Systems Thinking, regulation and public-sector productivity

John Seddon presents the annual Mike Jackson lecture
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I should tell you first of all, my work has different antecedents to other systems thinkers. I was a prison psychologist in the 1970s. At a conference I met Nick Georgiades who was running the MSc in occupational psychology at Birkbeck London. He said to me, "John, why do you work with individuals in prisons? Why don't you work on the system? That would be a smarter thing to do." It was one of those moments when you think it sounds right, it sounds good, but I didn't know what he meant. So, I did his MSc. I didn't learn anything about systems but I did fall in love with something called intervention theory and method. Which was the idea that you could go into a situation, an organisation perhaps, with a lot of people, and intervene in such a way that they learn, and are capable of doing something not only then but forever because you've created their ability to do something; I thought that worthy.

You've got to bear in mind this was the 1970s. It was years later I discovered that most consultants don't work that way. In the big consultancies, they want clients to be dependent on them. Well, it's still a value that I hold that people should learn to be independent of us. But anyway, I left that programme with a passion for intervention theory and method, but no meat in my sandwich, nothing to intervene on.

It was about 10 years later, during the mid-80s, I got asked to audit a quality program that had failed. Total Quality Management. Some of you are old enough to remember that. It failed at Honeywell Bull, they'd spent millions on it, training people in quality tools and techniques. So, I got the job of finding out why it failed. I knew nothing about quality. I had to read the books. I was amused to read Crosby's book 'Quality is Free'. In that book he describes people lamenting that they'd done all the training, it didn't work and they asked him what to do now. His answer was do it again! I thought no; it's much smarter to find out why it didn't work. I also read Deming. For me the light came on. 'Out of the Crisis' is a must-read book. It's a scathing critique of western management thought with clear evidence of what goes wrong in our organisations and how it's bad for economics; but also pointing us in the direction we must take: to manage our organisations as systems. And he makes the obvious point that humankind invented management. It doesn't work very well. We can change it, and we **can** change it.

But I didn't get any help from Deming on what to do in service organisations. So, then I turned to the systems literature. I read all of the important people in the systems literature. I got a lot of things to think about and certainly I was prompted in lots of directions but I didn't get anything in terms of what to do on Monday. So, I had to work it out for myself.

Deming had an axiom that 95% of an organisation's performance is due to the system, only 5% due to the people. Hence, he argued, don't manage the people, manage the system. It wasn't difficult to work out how to prove that in service organisations.

It was the mid-80s. Call centres had arrived, and I could prove to the managers that all the things they're doing to manage the people was working on the 5%. I'd show them the proof that managing the system would have a profound impact on performance but they would reject it out of hand. So, I reflected on what I'd learned about intervention theory and method. There are three approaches to change in human systems. Coercion, which is typical of public sector reform. It was also typical of the early 80s when, if you remember, organisations were being rightsized which is a euphemism of getting rid of people. Second, there's rational approaches, this presentation is an example; I talk, you listen. You hear it in your mental model. Training is another example of the rational approach. The third approach to change is normative; where you set out to change thinking.

I realised I had made a mistake. I shouldn't have done the analysis to prove the 95/5, I should have got them to do the analysis and then they would be unable to deny it.
To give you another example from that period: Many call centres would have targets for sales. Inbound call centres with targets for sales. The marketing people believe every contact with a customer is an opportunity to sell, so agents are given sales training. It's really stupid. I know why it's stupid, but it won't help to tell them. Instead, I get them to study. They listen to phone recordings where customers bought a product and I ask them to address just one question: Did the customer 'pull' or was it 'pushed'? Did they buy it or did we sell it? And the answer is over 90% were pulled. Now when the leaders get it, they see there is no point in sales training.

It gets more complicated. In those days, in a lot of financial services companies, managers talked about 'share of wallet' – customers having more than one of their products. So, they would set targets for people in the front-line to achieve a certain ratio of sales where customers have multiple products. So, what does the agent do when it's the end of the month, they've just made their target but the customer on the line is only going to buy one product and doesn't own any others. A sale would drop the agent below target. A sale would mean loss of bonus. What does the agent do? It's obvious, isn't it?

It gets more complicated than that. In one case we had redesigned a call centre to give excellent service. Sales went up. Great. But then the marketing director flew in demanding a return to the share-of-wallet target because she had a big bonus riding on that. This is where you need the chief executive to step in, as he did. Sales were up, customers and agents were happier, the target had to be consigned to the bin.

There are many stupid management ideas. The Vanguard Method employs normative change. We don't study and tell them, we don't write reports. We help them study their system to gain knowledge and make informed choice. Change should be based on knowledge. The object is to help leaders get knowledge of their organisation from a different point of view – as a system – and thus

make informed choice. En route leaders change the way they think about management; away from what I call command and control management, what Deming called the prevailing style of management, what a lot of people call new public management and, instead, to managing their organisation as a system.

Also, and I say this with no modesty at all, the clever thing about the Vanguard Method is that leaders study their system from the point of view which they will ultimately use to design a more effective service. They are unlearning and learning at the same time.

Today I'm going to talk about transactional services. Transactional services are services that start with demand; demand comes in and then the service organisation responds to it. I'm also going to talk about regulation. This is a government that wants growth. This is a government that wants rising productivity in the public sector and the way to do it is to change the way we regulate. This is not less regulation. It's a different method of regulation. I will argue today that our current method of regulation actually builds a lot of cost into the public sector as well as demoralising people. As I get through some of those examples, I'm going to move on to health and care systems. And I'm going to be presumptuous and tell you what I would do if I was Wes Streeting in the current parlous state of the NHS. And I'm quite confident it would work.

There's one other thing that I should say at the start to all the systems thinkers in the room. I hear it so many times; people talk about service organisations, describing them as complex systems. They are not in my view. They are unnecessarily complicated systems. They're man-made. Man can't make a complex system, but he can sure make them unnecessarily complicated. When it comes to the health service, it's not just unnecessarily complicated. It's chaotic.

Right, on to regulation and productivity. Politicians describe productivity as a vexing conundrum. They do things in every budget to try to improve productivity and it never improves. Have you noticed that? They don't know what to do. I was spurred to thinking about regulation by a report that came out of the House of Lords in February last year. It was called Who Watches the Watchdogs? It was a report describing the problems of three parties working together to create regulations: government, parliament and the regulators. Okay, these people have problems working together. Our modus operandi for regulation is specification and conformance. These are the three parties that are writing the specifications. And there's a problem working together. And as I'm reading this report, I'm thinking, no, well, there's a fourth party here that's not included in this report, and that's the people who have to comply. Surely, that's where we have to judge the efficacy of regulation. The Lord's report recommended creating a 'super regulator' to sit above these three parties. This is, I see you're laughing, but it's serious! This is something you see a lot in regulation, things go wrong; regulate more. Whereas, if things go wrong, we should work to understand why they went wrong. That'd be smarter than regulating more.

I have to give you a little bit of theory: In my life working in service organisations, I've learned that in any organisation you will find there is a systemic relationship between purpose measures and method. It's in the system and it's going to work for you or against you. If, for example, you set targets - let's go back to simple things like call centres - you set targets on how long agents spend

on a call or how many calls they do in a day – that creates a de facto purpose and it constrains method.

Imposing any arbitrary measure will sub-optimise the system in some fashion by creating a de facto purpose. With regulation it's much broader than that. My problem with regulation is that the regulators – the specifiers – bring their own (poor) theories of management and dictate measures and method. That should cease. It's a crazy thing, isn't it? Think about this. We hire people to run our public services. We pay them big salaries and then we expect them to do as they're told by people who have a shared opinion. Isn't that mad?

I'm going to give you some examples of their imposition of methods and measures that have poor economic consequences. Where I'm going is the solution; is that politicians, specifiers, regulators should limit their statements to statements of purpose. And then we make leaders responsible for making choices of method and measures. Now, I think that's actually a tougher regime than the regime we currently have, because in the regime we currently have, all you've got to do is make sure you've done everything that's going to satisfy your regulator and you've got a home run. No problem. In the world that I want to see, you wouldn't have someone turning up with a checklist. You'd have someone turning up and saying, "Well, look, this is the stated purpose of this service, which is determined from a citizen's point of view" - politicians ought to be good at that, that's their job – "now, what choices have you made, leader, on method and measures? Let's go and see what's happening." And immediately we will be in a domain called knowledge. We will know a lot more. It will be transparent. There will be enormous variety and there will be innovation. The result is we would build and spread knowledge.

But let me take you on a trot through my experiences of hitting regulatory stupidity; bad methods and measures. Back in 2006 I was asked to go and meet the leader of council in the Midlands. He was a member of the local government association with an interest in improvement so his agenda was to find out what this fellow Seddon was doing. I turned up and in the middle of this conversation I said, by way of example, 'you would have built a call centre here in your council by 2005 to meet Tony Blair's target that all councils must have a call centre'. Now why did Tony Blair have that target? They said it was about service but it wasn't. It was about cost; it's cheaper to have a transaction on the phone than it is to have one face to face. He replied, "Yes, we built a call centre." I said, "And I bet when you opened it, you had more calls coming in than you anticipated in the plan, and it cost more than it said in the plan." And he looked at me and said, "How do you know?" He thought someone from his organisation had told me. They had covered it up. This is one of the things that you see in regulation. If you've done as you're told by those who make the specifications and it doesn't work very well, cover it up. Both parties assume that the specifiers know what they're talking about. So, declaring that it didn't work well could mean you didn't do it right.

Of course no one had told me. How did I know? Because I've been seeing the same thing since 1985. The first one I saw was a bank that had a plan for three call centres. The idea was you take all the telephone calls out of the branches and stick them in a call centre. They had a plan for three. They built three, turned the switches and demand went up. They opened a fourth, demand went

up, they opened a fifth. By this stage, it was more expensive having these call centres than it was having people in the branches even though the salaries were lower in the call centres. But when we studied, what we found was more than half the demand coming in was what I call failure demand: demand caused by a failure to do something or do something right for a customer. They'd made a fundamental error, two errors really. The first is they assumed if you pluck a telephone call out of some service operation somewhere to have it done somewhere else that it will work fine and often it won't work fine because it's now out of its context. But the corollary was they didn't understand what the calls were about before they moved them. It's amazing, isn't it, that people could be so silly. But that's what happened.

Then at about the same time I got a call from a guy called Ian Wright at the Northern Housing Consortium. He said he'd noticed the great results we were having in housing services and the way to get noticed is to is to do a piece of work and have it scrutinised. So, I agreed to do some work in Leeds, with a scrutiny panel. Mike Jackson was a member of that panel and he wrote it up too. The panel had two members of the audit commission; Tony Blair's enforcers, they'd made sure everybody got their call centre.

Off we went; housing has many transactional services, so studying needs to begin with knowledge of demand – demand is the big lever in transactional services.

To comply with Blair's target Leeds had created a central call centre. We tootled off to the call centre to listen to calls coming in for housing. What we discovered there was nothing happened to them, they were simply passed to the housing department. In my language no value work got done. This 'service' provided by the call centre was costing the housing department a quarter of a million pounds a year to have their phones picked up in the call centre. It was a waste of public money. What do you suppose the two people from the audit commission did? Nothing.

After call centres, the next bullying by the audit commission was for benefits services to create back offices. These days we're all familiar with the term back office but it didn't exist when I started working in organisations. It's a relatively recent phenomenon. Like a lot of bad management ideas, it came from across the pond, invented by a man called Chase. His argument was that call centre managers face a dilemma: agents often have to do some work after the call; they call it 'wrap' – dealing with whatever the call was about. The dilemma is, if customers are ringing, what are you going to do? Do you leave the wrap to do later and pick up the call, or you do the wrap and the customer waits or abandons the call? Chase proposed that we can we can deal with this dilemma by creating a back office. His idea was that we should 'decouple' the customer from the service. So now we can sweat the labour in the call centre and we can sweat the labour in the back office because the customer's not interfering. You use the front to find out what customers want and send it to the back office; they do the work.

In those days I was happily going down to Whitehall to join in discussions and conferences and talk about this stuff and I was down there saying don't do the back-office thing. It's a bad idea. I even gave them an example. This was the period when an awful lot of financial services firms outsourced work to India, telephone work and back-office work. I was working on this with Aviva. They wanted

to bring all their calls back from India. They had 500 people in India in front and back offices. They had 200 people in the UK. 700 people altogether. And they had problems. Everybody had problems. We helped a lot of clients bring their calls back from India. So, what do you do if you're a conventional thinker in the call centre command-and-control world where you worry about how many calls are coming in, how many people have I got and how long do they take to do stuff? - that's how you manage activity in a call centre. If you think like that and you've got 500 people doing front and back-office work in India and you want that work to come home, what are you going to do? You're going to have a plan, and your plan is going to, say, hire 500 people in the UK and train them. Our advice was put the plan in a drawer. Let's go study demand. Let's understand what customers want. Let's allow knowledge of demand to dictate what expertise we put in front of the customer so that they can pull the value they want from our system. That's what we did. It took a year, but they ended up with an amazingly better service in the UK with only 300 people. Who would have put that number in a plan? I was explaining this to an audience that included Sir Peter Gershon, Tony Blair's advisor on public sector reform. Peter Gershon argued we should have a single back office for the whole of benefits processing for the country. I was saying no, no, don't do it. I gave the Aviva example, better service, much lower costs and no back office. I explained that when you study, you learn that the front-office, back-office design gives you two views of a customer; one with the customer in front of you and one working to rules. On top of that they specialise work in back offices and they standardise work. Managers think that if, for example, a customer wants a product and there's nine tasks to do, then they'll be sent to the right places, they'll be received in the right places, the people will have the wherewithal to do the work, they'll do it within the standard times, meet the service levels and then it will go out clean to the customer.

It doesn't. I would get leaders to study this with just one question to address - I keep it simple for them – when it goes back out the customer, is it clean? In other words, there won't be any further calls, no failure demand. And the first one they do, no, it wasn't. "No" they say, "this one was a bit complicated." I'd have them do another, and another, and another. They learn nothing much goes through clean. They begin to understand that if we carry on doing this, we're going to get plenty of failure demand at the front end, robbing the system of capacity. Peter Gershon rudely dismissed my contribution. He thought he knew better. Off they went and created back offices everywhere.

But then I got a phone call from a man called Mark Radford. He was running benefits in Swale Borough Council, Sittingbourne in Kent. He told me he'd created a back office as directed by the audit commission and now he had a big backlog in it. The audit commission was telling him to outsource his backlog to private-sector backlog busters. He said "I'm reading your book, John, and I think the problem is in the front end." I said, "You're exactly right." So, we went and helped him, and within about 3 months, he went from one of the worst in the country to one of the best. Benefits processing isn't difficult. All you've got to do is worry about clean input. Most people don't know what they've got to turn up with to make a benefits claim. So, your job is to help them bring in the things they need and when you've got all the input you need, then, bing!, it'll fly through quick. And you have those people work both in the front and doing the doing the process and the money. That's all you've got to do. Studying teaches you what's the right expertise needed to do that.

At that time, I was asked to go and make a presentation on my work in the public sector. I think it was at the Savoy. I thought, well, I'll do benefits processing because actually that's all I had at that time because most of my work was in the private sector. So, I went. As I was getting ready, the fellow organising it said, well, he got really excited. He said, Steve Bundred's at the back of the room. Steve Bundred was the chief executive of the audit commission. Well, good, good. He's going to listen. Good. So, I did a little show and I explained how to study and redesign benefits processing. At the end of it, a lot of people came to talk to me and Bundred came towards me; the only way out was through a door behind me, but he assiduously avoided eye contact. Oh well, I thought, that's a shame.

Then, fortunately, about three months later, I was at a round table and Bundred was there. So, I thought, oh, I can't…, you know, John can't resist an opportunity! I said to him very clearly in public, "Steve, you're the chief executive of the audit commission, right?" He says, "Yeah." I said, "Well, so you're a public servant then, right?" He said, "Yeah." I said, "Well, don't you think if someone shows you that what you're making people do is actually making things worse and there's a better way and it'd be good for the economy if we did things a better way, don't you think you should take an interest?" And he just looked at me and said, "But I don't agree with you, John". I didn't ask him to agree with me.

You won't be surprised to know I was lobbying for the demise of the audit commission and we did it. We got there in 2010. They died. But the next bit of coercion was around shared services. In those days, I would even go to party conferences. Not that I support any party, but I was at a Conservative Party conference fringe meeting in Birmingham, sharing a platform with Bob Neil. Bob's a lawyer, and Bob said, "Well, it's obvious, isn't it? If we have got six fire services, and they've all got an HR department and a legal department and a whatever department, then if we share them, we'll save money." I said to him, "Well, Bob, can you explain to me how by sharing them, relocating them in one place or whatever it is you mean by this, you're going to have less work to do or need fewer people." He didn't explain. I said, "I can explain to you why it is that sharing these services could drive the cost up." He wasn't interested.

This is the real problem I have with Whitehall. They have a narrative and they're only interested in the narrative. They believe it. I use the word again from the start. They share opinion. You know the way policy gets done in Whitehall is; if enough people share your opinion, it becomes a policy. It's the fact of the matter.

If you look back at the issues of Local Government Chronicle around 2010, I was in there all the time banging on about this kind of stuff. And the issue is this; if you share services, you can make big mistakes. Yes, we all may have an HR department, but they do different things very often. I saw this first in in the private sector when, for example, customer services in a telco provider had people who worked weekends. Their overtime or weekend pay arrangements should not be the same as a bunch of people who don't work anti-social times. The thing to do if you want to share services, the first thing to do, is to go and study those services in situ, understand them and improve them where they are. In doing that you'll also learn what things are common and could be

located anywhere; those things can be shared - they're always quite a small number of things. So, step one is study, step two is to improve the services where they are – that's where you get the big benefit – and step three is centralise only the things that are common while also taking out levels of management.

I would talk about having done this with private-sector clients at public-sector conferences where I met people from the cabinet office. Really nice, bright people. I would explain all this and they would say to me, "What you're talking about, John, makes a lot of sense. But we can't do what you're talking about because we have to do as we're told. What we're told to do is go and buy an IT platform, plug it in, one size fits all, and standardise services". And that's what they did. And guess what? The National Audit Office has said, a whole series of times, it's not been financially beneficial – the promised results never came. Well, told you so.

Then the next dreadful idea was outsourcing. 'Oh, well, you know, we don't need to do this. We can outsource this to the private sector'. Well, I've got moles everywhere. People follow my work and we talk. There was a mole in the cabinet office who went down to the flagship outsourced shared services venture and established that there's bucket loads of failure demand hitting that system. They then went to the decision makers in the cabinet office and said, 'Look at the amount of failure demand there is in this system. And you are aware that this contract is a contract that pays them by the volume of activity that they're doing. And so, a lot of this activity wouldn't happen if the service worked. We're paying for that.' And the response from the mandarins was, 'Well, that's very interesting. Maybe we could review that when the contract comes up for renewal'. Would you do that if it was your money?

Whitehall believes in economy of scale and it's a myth. Economy comes from flow. In a transactional service organisation, if we can understand that demand, the thing that matters to the customer, and then design to service that and only that, our costs fall at the same time as the service improves. That's a counterintuitive idea to a command-and-control mind. When I first got involved in the 80s in service organisations, managers thought better service always costs more. Not true.

Those were all economy of scale ideas which are flawed. But regulators also get very involved in the detail of the way in which you're going to go and do your job – methods and measures. Twice we found ourselves in a situation where we took the results of studying and redesigning systems to the regulator. One was in children's services and the other was in food safety. Now you're basically showing the regulators a system picture that shows the regulations that we have to work to are part of the problem; they're creating a lot of sub-optimisation. They work against its purpose; creating a de facto purpose. Then they're shown the redesign where they're clear about what the purpose is; they've got methods and measures that relate to that purpose and they've got better performance. Okay. So, what do you suppose the regulator would do in both cases? What do they do? If they're rational human beings, they would go, "Oh my god, if this is true, then what we're doing is we're sub-optimising the whole of food safety or children services because this is what we make people do." No, you know what they did? They both did this. I was astonished. They said to the leaders, 'Well, okay. Yeah, your redesign's fine. If you want to carry on with this, you have to

sign a piece of paper that says if anything goes wrong, you will carry the liability because you're operating outside of current regulations.'

There we are. Just take food safety as an example. Old world: You dressed up in white clothes, put on a mask, had a clipboard and pen, and you went into a place where they're making food, and you looked around and made notes, and then you went back to the office and wrote about it. About half your time was writing about stuff and the other half was going out. You'd write to the owner and you'd point some things out to them and keep it on record and decide what schedule you're going to visit them on, on the basis of what you'd just done.

We'd sit people in a room and address the purpose. What's the purpose of food safety? We want to stop these people making people ill. How well do you think it does that? What would do that? What do you need? So, you see, they soon come to the view, 'oh, well, clearly the thing that would help is knowing they've got the knowledge'. Well, fine. Well, why don't we design for that? Do you know what the redesign was? They turn up at these people's premises dressed to be able to work with them. Okay? And then they teach as people work, helping them solve problems and, if necessary, they demonstrate, clean things, and so on. They're building a relationship. They're doing what they were trained for. They've got degrees in food science. Now they got an opportunity to teach other people about the things that they know. And of course, what you find is, in the original design, it was an adversarial relationship. No surprise. In this design, they're making friends. And indeed, they got to the stage where the food safety people would compete to be the person that goes into any new premises because it was kind of fun to do. Not rocket science, is it?

Here's another one. We've done a lot of work in care services, adult social care for example. I'll describe a bit more about it later. But the important thing about it at this point is that the service was better; we'd helped them redesign it. Their service is better. They're helping more people. It's costing less. Everything's brilliant. Except the chief executive comes along and says, 'No, no. You must turn this back into the design that we had before because the audit commission is coming next month. We've got a four-star county here and adult social care counts a lot towards the award of four stars.' So, he turned it back, knowing it was worse the old way. You've got to take a view on that, haven't you? Is that a lack of morality or is that the power of coercion in a in a regulatory system? Doesn't matter. But you know, the important thing is that we've got a regulatory system where conformance is required for a good reputation. That's what matters. Do as you're told and you will have a good reputation.

Now, the sad thing is it means there's plenty of people out there who hide. I know some councils where the service is dire and the people running it couldn't give a stuff. All they care about is keeping their faces clean when it comes to being regulated. These people need something that shoves them along in the right direction.

It's the same in the health service. You've seen what happens to whistleblowers. Why? Well, because they're pointing to problems. Managers are concerned with reputation. They're not concerned with improving their systems. And I think they **should** be concerned with improving their systems.

So, let's talk a bit about health and care then, shall we? I say this with trepidation because I regard health and care systems as break fix systems. Bear with me. I said I'm only going to talk about transactional services. They start with demand. Within transactional services there's a large group of services that we would call break fix systems. Why do we call them that? Well, because they all in their own way start with 'it's broken'. Can you fix it? So, this could be an insurance claim. It could be an HR help desk. It could be an IT help desk. It could be having your central heating repaired, having your house repaired. Does this make sense to you? And they have common characteristics in command-and-control land. But all they're trying to do when you think about it, you know, in our language, 'what's the value work?' is to diagnose and fix. Understand what's wrong and fix it. You'd be amazed at how bad we can be at diagnosing and fixing things when we stick it in a control in a command-and-control environment. I think it's also fair to say that the health service should be considered as a break fix system because that's what it's been good at. It's been good at diagnosing and treating things. I am sure there are plenty of people in this room who've had an acute condition, been whizzed off to hospital, got straight in front of an expert, and their life got saved. I'm one and I know there are others. But if that's not the case, then the system can be pretty dire. And I'll get into how dire it is. But first I want to just give you some observations that I have seen in all break-fix systems.

I'm going to talk about things like IT help desks. I want you to think about how this relates to health. The first thing you see typically - because, bear in mind, a lot of management is about cost - is low-cost people at the front end; the people that are expensive hidden away somewhere else in the system. For example, an IT help desk: When I was preparing this, I was thinking about the first one that we ever did which was in the 90s for IBM. This was a help desk called enterprise support. Enterprise means big computers. So, this is people with big computers ringing up and saying my computer doesn't work. Can you fix it? At the front end first of all is someone who says 'have you got a contract?' and then, if you have, you get to level one and you are quite likely to need level two or three and, finally there's level four (who wear sandals). Why do we do that? Because they're expensive and they're cheap. If you were to say to them, 'tell you what, it might be actually the right answer to have these people with the sandals pick up the phone'. Couldn't do that, John. That would be too expensive. But you haven't understood how expensive it is to not do that, have you? You see, but I would never say that because that would piss them off. But that's what's in my head. My job is to help them see how costly it is to not do that. And similarly, with housing repairs, we put low-cost people in a call centre and we give them, we used to give them a book and now we give them a thing on the computer to diagnose what's wrong. As you'll see when I talk about it later, what you find when you get to the house is we haven't understood what the problem is. But it was cheap, John. So that's okay, isn't it? It was cheap, but not if you think as I do, there's only two things we're trying to do here is to diagnose it accurately and fix it. If you take the enterprise support one, you've got to get these people to study why the customers call in, listen to it and then see what happens.

They see people having to explain their problem so many times to different people. Some arrive without a contract. Those get stuck; they're going to stay there until he's done the paperwork to actually have a contract or agree a bill of sale. The purpose of this system was to fix their breaks.

How we doing? Not very well. And it doesn't take long before they start realising the smart thing to do is for me the sandal wearer to be there because I can work out what it is that's wrong and I can either fix it or I can pass it to someone who I know can fix it. And that's the design they created. And they took 'have you got a contract?' offline. Why let that get in the way? Our job is to fix the computer and then, if they haven't got a contract, we can have a chat with them and either send them a bill or sign them up to a contract. Well, they won a prize. They won a prize, you see, because you know, remote management – IBM HQ was in Paris in those days. Remote management: 'Oh, look, this is amazing. Look, staff survey up, customer survey up, revenue for the first time. Whoa, give it a prize'. The engineers put their suits on, went over to Paris, and got their prize. Then the prize giver said to them, "How did you get them to do it?" Engineers: "What do you mean?" "How did you get the sandal wearers to pick up the phone?" They go, "No, no, no. You don't understand. It's us." They just didn't have the sandals on. This is an important lesson in change, isn't it? People are quite capable of designing an effective system.

In housing repairs I'd have some of the leaders go to the call centre. Oh, look, buckets of failure demand. Fine. Some of the leaders go out with the tradespeople who are supposed to be fixing the properties. And the only question is: do we fix it when we walk in? We learn that only 40% of the time we walk in and fix it. Oh, that's odd because according to our management report we're doing first time fix at 75%. What you see you start digging down: tradespeople are using their ingenuity to ensure that nothing's recorded as a failed fix. You understand what I'm saying? They even do things like say to the customer, 'don't ring in for 10 days because this might happen and that might happen and it will be all right but if it's not right after 10 days then you call' - because that won't count as a failed fix. Am I making sense to you? Again, ingenuity used to survive in a system. Is that what you want their ingenuity used for? No. You want them fixing the house, don't you? We also generally send someone to the material store and say to them, the only thing you're going to do is go around, find things that are covered in dust and ask, why did we buy these and when did we buy them? What you learn is we're buying things on the basis of unit cost. Buy in bulk, get it cheaper. This is another mantra you get from Whitehall. We all should do procurement together. Buy lots cheaper. Wrong. Wrong. The way to buy materials is buy them on the rate of use. You want to minimise the time between when you buy them and when you put them in a house. And you can do that.

People, we've taught - so many people do this now - people have built software that does this and it's really easy to use. You can set your own inventory level. But the important thing is you've got the products that you need because you've studied demand. It's demand that teaches you what expertise you need in the tradespeople and what materials you need in their van or available to them. No longer do they travel for materials. They get materials taken to them because they're the economic unit in this system. If they're working, we're doing our job. You have to address the question: how can we assure perfect diagnosis every time? The answer is we've got to get the tradesman or the engineer in front of the problem in the house. Let's not try to diagnose it remotely. But because we've understood what's predictable about what's happening, we've built that expertise. Now that's known, we're going for perfect diagnosis every time. Then then we do the fix and we're going to measure the actual time it takes to do the fix.

Okay. So now we've got all this rich data telling us the predictability and types of demands that we're going to get and how long it takes to fix them. What we can now do is schedule according to the day and the time the tenant wants. That make sense to you?

Portsmouth was the first local authority to deliver repairs to tenants on the day and at a time a tenant wants and it saved eight million pounds in its first year. That was the work that actually won the leadership prize that Kevin talked about earlier. I took Owen Buckwell with me because he did the work. I was awarded the prize, but I thought, no, he should be he should be there and he should talk about it, because he was the leaders. I just helped him do the work.

But then the audit commission came along and downgraded him from four-star to three-star because Portsmouth didn't go benchmarking. You couldn't make it up, could you? Really? I think benchmarking is a fast route to mediocrity. We all end up being the same. How stupid is that? Taiichi Ohno, the man who developed the Toyota system, he used to say, ‘don't go looking at other people. Everything you need to know is in your system. You just need to know how to look’.

Let me give you another example. I love this. We had done the how do you be a better break-fix organisation with a business in South Africa that was concerned with hot water and heating systems. They call boilers geysers in South Africa. They had changed their system and created a much better service; done all the things I just talked about. We were gone. About a year after we had gone, we got a call from them and they said, "You know what? We're taking it to another level. We thought it's be great to be a brilliant break-fix organisation and we're certainly doing fewer visits.” This is the thing. If you're good, you spend fewer visits, which means you've got greater capacity. “But we think we can go further. We want to be a preventative system rather than a break-fix system. So, what we've done is we've understood all of the stuff that's in the houses. It's taken us some time to do that. We've understood how old they are and what things go wrong. So, we're actually visiting once a year to do the servicing, and we also put in parts in in order to prevent failure, because what the customers really want is it never breaks down.” How cool is that?

So, success in a break-fix system is to do perfect diagnosis and then effective fix. I think the health service should be like that. It's knowledge of demand that tells you about the expertise you need; you measure the actual cost of doing it and you measure the actual time it takes to do it and then you've got a system that you can understand and improve. It's not difficult. It's just hard work.

Let's move on to adult social care. You would imagine, wouldn't you, in a civilised society, if your life fell off the rails and you put your hand up for help, then someone would pop along and help you. And that doesn't happen because Tony Blair's regime introduced this whole set of measures of activity for people who do care services. Which is why you get a series of people turning up because they're specialised and they do different things. Their budget tells them what they can do and therefore what they can't do. And so, it's assess and refer, assess and refer.

I think referral is the most used word in health and care systems. There's an awful lot of refer going on; and no value work gets done in a referral. What you also learn is that many of the things that are provided to people have been commissioned because of course we believe in the market don't

we? Well, politicians do. So, if you if you're going to go to the market for a price for something, you have to standardise it, obviously. And so, people are offered things that are supposed to help them which are standardised in their nature. And the standardised things don't deal with the variety of their needs. We actively waste money giving people help that is not helping them. And you see this when you study, it's quite alarming actually. Most social workers do good work, have good values, they don't realise how bad it is from the other point of view, and they get quite a shock when they study really what's happening from the person who needs the help's point of view. Then it isn't too difficult to redesign it. You've got to get away from all of these silos with budgets. When you put your hand up for help, you get someone to come along immediately. No over the phone stuff, no qualifying stuff, no filling in forms stuff. They come along and have a conversation to understand what's happened, what the context is and most importantly what matters to you in terms of having a good life or having a good death. Then they organise the resources from your family, your community, the voluntary sector and statutory services - whatever is needed to help in achieving the aim that you want. And the amazing thing is the costs just fall; and demand falls because you're designing out all the failure demand. It's quite extraordinary and I'll come back to some data about that later. We've helped people do it in a lot of places and I've written it up a lot of times.

Mark Drakeford was the first minister of Wales. Before that he was responsible for care services in Wales and he listened to people doing this on the ground. He changed the policy. The policy was to fill in a form. He threw the form away and replaced it with a policy that prioritised having conversations to understand what matters to people. Not a bad start. I'm not saying they fixed the regulatory problem in Wales. they haven't. But Drakeford is now back on the scene and I expect he'll do some sensible things.

But here's the thing. We measure demand. We study demand. Okay? It's the big lever. Let me tell you this. Demand for adult social care is stable. Stable. What's the narrative in Whitehall? 'People are living longer. As they're getting older, they have more problems. Therefore, demand is rising. So, who's going to pay?' It's not true demand isn't rising.

I was in the House of Lords having lunch with Victor Adebewole. Victor is a nice man. He wrote a foreword for my book, The Whitehall Effect, which is basically my 'Dear John' to Whitehall. I'd had enough; 10 years of going down there talking to Whitehall people. I wrote the book. Goodbye. Victor wrote a forward for it, that was nice. We were having lunch at the House of Lords. I said to him, "Demand for adult social care is stable." And he just went off on one. He said "No, it's growing. It's going through the roof." I asked "What data do you have?" The answer was epidemiological data. Well, I've got actual data. I've got 'actual people put their hand up' data. No need to count all the failure demand. You want to know how many people put their hand up in this geography. And the answer is it's stable. He wouldn't talk to me after that. It's kind of weird, isn't it? Same in Scotland. I talked to the man responsible for all care services in Scotland. And I said, "Failure demand is over 90% in adult care services." He just looked at me and said, "No." He didn't say, "Show me your data." Or, "Is it true in Scotland?" He just said, "No." That's what you're up against.

Let me tell you something else. We worked with a neurologist in stroke care and what he learned was that the volume of demand for stroke care, in other words, the number of people that are

going to have a stroke in his geography was stable. It's predictable. That's kind of important, isn't it? Boy, does that help you with planning your capacity. It's predictable. It will show some variation, but it's essentially predictable. And because he'd done that with strokes, he then did it across all major conditions in that hospital, and he found they were all stable. This is important. Why don't we know this? Because it's not what we look at, is it? We're managing activity. We're not working to understand demand, and we don't understand that demand is the big lever.

Everywhere that we have worked in the health system, we have found that a small group of people, indeed typically three or four small groups of people, are consuming a huge amount proportionately of the capacity. This is failure demand. These people aren't getting the help that they need. And why? Because they're being put into a system that is specialised, functionalised, siloed, activity measured.

It gets worse. I'm going to talk about the money and tariffs in a minute because that's part of the problem. But here's the thing. You see, this is no different to this kind of systems thinker from any other break-fix system. It's creating its own work. And if we can actually get the service right, get the health and care working right from the recipients' point of view, we will release enormous amounts of capacity. And the evidence is that's the case. But unfortunately, all the command-and-control thinkers think that demand is rising.

You hear this cry in the NHS, demand is rising, we need to manage demand. Have you heard this? Manage demand. Big mistake. You should not manage demand. You should understand demand. It teaches you everything. How do they manage demand? They created 111. Did you notice, I think it was last week or the week before over 80% of the population are less than satisfied with the NHS. I wonder why. So, I go and have a look what's going on in 111. I couldn't believe it. It's all classic call centre metrics. How many calls are coming in? How quickly did you pick them up? How many get abandoned? How long you're on the call? Where did you send them? And the where did you send them means to another specialist or a doctor or whatever. That has standards attached to it – assumed ratios. So, what are the managers going to do? What they've always done in call centres. Frig around to ensure those numbers look okay because these are private-sector contractors and you're only going to get paid if it looks okay. Is there any knowledge in 111? I mean, this goes back to where I started in 2006. What have they not done? They've not worked out what you can do that works for a patient on the phone. That's what we should do. They haven't done that. It's quite extraordinary.

I think if I was Wes Streeting, I would get some people focused on that very quickly, but I think 111 would probably have to go. I can't imagine that we can do proper quality health care over the phone. There might be some things that we can do. There are some things that I know we can't do at the moment that would be sensible. If you get to talk to a physician, they can't give you a prescription. It has to be your own doctor. They can't get you in to see a doctor. They can tell your GP practice and they might choose to see you or talk to you on the phone. Managing demand is crazy. All you want is an accurate diagnosis.

Now, let's talk about hospitals. Something happened in 1989 and has remained unchanged. This was the end of the Thatcher period, you will remember. And this is the idea that money follows the patient. So, they have a purchaser provider split. The commissioners decide what to buy from the people who are going to run hospitals. What is absolutely incredible about this is that it's been the method used since 1989 and everyone knows it doesn't work. Academics call it path dependency. We know it doesn't work. We can't think of what else to do. So, we carry on doing it. But it doesn't work. Correct. It doesn't work. Quite extraordinary.

So, how do people make decisions about what to buy? Well, they talk to lots of people and they get reports from people and they get views from people. They get views from the Office of National Statistics, from Public Health England, from local authorities, particularly the people concerned with public health, from GPs, from hospitals. They also do 'advanced analytics' to segment the population and identify high-risk groups – sounds to me like that's going to be expensive and pretty useless – and machine learning. We like machine learning, don't we? Currently, it's fashionable. And risk stratification models, to predict which patients are likely to need hospital care (expensive). You can guess what they don't do, can't you? But you can imagine the number of people involved in this. And they some of them will have real issues and some of them will have issues they try and make bigger issues because it is a negotiation; it's like a Dutch auction: they want it cheaper we want more. It's crazy. Something I've learned in my career is that more the disconnected leaders are from what's actually happening in their service operations the more politics you get and I'll guarantee this place will be jam-packed with politics because there isn't a lot of knowledge going on here.

They have block contracts. They clearly don't get the numbers right on that. They fund initiatives that they think we should be doing. This is not related to demand in every geography. And you hear Richard Meddings, outgoing chairman of the NHS, moaning about the fact that if you want to do something with an initiative, you've got to persuade multiple people. There are multiple signoffs and you're dealing with what he calls a concentric circle of negative control. I mean, if you want to make life miserable…

When I say to the people involved in this, well, you don't really understand demand. They go, yeah, yeah, we do. But what they're talking about is activity volumes. They think the number of things they did last year is an indication of the number of things they should do this year. Wrong, wrong, wrong. The thing that is missing, and we've seen this in care services for 25 years or so, is any evaluation of the things that they provide. So, they put people on, for example, drug treatment programs. It didn't help them. But when they come around again and they hit the system it's treated as a new transaction. They go through the same process and they get allocated to the same thing that didn't work last time. And if they say oh that didn't work last time they get labelled as difficult. It's our responsibility to get away from this idea that everyone needs the same.

So, isn't useful knowledge about demand. The NHS is a world where 'surplus' is good and 'deficit' is bad. And I'm confident that I could prove, if I had the time and inclination, that a surplus and a deficit are just as probable results in a chaotic system. There's no point getting excited about financial results, there is no effective control.

Think about this: we suddenly discover there's a rogue surgeon and it's been going on for years. This happens all the time, doesn't it? And that's because in my mind, they're not focused on the right things. What should a break-fix organisation be focused on? Excellence in diagnosis, effective treatment, the right treatment. That's what we should focus on.

Now we have Wes Streeting. He says he wants to cease all the command-and-control and he wants local innovation. Well, this is how to do it. This is the purpose measures methods framework. I would say his responsibility is to be clear about the purpose. Right. And if I was Wes, I would say to all the people running the health service your purpose is very clear. I want you to focus on the improvement, continual improvement of diagnostic activity and treatment activity. That's the job. Okay? I want you to base all your efforts on an understanding of demand and I want you to use patient focused measures and demonstrate knowledge of the actual cost. How they go about it (measures and method) would be entirely up to them. It's their responsibility. I know a lot of them would struggle. Fine. Doesn't matter. At least we're moving the whole thing in the right direction. And I'm quite confident that would work.

I'll give you a couple of bits of data and finish off. We worked with a group of GP practices in the Midlands. The population they wanted to look at was old people. These could be the same people that you see in adult social care. They studied all the transactions these people had with the health system over the last period and, according to the person, they might go back one year, two years, three years. Then they went out to find out what actually mattered to them. Understanding that and then delivering is entirely directed to and proportionate to the thing that really matters to them and, by their own account – the leader made a presentation of this work in Sweden – they counted up NHS resources used historically and then going forward since the intervention: 75% less cost across all NHS resources. So fewer hospital visits, GP visits, nurse visits and so on. That opportunity exists everywhere.

I mentioned Portsmouth. Portsmouth has its own team of people who understand the Vanguard Method. I go visit them from time to time. Portsmouth, as a local authority, pay for sexual health services. So, a Portsmouth colleague got over the fence. Imagine: in sexual health services people are ringing up. Many will be anxious. They hit a system where they get a low-cost front end, whose job it is to make an appointment within the next 48 hours. That's the management rule, because managers think if you make an appointment in the next 48 hours they won't get as many DNAs – people that Do Not Attend. This is a stupid idea, but managers are full of stupid ideas. They make an appointment for people to see a specialist and there are specialists of various types maybe nine of them, I can't remember now, and they're half-hour appointments.

Okay. So, when they study it – you get the leaders and specialists studying, listening to phone calls – it's just like the IBM thing. They go, "We could have answered that on the phone. This is important." People are ringing up; there's a lot of anxiety; they could have got an answer. They didn't get an answer. They got an appointment or they get told, "Well, if you can't come in the next 48 hours, you've got to ring in again." And it got worse. They found that people were often sent to

the wrong specialist. They were half-hour appointments. Some didn't need half an hour, some needed longer.

They redesigned it. Now the people with the expertise are both in in the back treating people but also in the front; they rotate between the two. They often see the same people they spoke to on the phone if that's necessary. And they're solving a lot of problems immediately on the phone and they're scheduling the right amount of time for appointments at times that suit the callers. So, they've increased their capacity and become more effective. Most importantly, because they're paying attention to demand, they can see what's going on in the geography and they can start thinking about doing preventative work.

So, there we are. If I was West Streeting, that's what I would do. The second thing I would do is change the way we regulate. I'd get rid of all these people who write specifications. Imagine the money that we would save. I'd get the regulators and politicians to be clear about purpose, then we'd get a bit of knowledge going out there in the public sector and I'm quite sure we'd improve our productivity and get growth.

Thank you for your attention. Good evening.