionate about making a difference and believe that success is worth sharing.

We look forward to seeing you at TRANSFORMATION 2012 in May next year.

Thank you.

This was written for **Change!** – the newsletter of Touchpoint Change Consulting. Touchpoint Change helps organisations in the private and public sectors to prioritise change, engage their people, develop good outsourcing and partnership arrangements, transform their operations and become self sufficient in continuous improvement.