Continuous improvement and transformation: a challenge for all sectors

As we now enter 2011, have organisations in the private and public sector really got to grips with the changes they have to implement to build a secure future? We strongly believe that change and transformation is the only way that organisations can achieve a successful future; yet what we see in some areas are organisations and their management teams who are too cautious and waiting for things to happen, rather than taking charge and shaping their future.

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If only change could be predicted as consistently – if unpredictably – as the changing seasons. Transformation and change is pivotal to an organisation's successful future; however, management teams often wait for things to happen, instead of taking charge.

> Continuous improvement can coexist with large-scale strategic projects, improving every action, every step in a process, by even just a small amount, and can have a huge impact on the organisation.

The future of our organisations is in our hands and the sooner management teams start to commit to bring about change in how they run their organisations, the sooner they can create a secure future. As someone once said, the key to organisational improvement is to start sooner on the journey. The key is to create a culture of continually examining how we transact business, removing rework – the action that has to be taken to perform tasks again – and setting up a philosophy of right first time and a culture of preventative action.

Many healthcare organisations have learned some valuable lessons from manufacturing: GE translates best practice into its client accounts; Dow takes its community and corporate social responsibility very seriously and regularly commits resources to create new social enterprises; and Toyota's continuous improvement exists in many hospitals in the UK. There are many examples of corporates, such as Shell, BP and BT, making huge impact for the better on their performance of social and community enterprise, so why not use these principles of continuous improvement in the wider public sector?

Big Bang Theory and continuous improvement

We are still big believers in the Big Bang approach to organisational change. Improvement is focusing on key strategic projects that will deliver certainty. It is about concentrating on those activities that will enable the organisation to deliver more with fewer resources. Our belief is that this can only be achieved by setting up a process and culture of continuous improvement. Continuous improvement can coexist with large-scale strategic projects, improving every action, every step in a process, by even just a small amount, and can have a huge impact on the organisation.

The thinking and management that got organisations to where they are today will not allow organisations to prosper in the future. We need a culture change in how we do business, and it should be focused on continually improving activity. Recent years have seen the old business and management models shaken up.

No organisation can change without strong leadership

We need strong leadership in all sectors to move to the next level of operations, and perhaps this is even more important in the public and the third sector. In the commercial sector, a great deal of change has been driven by a willingness to survive. Unpopular decisions have been made to reduce operations and the workforce. The whole economy is swivelling on the axis of change and transformation. Small and medium-sized businesses have learned to transform, and with this has arisen a new, more optimistic set of managers committed to action. We know of many organisations where rationalisation has taken place and the dead wood and problem children have been unloaded. The same cannot be said of much of the public sector.

At a recent public sector conference, the discussion focused on the cuts that had to be made in operations. On discussing the planning of cuts most delegates were seriously planning cuts of between 10 and 20%, with a significant number planning to tackle cuts of greater than 20%. Probably one of the most worrying indications from the conference was that on a show of hands, between 80 and 90% were pessimistic about their ability to implement the cuts required effectively.

Strong requirement to change

On the positive side, there were some examples of public sector bodies already moving towards sharing services and co-ordinating their planning, with community planning partnerships meeting the challenge of accountability, whilst enabling improvements in the delivery of shared services.

A very clear message that came from one of the delegates was that if organisations were not already engaged in scenario planning, developing their business continuity plans and working with a mature risk management process, they were likely to encounter very significant difficulties in 2011. There is also concern that the staff, customers and stakeholders of many public service bodies were not yet fully appreciative of the impending scale of the cuts ahead. They were regularly being

Toyota principles transferred to healthcare

Many healthcare organisations have learned some valuable lessons from manufacturing.

Toyota manages large complex changes, as well as being committed to kaizen, its take on continuous improvement. It is noted that the average member of staff comes up with 187 ideas for improvement, the majority of which are implemented. That means reducing cycle time, rework, waste and costs, as well as foolproofing and producing focused process improvement, which pays dividends. It is worth noting that its operations in Europe have committed to the Toyota Way and also achieve similar performance improvement.

Many NHS Trusts have now committed to the lean principles inherent in the Toyota Production System. Proof exists that the processes are transferable to a healthcare environment, so why not transfer the same lean principles to local government and the public sector in general?

> ### Economic benefits of culture change
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> In the simple example that follows, I will attempt to demonstrate the hidden costs that can be released and turned into investment in the organisation. A small service based organisation with an income of £10 million a year generates a surplus of 10% for potential contingencies. Its COSD is a 'meagre' 20%. This ties up £2 million of resources and people who do not add value. In other words, the surplus in year one is £500,000 and the COSD is £2 million. If the organisation used its latent energy and resources and implemented the commitment to continuous improvement, it could reduce its COSD significantly, by 50%, a saving of £1 million. The result is outstanding. This has the same impact on the bottom line as increasing income by 100%. Just imagine the impact in the more traditional companies, public sector bureaucracies and large quangos of using this approach.

informed that the danger was out there and the cuts were coming; but as many had not yet seen evidence of this materialising, there was a fear that a growing level of scepticism might set in, leading to an even greater state of shock when the cuts finally did materialise.

As one delegate very succinctly put it, they had informed their staff that the lion was out there and coming closer, but as none of them had yet heard it roar, they were beginning to believe that he was making it up and there was no actual lion.

Performance management is the new mantra

What we need to commit to is moving towards outcome-driven measures, rather than the current focus on inputs, if we are to avoid spending the limited resources remaining in the wrong areas. It is plain that the strategic direction for many public sector organisations will change, because the very concept of the universal services people have come to expect as a right will need to be challenged.

It is quite clear that there would be a lot of pain arising from spending cuts, but this underscored the need for public sector managers and politicians to be bold in their decision-making and make things work. We need to understand the new and growing commitments on public expenditure.

Strategic review and the economics of culture change

Public sector managers and politicians need to take risks responsibly and decide what we want the public sector to become. There is a real opportunity here to affect organisations for the better and to do that through continuous improvement. This will need a detailed understanding of the raison d'être of the organisation and, with that, costs of services, as without this knowledge there will be great difficulty in maintaining the quality of those services that remain.

The purpose of continuous improvement is to secure the future of the organisation and this can only be achieved by examining the economic impact it can deliver. The way culture change can contribute to organisational success is by adding value to existing consumers or customers, and winning loyalty to the organisation. Continuous improvement is also about developing a strong competitive edge, developing core competencies and attracting and retaining the best people. Culture change can also reverse the polarity of the organisation and move from a fire-fighting mode to a planning mode, where prevention of problems, rather than reacting after the event, is a positive employee investment. More of this later when we discuss the cost of service delivery (COSD).

Continuous improvement is characterised by a strategic perspective, with a focus on tactics to resolve immediate short-term problems. The dominant culture should support and reward cross-organisational working, and processes should rule over turf wars that exist between and within functions. We believe that too many public sector organisations reflect several characteristics including:

- **Short-term tactical rather than strategic focus**
  Increasingly, it would appear that few organisations really plan more than a year in advance. Organisations are devoting more time to real-time tactics, rather than planning out strategies and bedding down the essentials in advance.

- **Leadership in decision-making** As the force or pressure to change increases, the average organisation actually slows down the process of decision-making, rather than responding to the challenges required. This translates into a lack of confidence in decision-making, which is certainly witnessed by staff and customers at all levels. This in turn translates into management teams spending time thinking rather than doing. The thinking/doing balance is poorly weighted towards procrastination and prevarication.

- **The silo mentality** As the need for change and re-evaluating structures, cultures and systems increases, more organisations are making little commitment to get people out of the safe confines and hierarchies of the functional silos, and have them work as cross-organisational members on critical customer or consumer-facing business processes.

- **Fire-fighting** If you chart the dynamics in some organisations, you may find the split between planning and prevention on the one hand and fire-fighting and fixing on the other is heavily geared towards the latter. This translates into solving yesterday's problems today, but failing to learn from the experience for tomorrow.

Cost of the four factors

Our research into specific organisations suggests that these four factors combined can have a significant negative impact on the organisation. This translates into at least a failure to actualise the capability of 20% of the operating costs of the business. We find that the higher the reliance on labour, the higher the waste associated, especially in the public sector, which is about 60% of costs.

The cost associated with the four factors has been described as the cost of failure, the cost of quality and the cost of non-conformance, but it can be described more aptly as the cost of service delivery (COSD).

Cost of service delivery

COSD waste permeates all sectors, and is the result of a culture evolving that is devoted solely to tactical, short-term fixes working within a silo mentality. This culture is prevalent in all industries and is displayed in many service sector organisations, where, traditionally, accountability for resource utilisation is low.

It is not surprising that some very large bureaucratic organisations and structures display these characteristics, some wielding quite significant power in the provision of services to the public. Having said that, many organisations in the private sector are also awash with waste and non-value-added activities.

Right first time

Millions of pounds each year are wasted by organisations that repeat the cycle of provision service delivery again, because they failed to deliver right first time. These are real costs that consume the time and energy of employees. These costs never show up on the profit and loss account or the balance sheet of organisations, but they are a wasted resource. Most organisations fail to measure how much they have to invest putting things right for their customers after things have gone wrong.

Taxpayers and consumers fund the rework culture

The taxpayer, the customer and the consumer pay and fund the right second or third time mentality that many organisations allow to drive their business. When something goes wrong and the organisation reworks the process, the customer pays, and this could easily amount to 40% extra on the original cost of the consumption of a service or product. It can and does cost the average service business between 20 and 40% of the wages bill.

The costs of getting things wrong are very high and tend never to be measured. We estimate that the COSD can cost a manufacturing company anywhere between 5 and 25% of operating costs, and a service company anywhere between 20 and 40% of operating costs. For some of the more inefficient and large public sector organisations, the costs will be very high indeed.

The high costs experienced by service providers are often associated with the internal cost of putting things right after they have gone wrong. This never shows up in any form of documentation for the simple reason that costs associated with putting right what is wrong are often not measured or accounted for.

Unbelievable waste

When the high figures of COSD are first quoted they appear unbelievable. People wonder how their organisation actually breaks even. Even now, when the culture and quality revolution seems to be pretty well advanced in many businesses, we come across many organisations that have never heard of this concept, or who have heard of it but not yet have taken any action to improve performance. Most important of all, it must be remembered that COSD is the symptom of a cultural problem within the organisation and this usually resides between, rather than within, functions. An organisation-wide commitment to continuous improvement using lean and other techniques is critical.

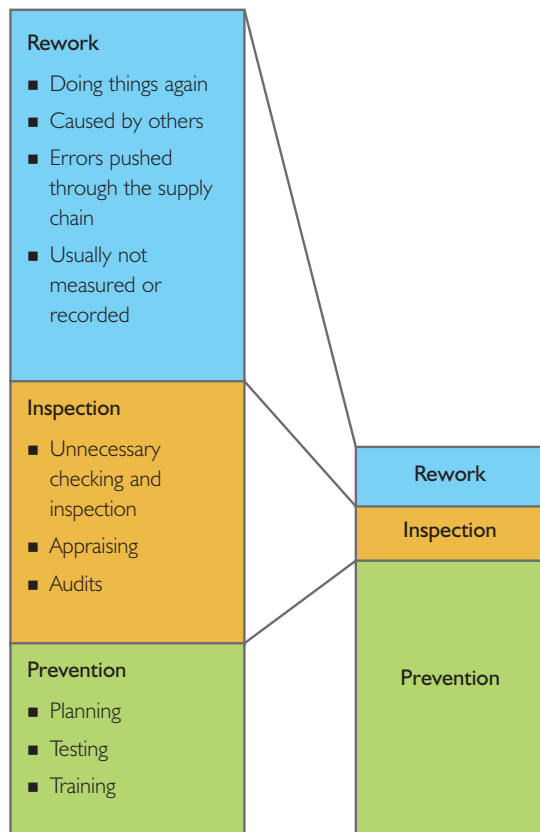## Reworking is the cost attributed with multiple cycles of failed service delivery

When we are asked to assess the COSD, one of the greatest problems we experience is that we tend only to isolate those things that can be measured from those that are intangible or non-quantifiable. The big mistake is to assume that the energy and resources that have gone into the provision of that service are completed in one cycle. Often, they are not. The cost of rework is the cost of completing and delivering the transaction, often not the assumed cost of delivery. To deliver to customer requirements often requires multiple cycles, each repeating various steps until end-user satisfaction is achieved. This may mean we utilise additional resource to complete an activity that should be achieved within one cycle – for example, a customer service centre may have to call a customer several times to remedy the fact that sales staff failed to resolve the original problem.

Another huge mistake is to measure only tangible items – for example, direct labour for rework, scrap wastage or materials. Many organisations make this error and come to the conclusion that the cost of rework is low because they fail to take into account the cost of the creation of bottlenecks, the massing of work in progress and the time taken to marshal the energy and effort to remedy cross-functional process errors and confusion that tie up people and resources, especially in administrative work – see Figure 1.

How do we assess the COSD?

COSD is composed of three key elements. The largest proportion is the cost of errors – that is, the cost of rework. We tend to measure only the tangible aspects of the operations – the cost of technology, materials, scrap and direct labour – but neglect to measure other indirect costs. Indirect labour is a very large component of any organisation providing service to customers or the general public. Some examples have already been highlighted, but many people in support functions fail to recognise that this cost is very high. How many people in organisations spend all their time reworking the errors of others?

Rework

- Doing things again
- Caused by others
- Errors pushed through the supply chain
- Usually not measured or recorded

Inspection

- Unnecessary checking and inspection
- Appraising
- Audits

Prevention

- Planning
- Testing
- Training

Rework

Inspection

Prevention

Cost of service delivery
Figure 1

More on reworking

Reworking includes data re-entry, retyping, unnecessary travel and use of the telephone and email, conflict and fighting between departments. These are examples of waste that contributes to the COSD, and are all assessed as leading to the cost of doing things again. There are two types of COSD, relating to internal or external failure. If something fails in the field, the costs can be attributed towards external failure. If failure is in-house, it is internal failure. It is interesting to examine ratios between different organisations in the same industry. These two areas can be further subdivided into necessary and unnecessary rework.

Necessary rework would be associated with redrafting a document or redesign. It is unlikely, and some would argue undesirable, to hinge on getting creative pieces of work absolutely right first time. But there comes a point when rework becomes unnecessary. It is to these areas that we would turn first to reduce waste. The interesting point about rework is that very few of us create rework for ourselves.

Cost of inspection or appraisal

The secondary element of the COSD is appraisal or inspection costs. Typical examples include the costs associated with controlling levels of service delivery to customers or to the next person in the supply chain. The cost of inspection is high, particularly in administrative areas. People spend a great deal of time checking on the work of others. The more silo driven the organisation, the more the requirement to check and appraise the work or data from others before incorporating it into your work flow. Some of this inspection is necessary and some is unnecessary. It is the latter element that we want to eliminate.

Cost of prevention

The third component of COSD is prevention. The activities normally associated with prevention include training, planning, forecasting, progress chasing and meetings, agreeing standards and deliverables, and is summed up in the saying: one hour of planning saves 10 hours of chaos.

So little time, effort, energy and resources are devoted in organisations today to prevention. The way of life in too many organisations is crisis management; fire-fighting has become a way of life. Managers and staff get used to this culture and it becomes the norm. Time could be invested more effectively creating opportunities for the future, and anticipating problems, rather than trying to solve yesterday's mistake.

Continuous improvement: from rework to prevention

We need to create a culture where investment in prevention is the norm. By investing in prevention we focus on the vital processes that are subject to failure or that create risk for the business. These are re-engineered with the purpose of creating a process that is error free, but that also incorporates the opportunity to design the process better and develop a self-critical culture, where prevention of risk or harm to that process is key.

This can only come about by replacing the insular and negative silo mentality with a commitment to deliver as a cross-functional team working across boundaries. This is the culture change of continuous improvement. COSD will decline, and the reduction in rework and inspection through an injection in prevention is critical. If we work on the vital few processes that reflect the organisation's core competence, results can be publicised very quickly. It is that simple.

A major concentration on prevention will change things quickly. Developing a strategy where managers are trained as internal facilitators to spread the process from the top of the organisation across and down is a critical success factor. Progress can be rapid: in fact, change can occur overnight. Leadership and decisive action can reverse the fire-fighting, the short-term orientation and strongly functional basis of the organisation, and create a culture of strategic intent with a longer term preventative nature, anticipating problems and activating solutions before they become part of the culture.

Summary

Reducing the COSD must be the organisation's priority, but it should not be a mere cost-reduction exercise. There must be plenty of evidence to suggest that there is a major investment in prevention.

Overall, many organisations will be aiming to create a low COSD. Currently, Government departments are focused on reducing unnecessary costs or waste. It is suggested that they should consider the culture change required to deliver to their expectations. It means that the organisation is better at servicing its customer or consumer base more economically, reducing the COSD. Typically, the COSD associated with many organisations in the UK is in the region of 20–40% of labour or operating cost, depending on the nature of the organisation. Reducing this huge cost can have a tremendous impact on the bottom line.

It is clear that this approach works in NHS Trusts that have committed to the process; just think how this could harness resource allocation and service delivery in education, the police, large Government departments and the wider public sector.

There are compelling arguments to pursue culture change through continuous improvement and include many HR issues about delivering a team-driven culture. We are firmly committed to demonstrating that continuous improvement will create very tangible financial benefits, and in this economic climate it has to be an essential strategy to be implemented.

Rework is one of the seven wastes in traditional lean manufacturing terms and requires excessive, manual interception and robust quality control systems, as these quality control tags used in manufacturing environments demonstrate.

COSD in an NHS hospital

The following identified activities associated with rework were generated in two one-hour focus groups with a selection of 16 staff from a Hospital Trust. These activities can be viewed as a set of particular problems that the focus groups considered pertinent. These problems have been grouped into either specific or general areas. Using lean approaches, we tackled the big and small issues through continuous improvement.

Specific managerial/clerical/clinical:

- Cumbersome recruitment process that appears designed to duplicate paperwork and delay recruitment

- No central recruitment means that managers have and require additional managerial responsibilities outside of their area of expertise

- Agency staff use – because of poor recruitment processes – can create issues around quality of care, staff morale and whether the agency staff are actually competent

- Booking of agency staff – communication, lack of communication and incorrect staff booked; lack of knowledge of the process and authorities required

- Permission is required for different parts of the recruitment process, which creates rework – for example, permission to advertise and/or recruit

- Termination forms are complex and difficult to process

- Change in detail forms are generated within departments in one format and then copied by hand into another format centrally, creating the possibility of mistakes and errors that cause rework

- Payroll is not automated – returns are handwritten each month; payroll input in personal number order, rather than alphabetical, which slows the process

- Requisitions – three signatures needed – that is, requestor, departmental manager/budget holder and general manager

- Invoices – many still need to be faxed; receiving company denies receipt – for example, fax machine out of paper at their end; effect is delays of receipt of goods and need to re-fax; spending £2,000 on electronic data interchange (EDI) would allow e-transfer of orders with automatic confirmation of receipt and availability of products

- Process for purchase orders – too many people checking, obtaining the correct forms, forms being sent back, too lengthy time period and too many people handling PO

- Managers either have the budget or not – no trust shown for financial matters; need for multiple signatures and checking for budget limits

- Queries on discharge prescriptions – 50% returned

- Duplication of notes within the hospital – requests for nursing and medical notes, with no apparent reason for the duplication

- Silo mentality – departments do not know key people in other departments or what they do; no telephone directory or organisational structure

- Duplication of invoice work – processed electronically in Pharmacy, passed to Finance and then Finance turns them into another electronic format

- Wrong ward information on charts

- WIC not up to date

- Bleeps – doctors on-call rotas changed without informing wards

- People do not turn up for training courses, requiring multiple additional courses

- Presenters on training courses cancel without warning

- Incorrect student information from managers for training events

- Incorrect requests for services from hotels and facilities – how much, when and what is required is often not clarified

- Different names for different departments creating confusion

- No central registry of forms and directory of forms and processes

- Lack of ownership of risk of health and safety leads to no ownership, clinical risks being taken and rework generated

- Poor preparation for taking on the role of manager and management training results in decision-making processes being flawed and rework generated by other staff

- Blocking re purchasing is not communicated – wastes time and energy in preparation for worthless applications; better to impose open limits on purchasing

- Fail to communicate spending limits – wasting people's time; based on parent and child relationship

- Consultant and other staff still cited on payroll after leaving results in rework when efforts are being made to track necessary figures/information for auditing and assessment processes

- Poor local induction procedures result in rework for new employees and the staff who find themselves in that particular area of the hospital

- Environmental – no planned preventative maintenance system results in rework at later stages

- Plan and design the infrastructure of the hospital before installing electronic aids – for example, beds

- Need to risk assess before implementation and before decisions are made about equipment and infrastructure

- Little corporate project management methodology results in rework and poor decision-making when undertaking projects of development

- No shared project management techniques

- IT – large training lag between installation and ability to use it

- Errors with the sitting and workability of workstations

- Inadequate management of poor performers, which inevitably results in rework for managers and colleagues of the individuals

- The Trust appears actively to support the poor performer against the manager in resolving conflicts, thus creating rework

- Charts left with previous ward name still on, so it goes back to wrong ward, rather than being forwarded; doctor has to rewrite chart

- Discharge medication (TTOs) – inpatient chart not sent down, in line with policy; pharmacy phones ward and another porter has to bring it down

- Discharge medication (TTOs) – duplicates written; audit in autumn 2002 showed of the 50 TTOs retuned to Pharmacy from June to October 2002, 19 were duplicated – subsequent re-audits have shown similar results

- Pre-packing medication into monitored dosage system – pharmacy not having resources to produce monitoring dosage system for benefit of patients – patient/social reason; delays discharge by 48–72 hours – GP contacted to produce prescription and send to community pharmacy

- Medication intervention record left by pharmacy to highlight problems to nursing and medical staff – delay in action/doctors not signing them causes delays and rework

- Prescribing errors on TTOs – high level of transcription errors by doctors – illustrated by audit in 2002, where one in two TTOs had a transcription error; re-audit in progress looks like one in three

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- Biochemistry results – delays in processing and making available the results causes delays in producing parental nutrition and subsequent rework for other departments
- Patients – Trust not having resources to produce compliance aid
- Duplicate medicines
- Re-admission from incorrect discharge creates massive rework and cost
- Falls and trips – extend stay in hospital
- Inappropriate diagnostic tests – duplication after duplication because of a lack of centralised electronic method
- Duplication of test to different sources or providers of diagnosis
- Implementation of existing Department of Health standards, guidance and recommendations leading to non-compliance eventually produce massive rework and staff time problems because of late implementations

General issues culminating in rework:

- Corporate governance – directors legal and ethical responsibilities are sometimes not acted on quickly enough or communication is not given as to inaction
- Duplication of tasks within most departments – the creation and writing of reports that are not acted on
- Accountability issues for managers – they need empowerment in critical areas

- Meetings – continual deferred items being posted every month with no action being taken and no timeframe for action posted
- People not acting on meeting decisions so that meetings become ineffective and a talking shop; group terms of reference need to be published, with clear accountability and timeframe agreements linked into the Trust business plan
- Not enough time built in for staff to learn and develop skills, which leads to mistakes and rework; mandatory training requirements not undertaken by the Trust, with the effect that over 50% of staff have not received mandatory training
- Short-term financial fix for some problems leads to long-term rework and difficulties
- Equality rules do not seem to be applied consistently
- Resistance to change – people in all areas, including directors, are defensive and possessive about their own areas, which results in a silo mentality that is ultimately transferred to all employees
- Ignorance of what others in the Trust can do and offer – for example, PALS
- Multiple requests for information with no apparent purpose of priorities
- Communication – awareness of clinical issues amongst non-clinical staff and vice-versa
- Chasing doctors – availability; a common problem throughout the Trust and leads to endless duplication of effort, rework and staff frustration; engenders the silo mentality

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