

## Chapter 3

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# Operational effectiveness

## Introduction

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Research into long-term, successful buyer–seller relationships from Cranfield School of Management demonstrates that customers continue to turn to particular companies because they are easy to do business with. The roles of quality, technical know-how, price and other features take second place to the desire for error-free transactions. For organisations, achieving this means creating their value offering around an understanding of exactly what it is customers' desire. This understanding then forms the focus of the organisation's activities. In many respects, it means turning the supply chain on its head and thinking about taking the customer as the point of departure for the organisation, and not its final destination. Making this an operational reality is then dependent on the effectiveness of service delivery processes and programmes.

In essence, organisations aim to deliver the 'perfect customer experience'. This concept is a valuable one in focusing the resources of the organisation. One of the best examples of its use is by Guinness in the mid-1990s who based an overhaul of their business processes on insight generated into what customers wanted from the company. This was expressed as the 'perfect pint in every pub' and was used to inform internal decision-making about which processes needed to be in place to ensure consistent delivery of the perfect pint, enabling them to adopt a cross-functional approach to business. Guinness worked with its partners in the supply chain to educate the pub trade about the importance of looking after the product and serving it correctly. Consumers were also targeted with award

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winning advertising that extolled the virtues of waiting for the perfect pint. This co-ordinated range of activities, based on a clear strategy, propelled Guinness to achieve its highest ever share of the total draught market.

Delivering this 'perfect customer experience' is not, however, a one off event. Organisations that galvanise the business behind the concept for a short period only will quickly find themselves falling back into a less effective, production-driven approach to service excellence. To overcome this risk, it is important that service delivery processes and programmes are subject to continuous improvement. Many organisations ensure this happens by adopting one or more techniques, including Six Sigma and benchmarking, both of which are discussed below. Best practice organisations go one stage further and are able to track the cost of servicing a single transaction and many also track the costs of non-conformance. These are the costs incurred when the organisation fails to do things right first time. These may include costs of rework, administering complaints or discounts or refunds to customers.

Organisational effectiveness makes up the second vector in the Service Excellence model. It is often underplayed by many organisations entering the Awards, which is surprising given its influential role in service delivery.

## This chapter

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This chapter therefore focuses on operational effectiveness and breaks it down into its constituent elements. These are discussed around the series of statements that make up this section of the Service Excellence Awards self-assessment questionnaire:

- Customers consider us easy to do business with.
- We enhance business performance through continuous improvement.
- We can deal equally effectively with customers over multiple channels.
- We deal with service failures effectively.
- We use the web to enhance the customer's experience.

These elements are considered in turn and then best practice is illustrated through the cases of two Awards winners: TNT (from the business-to-business sector) and the Dental Practice Board (from public services).

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## Customers consider us easy to do business with

Being easy to do business with, regardless of industry sector, brings rich rewards as customers not only comment on the ease and efficiency of business systems and processes, but are also prepared to pay a premium price because of the quality of the customer experience. They make this judgement on the basis of access to information, simplicity and the friendliness of systems and procedures, as well as the willingness of the organisation to make life easy for customers. All of this is predicated on a profound understanding of the value that customers seek. This can best be expressed in terms of the four Cs: customer needs and wants, convenience factors, costs (and not just the monetary value but also aspects such as cognitive effort, time spent travelling, etc.) and communication. The latter refers to how the customer wishes to be communicated with. Some customers are happy for organisations to use their personal details quite freely while others prefer them to keep their distance.

Best practice organisations are responsive to customers and their processes and procedures give the impression of an almost intuitive organisation. This is where managers and frontline staff appear to perceive the truth of things without reasoning or analysis. They are able to put themselves in the customer's shoes and see the benefit of taking a particular course of action without needing any rational validation. When this approach is embedded in processes that empower staff to deal with customers in an individual way, then levels of customer satisfaction rise. Tesco, for example, empowers staff to respond to legitimate customer complaints by giving them the authority to replace products or issue reimbursements without having to refer to supervisors. In doing so, the company demonstrates a respect for their employees' ability to assess situations and manage customer relations. Customers, in turn, are made to feel valued and respected.

Where organisations are able to build a business model around the insights they have into what it takes to be easy to do business with, they are then in a position to change the rules of the marketplace. Understanding these key criteria enables them to redefine the customer needs the industry is focusing on. Virgin Group is one such organisation that has demonstrated time and again how to bring radically new products and services into the marketplace without necessarily being the first to market in a particular sector. For example, Awards winners Virgin One made it easier for customers

to manage all their finances, including mortgages, savings and income from a single account and Virgin Mobile (who have also been Awards winners) offered customers a single, simple tariff when other operators were confronting customers with an array of complicated tariffs. Professors Kim and Mauborgne, from the French business school Insead, use the term 'value innovators' to describe organisations that adopt these sorts of approaches to business. In effect, the competition is left standing as old sources of advantage are destroyed and new ones created.

## **We enhance business performance through continuous improvement**

Ensuring that the 'perfect customer experience' is delivered every time is dependent on the processes and practices in place within the organisation. And these, in turn, are optimised through an environment of continuous improvement, where managers encourage their staff to identify and improve product and service delivery. Where performance improvement is an ad hoc activity, organisations find it difficult to maintain consistency, giving rise to variable levels of customer service. In best practice organisations, organisation wide, data driven continuous improvement leads to improved business results.

To achieve this operational effectiveness, organisations use a number of methods, where implementation is supported with formal tools and techniques. These may include benchmarking, either internally, within a particular industry or across industries. Or there may be some other form of process control, such as working to the ISO 9000 series of quality standards that take a Plan-Do-Check-Act approach, or a method such as Six Sigma.

Six Sigma has become the focus of much managerial interest in recent years but has, in fact, been around since the 1930s. The techniques underpinning the approach currently associated with GE were first developed by William Shewart before the Second World War and have been applied in the manufacturing sector since then. Motorola was the company that first developed the Six Sigma methodology in the 1980s and it was GE, under the leadership of Jack Welch, who evolved the process. They claim to have realised savings of over \$1.5 billion net of the investments made. Perhaps unsurprisingly, other kinds of organisation are now taking an interest in this methodology and applying it.

Six Sigma is a management philosophy that emphasises extremely high objectives, collecting data and analysing results to a fine degree as a way to reduce defects in products and services. The Greek letter *sigma* is sometimes used to denote variation from a standard. The philosophy behind Six Sigma is that if you measure how many defects are in a process, then you can figure out how to systematically eliminate them and get as close to perfection as possible. In order for a company to achieve Six Sigma, it cannot produce more than 3.4 defects per million occurrences.

In essence, this approach serves to define the boundaries of acceptability between error-free and non-compliant transactions. Six Sigma methods are typically implemented through a process that embraces senior management support, the training of statistical process management specialists, the identification of initial and subsequent projects, and the measurement of the process. Projects are driven by teams through a process known as DMAIC (define, measure, analyse, improve and control). The important issue in all of this is that the organisation should work to balance its focus on internal and external events. It is all too easy for an organisation to become very inward looking when seeking to implement a method such as Six Sigma and to fail to keep up with changing customer demands. One of the advantages of a scheme such as the Service Excellence Awards is that the emphasis of each of the five vectors provides senior managers with a balanced approach to business development.

### **We can deal equally effectively with customers over multiple channels**

One of the key drivers of the changing marketplace is the current proliferation of media and channels. This opens up new opportunities for organisations as well as customers. Some organisations are choosing to cut out traditional media and channels from their approach to delivering service excellence, while others are using them to complement their existing portfolio. However, regardless of which business model is followed, it is obvious that developments across the board are putting the customer more firmly into the driving seat and organisations need to respond to this.

The role of both media and channels is of vital importance in operational effectiveness as it relates to how and where the exchange of value between the customer and the organisation takes place. Media

strategies have to do with how the value proposition is communicated, while channel strategies have to do with how it is transacted. In the era of mass marketing, media and channels were distinguishable from one another and were managed as stand alone entities. For example, television was considered a medium and retail was a channel. Today, media and channels have become closely related and even interchangeable. Where dialogue can take place, so the option to transact also arises. The challenge for managers is to devise strategies that embrace convergence with the aim of developing superior levels of customer responsiveness.

Making the most of connectivity has both an internal and an external component. Internally, the goal is to generate data across the various media and channels to create a single, unified view of the customer. This single view ensures that, regardless of the medium or channel through which the customer interacts with the organisation, the customer is recognised and the history of their relationship is remembered. Achieving this single view is dependent on having clear objectives in place for the management of data.

Externally, on the other hand, organisations aim to replicate the experience of a one-to-one relationship where the customer feels they are being spoken to by the same person in every encounter. This may well be despite the fact that an organisation will use many individuals to fulfil this task, and often through multi-channel call centres.

When call centres first appeared in the UK they were held up to be the future of customer service. By offering a central point of customer contact, the call centre was seen as the answer to a comprehensive approach to customer service. Today, these are big business, with an estimated 6000 call centres in Britain and the number expected to rise to 8000 by 2005. The UK industry now employs almost 500,000 people, or 1.7 per cent of the working population. However laudable and popular an idea, the call centre's reputation has been tarnished over time due to adverse publicity and dreadful customer experiences. In too many cases these centres have been exposed as a means of cutting costs rather than improving service levels. Some organisations, however, go to great lengths to make their call centres as 'human' and customer-friendly as possible. Awards winner Virgin Mobile's call centre is located at its headquarters in Wiltshire. The centre is light, airy and divided into sections staffed by different teams that work in light-hearted competition with each other. This pleasant working environment helps keep staff motivation high, and this in turn has a positive impact on customer satisfaction.

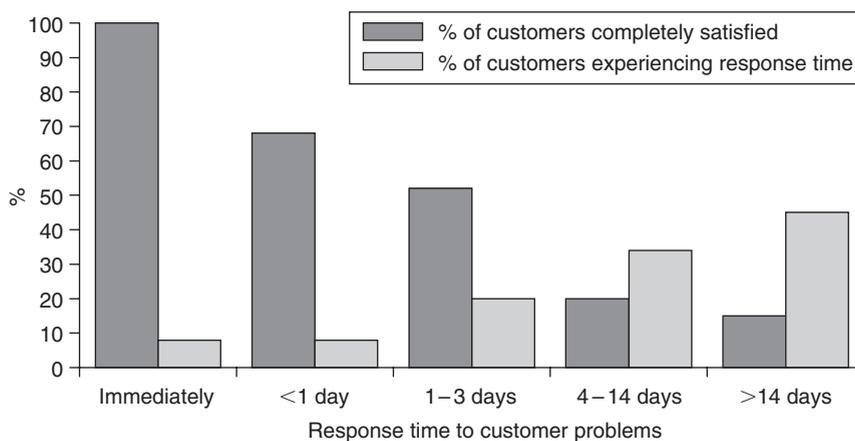
## We deal with service failures effectively

As discussed in Chapter 1, most dissatisfied customers do not complain to companies when they receive poor service, they just do not return in the future. However for those who do complain, the way the company manages that complaint is a vital ingredient in managing service excellence. There are a number of key aspects to managing service failures effectively.

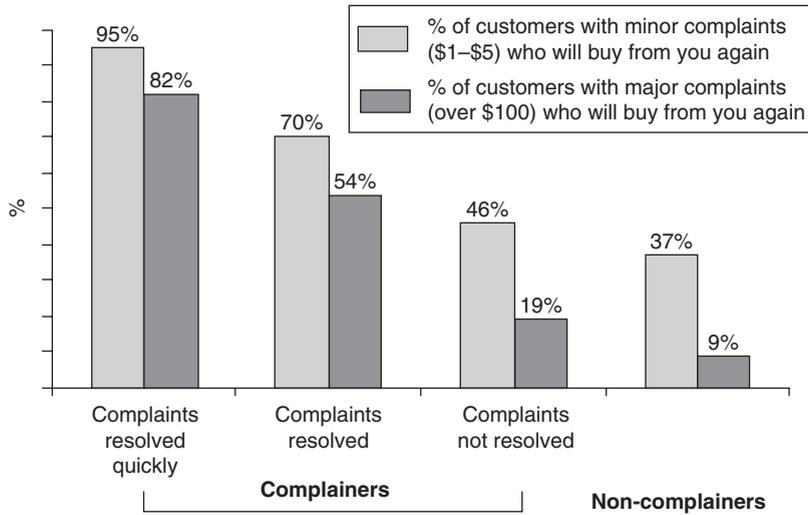
First, speed of response to customer complaints is particularly important. If a complaint can be resolved quickly and effectively, then customers will generally be satisfied. Unfortunately, research shows that only six per cent of customers receive such an immediate response. Most customers have to wait for a response, which then drives up the costs for business, as well as the dissatisfaction for the customer (Figure 3.1).

Secondly, if a complaint can be resolved quickly, then the chances are that customers can be retained by the business depending on whether or not it is a major or minor complaint. If, however, the complaint is not resolved then the chances of a customer buying again decreases dramatically to 19 per cent for major complaints and 46 per cent for minor complaints (Figure 3.2).

Thirdly, the extent to which staff are trained to deal with service failures can have a dramatic impact on customer satisfaction. In service excellence companies, staff are often provided with a lot of training in dealing with customers complaints. In Virgin One for example staff are empowered to do whatever they feel is necessary



**Figure 3.1** Response time impact on customer satisfaction



**Figure 3.2** The percentage of customers who will buy again. *Source:* Technical Assisted Research Programme

to solve particular problems. This may take the form of compensation or suitable gifts to a particular value. However, it may also include being sympathetic to a particular dilemma that the customer faces through no fault of their own. Staff are encouraged to use their initiative and judgement in dealing with complaints, shying away from prescribed remedies that become mechanical and transparent to the customer.

Fourthly, excellent companies are able to learn from their service failures and put practices and procedures in place to avoid such pitfalls in the future. They are not afraid of change and are happy to revisit processes that can enhance service excellence. These companies see service failures as opportunities, not threats. Complaints are welcomed with open arms as a mechanism for process improvements not as something to be hidden from view.

Finally, many of the service excellence companies also use market research techniques to try to uncover service failures. As well as survey-based techniques, many also use mystery shopper research to try to identify failures in service delivery so that they can be addressed before they damage relationships with their customers.

Dealing effectively with service failure is the hallmark of a truly customer-centric company. Research shows that companies that do this well are able to develop even better relationships with their customers, than if their customers had never experienced service failure

in the first place. The rationale behind this is that once a customer experiences service failure and a company responds well to that failure, customers are then able to relax in the knowledge that if things go wrong the company will be able to sort it out.

## We use the web to enhance the customer's experience

Many organisations are restructuring their operations to provide electronic-based services for their customers, their employees and in some cases, for their suppliers. Electronic commerce (e-commerce) is challenging traditional business models and creating new ways of accessing customers that simultaneously gives customers more control in the exchange process. Information and services offered become more transparent as customers find they can order what they want, how and when they want – all at the click of a button.

Web-based organisations, either 'brick' (bricks and mortar businesses with additional web channels) or 'click' (Internet only organisations), have created multi-million pound industries providing instant, innovative, customer-controlled competition for traditional service providers. This can only increase in intensity as e-commerce further penetrates business and personal life. The challenge for organisations is to understand how best to utilise this medium.

The term 'e-service' is used to describe the delivery of service using new media such as PCs but also via other technologies such as digital TV, mobile phones and personal digital assistants (PDAs). E-services exist across most of the service sector: banking, retailing, airlines, information and utilities. For consumers this means greater choice, shopping and information from home or office while for business-to-business customers, it will mean a more transparent market with transparent pricing, accessibility to more suppliers, the capability to track deliveries and the ability to undertake electronic trading such as web-based purchase orders, invoices and payments.

As operations management academics Robert Johnston and Graham Clark point out, the principal advantages for service providers are that: customers can have immediate access – they can visit web sites at any time of day, meaning that organisations can provide services 24 hours a day; local businesses have the opportunity to become global; the web opens up additional opportunities to build brands as customers will form an impression of an organisation from its web site activities; customers gain more control over

the purchase process; information can be made available to customers that would previously have been uneconomical; and opportunities exist to link web sites of a complementary nature. Service Excellence Awards winners demonstrate a number of ways in which these benefits can be used as an effective means of delighting customers.

Rackspace Managed Hosting (featured in Chapter 1), for example, has a proactive chat facility on its web site that connects visitors directly to a Rackspace team member, meaning that Rackspace customers and prospects can interact in an unstructured way, using informal language and without having to navigate the company's site. This provides a powerful human dimension to the web-based interaction. Alternatively, the Veterans Agency (presented later in Chapter 6) uses its web site to focus attention on its key performance indicators and regularly updates these to keep the public informed of how well it is doing.

## Summary points

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- Successful, long-term business relationships are underscored by a compelling premise that customers find the organisation easy to do business with.
  - Organisations that are easy to do business with stay close to customers and their changing demands. They think in terms of the four Cs (customer needs and wants, cost, convenience and communication), rather than the four Ps (product, price, place and promotion).
  - Organisational effectiveness is best demonstrated where employees are empowered to deal with customers on what may appear to be an intuitive basis.
  - Best practice organisations adopt continuous, organisation wide, data-driven processes of improvement and use various methods, tools and techniques to ensure error-free transactions.
  - The goal of a multimedia/multi-channel strategy is to ensure that the customer has a perfect experience across all the media and channels used. Each time the customer comes into contact with an organisation, they should feel like they are talking to the same person.
  - How companies deal with service failures is a vital ingredient in managing service excellence. Speed of response, training, learning from service failures as well as market research techniques are all valuable tools in the quest for service excellence.
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- The web can be used to great advantage in enhancing the customer's service experience, providing the organisation has a deep understanding of how the value offering can be most effectively augmented through this channel.

## Further reading

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Robert Johnston and Graham Clark (2001). *Service Operations Management*. FT Prentice Hall.

Zeithaml, V.A., Parasuranam, A. and Berry, L.L. (1990). *Delivering Quality Service*. Free Press.

Susan Baker (2003). *New Consumer Marketing*. Wiley.

## Best practice cases

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### Introduction

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It has been said of the first best practice case in this chapter, that if service excellence is viewed as a journey, then the vehicle in front most likely has TNT Express Services emblazoned on its sides. TNT was named Overall and Business-to-Business Award winners in 2000, a year that saw their business go from strength to strength. Revenues had shown an increase well in excess of the market norm and to support customer service during this period, the company introduced a number of innovations ranging from an Expressing Excellence Workout quality programme, to new technology, such as radio frequency scanning and mobile data transfer between depots and vehicles. These tools and techniques were introduced as a means of ensuring the company maintains a continuous approach to quality improvement.

As part of TNT's integrated approach to service excellence, key performance indicators (KPIs) and internal marketing activities also play a role. For example, internal marketing activities are routinely focused on the attainment of particular performance targets and efforts are made to ensure that all employees understand the importance of specific initiatives. A further secret of TNT's success is down to the way in which it works with customers as the source of all insight into how to improve their service offering. TNT was a popular winner amongst the other finalists in 2000 and aspects of its approach are still talked about by Service Excellence Awards judges today.

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The second case study illustrating operational effectiveness is drawn from the public services sector of Awards winners, the Dental Practice Board. Their business could not be more different. Within the National Health Service the Board performs a very important dual role – on the one hand, it is responsible for paying dentists promptly and accurately and on the other, it is charged with protecting the interests of patients, dentists and taxpayers through stringent financial and quality checks. The Board also promotes a wider knowledge of dental care and serves the needs of policy makers and other health authorities. While many organisations would stall in the face of this level of complexity, the Dental Practice Board exceeds expectations.

Its success is founded on the clear vision and leadership skills of its CEO, John Taylor, who brings to the post years of private sector experience. His clarity and commitment are echoed in the passion for continuous improvement that is shown by the Board's staff. The organisation employs a mix of public and professional standards as a means of maintaining its focus on operational issues, as the case study demonstrates.



a  **TPG** company

## TNT Express Services UK & Ireland

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### Introduction

TNT Express Services' 9,000 employees deliver approximately 42 million items on behalf of business customers every year. Operating out of more than 70 locations in the UK and Ireland, TNT's 3500 vehicles are a vital part of the business-to-business scene. The company's sales were £650 million in 2002 – a figure that reflected the success of TNT's strategy to double the value of the business over a five-year-period from 1997. In a very crowded and ultra competitive market, much of TNT's consistent success can be traced to its commitment to innovation, quality and continuous improvement.

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## Maintaining an innovative approach

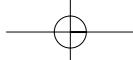
TNT Express Services has been consistently out in front since it revolutionised the UK parcels business in 1980 with its TNT Overnite service. There was no nationwide overnight delivery service available to British business customers before, and none of the delivery companies had the technology to enable communications with drivers on the road. The company's history since those early days is studded with innovation milestones. TNT's business is built on speed, efficiency and the ability to improve its delivery capabilities on a continuous basis. At TNT, every activity is geared towards making the business run better on behalf of its customers.

TNT has solved the lurking paradox of continuous improvement: how to make improvement a part of day-to-day activities, yet keep it prominent as a focus of attention. Quality programmes can easily become tired with repetition. The company recognised this danger early on when its original quality circles did not seem to be producing the results everyone wanted. The circle meetings had become long-winded, unfocused – and boring. TNT found a new model to replace the quality circles: the Expressing Excellence Workout. According to Nigel Barton, Operations Director at TNT, 'we stole the idea with pride from BancOne.' The company had encountered the US retail bank on a service study tour, and been impressed with the highly focused and results-oriented flavour of the bank's quality programme. TNT took the programme and changed it to fit the company's specific needs.

Each Expressing Excellence Workout lasts four or five hours. The session has a defined mission, and a dedicated facilitator. The aim is to attack the subject in depth and at speed, and to implement changes as a result. In the first wave of Workouts, the company tackled ways of improving its delivery-on-time rate. These events led to company-wide operational changes to improve performance.

The second wave of Workout sessions enabled local teams to tackle local issues. TNT is a distributed company, with staff at its network of 63 sites working collaboratively to keep deliveries moving. With help from the Workout methodology's originators at consultants KPMG, TNT trained each of its general managers to facilitate sessions. For the locally focused Workouts, facilitators were assigned away from their home depots to ensure objectivity.

The Expressing Excellence Workout is a classic example of how successful organisations take working models from outside the



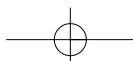
company and optimise them for their own purposes and goals. The broad-brush concept of quality circles proved a bad fit with TNT's culture and timescales. The more directed, problem-solving style of the Workout keeps the team trained on the target of improved service. It also demands practicable outputs: items for action that can be implemented immediately, with immediate beneficial impact on the business. With a delivery business striving to beat delays in its physical channels, TNT needs tools for improving operational excellence that can be folded into day-to-day operations without causing loss or degradation in its services. Expressing Excellence lets the company make modifications to its business in-flight.

A practical improvement programme designed for the business is a key element in ensuring continued operational excellence, but even the best designed programme can become stale. TNT guards against this danger by redressing its improvement efforts to keep them fresh. In 2003, for example, each manager was tasked with a specific area for improvement for implementation at mid-year. The initiatives were monitored closely over the second half of the year, and judged at year-end. The winner received a trip to Johannesburg in the depths of the British winter.

### Lessons learned

TNT's experience with running quality improvement programmes has revealed two truths about their business that also apply to many other organisations. The first is that improvements in some processes are limited by the available technologies. As Barton says, there comes a point where 'better management' refuses to yield any further benefits. At this point, the team may have to consider changing the process to take advantage of an emerging technology that will enable a new way of working. Such transitions carry their own risks. However, these risks can often be mitigated by importing the experience and practices of earlier adopters in other fields, much as TNT did with its adaptations for the Expressing Excellence Workout.

The second fundamental lesson that emerges from TNT's experience is the relationship between national, or company-wide, issues and local issues. For TNT, the connection between national practice and local delivery should be seamless: after all, the company exists to move physical items to specified locations. It is in the business of being instantaneously ubiquitous – a national force with infinitely



local presence. Yet the local and national levels of operation generate different concerns, and often require different types of solution. National practice and policy provides a degree of standardisation that ensures local teams are working with the best tools and techniques the company can devise.

However, national attention cannot eradicate local obstructions or irritants. The Expressing Excellence Workout lets local teams tackle the issues in their immediate environment without reference to national authority. At the same time, local teams can tag 'points of pain' that they have identified in operational processes and promote them to the national level for consideration as generic issues. Sometimes ideas generated at the local level cannot be implemented as company-wide practices, often because of legal constraints that are not immediately obvious at the customer interface. However, the constant questioning of practices and processes is at the heart of the organisation's quality approach. There are no 'no-go' areas.

## Expressing Excellence and other tools

The Expressing Excellence programme has now been in operation for ten years. The programme's objectives have remained constant throughout that time. They aim to:

- improve service quality and provide outstanding customer satisfaction;
- operate clear customer care policies soundly based on market research;
- continuously communicate and implement improved customer care techniques.

The programme's effectiveness is measured according to the following customer satisfaction outcomes, which are shared throughout the company:

- retain clients and increase the number of customers trading every week;
  - improve the percentage of deliveries made on time;
  - reduce the number of linehaul (long distance) vehicles arriving after scheduled arrival times at hub depots;
  - decrease the value and number of credit notes issued;
  - reduce customer claims in number and as a percentage of revenue;
  - decrease the number of outstanding invoice queries at the end of each week;
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- increase the frequency of contacts with existing and prospective customers;
- improve telephone response times.

The company's success in the last area was noted in the consumer magazine *Which?*: 'If you want to know how to answer the telephone, ring TNT.'

Expressing Excellence is a prominent feature of TNT's quality mission, but it is complemented by a range of further tools, channels and incentive schemes. Regular Talkback sessions enable team members to raise issues and challenge work methods outside of the Workout programme. These sessions ensure a constant dialogue centred on operational excellence. The company also runs a scheme called Opportunities for Improvement that allows team members to post ideas for consideration. For people who feel nervous taking part in group discussions, or who prefer to hone their ideas on paper, the scheme is an ideal channel for their creativity. Barton receives an average of one idea every day through this route.

Continuous improvement is further institutionalised through TNT's Academies. Each unit has an Academy that exists to facilitate and co-ordinate distance learning, and provide other resources for team members to improve their knowledge and skills. Achievement in the Academies is recognised by the company and cash awards are made for success in exams. Those Academies focused on customer service and operational excellence are the most popular of a well-supported and well-attended set of Academy offerings.

## Making process improvements

TNT's examples of process improvement sound a common theme: a direct connection between personal observation in the field, and systemic changes to organisational practices. For example, team members in the customer services function used to grapple with complex customs laws affecting different territories, striving to clarify the legal path for deliveries while talking with customers. This was information that remained outside the traditional boundary of customer relationship management (CRM) systems, which are naturally designed around customer information. The team asked for a solution that they could click on, as a replacement for the manual Rolodex they had to consult. The company built a searchable database for the team, known

fondly as 'the oracle'. The system is linked into the CRM environment, and offers field-sensitive help. This means that if a customer services agent is using the 'dangerous goods' field, for example, the knowledge base will produce the relevant customs information on the screen alongside the field. TNT's 'oracle' effectively aggregates customs information with knowledge about where it needs to be applied within the business process. It saves time – and potentially costly errors.

Another example of successful process improvement at TNT shows that people can be not only initiators of new practices, but also valuable champions of innovations that arise elsewhere in the business environment. TNT had been a pioneer in mobile communications, using technology to speed its delivery process and enable changes to the delivery pattern in real time. During 1994–1995 the organisation began to shift its mobile communications processes from voice-based services to data-enabled solutions. There was a great deal of opposition to this move amongst drivers. The opposition may be hard to credit several years later, when we are used to the proliferation of text messaging by mobile phone and the spread of PDAs (Palm Pilots and the like) amongst mobile workers. Yet the team members were rightly suspicious of a technology that might disrupt their current arrangements and cause them more work. TNT listened to the worries, and ran a pilot project from its Wellingborough depot. Barton was pleasantly taken aback to hear a 10-minute breakdown of how the new system had improved the job – from one of the drivers on the pilot project.

### Use of key performance indicators (KPIs)

TNT uses KPIs to formalise management control of the organisation's performance, though Nigel Barton stresses the human dimension of successful KPI use. 'Don't underestimate the time it takes for people to internalise KPIs and use them – and try not to keep changing them,' he advises. The KPI set necessarily evolves, but the company tries to ensure that changes are small and incremental, rather than radical. This is not to suggest that TNT's use of KPIs as a management tool is tentative. In fact, the organisation takes care to integrate its KPI set with all its performance improvement initiatives. For example, whenever the company runs an incentive scheme of any kind, the scheme is related to one or more KPIs so that its effectiveness can be readily measured. TNT is also careful not to let KPIs proliferate and

diverge by translation across organisational boundaries. A single KPI may underlie different effects in different areas of the company, but the KPI itself is never compromised.

One four-week campaign serves as an example of how this principle works in practice. This campaign targeted the entry of proof-of-delivery events into the team member's mobile device within a 30-minute window. This goal manifested itself at the operational level as a programme of collectible tee-shirts, where those who collected four shirts would also win a £20 reward. The KPI at the heart of the campaign is not hidden or manipulated, but is linked to a distinctive reward. This ensures that the company's KPIs have continuity and applicability throughout the organisation, with a tight relationship between management intention and operational action.

TNT's lead KPI is on-time delivery, for which it regularly scores 98.5 per cent. This measure incorporates TNT's commitment to flexibility in its delivery service. Last-minute changes to delivery addresses, for example, are not excluded from the events measured to produce this KPI. With high scores like this, TNT must challenge itself to generate new ideas for improvement that are both unique and powerful. One example is the organisation's implementation of the 'proactivity' concept. By 'proactivity' the company means taking service recovery back one step: acting before the customer is even aware of a service failure.

Other leading KPIs include misrouted and missorted consignments; copy consignment notes raised and not matched with original documents; late linehaul (long-distance carrier) services arriving at TNT hubs. Failures to deliver on time are analysed by reason, so that connections with any structural or procedural factors can be made as quickly as possible. Like all good KPI sets, TNT's set is designed to provoke action.

## Customers as partners in innovation

TNT's smart use of observation and insight in the field extends quite naturally to its customers. The company regularly involves customers in the development and piloting of new products and services. One example is the TNT Nitebox storage and collection service for field-based engineers, introduced in 2000. The service enables customers to leave items such as urgent spare parts in a network of overnight storage boxes, typically located at petrol stations, for collection by

field-based engineers the following morning. TNT recruited prospective customers to contribute to the design of the service right from the start. Customers were involved in the design of the collection boxes, and of the network. The network was partially organised around the home locations of customers' engineers, making it as convenient as possible for late drop-offs.

Involving the customers in the creation of the new service allowed TNT to take advantage of customers' experiences with competing services and to widen Nitebox's potential user base. The experiences of customers who had used collection boxes before encouraged the company to choose more expensive stainless steel for its boxes, rather than mild steel or aluminium, for reasons of both durability and appearance. TNT also widened its choice of box sizes from two to four when prospective customers made it clear that by doing so the company would be able to serve a much wider range of industry users. The company was also able to build a measure of flexible security into the offering, so that customers can choose to have a common key for all its engineers' boxes rather than the standard one key per box. This detail shows how the organisation can be sensitive to the varying practices and policies of its customers in the midst of designing a generalised service.

Involving customers in the design of its products and services takes TNT's 'proactivity' principle to a supremely high level. Rather than doing its best to provide what it thinks the market needs, and then correcting its offerings in the light of measured performance, the company is striving to roll out products and services that have been optimised for the customer environment. Variability in customer requirements is engineered into the offering in the form of options. The result is a set of offerings that generate few operational exceptions, whose performance is straightforward to monitor, and which meet a well-defined market need.

Customer involvement is enshrined in the company's practice of consistently trialling new operational systems with its customers prior to full rollout. For example, the company introduced a Radio Frequency Identity (RFID) scanning system in 1999. These intelligent tags, which began appearing on some high-value consumer goods in 2003, enabled rapid logging and tracking of consignments. The system has helped to reduce significantly the mis-sorting of parcels. It was introduced after extensive trials had been undertaken with a group of major customers to ensure that it would deliver the expected benefits, and operate effectively with customers' business processes.

## A 'must get through' attitude

TNT Express brings what the company's people call a 'must-get-through' attitude to every activity within the organisation. This deeply ingrained identification of the company's commercial mission with its physical manifestation in the delivery network is the source of TNT's consistently successful engagement with service excellence. There is no disconnect between central management and local service, between KPIs and campaigns, or between the company's offerings and its customers. Operational excellence is visible like a watermark in everything the company does: it is an enduring and endlessly renewed contract of superb service, enacted with pride in every one of its many million transactions.



## Dental Practice Board

### Introduction

The Dental Practice Board is one of the pivotal but rarely seen organisations that keep the National Health Service (NHS) functioning efficiently. The board is responsible for paying dentists for their NHS work, and also for ensuring quality within the dental service. In effect, the board takes the role of the public's advocate as well as its paymaster. In a mediating role such as this, any inefficiencies stand out with stark clarity.

The board has to act as a frictionless bridge between the country's dentists and patients – and that requires constant and rigorous attention to operational matters. With more than 47 million claims representing £1.5 billion in payments flowing through the organisation every year, processes are targeted for continuous improvement.

The board was born alongside the health service that it serves in 1948. Its mission is to pay dentists promptly and accurately, and to protect the interests of patients, dentists and taxpayers by a painstaking financial and quality audit. On the quality side, the board

examines cases relating to around 100,000 patients every year. These examinations split into quality assessment of completed treatments (some 57,000 in 2000/2001) and proposed treatment plans requiring board approval (34,000 in the same period).

The board also has a role in disseminating information about primary dental care, issuing regular guidance publications for policy makers, health authorities and other NHS organisations, dentists and researchers. Its overall budget is around £23 million per year, and it employs nearly 400 people, some 60 of whom are dentists working in the field.

### From cost control to a quality focus

Much of the board's success in the area of operational excellence in recent years is attributed to Chief Executive John Taylor, who brought engineering disciplines to an organisation that was heavily paper-bound and short on measures. Taylor insisted that proper tracking of the board's throughput would form the basis of its management and development. This approach was relatively novel in government departments in the early 1990s, so much so that Taylor found himself insisting that the Department of Health give the board performance targets to meet. More than a decade later, targets and service level agreements (SLAs) are firmly embedded in the board's practices and those of the wider department.

Taylor's original remit was to control costs. In common with other organisations, a historic focus on cost control has evolved into a broader concern with quality and value for money. Understanding and capping costs forms the basis for deeper management ambitions: without the basics in place, the organisation's very existence is in jeopardy.

The clearest indicator of the board's success in managing costs is its sevenfold improvement in productivity during the last decade. This has been achieved through relentless pursuit of year-on-year productivity gains of five per cent – a practice more often associated with manufacturing industries than white-collar enterprises.

On a larger timescale, the ratio of staff to documents processed has shrunk to 10 per million from a basis of 87 per million at the board's founding. This translates into a saving for the public purse of over £100 million. This achievement is all the more impressive when we note that the number of claims made annually has risen

from eight million to more than 45 million since the board opened for business.

In its quest to control costs, the Dental Practice Board was one of the pioneers of electronic data interchange (EDI), introducing the technology in 1991. Sixty-three per cent of claims are now submitted electronically, cutting down on manual processing and yielding management data as a by-product. Dentists are paid on a four- to five-week schedule, and are given target dates for making their claims. The cycle is therefore self-reinforcing: dentists who meet their claims targets benefit as individuals, and the community as a whole benefits from a more efficient, self-driven system.

Paper claim forms are digitally scanned and the images sent abroad for keying. Outsourcing this part of the claims process is one of the ways that the board has reduced operational costs, and is also an example of how technology can attack stubborn parts of the value chain. When the board first introduced scanners in the mid-1990s the machines were state-of-the-art for their time but still rejected many forms. New scanners with colour and improved resolution are now 'saving' around 500 images per day, considerably improving productivity in this part of the chain.

### **Best practice standards**

Recognising where exceptions can be reengineered into day-to-day processes is a major theme in continuous improvement. Technology is often the key to resolving exceptions on a class basis, but it takes management attention to performance data to reveal where repeated exceptions are forming a pattern. Repeated exceptions have their own costs, but they also create delay in the value chain and therefore erode other elements in the business process.

The board's efficiency statistics are eloquent in themselves, but people form the medium through which service excellence flows. Members of the board's staff show a passion for improvement that translates into a keen interest in adopting standards of best practice from wherever they can find them. The organisation therefore uses public and professional standards as a means of maintaining its vigil on operational issues. It was the first NHS organisation to achieve British Standard BS7799, a set of controls comprising best practices in information security, and it has also achieved ISO 9001 for its quality management system. The board has also achieved British Standards for environment management and complaints management, as well

as Investors in People status. According to Taylor:

If there is a standard that is applicable to our organisation, and can be assessed by an external body, we will consider becoming registered, to continually improve our working practices, promote best practice and demonstrate our status as a world class organisation.

All the standards adopted by the board are consolidated within its evolving integrated management system (IMS). The IMS has developed from the first quality management system introduced in 1993, and now encapsulates the organisation's best-practice-based approach. The system enables the board to target efficiencies and measure progress with tried and tested methodologies. As a result, the organisation can demonstrate reductions such as a halving in general waste and a cut in chemical waste of over 95 per cent to just ten litres per quarter. The board has also been able to decrease its energy usage by 24 per cent through the introduction of initiatives such as eco-friendly lighting and power-saving equipment. These are achievements in areas that without careful planning, control and measurement remain as vague items of concern. Its rigorous approach ensures that the board targets unnecessary costs and removes them from its operational environment – permanently.

This professional approach to standards guides the board's approach to all its responsibilities, not just those that have the clearest measurables. The board's duty to prevent and detect fraud and abuse is embodied in its probity assurance management system, an acknowledged source of best practice and the most advanced system of its kind in the public sector. The 2001 report on probity assurance was the first comprehensive estimate of improper payments produced by any part of the NHS.

This is typical behaviour in organisations with a well-rooted quality approach: they build explicit systems to meet specific challenges, and strive in each case to demonstrate best practice in each solution. These are solutions that persist in time, yielding benefits on each occasion they are used. Such solutions also travel in business space, delivering working models to colleagues in other organisations with similar goals.

### Managing key processes

The board has built a process management system to store its process maps and procedures and guide staff members in their

usage. A cycle of 'Plan, Do, Check, Act' underpins all the items in the system, ensuring commonality of approach and continued improvement. The introduction of named process owners, charged with championing improvements to processes at the enterprise level, will further embed the process mindset in the organisation's day-to-day functioning.

Delivering operational excellence at this level requires dedicated team structures as well as supporting systems. The board's commitment to improving its performance is shown in its allocation of human resources to the goal. Team members are appointed to full-time roles in training and facilitation, as well as quality assessment.

The management information that the board generates and uses on a daily basis includes unit costs, operational costs and productivity. All measures in the business are bundled into SLAs, which are built in a hierarchical fashion. There are some 20 or so targets at the top level, where the board negotiates its service level with the Department of Health. These are translated into team-specific targets throughout the organisation, negotiated with the relevant managers. This means that all targets within the business contribute to the board's ultimate contract with the health department, and thereby the general public. Local targets are often promoted upwards through the SLA structure, so that management strategies that are proven in one part of the business are made available elsewhere. Equally, targets can be introduced into SLAs via other stakeholders, including the information needs of other government departments.

The management control structure is therefore subject to constant evolution, with new target areas arriving alongside more mature ones. As Gordon Miles, the board's customer relations manager says, mature targets have their own pressures:

Once you've reached the Six Sigma level, the challenge is to keep the process at that level. We're processing 47 million transactions a year with 99 per cent of them on time. With that volume, if you take your eye off the ball for a couple of days you can miss the target for the year. You've got to keep managing it on a daily basis.

## The importance of culture and structure

Ensuring continuous improvement even in the mature target areas is a matter of organisational culture. Culture provides the day-in,

day-out habits of mind that ensure the organisation's attention is trained on the right issues. The board's people naturally look for ways of doing things better. In Miles's phrase, 'we're all looking to iron out wrinkles'.

More formal approaches build on the cultural foundation. Where processes cross major boundaries within the organisation, process management is used to bridge the gap. The board assigns process manager roles that co-exist with the general organisation structure, and pairs up individuals to form living bonds across the departmental divides. This has the further benefit of enabling people from different disciplines to work together, and to appreciate each other's viewpoints and specialisms.

Cross-functional initiatives of this kind also act as a way for the board to model and test new organisational structures. This means that the board is using process management techniques not only to explore and amend its operational effectiveness at the grassroots level, but also as a developmental technique that can inform the evolution of the business as a whole.

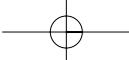
## Facing new challenges

The Dental Practice Board is faced with the challenges of a changing environment, just as every ambitious organisation is. From October 2005, the system for paying dentists will change radically as primary care trusts begin to commission and pay dentists on a local basis. How the system will work, and how the board's role will be impacted as a result, is currently not clear. For example, the board's role as an assurer of quality within the sector may come to the fore.

In the meantime, the organisation continues to improve its performance while preparing for as many scenarios as it can. It has recognised the key role of primary care trusts in all the scenarios, and is working closely with them on pilot projects. This is an indicator of the board's awareness of structural issues in its market, and the need to plan ahead for changes in its customer relationships.

The board's vision is stated in this way:

In relentless pursuit of improvement we combine public service ethos with commercial sector efficiency and traditional values with modern practice. We aim to be the benchmark for public management.



The connection between 'relentless pursuit' and embodying a benchmark is well made. Through ceaseless attention to operational excellence, the Dental Practice Board has become a model for other public sector organisations – and for any organisation that wants to do more with less, while continuing to press for excellence.

