

NI 14 ('Avoidable Contact'): from the horse's mouth

John Seddon
MD Vanguard Consulting
Visiting Professor, Cardiff and Derby Universities

January 2009

Over the last two years we have witnessed the Cabinet Office trying to get to grips with the opportunity for improvement provided by removing 'avoidable contact'. Those who have watched the progress of this work will know that the original label was 'failure demand' – a concept I first discovered many years ago. Doubtless, the noise created by systems thinkers telling the Cabinet Office they didn't understand the idea contributed to the label being changed to 'avoidable contact', but altering the name does not change the essential problem: the Cabinet Office promulgates an idea it does not understand. Paradoxically, much of the failure demand currently consuming resources in the public sector has been created as a direct consequence of following Cabinet Office and other departmental guidance. And the guidance associated with 'avoidable contact' is no exception: it will only serve to exacerbate the problems. In short, the guidance on avoidable contact is just plain wrong.

The purpose of this article is to explain the concept of failure demand and show how it is possible to act with it in order to achieve significant performance improvement. It is also the intention to persuade the reader why it is necessary to ignore and repudiate the dangerous guidance of the Cabinet Office.

Failure demand – a lever for improvement

In service organisations, whether in the private or public sector, failure demand often represents the greatest lever for performance improvement. In financial services it can account for anything from 20 to 60 per cent of all customer demand, in utilities as much as 80 per cent. In the public sector it is generally as high as in utilities; in local authorities and police forces as much as 80 or 90 per cent of contacts are avoidable and unnecessary. Imagine the impact of turning them off: better service and much lower costs.

A more important way to think about the consequence is that turning failure demand off increases capacity. Capacity, like failure demand, is a systems concept, and the argument here is that without understanding the conceptual foundations (systems thinking) behind the idea, failure demand or 'avoidable contact' will pass as another fad and the opportunities it provides for radical improvement will be lost.

In the beginning

In the mid-1980s I worked with Dec Direct, a business set up to sell computer equipment over the phone, a radical idea at the time. Mike Swalwell, the man in charge, wanted to drive up revenue, a perfectly natural ambition for the leader of a sales organisation. Another consultant was advising Mike that he should offer incentives to the agents to drive up revenue – any sale worth more than, say £100, should attract a bonus. Being a psychologist, I knew this was not good advice: the use

of incentives always results in less work (of the type you want) being done¹. Dec Direct was an in-bound centre, so the use of incentives would drive people to ‘hunt’ for high-revenue calls, and this could mean treating customers (of perceived ‘less worth’) badly. So it occurred to me that we ought to find out why customers called: knowing the reasons would help us learn what to do to increase sales.

For three days we studied demand, by simply listening to calls. And what we learned was astonishing. About half the calls were to do with poor service delivery: ‘I asked you for a green one, you sent me a red one’, ‘I don’t understand the bill’, ‘It doesn’t work’, ‘The component is not compatible’, and so on. I put it to Mike that if we could sort out the service issues, by sending things out that were right for the customer, we could expect to gain on several fronts: we wouldn’t get calls we didn’t want; we would open up the capacity to sell more; and by ensuring customers were happy in the first place we would make it more likely that they were receptive to the salespeople’s efforts.

And that’s what we set out to do. The work was a success – but more importantly what we learned *en route* taught us a lot about what we should and should not do in tackling failure demand.

It was seven years before we settled on a definition:

Failure demand is demand caused by a failure to do something or do something right for the customer.

We found this definition works in every type of service organisation. although each type of service can create its own distinct kinds of failure demand. Defining failure demand this way is to recognise that it represents a failure of either commission or omission *from the customers’ point of view*. In either case, it means that the customer is obliged to call again if he or she wants to get the service as desired, the corollary being that service provision costs more (rectifying mistakes, duplication, etc).

We also learned a series of tactics that are essential to exploit to the full the hidden value in failure demand. To put it another way, we made plenty of mistakes in the early years, which helped us understand how best to work with the idea.

Essential tactics: understand demand in customer terms

It is understanding demand in customer terms that is the first essential requirement. When studying demand it is common for people to translate the customers’ need into internal classifications – ‘what we do with it’ or ‘where we send it’ – rather than what the customer wants. This is to miss the point. Classifying failure demand in customer terms means you are learning what does or does not work for the customer – you ‘see’ the service from their point of view. Another common error is to treat failure demand as ‘value’ demand because we acted to solve the problem, for example we were able to tell someone where their planning application is in the process. But just because the

¹ A truth that is beyond the scope of this paper, but see “Punished by Rewards”, Alfie Kohn, Houghton Mifflin, 1993 for a good summary of the evidence.

demand is responded to, and the customer in that sense ‘satisfied’, does not change the fact that the demand is avoidable and in an ideal world would not have happened.

Essential tactics: understand predictability

The second thing we learned is something familiar from the work of W. Edwards Deming. Things will always go wrong, he said; the crucial thing is to find out what is going wrong predictably. If we treat the unpredictable as predictable we can increase the complexity of the system – something many managers (and government guidance) are prone to do. We have that learned there are two ways to establish predictability: time-series data and identifying cause-and-effect relations. Time-series data mean just that, studying demand over time, understanding a typical day, a typical week, keeping the analysis of demand running until you can predict the demand you will get going forward.

Establishing cause and effect requires studying the service system: the process, roles, measures, rules and so on. You discover, for example, that if a claimant’s council tax is not sorted out alongside their housing benefit arrangements you will predictably receive calls asking why they are being chased for council tax when they have been told by benefits staff that their tax is going to change. Similarly, you find people predictably being asked to bring in documents to their housing benefit office that they have brought in before. This is because the widespread use of document processing systems and the requirement to meet service standards in the front office fragments the processing of the work, with the predictable loss of people’s documents as a consequence. The relationship between cause and effect is identified by studying the service as a system².

It is only the **predictable** failure demands that are **preventable**. And given that they are predictable, it follows (to a systems thinker) that they are a product of the current service design. In consequence, NI 14 should have been labelled ‘preventable’ rather than ‘avoidable’ contact.

Essential tactics: understand systemic causes

This is the really hard part – hard because managers (and ministers, if we are lucky) will learn that the primary causes of failure demand are systemic. Getting value from the concept of failure demand requires understanding it as one of a collection of systems ideas. As I described above, its causes are to be found in the way work is designed and managed.

Thus, failure demand is caused by managing workers’ activity rather than how well the system meets the customers’ needs; for example, keeping within prescribed ‘handling times’ in a service centre often means ‘closing’ the customer’s problem rather than solving it, ensuring that it comes back again later. Managers manage worker activity on the assumption that activity equals cost, yet the counterintuitive truth is that cost is in flow – the number of transactions it takes for a customer to get a service. For these reasons some private-sector organisations have withdrawn from

² For more guidance on studying the organisation as a system see: “The Vanguard Guide to Understanding your Organisation as a System” available at www.systemsthinking.co.uk

‘low-cost’ overseas service centres in favour of learning to solve customer problems at the first point of transaction in the UK. In the same vein, local authorities employing systems thinking reject the use of ‘back office’ factories in favour of designing their organisations to solve more service problems at the point of transaction – maximising the use of ‘front-office-only’ designs (to use the regime’s language) to deliver services – rejecting the notion of ‘economies of scale’ in favour of achieving real economies through better flow, as is achieved in the Toyota Production System.

As with housing benefits, described above, service designs are often fragmented; the notion is that breaking work into standard pieces to be completed in batches by different people will lead to greater efficiency. The counterintuitive truth is that this creates waste in the shape of duplication, delays and handovers, and the consequence is more (failure) demand. In short, the causes of failure demand all lie in work design. It reminds us that waste – and failure demand is usually the largest form of waste in service organisations – is man-made.

An alarming example of fragmented, standardised work creating failure demand is HMRC. HMRC is a flagship public-sector service ‘factory’ – managers have been persuaded by what I call ‘tool-heads’ that the tools used to solve problems in manufacturing can be of equivalent benefit in service organisations. But tools by themselves, without understanding systems concepts, are worse than useless. At HMRC, the hidden result of the organisation’s failures to provide services that meet the needs of customers is huge flows of failure demand into a series of downstream services: local authorities, social landlords, voluntary agencies, legal services and the courts. This adds up to billions of pounds of preventable public-sector costs. And costs, it should be emphasised, are not the greatest waste; many of the people suffering through the difficulties in getting what they are entitled to are the most vulnerable and needy in society. To read the evidence, see the report published by Advice UK³.

Or look at an example of a more complex service in the private sector: engineering services, where engineers fix faults on power or phone lines. True to form, managers traditionally manage activity: they worry about ‘jobs per man per day’ and measure the productivity of workers on that basis. To motivate workers, they often award points for the various types of fixes (‘different joints, different points’). The consequence is that workers focus on maximising their income rather than fixing the network. And the further consequence is more faults. By contrast, a systems approach to design focuses on purpose – maintaining the availability of the wires – and method – ensure the engineers are responsible for their own geographies – and measures – give all fault data directly to the engineer to enable him to decide what is best to do. When a systems approach is taken, faults fall by about 40 per cent, demonstrating that the traditional design was creating more work – failure demand. It illustrates the point that failure demand is a systemic phenomenon and thus cannot be removed without re-designing the system.

³ Advice UK 2008 ‘It’s the System, Stupid! Radically Rethinking Advice’
<http://www.adviceuk.org.uk/DisplayPage.asp?pageid=12831>

The parallel in local authorities is potholes. Here too the work is fragmented and managers manage workers' activity. The (often) massive amounts of failure demand are associated with the system design, the way the work works. Imagine the typical design: if you were a pothole, how many people turn up to see you, what do they do, who does the 'value work' (fills you in)? When you study potholes as a system, much of the crazy behaviour you discover is driven by measuring, recording and sorting potholes into their relevant target category, and management's perceived need to control the people who do the work. Systems thinkers design the pothole service against predictable demand, organising workers into geographies, capturing data on potholes when the work is *done* (thus once only and accurately) and ensuring that the workers use their own data on potholes to manage their own work. The result is as much as a five-fold increase in productivity and, most importantly, massive reductions in failure demand.

The systems design for potholes also reveals that much of the reporting of potholes by citizens, while thought of as value demand, is actually failure demand in as much as potholes in certain geographies are entirely predictable.

Causes in government guidance

The causes of failure demand lie in the design and management of work. In the public sector, managers are obliged to follow guidance that is ill-conceived. In all of the examples above – benefits, tax, potholes – the causes of failure demand are in the design and management of work created by following central guidance, in particular, managing by targets. This explains why politicians get grief in their surgeries despite their authority's services being rated 'good' by the Audit Commission.

Alongside specific guidance for particular services the Cabinet Office promulgates 'Best Practice' guidance for service centres in the form of a series of case-study examples. The guidance encourages public-sector managers to manage activity, treat activity as cost, standardise service processes and maximise the use of IT. The 'Best Practice' guidance is bad guidance. To make matters worse, the Cabinet Office is imploring public-sector call centres to sign up for 'Best Practice' accreditation, which will only embed these design errors. While many of these things might be depressingly normal in a command-and-control service design, they are, in fact, primary causes of failure demand.

To set targets for the removal of failure demand is profoundly ironic, since it is the targets and specifications governing the design and management of local authority services that caused the failure demand in the first place. It proves that the Cabinet Office doesn't 'get it'. To take another example, the National Audit Office recently published a report⁴ showing that the eight-week target for planning applications drives up refusals (and thus failure demand). But this is only part of the story. The eight-week target also drives up the number of permissions with conditions (and thus more failure demand) and requests for the application to be withdrawn – for fear of failing the eight weeks – and thus, again, more failure demand. It is worth pointing out that the systems design of planning leads to all planning applications being dealt with in much less than eight weeks – and thus less failure demand.

⁴ See http://www.nao.org.uk/publications/0809/planning_for_homes_speeding.aspx

It is the same for all public services that we have studied, which reinforce the point that failure demand is a systemic phenomenon; you cannot get rid of it without understanding the causes, which invariably leads to the need to change the system, re-design the service and change the measures-in-use.

NI 14 guidance

The joint IDeA/Cabinet Office/CLG guidance on ‘avoidable contact’ represents nothing more than bright people taking their best guess at what to do. Unfortunately intelligence is not the same as knowledge. There are fundamental errors in the guidance:

1. Definition. The definitions offered by the guidance represent no more than a number of examples. This will lead to unproductive debates about what to include, whether types fit the definitions and so on. By contrast, the definition I provide above ensures that our focus is kept with the customer and with the purpose of the service from their point of view.
2. Sampling. The guidance encourages managers to treat failure demand as a sampling problem, offering detailed guidance on sample sizes to ensure reliable conclusions. It is not a sampling problem; it is a problem of establishing predictability (as described above). I have no doubt the sampling guidance will be used with blind zeal by inspectors to establish evidence that guidance has been followed, but to no useful avail.

As with all targets, people’s ingenuity is already engaged in being seen to meet the target rather than understanding and improving the work. We have already witnessed under-reporting: for example, a cursory look at a county council reporting a suspiciously low 15 per cent rate of failure demand confirmed that managers had failed to understand failure from the customers’ point of view and were thus wrongly treating ‘failure’ as ‘value’. We have also found local authority managers using their ingenuity to try to prevent calls, for example by instructing service personnel to tell customers not to call back. This should be no surprise: managers assume that ‘low’ failure demand equals ‘good’ and apply their ingenuity to looking good in these terms rather than to understanding and improving service design.

Beware the bandwagon

My concern is that the obvious appeal of the failure demand concept will lead managers to miss the real opportunity. Unfortunately they will be aided in that by all who know how to sell to someone who is preoccupied with costs. The bandwagon now following failure demand includes IT providers offering new or upgraded IT systems for monitoring and tracking failure demand. They will lead to a bureaucracy of inappropriate management behaviour and an increase in the size of the management factory, another prolific generator of causes of failure demand. Managers don’t need IT systems to get the benefit of working with failure demand; indeed they they will only get in the way. The snake-oil providers make beguiling use of cost-benefit analyses to make the case for investing in a programme of change to tackle failure demand – and a case for huge savings is easy to make. But do they

know anything about method? Do they know the causes are systemic? Many plausible ideas will come to nothing, except greater waste.

It is a thinking thing

Failure demand is a systems concept. Taking a systems approach to the design and management of service organisations reveals a number of counterintuitive truths. Those that have been explored in this article include:

- Demand is the greatest lever for improvement (as opposed to assuming that all demand is ‘work to be done’)
- Cost is in flow (as opposed to activity)
- Failure demand is a consequence of work design (and thus cannot be removed by targets)
- Standardisation and fragmentation create waste (higher cost, not lower cost).

The idea of failure demand is gaining traction in the private-sector too. It is, unfortunately, an idea that appeals to the prevailing style of management, what I describe as ‘command-and-control’ management⁵. Its appeal is clear: if we can get rid of failure demand costs will fall.

But failure demand is just one of the things you need to study in order to make the case for a change to a systems design. To put it another way: failure demand is a systemic by-product of traditional ‘command-and-control’ service organisations. To get rid of it you have to change the system – including, most importantly, the command-and-control mentality itself. This is why the initial step is so hard – but also why, once the change has been made, the benefits are so profound. Following such a change, failure demand becomes useful as a temporary measure; something you employ as and when you detect important changes are occurring (as opposed to a permanent measure, something you use to control performance). It is a concept that sits with other systems concepts, and the one that has most pertinence here is that, contrary to the instincts of all command-and-control managers, managing costs causes costs; when and only when managers learn to manage value – designing and managing their organisations to deliver against customer demands – costs fall naturally, and failure demand with them.

⁵ “Freedom from Command and Control”, John Seddon, Vanguard Press, 2003.