

Meeting the public sector challenge: The art of reducing cost without cutting value

The Comprehensive Spending Review has now been delivered. Whilst the detail may not be completely clear, the overall challenge however is crystal clear: cut expenditure significantly whilst protecting front line services. Now is not the time for planning ‘paralysis’, but neither is it the time for uncoordinated, knee-jerk cost cutting with a consequent reduction in service in the short term and even potential failure to deliver the savings in the medium to longer term.

The general view is that ‘waste’ must be reduced, thus protecting the things people value whilst also reducing the cost. But how is this waste to be identified and eliminated? And what is the track record of eliminating waste in the past – the ‘old’ way? The Public Accounts Committee seems to make this clear in its latest report published on 4th November:

“Departments were in general unable to make real value for money savings of 3 per cent a year following the 2007 Comprehensive Spending Review – and that was at a time of increasing budgets. Now that much more radical cost-cutting measures are required across government, my Committee is gravely concerned about the ability of government to make efficiency improvements on the scale needed. There is a serious risk that, to reduce costs, departments will rely solely on cutting front-line services”.

Lean is a proven approach to reduce waste – but it must be pursued correctly to deliver sustainable, significant benefits for an organisation. At its heart, Lean is a philosophy rather than a tool. The prize is an organisation that can avoid the repeating pattern of arbitrary cost cutting and reducing service levels.

Over the last few years some parts of the public sector have begun to use Lean approaches to address their challenges. Areas within Defence, National Savings & Investments, HM Revenue & Customs, the NHS and the Department of Work and Pensions have been leaders in Lean’s early application, with a number of other departments, including Communities & Local Government, increasingly investigating the applicability of Lean for identifying and eliminating waste in their organisations.

For any organisation turning to Lean as a route to achieving their improvement goals, there are a number of key factors to understand and address. This list is not exhaustive but contains elements that are frequently overlooked.

It’s not something the Senior Leadership Team should delegate

The Senior Management Team must take the time to:

- articulate clearly the real purpose of the organisation and the core value it must provide, so that the needs of the customer and citizen are central to any activity

- understand the Lean approach and agree how it will be applied in the organization
- find the money, staff and necessary time to resource the implementation effectively
- commit to staying actively engaged in selling the message to their staff and throughout implementation - until it becomes self-sustaining

The Senior Management Team need to demonstrate through their own actions the changes they wish to be adopted, whilst ensuring that a robust deployment strategy and governance/management structure is established.

This first stage in leading change is a common trait of successful implementation. Under pressure to start delivering, it would be easy to fall into the trap of 'Ready – Fire - Aim' and start implementing changes and launching initiatives – easy, but laden with risk. Defining, agreeing and articulating to the organisation the activities and outcomes required to achieve *both* the continuing value in terms of services *and* the savings sought need not take long, but is vital. It will ensure control stays in the hands of the senior team, that the purpose of the organisation is not lost, that scarce resources are used to maximum effect and a consistent and coherent approach is taken to implementation thereby increasing the chance of success of delivering valued front line services within the financial constraints.

The Executive Committee of the Army Board, supported by the next tier of senior officers, found the time in a structured, but quick, manner to develop an overall process framework covering all activities within the Army Staff – even in a period of high levels of military operations overseas. Within 6 weeks the major process reviews, involving many staff, that were undertaken over the subsequent year had clear direction and a framework in which to define value and identify waste.

Focus on what the customer values

In this context the 'customer' is the recipient of the output from the organisation/process (the community, citizen, partner organisation, customer or the colleague who is the next step in the chain). The organisation, starting at the top, needs to examine fundamentally who its key customers and stakeholders are and what they really need and value. This inevitably challenges some long held preconceptions and misconceptions so customers and stakeholders should be involved in this process to keep it honest.

The rail industry arguably lost its way post-privatisation, with too much focus on cost reduction/profit. Most customers are interested in price, but not at the expense of safety or trains that run on time. There has been a refocusing on the customer value in recent years.

Understand the processes in your organisation and measure performance against what the customer values

Once the organisation understands what the 'customer' values, it can examine the internal processes by which it currently delivers that value. This is the key point at which the opportunity to start to drive out waste appears – by focusing the whole organisation on the value adding activity. This can be very illuminating, particularly for managers. HM Revenue & Customs have embraced Lean for a number of

years and spent time analysing and improving their processes. In the words of one senior manager, reviewing work that had been carried out analysing a particular process: “I can’t believe how little of our time is spent actually collecting taxes”.

In our experience there is typically a lack of distinction between process, procedure and the archenemy of effective process, bureaucracy or red tape. In many organisations, especially large ones, process, procedure and bureaucracy have become so intertwined that it is almost impossible to distinguish one from the other. None of this would really matter if the service delivered was improved and the cost of serving the customer was lowered, but in nearly every case exactly the opposite is achieved.

Bureaucracy typically comes about when the fundamental understanding of the processes in the organisation, and what they are trying to achieve, is vague or even lost, often having been replaced by a raft of procedures added over the years to ‘fix’ issues that have arisen, or to take account of changes in internal structure or in the market. What’s left is often a patchwork quilt of procedures masquerading as a process. Usually, in these circumstances, the staff doing the work, and those managing it, have a poor and inconsistent understanding of how it all ‘fits’ together, making working effectively, tackling issues and driving improvements difficult. Worse still, some of the measures and targets can actually drive the wrong behaviours and be counter-productive to meeting the needs of customers. Contact Centres that continue to set targets that are driven by length of call, for instance, completely miss the fact that most callers are interested in ‘first time resolution’ of their request or problem. Moreover, there should also be a focus on whether it is intended demand (i.e. a call we want) and, if it is not, understanding the issue to enable any root causes to be tackled, rather than getting quickly onto the next call for the sake of the targets.

Lean has many tools to support an organisation in building a robust process framework that will provide the value/output that the customer needs and ensure that, by harnessing the efforts of all staff, waste is driven from the processes and activities in the organisation and kept out.

It’s a commitment for the long term – so build internal capability and involve everyone to deliver fast and sustainable improvement

The simple message here is that, if your improvements are to be sustainable, you must develop people at all levels of the organisation to be able to champion, lead, manage, facilitate and participate in improvement activity. It is not just about training courses or tools and techniques (though they are needed); it’s as much about learning, understanding and application.

In 1999, Siemens Business Services and National Savings & Investments joined together in one of the largest ever PPPs when NS&I transferred the whole of its operations (some 4,000 staff) to its private sector outsource partner. With a contract based on an assumption of significant productivity savings, Siemens found that investment in technology and traditional cost cutting generated improvement, but not enough. Crucial to meeting both service delivery targets and reducing costs was a major investment of time in building internal improvement capability and enabling all staff to get involved. 11 years into the relationship this is now paying real dividends for both parties.

Common factors in organisations that are successful in implementing and sustaining Lean are typically:

- assigning their best people to be involved in the initial implementation (not just who is 'spare')
- a clear deployment plan and adequately resourced programme office
- ensuring leaders and managers are trained, and expected, to champion and lead the implementation (not just leave it to the 'project team')
- an appropriate programme of awareness and skills development for the whole organisation
- progressive involvement of everyone in improvement activity – with a balance of top down and bottom up improvement activity
- initial expert advice (if needed) – but ensuring a real focus on knowledge and skills transfer from the outset

Poor processes are likely to be the single biggest risk to an organisation's performance, financial health, efficiency, reputation, employee morale and safety. Not internal organisation structures and not lack of IT systems. Fixing poor processes takes time and effort, though there are typically substantial short term, as well as long term, benefits. The level of active involvement and drive of the senior team from the outset will dictate the pace at which benefits are realised. There are always many demands on their time. Perhaps the financial pressures we currently face will be the trigger that leads organisations to take process improvement more seriously.

Lean is an approach based on defining value to the end customer and creating an organisation that has people and processes that makes this value flow, without waste, which continuously improves how it does this day-on-day, year-on-year. With commitment it has the ability to make a substantial and positive impact on almost every aspect of the organisation and on its staff, and not many things in business can do that. That is why Lean should be embraced at every level.

About Bourton Group

Bourton Group are specialists in achieving sustainable performance improvement. We have a successful track record of improving complex processes in major public and private sector organisations stretching back over 40 years.

For further information please contact:

Email: info@bourton.co.uk

Tel: +44(0)1926 633333

Or visit our website:

www.bourton.co.uk